

*This is an English translation of Independent Auditor's Report and Financial Statements*

## **INDEPENDENT AUDITORS' REPORT**

### **To the Shareholders Assembly of Invest Bank Montenegro AD, Podgorica**

We have audited the accompanying financial statements of Invest Bank Montenegro AD, Podgorica (the "Bank"), which comprise a balance sheet as of December 31, 2016, a related income statement, a statement of changes in equity and a statement of cash flows for the year then ended, as well as a summary of significant accounting policies and notes to the accompanying financial statements.

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

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations applicable in Montenegro, based on the Law on Accounting ("Official Gazette of Montenegro", No. 52/2016) and the regulations of the Central Bank of Montenegro governing financial reporting of banks, and for such internal control that management determines to be necessary for enabling the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 takes into consideration 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. The audit also includes evaluating the appropriateness of the used accounting policies 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 Notes 16 and 20 to the financial statements, as of 31 December 2016, the total gross loans and receivables from clients amounted to EUR 25,010 thousand, while other financial receivables amounted to EUR 2,497 thousand. The Bank had a concentration of credit risk with respect to receivables from a smaller number of clients whose repayment periods were extended. The total gross exposure of these clients amounted to at least EUR 15,004 thousand as of 31 December 2016, for which an impairment allowance was recorded in the amount of EUR 61 thousand, reserves in the amount of EUR 103 thousand and EUR 836 thousand of shortfall reserves. The majority of clients has a mortgage as a collateral. 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, and hence to the adequacy of the impairment allowance and the reserve required for the estimated losses, and the effects that this matter may have on the accompanying financial statements and performance indicators stipulated by the Law on Banks and relevant Regulations of the Central Bank of Montenegro disclosed in Note 28 to the separate financial statements.

## INDEPENDENT AUDITOR'S REPORT

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

#### **Basis for Qualified Opinion (Continued)**

As disclosed in Notes 17(c), 17(d) and 26 to the financial statements, as of 31 December 2016, investments in associates and joint ventures at equity method and investments in subsidiaries amounted to EUR 9,340 thousand while the revaluation reserves amounted to EUR 993 thousand. The investments in associates and joint ventures at equity method and revaluation reserves are entirely related to equity investment in Atlas banka AD Podgorica in the amount of EUR 7,340 thousand, whereas the investments in subsidiaries, amounting to EUR 2,000 thousand, entirely refer to the stake in the company Global Carbon d.o.o. Podgorica (and represents a 100% deductible item of own funds and it does not have a negative impact on Bank's equity). The Bank neither calculated nor recorded potential losses from the impairment of the indicated investments. We did not obtain adequate audit evidence about the measurement of the said investments and thus we were unable to determine potential adjustments to the financial statements for the year ended 31 December 2016 and accordingly performance indicators stipulated by the Law on Banks and relevant Regulations of the Central Bank of Montenegro disclosed in Note 28 to the separate financial statements.

As disclosed in the Note 21 to the financial statements as of 31 December 2016 the assets acquired in lieu of debt collection amounted to EUR 1,816 thousand, whereby the foregoing property was acquired in the period from 2004 to 2016. 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 the Bank did not estimate the fair value, we were unable 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 2016. The Bank's management is putting great effort to realise these assets and during 2016 and at the beginning of 2017 the acquired property was sold in the amount of EUR 865 thousand at an amount approximate to the value recorded in the Bank's books of account, and further realisation is expected.

#### **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 fairly and impartially present, in all material respects, the financial position of the Bank as of 31 December 2016, as well as 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.

#### **Emphasis of Matter**

As disclosed in Note 2.3. the Bank faces some material uncertainties in its business operations, based on which the Bank's management undertakes certain measures to minimise and overcome them. Our opinion is not modified in respect of these matters.

Podgorica, 26 May 2017



Milovan Popovic  
Authorised Auditor

**INCOME STATEMENT**  
**From 1 January to 31 December 2016**  
**(in thousands of EUR)**

	Notes	2016	2015
Interest income	3.1., 6a	1,758	2,383
Interest expenses	3.1., 6b	(1,153)	(1,087)
<b>Net interest income</b>		<b>605</b>	<b>1,296</b>
Dividend income		4	6
Impairment expenses	3.6., 7a	(191)	(183)
Provision charges	3.6., 7b	(6)	(2)
Fee and commission income	3.1., 8a	251	267
Fee and commission expenses	3.1., 8b	(244)	(255)
<b>Net fee and commission income</b>		<b>7</b>	<b>12</b>
Net gains from financial instruments held for trading		59	13
Net gains/(losses) from investment securities		(41)	3
Foreign exchange (losses)/gains, net	3.2	2	13
Staff costs	9	(688)	(671)
General and administrative expenses	10	(418)	(500)
Depreciation/amortisation charges	11	(126)	(129)
Other expenses		(15)	(28)
Other income	12	57	183
<b>OPERATING PROFIT/LOSS</b>		<b>(751)</b>	<b>13</b>
Income taxes	3.4., 13	(0)	(0)
<b>NET PROFIT</b>		<b>(751)</b>	<b>13</b>

The notes on the following pages constitute an integral part of these financial statements.

These financial statements were approved by the management of Invest Bank Montenegro AD, Podgorica, on 27 January 2017 in Podgorica.

Approved by and signed on behalf of Invest Bank Montenegro AD, Podgorica.

Person responsible for the preparation of  
 financial statements

Milanka Radunovic



Chief Executive Director

Zoran Nikolic

**INVEST BANKA MONTENEGRO AD, PODGORICA**

**BALANCE SHEET**  
**As of 31 December 2016**  
**(in thousands of EUR)**

	<b>Notes</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>ASSETS</b>			
Cash and deposit accounts held with depository agencies	14	3,181	3,682
Loans and receivables due from banks	15	1,061	2,829
Loans and receivables due from customersk	16	24,724	26,210
Financial assets held for trading		-	-
Investment securities			
- available for sale	17a	2,116	6,459
- held to maturity	17b	50	200
Investments in associates and joint ventures at equity method	17c	7,340	1,261
Investments in subsidiaries	17d	2,000	2,000
Property, plant and equipment	18	1,260	1,317
Intangible assets	19	179	186
Other financial receivables	20	2,328	2,464
Other operating receivables	21	2,049	1,562
<b>TOTAL ASSETS</b>		<b>46,288</b>	<b>48,170</b>
<b>LIABILITIES</b>			
Deposits due to banks		-	-
Deposits due to customers	22	24,099	23,209
Borrowings from banks	23	-	-
Borrowings from customers	23	5,548	6,461
Provisions	24	1	1
Deferred tax liabilities		7	7
Other liabilities	25	2,255	3,343
<b>TOTAL LIABILITIES</b>		<b>31,910</b>	<b>33,021</b>
<b>EQUITY</b>			
	26		
Share capital		13,844	13,844
Share issue premium		2	2
Retained earnings		-	-
Profit for the year		(751)	13
Other reserves		1,283	1,290
<b>TOTAL EQUITY</b>		<b>14,378</b>	<b>15,149</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>46,288</b>	<b>48,170</b>
<b>OFF-BALANCE SHEET ITEMS</b>	28	<b>122,389</b>	<b>132,701</b>

The notes on the following pages constitute an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
**From 1 January to 31 December 2016**  
**(in thousands of EUR)**

	<u>Share capital</u>	<u>Share issue premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as of 1 January 2015</b>	13,844	2	1,272	21	15,139
Transfer of profit to other reserves	-	-	21	(21)	-
Decrease in revaluation reserves	-	-	(3)	-	(3)
Profit for the year	-	-	-	13	13
<b>Balance as of 31 December 2015</b>	<b>13,844</b>	<b>2</b>	<b>1,290</b>	<b>13</b>	<b>15,149</b>
<b>Balance as of 1 January 2016</b>					
Transfer of profit to other reserves	-	-	13	(13)	-
Decrease in revaluation reserves	-	-	(20)	-	(20)
Profit for the year	-	-	-	(751)	(751)
<b>Balance as of 31 December 2016</b>	<b>13,844</b>	<b>2</b>	<b>1,283</b>	<b>(751)</b>	<b>14,378</b>

The notes on the following pages constitute an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**  
**From 1 January to 31 December 2016**  
**(in thousands of EUR)**

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		1,028	2,302
Interest paid		(1,153)	(1,087)
Fee and commission receipts		251	267
Fees and commissions paid		(244)	(254)
Payments to and on behalf of employees and to suppliers		(1,290)	(1,450)
Increase/decrease in loans and other assets		57	983
Inflows/(outflows) from deposits and other liabilities		(199)	390
Taxes paid		(47)	(223)
Other inflows		14	194
<i>Net cash generated by/(used in) operating activities</i>		<b>(1,583)</b>	<b>1,122</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(18)	-
Purchase of intangible assets		(44)	(66)
Treasury bills		(50)	(200)
<i>Net cash generated by investing activities</i>		<b>(112)</b>	<b>(266)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Increase/(decrease) in borrowings, net		(913)	314
<i>Net cash generated by/(used in) financing activities</i>		<b>(913)</b>	<b>314</b>
Foreign exchange (losses)/gains		2	13
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,606)</b>	<b>1,183</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>4,614</b>	<b>3,431</b>
<b>Cash and cash equivalents at the end of year</b>	3.5., 30	<b>2,008</b>	<b>4,614</b>

The notes on the following pages constitute an integral part of these financial statements.