ZIRAAT BANK MONTENEGRO

**FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016
AND INDEPENDENT AUDITOR'S REPORT**

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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 2016 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting in 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.

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 auditing regulation effective in Montenegro. This regulation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of of Ziraat Bank Montenegro AD Podgorica as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting in Montenegro and regulations of the Central Bank of Montenegro governing financial reporting of banks.

Refer to the original signed Montenegrin version

Biljana Bogovac
Licenced Auditor
Podgorica, 25 May 2017

Refer to the original signed Montenegrin version

PricewaterhouseCoopers d.o.o. Podgorica

INCOME STATEMENT
For the period from 1 January to 31 December 2016
(Amounts in thousands EUR)

	Note	2016.	2015.
Interest income	2.3;3	916	60
Interest expense	2.3;3	(215)	(1)
NET INTEREST INCOME		**701**	**59**
Impairment losses	2.8e; 4	(18)	(2)
Provisions losses	2.8e; 5	(5)	-
Fee and commission income	2.3; 6	(89)	9
Fee and commission expenses	2.3; 6	(46)	(65)
NET FEE INCOME/(EXPENSE)		**43**	**(56)**
Net gains/(losses) on investment securities	7	26	(22)
Net gains on foreign exchange differences	8	2	-
Employee expenses	9	(956)	(484)
General and administrative expenses	10	(601)	(398)
Depreciation expenses	11	(339)	(118)
Other expenses	13	(28)	(2)
OPERATING LOSS		**(1.175)**	**(1.023)**
Income tax		(2)	(22)
NET LOSS		**(1.177)**	**(1.045)**

In Podgorica,

10 April 2017

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 2016
(In thousands EUR)

	Note	31 December 2016	31 December 2015
ASSETS			
Monetary assets and deposit accounts with central banks	2.7; 15	3.140	1.437
Loans and advances to banks	2.8; 16	1.149	4.412
Loans and advancess to customers	2.8; 17	32.600	2.484
Investment securities	2.8; 18	2.235	3.706
- available for sale	2.8b); 18	2.235	2.064
- held to maturity		-	1.642
Property, plants and equipment	2.9; 19	398	514
Intangible assets	2.11; 20	701	669
Other financial receivables	21	16	5
Other operating receivables	22	15	13
TOTAL ASSETS		**40.254**	**13.240**
LIABILITIES			
Customer deposits	23	10.683	701
Borrowings from banks	2.12; 24	21.533	3.400
Provisions	25	5	-
Current tax liabilities	26	2	-
Deferred tax liabilities	2.6; 27	34	26
Other liabilities	28	86	113
TOTAL LIABILITIES		**32.343**	**4.240**
EQUITY	2.14; 29		
Share capital		10.000	10.000
Other reserves		133	45
Retained losses		(1.045)	-
Loss for the year		(1.177)	(1.045)
TOTAL EQUITY		**7.911**	**9.000**
TOTAL EQUITY AND LIABILITIES		**40.254**	**13.240**
OFF BALANCE ITEMS	30	**24.497**	**3.376**

In Podgorica,
10 April 2017

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 2016
(In thousands EUR)

In thousands EUR	**Share capital**	**Other reserves**	**Accumulated loss**	**Total**
Balance, 1 January 2015	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
Balance, 1 January 2016	10.000	45	(1.045)	9.000
Share capital	-	-	-	-
The effects of changes in the value of securities available for sale	-	88	-	88
Loss for the year	-	-	(1.177)	(1.177)
Balance, 31 December 2016	10.000	133	(2.222)	7.911

In Podgorica,

10 April 2017

Jelena Božović
Head of Accounting
Reporting and Budgeting Department

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Chief Executive Officer

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Executive Director

STATEMENT ON CASH FLOW
In the period from 1 January to 31 December 2016
(In thousands EUR)

	2016.	2015.
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from interest and similar income	672	48
Outflows based on interest similar expenses	(129)	(1)
Inflows from fees and commissions	61	15
Outflows based on fees and commissions	(46)	(87)
Outflows based on the earnings of employees and expenses for suppliers	(1.568)	(810)
Increase of loans and other assets	(30.004)	(2.490)
Inflows based on deposits	9.928	701
Net cash (outflows) from operating activities	(21.086)	(2.624)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(11)	(562)
Purchase of intangible assets	(245)	(739)
Treasury bills and bonds	1.690	(3.636)
Net cash inflows/(outflows) from investing activities	1.434	(4.937)
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in borrowings	18.100	3.400
Issuance of ordinary shares	-	10.000
Net cash inflows from financing activities	18.100	13.400
Effect of foreign exchange on cash and cash equivalents	2	-
Net decrease in cash and cash equivalents	(1.550)	(4.161)
Cash and cash equivalents at the beginning of period	5.839	10.000
Cash and cash equivalents at the end of period	4.289	5.839

In Podgorica,

10 April 2017

Jelena Božović
Head of Accounting
Reporting and Budgeting Department

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Chief Executive Officer

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Executive Director

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 2016 the Bank had 30 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.
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 ("Official Gazette of Montenegro", no. 52/16) 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 cannot 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 Accounting Law of Montenegro and in accordance with the Central Bank of Montenegro related to the financial reports of banks 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. Summary of Significant 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 and 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 resulted financial instrument and they 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 (continued)

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. Summary of Significant 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 cannot 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.

Deferred 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 are 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 /73/15, 33/16) gives, at the same time, a possibility to the banks to hold up to 25% 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% 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 EONIA reduced by 10 basis points on an annual basis, provided that this rate cannot be less than zero. The Bank did not achieve the revenue on this basis during 2016.

2. Summary of Significant 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. Summary of Significant 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.

The Bank quarterly 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.

For partly recoverable placements, reservations of the amount of loss of impairments are formed. Reservations for identified losses for balance sheet assets are formed as the expense of the Bank's expenses and express in the form of impairment.

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. Summary of Significant Accounting Policies (continued)

2.8 Financial instruments (continued)

e) Impairments of loans and advances

Central Bank of Montenegro adopted the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" no. 22/12, 55/12/, and 57/13), which was implemented from January 1st, 2013, and which involves the application of International financial reporting standards in the evaluation and disclosure of off-balance items of assets and off-balance sheet items. Pursuant to that decision, the Bank has established methodology for assessment of the impairment of balance sheet assets and possible losses on off-balance sheet items. The Bank has consistently applied the methodology, review at least once a year and if necessary adjusts the results of the review, as well as adopt the assumptions on which the methodology is based.

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 includes 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.

2. Summary of Significant Accounting Policies (continued)

2.8 Financial instruments (continued)

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.

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:

	Years
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 cash flow and carrying amount and are recognized in the income statement.

2. Summary of Significant 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 of 4 years.

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.

2.13 Offsetting financial instruments

Financial assets and liabilities are set-off and the difference between their amounts 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. Summary of Significant 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. Summary of Significant Accounting Policies (continued)

2.16 Transactions with related parties

Related parties are parties that represent:

- Members of the Bank, shareholders, bank employees, as well as members of their immediate family (spouse and children),
- Legal entity in which a person who has a qualified participation in the Bank also has a qualified participation,
- Legal entity in which one of the persons from line 1 and 2 has a significant impact or the person from line 1 director or the board of directors or any other relevant organ of a legal person,
- Person who has an interest in the capital or voting right of at least 50% of the legal entity that has qualified participation in the Bank;

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 Key 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 is 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 EUR '000 unless otherwise stated)

2. Summary of Significant 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

	2016	**2015**
Interest income		
Current assets – Cash	6	14
Loans and advances to customers	815	3
Securities	50	25
Other	45	18
Total interest income	**916**	**60**
Interest expense		
Loans from banks	(157)	(1)
Deposits	(58)	-
Total interest expense	**(215)**	**(1)**
Net interest income	**701**	**59**

	2016	**2015**
Interest income		
Banks	6	14
State	200	25
Units of local government	25	-
Companies	633	2
Natural persons	7	1
Other	45	18
Total interest income	**916**	**60**
Interest expense		
Banks	(157)	(1)
Legal entities	(57)	-
Natural entities	(1)	-
Total interest expense	**(215)**	**(1)**
Net interest income	**701**	**59**

(All amounts are shown in EUR '000 unless otherwise stated)

4. Impairment expenses

	2016	2015
Impairment based on loans (Note 13)	**(18)**	**(2)**
Total impairment based on balance positions	**(18)**	**(2)**

Changes in allowance for losses and provisions during 2016 were as follows:

	Loans 2016	Loans 2015
Balance on the day of 01.01.	2	-
The increase in reserves	18	2
Release of reserves	-	-
Balance on the day of 31.12.	**20**	**2**

5. Provision expenses

	2016	2015
Provisions for undrawn loan commitments	**(2)**	-
Provision for garantee	**(3)**	-
Total impairment in balance sheet positions	**(5)**	-

	2016	2015
Balance on the day of 01.01.	-	-
The increase in reserves	5	-
Release of reserves	-	-
Balance on the day of 31.12.	**5**	-

(All amounts are shown in EUR '000 unless otherwise stated)

6. Fee and commission income and expense

	2016	2015
Fee income		
Fees for provided services	89	9
Total fee income	89	9
Fee expense		
Payment system	(21)	(14)
Other	(25)	(51)
Total fee expense	**(46)**	**(65)**
Net fee/(expenses) income	**43**	**(56)**

7. Net profit / loss of investment securities

During 2016 the Bank sold a part of bonds of Republic of Turkey (EUR 900 thousand, nominal value of bonds) and achieved a net profit from the sale in the amount of 26 thousand EUR.

8. Net gains/losses on foreign exchange differences

Net gains from foreign exchange differences amounted to EUR 2 thousand, and represents the difference between the exchange rate gains in the amount of EUR 6 thousand and foreign exchange losses in the amount of 4 thousand EUR.

9. Employee expenses

	2016	2015
Net salaries expenses	480	254
Taxes, surtaxes and contributions	353	193
Fees for the members of the Board of Directors and Audit Committee	91	29
Taxes, surtaxes and contributions for Boards of Directors and Audit Committees	13	5
Travel expenses and per diems	18	1
Employee training	1	1
Other expenses	-	1
Total	**956**	**484**

(All amounts are shown in EUR '000 unless otherwise stated)

10. General and administrative expenses

	2016	2015
Renting expenses	132	66
Repairs expenses	-	2
Security expenses	37	28
Electricity expenses	15	6
Cleaning expenses	14	6
Computers and equipment maintenance expenses	170	97
Vehicles maintenance expenses	2	1
Insurance expenses	5	2
External controls expenses	103	96
Other professional fees	4	6
Legal services expenses	-	1
Expenses related to securities	-	32
Accommodation expenses	-	1
Telephone expenses	8	2
Communication networks expenses	42	22
Stationary expenses	3	4
Subscriptions and donations	2	1
Representation expenses	24	12
Fuel expenses	6	4
Consumables expenses	-	1
Printing and copying expenses	-	1
Advertising and marketing expenses	9	-
Water expenses	1	-
Membership fees	16	4
Postage expenses	1	-
Various expenses	7	3
Total	**601**	**398**

11. Depreciation

	2016	2015
Property, plant and equipment (Note 19)	127	48
Intangible assets (Note 20)	212	70
Total	**339**	**118**

(All amounts are shown in EUR '000 unless otherwise stated)

12. Loss per share

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

	2016	2015
The loss borne by shareholders	(1.177)	(1.045)
The weighted average number of ordinary shares in issue during the year	10.000	10.000
Basic loss per share (expressed in EUR per share)	**(117,7)**	**(104,5)**

13. Other expenses

	2016	2015
Value added taxes expenses	(13)	-
Costs of tax after deduction	(12)	-
Local communal taxes	(2)	(2)
Expense - Write-off of fixed assets	(1)	-
Total	**(28)**	**(2)**

14. Income tax

	2016	2015
Accrued current tax	2	-
Deferred tax (expense)	-	22
Total	2	22

Income tax of the Bank differs from the theoretical amount that would arise using the average tax rate, is calculated as follows:

Current tax	**2016**	**2015**
Loss per income statement before taxation	(1.175)	(1.023)
Tax rate	9%	9%
Tax at the rate of 9%	(107)	(92)
Tax effect of unrecognized expenses and income, net	2	22
Unrecognized deferred tax assets from the tax loss	105	114
Tax effects of capital gains	2	-
Tax expense for the period	**2**	**-**
The tax effect of temporary differences		
The tax effect of temporary differences related to fixed assets and intangible investments	(1)	22
Deferred tax income / (expense)	**(1)**	**22**
Total	**2**	**22**

(All amounts are shown in EUR '000 unless otherwise stated)

15. Cash and deposit accounts with depository institutions

	2016	2015
Cash and non-interest deposit accounts		
Cash		
Vault cash	514	92
Reserve requirement with the Central Bank of Montenegro	1.220	63
Current account with the Central Bank of Montenegro	1.406	1.282
Total cash	**3.140**	**1.437**
Non-interest bearing deposit accounts CBM		
Reserve requirement with the Central Bank of Montenegro	915	54
Total non-interest bearing deposit accounts	915	54
Interest bearing deposits with the Central Bank		
Reserve requirement with the Central Bank of Montenegro	305	9
Total interest-bearing deposit accounts	**305**	**9**
Total reserve requirement with the Central Bank of Montenegro	**1.220**	**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.

16. Loans and receivables with banks

	2016	2015
Correspondent accounts with foreign banks	1.149	402
Term deposits with banks and other depository institutions abroad	-	4.000
Interest receivable at term deposits	-	10
Total	**1.149**	**4.412**

a) On 31 December 2016 the Bank had deposited funds in foreign currency accounts with the following banks:

	2016	2015
TC ZIRAAT BANK	79	331
KBC BANK NV	1.070	71
Total	**1.149**	**402**

(All amounts are shown in EUR '000 unless otherwise stated)

17. Loans and receivables with customers

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

	2016	2015
Loans to legal entities	**32.169**	**2.440**
Short-term loans based on the same segments	19.455	1.871
Long-term loans based on the same segments	12.174	569
Loans to natural persons	**332**	**50**
Short-term loans to natural persons	37	39
Long-term loans to natural persons	295	11
Total	**32.501**	**2.490**
Receivables for interest and fees	128	(4)
Accrued fees Off Balance Sheet	(9)	
Value adjustments of loans to non-financial sector	(20)	(2)
Total	**32.600**	**2.484**

Short-term loans were mostly granted to private companies and the government of Montenegro. Loans were approved for a period from one month to one year with interest rate from 3.5% to 7.50% per annum.

Long-term loans are mostly granted for permanent working capital, investment loans and purpose loans. The loans are usually granted for a period from 13 months to 20 years, with a fixed interest rate of 4% to 7,25% and at the variable interest rate of 6MEURIBOR + 4,2% or 6,2% on an annual basis.

Short-term loans granted to natural persons are mostly granted cash loans and overdraft loans. Loans were granted for a period of one month to one year, with an interest rate of 6.9% to 12% on an annual basis.

Long-term loans granted to natural persons were related to cash loans and housing loans. Loans were granted for a period of 13 months to 20 years, with an interest rate of 4.5% to 7.75%.

18. Investment securities

Structure by type of financial asset:

	2016	2015
Available for sale	**2.234**	**2.064**
Turkey Government bonds	1.107	2.064
Montenegro Government bonds	1.128	-
Held to maturity	**-**	**1.642**
Montenegro Government bonds	-	1.642
Total	**2.235**	**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 2.235 thousand EUR.

(All amounts are shown in EUR '000 unless otherwise stated)

18. Investment securities (continued)

Details and the book value of investments in securities that are available for sale on 31 December 2016 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%	990	32	70	60	1.107
Government bonds of Montenegro ISIN XS1377508996	29.03.2016	10.03.2021	5.99%	1,000	(9)	47	90	1.128
Total value of trade				**1,990**	**23**	**117**	**150**	**2.235**

During 2016 was realized the sale of part of the Turkish Government bonds ISIN XS1057340009 total nominal value of EUR 900 thousand. State bonds of Montenegro ISIN XS0614700424 which in 2015 was held to maturity are fully matured. In 2016 it was invested in a new state of Montenegro Bonds ISIN XS1377508996 nominal value of 1.000 thousand EUR, and they are classified as available for sale.

(All amounts are shown in EUR '000 unless otherwise stated)

18. 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 EUR '000 unless otherwise stated)

19. Property, plant and equipment

	Equipment	Total
Purchase value		
Balance on 01.01.2016	562	562
New acquisitions	10	10
Balance on 31.12.2016	**572**	**572**
Adjustment of value		
Balance on 01.01.2016.	48	48
Current charges	126	126
Balance on 31.12.2016.	**174**	**174**
Carrying value 31.12.2016	**398**	**398**
Carrying value 31.12. 2015.	**514**	**514**

20. Intangible investments

	Intangible assets	Total
Acquisition cost		
Balance on 01.01.2016.	739	739
New acquisitions	245	245
Balance on 31.12.2016.	**984**	**984**
Adjustment of value		
Balance on 01.01.2016.	(70)	(70)
Current charges	(213)	(212)
Balance on 31.12.2016.	**(283)**	**(282)**
Current value 31.12.2016	**701**	**702**
Current value 31.12. 2015	**669**	**669**

21. Other financial receivables

	2016	2015
Advance payments	5	5
Other receivables from fees and commissions	8	-
Maternity benefits	3	-
Total other financial receivables	**16**	**5**

22. Other operating receivables

	2016	2015
Other operating receivables	-	1
Prepaid expenses	15	12
Total other operating receivables	**15**	**13**

(All amounts are shown in EUR '000 unless otherwise stated)

23. Customer deposits

	2016	2015
Non-interest bearing deposits	-	701
Interest bearing deposits	10.628	-
Accrued interest on deposits	55	-
Total	**10.683**	**701**

a) Non-interest bearing

A vista deposits	2016	2015
Business organizations in private ownership	1.593	168
Entrepreneurs	9	1
Natural persons, residents	121	38
Natural persons, non-residents	459	494
Non-profit organizations	11	-
Total a vista deposits	**2.193**	**701**

Term deposits	2016	2015
State funds	2.000	-
Privately owned Business Companies	6.300	-
Natural persons, non-residents	135	-
Total term deposits	**8.435**	**-**

24. Borrowings from banks

	2016	2015
Borrowings from banks	21.500	3.400
Calculated interest cost on borrowings	33	-
Total	**21.533**	**3.400**

a) Borrowing structure from banks:

	2016	2015
Ziraat Bank International AG	4.000	-
Ziraat Bank London	15.500	-
Ziraat Bank Bosnia	-	1.400
Bulgaristan Sube Yoneticilig	2.000	2.000
Total	**21.500**	**3.400**

(All amounts are shown in EUR '000 unless otherwise stated)

24. Borrowings from banks (continued)

The structure of borrowed funds from banks is given on date 31.12.2016 in the following table:

Name of the Bank	Currency date	Maturity Date	Interest rate	Currency	Amount
Ziraat Bank International AG	27.12.2016	27.1.2017	2%	EUR	1.000
Ziraat Bank International AG	23.12.2016	23.3.2017	2,3%	EUR	3.000
Ziraat Bank London	12.12.2016	12.1.2017	1%	EUR	2.500
Ziraat Bank London	19.12.2016	19.1.2017	1%	EUR	1.000
Ziraat Bank London	23.12.2016	23.1.2017	1,2%	EUR	7.000
Ziraat Bank London	21.12.2016	23.1.2017	1%	EUR	2.000
Ziraat Bank London	15.7.2016	17.7.2017	1.8%	EUR	3.000
Bulgaristan Sube Yoneticilig	7.12.2016	9.1.2017	1%	EUR	2.000
Total					**21.500**

25. Provisions

Reserves as of 31 December 2016 amounted to EUR 5 thousand and are related to the reserves for losses on off-balance sheet assets.

26. Current income tax liabilities

Current tax liabilities, as of 31 December 2016 amounted to 2 thousand EUR and are related to the tax calculated from the sale of securities.

27. Deferred tax liabilities

Deferred tax liabilities as of 31.12.2016 amount to 34thousand EUR. To deferred tax expense relates 21 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 13 thousand euros relates to deferred tax liabilities based on securities available for sale (at the date of 31.12.2015 deferred tax liabilities amounted to 26 thousand EUR) (Note 24).

28. Other liabilities

	2016	2015
Demarcated accrued expenses	29	24
Liabilities to suppliers	51	86
Other liabilities	6	3
Total	**86**	**113**

(All amounts are shown in EUR '000 unless otherwise stated)

29. Equity

	2016	2015
Share equity	10.000	10.000
Other reserves	133	45
Accumulated loss	(1.045)	
Loss for the period	(1.177)	(1.045)
Total	**7.911**	**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 2016 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 2016 and 2015 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 EUR '000 unless otherwise stated)

29. Equity (continued)

a) Other reserves consist of:

	2016	2015
Revaluation reserves	133	45
Total	**133**	**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 133 thousand euros is related to the change in fair value of debt financial instruments of the Bank.

Changes in the revaluation reserve in 2016, presented in the Statement of changes in equity, were as follows:

	Debt securities
Balance 01.01.	45
Change of fair value	146
Deferred tax	(13)
Balance 31.12.2016	**133**

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

(All amounts are shown in EUR '000 unless otherwise stated)

30. Off-balance sheet records

	2016	2015
Risk weighted off-balance sheet assets		
Letter of credit	800	
Given guaranties	1.034	
Commitments arising from approved loans	1.854	1
Total risk weighted off-balance sheet assets	3.688	1
Other off-balance sheet assets		
Other off-balance sheet exposures of the Bank	21.259	3.375
Total off-balance sheet assets	21.259	3.375
Total off-balance sheet records	**24.947**	**3.376**

a) Other off-balance sheet items

Other off-balance sheet items are related to the received means of insurance in the amount of 21.259 thousand euros.

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

	2016	2015
Property	3.275	1.068
Other	17.984	2.307
Total	**21.259**	**3.375**

Other means of insurance are given in the following table:

	2016	2015
Received collaterals – Bill of Exchange FL	5	11
Received collaterals - Pledge PL	615	200
Received collaterals – Administrative ban FL	5	11
Received collaterals – Bank guarantee PL	16.160	1.830
Received collaterals - Insurance policy real estate PL	-	255
Received collaterals- Assignment	1.200	
Total	**17.985**	**2.307**

31. Transactions 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 31.12.2016 and related expense and income in the income statement are shown in the following table:

(All amounts are shown in EUR '000 unless otherwise stated)

31. Relations with related parties (continued)

31.12.2016	Ziraat Bankasi	Ziraat London	Ziraat AG Frankfurt	Ziraat Sofia	Related natural persons	Total
Receivables						
Foreign currency accounts	79	-		-	-	79
Term deposit with banks			-	-	-	
Approved loans	-	-	-	-	128	128
Total receivables	**79**	**-**	**-**	**-**	**128**	**207**
Liabilities						
Received loans	-	15.500	4.000	2.000	-	21.500
Total liabilities	**-**	**15.500**	**4.000**	**2.000**	**-**	**21.500**

During 2016, 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 16 and 24.

	Ziraat Bankasi	Ziraat Bank Bosnia	Ziraat New York	Ziraat London	Ziraat AG Frankfurt	Ziraat Sofia	Related natural persons	Total
Income								
Interest income	-	-	-	-	-	-	3	3
Total income	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**
Expenses								
Interest expenses	-	8	10	101	27	11	-	157
Total expenses	**-**	**8**	**10**	**101**	**27**	**11**	**-**	**157**

(All amounts are shown in EUR '000 unless otherwise stated)

31. Relations with related parties (continued)

31.12.2015	Ziraat Katilim Bankasi	Ziraat Bankasi Atina Yunanistan Subesi	Ziraat Bankasi	Ziraat Bank Bosnia	Bulgaristan Sube Yoneticilig	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 16 and 24.

	Ziraat Katilim Bankasi	Ziraat Bankasi Atina Yunanistan Subesi	Ziraat Bank Bosnia	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 EUR '000 unless otherwise stated)

31. Relations with related persons (continued)

Calculated personal income for related individuals, by type of income, in 2016 amounted to:

	Bank Management	Key Management	Board members	Total
Salaries and other short-term benefits	178	292	-	470
The fee for membership in committees	-	-	77	77
Total	**178**	**292**	**77**	**547**

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**

32. Risk management

32.1. 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 2.235 thousand euros. On 31.12.2016 most of the portfolio of debt securities relates to Ministry of finance of Montenegro in the amount of 1.128 thousand EUR, which are classified as available for sale. Also, the Bank in its portfolio has securities issued by the Ministry of Finance of the Republic of Turkey in the amount of 1.107 thousand euros, which are classified as available for sale.

Based on the monitoring and measurement of key indicators of liquidity (daily and decadal liquidity ratio), the coefficients indicate that the Bank during 2016 did not have a problem with liquidity, and that all coefficients were above the prescribed by the Central Bank of Montenegro. Daily liquidity ratio at the date of 31.12.2016 amounted to 3.97, while minimal value of this ratio defined by the decision of the Central Bank amounted 0.9.

The Bank's liquidity is strongly supported by the mother bank, which provides loans or overnight deposits in case of need for liquid assets. Also, the Bank has defined and adopted *Plan for the management of liquidity in the cases of the endangered liquidity or unforeseen circumstances*, by which are clearly defined duties, tasks and holders of tasks to be carried out in the case of vulnerable liquidity of the Bank.

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.

Due to the fact that the Bank began operations in the second half of 2015, has not yet developed a methodology for establishing a stable level of demand deposits. This requires data series of minimum several years, therefore the Bank at this moment all demand deposits classifies in column from 1 to 7 days. Term deposits are classified according to the scales of maturity in relation to the fixed terms of maturity.

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk management (continued)

The maturity structures of assets and liabilities as of 31.12.2016 are presented as follows.

	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Over 5 years	Total
Assets									
Cash and deposit accounts with depository institutions	4,289	-		-	-	-	-	-	**4,289**
Loans and other receivables	32	10	25	4,839	13,356	2,065	10,979	1,195	**32,501**
Securities available for sale	2,235	-	-	-	-	-	-	-	**2,235**
Other liabilities	13		-	-	-	3	-	-	16
Total	**6,569**	**10**	**25**	**4,839**	**13,356**	**2,068**	**10,979**	**1,195**	**39,041**
Liabilities	2,247	-	-	850	4,500	3,030	55	**-**	**10,682**
Deposits	-	4,501	11,005	3,002	-	3,025	-	**-**	**21,533**
Liabilities based on loans and other borrowings	-	83	-	2	-	2	34	**-**	**121**
Total	**2,247**	**4,584**	**11,005**	**3,854**	**4,500**	**6,057**	**89**	**-**	**32,336**
Maturity Gap (1)- (2)	**4,322**	**(4,574)**	**(10,980)**	**985**	**8,856**	**(3,989)**	**10,708**	**1,195**	**6,705**
Cumulative Gap	**4,322**	**(252)**	**(11,232)**	**10,247**	**(1,391)**	**(5,380)**	**5,510**	**6,705**	
% of total sources of funds	**13.4%**	**-0.8%**	**-34.7%**	**-31.7%**	**-4.3%**	**-16.6%**	**17.0%**	**20.7%**	

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk management (continued)

	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%**	

32. Risk Management (continued)

32.2 The risk of changes in interest rates

The risk of changes of interest rate cash flows represents risk of future cash flows of financial instruments that will fluctuate due to changes in interest rates on market.

Interest rate fair values risk represents risk that the value of financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations of interest rates in the market and based on the risk of interest rate changes on cash flows.

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. As a consequence of these changes it can bring to increase of interest rate structures; however, they can decrease income or result in loss in case of unexpected fluctuation. Interest rates are based on market interest rates, therefore Bank regularly performs repricing.

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.

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 31.12.2016 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.

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk Management (continued)

32.2 The risk of changes in interest rates (continued)

On 31 December 2016	1-30 days	31-90 days	91-180 days	181-365 days	over 1 year	**Total**
Sensitive assets						
Interest-bearing deposits in other institutions	305	-	-	-	-	**305**
Interest bearing securities	2.235	-	-	-	-	**2.235**
Loans and receivables from clients	56	4.817	14.519	1.923	11.186	**32.501**
Total	**2.596**	**4.817**	**14.519**	**1.923**	**11.186**	**35.041**
% of total interest-bearing assets	**7,41%**	**13,75%**	**41,43%**	**5,49%**	**31,92%**	**100,00%**
Sensitive liabilities						
Interest-bearing deposits of customers	2.193	850	4.500	3.030	55	**10.628**
Interest-bearing borrowings from banks	15.500	3.000	-	3.000	-	**21.500**
Total	**17.693**	**3.850**	**4.500**	**6.030**	**55**	**32.128**
% of total interest-bearing liabilities	**55,07%**	**11,98%**	**14,01%**	**18,77%**	**0,17%**	**100,00%**
Gap	**-15.097**	**-967**	**10.019**	**-4.107**	**11.131**	**2.913**
Cumulative Gap	**-15.097**	**-14.130**	**-4.111**	**-8.218**	**2.913**	
Cumulative Gap / Total assets %	**-37,50%**	**35,10%**	**-10,21%**	**20,42%**	**7,24%**	

(All amounts are shown in EUR ‘000 unless otherwise stated)

32. Risk Management (continued)

32.3 The risk of changes in interest rates (continued)

The Bank's exposure to interest rate risk on 31.12.2015 is shown in the following table.

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%**	

32. Risk Management (continued)

32.3 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 31.12.2016 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	38	-100 bp	(38)

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)

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk Management (continued)

32.4 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.

Overview of the Bank's exposure foreign currency risk on the basis of assets and liabilities in foreign currencies is given in the following table:

I	Long positions	RSD	USD	GBP	CHF	Other	Total
1.	Foreign currency assets		14				**14**
	Total	**0**	**14**	**0**	**0**	**0**	**14**

II	Short positions	RSD	USD	GBP	CHF	Other	Total
1.	Liabilities in foreign currencies		37				**37**
	Total	**0**	**37**	**0**	**0**	**0**	**37**

III	Net positions	RSD	USD	GBP	CHF	Other
1.	**NET LONG (SHORT) POSITIONS (I) - (II)**	**0**	**-23**	**0**	**0**	**0**
2.	**% of core capital**	**0%**	**0%**	**0%**	**0%**	**0%**
IV	**Aggregate state in all foreign currencies**	**-23**				
	% of core capital	**-0,32%**				

The bank has a small exposure to foreign currency risk, given the fact that as of 31 December 2016, the Bank had foreign exchange funds in USD in the amount of 14 thousands and liabilities in the same currency of 37 thousand, resulting in a net short position in the amount of 23 thousands. Based on the above, the Bank was not obliged to allocate capital based on cover of exposure to foreign exchange risk, whereas the net foreign currency position is less than 2% of their own funds (at the date of 31.12.2016. amounted 0,32% of its own funds). All other positions of financial assets and obligations were in EUR (31.12.2015 USD 4 thousand).

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk Management (continued)

32.4 The risks of changes in foreign currency exchange rate (continued)

Managing exposure to foreign currency risk, in addition to analysis of receivables and liabilities of the foreign currency, includes a analysis of sensitivity on the changes in an exchange rate. In the table below is the scenario for the changes in the exchange rate in the range from + 10% to - 10% related to EUR:

	Total	Amount in foreign currencies	+10%	-10%
Assets				
Cash assets and deposit accounts with central banks	3.140	14	1	-1
Loans and advances to banks	1.149	0	0	0
Loans and advances to clients	32.600	0	0	0
Securities available for sale	2.235	0	0	0
Other assets	1.131	0	0	0
Total assets	**40.254**	**14**	**1**	**-1**
Liabilities				
Deposits from banks	0	0	0	0
Deposits from clients	10.683	37	4	-4
Borrowings from banks	21.533	0	0	0
Reserves	5	0	0	0
Other liabilities	122	0	0	0
Total Liabilities	**32.342**	**37**	**4**	**-4**
Net exposure to foreign currency risk:				
- 31. December 2016			**(3)**	**(3)**

At the date of 31. december 2016 , assuming that all other parameters remained the same, changing the exchange rate of EUR in relation to other currencies of + 10% and - 10%, the profit of the Bank shall be increased or reduced for the amount of 3 thousand EUR. The cause of small Bank's exposure to change of exchange rate is the fact that most of the receivables and liabilities are denominated in EUR.

32. Risk Management (continued)

32.5 Credit risk

Credit risk exposure is risk of financial loss resulted from the inability to fulfill its contractual obligation to the Bank. The Bank manages the credit risk by placing limits in relation to large loans, single borrowers and related parties. Such risks are continuously monitored and they are subject of inspection, which is conducted at least once a year. Credit risk is managed, at the level of individual loans and as well at the level of the overall portfolio. The exposure to any borrower, including other banks and financial institutions, is further restricted by the limit determined in relation to balance sheet and off-balance sheet exposure. Actual exposure against limits is monitored regularly.

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 by geographical regions and etc.

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 its operations, the Bank seeks to do business with clients of good credit creditworthiness, in order to reduce as much as possible exposure to credit risk which is the risk that a counterparty will be unable to fulfill obligations towards the Bank in full and on time. When making decision on approval of credit changes in the economy are taken into account, or conditions in certain industries that form part of the Bank's loan portfolio, which may result in losses that differ from the losses on which basis is provided reservation at the balance sheet date. In order to more efficient credit risk managing, the bank prepares stress scenarios of credit risk, where shall be observed the effect of weakening the quality of the loan portfolio to the liquidity, profitability and capital adequacy of the bank.

32. Risk Management (continued)

32.5 Credit risk (continued)

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.

As for the Bank's activities related to the approval guarantee and letter of credits which represents off-balance sheet expose.

The rating of creditworthiness was the basis for the approval of each placement, defined maximal amount of debt (limit). The Bank has assessed 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 the assumed risk by the classification of placements and contingent liabilities of the Bank. Before approving loans and other placements, the Bank assesses the debtor's creditworthiness, taking into account the criteria established by the internal banking act, as well as the legal validity of the estimated value of collateral.

Credit risk mitigation involves maintaining an acceptable level of risk of the Bank, or maintaining an acceptable loan portfolio. Mitigating credit risk is carried out through contracting of adequate collateral obligations. Collateral value is calculated as its net value, by which is meant the market value net diminished of all costs related to the realization of collateral. Types of collateral are:

· Deposits;
· Lien on industrial machinery, securities, stocks and vehicles;
· Real estate mortgages;
· Bills (corporate and personal);
· Authorization for payment from the account;
· Administrative ban;
· Guarantors (for loans granted to natural persons);
· Insurance policies;
· Bank guarantee.

After the assessment of the financial condition and credit worthiness of the debtor, as well as a review of the valuables and legal security of credit protection and other relevant factors, Credit management department determines the classification of the debtors as a measure of the expected credit risk, verifies internal rating, and gives his opinion on the justification of taking risk identified.

The analysis of credit risk is given in the following overviews.

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk Management (continued)

32.5 Credit risk (continued)

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

	2016
	Maximum exposure to credit risk
Loans to natural persons	**333**
-housing loans	170
- consumer loans	163
Loans to legal entities	**32.168**
-loans to legal entities	32.168
Total loans	**32.501**
Securities available for sale	2.235
Securities held to maturity	-
Total	**34.736**

	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**

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk Management (continued)

32.5 Credit risk (continued)

				2016
Sectoral loan analysis	**Gross loans**	**Value adjustments**	**Net loans**	**%**
Manufacturing	3.435	-	3.435	10,58%
Building and Construction	1.642	(7)	1.635	5,03%
Wholesale and retail	1.111	(6)	1.105	3,40%
State administration	13.030	(6)	13.024	40,10%
Natural persons residents	274	-	273	0,84%
Non-residents - legal and natural persons	13.009	-	13.009	40,05%
Total	**32.501**	**(19)**	**32.481**	**100%**

				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%**

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk management (continued)
32.5 Credit risk (continued)

					2016
Credit internal rating system	**Loan balance**	**Amount of the adjusted value**	**% of loan**	**% of reserve**	**Loan balance**
Credit rating group A	31.651	(20)	97,38%	100%	31.631
Credit rating group B1	600	-	1,85%	0%	600
Credit rating group B2	250	-	0,77%	0%	250
Total	**32.501**	**(20)**	**100%**	**100%**	**32.481**

					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**

	2016
	Loans
Loans that are not past due and for which the adjusted values were not calculated	27.966
Loans that are past due and for which the adjusted value were not calculated	-
Loans for which adjusted values were calculated	4.535
Gross loans	**32.501**
Less: Adjustment of value	(20)
Net loans	**32.481**

	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**

(All amounts are shown in EUR '000 unless otherwise stated)

32. Risk management (continued)
32.5 Credit risk (continued)

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

	2016
	Loan balance
Loans to natural persons	**40**
- consumer loans	-
-housing loans	40
Loans to legal entities	**27.926**
- loans to legal entities	27.926
Total	**27.966**

	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:

	2016	**2015**
Loans to legal entities		
- loans to large enterprises	157	360
Total	**157**	**360**

Acquired assets based on collection

On 31.12.2016 the Bank has no acquired assets based on collection.

33. 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 100%.

Capital required for country risk is calculated using weights that range from 0% to 150%.On the day 31.12.2016 the Bank has allocated a significant amount of capital to cover the country risk exposure, due to the fact that the Bank has approved loans to certain legal and natural persons of the Republic of Turkey, as well as the fact that the Bank has in its portfolio securities issued by the Ministry of Finance of this country.

(All amounts are shown in EUR '000 unless otherwise stated)

33. Capital Management (continued)

Capital required to cover exposure to the operational risk is calculated using a simple method, in accordance with the Decision on capital adequacy of the banks. The basis for calculating capital requirements for the operational risk is the average of net interest and net non-interest revenues for the three previous consecutive business years. Capital required for the operational risk is calculated by multiplying the basis for calculating capital required for operational risk with a coefficient of 0, 15 and the resulting amount shall be increased by 25%.

In accordance with the regulations of the Central Bank Montenegro, the Bank is required to maintain a minimum capital adequacy ratio, expressed by solvency ratio of at least 10%. On the day 31.12.2016 the solvency ratio of the Bank amounted 30, 43% and is highly above the limit of 10% as determined by the Law on Banks.

The following table shows the structure of the total capital of the Bank as of 31.12.2016, as well as the capital adequacy ratio.

Core capital	**2016**	**2015**
Paid-up share capital at nominal value, excluding cumulative preferential shares	10.000	10.000
Reserves that are formed at the expense of profit after tax (legal, statutory and other)	133	45
Amount of the core capital	**10.133**	**10.045**
Deductions in the calculation of core capital		
Losses from current year	1.177	(1.045)
Intangible assets	702	(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	32	(9)
The amount of deductible items in the calculation of core capital	**2.956**	**(1.723)**
Own assets of the Bank	**7.177**	**8.322**
Credit risk weighted assets		
Weighted balance sheet assets	19.613	5.261
Weighted off-balance sheet assets	1.170	-
Total credit risk weighted assets	**20.783**	**5.261**
Required capital for market risks	-	-
Required capital for operational risk	67	3
Capital required for country risk	2.129	1.116
Required capital for other risks	-	-
Bank's solvency ratio	**30,43%**	**129,90%**

34. Litigation

On 31 December 2016 the Bank had no litigation processes.

35. 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 2016.

In Podgorica,

10 April 2017

Jelena Božović Head of Accounting Reporting and Budgeting Department	Mustafa Şenman Chief Executive Officer
	Goran Bakić Executive Director