ZIRAATBANKMONTENEGRO

FINANCIAL REPORT ON THE DAY OF
31 DECEMBER 2015
I REPORT OF THE INDEPENDENT AUDITOR

FINANCIAL REPORTS FOR 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ziraat Bank Montenegro AD Podgorica

We have audited the accompanying financial statements of Ziraat Bank Montenegro AD Podgorica (the "Bank") which comprise the balance sheet as of 31 December 2015 and the income statement, statement of changes in equity and cash flow statement for the period from commencement of operation on 7 July 2015 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ziraat Bank Montenegro AD Podgorica as of 31 December 2015, and of its financial performance and its cash flows for the period from commencement of operation on 7 July 2015 in accordance with the Montenegrin Law on Accounting and Auditing and regulations of the Central bank of Montenegro governing financial reporting of banks.

Refer to the original signed Montenegrin vesion

Biljana Bogovac
Licenced Auditor
Podgorica, 27 April 2016

PricewaterhouseCoopers d.o.o. Podgorica

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

	Note	2015.	2014.
Interest income	2.4;3	60	-
Interest expense	2.4;3	(1)	-
NET INTEREST INCOME		**59**	-
Impairment losses	**2.8e; 4**	**(2)**	-
Fee and commission income	2.4; 5	9	-
Fee and commission expenses	2.4; 5	(65)	-
NET FEE EXPENSE		**(56)**	-
Net losses on investment securities	6	(22)	-
Employee expenses	7	(484)	-
General and administrative expenses	8	(398)	-
Depreciation expenses	9	(118)	-
Other expenses	10	(2)	-
OPERATING LOSSES		**(1.023)**	-
Deferred tax income / (expense)		(22)	-
NET LOSS		**(1.045)**	-

In Podgorica,

26 April 2016

Jelena Božović
Head of Accounting
Reporting and Budgeting Department

Mustafa Şenman
Chief Executive Officer

Goran Bakić
Executive Director

BALANCE SHEET
On day of 31 December 2015
(In thousands EUR)

	Note	31 December 2015	31 December 2014
ASSETS			
Monetary assets and deposit accounts with central banks	2.7; 12	1.437	-
Loans and receivables to banks	2.8; 13	4.412	-
Loans and receivables to customers	2.8; 14	2.484	-
Investment securities	2.8; 15	3.706	-
- available for sale	2.8b); 15a)	2.064	-
- held to maturity	2.8c); 15b)	1.642	-
Property, plants and equipment	2.9; 16	514	-
Intangible assets	2.11; 17	669	-
Other financial receivables	18	5	-
Other operating receivables	19	13	-
TOTAL ASSETS		**13.240**	**-**
LIABILITIES			
Customer deposits	20	701	-
Borrowings from banks	2.12; 21	3.400	-
Deferred tax liabilities	2.6; 22	26	-
Other liabilities	23	113	-
TOTAL LIABILITIES		**4.240**	**-**
EQUITY	2.14; 24		
Share capital		10.000	-
Other reserves		45	-
Loss for the year		(1.045)	-
TOTAL EQUITY		**9.000**	**-**
TOTAL EQUITY AND LIABILITIES		**13.240**	**-**
OFF BALANCE ITEMS		**3.376**	**-**

In Podgorica,
26 April 2016

Jelena Božović
Head of Accounting
Reporting and Budgeting Department

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Chief Executive Officer

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Executive Director

STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 2015
(In thousands EUR)

In thousands EUR	**Share capital**	**Other reserves**	**Accumulated loss**	**Total**
Balance, 1 January 2014	-	-	-	-
The effects of changes in the value of securities available for sale	-	-	-	-
Profit for the year	-	-	-	-
Balance, 31 December 2014	-	-	-	-
Balance, 1 January 2015	-	-	-	-
Share capital	10.000	-	-	10.000
The effects of changes in the value of securities available for sale	-	45	-	45
Loss for the year	-	-	(1.045)	(1.045)
Balance, 31 December 2015	10.000	45	(1.045)	9.000

In Podgorica,

26 April 2016

Jelena Božović
Head of Accounting
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Executive Director

STATEMENT ON CASH FLOW
In theperiod from 1 January to 31 December 2015
(In thousands EUR)

	2015.	**2014.**
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from interest and similar income	48	-
Outflows based on interest similar expenses	(1)	-
Inflows from fees and commissions	15	-
Outflows based on fees and commissions	(87)	-
Outflows based on the earnings of employees and expenses for suppliers	(810)	-
Increase of loans and other assets	(2.490)	-
Inflows based on deposits	701	-
Net cash (outflows) from operating activities	(2624)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(562)	-
Purchase of intangible assets	(739)	-
Treasury bills and bonds	(3.636)	-
Net cash (outflows) from investing activities	(4.937)	-
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in borrowings	3.400	-
Issuance of ordinary shares	10.000	
Net cash inflows from financing activities	13.400	-
Net increase in cash and cash equivalents	5.839	-
Cash and cash equivalents at the beginning of period	-	-
Cash and cash equivalents at the end of period	5.839	-

In Podgorica,

26 April 2016

Jelena Božović
Head of Accounting
Reporting and Budgeting Department

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Chief Executive Officer

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1. Foundation and Business Policy of the Bank

In accordance with the Law on Banks, the Founding Contract, the Statute and the Decision of the Central Bank of Montenegro, the bank Ziraat Bank Montenegro AD (hereinafter: "the Bank") was established in 2015, and on 20 May 2015 it was registered as the shareholding company with the Central Registry of Business Entities in Podgorica– registration number 4-0009452.

The Bank was registered with the Commission for Securities in the Register of Securities issuer under registration number 02/10e-5/2-15 of 8 May 2015 (Decision number 02/10e-5/2-15).

The Bank performs its financial operations via the transaction account number 907-0000000057501-83 with the Central Bank of Montenegro - Payment Transactions.

It performs the following activities:

1) Issuing guarantees and undertaking other off-balance sheet obligations;
2) Purchasing, selling and collecting receivables (factoring, forfaiting and other);
3) Issuing, processing and recording payment instruments;
4) Performing domestic and foreign payment transactions;
5) Performing finance lease operations;
6) Performing securities operations;
7) Trading in its own name and for its own account or for the account of its customer:
   - In foreign payment instruments, including money exchange
   - Financial derivative transactions;
8) Providing depot services;
9) Performing analysis and providing information and advices on the creditworthiness of companies, entrepreneurs and other issues relating to business operations;
10) Renting

The Bank is headquartered in Podgorica and performs its activities through its branch office in Bulevar Ivana Crnojevića no. 101.

On the day of 31 December 2015 the Bank had 28 employees.

The Bank is managed by shareholder., in accordance with the law and Bank Statute. The governing bodies of the Bank are the Shareholders Assembly consisting of Bank shareholder and Board of Directors which is appointed by the Shareholders Assembly. The Board of Directors of the Bank has 5 members, and most of them are not employed in the Bank. One of them is the Executive Director in his capacity as Chief Executive Officer of the Bank.
Management of the Bank consists of the Chief Executive Officer and the Executive Director (members of the Board). The Chief Executive Officer represents the Bank and is in charge of coordinating and monitoring of the execution of operations of the Bank and the work of employees of the Bank on a daily basis.

The Audit Committee is the permanent body of the Board of Directors.

Bodies of the Board of Directors are:
- Audit Committee,
- Committee for managing balance relations and equity (ALCO),
- Credit Committees,
- Other committees which are formed by the Management for specific issues.

2. Overview of the Principal Accounting Policies

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

2.1 Basis for Preparation of Financial Statements

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

The Bank is obliged to maintain its accounting records and to prepare financial statements in accordance with the Law on Accounting and Auditing of Montenegro ("Official Gazette of Montenegro", no. 69/05, 80/08 and 32/11) and based on the Decision on the direct application of International accounting standards ("IAS") in Montenegro ("Official Gazette of Montenegro", no. 69/2002) and in accordance with the regulations of the Central Bank of Montenegro relevant for the financial reporting of banks.

The financial statements have been prepared in accordance with the Decision on the contents, terms and manner of preparation and submission of financial statements of banks ("Official Gazette of Montenegro", no. 15/2012 and 18/2013).

During the preparation of these financial statements, the Bank has implemented policies that are in line with the regulations of the Central Bank of Montenegro, that are different from IFRS and IAS requirements, which were applied on the day of 31 December 2015, in the part which refers to the recording of receivables that can be excluded from balance sheet and form of presentation of the financial statements.

Due to the potentially significant effects that the above mentioned issues can have on reality and objectivity of the financial statements of the Bank, the accompanying financial statements can not be treated as financial statements prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared in accordance with the historical cost convention, unless otherwise stated in the accounting policies. In the preparation of these financial statements the Bank has applied the accounting policies described in Note 2.

The official currency in Montenegro and the functional and presentation currency of the Bank is the Euro (EUR).

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

2. Overview of Principal Accounting Policies (continued)

2.2 Going Concern

The financial statements have been prepared on the going concern basis, which means that the Bank will continue operating for the foreseeable future.

2.3 Revenues and Expenses Based on Interests and Fees

Revenues and expenses based on interests are recognized in the income statement for all interest bearing debt instruments using the effective interest method, on a timely basis, in accordance with the terms of the contractual relationship, defined by the contract between the Bank and the customer.

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

Income and expenses from fees were generated by providing or using banking services, and in the income statement are recognized at the time of delivery, or use of services. These revenues and expenses are also recognized at the sectoral affiliation of clients whose assets the bank uses.

Fees for approved and received loans are considered as an integral part of an ongoing involvement with the resultant financial instrument and are recognized as an adjustment to the effective yield over the life of the loan, using the effective interest rate.

Income and expenses from fees include fees for guarantees issued by the Bank for the benefit of clients, fees for payment transactions in the country and abroad, fees for brokerage and other services provided by the Bank. Expenses from fees are also expenses for fees based on the Central Bank of Montenegro control and expenses for fees based on the deposit insurance.

2.4 Foreign Exchange Translation

a) Functional and Presentation Currency

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

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

b) Transactions and Balances

Transactions made in foreign currencies are translated into euros using the exchange rates prevailing at the date of the business transaction.

Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into euros at the exchange rate prevailing at that day. Non-monetary items that measured at historical cost in a foreign currency are translated into euros at the current exchange rate at the transaction date.

Positive and negative exchange differences arising from the translation of business transactions in foreign currency and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2. Overview of Principal Accounting Policies (continued)

2.5 Income Tax

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

Current Tax

Income taxes are calculated and paid in accordance with the Corporate Income Tax Law (Official Gazette of the Republic of Montenegro no. 65/2001, 12/2002, 80/2004, Official Gazette of Montenegro no. 40/2008, 86/2009, 14 / 2015), applying the prescribed rate on the taxable profit reported for tax purposes. The amount of taxable profit is determined by harmonizing profit reported in the income statement, for the income and expenses amounts, as defined by tax regulations.

The tax on corporate profit is calculated using the proportional rate of 9% on the total reported income for tax purposes.

Law on Income Tax stipulates that losses from the tax balance sheet in the current year can not be transferred back. However, losses per tax balance for the year can reduce taxable income of the future period (except if the loss arises from capital losses or gains), but for a period not exceeding five years.

Deffered Taxes

Deferred taxes are calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying value reported in the financial statements of the Bank.

Deferred tax liabilities are recognized for all taxable temporary differences between the tax bases of assets and liabilities on the balance sheet date and their carrying amounts for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred tax assets are recognized for all deductible temporary differences, unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be sufficient to enable realization (utilization) of deductible temporary differences, unused tax assets and unused tax losses. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the use of all or part of the deferred tax assets.

The Bank calculates deferred taxes based on:

- Differences between the carrying value of fixed assets and intangible assets, which are recorded in the financial statements and their tax values. The difference is a result of the application of different methods of calculation and the rate of depreciation for financial reporting purposes and for tax purposes;

- Changes in the fair value of securities available for sale.

Deferred taxes related to the subsequent measurement of fair value of securities available for sale are charged directly against or in favor of equity and are transferred to the income statement at the same time with the profit / loss from the subsequent measurement of fair value.

Deferred taxes are calculated by applying the 9% rate.

2. Overview of the Principal Accounting Policies (continued)

2.6 Earnings per share

a) Basic earnings per share

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

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

2.7 Cash and cash equivalents

Cash and cash equivalents comprise balances with a maturity of less than three months from the date of acquisition, including cash, account balances with the Central Bank of Montenegro and funds with domestic and foreign banks.

Bank presents deposits with other banks: with foreign banks through which it performs billing and payment foreign transactions and with domestic banks through which it performs exchange operations. Bank deposits with the CBM reserve requirement in accordance with the regulations of the Centrale Bank and records use of the reserve requirement.

a) Reserve Requirement

Calculation, separation and use of funds of reserve requirement with the Central Bank is prescribed by the Decision on Bank Reserve Requirement to be Held with the Central Bank of Montenegro. In early October 2011, the new Decision of the Central Bank of Montenegro on Bank Reserve Requirement to be Held with the Central Bank (Official Gazette of Montenegro no.35 /11) entered into force , on the basis of which the reserve requirement is calculated by applying a rate of 9.5% on the base comprised of a vista deposits and time deposits with agreed maturity up to one year, or up to 365 days, 8.5% - on the base comprised of deposits with maturity over one year, or more than 365 days. For deposits with contracted maturity of over one year, or over 365 days, which have a clause providing option of termination in less than one year, or less than 365 days, the rate of 9.5% is applied.

Decision Amending the Decision on Reserve Requirement to be held with CB of Montenegro ("Official Gazette of Montenegro", no. 35/11, 2/12, 57/13, 52/14 and 7/15) gives, at the same time, a possibility to the banks to hold up to 35% of the reserve requirement held in the form of treasury bills issued by Montenegro, as well as the possibility, in case of need to maintain daily liquidity, to use up to 50% of their reserve requirements. The bank has not used the option of investing 25% or 35% of their reserve requirements in treasury bills of Montenegro, and did not use reserve requirement funds for maintaining daily liquidity. The Bank held the reserve requirements from the start of its business on the account in the country. At 25% of the allocated funds of reserve requirement the Central Bank pays to the Bank monthly fee calculated at the rate of 1% per annum. The Bank did not achieve the revenue on this basis during 2015.

2. Overview of Principal Accounting Policies (continued)

2.8 Financial Instruments

The Bank classified its financial assets in the following categories: financial assets available for sale, financial assets held to maturity and loans and receivables.

Management of the Bank classifies its financial instruments at initial recognition.

Financial assets are initially recognized at fair value plus transaction costs (except for financial assets or financial liabilities that are measured at fair value through profit and loss), which are directly attributable to the acquisition or issue of a financial asset or financial liability.

Financial assets and financial liabilities are recognized in the balance sheet of the Bank, from the moment when the Bank was bound to the instrument by means of contractual provisions. Purchase or sale of financial assets in a "regular way" is recognized by applying the settlement date accounting, ie. the date the asset was delivered to the other side.

Financial assets are derecognized when the Bank loses control of the contractual rights governing such instruments, which occurs when the rights of use are realized, expired, abandoned or relinquished. A financial liability is derecognized when the obligation under the contract is discharged, canceled or expired.

a) Financial assets available for sale

Securities that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices are classified as "securities available for sale".

Subsequent measurement of securities that are available for sale is conducted on the basis of changes in fair value due to price fluctuations in the regulated market as well as on the basis of impairment caused by the existence of objective evidence of impairment of financial assets.

Fluctuations in fair value of securities available for sale are recorded directly in equity, until disposal or impairment loss, when the cumulative income or expense, previously recognized in equity should be recognized in the income statement. However, interest calculated using the effective interest method is recognized in the income statement. Dividends are recognized in the income statement when the entity's right to receive payment is established.

The fair value of securities listed on active markets is based on current bid prices. If the market for a financial asset (the market of securities which are not listed on the stock exchange) is not active, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions between independent parties, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques.

2. Overview of Principal Accounting Policies (continued)

2.8 Financial instruments (continued)

b) Financial assets held to maturity

Securities held to maturity are financial assets with fixed payments or payments that can be identified with fixed maturities as well for which the Bank has the positive intent and ability to hold to maturity. If the Bank decides to sell more than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale, and the Bank will not be allowed to classify investments as held-to-maturity assets for the current and next two years.

After initial recognition, securities held to maturity are recorded at amortized cost using the effective interest method, less any impairment or the impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

The amount of impairment loss of securities held to maturity is calculated as the difference between the carrying value of the investment and the present value of expected cash flows discounted at the original effective interest rate of investments and reported in the income statement.

c) Loans and receivables

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

Loans and receivables are initially measured at fair value plus direct transaction costs, and subsequently at amortized cost using the effective interest rate method. Amortized cost is calculated taking into account any issue costs and any discount or premium on settlement. Loans and receivables are recognized in net amount less for an individual and group impairment.

At each reporting date the Bank assesses whether there is objective evidence of impairment of a financial asset or group of financial assets. Impairment losses are recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of an asset and when the same impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Write-offs of uncollectable receivables is performed pursuant to the court's decision and based on decision of the Board of Directors of the Bank when there is no realistic possibility for collection and when all the instruments for securing loan repayment are activated.

Losses arising from impairment of loans and receivables and other financial assets, are recorded in the income statement.

If in a subsequent period, the amount of the loss due to the credit impairment decreases because of the events that occurred after the recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account and the amount of the reversal is recognized in the income statement as income from the reversal of provisions.

Individual and group adjustment of value is formed by reducing the carrying value of loans and receivables for which the impairment was identified in order to reduce their carrying value to the recoverable amount.

2. Overview of Principal Accounting Policies (continued)

2.8 Financial instruments (continued)

e) Impairments of loans and advances

The assessment of impairment is based on the losses incurred, instead of the expected or future losses. Impairment is recognized solely when it is incurred. According to IAS 39, financial asset or group of financial assets is impaired and loss has occurred if and only if there is an objective evidence of impairment, which is a result of one or more events of loss that occurred after the initial recognition of the asset (a "loss event ') and that loss event had a measurable impact on the estimated future cash flows and financial assets. Possible or expected future trends that may lead to a loss in the future do not represent objective evidence of impairment.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Bank decides that there is no objective evidence of impairment for individually assessed property, regardless of whether it is significant or not, it is included in a group of financial assets with similar characteristics and then a group evaluation of impairment is carried out.

Objective evidence that suggest that there was an impairment of advance include the following events:

- Significant financial difficulties of the debtor.
- Violation of the agreed terms of the contract by the debtor, such as fulfilling the obligations arising from interest and / or principal.
- Delinquency over 90 days for any materially significant obligation of this debtor towards the Bank. Overdrafts maturities over 90 days are considered the overrun which indicates an increased level of credit risk.
- The existence of a substantial likelihood that the borrower will enter bankruptcy proceedings or liquidation or restructuring due to financial difficulties.
- Restructuring of advances (individual loans) due to deterioration in the financial condition of the debtor or the extension of the repayment of principal and / or reduction of interest rates and / or fees.
- Blocking of the account of the debtor.
- The economic, national, local, technological and legal conditions that may adversely affect the settlement of obligations of the debtor (a significant increase in the price of raw materials, a decrease in property prices for mortgages in the area, other changes in market conditions in which the borrower operates, changes in regulations that may adversely affect the borrower's business, technological obsolescence of products that the borrower produces, etc.).

One of the key factors in determining the appropriate level of impairment is determining the level of significance. In the analysis of the portfolio by materiality the Bank used approach based on the client level. Under this approach, total exposure to the client is observed, which is compared with the level of materiality of the accounting adjustments.

Exposure to a single entity or group of related entities above 50,000 euros, for loans approved to legal as well as for loans approved to natural persons is considered individually significant. The existence of delay in settlement of obligations to the bank by materially significant amounts over 90 days, above the designated threshold of materiality of EUR 200 for corporate and EUR 20 for retail customers is also considered individually significant.

Assets that are individually evaluated for impairment and for which an impairment loss is recognized or continues to be recognized are not included in a collective assessment of impairment.

2. Overview of Principal Accounting Policies (continued)

2.8 Financial Instruments (continued)

If there is objective evidence that the loss was incurred due to the impairment, impairment loss is measured as the difference between the carrying value of the loan and its recoverable amount, being the present value of estimated future cash flows, discounted at the original effective interest rate of that financial asset.

Calculation of the present value of estimated future cash flows of a collateralized financial asset reflects the cash flows that may arise based on the realization of collateral payments.

Future cash flows for a group of financial assets that are collectively classified and assessed for impairment are determined on the basis of the contractual cash flows of the assets and the Bank's experience of previous, historical losses for assets with similar credit risk characteristics.

The Bank currently does not have the information on the transition of clients within certain categories. Therefore, the amount of the one-year PD is estimated at 5% and the LGD at 45%, which is the standard prescribed by the Basel II standards. In the future period the Bank will develop procedures for monitoring claims transition from one classification group to another and after a certain period of time it will form a database that will enable the development of the transition matrix.

2.9 Fixed assets

Fixed assets are stated at acquisition cost, reduced by the value adjustment and the impairment. Acquisition cost includes expenditure that is directly attributable to the acquisition of the fixed asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that the Bank will have future economic benefit of the asset if its value can be measured reliably. All other maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the proportion method to allocate their cost or revalued amounts to their residual values over their estimated useful life which is shown in the following table:

	Year
Construction facilities	40
Computers and computer equipment	4
Furniture	10
Equipment	5
Vehicles	4

Gains and losses based on disposal of assets are determined by the difference between cashflow and carrying amount and are recognized in the income statement.

2. Overview of Principal Accounting Policies (continued)

2.10 Intangible assets

Licenses

Acquired licenses are recorded at historical cost. Licenses have a finite useful life and are stated at cost, decreased by accumulated amortization. Depreciation is calculated using the proportion method, in order to distribute the cost of licenses over their estimated useful lives.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use. These costs are amortized over their estimated useful lives of 4 years.

2.11 Loan commitments

Loan commitments are initially recognized at fair value, without the incurred expenses. Loan commitments are subsequently stated at amortized cost, any difference between the inflow of funds, reduced for transaction costs and the redemption values is recognized in the income statement in the period of the loan use, by applying the effective interest rate method.

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

2.12 Share capital

Paid-up share capital of the Bank is the amount of cash paid by the shareholders for all common shares. Bank's share capital consists of common shares and is recorded as a separate item in the balance sheet.

Dividends on shares are recorded as a liability in the period in which a decision was made about their payment. Dividends for the year after the balance sheet date are disclosed as an event after the balance sheet date.
Dividend approved for the year after the balance sheet date are disclosed in the note on events after the balance sheet date.

2.13 Offsetting financial instruments

Financial assets and liabilities are set-off and the difference between their amount reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or to simultaneously sell the asset and settle the liability.

2. Overview of Principal Accounting Policies (continued)

2.14 Provisions for liabilities and charges

Provisions for liabilities and charges are recognized when the following conditions are met:

- The Bank has a present legal or constructive obligation as a result of past events;
- There is a likelihood that the settlement of the obligation demands an outflow of funds, which generate economic benefits;
- When the amount of the obligation can be reliably estimated.

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

Provisions are reviewed on each balance sheet date and are adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to defray the given liability, provisions should be abolished through the income statement.

a) Employee benefits

Short-term employee benefits include wages and salaries and social security contributions. Short-term employee benefits are recognized as an expense in the period in which they occur.

The Bank and its employees are obliged to make payment in accordance with the defined contribution plan to the Pension Fund of Montenegro. The Bank has no obligation to pay benefits to employees representing the obligation of the Fund. Taxes and contributions relating to defined benefit plans based on earnings are recorded as expenses in the period in which they arise.

b) Other provisions

The Bank, in accordance with the Decision on Minimum Standards for Operational Risk Management in Banks (Official Gazette of Montenegro No. 24 / 2009), makes provisions for operational risk and potential litigation losses.

2.15 Commitments and contingent liabilities as off-balance sheet items

As part of the ordinary operations, the Bank assumes the contractual and contingent liabilities as off-balance sheet items such as guarantees, commitments to extend credit and letters of credit and transactions with financial instruments. These financial instruments are recorded in the balance sheet if and when they become payable.

Provision for possible losses on commitments and contingent liabilities are formed on the basis of estimates of likely losses, in accordance with the criteria established in the Decision on minimum standards for credit risk management in banks.

2. Overview of Principal Accounting Policies (continued)

2.16 Transactions with related parties

Related parties are parties that represent:

- Companies that directly or indirectly through one or more intermediaries, control the reporting company or are under its control, and that are controlling the reporting entity jointly with other entities;
- Natural persons who directly or indirectly have the voting rights of the Bank that gives them significant influence over the Bank, as well as any other entity which is expected to influence or be influenced by the related party in their dealings with the Bank;
- Key management, or persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including the Management of the Bank and key personnel.

When observing each possible transaction with the related party the attention is directed to the substance of the relationship, and not merely to the legal form.

2.17 Critical accounting estimates and judgments

The Bank makes estimates and assumptions on effects that the amounts of assets and liabilities included in the financial statements, will have in the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the given circumstances.

2.17.1 Impairment losses due to decrease in value of balance and off-balance sheet placements

The Bank reviews its loan portfolios at least once a month, in order to assess the impairment of credit receivables. The Bank determines whether there are reliable evidence to show that there will be a reduction in future cash flows from the loan portfolio, which can be identified with an individual loan, and which may affect the income statement.

The methodology and assumptions used for estimating impairment provision in accordance with the policies are disclosed in Note 2.8.

2.17.2 Fair value of financial instruments

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

The fair value of financial instruments traded on active markets are determined based on published market prices at the balance sheet date, or the price that represents the best demand for financial resources, or the best deal for financial liabilities.

The fair values of financial instruments that are not traded in active markets are determined by using valuation methods. Valuation methods include a comparison with the prices during the last transaction, using the discounted future cash flows, valuation based on pricing methods and other methods.

These methods reflect the market conditions at the measurement date and may be different from market conditions before and after that day. On the balance sheet date methods are checked with the aim of checking whether they reflect market conditions, including considerations of liquidity and the application of appropriate credit margins. Changing these estimates could affect the fair value of financial instruments held for trading and financial assets for sale.

(all amounts are shown in 000 EUR unless otherwise stated)

2. Overview of Principal Accounting Policies (continued)

2.17 Critical accounting estimates and judgments

2.17.3 Litigation

The Bank's management assesses the amount of provisions for outflows arising from legal disputes based on estimates of probability weather future cash outflows will happen based on contractual or legal obligation from past periods.

3 Interest income and expense

	2015	2014
Interest income		
Current assets – Cash	14	-
Loans and advances to customers	3	-
Securities	25	-
Other	18	-
Total interest income	**60**	**-**
Interest expense		
Loans from banks	(1)	-
Total interest expense	**(1)**	**-**
Net interest income	**59**	**-**

	2015	2014
Interest income		
Banks	14	-
State	25	-
Companies	2	-
Natural persons	1	-
Other	18	-
Total interest income	**60**	**-**
Interest expense		
Banks	(1)	-
Total interest expense	**(1)**	**-**
Net interest income	**59**	**-**

(all amounts are shown in 000 EUR unless otherwise stated)

4 Impairment and reservation expenses

	2015	2014
Impairment based on loans (Note 13)	**(2)**	**-**
Total impairment based on balance positions	**(2)**	**-**

Changes in allowance for losses and provisions during 2015 were as follows:

	Loans
Balance on the day of 01.01.	**-**
The increase in reserves	2
Release of reserves	-
Balance on the day of 31.12.	**2**

5. Fee and commission income and expense

	2015	2014
Fee income		
Fees for provided services	9	-
Total fee income	9	-
Fee expense		
Payment system	(14)	-
Other	(51)	-
Total fee expense	**(65)**	-
Net fee income	**(56)**	-

(all amounts are shown in 000 EUR unless otherwise stated)

6. Deferred tax (expense)

	2015	2014
Deferred tax (expense)	(22)	-
Total	(22)	-

Deferred tax expense in the amount of EUR 22 thousands was made on the basis of the increase in deferred tax liabilities on temporary differences between accounting and tax values of fixed assets, which is recognized in the income statement.

Income tax of the Bank is calculated as follows:

Current tax	**2015**	**2014**
Loss per income statement before taxation	(1.023)	-
Tax rate	9%	-
Tax at the rate of 9%	92	-
Tax effect of unrecognized expenses	23	-
Tax effect of non-taxable income	(1)	-
Tax loss	**114**	-
Unrecognized deferred tax assets from the tax loss	**(114)**	-
Tax expense for the period	-	-
The tax effect of temporary differences		
The tax effect of temporary differences related to fixed assets and intangible investments	**(22)**	-
Deferred tax income / (expense)	**(22)**	-
Total	**(22)**	-

7. Employee expenses

	2015	2014
Net salaries expenses	254	-
Taxes, surtaxes and contributions	193	-
Fees for the members of the Board of Directors and Audit Committee	29	-
Taxes, surtaxes and contributions for Boards of Directors and Audit Committees	5	-
Travel expenses and per diems	1	-
Employee training	1	-
Other expenses	1	-
Total	**484**	-

(all amounts are shown in 000 EUR unless otherwise stated)

8. General and administrative expenses

	2015	**2014**
Renting expenses	66	-
Repairs expenses	2	-
Security expenses	28	-
Electricity expenses	6	-
Cleaning expenses	6	-
Computers and equipment maintenance expenses	97	-
Vehicles maintenance expenses	1	-
Insurance expenses	2	-
External controls expenses	96	-
Other professional fees	6	-
Legal services expenses	1	-
Expenses related to securities	32	-
Accommodation expenses	1	-
Telephone expenses	2	-
Communication networks expenses	22	-
Stationary expenses	4	-
Subscriptions and donations	1	-
Representation expenses	12	-
Fuel expenses	4	-
Consumables expenses	1	-
Printing and copying expenses	1	-
Various expenses	7	-
Total	**398**	**-**

9. Depreciation

	2015	**2014**
Property, plant and equipment (Note 15)	48	-
Intangible assets (Note 16)	70	-
Total	**118**	**-**

10. Earnings (Loss) per share

Basic earnings (loss) per share are calculated by dividing net loss by the weighted average number of ordinary shares in issue during the year.

	2015	**2014**
The loss borne by shareholders	(1.045)	-
The weighted average number of ordinary shares in issue during the year	10.000	-
Basic earnings per share (expressed in EUR per share)	**(104,5)**	**-**

(all amounts are shown in 000 EUR unless otherwise stated)

11. Cash and deposit accounts with depository institutions

	2015	2014
Cash and non-interest deposit accounts		
Cash		
Vault cash	92	-
Reserve requirement with the Central Bank of Montenegro	63	-
Current account with the Central Bank of Montenegro	1.282	-
Total cash	**1.437**	**-**
Non-interest bearing deposit accounts CBM		
Reserve requirement with the Central Bank of Montenegro	54	-
Total non-interest bearing deposit accounts	54	-
Interest bearing deposits with the Central Bank		
Reserve requirement with the Central Bank of Montenegro	9	-
Total interest-bearing deposit accounts	**9**	**-**
Total reserve requirement with the Central Bank of Montenegro	**63**	**-**

Reserve requirement is set aside in accordance with the Decision on Banks' Required Reserves with the Central Bank of Montenegro, which provides that the bank set aside the reserve requirement in the amount of 9.5% and 8.5% of the average balance of a vista deposits and time deposits, depending on the depositing period.

12. Loans and receivables with banks

	2015	2014
Correspondent accounts with foreign banks	402	
Term deposits with banks and other depository institutions abroad	4.000	
Interest receivable at term deposits	10	
Total	**4.412**	**-**

a) On 31 December 2015 the Bank had deposited funds in foreign currency accounts with the following banks:

	2015	2014
TCZIRAAT BANK	331	-
KBC BANK NV	71	-
Total	**402**	**-**

b) On 31 December 2015 the Bank had deposited funds in foreign currency accounts with the following banks:

	2015	2014
ZIRAAT ATHENS	1.000	-
ZIRAAT KATILIM	3.000	-
Total	**4.000**	**-**

(all amounts are shown in 000 EUR unless otherwise stated)

13. Loans and receivables with customers

Short-term and long-term loans by type of customer balance:

	2015	2014
Loans to legal entities	**2.436**	**-**
Short-term loans based on the same segments	1.871	-
Long-term loans based on the same segments	565	-
Loans to natural persons	**50**	**-**
Short-term loans to natural persons	39	-
Long-term loans to natural persons	11	-
Total	**2.486**	**-**
Value adjustments of loans to non-financial sector	(2)	-
Total	**2.484**	**-**

Short-term loans were mostly approved to private companies and investment funds for purchase of working capital. Loans were approved for a period from one month to one year, with interest rates from 4.50% to 8.50% per annum.

Long-term loans were mostly granted for rescheduling of existing loans and for investments. Loans were usually granted for a period from 13 months to 5 years, with fixed and variable interest rate of 6MEuribor + 6.2% on an annual basis.

14. Investment securities

Structure by type of financial asset:

	2015	2014
Available for sale	**2.064**	**-**
Turkey Government bonds	2.064	-
Held to maturity	**1.642**	**-**
Montenegro Government bonds	1.642	-
Total	**3.706**	**-**

On the balance sheet date reduction in value of securities available for sale at fair value was carried out. The fair value of securities available for sale amounts 2,064 thousand euros and relate to government bonds of the Republic of Turkey.

(all amounts are shown in 000 EUR unless otherwise stated)

14. Investment securities (continued)

Details and the book value of investments in securities that are available for sale on 31 December 2015 are given in the following table:

	Date of purchase	Date of maturity	Rate of return	Nominal value	Unamortized premium	Vested interest	Changed fair value	Book value
Government bonds of Turkey ISIN XS1057340009	7.10.2015	11.4.2023	3,54%	1.890	69	56	49	2.064
Total value of trade				**1.890**	**69**	**56**	**49**	**2.064**

Details and the book value of investments in securities that are available for sale on 31 December 2015 are given in the following table:

	Date of purchase	Date of maturity	Return rate	Nominal value	Unamortized premium	Vested interest	Book value
Government bonds of Montenegro ISIN XS0614700424	7.10.2015	8.4.2016	1,33%	1.536	24	82	1.642
Total value of trade				**1.536**	**24**	**82**	**1.642**

(all amounts are shown in 000 EUR unless otherwise stated)

15 Property plant equipment

	Equipment	Total
Purchase value		
Balance on 01.01.2015	-	-
New acquisitions	562	562
Balance on 31.12.2015	**562**	**562**
Adjustment of value		
Balance on 01.01.2015.	-	-
Current charges	(48)	(48)
Balance on 31.12.2015.	**(48)**	**(48)**
Current value 31.12. 2015.	**514**	**514**

16. Intangible investments

	Software	Total
Acquisition cost		
Balance on 01.01.2015.	-	-
New acquisitions	739	739
Balance on 31.12.2015.	**739**	**739**
Adjustment of value		
Balance on 01.01.2015.	-	-
Current charges	(70)	(70)
Balance on 31.12.2015.	**(70)**	**(70)**
Current value 31.12. 2015	**669**	**669**

17. Other operating receivables

	2015	2014
Other operating receivables	1	-
Prepaid expenses	12	-
Total other operating receivables	**13**	**-**

(all amounts are shown in 000 EUR unless otherwise stated)

18. Customer deposits

	2015	2014
Non-interest bearing deposits	701	-
Interest bearing deposits	-	
Total	**701**	**-**

a) Non-interest bearing

A vista deposits	**2015**	**2014**
Business organizations in private ownership	168	
Entrepreneurs	1	
Natural persons, residents	38	
Natural persons, non-residents	494	
Total a vista deposits	**701**	

19. Borrowings from banks

	2015	2014
Borrowings from banks	3.400	
Total	**3.400**	

a) Borrowings from banks:

	2015	2014
ZiraatBankBosnia	1.400	
BulgaristanSubeYoneticilig	2.000	
Total	**3.400**	

The structure of borrowed funds from banks is given in the following table:

Name of the Bank	Currency date	Maturity Date	Interest rate	Currency	Amount
ZiraatBankBosnia	28.12.2015	11.1.2016	0,25 %	EUR	1.400
BulgaristanSubeYoneticilig	29.12.2015	5.1.2016	0,15%	EUR	2.000
Total					**3.400**

(all amounts are shown in 000 EUR unless otherwise stated)

20. Deferred tax liabilities

Deferred tax liabilities as of 31.12.2015 amount to 26 thousand EUR. To deferred tax expense relates 22 thousands EUR on the basis of the tax effect of temporary differences related to fixed assets and intangible investments (Note 6), while the remainder in the amount of EUR 4 thousand euros relates to deferred tax liabilities based on securities available for sale (Note 24).

21. Other liabilities

	2015	2014
Demarcated accrued expenses	24	-
Liabilities to suppliers	86	-
Other liabilities	3	-
Total	**113**	**-**

22. Equity

	2015	2014
Share equity	10.000	-
Other reserves	45	-
Loss for the period	(1.045)	
Total	**9.000**	**-**

The share capital consists of common shares, of the same order, issued in dematerialized form by registration in the accounts of the holder of the central register with the CDA. Shareholders are entitled to participate in the management, the right to a portion of profits (dividends) and the right to an adequate part of the assets in the liquidation or bankruptcy, in accordance with the law.

The share capital of the Bank as of 31 December 2015, consists of 10,000 shares with individual nominal value of one thousand euros.

Law on Banks (Official Gazette no. 17/2008, 44/2010, 40/2011), which entered into force on 8 August 2011, defined the minimum amount of the bank founding capital with the value of 5,000 thousand euros.

The ownership structure of the bank's share capital as on 31 December 2015 and 2014 is shown in the following table:

	Number of shares	% of share
TURKIYE CUMHURIYETI ZIRAAT BANKASI ANONUIM SIRKET	10.000	100%
Total	**10.000**	**100%**

(all amounts are shown in 000 EUR unless otherwise stated)

22. Equity (continued)

a) Other reserves consist of:

	2015	2014
Revaluation reserves	45	-
Total	**45**	**-**

Revaluation reserves

Revaluation reserves represent the cumulative unrealized gains / losses from changes in fair value of securities available for sale, decreased by deferred taxes.

The amount of 45 thousand euros is related to the change in fair value of debt financial instruments of the Bank.

Changes in the revaluation reserve in 2015, presented in the Statement of changes in equity, were as follows:

	Debt securities
Balance 01.01.	-
Change of fair value	49
Deferred tax	(4)
Balance 31.12.2015	**45**

23.Off-balance sheet records

	2015	2014
Risk weighted off-balance sheet assets		
Commitments arising from approved loans	1	-
Total risk weighted off-balance sheet assets	1	-
Other off-balance sheet assets		
Other off-balance sheet exposures of the Bank	3.375	-
Total off-balance sheet assets	3.375	-
Total off-balance sheet records	**3.376**	**-**

(all amounts are shown in 000 EUR unless otherwise stated)

23. Off-balance sheet records (continued)

a) Other off-balance sheet items

Other off-balance sheet items are related to the received means of insurance in the amount of 3.375 thousand euros.

The structure of received means of insurance is given in the following table:

	2015	2014
Property	1.068	-
Other	2.307	-
Total	**3.375**	**-**

Other means of insurance are given in the following table:

	2015	2014
Received collaterals – Bill of Exchange FL	11	-
Received collaterals - Mortgage PL	200	
Received collaterals – Administrative ban FL	11	
Received collaterals – Bank guarantee PL	1.830	
Received collaterals - Insurance policy real estate PL	255	
		-
Total	**2.307**	**-**

24. Relations with related parties

The Bank carries out transactions with related parties in the ordinary course of business. In accordance with the Law on Banks bank related parties are:

- Members of the bank bodies, shareholders, bank employees, as well as members of their immediate family (spouse and children),
- A legal entity in which a person who has qualified participation in the bank also has a qualified participation,
- A legal entity in which members of the bank bodies, shareholders, bank employees, as well as members of their immediate families have a significant impact or any of these persons is the director or member of the board of directors or other appropriate body of that legal entity,
- A person who has an interest in the capital or voting rights of at least 50% in the legal entity that has a qualified participation in the bank.

The transactions include loans, deposits, foreign currency transactions and personal income of the Board members and persons with the signed individual contracts.

Operations with related parties are carried out under market conditions and prices.

The volume of transactions with related parties, balance of assets and liabilities on 31.12.2015, and related expense and income in the income statement are shown in the following table:

(all amounts are shown in 000 EUR unless otherwise stated)

24. Relations with related parties (continued)

	ZiraatKatilimBankasi	ZiraatBankasi Atina YunanistanSubesi	ZiraatBankasi	ZiraatBank Bosnia	BulgaristanSubeYoneticilig	Related natural persons	Total
Receivables							
Foreign currency accounts	-	-	331	-	-	-	331
Term deposit with banks	3.000	1.000	-	-	-	-	4.000
Approved loans	-	-	-	-	-	7	7
Total receivables	**3.000**	**1.000**	**331**	**-**	**-**	**7**	**4.338**
Liabilities							
Received loans	-	-	-	2.000	1.400	-	3.400
Total liabilities				**2.000**	**1.400**	**-**	**3.400**

During 2015, the Bank operated with the parent bank under normal market conditions. Individually most significant transactions and balances relating to the parent bank and related entities and represent placements and loans whose conditions are disclosed in Notes 12 and 13.

	ZiraatKatilimBankasi	ZiraatBankasi Atina YunanistanSubesi	ZiraatBankBosnia	Total
Income				
Interest income	7	3	-	10
Total income	**7**	**3**		**10**
Expenses				
Interest expenses	-	-	1	
Total expenses	**-**	**-**	**1**	**1**

(all amounts are shown in 000 EUR unless otherwise stated)

24. Relations with related persons (continued)

Calculated personal income for related individuals, by type of income, in 2015 amounted to:

	Bank Management	Key Management	Board members	Total
Salaries and other short-term benefits	69	153	-	222
The fee for membership in committees	22	-	12	34
Total	**91**	**153**	**12**	**256**

25. Risk management

25.1. Liquidity risk

Liquidity risk presents the risk that the bank will not be able to provide sufficient volume (financial) resources to cover all the liabilities (balance sheet and off-balance sheet) as they mature.

Liquidity risk is identified on the basis of daily, ten-day, monthly, quarterly, semi-annual and annual projections of liquidity, i.e. based on the gaps incurred due to mismatch of assets and resources.

Adequate liquidity risk management is a basic requirement for the safe and efficient operation of the Bank. The quality of liquidity risk management depends on the balance sheet structure of the Bank, i.e. matching between inflows and outflows. The required liquidity is achieved by rational management of assets and liabilities in order to maintain an appropriate ratio between liquid assets and volatile liabilities.

Aiming to create a secondary liquidity reserves the Bank was investing in debt securities in the amount of 3.706 thousand euros. On 31.12.2015 most of the portfolio of debt securities relates to securities issued by the Ministry of Finance of the Republic of Turkey in the amount of 2.064 thousand euros, which are classified as available for sale. Also, the Bank in its portfolio has also 1.642 thousands euros securities of Montenegro, which are classified as securities held to maturity but that can be sold on the secondary market in the event of threatened liquidity.

Based on the monitoring and measurement of key indicators of liquidity, both internally prescribed and those that are required by the Central Bank of Montenegro, all coefficients were above the prescribed minimum, by which the Bank adequately managed, both operational and structural liquidity.

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

All a vista deposits are classified in the column from 1 to 7 days. On 31.12.2015 the Bank did not have the time deposits.

The maturity structures of assets and liabilities as of 31.12.2015 are presented as follows.

(all amounts are shown in 000 EUR unless otherwise stated)

	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Total
Assets								
Cash and deposit accounts with depository institutions	1.839	-	4.000	-	-	-	-	**5.839**
Loans and other receivables	-	-	19	39	52	1.920	460	**2.490**
Securities available for sale	2.064	-	-	-	-	-	-	**2.064**
Total	**3.903**	**-**	**4.019**	**39**	**52**	**1.920**	**460**	**10.393**
Liabilities								
Deposits	701	-	-	-	-	-	-	**701**
Liabilities based on loans and other borrowings	2.000	1.400	-	-	-	-	-	**3.400**
Total	**2.701**	**1.400**	**-**	**-**	**-**	**-**	**-**	**4.101**
Maturity Gap (1)- (2)	**1.202**	**-1.400**	**4.019**	**39**	**52**	**1.920**	**460**	**6.292**
Cumulative Gap	**1.202**	**-198**	**3.821**	**3.860**	**3.912**	**5.832**	**6.292**	
% of total sources of funds	**29,31**	**-4,83**	**93,17**	**94,12**	**95,39**	**142,20**	**153,40**	

(all amounts are shown in 000 EUR unless otherwise stated)

25. Risk Management (continued)

25.2 The risk of changes in interest rates

The sensitivity of assets, liabilities and off-balance sheet positions to interest rate changes affect the two categories the amount of net interest income and the market value of certain financial instruments (interest rate sensitive sources and placements), which consequently affects the market value of the bank's capital.

Interest rate risk is part of market risk and demonstrates the sensitivity of the financial situation (profitability) of the Bank to interest rate changes. The management of interest rate risk is considered to be the risk management of non-compliance of updating interest rates periods (Eng. Repricing risk), sources of funds and placements, method of calculating the change of economic value arising from non-compliance of trading positions created as a result of a standard interest rate shock and managing the interest rate structure in compliance with the principles of liquidity , security, stability and profitability.

The causes of interest rate risk are:
- Unsatisfactory interest spread ("Spread")
- Mismatch of interest-sensitive assets and liabilities of banks ("gap")
- Changes in customer preferences.

The Bank's exposure to interest rate risk on 31.12.2015 is shown in the following table. The table includes assets and liabilities which are presented according to the date of new interest determination or the date of maturity, depending on the fact which date is earlier.

On 31 December 2015	1-30 days	31-90 days	91-180 days	181-365 days	over 1 year	**Total**
Sensitive assets						
Interest-bearing deposits in other institutions	4.010	-	-	-	-	**4.010**
Interest bearing securities	2.064	-	1.642	-	-	**3.706**
Loans and receivables from clients	19	39	52	1.920	460	**2.490**
Total	**6.093**	**39**	**1.694**	**1.920**	**460**	**10.206**
% of total interest-bearing assets	**59.71%**	**0,38%**	**16,59%**	**18,81%**	**4,51%**	**100,00%**
Sensitive liabilities						
Interest-bearing deposits of customers	701	-	-	-	-	**701**
Interest-bearing borrowings from banks	3.400	-	-	-	-	**3.400**
Total	**4.101**	**-**	**-**	**-**	**-**	**4.101**
% of total interest-bearing liabilities	**100.00%**					
Gap	**1.992**	**39**	**1.694**	**1.920**	**460**	**6.105**
Cumulative Gap	**1.992**	**2.031**	**3.725**	**5.645**	**6.105**	
Cumulative Gap / Total assets %	**15.05%**	**15.34%**	**28.13%**	**42.63%**	**46.10%**	

25. Risk Management (continued)

25.3 Sensitivity analysis

Liquidity risk management is supplemented by monitoring the sensitivity of the income statement of the Bank in relation to the different scenarios of interest rate changes. The sensitivity of the income statement is the effect of the assumed changes in interest rates on net interest income in a year.

Sensitivity analysis of the income statement to changes in interest rates for 31.12.2015 is shown in the following table:

Increase of interest rates	Impact on the income statement in 000 EUR	Decrease of interest rates	Impact on the income statement in 000 EUR
+100 bp	68	-100 bp	-68

25.4 The risks of changes in foreign currency exchange rate

The risk of changes in foreign exchange rates is the risk of change of assets and liabilities value due to changes in foreign currency rates.

Bank measures foreign exchange risk and limits it daily, on an aggregate basis and individually by currencies.

The net open foreign exchange position of the Bank at the end of the day, for individual currency which is on the reference exchange rate of the European Central Bank on a daily basis, may not exceed 15% of the share capital of the Bank.

The sum of the net open foreign currency position at the end of the day for all the currencies at the reference exchange rate of the European Central Bank on a daily basis, may not exceed 20% of the share capital of the Bank.

The net open positions at the end of the day for other currencies cannot exceed:

- 5% of share capital, individually by currency;
- 10% of the share capital, in total for all other currencies of the Bank.

On 31.12.2015 the Bank had foreign exchange in USD in the amount of 4 thousands, while all other positions of financial assets and liabilities were in EUR.

25. Risk Management (continued)

25.5 Credit risk

Credit risk is managed, both at the level of individual loan placements, and at the level of the overall portfolio.

In order to provide the necessary preconditions for the proper management of credit risk exposure analysis is carried out on two grounds - at the level of individual loans when determining credit worthiness and the upper limit of indebtedness of the client or group of connected clients and at the level of the entire portfolio in the following categories:

- structure of the portfolio in each category (loans to the economy, to the country, to the population, off-balance sheet exposure);
- structure of the portfolio by credit rating groups (movements between individual credit categories, the transitional matrix, the percentage of cover reserves, coverage ratio);
- portfolio structure by regularity of payment of obligations;
- portfolio structure by industries (the largest concentration in 2015 was in trade, construction and manufacturing);
- concentration in clients with so called large exposures (client or group of connected clients in which the exposure is greater than 10% of venture capital, regular monitoring of exposure of the 30 largest borrowers);
- concentration of loans to natural persons in cities and certain types of products;
- Intensive monitoring of customers on the "Watch" list and on the "Intensive care" list.

Provisions for credit risks are allocated in accordance with applicable regulations of the Central Bank, in more detail see Note 2.6. The amount of reserves for potential losses on assets is calculated using the book value of receivables which is multiplied by the determined percentage of reserves, considering that the bank can reduce previously booked value of asset items for which it calculates the reserve by:

1) the amount of collateral in the form of cash deposits;
2) amount of claims covered by irrevocable guarantee:

- countries or central banks of the OECD countries;
- banks with credit rating better than BBB + / A + pursuant to the external agency Standard & Poor's or equivalent rating of other internationally acclaimed rating agencies;
- Legal entities whose business is controlled by the Central Bank of Montenegro.

In order to effectively manage credit risk, the bank prepares stress scenarios of credit risk, while observing the effect of weakening of the quality of the loan portfolio to the liquidity ,profitability and capital adequacy of the Banks.

The Bank's previous practice in making decisions about granting placements paid attention to respect the maximum permissible exposure to a single entity or group of related entities. All placements approved so far are in accordance with the defined internal limits as well as with limits defined by current legislation.

The dominant share of placements to legal entities in 2015 related to companies engaged in production, with a total approved amount of 2,300,000.00 EUR or 90% of the total payments in the previous year.

As for the Bank's activities related to the approval of off-balance sheet items, the Bank at the end of 2015 did not have active guarantee / letter of credit.

(all amounts are shown in 000 EUR unless otherwise stated)

25. Risk Management (continued)

25.5 Credit risk (continued)

Rating of the creditworthiness was the basis for the approval of each placement, the defined maximum amount of debt (limit). The Bank was assessing the creditworthiness of the client using primarily tools such as quantitative (financial) and qualitative analysis and evaluation of the quality of collateral, without neglecting the principle of evaluation of risks taken by the classification of placements and potential liabilities of the Bank.

In the analysis, the situation and trends of income, property and capital structure are perceived both horizontally and vertically. Horizontal analysis allows comparison of data in the financial statements for more periods of time in order to detect trends and dynamic of individual positions changes, while by vertical analysis data in a single year is compared.

After the assessment of the financial condition and credit worthiness of the borrower, as well as after a review of the value and legal security of credit protection and other relevant factors, Loans Management Department determines the classification of the debtor as a measure of the expected credit risk, verifies internal rating, and gives his opinion on the justification of taking the identified risk.
Credit risk analysis is given in the following overviews.

The maximum exposure to credit risk without taking into account the collateral:

	2015
	Maximum exposure to credit risk
Loans to natural persons	**50**
- consumer loans	50
Loans to legal entities	**2.440**
-loans to legal entities	2.440
Total loans	**2.490**
Securities available for sale	2.064
Securities held to maturity	1.642
Total	**6.196**

				2015
Sectoral analysis of loans	**Gross loans**	**Value adjustments**	**Net loans**	**%**
Processing industry	2.369	(1)	2.368	95,2%
Services of providing accommodation and food	1	-	1	0,0%
Professional, scientific and technical activities	70	-	70	2,8%
Natural persons residents	7	-	7	0,3%
Natural persons non-residents	43	(1)	42	1,7%
Total	**2.490**	**(2)**	**2.488**	**100%**

25. Risk Management (continued)

25.5 Credit risk (continued)

					2015
Credit internal rating system	**Loan balance**	**Amount of the adjusted value**	**% of loan**	**% of reserve**	**Loan balance**
Credit rating group A	1.989	-	80%	0%	1.989
Credit rating group B	501	(2)	20%	100%	499
Total	**2.490**	**(2)**	**100%**	**100%**	**2.488**

	2015
	Loans
Loans that are not past due and for which the adjusted values were not calculated	1.989
Loans that are past due and for which the adjusted value were not calculated	-
Loans for which adjusted values were calculated	501
Gross loans	**2.490**
Less: Adjustment of value	(2)
Net loans	**2.488**

Loans that are not past due and for which the adjusted values were not calculated:

	2015
	Loan balance
Loans to natural persons	
- consumer	50
Loans to legal entities	
- loans to legal entities	1.939
Total	**1.989**

The financial effect of collateral

The financial effect of collateral is disclosed through the impact on the level of reserves at the end of the financial year. Without collateral amount of the provision would be higher for:

	2015	2014
Loans to legal entities		
- loans to large enterprises	360	-
Total	**360**	**-**

Acquired assets based on collection

On 31.12.2015 the Bank has no acquired assets based on collection.

26. Capital Management

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

- ensure compliance with the requirements for capital, which are defined by the Central Bank of Montenegro,
- provide adequate level of capital to continue operations on the principle of "continuing operations "and
- Maintain capital at a level that will allow for future business development.

Capital adequacy and the use of the Bank's capital is monitored monthly by the Bank Management. The Central Bank of Montenegro has defined the following capital limits:

- the minimum amount of capital of EUR 5 million and
- Capital adequacy ratio of 10%.

Total capital or own funds of the Bank consist of core capital, supplementary capital and deduction items:

Basic capital consist of: paid-in share capital at nominal value, excluding cumulative preferential shares; collected share premiums; reserves that are formed at the expense of profit after tax (legal, statutory and other reserves); retained earnings from previous years; profit for the year for which the Assembly of shareholders decided to be included in the core capital; capital gains made from the purchase and sale of own shares.

Deductions from core capital are: loss from previous years; loss of the current year; capital losses arising from the acquisition and sale of own shares; intangible assets such as goodwill, licenses, patents, trademarks and concessions; nominal value of acquired own shares, excluding cumulative preferential shares; less accrued provisions for potential losses, determined in the process control.

Supplementary capital comprises: a nominal value of preferential cumulative shares; general reserves, and up to 1.25% of total risk weighted assets; subordinated debt hybrid instruments, for which the conditions of the Decision on banks' capital adequacy for inclusion in Tier I have been met. Deductions from Tier I capital are: acquired own preferential cumulative shares and claims and contingent liabilities secured by hybrid instruments or by subordinated debt of the Bank to the extent in which these instruments are included in Tier I.

Needs for capital are determined separately for different types of risks - credit, operational, market and other risks in accordance with applicable regulations in this area. Most of the needs for capital refer to the capital required to cover credit risk. In this sense, credit risk-weighted assets are calculated using the weights range from 0% to 150% depending on the type of exposure and the amount of credit risk that each individual exposure carries.

The following table shows the structure of the total capital of the Bank as of 31.12.2015, as well as the capital adequacy ratio.

The structure of own funds and capital adequacy on 31.12.2015

Capital Management (continued)

Core capital	**2015**
Paid-up share capital at nominal value, excluding cumulative preferential shares	10.000
Reserves that are formed at the expense of profit after tax (legal, statutory and other)	45
Amount of the core capital	**10.045**
Deductions in the calculation of core capital	
Losses from current year	(1.045)
Intangible assets	(669)
The positive difference between the amount of accrued provisions for potential losses and the sum of value adjustments for balance sheet assets and provisions for off-balance sheet items	(9)
The amount of deductible items in the calculation of core capital	**(1.723)**
Own assets of the Bank	**8.322**
Credit risk weighted assets	
Weighted balance sheet assets	5.261
Weighted off-balance sheet assets	-
Total credit risk weighted assets	**5.261**
Required capital for market risks	-
Required capital for operational risk	3
Capital required for country risk	1.116
Required capital for other risks	-
Bank's solvency ratio	**129,90%**

27. Litigation

On 31 December 2015 the Bank had no litigation processes.

28. Events after the balance date

There were no harmonizing events after the balance sheet date that could affect the financial position and performance of the Bank on the day of 31 December 2015.

In Podgorica,

26 April 2016

Jelena Božović
Head of Accounting
Reporting and Budgeting Department

Mustafa Şenman
Chief Executive Officer

Goran Bakić
Executive Director