

**ZAPAD BANKA A.D. PODGORICA**

**FINANCIAL STATEMENTS AS AT**

**31. DECEMBER 2015**

**AND THE INDEPENDENT AUDITOR'S REPORT**

## **FINANCIAL STATEMENTS for 2015**

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## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Zapad Banka a.d. Podgorica

We have audited the accompanying financial statements of Zapad Banka a.d. Podgorica (the "Bank") which comprise the balance sheet as of 31 December 2015 and the income statement, statement of changes in equity and cash flow statement for the period from commencement of operation on 23 March 2015 and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Zapad Banka a.d. Podgorica as of 31 December 2015, and of its financial performance and its cash flows for the period from commencement of operation on 23 March 2015 in accordance with the Montenegrin Law on Accounting and Auditing and regulations of the Central bank of Montenegro governing financial reporting of banks.

Refer to the original signed  
Montenegrin version

Biljana Bogovac  
Licenced Auditor

Podgorica, 26 May 2016

Refer to the original signed  
Montenegrin version

PricewaterhouseCoopers d.o.o. Podgorica

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T: +382 20 234 352, F: +382 20 234 324, [www.pwc.com/mne](http://www.pwc.com/mne)

The Central Registry of the Commercial Court in Podgorica – Registration No.: 5-0371574  
Tax Identification Number: 02656337; VAT Registration No.:30/31-06182-1; Code of Activity: 6920  
Account Number 530-13594-68 held with NLB Banka A.D. Podgorica  
Subscribed and paid-in capital: Monetary: 10,000.00 EUR, Non-monetary: 0 EUR  
Website: [www.pwc.com/mne](http://www.pwc.com/mne)

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Montenegrin. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

<b>INCOME STATEMENT</b>	<b>Note</b>	<b>2015.</b>	<b>2014.</b>
Interest income and other income	3	702	-
Interest expense and other expenses	3	(184)	-
<b>NET INTEREST INCOME</b>		<b>518</b>	<b>-</b>
Impairment expenses	4	(34)	-
Provision costs	4	(6)	-
Fee and commission income	5	179	-
Fee and commission expense	5	(123)	-
<b>FEE AND COMMISSION INCOME NET</b>		<b>56</b>	<b>-</b>
Foreign exchange gains, net		32	-
Employee benefits expense	6	(897)	-
Overhead and administrative costs	7	(511)	-
Amortisation/Depreciation	8	(65)	-
Other expenses		(1)	-
<b>OPERATING LOSS</b>		<b>(908)</b>	<b>-</b>
Income tax	9	(13)	-
<b>NET LOSS</b>		<b>(921)</b>	<b>-</b>

Notes in the following pages represent the integral part of these financial statements.

In Podgorica

26 May 2016.

\_\_\_\_\_  
Vesna Kovačević  
Head of Accounting  
and Finance

\_\_\_\_\_  
Mladen Rabrenović  
Executive Director

\_\_\_\_\_  
Savo Živković  
Executive Director

**BALANCE SHEET**

		<b>31. December 2015</b>	<b>31. December 2014</b>
<b>ASSETS</b>	<b>Note</b>		
Cash and deposits with central banks	10	15,479	-
Loans and receivables from banks	11	17,494	-
Loans and receivables from customers	12	19,406	-
Property, plant and equipment	13	363	-
Intangible assets	14	289	-
Other financial receivables		9	-
Other operating receivables		15	-
<b>TOTAL ASSETS</b>		<b>53,055</b>	<b>-</b>
<b>LIABILITIES</b>			
Client deposits	15	46,302	-
Funds borrowed from other clients	16	1,084	-
Reserves		12	-
Deferred tax liabilities		13	-
Other liabilities	17	65	-
<b>TOTAL LIABILITIES</b>		<b>47,476</b>	<b>-</b>
<b>EQUITY</b>	18		
Share capital		6,500	-
Gain/Loss for the year		(921)	-
<b>TOTAL EQUITY</b>		<b>5,579</b>	<b>-</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>53,055</b>	<b>-</b>

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**CASH FLOW STATEMENT**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and similar income inflows	559	-
Interest and similar income outflows	(182)	-
Fee and commission received	269	-
Fees and commissions paid	(123)	-
Salaries, wages and employee benefits and cost of suppliers	(1,419)	-
Increase/decrease in loans and other assets	(19,439)	-
Proceeds/outflows arising from deposits and other payables	46,365	-
<b>Cash inflows/outflow from operating activities, Net</b>	<b>26,030</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(399)	-
Purchase of intangible assets	(317)	-
<b>Cash inflows/outflow from investing activities, Net</b>	<b>(716)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in borrowing	1,084	-
Issue of ordinary shares	6,500	-
<b>Inflows/outflow from financing activities, Net</b>	<b>7,584</b>	<b>-</b>
Foreign exchange difference effect on cash and cash equivalents	32	-
<b>Net increase /decrease in cash and cash equivalents</b>	<b>32,930</b>	<b>-</b>
Cash and cash equivalents at beginning of year	-	-
<b>Cash and cash equivalents at end of year</b>	<b>32,930</b>	<b>-</b>

Notes in the following pages represent the integral part of these financial statements.

In Podgorica,

26 May 2016

\_\_\_\_\_  
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Executive Director

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Savo Živković  
Executive Director

**STATEMENT OF CHANGES IN EQUITY**

	<b>Share capital</b>	<b>Retained earnings</b>	<b>TOTAL</b>
<b>As at 31.12.2014</b>	-	-	-
Share issue	6,500		6,500
Current period loss	-	(921)	(921)
<b>As at 31.12.2015</b>	<b>6,500</b>	<b>(921)</b>	<b>5,579</b>

Notes in the following pages represent the integral part of these financial statements.

In Podgorica,

26 May 2016

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Mladen Rabrenović  
Executive Director

\_\_\_\_\_  
Savo Živković  
Executive Director

**1. The establishment of the Bank and its operational policies**

ZAPAD BANKA A.D. (the Bank) was established on 24.02.2015. On 13.12.2010, it was registered as joint stock entity with the Central Registry of the Commercial Court in Podgorica under No. 4-0009448.

With the Securities Commission, the Bank is registered in the Registry of Securities Issuers under No. 531 (Decision number 02/3-1/2-15 dated 25.03.2015 ).

The Bank performs its financial operations via a drawing account no. 907-5700-31 held with the Central Bank of Montenegro - Payment operations.

Under the Law on Banks, the Founding Act, the Bank's Articles of Association and the Central Bank of Montenegro Decision No. 0101-4014/67-3 dated 30.01.2015, the Bank may perform along with its banking activities operations such as:

- Issuing guarantees and undertaking other off-balance sheet activities
- Purchase, sale and collection of receivables (factoring, forfeiting, etc.)
- Issuing, processing and recording payment instruments
- Domestic and foreign payment operations
- Finance lease
- Securities transactions
- Trading for own account and in their own name, or on account of the client,
  - in foreign currency, inclusive of foreign exchange transactions
  - with financial derivatives
- Repurchasing transactions
- Analysis, information and advisory services relating to company or entrepreneur creditworthiness, and other operating issues;
- Safe deposit box rental services

The Bank is registered in Podgorica, Rimski Trg 42, and operates through its headquarters, as it has not yet opened its branch offices.

As at 31 December 2015, the Bank had 24 employees.

The Bank is managed by its shareholders based on their share capital, in accordance with the Law and the Bank's Articles of Associations. The Bank's managing bodies are the Shareholders' Assembly, comprising shareholders and the Board of Directors appointed by the Shareholders' Assembly. The Board of Directors has five members, the majority of which is not employed with the Bank. One member of the Board of Directors has the role of Executive Director.

The members of the Board of Directors as at 31 December 2015 are:

- Vadym Morokhovskyy, president
- Volodymyr Kostelman, member
- Aleksandr Kuperman, member
- Aleksei Kiselev, member
- Dejan Marinović, member



**1. The establishment of the Bank and its operational policies (continued)**

The managing authorities and bodies are:

- The Audit Committee
- The Assets and Liabilities Committee (ALCO)
- The Credit Committees
- Other committees established by Management

The Bank has 4 executive directors of whom one is the CEO. CEO represents the Bank and is responsible to coordinate and supervise, on daily basis, the execution of operations in the Bank and the work of Executive Directors of the Bank.

As of 31 December 2015 the Executive Directors of the Bank are:

Mladen Rabrenović, CEO

Savo Živković, Executive Director

Aleksandr Kuperman, Executive Director

Dmytro Likhota, Executive Director

## **2. Summary of key accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

### **2.1. Basis of preparation**

The Financial statements have been prepared in accordance with accounting regulations applicable to financial reporting in Montenegro.

The Bank is required to maintain records and prepare financial statements in accordance with the Law on Accounting and Auditing of Montenegro (MNE Official Gazette, Nos. 69/05, 80/08 and 32/11), the Decision on the application of International Accounting Standards (IAS) in Montenegro (MNE Official Gazette No. 69/2002), and the Central Bank of Montenegro regulations governing financial reporting of banks.

The Bank's financial statements have been prepared under the Decision on the contents, deadlines and manner of preparing and submitting the financial statements of banks (MNE Official Gazette No. 15/2012 and 18/2013).

In the preparation of these financial statements, the Bank applied policies complying with the regulations of the Central Bank of Montenegro but deviating from the requirements of IFRS and IAS with respect to the recognition of receivables that qualify for derecognition from the Bank's balance sheet as at 31 December.

Based on the above, the accompanying financial statements may not be taken as prepared in accordance with the IFRSs and IASs.

The official currency of Montenegro and the Bank's presentation currency is the Euro (EUR).

The financial statements have been prepared under the historical cost convention, unless otherwise stated in the accounting policies. In preparing these financial statements the Bank applied accounting principles disclosed in Note 2.

The preparation of financial statements requires the use of certain key critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.17.

**2. Summary of key accounting policies (continued)****2.2 Comparative figures**

The Bank started operations in April 2015. Since 2015 is the Bank's first year of operations, the Bank does not have comparative figures.

**2.3 Going concern concept**

The financial statements are prepared in accordance with the going concern concept, which assumes that the Bank will continue its operations for the foreseeable future.

**2.4 Interest and commission income and expense**

Interest income and expense for all interest-bearing debt instruments, are recognized in the income statement on a time-proportion basis using the effective interest method, in accordance with the terms and conditions contracted between the Bank and the client.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income and expense from rendering and using bank services are recognised in the income statement at the time when the service is provided or used.

Origination fees are considered to be an integral part of generating an involvement with the resulting financial instrument, recognised as an adjustment to the effective interest rate over the loan period using the effective interest rate method.

Fee and commission income and expense comprise guarantee fees and letters of credit issued by the Bank in favour of the client, domestic and foreign payment operations fees, fees for mediation and other services provided by the Bank. Fee and commission expense comprises expenses for deposit insurance

**2.5 Foreign currency translation****a) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the 'functional currency').

The financial statements are presented in EUR, which is the functional and presentation currency.

**b) Transactions and balances**

Foreign currency transactions are translated into EUR using the interbank middle exchange rate prevailing at the date of transaction.

Foreign currency assets and liabilities as at the balance sheet date are translated in EUR using the middle interbank exchange rate prevailing at that date.

Net foreign exchange gains and losses arising on foreign currency transactions and translations of foreign currency items included in the balance sheet are credited or charged to the Income statement.

## **2. Summary of key accounting policies (continued)**

### **2.6 Income tax**

Income tax is based on taxable profit for the year, and comprises current tax and deferred tax.

#### ***Current tax***

Income tax is calculated and paid in accordance with the Law on Corporate Income Tax (MNE Official Gazette No. 80/04, 40/08, 86/09, 14/12, 61/13 and 14/2015). The income tax rate is a flat 9% rate of the tax base.

The Company's taxable profit is determined based on profit presented in the Bank's Income Statements, as adjusted by income and expenses under the Corporate Income Tax Law (Articles 8 and 9 for adjustment of income, and Articles 10 to 20 for adjustment of expenses), and the Decision on the new Chart of Accounts of the Central Bank of Montenegro (MNE Official Gazette No. 55/12).

Capital losses may be offset against capital gains realized in the same year. Where, upon offsetting capital loss against capital gains realized in the same year capital loss remains, the taxpayer may carry it forward and set against the next gains over a five year period.

The Montenegrin tax regulations do not envisage the possibility of using the current period tax loss as a basis for the recovery of tax paid in prior periods. However, current period losses presented in the tax balance sheet may be used to reduce the future tax base for up to 5 years.

#### ***Deferred tax***

Deferred taxes are calculated on all temporary differences between tax base of assets and liabilities and their carrying amounts recorded in the Bank's financial statements.

Deferred tax liabilities are recognized for all taxable temporary differences arising between the tax base of assets and liabilities as at the balance sheet date and the amounts presented for reporting purposes, which will result in future period taxable amounts.

Deferred tax assets are calculated for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised. The deferred tax assets are calculated at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

The deferred tax is calculated by applying a 9% rate.

**2. Summary of key accounting policies (continued)****2.7 Earnings per share**

The Bank calculates and discloses earning per share in accordance with IAS 33. Basic earning per share is calculated by dividing profit attributable to the Bank's shareholders by the weighted average number of ordinary shares for the period.

The Bank has no dilutive potential ordinary shares such as convertible debt and share options.

**2.8 Cash and cash equivalents**

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and deposits with the Central Bank of Montenegro and deposits held with local and foreign banks.

The Bank shows deposits held with other banks such as foreign banks, via which it performs foreign payment operations, and local banks, via which it performs payment transactions. The Bank calculates the mandatory reserve under the Central Bank's regulations, and records the use of mandatory reserve.

**a) Mandatory reserve**

The calculation, the allocation and the use of mandatory reserves with the Central Bank of Montenegro is prescribed by the Decision on the mandatory reserve with the Central Bank of Montenegro. In early October 2011, a new Decision of the Central bank of Montenegro on the mandatory reserve (Official Gazette of MNE No.35/11, 2/12, 57/13, 52/14 and 7/15) became effective, based on which the mandatory reserve is calculated by applying a 9,5% rate to the base comprising demand deposits and deposits with maturities of up to one year, i.e. up to 365 days, 8,5% - to the base comprising deposits with maturities exceeding one year, i.e. over 365 days. A 9,5% rate is applied to deposits with over the 1-year, or 365 days maturity range with clauses allowing early deposit redemption i.e. redemption within the period shorter than 365 days.

The Decision on amending the Decision on the mandatory reserve with the Central Bank of Montenegro (MNE Official Gazette No. 35/11, 2/12, 57/13, 52/14 and 7/15 ) provides banks with the possibility to have 35% of their mandatory reserves held in the form of Montenegro treasury bills, as well as with the possibility to use 50% of the mandatory reserve for daily liquidity purposes.

**2. Summary of key accounting policies (continued)****2.9 Financial instruments**

The Bank has classified its financial assets into the loans and receivables category.

**a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, which the Bank does not intend to sell immediately or in the near future. They arise when the Bank directly provides the funds or provides services to a debtor with no intention of trading with receivables. Loans and receivables comprise advances granted to customers and advances granted to banks.

Loans and receivables are initially measured at fair value plus transaction costs, and subsequently at amortised cost using the effective interest method. Amortised cost is calculated by taking into consideration all loan origination costs and all other discounts or premiums. Loans and receivables are presented in net amount, less the individual and collective impairment amount.

**b) Provisions and impairment of loans and advances**

Under the Central Bank of Montenegro Decision on minimum standards for credit risk management in banks (MNE Official Gazette No.22/12, 55/12 and 57/13) the following has been established: elements of credit risk management, minimum criteria for and the manner of classification of assets and off balance sheet exposures to credit risk, as well as the manner of making provisions with a view to covering contingent losses arising from the Bank's credit risk exposure. In terms of this Decision, the Bank's risk-weighted assets comprise loans, advances, interest, fees, leasing receivables, deposits held at banks, advances and other risk-weighted balance sheet assets, guarantees, sureties, letters of credit and loans granted but not used, as well as other off-balance sheet items standing as the Bank's contingent liabilities.

Under the applicable Decision on minimum standards for credit risk management in banks (MNE Official Gazette No.22/12, 55/12 and 57/13), for its balance sheet and off-balance sheet risk weighted assets the Bank is obliged to perform at least quarterly an impairment assessment (for balance sheet assets), and a loss assessment (for off-balance sheet items) and to have them classified adequately in accordance with such Decision. Additionally, the Bank is obliged to determine the methodology for assessing impairment of balance sheet assets and contingent loss in accordance with IAS 39.

For the purpose of calculating a provision for loan receivables, Zapad Bank applies its own method that complies with IAS requirements.

The International Accounting Standards require a individual assessment of individually significant receivables and a collective assessment of receivables that are not individually significant. Accordingly, the Bank identifies balance sheet assets and contingent losses based on off-balance sheet items and calculates appropriate impairment or contingent loss on: an individual basis (individual assessment of individually significant receivables); a collective basis (collective assessment for receivables that are not individually significant); and on a collective basis (collective assessment of individually significant items that have been first individually assessed but have not been individually impaired).

The Bank is obliged to perform at least monthly the classification of balance sheet and off/balance sheet items based on their risk exposure and make provisions for estimated losses.

## **2. Summary of key accounting policies (continued)**

### **2.9 Financial instruments (continued)**

Under the Decision on minimum standards for credit risk management in banks (MNE Official Gazette No.22/12, 55/12 and 57/13), loans and other risk exposed assets are required to be classified in one of the following categories:

Category A (good assets) - items for which has been assessed that they will be fully collected in accordance with the agreement

Category B (assets with specific notification) - with subcategories B1 and B2, - assets with a low probability of loss making risk but requiring special attention, since inadequate attention paid to these assets could lead to lower prospects for their collection.

Category C (substandard assets) - with subcategories C1 and C2 -assets with high loss making risk potential, since weaknesses jeopardising their collection have been inadequately determined.

Category D (doubtful assets) - items unlikely to be collected, having in mind the creditworthiness of the borrower, the value of the asset and the possibility to have the collateral realised.

Category E (loss) - fully or partially non-collectable receivables

Based on this classification, for balance sheet and off-balance sheet assets the Bank makes provisions for contingent losses.

The Bank is obliged to determine the difference between the provision for contingent losses, calculated in accordance with the above table and total provision for balance sheet and off-balance sheet items calculated in accordance with the Decision prescribing the manner of measuring assets under the International Accounting Standards.

The gain on calculated provisions for contingent losses and total provisions for balance sheet and off-balance sheet items represents the required reserve for estimated losses.

**2. Summary of key accounting policies (continued)****2.10 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	<b>Years</b>
Buildings	33.3
Computers and computer equipment	5
Office furniture	9
Vehicles	6.7
Other equipment	6.7

The start date of depreciation for any fixed asset is the first day of the month following the month of the acquisition. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the income statement.

**2.11 Intangible assets***Licences*

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives (5 years).

*Computer software*

The cost of computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

**2.12 Borrowings**

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.



**2. Summary of key accounting policies (continued)****2.13 Share capital**

The Bank's paid in share capital relates to cash paid by shareholders for all ordinary shares. The Bank's share capital comprises ordinary shares, which are stated as a separate line item in the Balance Sheet.

Dividends from shares are recognized as liabilities in the period in which a decision on dividend distribution was made.

**2.14 Provisions for liabilities and charges**

Provisions for liabilities and charges are recognised when all the following conditions have been satisfied:

- The Bank has a present legal or constructive obligation resulting from past events;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- The amount of obligation has been reliably estimated.

Provisions are measured at the present value of the expected cash outflows required to settle the obligation using a discount rate that reflects current market assessments of the time value of money.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed in the income statement.

**a) Employee benefits**

Short-term employee benefits include wages and salaries and taxes and contributions for social insurance. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to pay taxes and contributions to Montenegrin Pension and Disability Insurance Fund in accordance with defined contribution plans. The Bank is not obliged to pay reimbursements to employees which are the responsibility of the National Fund. Taxes and contributions on defined benefit obligations are expensed as incurred.

**2.15 Off-balance sheet contingencies and commitments**

As part of its regular business activities, the Bank has assumed contractual commitments and off-balance sheet contingencies such as guarantees, borrowings and letters of credit, and transactions with financial instruments. These financial instruments are recorded in the balance sheet if and when they are payable.

Provisions for potential losses arising from commitments and contingencies are created based on the estimates of potential losses, in accordance with the criteria defined in the Decision on Minimum Standards for Credit Risk Management in Banks and the methodology of Zapad bank.

**2. Summary of key accounting policies (continued)****2.16 Related party transactions**

The Bank's related parties are:

- Members of the (management) bodies of the Bank, shareholders, employees, and their immediate family (spouse and children);
- Legal entities in which the owner of a qualified share also has a qualified share in the Bank;
- Legal entities in which one of the persons referred to in lines 1 and 2 above has significant influence, or a person referred to in the above line 1 is a director or a member of the Board of Directors or other body of such legal entities;
- Persons holding at least 50% of the capital or voting rights of the legal entity which has a qualified share in the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

**2.17 Critical accounting estimates and judgements**

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

**2.17.1 Impairment losses arising from on and off balance sheet items**

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. The Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the loan portfolio which can be identified with individual exposures and which can affect the Income statement.

The methodology and assumptions used for estimating the impairment provision are disclosed in Note 2.9.

**2.17.2 Fair value of financial instruments**

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of financial instruments that are not traded in an active market is determined by applying a valuation technique. Valuation techniques include: comparison with prices achieved in the latest transactions, use of discounted future cash flows, measurement based on the pricing methods, and other techniques.

These techniques reflect current market conditions at the measurement date which may differ from market conditions either before or after the measurement date. As at the balance sheet date the Bank performs the review of its valuation techniques to verify whether they reflect current market conditions, including liquidity and corresponding credit spreads.

**2.17.3 Litigations**

The Bank's management assesses the amount of provisions for outflows based on litigations. The assessment is based on the estimated probability of future cash outflows, arising from past contractual or legal obligation.

**3. Interest income and expense**

	<b>2015</b>	<b>2014</b>
<b>Interest income</b>		
Short-term assets	214	-
Loans	488	-
<b>Total interest income</b>	<b>702</b>	<b>-</b>
<b>Interest expense</b>		
Deposits	(179)	-
Loans and borrowings	(5)	-
<b>Total interest expense</b>	<b>(184)</b>	<b>-</b>
<b>Net interest income</b>	<b>518</b>	<b>-</b>
	<b>2015</b>	<b>2014</b>
<b>Interest income</b>		
Banks	214	-
Legal entities	481	-
Natural persons	7	-
<b>Total interest income</b>	<b>702</b>	<b>-</b>
<b>Interest expense</b>		
Government	(5)	-
Legal entities	(7)	-
Natural persons	(172)	-
<b>Total interest expense</b>	<b>(184)</b>	<b>-</b>
<b>Net interest income</b>	<b>518</b>	<b>-</b>

**4. Impairment and provision costs**

	<b>2015</b>	<b>2014</b>
Impairment of loans	(34)	-
<b>Total impairment of balance sheet items</b>	<b>(34)</b>	<b>-</b>
Provision for guarantees and commitments	(6)	-
<b>Total provision for off-balance sheet items</b>	<b>(6)</b>	<b>-</b>
<b>Total</b>	<b>(40)</b>	<b>-</b>

Movements within impairment allowance and provision during 2015 were as follows:

	<b>2015</b>	
	<b>Loans</b>	<b>Off-balance sheet items</b>
		<b>Total</b>
As at 1 January	-	-
Increase in impairment allowance	34	6
Reversal of impairment	-	-
<b>As at 31 December</b>	<b>34</b>	<b>6</b>

**5. Fee and commission income and expense**

	<b>2015</b>	<b>2014</b>
<b>Fee and commission income</b>		
Payment operations	37	-
Loan origination fees	39	-
Off-balance sheet operation fees	1	-
Other fees	102	-
<b>Total fee and commission income</b>	<b>179</b>	<b>-</b>
<b>Fee and commission expense</b>		
Payment operations	(24)	-
Deposit insurance	(80)	-
Other	(19)	-
<b>Total fee and commission expense</b>	<b>(123)</b>	<b>-</b>
<b>Net fee and commission income</b>	<b>56</b>	<b>-</b>

**6. Employee benefits expense**

	<b>2015</b>	<b>2014</b>
Cost of net salaries	427	-
Taxes, surtaxes, and contributions on salaries	329	-
Fees to members of the Board of Directors and the Audit Committee	33	-
Taxes, surtaxes and contributions on fees to members of the Board of Directors and the Audit Committee	14	-
Travel costs and daily allowances	12	-
Staff training	1	-
Other expenses	81	-
<b>Total</b>	<b>897</b>	<b>-</b>

**7. Overhead and administrative costs**

	<b>2015</b>	<b>2014</b>
Rental cost	102	-
Costs of control of the CBMNE	75	-
Software maintenance	70	-
Legal services	49	-
One-year licence charge	37	-
Hardware maintenance	25	-
Postal, telephone and communication network charges	24	-
Security costs	23	-
Translation costs	19	-
SWIFT maintenance costs	16	-
UBCG membership fees	12	-
Insurance costs	10	-
Cost of stationary	9	-
Electricity and heating costs	6	-
Insurance costs	3	-
Other operating costs	31	-
<b>Total</b>	<b>511</b>	<b>-</b>

**8. Amortisation/Depreciation**

	<b>2015</b>	<b>2014</b>
Amortisation of software	29	-
Depreciation of IT equipment	32	-
Depreciation of plant and equipment	2	-
Depreciation of other material assets	2	-
<b>Total</b>	<b>65</b>	<b>-</b>

**9. Income tax**

	<b>2015</b>	<b>2014</b>
Current tax expense	-	-
Deferred tax expense	13	-
<b>Total</b>	<b>13</b>	<b>-</b>

Deferred tax expense of EUR 13 thousand was incurred based on a deferred tax liability for all temporary differences arising between the accounting and the tax value of fixed assets and intangible assets which is recognised in the income statement.

The Bank's income tax calculation is presented below:

<b>Current tax</b>	<b>2015</b>	<b>2014</b>
Loss before tax recorded in the income statement	(908)	-
Tax rate	9%	-
Tax rate of 9%	(82)	-
Tax effect of non-deductible expenses	(12)	-
<b>Tax loss</b>	<b>(94)</b>	<b>-</b>
Unrecognised deferred tax assets from tax losses	94	-
<b>Tax expense for the period</b>	<b>-</b>	<b>-</b>
<b>Tax effect of temporary differences</b>		
Tax effect of temporary differences concerning PPE and intangible assets	13	-
<b>Deferred tax expense</b>	<b>13</b>	<b>-</b>
<b>Total</b>	<b>13</b>	<b>-</b>

**Loss per share**

Basic loss per share is calculated by dividing the net loss by weighted average number of ordinary shares issued during the year.

	<b>2015</b>	<b>2014</b>
Loss attributable to equity holders in EUR 000	921	-
Weighted average number of ordinary shares issued during the year	65,000	-
<b>Basic loss per share (in EUR per share)</b>	<b>(14.17)</b>	<b>-</b>

**10. Cash and deposits with central banks**

	<b>2015</b>	<b>2014</b>
<b>Cash funds and deposit accounts</b>		
Mandatory reserves held with the Central Bank of Montenegro	3,338	-
Cash held with the account at CBMNE	12,091	-
<b>Total cash</b>	<b>15,479</b>	<b>-</b>
<b>Non-interest bearing deposit accounts with the CBMNE</b>		
Mandatory reserves held with the Central Bank of Montenegro	2,880	-
<b>Total non-interest bearing deposit accounts</b>	<b>2,880</b>	<b>-</b>
<b>Interest bearing deposit accounts with the CBMNE</b>		
Mandatory reserves held with the Central Bank of Montenegro	508	-
<b>Total interest bearing deposit accounts</b>	<b>508</b>	<b>-</b>
<b>Total foreign currency mandatory reserves held with the CBMNE</b>	<b>3,338</b>	<b>-</b>

The Bank sets aside the mandatory reserve under the Decision on Banks' Mandatory Reserve Held with the Central Bank of Montenegro (Official Gazette of MNE, Nos. 35/11 of 21 July 2011, 22/12 of 23 April 2012, 61/12 of 7 December 2012, 57/13 of 16 December 2013, 52/14 of 16 December 2014, and 7/15 of 17 February 2015). Under this decision, banks shall set aside the mandatory reserve at the rates of: 9.5% - to the base comprising demand deposits and deposits with maturities of up to one year, i.e. up to 365 days; 8.5% - to the base comprising deposits with maturities exceeding one year, i.e. over 365 days.

**11. Loans and receivables from banks**

	<b>2015</b>	<b>2014</b>
Correspondent accounts held with foreign banks	12,947	-
Term deposits with banks and other depository institutions in MNE	3	-
Term deposits with banks and other depository institutions abroad	4,500	-
Interest receivables based on deposits	44	-
<b>Total</b>	<b>17,494</b>	<b>-</b>

As at 31 December 2015, the Bank had deposits on foreign currency accounts held with the following banks:

	<b>2015</b>	
PJSC VOSTOK BANK	11,730	-
COMMERZ BANK AG	1,217	-
<b>Total</b>	<b>12,947</b>	<b>-</b>

As at 31 December 2015, the Bank had term deposits on a foreign currency account held with PJSC Vostok Bank with maturity of up to 12 months.

**12. Loans and receivables from customers**

Short-term and long-term loans by client category were as follows:

	<b>Short-term</b>	<b>Long-term</b>	<b>2015 Total</b>	<b>2014 Total</b>
Private companies	14,122	4,773	18,895	-
Natural persons	23	522	545	-
<b>Total</b>	<b>14,145</b>	<b>5,295</b>	<b>19,440</b>	<b>-</b>
Less: provision (Note 4)	-	34	34	-
<b>Loans Net</b>	<b>14,145</b>	<b>5,261</b>	<b>19,406</b>	<b>-</b>

Short-term loans were granted mostly to private companies for the period of one month to one year, at rates ranging between 7.85 % and 8% p.a.

Long-term loans were granted mostly for investment purposes. These loans were mostly granted for the period of 13 - 84 months, at fixed interest rates ranging between 4% - 6.5% p.a.

## a) Loan portfolio sector concentration

The sector concentration of the loan portfolio as at 31 December was as follows:

	<b>2015</b>	<b>2014</b>
Trade	400	-
Construction industry	4,160	-
Transport, warehousing, PTT, communications	14,122	-
Retail	545	-
Other	213	-
<b>Total</b>	<b>19,440</b>	<b>-</b>

## b) Movements within loan portfolio were as follows:

	<b>2015</b>	<b>2014</b>
Opening balance at 1 January 2015	-	-
Net loans and advances increase	19,440	-
<b>As at 31 December 2015</b>	<b>19,440</b>	<b>-</b>



**13. Property, plant and equipment**

	<b>Equipment</b>	<b>Total</b>
<b>Cost</b>		
As at 01/01/2015	-	-
Additions – new purchases	399	399
<b>As at 31 December 2015</b>	<b>399</b>	<b>399</b>
<b>Provision</b>		
As at 01/01/2015	-	-
Amortisation charge (Note 8)	(36)	(36)
<b>As at 31 December 2015</b>	<b>(36)</b>	<b>(36)</b>
<b>Net book value as at 31 December 2015.</b>	<b>363</b>	<b>363</b>

**14. Intangible assets**

	<b>Software</b>	<b>Licences</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Cost</b>				
As at 01/01/2015	-	-	-	-
Additions – new purchases	275	27	15	318
<b>As at 31 December 2015</b>	<b>275</b>	<b>27</b>	<b>15</b>	<b>318</b>
<b>Provision</b>				
As at 01/01/2015	-	-	-	-
Amortisation charge (Note 8)	(25)	(3)	-	(29)
<b>As at 31 December 2015</b>	<b>(25)</b>	<b>(3)</b>	<b>-</b>	<b>(29)</b>
<b>Net book value as at 31 December 2015</b>	<b>250</b>	<b>24</b>	<b>15</b>	<b>289</b>

**15. Client deposits**

	<b>2015</b>	<b>2014</b>
Non-interest-bearing deposits	12,760	-
Interest-bearing deposits	19,462	-
Deposits on escrow account	14,080	-
<b>Total</b>	<b>46,302</b>	<b>-</b>

**a) Non-interest-bearing deposits**

<b><i>Demand deposits</i></b>	<b>2015</b>	<b>2014</b>
Natural persons	109	-
Foreign companies	11,627	-
<b>Demand deposits - total</b>	<b>11,736</b>	<b>-</b>

<b><i>Term deposits</i></b>	<b>2015</b>	<b>2014</b>
Privately owned companies - residents	1,024	-
<b>Term deposits - total</b>	<b>1,024</b>	<b>-</b>
<b>Non-interest bearing deposits - total</b>	<b>12,760</b>	<b>-</b>

**b) Interest-bearing deposits**

<b><i>Demand deposits</i></b>	<b>2015</b>	<b>2014</b>
Privately owned companies	443	-
Natural persons - residents	37	-
Natural persons - non-residents	163	-
Local state-owned companies	2	-
Local non-profit organisations	10	-
Foreign companies	380	-
Entrepreneurs	31	-
Development Fund	19	-
<b>Demand deposits - total</b>	<b>1,085</b>	<b>-</b>

<b><i>Term deposits</i></b>	<b>2015</b>	<b>2014</b>
Privately owned companies	330	-
Natural persons - non-residents	12,047	-
Foreign entities	6,000	-
<b>Term deposits - total</b>	<b>18,377</b>	<b>-</b>
<b>Interest bearing deposits - total</b>	<b>19,462</b>	<b>-</b>

**15. Client deposits (continued)****c) Deposits on escrow account**

<b><i>Escrow account</i></b>	<b>2015</b>	<b>2014</b>
Privately owned companies - residents (non-interest bearing)	13,980	-
Legal entities - non-residents (non-interest bearing)	100	-
<b>Deposits on escrow account - total</b>	<b>14,080</b>	<b>-</b>

**16. Funds borrowed from other clients**

	<b>2015</b>	<b>2014</b>
Borrowings	1,084	-
<b>Total</b>	<b>1,084</b>	<b>-</b>

**a) Borrowings:**

	<b>2015</b>	<b>2014</b>
INVESTMENT AND DEVELOPMENT FUND OF MONTENEGRO	1,084	-
<b>Total</b>	<b>1,084</b>	<b>-</b>

	<b>2015</b>	<b>2014</b>
Payable within 12 months from the balance sheet date	63	-
Payable within 1-5 years	702	-
Payable within the period exceeding 5 years	319	-
<b>Total</b>	<b>1,084</b>	<b>-</b>

Loans used by the Bank are long-term credit lines granted by the Investment and Development Fund of Montenegro which are due to mature in 2027. Loans granted by the Investment and Development Fund of Montenegro are repaid at the interest rate of 2.5%.

**17. Other liabilities**

	<b>2015</b>	<b>2014</b>
Advances received for loan repayment	21	-
Trade payables	44	-
<b>Total</b>	<b>65</b>	<b>-</b>

**18. Equity**

	2015	2014
Issued share capital – ordinary shares	6,500	-
Retained earnings	(921)	-
<b>Total</b>	<b>5,579</b>	<b>-</b>

Share capital comprises ordinary shares bearing the same rights which were issued in kind and entered into the Central Securities Depository and Clearing House (CSD) on securities' owners accounts. Shareholders have the right to participate in the management of the bank, the right to a percentage of profits (dividend), and the right to an appropriate portion of assets in the event of liquidation or bankruptcy, in accordance with law.

The Bank's share capital as at 31 December 2015 comprised 65,000 shares with a par value of EUR 100.00 per share.

Under the Law on Banks (Official Gazette of MNE, Nos. 17/2008, 44/2010, 40/2011), which came into force on 8 August 2011, the minimum cash portion of a bank's share capital amounts to EUR 5,000.

The ownership structure as at 31 December 2015 is presented in the table below:

	2015	% of share
Volodymyr Kostelman	5,000	76.92%
Liya Morokhovska	950	14.62%
Vadym Morokhovskyy	550	8.46%
<b>Total</b>	<b>6,500</b>	<b>100%</b>

**19. Off-balance sheet items**

	2015	2014
Irrevocable commitments - loans granted	529	-
Issued guarantees	4,503	-
Issued guarantees payable	4,500	-
Issued performance bonds	1	-
Other guarantees	2	-
Collateral for accounts receivable	56,738	-
Commission deals	26,981	-
Other off-balance sheet exposures of the Bank	500	-
<b>Total off-balance sheet items</b>	<b>89,251</b>	<b>-</b>

- a) Guarantees provided to companies, both resident and non-resident, comprise payable guarantees, tender guarantees and performance bonds. The Bank created provision for off-balance sheet losses amounting to EUR 6 thousand for guarantees and other commitments (Note 4).

**19. Off-balance sheet items (continued)**

- b) Collateral for accounts receivable relates to assets received as collateral amounting to EUR 56,738 thousand.

Assets received as collateral are presented in the table below:

	2015	2014
Property	36,598	-
Other	20,140	-
<b>Total</b>	<b>56,738</b>	<b>-</b>

**20. Related party transactions**

A number of banking transactions are entered into with related parties in the normal course of business. Under the Law on Banks, the Bank's related parties are:

- Members of the (management) bodies of the Bank, shareholders, employees, and their immediate family (spouse and children);
- Legal entities in which the owner of a qualified share also has a qualified share in the Bank;
- Legal entities in which members of the (management) bodies of the Bank, shareholders, employees, and their immediate family have significant influence, or any of the above persons is a director or a member of the Board of Directors or other body of such legal entities;
- Persons holding at least 50% of the capital or voting rights of the legal entity which has a qualified share in the Bank.

Related party transactions are carried out at arm's length.

The volume of related party transactions, assets and liabilities as at 31 December 2015 and related income and expenses are presented in the table below:

	Liya Morokhovska Shareholder	Vostok banka Jointly controlled entities	Calyptra Invest	Graal doo	Related parties - natural persons	Total
<b>Receivables</b>						
Foreign currency accounts	-	16,230	-	-	-	16,230
Fixed term deposits with banks	-	4,500	-	-	-	4,500
Loans granted	-	-	-	93	260	353
<b>Total receivables</b>	<b>-</b>	<b>20,730</b>	<b>-</b>	<b>93</b>	<b>260</b>	<b>21,083</b>
<b>Payables</b>						
Demand deposits	7	-	292	17	33	349
Term deposits	12,047	-	-	-	-	12,047
<b>Total liabilities</b>	<b>12,054</b>	<b>-</b>	<b>292</b>	<b>17</b>	<b>33</b>	<b>12,396</b>
<b>Net receivables/(payables)</b>	<b>(12,054)</b>	<b>20,730</b>	<b>(292)</b>	<b>76</b>	<b>227</b>	<b>8,687</b>

**20. Related party transactions (continued)**

	<b>Liya Morokhovska Shareholder</b>	<b>Vostok banka Jointly</b>	<b>Calyptra Invest controlled entities</b>	<b>Graal doo</b>	<b>Related parties - natural persons</b>	<b>Total</b>
<b>Income</b>						
Interest income	-	214	-	3	3	220
Fee and commission income	11	-	9	1	-	21
<b>Total income</b>	<b>11</b>	<b>214</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>241</b>
<b>Expenses</b>						
Interest expense	172	-	-	-	-	172
Commission expense	-	1	-	-	-	1
<b>Total expenses</b>	<b>172</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>173</b>
<b>Net income/(expenses)</b>	<b>(161)</b>	<b>213</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>68</b>

Salaries paid to related parties - natural persons in 2015 were as follows:

	<b>Bank management</b>	<b>Key management</b>	<b>Board members</b>	<b>Total</b>
Salaries and other short-term benefits	219	194	-	413
Board membership fees	-	-	45	45
<b>Total</b>	<b>219</b>	<b>194</b>	<b>45</b>	<b>458</b>

## **21. Risk management**

### **21.1. Liquidity risk**

Adequate liquidity risk management is the basic requirement for safe and efficient operations of a bank. The quality of liquidity risk management depends on the Bank's balance sheet structure and cash flow (inflows and outflows) matching. Required liquidity is achieved through rational management of assets and liabilities in order to maintain an adequate proportion of liquid assets and unstable liabilities.

At 2015 year end, deposits comprise mainly deposit accounts of non-residents - 94.12%, i.e. EUR 30,326 thousand, of which EUR 24,236 thousand relates to deposits with maturity of up to one year, whereas EUR 6,000 relates to deposits over one year.

Based on the results of measurement and monitoring of basic liquidity ratios, both internally prescribed and those required by the Central Bank of Montenegro, all ratios were above the prescribed minimum, meaning that the Bank managed adequately both operating and structural liquidity.

The table below provides an overview of assets and liabilities maturity dates based on contractual payment terms. The contractual maturities of assets and liabilities are determined based on the period remaining to the contractual maturity date at the balance sheet date.

Demand deposits are presented in the 1-7 days column.

The Bank started operations in April 2015; as a result, as at 31 December 2015, based on the methodology adopted which is used for determining deposit stability, it was not possible to determine the stability of demand deposits due to insufficient historical data.

As the amount of historical data and experience (increases), the Bank will apply methods for determining the stability of demand deposits.

**21. Risk management (continued)****21.1. Liquidity risk (continued)**

The assets and liabilities maturity structure as at 31 December 2015 was as follows:

	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1 - 5 years	Over 5 years	<b>Total</b>
<b>Assets</b>									
Cash and deposits with deposit insurance institutions	28,430	-	-	-	-	-	4,500	-	32,930
Loans and other receivables	16	-	-	24	79	14,486	2,414	2,421	19,440
Other financial assets	152	-	15	(17)	(24)	(21)	(24)	(12)	69
<b>Total</b>	<b>28,596</b>	<b>-</b>	<b>15</b>	<b>7</b>	<b>55</b>	<b>14,465</b>	<b>6,890</b>	<b>2,409</b>	<b>52,439</b>
<b>Liabilities</b>									
Deposits	12,923	-	-	13,980	330	17,569	-	1,500	46,302
Borrowings and other loans payable					16	32	449	587	1,084
Other financial liabilities	-	21	44	-	-	-	13	-	78
<b>Total</b>	<b>12,923</b>	<b>21</b>	<b>44</b>	<b>13,980</b>	<b>346</b>	<b>17,601</b>	<b>462</b>	<b>2,087</b>	<b>47,464</b>
<b>Maturity gap (1) - (2)</b>	15,675	(21)	(29)	(13,973)	(291)	(3,136)	6,428	322	4,975
<b>Cumulative gap</b>	15,675	15,654	15,625	1,652	1,361	(1,775)	4,653	4,975	57,820
<b>% of total available cash funds</b>	33.0%	33.0%	32.9%	3.5%	2.9%	(3.7%)	9.8%	10.5%	



## **21. Risk management (continued)**

### **21.2 Interest rate risk**

The sensitivity of assets, liabilities and off-balance sheet items to interest rate changes affects the amount of net interest income and the market value of certain financial instruments (interest rate sensitive funds and investments), which consequently affects the market value of the bank's capital.

The Bank's exposure to interest rate risk as at 31 December 2015 is presented in the table below: In 2015, the Bank did not grant loans with floating interest rates, therefore, the table includes assets and liabilities presented by maturity dates.

<b>As at 31 December 2015</b>	<b>1-30 days</b>	<b>31-90 days</b>	<b>91-180 days</b>	<b>181-365 days</b>	<b>Over 1 year</b>	<b>Total</b>
<b>Assets</b>						
Interest-bearing deposits with other institutions	12,238	-	-	-	4,500	16,738
Loans	15	24	79	14,486	4,835	19,439
Other interest sensitive assets	144	-	-	-	-	144
<b>Total</b>	<b>12,397</b>	<b>24</b>	<b>79</b>	<b>14,486</b>	<b>9,335</b>	<b>36,321</b>
<b>% of total interest-bearing assets</b>	<b>34.1%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>39.9%</b>	<b>25.7%</b>	
<b>Liabilities</b>						
Interest-bearing deposits	1,085	-	330	16,547	1,500	19,462
Interest-bearing borrowings	-	-	16	32	1,036	1,084
<b>Total</b>	<b>1,085</b>	<b>-</b>	<b>346</b>	<b>16,579</b>	<b>2,536</b>	<b>20,546</b>
<b>% of total interest-bearing liabilities</b>	<b>5.3%</b>	<b>0.0%</b>	<b>1.7%</b>	<b>80.7%</b>	<b>12.3%</b>	
<b>Gap</b>	<b>11,312</b>	<b>24</b>	<b>(267)</b>	<b>(2,093)</b>	<b>6,799</b>	<b>15,775</b>
<b>Cumulative gap</b>	<b>11,312</b>	<b>11,336</b>	<b>11,069</b>	<b>8,976</b>	<b>15,775</b>	
<b>Cumulative gap / total assets %</b>	<b>21.3%</b>	<b>21.4%</b>	<b>20.9%</b>	<b>16.9%</b>	<b>29.7%</b>	

## **21. Risk management (continued)**

### ***Sensitivity analysis***

Liquidity risk management is accompanied by monitoring the sensitivity of the Bank's income statement to different scenarios for interest rate changes. Income statement sensitivity is the impact of assumed changes in interest rates on the annual net interest income.

The Bank regularly performs stress testing of interest rate risk in the banking book. The impact on net interest income (NII) for individual GAP is calculated using this formula:

Impact on annual NII = (periodic GAP)\*(gap time period (year/s))\*(interest rate change in base points)

Considering the maturity matching between interest-bearing assets and liabilities, or mainly positive periodic GAPs of up to one year, the impact on the annual net interest income in the event of reduced interest rates will be negative.

A review of income statement sensitivity to changes in interest rates as at 31 December 2015 is presented in the table below:

Interest rate increase	Impact on income statement in EUR 000	Interest rate decrease	Impact on income statement in EUR 000
+100 bp	102	-100 bp	(102)

### **21.3 Foreign exchange risk**

Foreign exchange risk is the risk that the value of assets and liabilities will change as a result of changes in foreign exchange rates. Assets and liabilities by currencies as at 31 December 2015 were as follows:

	<b>USD</b>	<b>Total</b>
<b>LONG POSITIONS</b>		
F/X assets	25,049	25,049
<b>TOTAL</b>	<b>25,049</b>	<b>25,049</b>
<b>SHORT POSITIONS</b>		
F/X liabilities	24,806	24,806
<b>TOTAL</b>	<b>24,806</b>	<b>24,806</b>
<b>NET POSITION</b>		
<b>NET LONG (SHORT) POSITIONS (1) - (2)</b>	<b>243</b>	
<b>% of basic capital</b>	<b>4.8%</b>	
<b>Foreign currencies - aggregate</b>	<b>243</b>	
<b>% of basic capital</b>	<b>4.8%</b>	

## **21. Risk management (continued)**

### **21.4 Credit risk**

Credit risk is managed on an individual loan basis and for the whole portfolio.

In order to provide the preconditions for adequate credit risk management, risk exposure is considered (i) on an individual loan basis - the Bank determines the creditworthiness and upper debt limit of a client or a group of clients, and (ii) for the whole portfolio, on the basis of:

- Portfolio structure by category of loans (corporate loans, loans to state institutions, retail loans, off-balance sheet exposures);
- Portfolio structure by solvency group (movements between individual solvency categories, migration matrices, coverage ratio);
- Portfolio structure by timely settlement of liabilities;
- Portfolio structure by industry;
- Concentration of clients with large exposures (clients or groups of related clients with exposure exceeding 10% of the venture capital, regular monitoring of exposure of 30 largest debtors);
- Concentration of loans to natural persons by type of product.

The Bank performs on a quarterly basis an impairment assessment (balance sheet assets) and a contingent loss assessment (off-balance sheet items) based on which it is exposed to credit risk, under the policy disclosed in Note 2.9.

Reserves for credit risk are set aside in accordance with the applicable Central Bank of Montenegro regulations (for more details see Note 2.9). The amount of reserves for contingent losses is calculated using the carrying amount of receivables that is multiplied by the prescribed percentage of reserves, provided that the carrying amount of the asset for which the reserve is calculated has been reduced by:

- 1) The amount of collateral in the form of cash deposit;
- 2) The amount of receivables covered by irrevocable guarantee of:
  - OECD member countries or central banks;
  - Banks with a credit rating of at least BBB- assigned by Standard & Poor's, or equivalent credit rating assigned by other internationally recognised credit rating agencies;
  - Legal entities the operations of which is subject to the Central Bank of Montenegro control.

In order to effectively manage credit risk, the Bank prepares credit risk stress scenarios and monitors the impact of the weakening of the credit portfolio on the Bank's liquidity, profitability and capital adequacy.

## 21. Risk management (continued)

A review of the credit risk exposure is presented below.

Maximum exposure to credit risk without taking into account any collateral:

	<b>2015</b>
	Maximum credit risk exposure
<b>Loans and receivables from banks</b>	<b>17,494</b>
<b>Loans and receivables from customers</b>	<b>19,406</b>
loans to legal entities:	18,868
Loans to natural persons:	538
Interest and other receivables	<b>144</b>
<b>Total balance sheet items:</b>	<b>37,044</b>
<b>Off-balance sheet items</b>	
- guarantees	4,503
- other contingent liabilities	520
<b>Total</b>	<b>5,023</b>

	<b>2015</b>			
<b>Loan Analysis by Sectors</b>	<b>Loans Gross</b>	<b>Provision</b>	<b>Loans Net</b>	
Retail	544	6	538	2.8%
Energy Sector				
Construction	1,660	9	1,651	8.5%
Traffic and warehousing	14,122	-	14,122	72.8%
Trade	400	6	394	2%
Professional, scientific and technical activities	93	-	93	0.5%
Administrative and support service activities	120	2	118	0.6%
Non-residents	2,500	10	2,490	12.8%
Other				
<b>Total</b>	<b>19,439</b>	<b>33</b>	<b>19,406</b>	<b>100%</b>

**21. Risk management (continued)**

	<b>2015</b>
	<b>Loans</b>
Loans not in default for which no provision is made	16,567
Loans in default for which no provision is made	-
Loans for which provision is made	2,873
<b>Loans Gross</b>	<b>19,440</b>
Less: Provision	(34)
<b>Loans Net</b>	<b>19,406</b>

**Loans not in default for which no provision is made**

	<b>2015</b>
	<b>Loans outstanding</b>
<b>Loans to natural persons</b>	
- Cash non-specific purpose loans	39
- Framework loans	22
- Vehicle loans	24
	<b>85</b>
<b>Loans to legal entities:</b>	
- Loans to large companies:	14,122
- Loans to small and medium-sized enterprises	860
- Loans to non-residents	1,500
	<b>16,482</b>
<b>Total</b>	<b>16,567</b>

## **21. Risk management (continued)**

### **Impaired loans by type**

**2015**

	<b>Loans Gross</b>	<b>Provision</b>	<b>Loans Net</b>
<b>Loans to state government</b>			
<b>Loans to financial organisations</b>			
<b>Loans to natural persons</b>	<b>459</b>	<b>(6)</b>	<b>453</b>
Cash non-specific purpose loans	103	(2)	101
Housing loans	187	(3)	184
- other loans to natural persons:	169	(1)	168
<b>Loans to legal entities:</b>	<b>2,413</b>	<b>(27)</b>	<b>2,386</b>
- cards			
- loans to large companies			
- loans to small and medium-sized enterprises	1,414	(18)	1,396
- loans to non-residents	1,000	(10)	990
<b>Total loans</b>	<b>2,873</b>	<b>(34)</b>	<b>2,839</b>

## **22. Capital management**

The Bank manages its capital, which is a broader concept than equity in the balance sheet, in order to:

- comply with capital requirements set by the Central Bank of Montenegro
- secure a capital adequacy ratio that will enable it to continue as a going concern
- retain the capital adequacy ratio that will enable further development of operations.

The capital adequacy and the use of capital is monitored by the Bank's management on a quarterly basis. The Central Bank of Montenegro has defined the following capital requirement limits:

- Minimum capital cash portion of EUR 5 million and the
- capital adequacy ratio of 10%

## **22. Capital management (continued)**

The Bank's total capital, i.e. own funds, consists of Tier 1 and Tier 2 capital and deductibles.

Basic capital comprises: Paid-in share capital measured at nominal value, exclusive of cumulative preference shares; collected share premium, exclusive of share premium for preference cumulative shares; required reserve for estimated losses at regulatory request, set aside in accordance with the decision prescribing minimum standards for credit risk management in banks; reserves created and charged to profit after taxation (legal, statutory and other reserves); prior years retained earnings for which the Shareholders' Assembly has decided to include in basic capital, less income tax and other expected expenses; current year profit, provided the following conditions have been met: the Shareholders' Assembly, or the Board of Directors with the approval of the Shareholder's Assembly passed a decision that current year profit in its full or less than full amount shall be allocated to reserves as an increase in share capital, so as to cover prior years' losses and/or to retained earnings, and presented in the form of a percentage (profit is reduced for related income tax and other expected expenses; profit is confirmed by an independent auditor; the Bank received approval from the Central Bank to incorporate profit in its basic capital).

Deductibles from Tier 1 capital comprise: Prior years loss; current year loss; intangible assets such as goodwill, licenses, patents, trade marks and concessions; nominal value of acquired own shares, exclusive of cumulative preference shares; unrealised loss arising from fair value adjustments of financial assets available-for-sale; the gain on calculated provisions for contingent losses and total provisions for balance sheet and off-balance sheet items; the amount exceeding the limit for investments in immovable property and fixed assets determined by special regulations prescribed by the Central bank.

Additional capital comprises: Nominal value of cumulative preference shares; collected share premium for preference cumulative shares; general reserves, not exceeding 1,25% of total risk weighted assets; subordinated debt and hybrid instruments, which meet the requirements of Article 6 and Article 7 of the Decision on capital adequacy for inclusion into additional capital. Deductibles from Additional Capital comprise: Acquired own cumulative preference shares; receivables and potential payables secured by hybrid instruments or the bank's subordinated loan in the amount not exceeding the value of the instruments included in additional capital.

Capital requirements are determined on an individual basis for each type of risk - credit risk, operating risk - market risk and other risks in accordance with applicable regulations. Major capital requirements relate to capital used to cover credit risk and country risk. In this respect, credit risk weighted assets are calculated using ponders ranging between 0% do 150% depending on the type and the level of credit risk specific for each risk exposure. Another major capital requirement relates to country risk. Capital to cover country risk is calculated using ponders ranging between 0% do 300%.

The Banks total capital structure as at 31.12.2015 and the capital adequacy ratio are presented in the table below.

## **22. Capital management (continued)**

The structure of own assets and capital adequacy as at 31.12.2015.

<b>Basic capital</b>	<b>2015</b>
Paid-in share capital measured at nominal value, exclusive of cumulative preference shares	6,500
Collected share premium	-
Reserves created and charged to profit after taxation (legal, statutory and other)	-
Prior years' retained earnings	-
<b>Basic capital</b>	<b>6,500</b>
Current year loss	921
Intangible Assets	289
Gains on the difference between calculated reserve for contingent losses and the provision made	200
<b>Deductibles on the calculation of Tier 1 capital</b>	<b>1,410</b>
<b>Basic capital</b>	<b>5,090</b>
<b>The Bank's funds</b>	<b>5,090</b>
Weighted balance sheet assets	29,029
Weighted off-balance sheet assets	516
<b>Total credit risk weighted assets</b>	<b>29,545</b>
Capital required to cover market risks	24
Capital required to cover operational risks	107
Capital required to cover country risk	5,019
Capital required to cover other risks	-
<b>Capital adequacy</b>	<b>14.19%</b>



### **23. Contingent liabilities**

As at 31.12.2015 there were three legal proceedings against the Bank:

1. Commercial court of Montenegro P No. 1014/15 in the legal subject matter of the Plaintiff, VTK BANKA Austria AG, Vienna - Action to nullify the following documents: Loan Agreement UZZ No. 581 /2015 dated 04. August 2015, Escrow Account Agreement UZZ No. 585/2015 dated 04. August 2015 , Lien Statement UZZ No. 588/2015 dated 04 August 2015 , Lien Statement UZZ No. 589/2015 dated 04 August 2015 , Approval of the registry of mortgage of the first, second and third RANK ZZ No. 587/2015 dated 04. August 2015. The value of the subject matter amounts to Euro 40.001.
2. Commercial Court of Montenegro P No. 1018/15 in the legal subject matter of the Plaintiff, Ceac Holding Limited, Nikosia, Kipar - Action to nullify the following documents: Loan Agreement UZZ No. 581 /2015 dated 04. August 2015 , Escrow Account Agreement UZZ No. 585/2015 dated 04. August 2015, Lien Statement UZZ No. 588/2015 dated 04 August 2015 , Lien Statement UZZ No. 589/2015 dated 04 August 2015, Approval of the registry of mortgage of the first, second and third RANK ZZ No. 587/2015 dated 04. August 2015. The value of the subject matter amounts to Euro 40.001.
3. Commercial Court of Montenegro P No. 1016/15 in the legal subject matter of the Plaintiff, EN+GROUP LIMITED, Channel Islands - Action to nullify the following documents: Loan Agreement UZZ No. 581 /2015 dated 04. August 2015, Escrow Account Agreement UZZ No. 585/2015 dated 04. August 2015, Lien Statement UZZ No. 588/2015 dated 04 August 2015 , Lien Statement UZZ No. 589/2015 dated 04 August 2015, Approval of the registry of mortgage of the first, second and third RANK ZZ No. 587/2015 dated 04. August 2015. The value of the subject matter amounts to Euro 40.001.

The management believes that these claims will be settled in favour of the Bank therefore, no provisions have been made.

### **24 Events after the balance sheet date**

At the extraordinary meeting of the Shareholders' Assembly held on 23.03.2016, a decision was made to issue shares via a closed offer to be made to a predetermined number of people, the value of which amounts to EUR 2,000 thousand.

On 25.03.2016, the Securities Commission of Montenegro (the Commission) passed a Decision on registering a short form prospectus for a closed offer made to a predetermined number people who had committed to buying the entire issue No.02/12e-6/4-16. Once the procedure was implemented by the Bank, on 31.03.2016 the Committee passed a Decision on determining the level of success of the issue of 20.000 ordinary shares No. 02/12e-6/6-16. The value of the issue was EUR 2.000 thousand, or 20.000 shares with a par value per share amounting to EUR 100, which is an issue with 100% achievement.

Data on the new issue of shares were registered with the Central Depository Agency on 1 April 2016 , whereas the increase in capital was registered with the Central Registry of the Commercial Court on 7 April 2016.  
In Podgorica

26 May 2016.

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Vesna Kovačević  
Head of Accounting  
and Finance

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Mladen Rabrenović  
Executive Director

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Savo Živković  
Executive Director