INVEST BANK MONTENEGRO AD, PODGORICA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014 AND
INDEPENDENT AUDITORS' REPORT

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders Assembly of Invest bank Montenegro AD, Podgorica

We have audited the accompanying financial statements (pages 3 to 51) of Invest bank Montenegro AD, Podgorica (the "Bank"), which comprise the balance sheet as of December 31, 2014 and the related income statement, statement of changes in equity and statement of cash flows for the year than ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing of Montenegro and regulations of the Central Bank of Montenegro governing financial reporting of banks, 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 and the Law on Accounting and Auditing of Montenegro. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

As disclosed in Note 16 to the financial statements, as of December 31, 2014, the total gross loans and receivables from clients amounted to EUR 29,507 thousand. The Bank had a concentration of credit risk in respect of loans granted to a small number of clients for which loan restructuring was carried out in terms of the repayment period extension. The total gross exposure to these clients amounted to at least EUR 8,529 thousand as of December 31, 2014 for which an impairment allowance was recorded in the amount of EUR 8 thousand. Based on the available documentation and the audit procedures performed, we were unable to satisfy ourselves to a sufficient extent as to the Company's ability to collect the entire amount of the receivables through collateral foreclosure, and hence to the adequacy of the impairment allowance, and the effects that this matter may have on the accompanying financial statements and performance indicators stipulated by the Law on Banks and regulations of the Central Bank of Montenegro.

As disclosed in Note 17d to the financial statements, as of December 31, 2014, the Bank's investments in subsidiaries in the amount of EUR 2,000 thousand were entirely related to the investments in the company Global Carbon d.o.o. Podgorica. The Bank did not make allowance for impairment of the aforesaid investment, and based on the available documentation, we were unable to satisfy ourselves as to the adequacy of the aforesaid investment measurement as at December 31, 2014, and the effects that this matter could have on the accompanying financial statements.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Shareholders Assembly of Invest bank Montenegro AD, Podgorica (Continued)

Basis for Qualified Opinion (Continued)

As disclosed in Note 21 to the financial statements, as of December 31, 2014, the Bank's assets acquired in lieu of debt collection amounted to EUR 1,246 thousand, whereby the foregoing property was acquired in the period from 2004 to 2012. In accordance with IFRS 5 – "Non-Current Assets Held for Sale and Discontinued Operations," fixed assets held for sale are measured at the balance sheet date at the lower of the fair value less expected costs to sell and the carrying amount. Taking into consideration that in previous years, the Bank's management announced the sale of real estate for several times, as well as that in 2013 and 2014 there were no realized sales transactions thereof, we were unable to to satisfy ourselves as to the adequacy of the valuation of these fixed assets held for sale and the effects that this matter could have on the Bank's accompanying financial statements for 2014.

Qualified Opinion

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the effects discussed in the *Basis for Qualified Opinion* paragraphs, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with the accounting regulations of Montenegro and regulations of the Central Bank of Montenegro governing the financial reporting of banks.

Deloitte d.o.o. Podgorica
Montenegro
May 18, 2015

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

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

INCOME STATEMENT
Year Ended December 31, 2014
(Thousands of EUR)

	Notes	2014	2013
Interest income	3.1., 6a	2,304	2,203
Interest expenses	3.1., 6b	(943)	(901)
Net interest income		1,361	1,302
Dividend income		8	10
Impairment losses	3.6., 7a	(31)	74
Provision charges	3.6., 7b	(1)	(2)
Fee and commission income	3.1.,8a	287	282
Fee and commission expenses	3.1.,8b	(244)	(191)
Net fee and commission income		43	91
Net gains from financial instruments held for trading		17	9
Net gains/(losses) on investment securities		3	(100)
Foreign exchange (losses)/gains, net	3.2	(18)	12
Staff costs	9	(670)	(609)
General and administrative expenses	10	(503)	(477)
Depreciation/amortization charge	11	(165)	(184)
Other expenses		(83)	(121)
Other income	12	63	46
OPERATING PROFIT		**24**	**51**
Income taxes	3.3.,13	(3)	-
PROFIT FOR THE YEAR		**21**	**51**

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

These financial statements were approved by the management of Invest bank Montenegro AD, Podgorica, in Podgorica, on January 30, 2015.

Approved by and signed on behalf of Invest bank Montenegro AD, Podgorica by:

Preparer of the Financial Statements	Chief Executive Director
Milanka Radunović	Zoran Nikolić

BALANCE SHEET
As of December 31, 2014
(Thousands of EUR)

	Notes	December 31, 2014	December 31, 2013
ASSETS			
Cash and deposit accounts held with depositary agencies	14	2,383	2,337
Loans and receivables due from banks	15	2,473	323
Loans and receivables due from customers	3.5.,16	29,289	25,231
Financial assets held for trading		-	100
Investment securities			
- available for sale	17a	1,102	989
- held to maturity	17b	567	50
Investments in associates and joint ventures at equity method	17c	1,261	1,261
Investments in subsidiaries	17d	2,000	2,000
Property, plant and equipment	18	1,356	1,417
Intangible assets	19	166	207
Other financial receivables	20	2,408	2,444
Other operating receivables	21	1,262	1,279
TOTAL ASSETS		**44,267**	**37,638**
LIABILITIES			
Deposits due to banks		950	5,400
Deposits due to customers	22	21,822	11,336
Borrowings from banks	23	-	5,438
Borrowings from customers	23	6,147	10
Provisions	24	2	4
Deferred tax liabilities		7	7
Other liabilities	25	200	321
TOTAL LIABILITIES		29,128	22,516
EQUITY			
Share capital	26	13,844	13,844
Share issue premium		2	2
Retained earnings		-	114
Profit for the year		21	51
Other reserves		1,272	1,111
TOTAL EQUITY		15,139	15,122
TOTAL EQUITY AND LIABILITIES		**44,267**	**37,638**
OFF-BALANCE SHEET ITEMS	28	**152,885**	**80,933**

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

STATEMENT OF CHANGES IN EQUITY
In the period from January 1 to December 31, 2014
(Thousands of EUR)

	Share Capital	Share Issue Premium	Other Reserves	Retained Earnings / Accumulated Losses	Total
Balance at January 1, 2013	13,844	2	1,111	114	15,071
Profit for the year	-	-	-	51	51
Balance at December 31, 2013	**13,844**	**2**	**1,111**	**165**	**15,122**
Balance at January 1, 2014					
Transfer of profits to other reserves	-	-	165	(165)	-
Decrease in revaluation reserves	-	-	(4)	-	(4)
Profit for the year	-	-	-	21	21
Balance at December 31, 2014	**13,844**	**2**	**1,272**	**21**	**15,139**

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

STATEMENT OF CASH FLOWS
In the period from January 1 to December 31, 2014
(Thousands of EUR)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		2,196	1,659
Interest paid		(943)	(901)
Fee and commission receipts		287	282
Fees and commissions paid		(244)	(191)
Payments to and on behalf of employees and to suppliers		(1,253)	(1,381)
Increase/decrease in loans and other assets		(4,258)	1,583
Inflows/(outflows) from deposits and other liabilities		6,334	(1,185)
Taxes paid		(149)	(31)
Other inflows		103	9
Net ***cash generated by/(used in) operating activities***		2,073	(156)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(15)	(20)
Purchases of intangible assets		(48)	(94)
Government Treasury bills		(520)	392
Net cash generated by investing activities		583	278
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(decrease) in borrowings		699	(372)
Net cash generated by/(used in) financing activities		699	(372)
Foreign exchange (losses)/gains		(18)	12
Net increase/(decrease) in cash and cash equivalents		2,171	(238)
Cash and cash equivalents, beginning of year		1,260	1,498
Cash and cash equivalents, end of year	3.4., 30	3,431	1,260

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

1. BANK'S FOUNDATION AND ACTIVITY

Invest Banka Montenegro AD, Podgorica (hereinafter: the "Bank") is the legal successor of the Pljevaljska banka AD, Pljevlja. As of November 20, 2006 the General Shareholders Assembly of the Pljevaljska Banka AD, Pljevlja, issued a decision by which changed the name and the Bank's seat. By the decision on the change of the bank's name, the number 03-3437/3 was changed the name of the Bank to Invest bank Montenegro, the Joint-stock Company Podgorica. In accordance with the decision on the change of the seat and address, the number 03-3437/4, bank headquarters are in Podgorica, in Bulevar Svetog Petra Cetinjskog no. 115.

Pursuant to the Law on Banks, Founding Decision and Statute, the Bank is engaged in the business of reception of deposits and other assets of private individuals and legal entities and it approves loans and makes other advances from these funds entirely, or in part, for its own account.

In addition to these operations, the Bank is also registered to perform the following activities:

- to issue guarantees and undertake other sheet commitments;
- to purchase and collect receivables;
- to issue, process and record payment instruments;
- to perform payment transactions abroad;
- to perform finance lease operations;
- to trade in its own name for its own account or for the account of a customer with foreign payment instruments;
- to prepare analysis and provide information and advice on the company and entrepreneur creditworthiness;
- depositary operations;
- safekeeping of securities and
- other operations as in accordance with the approval of the Central Bank of Montenegro.

The Bank's management bodies include: the Shareholder Assembly and the Board of Directors. The Shareholder Assembly is the highest body of the Bank. Shareholders exercise their rights directly or through their authorized representatives. At the General Meeting of Shareholders the shareholders have a number of votes in proportion to the number of shares. The Executive Board is the management body of the Bank. The Bank's Board of Directors has 5 members, most of whom are not the Bank's employees. The Executive Director is a member of the Board of Directors, but cannot be President or the Chairman of the Board of Directors.

Permanent bodies of Boards of Directors are Audit Committee, the IT Steering Committee and the Assets and Liability Committee (ALCO). IT Steering Committee and the Assets and Liability Committee have six members each, whose presidents are Bank's executive directors, and other member's managers or directors of organizational units of the Bank. The Audit Committee has three members, most of who are not connected with the Bank.

The Chief Executive Officer of the Bank is the Bank's executive manager. The Chief Executive Officer is answerable to the Board of Directors.

As of December 31, 2014, the Bank had 30 employees (December 31, 2013: 30 employees).

The Bank is headquartered at Svetog Petra Cetinjskog no. 115 in Podgorica.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Bank is obligated to maintain its accounting records and prepares its statutory financial statements in conformity with the Accounting and Auditing Law of Montenegro (Official Gazette of Montenegro no. 69/05, no. 80/08 and no. 32/11) which entails implementation of the International Financial Reporting Standards and Decisions of the Central Bank of Montenegro governing financial reporting of banks.

The Bank's financial statements have been prepared in accordance with the Decision On The Content, Deadlines and Manner of Compiling and Submitting Financial Statements of Banks (Official Gazette of Montenegro no.15/12 and 18/13).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

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

Upon preparation of these financial statements, the Bank implemented policies in accordance with the regulations of the Central Bank of Montenegro, which depart from the requirements of IFRS and IAS effective as of December 31, 2014 in respect of recording receivables qualifying for derecognition from the Bank's financial statements, in respect of format for presentation of the financial statements.

Due to the potentially significant effects of the above described matters, these financial statements cannot be treated as prepared in accordance with International Financial Reporting Standards.

These financial statements do not include the operations of its subsidiary Global Carbon d.o.o. Podgorica, which is 100% owned by the bank and do not represent the consolidated financial statements.

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

The official currency in Montenegro and the Bank’s functional currency is the Euro (EUR).

2.2. Use of Estimates

The presentation of financial statements requires the Bank’s management to make the best possible estimates and reasonable assumptions that affect the value of assets and liabilities, as well as the disclosure of contingent liabilities and receivables, and the income and expenses arising during the accounting period. These estimations and assumptions are based on historical experience and other information available to us as of the date of the preparation of the financial statements. However, actual outcome may vary from the estimated values. The most important estimates were performed on the following balance sheet positions:

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

Bank's financial statements include provisions, calculated by an actuary, based on the estimated present value of retirement benefits and jubilee awards to employees upon vesting in respective rights, using of Projected Unit Credit method. However, the bank’s future operating results may vary from the estimated values.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank consistently applies accounting policies from one period to another. In the event of a change in accounting policy, when such change proves suitable, the Bank retroactively applies the changed accounting policy in earlier periods presented in the financial statements prepared for the year in which the policy is changed, if the effects are materially significant.

3.1. Interest and fees income and expense

Interest income and expense are recognized in the income statement for all instruments measured at amortized value using the effective interest method.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Interest and fees income and expense (continued)

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

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

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

3.2. Foreign Exchange Translation

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

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

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

Commitments and contingent liabilities denominated in foreign currencies are translated in Euros by applying the official average exchange rates, as determined on the Interbank Market, effective on the balance sheet date. The calculation of the amount of foreign exchange is carried out in accordance with regulatory requirements, the official exchange rates published by the Central Bank of Montenegro.

3.3. Leasing

Leases of property and equipment from which are completely transferred all the risks and benefits arising from the ownership of assets are accounted for as financial leases.

At the time of the Contract conclusion the financial leasing is recognized as a tool for fair value as well as the financial liability, excluding the amount of interest for the payment of future rental income. Lease repayment is divided into interest and principal according to calculated annuities. A Depreciation/Amortization of the assets which is the subject of leasing shell be performed during its useful life or during the lease period depending on which of the two periods are shorter.

Interest expenses are charged to expense during the period, or income statement on a proportional basis on the outstanding balance of the rent. Difference between future value minimum lease payment and their current value is a future lease payment record as well as the financial lease differences based on lease. Lease of assets where all the benefits and risks related to ownership of a lessor shall be considered and recorded as operating (business) lease. Lease payments based on business leases are recognized as an expense in the income statement during the lease.

3.4. Taxes and Contributions

Income Tax

Income Tax

Income taxes are calculated and paid in conformity with Corporate Income Tax Law (Official Gazette of Montenegro, No., 80/04 and 40/08, 86/09, 14/12 and 61/13). The income tax rate is a proportionate rate of 9% applied to the tax base. A taxpaying entity's taxable income is determined based on the income stated in its statutory statements of comprehensive income following certain adjustments to its income and expenses performed in accordance with the Montenegrin Corporate Income Tax Law and the Decision on the New Chart of accounts for Bank Central Bank of Montenegro (Official Gazette of Montenegro No. 55/12).

Capital losses may be set off against capital gains earned in the same year. In case there are outstanding capital losses even after the set-off of capital losses against capital gains earned in the same year, these outstanding losses are carried forward in the following 5 years.
Montenegrin tax regulations do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses reported in the annual corporate income tax returns may be carried forward and used to reduce or eliminate taxes to be paid in future accounting periods, but only for a period of a maximum of five following years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Taxes and Contributions) (continued)

Income Tax (continued)

Deferred income taxes

Deferred income tax is determined using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities, and their book values. The currently-enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for the deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Taxes, contributions and other duties not related to operating results

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

3.5. Cash and Cash Equivalents

Financial assets disclosed in the income statement include cash in hand, treasury and cash dispensers and bank accounts at depository institutions, i.e. in the accounts of the Central Bank of Montenegro and other banks.

Cash equivalents disclosed in the income statement include short-term, highly liquid investments that can be quickly converted to a known cash amount and that are subject to an insignificant risk influence of the changes in value.

Cash flows arising from transactions in foreign currencies are recorded in the reporting currency using the exchange rate at the date of the cash flow or on the day of cash inflows and outflows.

Cash flows of the foreign entity for an investment in a foreign entity the Bank calculates into its reporting currency using the exchange rate at the date of the cash flow.

The Bank uses a direct method of reporting cash flows from operating activities.

3.6. Financial Instruments

Bank balance includes financial instruments in accordance with IAS 39, financial instruments - Recognition and determination.

Financial instruments include any contract by which is created Bank's financial receivable or financial liability, along with the financial liability, or financial receivable from third parties.

All financial instruments, in accordance with the international standards for financial reporting, shall be classified in the appropriate categories.

Placements for loans and other placements, as well as receivables arising from them are classified as loans to other banks and loans to clients are recorded on the income statement at amortized value, which represents the original value of deposits reduced by the repayments, adjusted for the amount calculated in accordance with the bank's internal methodology, aligned with the Decision on the Minimum Standards for Credit Risk Management in Banks, and which is recorded through the impairment allowance account that is defined by the Decision on the Chart of Accounts. The calculated interest and the effects of changes in the value of loan placements accounted for an income from interest and other similar income.

The estimated value of reserves for credit losses on the basis of the risk collectability determined by the implementation of the Central Bank of Montenegro methodology is calculated but is not recorded. The amount of these reserves will at the end of the financial year reflect on the amount of the bank equity, in the manner defined by the Decision on the Minimum Standards for Credit Risk Management in Banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Financial Instruments (continued)

Loans approved in other currencies contain foreign currency clause, i.e. whose annuity in Euro depends on the foreign currency on the maturity date or index of growth in retail prices, is treated as a financial instrument with integrated derivative. Principal amount in EUR is disclosed by the amortized values defined in the previous paragraph. Differences between values have been calculated as credit according to the rate on the balance sheet day, or contracted by applying an index, and principal values in EUR is included in interest income, and other similar incomes in the amount that is collected, or even before they were due for payment. No deviation from the actual value contains as well as positive or negative exchange rate difference, depending on the exchange rate in which the credit. Discrepancies from the real value are reported as positive or negative exchange rate differences, depending on the exchange rate where the receivable is registrated.

The Bank assesses impairment of receivables in accordance with the Bank's internal methodology, and such calculated amounts of the impairment on the accounts of the allowance impairments are charged to the operating expenses.

The Bank is obligated to write off 100% of the receivables that meet the criteria for writ-off form the balance sheet records charged to expenses, derecognized from the balance sheet assets and transferred to the off-balance sheet liabilities used for the Bank’s internal records. The cost of this write-off must be transferred to the account of expenses based on direct write-off of receivables. For the amount of the collected written-off receivables, the Bank provides income from collected written off receivables.

Based on realized transfer of ownership rights over collaterals securitizing receivables, the Bank accounts for all the assets acquired in this manner as assets acquired in lieu of debt collection, which assets can be carried at this account for maximum 4 years from the acquisition date. Following the expiry of the four-year period from the acquisition date, all the assets acquired in lieu of debt collection are accounted for as investments in property and equipment.
Liabilities based on the received loans are recognized in the balance sheet using the accounting policies which is identical with accounting policy for the loan placements. Securities at fair value through income statement which are recorded in the balance sheet as assets or liabilities at market value. Increasing their market value is booked as income and a decrease as expenses.

The securities held-to-maturity are classified as financial instruments with maturities set forth, which management intends to hold to maturity, i.e. implement on the maturity date. These securities are recorded on the balance sheet at amortized cost defined in the preceding paragraph. The calculated interest and the effects of changes in value of these securities are recorded as income from the interest and other similar revenues. Impairment of securities held to maturity is carried out in accordance with the Bank’s methodology and accounting implements through an allowance account and charged to operating expenses.

In the securities held for the sale shall be classified all other securities, including the equity investments in other legal entities and in balance sheet are disclosed at the market value determined at the stock exchanges or other recognized financial market; or if the market value is not known or cannot be determined the market prices of the securities with similar characteristics are used.

After initial recognition, the unrealized gains and losses arising from changes in fair value of the financial assets available for sale are recognized directly in equity (revaluation reserve) until the financial asset is sold or impaired at which time the cumulative gain/loss previously recognized in equity is recognized in the income statement.
Dividends received from investments in shares of other legal entities at the time of their collection are recognized as income from dividends. For the estimated amount of the risk for equity investments in other legal entities Bank separates the reserves charged to operating expenses.

Loans
Loans originated by the Bank are recorded in the books of account upon the transfer of funds to the loan beneficiary.
Loans originated by the Bank are stated in the balance sheet in the amount of placement originally approved net of principal repaid and an allowance for impairment which is based on an evaluation of the specifically-identified exposures which serves to cover any losses inherent in the Bank’s loan portfolio. The Bank’s management applies the methodology prescribed by the Central Bank of Montenegro in its risk assessment, as well as the established methodology for the assessment of balance sheet assets impairment and probable losses per off-balance sheet items in accordance with IAS 39, as disclosed in Note 3.7.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Financial Instruments (continued)

Financial Liabilities – Borrowings

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

3.7. Allowances for Impairment and Provisions for Potential Losses

The Decision issued by the Central Bank of Montenegro on Minimum Criteria of Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12 and 57/13) set forth the following: elements of credit risks management, minimum criteria and manner of classifying assets and off-balance sheet items which render the Bank susceptible to credit risk, manner of calculation and suspension of unpaid interest and the manner of determining the minimum provisions for potential losses contingent on the Bank's exposure to credit risk. The Bank's risk-weighted assets, within the meaning of this Decision, are comprised of loans, borrowings, interest, fees and commission, lease receivables, deposits with banks, advances and all other items included in the balance sheet exposing the Bank to default risk, as well as guarantees issued, other sureties, effectuated letters of credit and approved, but undrawn loan facilities, as well as all other off-balance sheet items comprising the Bank's contingent liabilities.

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

Calculation of Provisions for Potential Losses
Pursuant to the Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12 and 57/13), the Bank implemented the following percentages and numbers of days in default per risk category in calculation of provisions:

	As at December 31, 2013	
Risk Category	**% Provisioning**	**Number of days past due**
A	-	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

Pursuant to the internal policy, the Bank forms provisions for loans credit cards, approved current account overdraft facilities, guarantee protests, commissions per retail customer accounts and balances sheet assets of the Bank exposed to credit risk as well as off-balance sheet exposures that may be exposed to risk.

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

Initial valuation and the recognition of balance sheet assets is carried out according to fair value, while the subsequent assessment and recognition of balance sheet assets is carried out according to the depreciated cost method by applying the impairment concept.

Bank assesses the assessment and recognition, for the losses in off-balance sheet. Conditions for the recognition of the provision for the losses based on the off-balance sheet assets are:

- That there is a current obligation as a result of the past events
- That is probable the outflow of the funds for the settlement of the obligation and
- That there is a possibility for the obligation assessment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Assessment and recognition of a provision for losses based on the unused loans is carried out in the same manner as the assessment and recognition of credit receivables, unless the Bank has an irrevocable liability based on the unused portion of the loan.

The assessment of the impairment allowance of balance sheet assets items and the probable loss on off-balance sheet items The Bank carried out on an individual or group basis.

The assessment of impairment of balance sheet assets items and the probable loss based on off-balance sheet items, on an individual basis the Bank is obliged to carry out for:

- all materially significant receivables with the note that materially significant receivable gross exposure to one entity or group of related entities is increased for EUR 50 thousand,
- all receivables based on which the debtor is the Bank or other financial institution,
- placements in securities that are not listed on the stock exchange and securities that are held until maturity, regardless of material significance,
- materially significant and potential liabilities, if there is material evidence that the guarantee will fall at the expense of the Bank,
- other asset items.

If the Bank's receivable is materially significant, and based on the Decision on Capital Adequacy represents the deductible item of own funds, then the assessment of the allowance impairment is not performed.

The assessment of impairment of balance sheet assets items and the probable loss based on off-balance sheet items, on the group basis the Bank is obliged to carry out all placements that belong to the group of small receivables, or receivables until the EUR 50 thousand.

The assessment of provisions for guarantees, letters of credit and securities is performed on an individual or group basis depending on whether the amount of contingent liabilities exceeds EUR 50 thousand, or not, and whether there is objective evidence of allowance impairment or not. If it is a materially significant amount of the off-balance sheet then it needs to be done a correction on an individual basis if there is material evidence that the Bank will be in a position to make payments under the guarantee.
Considering the size of the Bank, by grouping according to similar credit risk characteristics is not provided statistically representative categories for the calculation of the value adjustments. Therefore, the entire portfolio of the Bank is divided portfolio of natural and legal persons.

After identification of the balance sheet and off-balance sheet for which is calculated the allowance impairment and determining material position before allowances for individual assessment is necessary to determine whether there is the objective evidence, i.e. the events that indicate impairment of material positions.

The events that indicate impairment materially significant positions based on which the bank is exposed to credit risk, which are related to the legal entities are:

- substantial financial difficulties of the debtor;
- breach of the contractual terms by the debtor, such as failure to fulfill the liabilities arising from interest and/or principal;
- delays in settling the obligations more than 90 days for any materially significant obligation from that debtor towards the Bank. Overdrafts maturities more than 90 days are considered a transgression, which indicates an increased level of credit risk. Here is not taken into account the liabilities of the debtor which is not higher than EUR 200;
- the existence of high probability that a debtor will enter into the process of insolvency, liquidation or restructuring due to financial difficulties;
- the restructuring of the placements (individual loan) due to the deterioration of the debtor financial condition or the extension of the repayment of a principal and/or reduction of interest rates and/or fees, as defined by the Decision on Minimum Standards for Credit Risk Management;
- block the debtor's account
- economic, national, local, technological and legal conditions that may adversely affect the settlement of the debtor's obligations (a significant increase in the price of raw materials, reduction in property prices for mortgages in that field, other changes in market conditions in which the borrower does business, regulatory changes that may adversely affect the borrower's business, technological obsolescence of products produced by the debtor, etc.).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The events that indicate impairment materially significant positions based on which the bank is exposed to credit risk, and is linked with physical entities are:

- over-indebtedness of the debtor (debtor's total monthly obligations exceeding its total monthly income);
- breach of the contractual terms by the debtor, such as failure to fulfill the liabilities arising from interest and/or principal;
- delays in settling the obligations more than 90 days for any materially significant obligation from that debtor towards the Bank i.e. continuous overdrafts maturities of more than 90 days. Exceeding maturity date for more than 90 days is considered a transgression, which indicates an increased level of credit risk. Here is not taken into account the liabilities of the debtor which is not higher than EUR 200;
- initiate court proceedings for any receivables from the debtor;
- the restructuring of the placements (individual loan) due to the deterioration of the debtor financial condition or the extension of the repayment of a principal and/or reduction of interest rates and/or fees;
- blockade of the debtor's account.

a) *Individual Impairment Assessment*

To carry out the calculation of impairment on an individual basis it is necessary to firstly:

- To determine whether it is the position based on which the bank is exposed to credit risk,
- To determine whether it is about materially significant position

If, on the foregoing, all the answers are positive a discounting of the cash flows and the realizable value of the collateral is done. Cash flows are discounted at the effective interest rate. These cash flows include all the expected flows from the collection of interest, principal and fees.

For the calculation of the impairment it is necessary the information about the types of collateral values and percentages recognition of collateral, i.e. realizable value of collateral.

Realizable value of collateral is calculated when from the difference between the estimated market value of the collateral and exposures that are covered by the same collateral (available collateral value), reject used conversion factor (HC-Haircut) which is calculated on the value of available collateral depending on the type of collateral.

b) *In order to be recognized the collateral for the calculation of the impairment must possess the following characteristics:*

- It has a reliable estimated market value
- That is cashable
- To represent the adequate coverage
- That have a valid Bank's rights for the realization of the collateral
- That there is a legal environment for the collateral realization
-

For the calculation of the impairment there also needs to be determined LGD and LCP.

LGD (Loss given default) represents the amount of the final loss that the Bank may endure in the event that the client does not fulfil it's the obligations (default status) in the period of one year.

LCP (Loss confirmation period) represents the period required for confirmation of the incurred loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

c) Group-Level Impairment Assessment

The calculation of impairment or allowances for impairment of all receivables towards a single person or group of related entities that are less than EUR 50 thousand is performed on a group basis.

For group impairment all positions for which the calculated the impairment are grouped into two groups: physical and legal entities.

Based on the migration matrices the probabilities of transition from one receivable to another group are determined. It is observed the number of clients, reduced by the number of clients who have paid off their obligations to the Bank, migrated from the group to which it belonged at the beginning of the period to the default group, i.e. an internal rating with a group of more than 90 days overdue.

By comparing the number of clients for the observed rating group who migrated to the internal rating group that has the status of default with the number of clients for the observed rating group at the beginning of the period reduced for the number of clients who have paid off their obligations to the Bank for the observed group received a rating of the PD (probability of default - the probability that receivables will be delayed more than 90 days) for a particular rating group.

PD groups (from I to VI) are determined on the delay basis. Receivables with the more than 90 days overdue are considered to be receivables that are in default or non-performing assets

3.8. Property and Equipment and Intangible Assets

All procurement of property, equipment and intangible assets are kept at cost value consisting of the purchase price plus dependent expenses of procurement and reduced by trade discounts and rebates. Property, equipment and intangible assets are subsequently carried at cost value reduced for accumulated depreciation and impairment losses. The fair value of intangible assets and equipment is their market value, and if there is no evidence of market value are assessed according to amortized cost of their replacement. Subsequent investment in property and equipment, which affect the improvement of the asset conditions above its initial estimated useful lives are included in the carrying value of the underlying asset.

Investments based on current maintenance are recognized as an expense in the period in which they are incurred. Depreciation is calculated at rates that provide the compensation of property, equipment and intangible assets over their useful life, using the following annual rates in order to fully write off the assets over their estimated useful lives:

	Rate in %
Buildings	10
Computer equipment	33
Furniture and other equipment	10-12.5
Software	20

The basis for depreciation makes the carrying value of property and equipment and the purchase value of the property, equipment and intangible assets, reduced for the estimated residual (remaining) value.

The difference between the amount of depreciation calculated in accordance with accounting policies and depreciation, which is recognized by tax regulations, shall be entered in the tax balance in a manner determined by tax regulations.

There were no changes in depreciation rates compared to the previous year 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Impairment of tangible and intangible assets

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

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

3.10. Provisions

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

Provisions are not recognized for future operating losses. The amount recognized as a provision represents the best estimate of expenditure required to settle the present liability at the balance sheet date.

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

3.11. Employee Benefits

Employee Taxes and Contributions for Social Security

In accordance with the current regulations in Montenegro, the bank has an obligation to pay contributions to various government social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of the employees, to transfer the withheld portions directly to government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Retirement benefits and other long term employee benefits

In accordance with the Collective Bargaining Agreement, the Bank has an obligation to disburse an employment retirement benefit to a retiree, in an amount equal to six average net salaries effective in the Bank in the month prior to the employee's retirement.

According to the Bank's management opinion, the amounts disclosed in the financial statements reflect the real value that in the given circumstances is the most credible and useful for reporting purposes in accordance with the accounting regulations of Montenegro and regulations of Central Bank of Montenegro governing financial reporting of banks.

3.12. Related Party Transaction

According to the IAS 24 definition, the related parties are:

- the entities that directly, or indirectly through one or more intermediaries, controls the reporting Company or are under his control, i.e. has the joint control over the reporting Company;
- associated companies in which the Bank has significant influence and which are neither a subsidiary nor a joint venture of the investor;
- physical persons that directly or indirectly have the voting rights in the Bank that gives them significant influence over the Bank, as well as any other entity which is expected to influence, or to be under the influence by the related person in their business with the Bank;
- the key management, or persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and key management personnel.

While observing each possible transaction with the related party attention is focused on the substance of the relationship, not just on the legal form.

4. FAIR VALUE

In accordance with International Financial Reporting Standards the fair value of financial assets and liabilities should be disclosed in the Notes to the Financial Statements. For these purposes, the fair value is defined as an amount at which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. The Bank is obliged to disclose the fair value information of those components of assets and liabilities for which market information is readily available, and for which their fair value is materially different from their recorded amounts.

In Montenegro, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables, investments and other financial assets or liabilities, for which published market information is presently not available. Fair value cannot readily be determined in the absence of active capital and financial markets, as generally required under the provisions of IFRS/IAS. According to the opinion of the management of the bank, the reported carrying amounts are the most valid and useful reporting values under the present market conditions and accounting regulations of Montenegro and Central Bank's regulations for financial reporting. In the amount of the identified estimated risk that the carrying value will not be realized, a provision is recognized based on a relevant decision of the bank's management.

5. RISK MANAGEMENT

5.1. Risk management

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

- credit risk;
- market risk;
- liquidity risk;
- Operational risk.

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

The Risk Management Department is responsible for monitoring the Bank's exposures to certain risks, which is reported to the Board of Directors on a monthly basis. In addition, monitoring of the Bank's exposures to certain risks is the responsibility of Credit Risk Management Committee, Operational Risk Management Committee and Asset and Liability Management Committee. The Bank also applies internationally recognized standards, follows announcements and changes in legislation, analyzes the impact of risks in order to timely align its operations with the regulations.

The Bank tests the Bank's sensitivity to certain types of risk on the summary basis, using several types of stress scenarios. Stress scenario includes assumptions about changes in the market and other factors which may have a material impact on its operations.

5.2. Credit Risk

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

The Central Bank of Montenegro adopted Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro, no. 22/12, 55/12 and 57/13), which applies from January 1, 2013, and stipulates adoption and implementation of the International Accounting Standards in measurement of balance sheet assets and off-balance sheet items and presentation thereof in conformity with International Financial Reporting Standards. Pursuant to that decision, the Bank has established a methodology for assessment of impairment of balance sheet assets and probable loss on off balance sheet items. The Bank has consistently applied the methodology, reviewed at least once a year and, if necessary, adjusts to the results of the review, and adjusts the assumptions on which the methodology is based.

Credit Risk Mitigation implies maintaining risk at an acceptable level of the Bank, or maintaining an appropriate loan portfolio.

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.1. Credit risk management

Credit risk exposure is a risk of financial loss which is a result of borrowers being unable to fulfill contractual obligations to the bank. The bank manages credit risk by placing the limits with respect to large loans, individual borrowers and related parties. Those risks are continuously monitored and are subject of constant control.

In accordance to the limits prescribed by the Central Bank of Montenegro, sector concentration is constantly monitored.

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

Credit risk management is performed by regular analyses of the ability of borrowers and potential borrowers to repay obligations in respect of interest and principal. In operations the Bank approves the rescheduling of receivables to the clients with specific problems, in order to take measures and provides the maximum use of the available opportunities for the settlement of its receivables, and at the same time the ability of the borrower to regularly pay the debts to be sustainable.

Loan-Related Commitments and Contingent Liabilities

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, and therefore carry the same credit risk as loans. Documentary and commercial letters of credit, which represent written undertakings of the Bank on behalf of a customer authorizing a third party to draw bills of exchange on the Bank up to the amount agreed under specific terms, are securitized by the underlying deliveries of goods that they relate to and therefore carry less risk than loans.

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

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

If the bank determines that an event occurred which will negatively affect expected cash flows, exposure is reclassified from healthy to bad loans/exposures. Bank is obliged at least on a quarterly basis to assess quality of its assets, and to determine if there is an objective evidence of impairment for balance sheet assets or probable losses related to off balance sheet items.

The events that indicate impairment of the materially significant positions based on which the bank is exposed to credit risk, which are related to *legal entities* are:

- significant financial difficulties of the debtor,
- breach of the contractual terms by the debtor, such as failure to fulfill the liabilities arising from interest and/or principal;
- delays in settling the obligations more than 90 days for any materially significant obligation from that debtor towards the Bank i.e. continuous overdrafts maturities of more than 90 days. Exceeding maturity date for more than 90 days is considered a transgression, which indicates an increased level of credit risk. Here is not taken into account the liabilities of the debtor which is not higher than EUR 200;
- the existence of high probability that a debtor will enter into the process of insolvency, liquidation or restructuring due to financial difficulties
- the restructuring of the placements (individual loan) due to the deterioration of the debtor financial condition or the extension of the repayment of a principal and/or reduction of interest rates and/or fees as defined by the Decision on Minimum Standards for Credit Risk Management;
- blockade of the debtor's account.
- economic, national, local, technological and legal conditions that may adversely affect the settlement of the debtor's obligations (a significant increase in the price of raw materials, reduction in property prices for mortgages in that field, other changes in market conditions in which the borrower does business, regulatory changes that may adversely affect the borrower's business, technological obsolescence of products produced by the debtor, etc.).

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

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

The events that indicate impairment of the materially significant positions based on which the bank is exposed to credit risk, which are related to physical entities are:

- over-indebtedness of the debtor (debtor's total monthly obligations exceeding its total monthly income);
- breach of the contractual terms by the debtor, such as failure to fulfill the liabilities arising from interest and/or principal;
- delays in settling the obligations more than 90 days for any materially significant obligation from that debtor towards the Bank i.e. continuous overdrafts maturities of more than 90 days. Exceeding maturity date for more than 90 days is considered a transgression, which indicates an increased level of credit risk. Here is not taken into account the liabilities of the debtor which is not higher than EUR 20;
- initiate court proceedings for any receivables from the debtor;
- the restructuring of the placements (individual loan) due to the deterioration of the debtor financial condition or the extension of the repayment of a principal and/or reduction of interest rates and/or fees;
- blockade of the debtor's account.

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

		Thousands of EUR
	2014	2013
Assets		
Loans and receivables due from banks	2,473	323
Loans and receivables due from clients	26,659	23,453
Interest and other receivables	2,630	1,778
Financial assets that are held for trading	-	100
Securities available for sale	1,102	989
Securities held to maturity	567	50
Investments in associates and joint ventures by equity method	1,261	1,261
Investments in dependent enterprises	2,000	2,000
	36,692	29,954
Off balance sheet items		
Payment guaranties	5,570	988
Undrawn loan facilities	316	96
	5,886	1,084
Total credit risk exposure	42,578	31,038

Exposure to credit risk is partially controlled by obtaining collateral and guaranties of legal entities and individuals. In addition, all individuals are required to receive their monthly salary through a current account with the bank in order to reduce credit risk.

Types of collaterals are as follows:

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

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and Advances

Loans and advances are presented in the following tables:

Thousands of EUR

	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total, Gross	Individual Impairment Allowance	Group Impairment Allowance	Total Impairment Allowance	Total, Net
December 31, 2014								
Housing loans	46	-	-	46	-	-	-	46
Special purpose loans	332	-	133	465	75	-	75	390
Other retail loans secured by mortgages	77	37	135	249	3	-	3	246
Other loans	808	2	737	1,547	-	5	5	1,542
Loans to micro and small enterprises	18,473	371	5,683	24,527	84	8	92	24,435
	19,736	410	6,688	26,834	162	13	175	26,659

Thousands of EUR

	Neither Past due nor Impaired	Past Due but not Impaired	Individually Impaired	Total, Gross	Individual Impairment Allowance	Group Impairment Allowance	Total Impairment Allowance	Total, Net
December 31, 2013								
Housing loans	49	-	-	49	-	-	-	49
Special purpose loans	929	99	33	1,061	32	-	32	1,029
Other retail loans secured by mortgages	158	18	-	176	-	-	-	176
Other loans	950	30	65	1,045	-	47	47	998
Loans to micro and small enterprises	20,869	330	130	21,329	120	8	128	21,201
	22,955	477	228	23,660	152	55	207	23,453

Loans and advances neither past-due nor impaired in 2014 and 2013 are classified as 'good assets.

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and Advances (continued)

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

Thousands of EUR

	Past due up to 30 days	Past due 31- 60 days	Past due 61-90 days	Past due 91-180 days	Past due 181- 365 days	Past due 1 to 5 years	Over 5 years	Total
December 31, 2014								
Other retail loans secured by mortgages	1	1	1	13	3	18	-	37
Other loans	1	-	-	1		-	-	2
Loans to micro and small enterprises	28	1	-	20	23	299	-	371
	30	2	1	34	26	317	-	410

Thousands of EUR

	Past due up to 30 days	Past due 31- 60 days	Past due 61-90 days	Past due 91-180 days	Past due 181- 365 days	Past due 1 to 5 years	Over 5 years	Total
December 31, 2013								
Other retail loans secured by mortgages	-	-	-	-	-	99	-	99
Other loans	-	5	1	1	5	6	-	18
Loans to micro and small enterprises	10	-	-	-	1	19	-	30
Loans to Government and municipalities	5	-	-	15	94	216	-	330
	15	5	1	16	100	340	-	477

b) Fair Value of Collaterals

Thousands of EUR

	December 31, 2014	December 31, 2013
Deposits	2,294	1,528
Pledge liens	13,297	7,436
Mortgages	10,354	12,532
Guarantees	889	2,164
Total	26,834	23,660

Thousands of EUR

Not impaired due to the value of receivables	December 31, 2014	December 31, 2013
Deposits	1,793	1,528
Pledge	10,340	7,435
Mortgages	8,013	12,487
Guarantees	464	2,003
Total	20,610	23,453

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4. Loans and Advances (continued)

Not impaired due to the value of receivables	December 31, 2014	December 31, 2013
	Thousands of EUR	
Deposits	501	-
Pledge	2,947	1
Mortgages	2,341	45
Guarantees	435	161
Total	6,224	207

Properties used as collateral are housing premises, apartment buildings, office buildings, business premises and land depending on the location and future use. Haircut applied in calculating the correction value is 30% -50% depending on the type of real estate.

When taking the pledge on the securities, the Bank monitors daily price of securities taken as collateral.

c) Restructured Loans and Advances

The Bank restructured a loan to the borrower due to a decline in the borrower's creditworthiness: extended the principal and interest maturity, decreased the interest rate on the loan approved, reduced the amount of debt, principal or interest or made other concessions which place the borrower in a better financial position. Upon restructuring of the loan, the Bank performs financial analysis of the borrower and assesses its capacitates to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is restructured. During 2014 the Bank restructured loans in the amount of EUR 14,935 thousand (2013: EUR 11,278 thousand).

d) Concentration per Geographic Regions

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

Thousands of EUR

	Montenegro	European Union	USA and Canada	Other	Total
Loans and receivables due from banks	-	2,417	-	56	2,473
Loans and receivables due from customers	15,625	10,383	588	63	26,659
Securities available for sale	1,102	-	-	-	1,102
Securities held to maturity	567	-	-	-	567
investments in affiliates and joint ventures by equity method	1,261	-	-	-	1,261
investments in subsidiaries	2,000	-	-	-	2,000
December 31, 2014	20,555	12,800	588	119	34,062
December 31, 2013	21,482	8,046	504	351	30,383

The Bank measures the country risk exposure for all countries in where the head office or residence the bank's debtor is. The Bank's exposure to country risk is measured on the basis of individual placement, specified by a certain act, which includes control of the debtor country's rating, taking into account the political, economic and social conditions in the debtor's country.

The Bank classifies all debtors in the following risk categories:

1) risk-free country;
2) low risk countries;
3) medium-risk countries;
4) high-risk countries.

Ranking of debtor countries serve to the Bank for determining the required capital for country risk and to limit the bank's exposure to individual the debtor countries, groups of countries or regions.

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.4 Loans and advances (continued)

e) Industry Concentration

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

Thousands of EUR

	Finance	Transportation, Traffic and Tele-communication	Services, Tourism, Hotel Mana-gement	Trading	Construction Industry	Power Industry	Ore and Stone Mining	Administration	Real Estate Trade	Agriculture Hunting and Fishing	Manu-facturing	Other	Retail Clients	Total
Loans and receivables due from banks	2,473	-	-	-	-	-	-	-	-	-	-	-	-	2,473
Loans and receivables due from clients	848	437	2,219	1,835	1,966	521	765	15	139	18	1,096	14,528	2,272	26,659
Securities - available for sale	1,102	-	-	-	-	-	-	-	-	-	-	-	-	1,102
Securities held to maturity	567	-	-	-	-	-	-	-	-	-	-	-	-	567
investments in affiliates and joint ventures by equity method	1,261	-	-	-	-	-	-	-	-	-	-	-	-	1,261
investments in subsidiaries	2,000	-	-	-	-	-	-	-	-	-	-	-	-	2,000
December 31, 2014	8,251	437	2,219	1,835	1,966	521	765	15	139	18	1,096	14,528	2,272	34,062
December 31, 2013	4,723	515	1,387	1,870	5,041	228	600	9	265	85	1,119	11,142	1,399	28,383

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

5.2.5. Off-Balance Sheet Items

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

Thousands of EUR

	Undrawn Loan Facilities	Guarantees	Uncovered Letters of Credit	Total
December 31, 2014				
Up to one year	316	4,968	-	5,284
From 1 to 5 years	-	602	-	602
	316	5,570	-	5,886

Thousands of EUR

	Undrawn Loan Facilities	Guarantees	Uncovered Letters of Credit	Total
December 31, 2013				
Up to one year	96	942	-	1,038
From 1 to 5 years	-	46	-	46
	96	988	-	1,084

5.3. Market Risk

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

5.3.1. Foreign Exchange Risk

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

The Bank's exposure to foreign currency risk as of December 31, 2013 is presented in the following table:

Thousands of EUR	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets in foreign currencies	377	-	39	3	419
Liabilities in foreign currencies	(249)	-	(21)	(2)	(272)
Net foreign exchange exposure:					
- December 31, 2014	128	-	18	1	147
- December 31, 2013	(205)	1	17	1	(185)
% of the core capital:					
- December 31, 2014	1.32%	0%	0.19%	0.01%	
- December 31, 2013	1.48%	0.01%	0.12%	0.01%	
Aggregate open position:					
- December 31, 2014	(185)				
- December 31, 2013	(185)				
% of the core capital:					
- December 31, 2014	1.52%				
- December 31, 2013	-1.34%				

5. RISK MANAGEMENT (continued)

5.3. Market Risk (continued)

5.3.2. The risk of changes in interest rates

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The interest rates are based on market rates and the Bank regularly performs repricing.

The following table presents the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2014:

Thousands of EUR

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash and balances with the Central Bank	140	2,243	2,383
Loans and advances to banks	-	2,473	2,473
Loans and advances to customers	26,659	-	26,659
Interest and other receivables	2,630	-	2,630
investments in affiliates and joint ventures by equity method	-	1,261	1,261
investments in subsidiaries	-	2,000	2,000
Securities - available for sale	-	1,102	1,102
Securities held to maturity	567	-	567
Total assets	29,996	9,079	39,075
LIABILITIES			
Deposits due to banks	950	-	950
Deposits due to customers	15,262	6,560	21,822
Borrowings from other clients	6,147	-	6,147
Total liabilities	22,359	6,560	28,919
Interest Sensitive Gap:			
- December 31, 2014	7,637	2,519	10,156
- December 31, 2013	7,321	2,686	10,007

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

Loan type	Interest rate %
Corporate customers:	
- short-term loans from Bank's own funds	8-12%
- short-term loans from other resources	8%
- long-term loans from Bank's own funds	8-12%
- long-term loans from other resources	3 - 8%
- loans to SMEs for periods of up to 24 months	8-12%
- loans to SMEs for periods of over 24 months	8-12%
- loans to entrepreneurs for periods of up to 24 months	8-12%
- loans to entrepreneurs for periods of over 24 months	8-12%

5. RISK MANAGEMENT (continued)

5.3. Market Risk (continued)

5.3.2. The risk of changes in interest rates (continued)

Lending interest rates applied to loans granted to retail customers during 2014 were as follows:

Type of loan	**Interest rate %**
Retail customers: :	10-14%
- cash loans	10-14%
- consumer loans	
- Car loans	10-14%
- loans for reconstruction and financing of up to 60 months	10-14%
- loans for reconstruction and financing over the 60 months	10-14%

Deposit interest rates applied to corporate customer deposits during 2014 were as follows:

Deposit type	**Interest rate %**
Demand deposits	0-1.5%

Deposit interest rates applied to retail customer deposits during 2014 were as follows:

Deposit type	**Interest rate %**
Demand deposits	0-1.5%
Savings demand deposits	0-1.5%
- EUR	0-1.5%
- other currencies	0.75%
Term deposits in EUR placed	
- for a month	3.30%
- for 3 months	3.30%
- for 6 months	4.75%
- for 12 months	5.75%
- for 24 months	6%
- for 36 months	6.25%
Over 36 months	6.50%
Term deposits in foreign currencies (USD):	
- for 3 months	1.75%
- for 6 months	2.25%
- for 12 months	3%

Deposit interest rates applied to corporate customer deposits during 2014 were as follows:

Deposit type	**Interest rate %**
Demand deposits	0-1.50%
Term deposits in EUR	
- for a month	1.50%
- for 3 months	2.75%
- for 6 months	3.50%
- for 12 months	4.50%
- for 24 months	5.25%
Over 36 months	5.75%

5. RISK MANAGEMENT (continued)

5.4. Liquidity Risk

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

5.4.1. Liquidity Risk Management

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

The maturities of assets and liabilities and the ability of the Bank to obtain sources of funding upon maturity of liabilities at an acceptable cost are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and foreign exchange rates. Liquidity requirements to support calls on guarantees and standby letters of credit are considerably less than the amount of the commitments because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments for approved loans with extended maturities does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The Bank is exposed to daily calls on its available cash resources which influence the available cash held on the current accounts or as deposits. The Bank does not maintain cash to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty. The expected maturity matching of financial assets and liabilities as of December 31, 2014 was as follows:

Thousands of EUR

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash balances and deposits with the Central Bank	2,383	-	-	-	-	-	2,383
Loans and advances to banks	2,473	-	-	-	-	-	2,473
Loans and advances to clients	2,230	736	8,167	3,403	13,780	973	29,289
Securities available for sale	1,102	-	-	-	-	-	1,102
Securities held to maturity	567	-	-	-	-	-	567
Other financial assets including investment in shares	1,337	-	-	2,333	-	-	3,670
	10,092	736	8,167	5,736	13,780	973	39,484
Financial liabilities							
Deposits due to banks	950	-	-	-	-	-	950
Deposits due to customers	1,124	2,491	5,667	5,597	6,612	331	21,822
Borrowings from other clients	10	162	259	452	5,264	-	6,147
Other financial liabilities	207	-	-	-	-	-	207
	2,291	2,653	5,926	6,049	11,876	331	29,126
Maturity GAP							
- December 31, 2014	7,801	(1,917)	2,241	(313)	1,904	642	10,358
- December 31, 2013	6,406	(5,924)	(50)	1,609	8,760	(694)	10,107

The structure of the Bank's financial assets and liabilities as classified into their relevant maturity groups as of December 31, 2014 indicates the existence of a liquidity gap in maturity period of assets and liabilities from 1-3 months, in the period 6 to 12 months and over the 5 years. The Bank's liquidity, which is its ability to settle its liabilities as due, depends on one hand on the balance sheet structure, and on the other hand, on the matching between cash inflows and outflows.

5. RISK MANAGEMENT (continued)

5.4. Liquidity Risk (continued)

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

Thousands of EUR

	Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2014							
LIABILITIES							
Liabilities to banks and other customers	950	-	-	-	-	-	950
Liabilities to clients	515	611	2,491	11,264	6,611	330	21,822
Liabilities to loans	10	-	162	711	3,533	1,731	6,147
Other liabilities	207	-	-	-	-	-	207
	1,682	611	2,653	11,975	10,144	2,061	29,126

Thousands of EUR

	Demand	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2013							
LIABILITIES							
Liabilities to banks and other customers	-	-	5,400	-	-	-	5,400
Liabilities to clients	767	473	1,172	6,992	1,917	15	11,336
Liabilities to loans	10	-	-	575	2,771	2,092	5,448
	777	473	6,572	7,567	4,688	2,107	22,184

5.5. Fair Value of Financial Assets and Liabilities

Thousands of EUR

	Carrying Value		Fair Value	
	2014	2013	2014	2013
Financial assets				
Loans and advances to banks	2,473	323	2,473	323
Loans and advances to clients	26,659	23,453	26,659	23,453
Interest and other receivables	2,630	1,778	2,630	1,778
Financial assets held for trading	-	100	-	100
Securities available-for-sale	1,102	989	1,102	989
Securities held-to-maturity	567	50	567	50
investments in affiliates and joint ventures by equity method	1,261	1,261	1,261	1,261
investments in subsidiaries	2,000	2,000	2,000	2,000
Financial liabilities				
Deposits due to banks	950	5,400	950	5,400
Deposits due to clients	21,822	11,336	21,822	11,336
Borrowings from banks and other clients	6,147	5,448	6,147	5,448
Other liabilities	207	328	207	328

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

5. RISK MANAGEMENT (continued)

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

5.5.1 Fair Value of Financial Assets Measured at Fair Value

Fair Value Hierarchy of financial instruments carried at fair value

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

- Level 1 – Quoted prices (unadjusted) on active markets for identical assets or liabilities. This level includes listed equity securities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or a liability, either directly (that is, as prices) or indirectly (that is, as derived from prices).
- Level 3 – inputs for an asset or a liability that are not based on observable market inputs. This level includes equity investments with Bank's market assumption (no observable market data available). The Bank does not have financial instruments included within Level 3.
-

This hierarchy requires the use of observable market data when available. During the assessment the Bank considers relevant and observable market prices in its valuations where possible. As at December 31, 2014 the market price of securities measured at fair value in the Bank's portfolio were available.

December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities available for sale	977	125	-	1,102
Investment securities - the capital instruments	1,261	-	-	1,261
Investments in subsidiaries	-	2,000	-	2,000
Total Assets	2,238	2,125	-	4,363

December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities available for sale	864	125		989
Investment securities - the capital instruments	1,261	-	-	1,261
Investments in subsidiaries	-	2,000	-	2,000
Total Assets	2,125	2,125	-	4,250

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

Fair values of securities available for sale and securities at fair value through other comprehensive income were based on market prices. Unless there were available market prices, market prices of quoted securities with similar characteristics were used. As of December 31, 2014, market prices of securities measured at fair value within the Bank's portfolio were available.

5. RISK MANAGEMENT (continued)

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

5.5.2 Fair Value of Financial Assets not Measured at Fair Value

The fair value hierarchy of financial instruments not measured at fair value

The estimated fair value of financial instruments, according to the fair value hierarchy, is given in the following table:

December 31, 2014	Level 1	Level 2	Level 3	Total	Carrying amount
Cash balances and deposits with the Central Bank	-	2,383	-	2,383	2,383
Loans and advances to banks	-	2,473	-	2,473	2,473
Loans and advances to clients	-	26,659	-	26,659	26,659
Interest and other receivables	-	2,630	-	2,630	2,630
Securities held to maturity	-	567	-	567	567
Total assets	-	34,712	-	34,712	34,712
Deposits due to banks	-	950	-	950	950
Deposits due to customers	-	21,822	-	21,822	21,822
Borrowings	-	6,147	-	6,147	6,147
Other liabilities	-	207	-	207	207
Total liabilities	-	29,126	-	29,126	29,126

December 31, 2013	Level 1	Level 2	Level 3	Total	Carrying amount
Cash balances and deposits with the Central Bank	-	2,337	-	2,337	2,337
Loans and advances to banks	-	323	-	323	323
Loans and advances to clients	-	25,231	-	25,231	25,231
Securities held to maturity	-	50	-	50	50
Total assets	-	27,941	-	27,941	27,941
Deposits due to banks	-	5,400	-	5,400	5,400
Deposits due to customers	-	11,336	-	11,336	11,336
Borrowings	-	5,448	-	5,448	5,448
Other liabilities	-	328	-	328	328
Total liabilities	-	22,512	-	22,512	22,512

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

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

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

5. RISK MANAGEMENT (continued)

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

5.5.2. Fair Value of Financial Assets not Measured at Fair Value (continued)

Valuation Techniques and Assumptions Used in Valuation of Financial Assets not measured at Fair Value (continued)

During the assessment of the financial instruments fair value not measured at fair value and are classified as Level 2 and Level 3 have been applied the following assumptions:

The carrying value represents a reasonable estimate of fair values for the following financial instruments, which are primarily short-term:

- Cash balances and deposits with the Central Bank
- Securities held to maturity
- Other liabilities.

Loans and Advances to Banks

Loans and advances to banks include inter-bank loans and advances and items in the course of collection. The fair values of floating rate investments and overnight deposits approximate their carrying amounts at the statement of financial position date.

Loans and advances to clients

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

According to the Bank's management, the fair value of loans and advances to customers calculated as the present value of discounted future cash flows, using current market rates (average weighted interest rates in the banking sector), does not materially differ from the carrying amount of loans at statement of financial position date. According to the Bank's management, carrying values as presented in the Bank's financial statements represent values that are believed to be the most valid under the circumstances and most useful for the purposes of financial reporting.

Deposits and borrowings

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

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

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

5. RISK MANAGEMENT (continued)

5.6. Capital Management

The Bank's capital management objectives are:

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

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

The Bank's own assets are comprised of:

- Tier 1 capital (paid-in share capital, retained earnings from prior years, profit for the year decreased for current year losses);
- Tier 2 capital (reserves from profit after taxation, legal, statutory and other reserves, subordinated debt);
- decreased for intangible assets.

Risk-weighted assets are comprised of items of assets and loan equivalents of off-balance sheet items exposed to risk. The loan equivalents of off-balance sheet assets are computed by multiplying the book value of off-balance sheet items with the prescribed conversion factors. Total risk-weighted assets are comprised of assets and loan equivalents of off-balance sheet items exposed to risk (the Bank's risk weighted assets) classified in four categories and multiplied by adequate prescribed risk weights.

In accordance with the requirements of the Central Bank of Montenegro, the Bank is under obligation to maintain a minimum capital adequacy ratio of 10%. The Bank is required to maintain certain minimum or maximum ratios with respect to its activities and composition of risk assets in compliance with the Law on Banks of the Montenegro and with the Central Bank of Montenegro Regulations. On December 31, 2014 capital adequacy ratio calculated by the bank for statutory financial statements is 26.79%.

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

			Thousands of EUR	
		2014	Change in Exchange Rates	
	Total	FX Amount	10%	-10%
Assets				
Loans and advances to banks	2,473	419	42	(42)
Total assets	2,473	419	42	(42)
Liabilities				
Deposits due to clients	21,822	272	27	(27)
Total liabilities	21,822	272	27	(27)
Net Open Currency Position:				
- December 31, 2014			15	(15)
- December 31, 2013			(18)	18

As of December 31, 2014, under the assumption that all other parameters remained unaltered upon the change in the EUR exchange rate against other currencies, by +10%, i.e., -10%, the Bank's profit would have increased/decreased by EUR 15 thousand (December 31, 2013: profit would have increased/decreased by EUR 18 thousand). The Bank's exposure to changes in the foreign exchange rates is insignificant due to the fact that the largest portion of the Bank's receivables and liabilities are denominated in EUR.

5. RISK MANAGEMENT (continued)

5.7. Sensitivity Analyses

Sensitivity Analysis (Interest Rate Risk Exposure)

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

			Thousands of EUR
	Net effect of changes in interest rates		
	2014	+0.4 b.p. EUR KS +0.3 b.p. FX KS	-0.4 b.p. EUR KS -0.3 b.p. FX KS
Assets			
Cash balances and deposits with the Central Bank	2,383	-	-
Loans and advances to banks	2,473	-	-
Loans and advances to clients	26,659	107	(107)
Interest and other receivables	2,630	-	-
Securities available for sale	1,102	-	-
Securities held to maturity	567	-	-
Investments in associates and joint ventures at equity method	1,261	-	-
Investment in subsidiaries	2,000	-	-
	39,075	107	(107)
Liabilities			
Deposits due to banks	950	-	-
Deposits due to clients	21,822	-	-
Borrowings from banks	6,147	-	-
	28,919	-	-
Net interest rate sensitivity GAP: - December 31, 2014		107	(107)

Under the assumption that all other parameters remained unaltered, variable interest rate increase/decrease by 0.4 p.p. for EUR-denominated assets and liabilities and by 0.3 p.p. for assets and liabilities in foreign currencies, the Bank's profit would have decreased/increased by EUR 107 thousand (December 31, 2013 by EUR 101 thousand).

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

6. INTEREST INCOME AND EXPENSES

a) Interest Income

	Thousands of EUR 2014	2013
Loans:		
- Municipalities	-	86
- Corporate customers	1,829	1,648
- Retail customers	249	273
- Other	203	181
	2,281	2,188
Securities:		
- held to maturities	7	17
Deposits:		
- Other financial institutions	47	46
Impairment allowances of interest receivables	(31)	(48)
	2,304	2,203

b) Interest Expenses

	Thousands of EUR 2014	2013
Banks and other financial institutions	371	452
Government of Montenegro	19	-
Corporate customers	85	100
Retail customers	456	345
Other	12	4
	943	901

7. IMPAIRMENT LOSSES AND PROVISIONS

a) Impairment losses

	Thousands of EUR 2014	2013
Net increase in provisions/(reversal of provision) in respect of:		
- loans	4	75
- acquired assets	(37)	-
- other assets	2	(1)
	(31)	74

b) Provisions

	Thousands of EUR 2014	2013
Net increase in provisions in respect of:		
- off-balance sheet items	2	-
- other	(3)	(2)
	(1)	(2)

7. IMPAIRMENT LOSSES AND PROVISIONS (continued)

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

Year 2014

	Loans (Note 15)	Interest (Note 15)	Assets Acquired (Note)	Provisions for Off-Balance Sheet Items (Note 25)
Opening balance	207	15	-	4
Charge for the year/(canceling), net	(4)	31	37	(2)
Write - offs	(28)	(3)	-	-
Balance at the end of year	175	43	37	2

Year 2013

	Loans (Note 15)	Interest (Note 15)	Assets Acquired (Note)	Provisions for Off-Balance Sheet Items (Note 25)
Opening balance	486	-	-	2
Charge for the year/(canceling), net	(75)	48	-	2
Write - offs	(204)	(33)	-	-
Balance at the end of year	207	15	-	4

8. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

	Thousands of EUR	
	2014	2013
Loan origination and processing fees	69	66
Fees and commissions from off-balance-sheet operations	40	39
Fees and commissions from payment transactions and e-banking	71	60
Fees and commissions for foreign payments	7	9
Fees and commissions on custody operations	15	6
Fees and commissions from other financial institutions	81	88
Other fees and commissions income	4	14
	287	282

b) Fees and Commissions Expense

	Thousands of EUR	
	2014	2013
Fees and commissions payable to the Central Bank	118	80
Fees and commissions payable to the other Banks	13	9
Deposit insurance premium fees	94	80
Other fees and commissions	19	22
	244	191

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

9. STAFF COSTS

	Thousands of EUR 2014	2013
Net salaries	292	252
Taxes and contributions on salaries	280	255
Other employee benefits, net	18	33
Remunerations to members of the Board of Directors	48	42
Employee transportation allowance, net	5	7
Business travel costs and per diems	6	4
Employee training costs	5	3
Other staff costs	16	13
	670	609

10. GENERAL AND ADMINISTRATIVE EXPENSES

	Thousands of EUR 2014	2013
Computer and other equipment maintenance	138	160
Advertising and marketing	180	138
Security services	27	26
Consumables	18	18
Court expenses	20	16
Subscriptions and donations	15	16
Electricity and fuel bills	11	12
Audit fee	15	11
Communication network costs	8	8
Representation costs	12	8
Telecommunication costs	8	8
Insurance	4	5
Other expenses	47	51
	503	477

11. DEPRECIATION/AMORTIZATION CHARGE

	Thousands of EUR 2014	2013
Property and equipment (Note 18)	76	85
Intangible assets (Note 19)	89	99
	165	184

12. OTHER INCOME

	Thousands of EUR 2014	2013
Rental	5	6
Income from direct write off of receivables	42	39
Extraordinary income	16	1
	63	46

13. INCOME TAXES

a) Components of Income Taxes

	Thousands of EUR 2014	2013
Current income tax expense	(3)	-
	(3)	-

13. INCOME TAXES (continued)

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

	Thousands of EUR	
	2014	**2013**
Profit before taxes	24	51
Income tax at statutory rate of 9%	2	5
Tax effects of expenses not recognized for tax purposes		(5)
Other	1	-
Income tax reported in the income statement	3	-
Effective interest rate	*12.5%*	*0%*

14. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BAN

	Thousands of EUR	
	December 31, 2014	**December 31, 2013**
Cash on hand:		
- in EUR	202	238
- in foreign currencies	83	57
Gyro account	674	642
Obligatory reserves held with the Central Bank of Montenegro	1,424	1,400
	2,383	2,337

As of December 31, 2014, the Bank's obligatory reserves were set aside in accordance with the Decision of the Central Bank of Montenegro on Obligatory Reserves of Banks to Be Held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 35/11, 22/12, 61/12, 57/13 and 52/14). Accordingly, banks calculate the reserve requirements on demand and time deposits.

The rate of 9.5% is also applied to deposits with contractually defined maturities of over a year, i.e. 365 days, with contractual clause on early withdrawal option. Up to 25% of the obligatory reserve may be held in the form of treasury notes issued by the Montenegro Government. For the amount of 15% of the obligatory reserve requirement deposited by banks, the Central Bank pays fee calculated at an annual rate equal of 1% annually, up to the eighth day of the month for the preceding month

15. LOANS AND RECEIVABLES DUE FROM BANKS

	Thousands of EUR	
	December 31, 2014	**December 31, 2013**
Correspondent accounts with foreign banks	2,473	323
	2,473	323

16. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	December 31, 2014	December 31, 2013
		Thousands of EUR
Matured loans:		
- privately-owned companies	652	353
- retail customers	330	206
Short-term loans:		
- privately-owned companies	667	1,175
- retail customers	526	144
Long-term loans:		
- privately-owned companies	20,334	17,338
- state owned companies	2,873	2,423
- entrepreneurs	-	39
- retail customers	1,452	1,982
	26,834	23,660
Deposits with other institutions	809	73
Interest receivables:		
- loans	287	179
Deferrals:		
- interest on loans	1,669	1,638
- fees	(92)	(97)
Total	29,507	25,453
Less:		
Impairment allowance of loans	(175)	(207)
Impairment allowance of interest	(43)	(15)
	29,289	25,231

To retail customers the Bank approves different types of special purpose and general purpose loans:

Loans for pensioners, with an interest rate of 10% - 14% annually,
Cash loans, with an interest rate of 10% - 14% annually.

Short-term loans to corporate entities are mostly approved at rates ranging from 8% to 12% annually. Long-term loans to corporate entities are approved for a period of up to three years at a nominal interest rate of 8% to 12% annually and Investment Development Fund granted for a period up to 8 years with an interest rate of 3% - 7%.

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

	December 31, 2014	December 31, 2013
		Thousands of EUR
Construction industry	1,765	1,781
Trade	1,821	1,869
Services, Tourism, Hospitality	2,070	1,154
Transport and storage, postal, communication	313	406
Real estate trade	139	265
Administrative and support service activities	17	9
Retail customers	2,174	2,330
Non-resident legal entities	9,185	8,719
Other	9,350	7,127
	26,834	23,660

17. INVESTMENT SECURITIES

a) Securities Available for Sale

	Thousands of EUR December 31, 2014	December 31, 2013
Shares in companies engaged in financial activities	908	561
Other residents	-	251
Shares in companies engaged in non-financial activities	185	170
Bonds Restitution	3	2
Foreign currency savings bonds	6	5
	1,102	989

Company's shares engaged in financial activities as at December 31, 2014 in the amount of EUR 908 thousand (December 31, 2013: EUR 561 thousand) relate to the following securities:

Thousands of EUR	December 31, 2014	December 31, 2013
Montenegro Berza AD, Podgorica	123	123
Oif atlas mont AD, Podgorica	325	324
Zif atlas mont AD, Podgorica	112	99
Atlas Life AD, Podgorica	250	-
Other	98	15
	908	561

Company's shares engaged in non-financial activities as at December 31, 2014 in the amount of EUR 185 thousand (December31, 2013: EUR 170 thousand) relate to the following securities:

Thousands of EUR	December 31, 2014	December 31, 2013
- Bolnica Meljine AD, Herceg Novi	125	125
- Montenegro Expres AD, Podgorica	4	-
- Crnogorski elektro prenosni sistem AD, Podgorica	4	3
- Jugopetrol AD, Kotor	11	6
- Luka Bar AD, Bar	2	1
- Kontejnerski terminal i generalni tereti AD, Bar	2	2
- HTP Atlas Hotels Group AD	3	-
- Crnogorski Telekom AD, Podgorica	31	31
- Other	3	2
	185	170

b) Securities Held to Maturity

	Thousands of EUR December 31, 2014	December 31, 2013
Treasury bills	570	50
Unamortized discount	(3)	-
	567	50

As of December 31, 2014 securities held to maturity amounted to EUR 570 thousand (2013: EUR 50 thousand) and it relates to purchase of Treasury bills with maturity of 182 days, which are issued by the Ministry of finance of Montenegro. The balance consists of treasury bills purchased on auctions held in period from August to December 2014, with interest rates from 1.12 % to 2.31 %.

Unamortized discount of T-bills at the end of period amounted to EUR 3 thousand. Part of T-bills was funded from obligatory reserve, which Bank holds with the Central Bank of Montenegro. In accordance with Decision on reserve requirements for banks to be held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 35/11 issued on July 27, 2011 and changes in no. 22/12, 61/12 and 57/13) the Bank can hold up to 30% of the obligatory reserve requirements in government T-bills issued by Montenegro with maturity up to 182 days and 13% of obligatory reserve can be held in government T-bills issued by Montenegro with maturity up to 91 day.

17. INVESTMENT SECURITIES (continued)

c) Investments in associates and joint ventures at equity method

The bank has shares in Atlas banka a.d. Podgorica in the amount of EUR 1,261 thousand (1.93%) in the form of 706 ordinary shares of the market value of EUR 1,786 thousand (2013: EUR 1,261 thousand).

d) Investments in subsidiaries

The Bank has established the company Global Carbon d.o.o., Podgorica in the total amount of the founding capital of EUR 2,000 thousand. As of December 31, 2014 the Bank is a 100% owner of Global Carbon d.o.o. Podgorica. On December 31, 2008 a EUR 1,500 thousand of the founding capital was paid, while up to January 9, 2009, the remaining EUR 500 thousand were paid.

18. PROPERTY, PLANT AND EQUIPMENT

Movements on property and equipment and other assets for 2014 and 2013 are presented in the following table

Thousands of EUR	Computer Equipment	Leaseehold Improvements	Other Assets	investment in Progress	Total
Cost					
Balance at January 1, 2013	365	465	191	1,146	2,167
Additions	-	-	-	104	104
Transfers	8	-	9	(17)	-
Transfer to intangible assets	-	-	-	(94)	(94)
Sales and disposals	(2)	-	-	-	(2)
Balance at December 31, 2013	371	465	200	1,139	2,175
Cost					
Balance at January 1, 2014	371	465	200	1,139	2,175
Additions	-	-	-	63	63
Transfers	8	-	2	(10)	-
Transfer to intangible assets	-	-	-	(48)	(48)
Balance at December 31, 20134	379	465	202	1,144	2,190
Accumulated Depreciation					
Balance at January 1, 2013	328	207	140	-	675
Charge for the year (Note 11)	25	46	14	-	85
Sales and disposals	(2)	-	-	-	(2)
Balance at December 31, 2013	351	253	154	-	758
Balance at January 1, 2014	351	253	154	-	758
Charge for the year (Note 11)	14	48	14	-	76
Balance at December 31, 2014	365	301	168	-	834
Net Book Value					
- December 31, 2014	14	164	34	1,144	1,356
- December 31, 2013	20	212	46	1,139	1,417

As of December 31, 2014, the Bank had no assets assigned under pledge liens to securitize the repayment of borrowings and other liabilities.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

19. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the course of 2014 and 2013 were as follows:

Thousands of EUR	Licenses	Software	Total
Cost			
Balance at January 1, 2013	166	777	943
Transfers from investments in progress	50	44	94
Balance at December 31, 2013	216	821	1,037
Cost			
Balance at January 1, 2014	216	821	1,037
Transfers from investments in progress	45	3	48
Balance at December 31, 2014	261	824	1,085
Accumulated Amortization			
Balance at January 1, 2013	72	659	731
Charge for the year (Note 11)	33	66	99
Balance at December 31, 2013	105	725	830
Balance at January 1, 2014	105	725	830
Charge for the year (Note 11)	42	47	89
Balance at December 31, 2014	147	772	919
Net Book Vlaue			
- December 31, 2014	114	52	166
- December 31, 2013	111	96	207

20. OTHER FINANCIAL RECEIVABLES

Thousands of EUR	December 31, 2014	December 31, 2013
Receivables from consortium	2,333	2,333
Advances paid	1	46
Receivables from deposit operations	70	53
Receivables from state funds	37	49
Other financial receivables	11	7
	2,452	2,488
Impairment allowance of other assets	(44)	(44)
	2,408	2,444

Receivables from consortium between related persons Atlas Bank AD, Podgorica, Atlas CAP d.o.o. Podgorica and the Bank refer to the purchase of the Center of Military Medical Institutions Meljine, Herceg Novi, whereupon Bank paid part of the purchase price on behalf of and for the Atlas CAP d.o.o. Podgorica. Atlas CAP d.o.o. Podgorica by signing the Protocol as of February 3, 2010 between the members of the Consortium committed to pay the Bank the aforementioned part of the purchase price i.e. EUR 2,327 thousand for the purchase of 5,172,077 bonds FO02 labels, at the cost of EUR 0.45 and part of the commission charged by the CDA in the amount of EUR 6 thousand. For the period from the signing of the Protocol to the day the refund is calculated at the interest rate of 2% annually. According to the Annex no. 5 of the Protocol, receivables due for payment on December 31, 2015.

21. OTHER OPERATING RECEIVABLES

	Thousands of EUR December 31, 2014	December 31, 2013
Assets acquired through on foreclosed loans	1,246	1,246
Precious metals	3	3
Prepaid expenses	50	30
	1,299	1,279
Impairment of acquired assets	(37)	-
	1,262	1,279

Assets acquired through on foreclosed loans totaling EUR 1,246 thousand as of December 31, 2014 (December 31, 2013: EUR 1,246 thousand) relate to assets acquired from collateral foreclosure. These assets are measured at carrying amounts or market value reduced for the impairment costs which in 2014 created in the amount of EUR 37 thousand.

Decision on minimum standards for bank investment in fixed assets (Official Gazette of Montenegro, No. 24/09, 66/10, 58/11, 61/12, 13/13 and 51/13) prescribes that bank treats the investment exceeding 40% of total capital as a deductible item in the calculation of Bank's capital. In investments in fixed assets shall not be considered assets acquired in debt restructuring process, bankruptcy proceedings and/or liquidation proceedings of the bank's debtor, in the process of reorganisation of debtor in accordance with regulations governing bankruptcy proceedings or in the process of execution for the purpose of settling bank's claims, provided that no more than four years have passed since property acquisition date. Regulations of the Central Bank do not prescribe the period within which Bank needs to sell acquired assets.

22. DEPOSITS DUE TO CLIENTS

Bank deposits are deposits which are invested:

	Thousands of EUR December 31, 2014	December 31, 2013
Demand deposits:		
- municipalities	6	5
- privately-owned companies	5,155	1,575
- entrepreneurs	775	133
- retail customers	491	333
- non-profit organizations	26	21
- others	319	190
	6,772	2,257
Short-term deposits:		
- privately-owned companies	1,158	1,070
- retail customers	5,593	2,997
- others	910	575
	7,661	4,642
Long-term deposits:		
- privately-owned companies	36	34
- retail customers	5,068	2,725
- others	2,012	1,500
	7,116	4,259
	21,549	11,158
Interest and other liabilities		
Invoiced interest: deposits	1	-
Accrued interest on deposits	272	178
	21,822	11,336

Demand deposits of retail customers, corporate customers, public and other organizations are placed at an interest rate from 0 – 1.5 1% annually, in foreign currencies at interest rates of 0.75% annually.

22. DEPOSITS DUE TO CLIENTS (continued)

Demand deposits of retail customers denominated in EUR with maturity of up to:

- 3 months were deposited at an interest rate of 3.30% annually
- 6 months were deposited at an interest rate of 4.75% annually
- 12 months were deposited at an interest rate of 5.75% annually
- 24 months were deposited at an interest rate of 6.00% annually
- 36 months were deposited at an interest rate of 6.50% annually.

Demand deposits of retail customers in foreign currencies with maturities of up to

- 3 months were deposited at an interest rate of 1.75% annually
- 6 months were deposited at an interest rate of 2.25% annually
- 12 months were deposited at an interest rate of 3.00% annually
- 24 months were deposited at an interest rate of 3.05% annually
- 36 months were deposited at an interest rate of 3.10% annually.

Demand deposits of corporate entities denominated in EUR with maturity of up to:

- 3 months were deposited at an interest rate of 2.75% annually
- 6 months were deposited at an interest rate of 3.50% annually
- 12 months were deposited at an interest rate of 4.50% annually
- 24 – 36 months were deposited at an interest rate of 5.75% annually.

Demand deposits of corporate entities in foreign currencies with maturities of up to:

- 3 months were deposited at an interest rate of 2.75% annually
- 6 months were deposited at an interest rate of 3.50% annually
- 12 months were deposited at an interest rate of 4.50% annually
- 24 - 36 months were deposited at an interest rate of 5.75% annually.

As at December 31, 2014 the Bank had EUR 6,627 thousand (December 31, 2013: EUR 1,528 thousand) of the special purpose deposits that represent collateral of loans and advances.

23. BORROWINGS FROM BANKS AND OTHER CLIENTS

During 2014, the Central Bank of Montenegro sent a memo to banks stating that starting from monthly and quarterly reports as at June 30, 2014, banks were to make the records of loans obtained from the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and institutions with a similar activity on the accounts of other depository institutions / other financial institutions, non-residents, since they belong to the sector of other financial institutions. In accordance with the instructions, the Bank recorded loans from the European Investment Bank (EIB) in such a manner and as per balance scheme included those within the balance sheet item i.e. position within Borrowings from other customers. Comparative data were not reclassified in accordance with these instructions

As at December 31, 2014, borrowings and loans in the amount of EUR 6,147 thousand (2013: EUR 5,448 thousand) include borrowings as follows:

	Thousands of EUR	
	December 31, 2014	December 31, 2013
European Investment Bank	4,862	5,438
Investment and Development Fund of Montenegro	1,275	-
Montenegro Directorate for Development of SME	10	10
	6,147	5,448

As of December 31, 2014, the Bank had liabilities to the European Investment Bank per long-term loans in the amount of EUR 4,862 thousand, (2013: EUR 5,438 thousand), intended for financing development of small and medium enterprises in Montenegro is granted for a period of 11 years with an annual interest rate of 3.16% -4.04%. Per these loans, the Bank is not obligated to comply with financial covenants.

23. BORROWINGS FROM BANKS AND OTHER CLIENTS (continued)

At December 31, 2014, the Bank had the following borrowed funds from European Investment Bank:

	Period/ Year	Annual Interest Rate	Thousands of EUR December 31, 2014	December 31, 2013
European Investment Bank	11	3.85%	1,333	1,556
European Investment Bank	11	4.04%	1,882	2,000
European Investment Bank	11	3.33%	828	946
European Investment Bank	11	3.16%	819	936
			4,862	5,438

The maturities of liabilities arising from borrowings from European Investment Bank are presented in the table below:

	Thousands of EUR December 31, 2014	December 31, 2013
up to 1 year	693	575
from 1 to 2 years	693	693
from 2 to 3 years	693	693
from 3 to 4 years	693	693
from 4 to 5 years	693	693
over 5 years	1,397	2,091
	4,862	5,438

In 2014 were granted borrowings from the Investment Development Fund AD, Podgorica for the purpose of mutual crediting of small and medium-sized companies with maturities of up to 8 months.

	Period/ Year	Annual Interest Rate	Thousands of EUR December 31, 2014	December 31, 2013
Investment Development Fund AD, Podgorica	4	3.00%	22	-
Investment Development Fund AD, Podgorica	4	1.00%	18	-
Investment Development Fund AD, Podgorica	6	4.00%	465	-
Investment Development Fund AD, Podgorica	8	4.00%	690	-
Investment Development Fund AD, Podgorica	5	4.00%	80	-
			1,275	-

24. RESERVES

	Thousands of EUR December 31, 2014	December 31, 2013
Reserves for potential losses per:		
- off-balance sheet exposures	2	4
	2	4

25. OTHER LIABILITIES

	Thousands of EUR December 31, 2014	December 31, 2013
Liabilities from consignment operations	31	23
Other taxes liabilities	49	132
Liabilities arising from dividend payments	1	1
Accounts payable to suppliers	56	70
Other liabilities	25	55
Temporary accounts	38	40
	200	321

26. SHARE CAPITAL

	December 31, 2014			December 31, 2013		
Shareholder name	Share Count	Thousands of EUR	% Ownership	Share Count	Thousands of EUR	% Ownership
Closed-end Investment Fund Atlas Mont a.d. in restructuring	136,301	6,969	50.34%	136,301	6,969	50.34%
Atlas Invest DOO, Podgorica	30,122	1,540	11.12%	37,532	1,919	13.86%
Atlas Banka AD, Podgorica	25,000	1,278	9.23%	-	-	-
Atlas Grupa DOO, Podgorica	18,249	933	6.74%	43,249	2,211	15.97%
Mr. Mladen Kuzman	12,618	645	4.66%	12,618	645	4.66%
IBM joint cutody account	7,410	379	2.74%	6,000	307	2.22%
IOIF Atlas Fund	6,000	307	2.22%	-	-	-
Power Industry of Montenegro Nikšić	4,140	212	1.53%	4,140	212	1.53%
Crnogorski elektroprenosni sistem AD, Podgorica	4,140	212	1.53%	4,140	212	1.53%
CKB joint cutody account 1	4,038	206	1.49%	524	10	0.19%
Mr. Nikša Stančić	3,265	167	1.21%	-	-	-
Forest Directorate Pljevlja	3,138	160	1.16%	3,138	160	1.16%
Others	16,351	836	6.04%	23,130	1,199	8.54%
Total	270,772	13,844	100.00%	270,772	13,844	100.00%

As of December 31, 2014 the Bank's equity amounted to EUR 13,844 thousand and was comprised of 270,772 common shares with individual nominal value of EUR 51. 1292. As of December 31, 2013 the Bank's equity amounted to EUR 13,844 thousand.

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

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

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

In accordance with the Decision on Capital Adequacy in Banks (“Official Gazette of Montenegro,” no. 38/11, 55/12), the Bank's capital is comprised of the Bank's core capital and supplementary capital, minus deductible items. The Bank's capital as of December 31, 2014 amounted to EUR 9,724 thousand (December 31, 2013: EUR 10,392 thousand).

27. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO (continued)

The Bank's core capital formed in accordance with the Decision on Capital Adequacy in Banks, as of December 31, 2014 amounted to EUR 11,724 thousand (December 31, 2013: EUR 12,392 thousand). The Bank's capital as of December 31, 2014 was comprised of the following components: paid-in share capital at nominal value, collected share premiums decreased by the amount of prior period losses and amount of intangible assets and unrealized loss on fair value adjustment of financial assets available for sale, at fair value, as well as the positive difference between the amount of the calculated reserve for potential losses and the sum of the amounts of impairment allowance per balance sheet assets and provisions per off-balance sheet items.

Pursuant to Decision on Capital Adequacy in Banks effective as of December 31, 2014, the Bank is required to maintain the minimum capital adequacy ratio of 10%. As of December 31, 2014, the Bank's capital adequacy ratio equaled 26.79% (December 31, 2013: 30.26%) and was well above the prescribed minimum.

	The prescribed limit CBM	The realized indicators of business performance on December 31, 2014
The Bank's capital adequacy ratio	min 10%	26.79%
The Bank's exposure to a single entity or a group of related entities	max 25%	24.52%
The sum of large exposures	max 800%	193.35%
Total exposure to a shareholder with a qualified equity interest held in the Bank	max 20%	1.21%
Total exposure to the Bank's related parties	max 200%	31.64%
Total exposure to the employees of the Bank	max 1%	0.14%
The investments in real estate and fixed assets ratio	max 40%	27.40%
The Bank's liquidity ratio	min 1	5.88

28. OFF-BALANCE SHEET ITEMS

Thousands of EUR

	December 31, 2014	December 31, 2013
Guarantees issued:		
- payment guarantees	5,570	988
Collaterals securing receivables		
- mortgages	41,677	34,015
- pledges	1,078	571
- securities	19,388	16,216
Other off-balance sheet exposures:		
- memorandum accounts for custody operations	22,278	15,415
- memorandum accounts for the depositary operations	62,444	13,473
- irrevocable commitments for loan approval	316	96
- consignment operations	134	159
	152,885	80,933

28. OFF-BALANCE SHEET ITEMS (continued)

In accordance with the Decision of the Central Bank of Montenegro on the Minimum Standards for Loan Risk Management in Banks ("Off. Gazette of Montenegro", No.22/12, 55/12 and 57/13), the receivables are transferred from bank's balance sheets to the internal records if the bank, in the process of receivaables collection, estimates that the value of receivables measured at amortized cost will not be compensated and that the requirements for derecognition of financial assets, which includes the following cases, are met:

1) for unsecured receivable:
- When the borrower was initiated a bankruptcy proceeding against lasting more than one year, or
- If the borrower is late with the payments for more than two years;
2) for a secured receivable, when the borrower is late with the payments for more than four years, or if the bank during this period did not receive any payment from the realization of collateral.

In accordance with the applicable regulations, the Bank wrote-off the mentioned receivables from the balance records and records those in its internal records to the moment of their collection or definitive write-off.
The amount of principal and interest in the internal records are shown as follows:

Thousands of EUR	**2014**	**2013**
Principal	1,123	1,119
Interest	3	20
Balance as of December, 31	1,126	1,139

29. RELATED PARTY TRANSACTIONS

The Bank performs a number of transactions with related parties during its regular business. Related parties are legal entities that are members of the Atlas Group, as well as key management personnel of the Bank. The transactions include placements, deposits, foreign currency transactions and personal earnings of members the Board and persons with individual agreements concluded with the Bank.

The review of receivables and payables arising from transactions with related parties as of December 31, 2014 and 2013 is presented in the following table:

		Thousands of EUR
	December 31, 2014	**December 31, 2013**
Receivables		
Special purpose deposits		
Atlas capital Financial Services Limited, Limasol	809	73
Loans		
Atlas invest DOO, Podgorica	158	400
Univerzitet Mediteran, Podgorica	2,180	2,194
RTV Atlas DOO, Podgorica	110	110
Atlas CAP DOO, Podgorica	-	25
Rekreaturs DOO, Budva	145	115
Atlas grupa DOO, Podgorica	292	300
RT Mimoza DOO, Herceg-Novi	1,540	660
	4,425	3,804
The interest		
Atlas invest DOO, Podgorica	24	-
Univerzitet Mediteran, Podgorica	149	-
RTV Atlas DOO, Podgorica	11	-
Atlas grupa DOO, Podgorica	33	-
RT Mimoza DOO, Herceg-Novi	71	-
	288	-
Other payables		
Atlas CAP DOO, Podgorica	2,333	2,333
Trojica DOO, Pljevlja	432	432
Obnova AD, Pljevlja	465	465
	3,230	3,230
Total payables	8,752	7,107

29. RELATED PARTY TRANSACTIONS (continued)

		Thousands of EUR
	December 31, 2014	**December 31, 2013**
Payables		
Demand deposits		
DZU Atlasmont AD, Podgorica	36	12
ZIF asmont AD, Podgorica	14	-
Atlas Capital Financial services	757	16
Atlas Group Limited	1	-
Društvo za upravljanje penzionim fondom Atlas Penzija AD, Podgorica	2	-
Atlas Life AD, Podgorica	7	5
	817	33
Term deposits		
Global Carbon DOO, Podgorica	100	540
Atlas Grupa DOO, Podgorica	3,020	-
DZU Atlasmont AD, Podgorica	100	100
Atlas Group Limited	100	100
Atlas Life AD, Podgorica	1,483	1,081
Atlas banka AD, Podgorica	950	5,400
Društvo za upravljanje penzionim fondom Atlas Penzija AD, Podgorica	300	300
	6,053	7,521
	6,870	7,554
Receivables/(Payables), net	1,882	(447)

	2014	**2013**
Interest Income:		
- loans	346	456
Fee income:		
- loans	1	5
- deposits	42	64
	43	69
	389	525
Expenses		
- deposits	154	98
Advertising and marketing	180	138
	334	236
Total income	55	289

As of December 31, 2014 receivables from employees totaling EUR 112 thousand (December 31, 2013: EUR 144 thousand) relate to the receivables arising from loans approved to employees.

During 2014 the Bank paid to key management, including the Chief Executive Director, executive directors and heads of departments an amount of EUR 112 thousand in fees (2013: EUR 92 thousand). Members of the Board of Directors and Audit Committee were paid an amount of EUR 48 thousand (2013: EUR 42 thousand).

30. CASH AND CASH EQUIVALENTS (for the purposes of preparing the Statement of Cash Flows)

		Thousands of EUR
	December 31, 2014	December 31, 2013
Cash on hand in EUR	202	238
Foreign currency cash on hand	83	57
Gyro account	673	642
Correspondent accounts with foreign banks	2,473	323
	3,431	1,260

31. LITIGATION

As of December 31, 2014, the Bank was involved in two litigations in the total amount of EUR 28 thousand (in 2013 the Bank was involved in several litigations filling the total amount of EUR 49 thousand). The Bank's management, Legal Department and attorneys do not anticipate unfavorable outcome of these legal suits that might have adverse material effects on the financial statements of the Bank. The dispute in the value of EUR 16 thousand was ended in favor of the bank during 2015, while another dispute was temporarily postponed.

32. SUBSEQUENT EVENTS

In 2014 the Bank has sued the Tax Administration before the competent authorities on the basis of the Decision brought in 2013 in which the Tax Administration has collected EUR 116 thousand from the Bank, for calculated VAT during the provision of the control services for intellectual services. As of April 2015, the Bank received a Decision in its favor which has canceled the previous Decision of the Tax Administration.

During the April 2015, the Bank received from the Central Bank of Montenegro (hereinafter: CBM) report on the control performed on the Bank’s financial statements as at December 31, 2014. The main findings in this report are relating to the classification of exposures in accordance with the requirements of CBM, a high concentration of its exposure to the parties related to the Bank and a high number of restructured loans in the total loans of the Bank and overdraft exposures to one bank and one group from the two related parties in relation to the prescribed limit under the Law on Banks i.e. the 25% of the own Bank’s funds. Overdraft exposure to one bank was removed in January 2015 and overdraft towards one group from the two related legal entities in April 2015. The Bank's management is implementing the activities aimed at eliminating shortcomings identified during the CBM control and as at May 11, 2015 the Bank sent to the CBM-Notice of Bank’s Conduct in accordance with the CBM control findings.

33. TAXATION RISKS

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

34. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of the statement of financial position components denominated in foreign currencies into EUR as at December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
USD	1.2160	1.3783
CHF	1.2028	1.2259
GBP	0.7823	0.8364

35. GENERAL INFORMATION ON THE BANK

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

Bank's registered name: Invest banka Montenegro AD, Podgorica;
Registered address: Bulevar Svetog Petra Cetinjskog 115., 81000 Podgorica;
Bank's ID number: 2009960
Telephone/Fax number: Tel: +382 20 407 900; +382 20 407951
Web page: www.invest-banka.com
As at the December 31, 2014 the number of employees was 30 employees.
Gyro account: 907-54501-62

Information on the President and members of the Board of Directors

	First name, last name	Date of birth	Place	Residence Address (street, number)
1. President	Ljiljana Milić	June10,1948	Beograd	Bulevar Zorana Đinđića no.100
2. Member	Burzan Sonja	May 22,1961	Podgorica	B.Jovanovića no.3
3. Member	Martinović Igor	May 31,1976	Podgorica	Njegoševa no.3
4. Member	Basil Petrides	September 05, 1963	London	58 Hurstwood Road London NW11 0AU
5. Member	Dašić Predrag	November 11, 1954	Podgorica	Vasa Raičkovića no.34
Chief Executive Officer authorized to sign document	Zoran Nikolić	February 05, 1978	Podgorica	Velisa Mugosa nn

Top ten shareholders of the Bank

Name, last name / Company name	Residence / Registered address (place, street, number)	Data on Shares: Share count	Ownership %
ZIF ATLASMONT	Montenegro	136,301	50.34%
ATLAS INVEST DOO	Montenegro	30,122	11.12%
ATLAS BANKA	Montenegro	25.000	9.23%
KUZMAN MLADEN	Montenegro	12,618	4.66%
IK ZBIRNI CUSTODY RACUN 1	Montenegro	7,410	2.74%
OIF ATLASMONT	Montenegro	6.000	2,22%
ELEKTROPRIVREDA CRNE GORE	Montenegro	4,140	1.53%
AD PRENOS	Montenegro	4,140	1.53%
STANCIC NIKSA	Montenegro	3,265	1,21%
DIREKCIJA SUMA PLJEVLJA	Montenegro	3,138	1.16%
Total share capital	**EUR 13,844 thousand**		

Share issues and share issue designations:

Regular shares

Share issue designation	Share par value	Share count
Transformation	51.1292	13,340
Share issue based on profit	51.1292	7,088
New issuance	51.1292	35,000
The public offering	51.1292	17,705
Recapitalization	51.1292	15,340
The public offering	51.1292	13,570
New issuance	51.1292	19,559
The conversion	51.1292	149,170

35. GENERAL INFORMATION ON THE BANK (Continued)

Preference shares

Share issue designation	Share par value	Share count
The public offering	51.1292	95,792
New issuance	85	16,221
Reducing	51	26,967
Share issue based on profit	51.1292	25,063
Share issue based on profit	51.1292	1,348

The international ID number of the Banks regular shares (ISIN) is: MEIBMNRA1PG0

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

Share prices when traded on the stock exchange:

Regular shares:

	Regular shares	
	Lowest	Highest
In the previous year	51.1250	51.1250
In the current year	51.1250	51.1250

Price of shares at the beginning and the end of the reporting period were EUR 51.1250:

Market capitalization: EUR 13,844 thousand

Carrying value per share:

In the previous year	51.1292
In the current year	51.1292

The auditors company which has audits the financial statements for 2014: Deloitte d.o.o. Podgorica, Bulevar Svetog Petra Cetinjskog, Maksim, Podgorica.