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## TRANSLATION

### **Independent Auditors' Report**

TO THE SHAREHOLDERS

PRVA BANKA CRNE GORE A.D., PODGORICA – OSNOVANA 1901. GODINE

We have audited the accompanying separate financial statements of Prva Banka Crne Gore a.d., Podgorica – osnovana 1901. godine (“the Bank”), which comprise the balance sheet as at 31 December 2014, income statement, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the preparation and true and objective presentation of 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 qualified audit opinion.

*Basis for Qualified Opinion*

Assets received in lieu of debt settlement amounted to EUR 32,878 thousand as at 31 December 2014 and were recorded in the amount of unpaid principal, interest and other fees and taxes of the real-estate at the moment of obtaining the rights. In accordance with the regulations of Montenegro that regulate financial reporting of banks, based on an independent valuation, impairment losses were identified on certain assets. Fair value of these assets net of selling costs were lower than the carrying amount for EUR 1,153 thousand as at 31 December 2014 (EUR 1,595 thousand as at 31 December 2013). Our Independent Auditor' report for the previous year was qualified as well in respect of this matter.

The Bank recognizes income arising from loan approval fees, guarantee fees and other kinds of security fees, as well as fee expenses arising from loans and borrowings, when the service is provided and when the fees are due for payment, which is not in line with the requirements of regulations of Montenegro that regulate financial reporting of banks, after which these fees are treated and recognized as an integral part of the effective interest of a financial instrument. We were unable to determine the effects of the application of this treatment on the financial statements of the Bank for 2014. Our Independent Auditor' report for the previous year was qualified as well in respect of this matter.

Previously mentioned issues can affect the carrying amounts of net assets of the Bank, reported operating result for the period, as well as calculation of the Bank's own assets and the amounts of other indicators stipulated by Law on Banks and other relevant by-laws of Central bank of Montenegro, which are disclosed in Note 30.

*Qualified Opinion*

In our opinion, except for the effects and possible effects of the matter described in the Basis for Qualified Opinion, the financial statements present fairly and objectively, the non-consolidated financial position of the Bank as at 31 December 2014, and of its non-consolidated operating result and its non-consolidated cash flows for the year then ended, in accordance with the Law on Accounting and Auditing applicable in Montenegro and other relevant by-laws issued by the Central Bank of Montenegro governing financial reporting of Montenegrin banks.

*Emphasis of Matter*

Without further qualifying our opinion, we draw attention to Note 30 to these financial statements, stating that as at 31 December 2014, without the effects of the matters described in the *Basis for Qualified Opinion* part, indicators of exposures to an individual party or groups of related parties and exposures to the bank's related parties were not in compliance with limits prescribed by the Central Bank of Montenegro and limits prescribed by the applicable Law on Banks as at 31 December 2014 as well as at 31 December 2013.

Podgorica, 8 June 2015

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović  
*Certified Auditor*

*This is a translation of the original document issued in the Montenegrin language.  
All due care has been taken to produce a translation that is as faithful as possible to the original.  
However, if any questions arise related to interpretation of the information contained in the translation,  
the Montenegrin version of the document shall prevail.*

Podgorica, 8 June 2015



KPMG d.o.o. Podgorica



Branko Vojnović  
*Certified Auditor*

**PRVA BANKA CRNE GORE A.D., PODGORICA  
- OSNOVANA 1901. GODINE**

**FINANCIAL STATEMENTS FOR THE YEAR  
ENDED DECEMBER 31, 2014**

## **TRANSLATION**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**PRVA BANKA CRNE GORE A.D., PODGORICA –**  
**OSNOVANA 1901. GODINE**

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TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail

## TRANSLATION

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2014

PRVA BANKA CRNE GORE A.D., PODGORICA –  
OSNOVANA 1901. GODINE

### INCOME STATEMENT FOR THE PERIOD For the year ended December 31, 2014 (In 000 EUR)

| Description   | Note | AMOUNT           |                  |
|---|------|------------------|------------------|
|   |      | 31 December 2014 | 31 December 2013 |
| Interest income and similar income                    | 4    | 15,971           | 14,255           |
| Interest expense and similar expenses                 | 4    | (7,115)          | (7,882)          |
| <b>NET INTEREST INCOME</b>                            |      | <b>8,856</b>     | <b>6,374</b>     |
| Dividend income                                       |      | -                | 422              |
| Impairment losses                                     | 5    | (517)            | (1,173)          |
| Provisions  | 5    | (85)             | 300              |
| Fee and commission income                             | 6    | 4,137            | 4,111            |
| Fee and commission expenses                           | 6    | (2,171)          | (2,100)          |
| <b>NET FEE AND COMMISSION INCOME</b>                  |      | <b>1,966</b>     | <b>2,011</b>     |
| Net gains from financial instruments held for trading |      | 178              | -                |
| Net gains from investment securities                  |      | -                | 76               |
| Net gains/(losses) from exchange rate differences     |      | (42)             | 129              |
| Salaries and contributions expense                    | 9    | (4,147)          | (4,531)          |
| Overhead and administrative expenses                  | 10   | (5,075)          | (4,903)          |
| Depreciation expenses                                 |      | (742)            | (908)            |
| Other expenses  | 8    | (518)            | (709)            |
| Other income  | 7    | 649              | 3,363            |
| <b>OPERATING PROFIT BEFORE TAX</b>                    |      | <b>523</b>       | <b>451</b>       |
| Taxes from profit                                     | 11   | 22               | (17)             |
| <b>NET PROFIT</b>                                     |      | <b>545</b>       | <b>434</b>       |

The accompanying notes form an integral part of these financial statements.

Podgorica, 29 May 2015

Approved by and signed on behalf of Prva banka Crne Gore A.D., Podgorica – osnovana 1901. godine

Darko Radunović  
Chief Executive Officer

Nataša Martinović  
Executive Director for Risk Management and Support

**TRANSLATION**

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2014

PRVA BANKA CRNE GORE A.D., PODGORICA –  
OSNOVANA 1901. GODINE

**BALANCE SHEET**  
As of December 31, 2014  
(In 000 EUR)

| DESCRIPTION                                       | Note | AMOUNT           |                  |
|---|------|------------------|------------------|
|   |      | 31 December 2014 | 31 December 2013 |
| <b>ASSETS</b>                                     |      |                  |                  |
| Cash and deposit accounts held with central banks | 12   | 40,668           | 27,356           |
| Loans and receivables with banks                  | 13   | 11,228           | 5,851            |
| Loans and receivables with clients                | 14   | 171,509          | 169,029          |
| Assets held for sale                              | 21   | 5,434            | 8,906            |
| Financial assets held for trading                 | 18   | 293              | 294              |
| Investment securities – held to maturity          |      | 5,991            | 6,462            |
| Investments in subsidiaries                       | 19   | 3,252            | 3,252            |
| Property, plants and equipment                    | 17   | 1,547            | 2,021            |
| Intangible assets                                 | 23   | 143              | 37               |
| Deferred tax assets                               |      | 202              | 176              |
| Other financial receivables                       | 22   | 2,592            | 542              |
| Other operating receivables                       | 20   | 33,479           | 27,363           |
| <b>TOTAL ASSETS</b>                               |      | <b>276,338</b>   | <b>251,289</b>   |
| <b>LIABILITIES</b>                                |      |                  |                  |
| Deposits from banks                               | 24   | 1,520            | 1,508            |
| Deposits from clients                             | 25   | 221,634          | 203,652          |
| Borrowings from other clients                     | 26   | 1,605            | 2,380            |
| Reserves  | 29   | 309              | 204              |
| Other liabilities                                 | 28   | 9,650            | 3,348            |
| Subordinated debt                                 | 27   | 9,190            | 9,188            |
| <b>TOTAL LIABILITIES</b>                          |      | <b>243,908</b>   | <b>220,280</b>   |
| <b>EQUITY</b>                                     |      |                  |                  |
| Share capital                                     | 30   | 55,428           | 55,428           |
| Accumulated profit                                | 30   | (33,296)         | (34,172)         |
| Profit for the year                               | 30   | 545              | 434              |
| Other reserves                                    | 30   | 9,753            | 9,319            |
| <b>TOTAL EQUITY</b>                               |      | <b>32,430</b>    | <b>31,009</b>    |
| <b>TOTAL EQUITY AND LIABILITIES</b>               |      | <b>276,338</b>   | <b>251,289</b>   |

| DESCRIPTION                                      | Note | AMOUNT           |                  |
|--|------|------------------|------------------|
|  |      | 31 December 2014 | 31 December 2013 |
| <b>OFF-BALANCE ITEMS</b>                         |      |                  |                  |
| Irrevocable commitments for granting loans       |      | 3,843            | 3,772            |
| Guarantees                                       |      | 30,606           | 35,611           |
| Payment guarantees issued                        |      | 19,392           | 19,621           |
| Performance guarantees issued                    |      | 11,214           | 15,990           |
| Collateral based on receivables                  |      | 473,724          | 471,121          |
| Other items of bank's off-balance sheet exposure |      | 11,731           | 30,148           |
| <b>Total</b>                                     |      | <b>519,904</b>   | <b>540,652</b>   |
| <b>MEMORANDUM</b>                                |      |                  |                  |
| Evident interest                                 |      | 1,512            | 6,924            |

The accompanying notes form an integral part of these financial statements.

**TRANSLATION****NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2014**PRVA BANKA CRNE GORE A.D., PODGORICA –**  
**OSNOVANA 1901. GODINE****STATEMENT OF CHANGES IN EQUITY**  
For the year ended December 31, 2014  
(In 000 EUR)

|                               |   | Share capital | Other reserves | Accumulated losses | Total         |
|-------------------------------|---|---------------|----------------|--------------------|---------------|
| Changes in previous year      | As at 1 January 2013  | 55,428        | 9,319          | (34,486)           | 30,261        |
|                               | Profit for the year   | -             | -              | 434                | 434           |
|                               | Adjustments to accumulated profit/(losses) - transfer to internal records |               |                | 314                | 314           |
| <b>As at 31 December 2013</b> |   | <b>55,428</b> | <b>9,319</b>   | <b>(33,738)</b>    | <b>31,009</b> |
| Changes in current year       | Profit for the year   | -             | -              | 545                | 545           |
|                               | Transfer of previous year's result  | -             | 434            | (434)              | -             |
|                               | Adjustments to accumulated profit/(losses) - transfer to internal records | -             | -              | 876                | 876           |
| <b>As at 31 December 2014</b> |   | <b>55,428</b> | <b>9,753</b>   | <b>(32,751)</b>    | <b>32,430</b> |

The accompanying notes form an integral part of these financial statements.



**TRANSLATION**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2014PRVA BANKA CRNE GORE A.D., PODGORICA –  
OSNOVANA 1901. GODINE**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2014  
(In 000 EUR)

| DESCRIPTION  | Note | AMOUNT           |                  |
|--|------|------------------|------------------|
|  |      | 31 December 2014 | 31 December 2013 |
| <b>Cash flows from operating activities</b>                  |      |                  |                  |
| Inflows from interest and similar income                     |      | 10,969           | 14,195           |
| Outflows based on interest and similar expenses              |      | (7,476)          | (7,688)          |
| Inflows from fees and commissions                            |      | 4,061            | 4,042            |
| Outflows from fees and commissions                           |      | (2,171)          | (2,100)          |
| Outflows based on employee benefits and supplier costs       |      | (8,987)          | (9,713)          |
| Increase/(decrease) of loans and other assets                |      | (3,175)          | 3,943            |
| Inflows / outflows based on deposits and other liabilities   |      | 25,015           | 3,142            |
| Taxes paid   |      | (435)            | (340)            |
| Other inflows  |      | 1,595            | 2,473            |
| <b>Net cash inflows from operating activities</b>            |      | <b>19,396</b>    | <b>7,954</b>     |
| <b>Cash flows from investing activities</b>                  |      |                  |                  |
| Purchase of property and equipment                           |      | (219)            | (90)             |
| Purchase of intangible assets                                |      | (152)            | (20)             |
| Treasury bills   |      | 499              | (1,926)          |
| <b>Net cash inflow / (outflow) from investing activities</b> |      | <b>128</b>       | <b>(2,036)</b>   |
| <b>Cash flows from financing activities</b>                  |      |                  |                  |
| Increase in borrowings                                       |      | (775)            | (790)            |
| <b>Net cash outflows from financing activities</b>           |      | <b>(775)</b>     | <b>(790)</b>     |
| FX translation effects on cash and cash equivalents          |      | (41)             | 130              |
| <b>Net increase in cash and cash equivalents</b>             |      | <b>18,708</b>    | <b>5,258</b>     |
| Cash and cash equivalents at the beginning of period         |      | 33,170           | 27,912           |
| <b>Cash and cash equivalents at end of period</b>            |      | <b>51,878</b>    | <b>33,170</b>    |

The accompanying notes form an integral part of these financial statements.

## **TRANSLATION**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**PRVA BANKA CRNE GORE A.D., PODGORICA –**  
**OSNOVANA 1901. GODINE**

### **1. FOUNDATION AND BUSINESS ACTIVITY**

Prva banka Crne Gore A.D., Podgorica - osnovana 1901. godine (hereinafter: "the Bank") was established in 1901, and in 2002 was registered as a shareholding company at the Commercial Court in Podgorica. During 2002, after harmonization with the Companies Law, it was registered in the Central Registry of the Commercial Court in Podgorica - registration number 4-0000732/001.

The Bank was registered with the Commission for Securities in the Register of Security issuers, under registration number 02/3-2/2-01.

The Bank is a universal commercial bank.

In accordance with the Law on Banks and the Statute of the Bank, the Bank is engaged in the business of keeping deposits and other private individuals and legal entities funds and approving loans another placement, either entirely or partly from these funds, for its own account.

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

- to issue guaranties and undertake other off-balance sheet obligations;
- to purchase, sell and collect receivables;
- to issue, process and record payments instruments;
- to perform domestic and foreign payment transactions;
- to perform finance lease operations;
- to trade in foreign payment instruments, including money exchange and financial derivatives transaction in its own name and for its own account or for the account of its customer;
- to provide custody services;
- to perform analysis and provide information and advices on the creditworthiness of companies and entrepreneurs;
- depository operations;
- safekeeping services and
- to perform other operations in accordance with the approval of the Central Bank of Montenegro.

The Bank is headquartered in Podgorica and performs its activities through a network of branches (14), and counters (20), (December 31, 2013: 13 branches and 20 counters) in Podgorica, Danilovgrad, Nikšić, Kotor, Cetinje, Budva, Tivat, Bar, Herceg Novi, Ulcinj, Bijelo Polje, Pljevlja, Rožaje and Berane.

As of December 31, 2014, the Bank had 103 employees and 145 workers who were taken from the Employment Agency GI Group (2013: 107 employees and 124 workers who were taken from the Employment Agency GI Group).

The Bank is managed by its shareholders. The governing bodies of the Bank are the Shareholders Assembly and the Board of Directors, appointed by the Shareholders Assembly.

Members of the Board of Directors of the Bank at December 31, 2014:

| <b><u>Name and surname</u></b> | <b><u>Function</u></b> |
|--------------------------------|------------------------|
| Mrs. Neda Ivović               | President              |
| Mr. Srđa Kovačević             | Member                 |
| Mr. Milan Perović              | Member                 |
| Mr. Darko Radunović            | Member                 |
| Mr. Stefano Pastori            | Member                 |

## **TRANSLATION**

### **NOTES TO THE FINANCIAL STATEMENTS December 31, 2014**

**PRVA BANKA CRNE GORE A.D., PODGORICA –  
OSNOVANA 1901. GODINE**

Executive Directors of the Bank at December 31, 2014:

| <b><u>Name and surname</u></b> | <b><u>Key area</u></b>                                      |
|--------------------------------|---|
| Mr. Darko Radunović            | CEO   |
| Mrs. Nataša Martinović         | Executive director for risk management and business support |
| Mr. Milorad Pavlek             | Executive director for client relationship management       |

At December 31, 2014, Director of the Department for Compliance Monitoring is Milica Kovač.

At December 31, 2014, Internal Auditor is Žana Kasalica.

The members of the Audit Committee of the Bank at December 31, 2014:

| <b><u>Name and surname</u></b> | <b><u>Function</u></b> |
|--------------------------------|------------------------|
| Mr. Flavio Bianco              | President              |
| Mr. Zoran Todorović            | Member                 |
| Mr. Zoran Jelić                | Member                 |

## **2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**

### **2.1. Basis for preparation and presentation of the financial statements**

The Bank is obliged to maintain its accounting records and prepares its statutory financial statements in accordance with the Law on Accounting and Auditing of Montenegro ("Official Gazette of Montenegro", No. 69/2005, 80/2008 and 32/2011), which includes application of International financial reporting standards and decisions of Central bank of Montenegro that regulate financial reporting of the banks.

The accompanying 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). The accompanying financial statements have been prepared on an individual (unconsolidated) basis. The Bank has under its control two entities (Note 19). In accordance with the Law on Accounting and Auditing, the Bank is obliged to compile the individual and consolidated financial statements.

During the preparation of these financial statements, the Bank has adopted policies that are in accordance with the regulations of the Central Bank of Montenegro, but that are different from IFRS and IAS requirements in the part that refers to recording of receivables that could be excluded from balance sheet, presentation of financial statements, type of presentation and recording of loan approval fees, as well for other particular matters.

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

The Bank has applied the accounting policies described in Note 3 in the preparation of these financial statements, which are based on the accounting, banking and tax regulations prevailing in Montenegro.

### **2.2 The official currency reporting**

The financial statements of the Bank are stated in thousands of euro (EUR), which is the functional currency of the Bank and the official currency in which the financial reports in Montenegro. Unless otherwise indicated, all amounts are stated in thousands of EUR.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**PRVA BANKA CRNE GORE A.D., PODGORICA –**  
**OSNOVANA 1901. GODINE**

### **2.3. Use of Estimates**

In the presentation of the financial statements the Bank's management is required to apply estimates and reasonable assumptions that have effect on the reported value of the assets and liabilities and the disclosure of any potential/contingent assets and liabilities as of the date the financial statements were prepared as well as revenues and expenses during the reporting period. These estimates and reasonable assumptions are based on available information as of the date the financial statements were prepared and for the most part relate to: estimates for loan and interest provisions, provisions for deposits at other banks, provisions long term investments and provisions for off-balance sheet items. However, actual results may differ from these estimates.

### **2.4. Going concern**

The Bank has applied the going concern concept in the preparation of the financial statements for 2014 and for measurement purposes. The main factors on the basis of which there are uncertainties with regard to application of the concept of going concern relate to the following circumstances:

- Adverse macroeconomic environment created as a result of the global economic crisis and its effects on the economy of Montenegro, caused problems in terms of loan collection by the Bank and subsequent growth of allowance for impairment of loans and receivables to customers and increase in the level of acquired assets, which have an effect on the solvency ratio of the Bank.
- The Bank was subject to control by the Central Bank on November 30 2014, which has also identified above questions.

During 2014, the Bank invested significant efforts in the collection of written-off receivables, resulting in new acquisition of immovable property placed as collateral for NPLs. The total amount of completed acquisition in 2014 was EUR 5,479 thousand. In its ongoing business, in which management adopted the strategy for NPLs, the Bank primarily focuses on resolving the status of NPLs, with the main goal of reducing the missing reserves in order to maintain a solvency ratio above the required level.

Continues further reduction in the level of NPLs is one of the main tasks of the Bank in 2015. Activities on reducing NPLs of the Bank will be partly implemented in accordance with the Law on voluntary financial restructuring, which was recently adopted and whose main objective is financial recovery of the debtor, while at the same time providing incentives for the Bank.

In order to improve the business performance of the Bank and the Bank's competitiveness in the banking market of Montenegro, in 2014 the Bank provided banking services under attractive conditions and the Bank's management has taken measures which resulted in decrease of concentration of deposits in 2014, primarily by decreasing deposits of the largest depositors, where this trend continued in 2015.

During 2014, the Bank maintained liquidity above the prescribed minimum. Furthermore, the Bank's management has defined as one of the key business objectives for 2015, improvement of the Bank's liquidity position and reduction in the negative GAP.

Also, in order to improve the corporate governance system and the efficiency and effectiveness of internal controls, the Bank in 2014 revised a significant number of policies and procedures.

As a final positive effect of all of the above described measures and activities undertaken by management, the Bank has concluded 2014 with a positive result of EUR 545 thousand (2013: profit EUR 434 thousand).

Considering the above activities, management of the Bank believes that the conditions for continuing operations in the foreseeable future and accordingly compile financial statements in accordance with the going concern concept. The solvency ratio, calculated according to the calculation of the Bank on March 31, 2015 was 13.2%.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**PRVA BANKA CRNE GORE A.D., PODGORICA –**  
**OSNOVANA 1901. GODINE**

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1. Interest, Fee and Commission Income and Expense Recognition**

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

Fee and commission income and expenses from banking services are recognized and recorded in the income statement for the period when realized, i.e., when due for settlement. Loan origination fees are also recognized upon loan origination.

#### **3.2. Foreign Exchange Translation**

Transactions denominated in foreign currencies are translated into Euros at the official average exchange rates prevailing in the interbank currency Market, at the date of each transaction.

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

Net foreign exchange gains or losses arising from translation of transactions and of the outstanding balance sheet items in foreign currencies are credited or charged to the income statement for the period.

Commitments and contingent liabilities denominated in foreign currencies are translated into Euros by applying the official average exchange rates, prevailing in the interbank currency Market, at the balance sheet date.

#### **3.3. Taxes and Contributions**

##### **Income Taxes**

##### ***Current income taxes***

Income taxes are calculated and paid in accordance with income tax regulations defined under the Corporate Income Tax Law, Article 28 ("Official Gazette of Montenegro", No. 80/2004, No. 40/2008, No.86/2009, No 73/2010 and No.14/2012) as per the effective proportional tax rate of 9% on tax base. The tax base for income tax calculation is determined based on income stated in the statutory income statement for the period following certain adjustments to income and expenses, performed in accordance with the Corporate Income Tax Law (Articles 8 and 9, regarding the adjustment of income and Articles 10 to 20 pertaining to the adjustment of expenses).

Taxable income is determined, based on the amount of income stated in the in the Income statement for the period in accordance with the Law on Accounting and Auditing of Montenegro, except for the income and expenses for which the Law Corporate Income Tax Law prescribes a different determination method.

Dividend income and share in other companies' income are excluded from the tax base of an entity which realized dividend income if an entity that repays dividends is eligible taxpayer in accordance with the Corporate Income Tax Law.

A gain earned on realized sale or other transfer of land, buildings, rights, and shares in equity or securities for related fees is realized as a capital gain. A capital gain is positive, while a capital loss represents the negative difference between sale price of an asset and its purchase price, adjusted in accordance with this Law. Capital losses may be set off against capital gains earned in the same year. In case there are outstanding capital losses even after the set-off of capital losses against capital gains earned in the same year, these outstanding losses are available for carry-forward in the following five years.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**PRVA BANKA CRNE GORE A.D., PODGORICA –**  
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Montenegrin tax regulations do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry-back period. However, any current year losses reported in the annual corporate income tax returns may be carried forward and used to reduce or eliminate taxes to be paid in future accounting periods, but only for a period of a maximum of five years.

### ***Deferred income taxes***

Deferred income tax is determined using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities, and their carrying value in the stand alone financial statements. The currently-enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

### ***Taxes, contributions and other duties that are not related to the Bank's operating results***

Taxes, contributions and other duties that are not related to the Bank's operating results include property taxes, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations.

## **3.4. Financial instruments**

### ***Classification***

The Bank classifies its financial assets in the following categories: financial assets at fair value whose effects of changes in the fair value are shown through profit or loss, loans and receivables, financial assets available for sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. The Bank's management determines the classification of its financial assets at initial recognition.

### ***Financial assets held for trading***

A financial asset is classified as held-for trading if it is obtained primarily for sale in the short term.

Securities held for trading are securities that are held for obtaining profit from reselling in the short term. Securities held for trading are initially recognized at cost, and as at balance date at market value. All realized gains and losses on the sale and changes in the market value of these securities are recognized as income or charged to expenses in income statement.

### ***Loans and receivables***

Loans and receivables originated by the Bank are recorded in the books at the time of transfer of funds to the loan user.

All loans are initially recognized at fair value. As at balance date, loans are measured at amortized cost using contractual interest rate less allowance for impairment and direct write-off.

### ***Cash and cash equivalents***

For the purpose of the cash flow statement, cash and cash equivalents include cash and balances held with the Central Bank of Montenegro and other banks. Cash equivalents stated in the statement of financial position as comprised of short-term investments with maturities of up to 90 days.

Cash and cash equivalents are measured by amortized cost.

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### *Financial assets available for sale*

Financial assets available for sale are non-derivative financial assets that are designated as available for sale and are not classified as loans and receivables, financial assets held to maturity or financial assets at fair value whose effects of changes in fair value are recorded in the income statement. Financial assets available for sale are investments for which there is an intention to hold for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. If there is no active market for financial assets available for sale and if they are with a fixed maturity, financial assets available for sale are measured at amortized cost using the effective interest rate.

Investments in subsidiaries are intended to be held for an indefinite period. These investments can be sold depending on the liquidity needs or in case of changes in market prices. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are recognized in the amount of investment, less any allowance for impairment that reflects the reduction in value due to losses incurred in the operations of the legal entity.

### *Financial assets held to maturity*

Securities held to maturity are securities for which the Bank has the positive intention and ability to hold up to the maturity date. Securities held to maturity are initially recorded at acquisition cost. As of the balance sheet date, securities are stated at amortized cost, net of any provision for potential losses.

### *Recognition of financial assets*

Purchases or sales of financial assets are recorded using the accounting treatment on the settlement date of the transaction.

### *Measurement of financial assets*

Financial instruments are initially measured at market value, which includes transaction costs for all financial assets or liabilities other than those carried at fair value through profit or loss. Financial assets at fair value whose effects of changes in fair value through profit or loss are initially recognized at fair value and transaction costs are charged to operating expenses in the income statement.

Financial assets available for sale and financial assets at fair value whose effects of changes in fair value through profit or loss are subsequently carried at fair value.

Loans and receivables and financial assets held to maturity are measured at amortized cost using the effective interest rate.

### *Derecognition of financial assets*

The Bank performs reversal of a financial asset when the rights for receiving cash from the asset expire or when these rights are transferred to a counterparty. Any right on the transferred financial assets, created or retained by the Bank, is recognized as a separate asset or liability.

### *Amortized cost measurement*

The amortized cost of a financial asset is the amount for which the funds are initially recognized, less principal repayments, and plus or minus accumulated amortization using the effective interest rate.

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### *Write-off of financial assets*

The Bank carries out write-offs of loans and receivables in accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro", no. 22/12 and 55/12 and 57/13). According to this decision conditions for the exclusion of claims from its balance sheet are met if in process of collection of receivables the Bank estimates that the value of receivables measured at amortized cost will not be collectible, and that, in accordance with IAS / IFRS, the conditions for derecognition of financial assets have been met, which includes the following cases:

- 1) for unsecured receivables:
  - bankruptcy proceedings against the debtor last longer than one year, or
  - If the borrower is late with payment for more than two years;
- 2) for secured receivables, the debtor is late in settling obligations more than four years, or if the bank during this period does not receive any payment from activation of collaterals.

### *Financial liabilities*

Financial liabilities are initially recognized at cost that comprises the fair value of the consideration received. After initial recognition, financial liabilities are measured at amortized cost using the effective interest rate, except for financial liabilities at fair value through profit and loss. The amortized cost of a financial liability is the amount at which obligations are initially measured less principal repayments, and plus or minus accumulated amortization using the effective interest rate.

Financial liabilities include deposits from banks, deposits from customers, borrowings from other clients and subordinated debt.

The Bank performs write off liabilities when a liability is settled, cancelled or when it is transferred to a counterparty.

### **3.5. Allowances for Impairment and Provisions for Potential Losses**

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro ", 22 /12 dated 23/04/2012, 55 /12 dated 2/11/2012, and 57 /13 of 12/16/2013) and internal policy of the Bank, the Bank assesses at least quarterly whether there is objective evidence of impairment of the value of a financial asset or group of financial assets. It is believed that a financial asset or group of assets are impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of cash that can be reliably estimated.

Objective evidence of impairment of a financial asset or group of assets includes:

- significant financial difficulty of the issuer or obligor ;
- violation / non-compliance with terms of contract, such as non-compliance or delay in the payment of interest or principal ;
- change the initial contractual repayment terms of the loan (restructuring)
- high probability of bankruptcy or other financial reorganization of the borrower and others.

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro ", 22 /12 dated 23/04/2012, 55 /12 dated 2/11/2012, and 57 /13 of 12/16/2013) the following have been identified: elements of credit risk, minimum criteria and method of classifying assets and off-balance sheet pursuant to which the Bank is exposed to credit risk, the method of calculation and suspension of unpaid interest and the method of determining the minimum provisions for potential losses arising from credit risk exposure. The Bank's risk-weighted assets, the terms hereof are comprised of loans, interest rates, fees, lease receivables, deposits from banks and advances and all other items in the balance sheet which the Bank is exposed to default risk, as well as guarantees issued, other guarantees, letters of credit and approved but undrawn loans and other off-balance sheet items that represent potential liabilities.



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Pursuant to the aforementioned Decision, loans and other risk bearing assets are classified into the following categories:

- A category (“Pass”) – including assets assessed as collectible in full, pursuant to the agreement;
- B category (“Special Mention”) – with B1 and B2 subcategories, including items for which there is low probability of loss, but which, still the same, require special attention, as the potential risk, if not adequately monitored, could lead to diminish their collectability;
- C category (“Substandard”) – with C1, C2, C3 and C4 subcategories for which there is high probability of loss, due to clearly identified collectability issues;
- D category (“Doubtful”) – including items whose collection is highly uncertain, given the creditworthiness of loan beneficiaries and value and marketability of collaterals;
- E category (“Loss”) – including items which are uncollectible in full, or will be collectible in an insignificant amount.

The amount of provision for potential losses has not been provided for the Bank's placements classified into category A. The estimated amount of provision for potential losses is computed by applying the following percentages to the corresponding categories: 2% to 7% for placements classified into category B, from 20% to 40% for placements classified into category C, 70% for placements classified into category D and 100% for placements classified into category E.

Since IAS 39 does not permit accrual of further interest after the impairment loss, interest income after impairment is charged for each transaction that is devalued because of impairment, regardless of whether the impairment is estimated on the basis of individual or collective assessment. Interest income on receivables that are individually assessed generated from the change in the net present value on impaired receivables.

In accordance with the Decisions of the Central Bank of Montenegro if the requirements for exclusion of receivables from the balance sheet of the Bank have been met, the Bank writes off such receivable and records it in its internal records until the completion of the collection process. According to this decision conditions for the exclusion of claims from its balance sheet are met if in process of collection of receivables the Bank estimates that the value of receivables measured at amortized cost will not be collectible, and that, in accordance with IAS / IFRS, the conditions for derecognition of financial assets have been met, which includes the following cases:

- for unsecured receivables:
- bankruptcy proceedings against the debtor last longer than one year, or
- If the borrower is late with payment for more than two years;
- for secured receivables, the debtor is late in settling obligations more than four years, or if the bank during this period does not receive any payment from activation of collaterals.

In accordance with the amendments to the above stated decisions on minimal standards for credit risks management of in banks, and given the above listed classification criteria, the Bank applied the following provisioning percentages and number of days past due per risk categories:

| <b>Risk category</b> | <b>%<br/>provisions</b> | <b>Days past due</b> |
|----------------------|-------------------------|----------------------|
| A                    | –                       | <30                  |
| B1                   | 2                       | 31-60                |
| B2                   | 7                       | 61-90                |
| C1                   | 20                      | 91-150               |
| C2                   | 40                      | 151-270              |
| D                    | 70                      | 271-365              |
| E                    | 100                     | >365                 |

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### **3.6. Property, plant and equipment**

Property, plant and equipment as of December 31, 2014 are stated at cost less accumulated depreciation and/or amortization. Cost represents the prices billed by suppliers together with all costs incurred in bringing the respective asset to the location and condition necessary for its intended use.

Depreciation and/or amortization are calculated on a straight-line basis to the cost of business premises and other fixed assets in order to write them off over their expected useful lives.

Prescribed annual rates used by the Bank are as follows:

|                                 |                 |
|---------------------------------|-----------------|
| Buildings                       | 2.00%           |
| Computers and related equipment | 33.33%          |
| Furniture                       | 15.00% - 16.66% |
| Motor vehicles                  | 15.00%          |
| ATM machines                    | 12.50%          |
| Other equipment                 | 15.00%          |

Investments in day-to-day assets maintenance are recognized as expenses of the period when incurred.

### **3.7. Intangible assets**

Acquired licenses are stated at acquisition cost. As the licenses have a limited useful life they are stated at acquisition cost less accumulated amortization. Amortization is calculated on the straight-line basis at the rate of 33.33%, 50%, 100%, in order to allocate expenses for licenses over their expected useful life.

Cost of computer software are capitalized in the amount of acquisition related costs and costs incurred in bringing them in use. These costs are amortized over their expected useful life of 3 years. Amortization is calculated on the straight-line basis at the rate of 33.33%, in order to allocate expenses for computer software over their expected useful life.

### **3.8. Assets received in lieu of debt settlement**

Since 2011, upon initial recognition of the assets received in lieu of debt settlement, in addition to the amount of outstanding principal and related accrued interest and fees, the Bank includes the amount of property turnover tax in the carrying amounts where such carrying amounts of receivables with property turnover tax included are below the appraised value of property.

In accordance with The Decision on Minimum Standards for Bank Investment in Immovable Property and Fixed Assets ("Official Gazette of Montenegro, No. 24/2009 from April 1, 2009, No. 66/2010 from November 19, 2010, No. 58/2011 from December 6, 2013), investment in immovable property encompasses the acquired immovable property if no longer than four years have passed since its acquisition. The total Bank's immovable property and fixed assets investments cannot exceed 40% of the Bank's own assets. Exceptionally, these investments could exceed 40% of the Bank's own funds, provided the following requirements are met:

- the amount of immovable property and fixed assets investments that exceeds 40% of the Bank's own funds is treated as a deductible item when calculating the aggregate amount of the Bank's own funds;
- subsequent to the deduction of the Bank's own funds, performed in line with the previous paragraph, the level of the Bank's own funds and its capital adequacy ratio exceed the legally prescribed minimum.

Investments in immovable property shall not be considered immovable property acquired in exchange for receivables in debt restructuring process, bankruptcy proceedings and/or liquidation proceedings of the bank's debtor, in the process of reorganization of debtor in accordance with regulations governing bankruptcy proceedings, or in the process of execution procedure initiated for the purpose of settling bank's receivables if no longer than four years have passed from immovable property acquisition date. The Bank's receivables are recorded under other operating receivables.

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These assets were recorded at the value of unpaid principal, accruing interest and other fees and taxes on real estate at the moment of acquiring rights. In accordance with IFRS 5 and the recommendation of CBM, assets acquired where from the date of that acquisition more than 365 days have passed are recorded as part of the proceeds from collection of receivables, while within the fixed assets held for sale - property, plant and equipment, only include assets which have been acquired within less than 365 days.

The Bank's management did not record the appraisal effects with respect to acquired assets received in lieu of debt settlement, given that the total estimated value of these items is above their value presented in the Bank's financial statements. Accordingly, the Bank's management assesses that the total value of the assets received in lieu of debt settlement as of December 31, 2014 has not been overstated.

#### **3.9. Provisions**

Provisions are recognized when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of expected outflows of resources necessary to settle the obligation. Provisions are considered at each financial position statement date, and they are adjusted to reflect the best estimate possible at the given moment. If it unlikely that an outflow of economic benefits will be required to settle the obligation, a provision should be reversed through the income statement.

#### **3.10. Employee Benefits**

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

In accordance with the Labor Law, the Bank has an obligation to disburse employee retirement benefit to retirees. The value of future payments of retirement benefits and jubilee awards is as follows:

- for 10 years of service – one average salary in the Bank,
- for 20 years of service – two average salaries in the Bank,
- for 30 years of service – three average salaries in the Bank

The calculation is made in accordance with economic principles and rules of the actuarial profession, international accounting standard (IAS 19) and other applicable regulations.

Actuarial assumptions consist of:

- demographic assumptions about the future characteristics of employees,
- financial assumptions that make assessment of the discount rate and the level of earnings
- personnel data on which to determine the date of acquisition of the right to jubilee and the conditions for retirement.

Mortality risk is incorporated into the technical basis based on which mortality tables have been created (offset the likelihood of survival and mortality) based on the 1980-1982 census and are now in general use in Montenegro in the affairs of life insurance, pension insurance and the like. The discount rate is an integral part of the technical bases, which together with the probability of survival and mortality rates are used for calculating the commutative figures. The interest rate which represents a discount rate is determined in accordance with market income on the balance sheet date for long-term high-quality corporate bonds. In countries where there is no developed financial market, market yield of government bonds is used with corresponding maturity or reference rate. The discount interest rate used in the analysis is taken to be 7.15% per annum (source: Central Bank).

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Rating the present value of retirement benefits and jubilee is calculated on an individual assessment for each employee, taking into account the criteria set out in actuarial assumptions.

The value of expected future payments for jubilee awards and severance payments in case of retirement was prepared in accordance with economic principles and rules of the actuarial profession.

### **3.11. Transactions with related parties**

According to the IAS 24 definition, related parties represent:

- entities that directly or indirectly, through one or more intermediaries, control (or are controlled by) the reporting entity, i.e. that jointly control the reporting entity with other entities;
- associated entities over which the Bank has significant influence and that are neither related parties, nor investors' joint venture;
- individuals who directly or indirectly, holding voting rights in the Bank, and thus exercise a significant influence on the Bank, and any other subjects expected to have influence or to be influenced by the Bank related party;
- key management, and persons with authorization and responsibilities for planning, directing and controlling the Bank's activities, including directors and key management.

In observing each possible transaction with a related party, attention is directed to the relationship's nature, and not only to the legal form.

### **3.12. Fair value**

In accordance with International Accounting Standard 13 – "Fair value measurement", fair value of financial assets and liabilities should be disclosed in the Notes to the Financial Statements. For these purposes, the fair value is defined as an amount at which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. The Bank should disclose the fair value information of those components of assets and liabilities for which published market information is readily available, and for which fair value is materially different from recorded amounts.

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

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### 4. INTEREST INCOME AND EXPENSES

Interest income and similar income (in 000 EUR)

|  |                      |                      |
|--|----------------------|----------------------|
| Deposits with:   |                      |                      |
| - banks  | 29                   | 36                   |
| - Central bank   | 1                    | -                    |
|  | <u>30</u>            | <u>36</u>            |
| Loans to:  |                      |                      |
| - local government   | 1                    | 38                   |
| - privately owned  | 7,444                | 5,385                |
| - entrepreneurs  | 2                    | 5                    |
| - retail customers   | 6,254                | 4,657                |
|  | <u>13,701</u>        | <u>10,085</u>        |
| Securities held to maturity                                | <u>129</u>           | <u>215</u>           |
| Other interest income:                                     | 215                  | -                    |
| Legal entities - cards                                     | 34                   | 57                   |
| Commission business  | 10                   | 10                   |
| Retail customers – cards                                   | 289                  | 418                  |
| Overdrafts   | 408                  | 490                  |
|  | <u>956</u>           | <u>975</u>           |
| Interest income before unwinding and impairment            | <u>14,816</u>        | <u>11,311</u>        |
| Unwinding - Correction of income in accordance with IAS 39 |                      |                      |
| - privately owned company                                  | 1,262                | 2,303                |
| - retail customers   | 219                  | 393                  |
|  | <u>1,481</u>         | <u>2,696</u>         |
| The cost of impairment at interest receivables             | <u>(325)</u>         | <u>248</u>           |
|  | <u><u>15,971</u></u> | <u><u>14,255</u></u> |

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### NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

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Interest expenses and similar expenses (in 000 EUR)

|  | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|--|------------------|------------------|
| Deposits:  |                  |                  |
| - The other depository institutions, financial institutions and commercial companies engaged in financial activities | 184              | 178              |
| - Government of Montenegro, the other beneficiaries of the Budget of Montenegro and the regulatory agencies          | 159              | 369              |
| - Local self-government unit   | 178              | 104              |
| - Privately owned company  | 1,821            | 2,797            |
| - State-owned company  | 226              | 273              |
| - Retail clients   | 3,656            | 3,274            |
| - Others   | 99               | 18               |
|  | <u>6,323</u>     | <u>7,013</u>     |
| Borrowings and other borrowings  |                  |                  |
| - Banks  | -                | 1                |
| - Government of Montenegro, the other beneficiaries of the Budget of Montenegro and the regulatory agencies          | 54               | 91               |
|  | <u>54</u>        | <u>92</u>        |
| Subordinated debt and hybrid instruments   | 738              | 776              |
|  | <u>7,115</u>     | <u>7,882</u>     |

## 5. IMPAIREMENT LOSSES

|                           | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|---------------------------|------------------|------------------|
| Impairment based on:      |                  |                  |
| - loans                   | (448)            | (1,134)          |
| - other assets            | (69)             | (38)             |
|                           | <u>(517)</u>     | <u>(1,173)</u>   |
| Provision costs based on: |                  |                  |
| - disputes                | (85)             | -                |
| - other assets            | -                | 300              |
|                           | <u>(85)</u>      | <u>300</u>       |

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### 6. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and commission income (in 000 EUR)

|   | <u>31-Dec-14</u>    | <u>31-Dec-13</u>    |
|---|---------------------|---------------------|
| Loan origination fees                                       | 571                 | 606                 |
| Fee and commission income from off-balance-sheet operations | 680                 | 689                 |
| Fees and commission income from payment transfers           | 1,110               | 1,011               |
| Fees and commission income from foreign currency operations | 662                 | 698                 |
| Fees and commission income from credit card operations      | 126                 | 131                 |
| Fees and commission income from Master and Visa cards       | 248                 | 244                 |
| Fees and commission income from e-banking operations        | 91                  | 88                  |
| Fees income from ATM operations                             | 161                 | 166                 |
| Account maintenance   | 149                 | 155                 |
| Other services  | 333                 | 320                 |
| Others  | 7                   | 3                   |
|   | <u><b>4,137</b></u> | <u><b>4,111</b></u> |

b) Fee and commission expenses (in 000 EUR)

|  | <u>31-Dec-14</u>    | <u>31-Dec-13</u>    |
|--|---------------------|---------------------|
| Fees and commissions payable to the Central Bank                   | 301                 | 390                 |
| Fees and commissions payable - domestic banks                      | 0                   | 62                  |
| Fees and commissions expenses from international payment transfers | 157                 | 131                 |
| Fee and commissions expenses for deposit insurance premiums        | 1,084               | 957                 |
| Fees and commissions expenses - First Data                         | 175                 | 169                 |
| E-banking – PP subscription fee                                    | 143                 | 132                 |
| Fees, commissions and invoiced expenses - Master and Visa cards    | 226                 | 190                 |
| Other fees and commissions   | 85                  | 71                  |
|  | <u><b>2,170</b></u> | <u><b>2,100</b></u> |

### 7. OTHER INCOME

(In 000 EUR)

|   | <u>31-Dec-14</u>  | <u>31-Dec-13</u>    |
|---|-------------------|---------------------|
| Leasing income                                      | 162               | 180                 |
| Other operating income                              | 11                | 15                  |
| Income from collected receivables - intern evidence | 88                | 3                   |
| Income from previously written-off receivables:     |                   |                     |
| - Collected suspended interest                      | 162               | 467                 |
| - Collected written-off interest                    | -                 | 1,149               |
| - Collected written-off principal                   | (15)              | 58                  |
|   | <u>147</u>        | <u>1,674</u>        |
| Other non-operating income                          | 62                | 28                  |
| Gains from the sale of real estate                  | 97                | 1,205               |
| Extraordinary income                                | 83                | 258                 |
|   | <u><b>649</b></u> | <u><b>3,363</b></u> |

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### **8. OTHER EXPENSES**

(In 000 EUR)

|  | <b><u>31-Dec-14</u></b> | <b><u>31-Dec-13</u></b> |
|--|-------------------------|-------------------------|
| Acc.- direct write-off of receivables – corporate clients        | 173                     | 57                      |
| Acc.- direct write-off of receivables – retail clients           | 98                      | 428                     |
| Acc.- direct write-off of receivables - intern evidence          | -                       | 42                      |
| Losses from the sale of acquired assets                          | 34                      | 56                      |
| Property tax/VAT   | 190                     | 58                      |
| Fees (property fees, fees for tourism organizations, other fees) | 7                       | 4                       |
| Extraordinary expenses   | 16                      | 64                      |
|  | <b><u>518</u></b>       | <b><u>709</u></b>       |

### **9. EMPLOYEE EXPENSES**

(In 000 EUR)

|  | <b><u>31-Dec-14</u></b> | <b><u>31-Dec-13</u></b> |
|--|-------------------------|-------------------------|
| Net salaries and compensation for sick leave                     | 1,963                   | 2,057                   |
| Taxes and contributions on behalf of employees                   | 1,097                   | 1,110                   |
| Contributions and local taxes on wages on behalf of the employer | 402                     | 403                     |
| Transportation   | 41                      | 46                      |
| Compensation expenses - canning                                  | 252                     | 246                     |
| Jubilee awards and severance                                     | 0                       | 18                      |
| Provisions for retirement benefits and jubilee awards            | 23                      | 13                      |
| Help employees   | 4                       | -                       |
| Entertainment  | 5                       | 7                       |
| Travel and entertainment - per diems                             | 1                       | 2                       |
| Travel and entertainment - travel costs                          | 4                       | -                       |
| Travel and entertainment - accommodation                         | -                       | 1                       |
| Travel - use of own vehicle                                      | 6                       | 5                       |
| Compensation of members of the Board of Directors                | 127                     | 172                     |
| Compensation Committee for review                                | 26                      | 27                      |
| Compensation Credit Committee                                    | 12                      | 16                      |
| Compensation technologists                                       | 25                      | 7                       |
| Compensation Commission for the write-off of receivables         | 6                       | 2                       |
| Service Contract   | 109                     | 285                     |
| Expenses for retirement benefits                                 | -                       | 59                      |
| Rent   | 5                       | 10                      |
| Employee insurance   | 12                      | 14                      |
| Staff training   | 26                      | 29                      |
|  | <b><u>4,147</u></b>     | <b><u>4,531</u></b>     |



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PRVA BANKA CRNE GORE A.D., PODGORICA –  
OSNOVANA 1901. GODINE

### 10. GENERAL ADMINISTRATIVE EXPENSES

(In 000 EUR)

|   | <u>31-Dec-14</u>    | <u>31-Dec-13</u>    |
|---|---------------------|---------------------|
| Expenses relating to premises and fixed assets                        |                     |                     |
| Rents:  |                     |                     |
| - Office space  | 1,636               | 1,637               |
| - ATM   | 30                  | 32                  |
| Rental tax  | 90                  | 91                  |
| Land usage  | 11                  | 11                  |
| Repairs and maintenance of fixed assets                               | 473                 | 486                 |
| Adaptation of business premises                                       | 68                  | -                   |
| Stationary  | 68                  | 30                  |
| Cleaning  | 139                 | 138                 |
| Security  | 453                 | 443                 |
| Property insurance  | 69                  | 57                  |
| Electricity   | 156                 | 139                 |
| Heating costs   | 39                  | 63                  |
| Water   | 10                  | 12                  |
| Property taxes  | 169                 | 170                 |
| <b>The cost of office space and equipment</b>                         | <u><b>3,409</b></u> | <u><b>3,309</b></u> |
| Audit costs   | 51                  | 52                  |
| Central Bank of Montenegro control fees                               | 170                 | 93                  |
| Memberships Associations  | 37                  | 34                  |
| The cost of intellectual property , consultancy and services assessor | 184                 | 128                 |
| Legal services  | 120                 | 95                  |
| Other fees and taxes  | 64                  | 104                 |
| Transportation of cash  | 249                 | 245                 |
| Other expenses  | 6                   | 8                   |
| <b>Professional fees and expenses</b>                                 | <u><b>882</b></u>   | <u><b>758</b></u>   |
| Phone costs   | 115                 | 124                 |
| TR-SWIFT network and T-COM  | 130                 | 122                 |
| TR-postage  | 15                  | 17                  |
| <b>Telecommunication services and postage</b>                         | <u><b>261</b></u>   | <u><b>263</b></u>   |
| The cost of advertising and marketing                                 | 104                 | 157                 |
| Sponsorship   | 111                 | 98                  |
| Consumables and Office Supplies                                       | 131                 | 155                 |
| Cost of fuel  | 31                  | 35                  |
| TR-utilities  | 25                  | 24                  |
| Other expenses  | 33                  | 26                  |
| The cost of lost cases and charges                                    | 5                   | 17                  |
| Other various expenses  | 83                  | 59                  |
| <b>Other and various expenses</b>                                     | <u><b>523</b></u>   | <u><b>573</b></u>   |
|   | <u><b>5,075</b></u> | <u><b>4,903</b></u> |

## TRANSLATION

NOTES TO THE FINANCIAL STATEMENTS  
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### 11. INCOME TAXES

(In 000 EUR)

|                                  | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|----------------------------------|------------------|------------------|
| Deferred income taxes /(expense) | (22)             | (50)             |
| Capital gain tax                 | -                | 67               |
| Income tax                       | <u>(22)</u>      | <u>17</u>        |

Deferred taxes relate to the difference in the value of fixed assets for accounting and tax purposes.

|  |                 |
|--|-----------------|
| <b>Taxable income in accordance with the tax balance</b>     | <b>492</b>      |
| <b>The amount of loss from the previous five years</b>       | <b>(14,966)</b> |
| Year 2010  | (6,423)         |
| Year 2011  | (8,543)         |
| <b>The amount of loss for the coverage of taxable profit</b> | <b>492</b>      |
| <br>   |                 |
| Unrecognized deferred tax assets                             | <b>(14,474)</b> |

Carry forward tax losses, which have not been recognized within the Bank's deferred tax assets as of December 31, 2014 due to uncertainty over the availability of profits in ensuring periods against which these tax losses could be utilized, amounted to EUR 14,474 thousand.

### 12. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

(In 000 EUR)

|  | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|--|------------------|------------------|
| Cash in vault:   |                  |                  |
| - in EUR   | 7,618            | 7,622            |
| - in foreign currency                                  | 1,979            | 750              |
| Temporary account - payment cards                      | -                | 7                |
| <b>Cash and cash equivalents</b>                       | <u>9,598</u>     | <u>8,379</u>     |
| <br>   |                  |                  |
| Obligatory reserve with the Central Bank of Montenegro | 14,782           | 12,432           |
| Gyro account   | 16,289           | 6,545            |
|  | <u>40,668</u>    | <u>27,356</u>    |

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**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**PRVA BANKA CRNE GORE A.D., PODGORICA –**  
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### **13. LOANS AND RECEIVABLES WITH BANKS**

(In 000 EUR)

|   | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|---|------------------|------------------|
| Correspondent accounts with:                |                  |                  |
| - foreign banks                             | 9,435            | 4,180            |
| Gyro account and accounts with other banks  | 9,435            | 4,180            |
| Term deposits:                              |                  |                  |
| - domestic banks                            | 984              | 937              |
| - foreign banks and depository institutions | 791              | 698              |
|   | 1,775            | 1,635            |
| Receivables on invoiced interests: deposits | -                | 11               |
| Accruals - evident interest                 | 18               | 26               |
|   | <u>11,228</u>    | <u>5,851</u>     |

The Bank places its obligatory reserve on the special obligatory reserve accounts in the country and/or on the accounts of the Central Bank of Montenegro ("CBM") held abroad. Obligatory reserve is allocated in EUR.

In accordance with the Decision on the Banks' Required Reserves at the Central Bank of Montenegro ("Official. Gazette of Montenegro", No. 35/2011, 22/2012, 61/2012 and 57/2013), the Bank may be up to 30% of reserve set aside and held in the form of treasury bills issued by Montenegro maturities up to 182 days and up to 13% of reserve set aside and held in the form of treasury bills issued by Montenegro maturity to 91 days. On December 31, 2014 Bank is part of required reserves held in treasury bills with a nominal value of EUR 6,001 thousand (2013: EUR 6,500), which is classified in investment securities held to maturity.

In accordance with the Decision on Banks' Required Reserves at the Central Bank, which entered into force in December 2013, 7% of their reserve set aside in accordance with the Decision on the reserves, the Central Bank pays monthly to the bank until the eighth day of the month for the previous month, a fee calculated at the rate of EONIA minus 10 basis points per annum, provided that this rate cannot be less than zero.

Banks are allowed to use up to 50% of allocated obligatory reserves as the interest free funds for the purpose of liquidity maintenance, if the used funds are returned same day on the obligatory reserves account.

On the amount of used but not returned on the same day obligatory reserve funds, and on the amount of difference between less allocated than adequately calculated obligatory reserve, due to incorrect calculation or past due allocation of obligatory reserve, the bank pays a fee at the rate defined by the special Central bank of Montenegro regulation.

In accordance with the Decision of the Central Bank of Montenegro on obligatory reserve banks calculate applying the rate of:

- 9.5% - on the portion of deposits basis for reserve calculation comprised of demand deposits and time deposits with agreed maturity up to one year, i.e. up to 365 days and
- 8.5% - on the portion of deposits basis for reserve calculation comprised of deposits with agreed maturity over one year, i.e. over 365 days.

On the deposits with agreed maturity over 365 days, and clause envisaging possibility of early withdrawal in the period less than one year, the rate of 9.5% is also applied.

The Bank did not use its obligatory reserve for liquidity purposes during 2014.

Deposits held with international financial institutions in the total amount of EUR 791 thousand relate to the funds deposited in securing the proper enforcement of the obligation to pay for MasterCard by HSBC Bank UK for an indefinite period, as of 9 February 2009, without interest.

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### NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

### PRVA BANKA CRNE GORE A.D., PODGORICA – OSNOVANA 1901. GODINE

Term deposits held with domestic banks in the amount of EUR 984 thousand relate to funds deposited with NLB Montenegro banka a.d. Podgorica for the purpose collateralizing the liability of the company KAPACITY d.o.o, Podgorica, for a period of one year, starting from 27 March 2012, at an annual interest rate of 5% in the amount of EUR 721 thousand and funds placed with NLB Montenegro banka ad Podgorica in the amount of EUR 263 thousand, as the deposit for VISA card, for an indefinite period starting from 20 January 2009, at an annual interest rate of 1%.

#### 14. LOANS AND RECEIVABLES WITH CUSTOMERS

(In 000 EUR)

|   | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|---|------------------|------------------|
| Matured loans:  | 19,111           | 21,750           |
| Short-term loans:   | 56,444           | 57,119           |
| Long-term loans:  | 83,564           | 84,002           |
| Credit cards  | 4,161            | 4,689            |
| Gross loans:  | <u>163,279</u>   | <u>167,560</u>   |
| Less: Allowance on impairment IAS 39  |                  |                  |
| Loans CC individual   | (11,316)         | (12,591)         |
| Loans CC collective   | (1,310)          | (2,319)          |
| Loans RC individual   | (1,525)          | (2,510)          |
| Loans RC collective   | (4,054)          | (4,751)          |
| Loans - Government CG and others  | (1)              | (3)              |
|   | <u>(18,207)</u>  | <u>(22,175)</u>  |
| Net loans:  | <u>145,072</u>   | <u>145,385</u>   |
| Bank receivables on acceptances, guarantees and bills of exchange outstanding                           | 242              | 258              |
| Bank allowance on impairment - receivables on acceptances, guarantees and bills of exchange outstanding | (70)             | (79)             |
| Bank net receivables on acceptances, guarantees and bills of exchange outstanding                       | 171              | 180              |
| Factoring   | 21,415           | 20,461           |
| Receivables on interest:  | 8,085            | 8,158            |
| Unwinding   | (2,763)          | (4,029)          |
| Receivables on interest:  | 5,322            | 4,130            |
| Interest CC individual  | (212)            | (822)            |
| Interest CC collective  | (95)             | (43)             |
| Interest RC individual  | (210)            | (421)            |
| Interest RC collective  | (355)            | (66)             |
| Other assets  | (2)              | (9)              |
|   | <u>(874)</u>     | <u>(1,361)</u>   |
| Net receivables on interest   | 4,448            | 2,768            |
| Accruals: loans   | 403              | 235              |
|   | <u>171,509</u>   | <u>169,029</u>   |

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In 2014, the Bank has approved loans to corporate and retail entities in the amount of EUR 45.2 million.

In 31 December 2014, the Bank had EUR 28,397 thousand of restructured loans (Gross loans and accrued interest and fees) with other changed loan terms to facilitate the financial position of the debtor, EUR 21,948 thousand restructured loans for which it made the replacement of the existing or current loans with a new loan, EUR 7,862 thousand restructured loans with extending the payment of principal or interest and EUR 6,785 thousand of restructured loans which carried capitalized interest on the loan, EUR 45 thousand loans with reduced interest rates on loans and EUR 15 thousand which reduced the amount of principal or interest.

Short-term loans approved to corporate entities are mostly intended to be used as working capital with maturity from 3 to 12 months, while long-term loans are mostly approved with maturity from 1 to 5 years and mostly relate to corporate entities involved in trade, construction industry, services, and tourism and hospitality services.

Short-term loans to corporate entities are mostly approved at an annually interest rate rating from 9.49% to 12%, with the exception to overdrafts that were generally granted at an interest rate rating from 11.5% to 14%. The interest rate for long-term loans ranged from 9.49% to 11%.

Short-term loans to retail customers are mainly approved for the purpose of refinancing liabilities to the Bank and other financial institutions, and as general purpose cash loans, with an annual interest rates ranging from 9.49% to 12%. Loans to retail customers (revolving and charge credit cards), were granted at an annual interest rate ranging from 14% to 16%. During the year 2014 the Bank did not approve the long-term loans to retail customers, such as loans for housing building, adaptation of housing and business premises and other purposes.

During 2014, the Bank was extensively granting retirement loans with interest rate of 9.49%.

As for the geographic concentration of loans to customers, the Bank's portfolio mostly includes loans to customers domiciled in Montenegro.

The concentration of the Bank's gross loan to customers per separate industries was as follows:

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### **15. GROSS LOANS BY ACTIVITY**

(In 000 EUR)

| No  | Activity  | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|-----|---|------------------|------------------|
| I   | Corporate clients - residents   | 88,079           | 88,530           |
| 1   | Agriculture, hunting and fishing  | 2,540            | 747              |
| 2   | Mining industry   | 3,559            | 3,481            |
| 3   | Manufacturing   | 8,708            | 10,016           |
| 4   | Electricity   | -                | 97               |
| 5   | Water   | 948              | 910              |
| 6   | Construction  | 15,233           | 18,050           |
| 7   | Wholesale and retail trading and repair of motor vehicles and motorcycles | 30,696           | 27,838           |
| 8   | Transport and storage   | 9,863            | 9,733            |
| 9   | Accommodation and food  | 2,831            | 2,402            |
| 10  | Informing and communication   | 694              | 1,520            |
| 11  | Financial services and insurance  | 3,760            | 3,741            |
| 12  | Real estate business  | 608              | 2,679            |
| 13  | Professional, scientific and technical activities                         | 1,304            | 3,385            |
| 14  | Administrative and support service activities                             | 3,498            | 253              |
| 15  | Public administration, defence and compulsory social security             | 26               | 394              |
| 16  | Education   | 85               | 78               |
| 17  | Health and social services  | 1,924            | 1,726            |
| 18  | Art, entertainment and recreation   | 1,716            | 1,299            |
| 19  | Other service activities  | 86               | 181              |
| 22  | Other   |                  |                  |
| II  | Retail clients – residents  | 71,555           | 72,828           |
| III | Non-residents   | 3,643            | 6,202            |
| *   | Total (I+II+III)  | <u>163,277</u>   | <u>167,560</u>   |

Receivables purchased (factoring)

|  | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|--|------------------|------------------|
| Lunez One, s.r.o., Czech Republic (Contract for transfer of receivables from 15 November 2012) | 6,946            | 6,991            |
| Zurekon s.r.o. Prag  | 13,469           | 13,470           |
| Opština Bijelo Polje   | 1,000            | -                |
|  | <u>21,415</u>    | <u>20,461</u>    |

As of October 1, 2012, the Bank concluded the Agreement on Partial Settlement with Hemstead Invest limited, Cyprus, which arranges partial settlement of liabilities that were the subject of the previously concluded Agreements on the sale of receivables, as well as regulates the remaining loan portfolio takeover by the Bank and termination of previously concluded Agreements on the sale of receivables between the Bank and Hemstead Invest limited, Cyprus, in 2010 and 2011.

Further, as of October 3, 2012, the Bank and Hemstead Invest limited, Cyprus concluded the Agreements of assignment of receivables that include the portion of the loan portfolio took over from Hemstead Invest limited, Cyprus, based on the aforementioned Agreement on Partial Settlement. The selling value of the assigned receivables, stated in the Agreements of assignment of receivables, amounts to EUR 13,470 thousand, which is equal to net book value of receivables in Bank's books, as of October 31, 2012.

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### **NOTES TO THE FINANCIAL STATEMENTS December 31, 2014**

### **PRVA BANKA CRNE GORE A.D., PODGORICA – OSNOVANA 1901. GODINE**

The Bank has been informed that the receivables, the subject of aforementioned Agreements of assignment of receivables, concluded between the Bank and Hemstead Invest limited, Cyprus, as of October 2012, are assigned to Zurekon s.r.o. Prague, Czech Republic by Hemstead Invest limited, Cyprus in 2013.

As of November 15, 2012, the Bank concluded the Assignment Agreement of Receivables with Lunez One S.R.O., Czech Republic, which is SPV of reputable investment fund Slavia Group, Bratislava. Selling price of these receivables amounts to EUR 7,778 thousand, which is equal to the net carrying amount of receivables in the Bank's books as of October 31, 2012.

In 2014 the Bank signed a Contract for the purchase of receivables from the municipality of Bijelo Polje. The subject of the Contract is the purchase of receivables municipality of Bijelo Polje to the Ministry of Finance based on the asset allocation of the Equalization Fund in the amount of EUR 1,000 thousand.

#### **16. MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT**

(In 000 EUR)

|  | <b>Loans and<br/>leases<br/>(Note 14)</b> | <b>Interest<br/>(Note 14)</b> | <b>Other assets<br/>(Note 22)</b> | <b>Securities-<br/>acquired<br/>(Note 20)</b> | <b>Total</b>  |
|--|---|-------------------------------|-----------------------------------|---|---------------|
| At the beginning of the year                         | 22,172                                    | 1,352                         | 9                                 | -   | 23,533        |
| Separation-reversal of<br>impairment during the year | (1,031)                                   | 307                           | 59                                | 35  | (630)         |
| Transfer to intern evidence                          | (2,935)                                   | (788)                         | (66)                              | -   | (3,789)       |
| At the end of the year                               | <b>18,206</b>                             | <b>871</b>                    | <b>2</b>                          | <b>35</b>                                     | <b>19,114</b> |

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### 17. PROPERTY, PLANT AND EQUIPMENT

(In 000 EUR)

|  | <u>Land</u> | <u>Property</u> | <u>Equipment<br/>and other<br/>fixed assets</u> | <u>Total</u> |
|--|-------------|-----------------|---|--------------|
| <b>Acquisition cost</b>                |             |                 |   |              |
| Balance as of January 1,2013           | 148         | 1,409           | 7,580   | 9,137        |
| Additions                              | -           | -               | 90  | 90           |
| Sale                                   | -           | -               | (16)  | (16)         |
| <b>Balance as of December 31, 2013</b> | <b>148</b>  | <b>1,409</b>    | <b>7,654</b>                                    | <b>9,211</b> |
| <b>Acquisition cost</b>                |             |                 |   |              |
| Balance as of January 1,2014           | 148         | 1,409           | 7,654   | 9,211        |
| Additions                              | -           | -               | 219   | 219          |
| Sale                                   | -           | -               | (24)  | (24)         |
| <b>Balance as of December 31, 2014</b> | <b>148</b>  | <b>1,409</b>    | <b>7,849</b>                                    | <b>9,406</b> |
| <b>Accumulated Depreciation</b>        |             |                 |   |              |
| Balance as of January 1,2013           | -           | 745             | 5,591   | 6,336        |
| Amortization                           | -           | 28              | 837   | 865          |
| Other                                  | -           | -               | (11)  | (11)         |
| <b>Balance as of December 31, 2013</b> | <b>-</b>    | <b>773</b>      | <b>6,417</b>                                    | <b>7,190</b> |
| <b>Accumulated Depreciation</b>        |             |                 |   |              |
| Balance as of January 1,2014           | -           | 773             | 6,417   | 7,190        |
| Amortization                           | -           | 28              | 664   | 692          |
| Sale                                   | -           | -               | (23)  | (23)         |
| <b>Balance as of December 31, 2014</b> | <b>-</b>    | <b>801</b>      | <b>7,058</b>                                    | <b>7,859</b> |
| <b>Net book value:</b>                 |             |                 |   |              |
| - December 31, 2014                    | <b>148</b>  | <b>608</b>      | <b>791</b>                                      | <b>1,547</b> |
| - December 31, 2013                    | <b>148</b>  | <b>636</b>      | <b>1,237</b>                                    | <b>2,021</b> |

At December 31, 2014, the Bank has the ownership of all property, plant and equipment and there are no restrictions nor any load in use in accordance with IAS 16.



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### 18. FINANCIAL ASSETS HELD FOR TRADING

(In 000 EUR)

| No | Client                                   | Symbol | 31-Dec-14  | 31-Dec-13  |
|----|--|--------|------------|------------|
| 1  | ŽELJEZARA                                | ZEHK   | 25         | 25         |
| 2  | IZBOR BAR                                | IZBR   | 75         | 75         |
| 3  | SOLANA BAJO SEKULIĆ                      | SOBS   | 37         | 37         |
| 4  | SOLANA BAJO SEKULIĆ – pre-emptive rights | SOBS   | -          | -          |
| 5  | RUDNIK UGLJA PLJEVLJA                    | RUPV   | 4          | 4          |
| 6  | JUGOPETROL KOTOR                         | JGPK   | 6          | 6          |
| 7  | KOMBINAT ALUMINIJUMA                     | KAPG   | 139        | 139        |
| 8  | LOVČEN OSIGURANJE                        | LOVO   | 236        | 236        |
| 9  | SWISS OSIGURANJE                         | SWIO   | 3          | 3          |
| 10 | MONTENEGRO BERZA                         | MOBE   | 35         | 35         |
| 11 | CG BROKER                                | CGBR   | 17         | 17         |
| 12 | CG BROKER – dividend                     | CGBR   | 5          | 5          |
| 13 | CG BROKER – dividend                     | CGBR   | 14         | 14         |
| 14 | KONI KONFEKCIJA                          | KONI   | 1          | 1          |
| 15 | HLT FOND                                 | HLTA   | 56         | 56         |
| 16 | HLT FOND - dividend                      | HLTA   | -          | -          |
| 17 | EURO FOND                                | EURF   | 155        | 155        |
| 18 | ATLAS MONT FOND                          | ATMO   | 27         | 27         |
| 19 | MONETA FOND                              | MONF   | 30         | 30         |
| 20 | TREND FOND                               | TREN   | 98         | 98         |
| 21 | Belgrade market                          |        | 2          | 2          |
|    | Total purchase:                          |        | 965        | 965        |
|    | Fair value:                              |        | (672)      | (671)      |
|    | Total fair value:                        |        | <b>293</b> | <b>294</b> |

Listed securities are not experienced significant fluctuations in share prices in the stock market resulting in their almost identical total value as of December 31, 2014 compared to the same period of the previous year.

### 19. INVESTMENTS IN SUBSIDIARY

(In 000 EUR)

|  | 31-Dec-14    | 31-Dec-13    |
|--|--------------|--------------|
| Other companies:                                 |              |              |
| - First Assets Management, Podgorica             | 2,348        | 2,348        |
| - Montenegro investment credit d.o.o., Podgorica | 904          | 904          |
|  | <b>3,252</b> | <b>3,252</b> |

As of December 31, 2014 the Bank's stake in Montenegro Investment credit d.o.o. Podgorica amounted to EUR 904 thousand. Pursuant to the Agreement on Initial Stake Transfer, concluded as of June 29, 2007 with Montenegro Investment holding d.o.o. Podgorica, the entire initial stake of Montenegro Investment holding d.o.o., Podgorica, or 99.83% of equity, was transferred to the Bank. Pursuant to the Board of Directors Decision no. 04/2032.11, dated

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### **PRVA BANKA CRNE GORE A.D., PODGORICA – OSNOVANA 1901. GODINE**

March 28, 2012, the Bank repurchased 0.17% of equity shares from the other MFI Montenegro Investments credit Podgorica founder, and consequently became the owner of 100% of the aforementioned Company's equity.

Pursuant to the Board of Directors Decision, dated August 4, 2011, the Bank founded, for an indefinite period, First Assets Management Podgorica ("FAM DOO Podgorica"), a limited liability company, as a single member company, whose main activity is purchase and sale of its own real estate. The Bank paid in the founding capital in the form of monetary contribution of EUR 100 thousand. The Commercial Court in Podgorica – Central Register issued the Decision of Foundation of FAM DOO Podgorica, as of August 12, 2011. Pursuant to the Board of Directors Decision, dated December 31, 2012, the Bank increased its equity interest in the Company by investing contribution in kind, related to the real estate transferred from acquired assets in the amount of EUR 2,248 thousand. As of December 31, 2013, the Bank owns 100% of FAM DOO equity.

#### **20. OTHER OPERATING RECEIVABLES**

(In 000 EUR)

|                                      | <b>31-Dec-14</b> | <b>31-Dec-13</b> |
|--------------------------------------|------------------|------------------|
| Acquired Assets-property             | 32,878           | 26,729           |
| Acquired assets-shares               | 127              | 127              |
| Other operating receivables          | 64               | 68               |
| Prepayments                          | 444              | 439              |
| Impairment of acquired assets-shares | (35)             | -                |
|                                      | <b>33,479</b>    | <b>27,363</b>    |

As of December 31, 2014 the Bank's assets received in lieu of debt settlement consist of acquired real estate in the amount EUR 32,878 thousand and securities in the amount of EUR 127 thousand based on previous year's granted loans (December 31, 2013: EUR 26,729 thousand, or EUR 127 thousand).

As of December 31, 2014 the Bank made a reclassification of account 1710 - Funds held for sale to account 1918 - Proceeds from collection of receivables, totalling EUR 8,332 thousand. The reclassification was carried out in accordance with IFRS 5 and the recommendation of CBM in which it was emphasized that acquired assets for which more than 365 days have elapsed since their date of acquisition should be recorded in account 1918 - Proceeds from collection of receivables, and the account 1710 should only include assets for which less than 365 days have elapsed since their date of acquisition. During 2014, the Bank has sold the assets acquired in the amount of EUR 2,149 thousand and generated a capital gain on that basis in the amount of EUR 20 thousand.

#### **21. ASSETS HELD FOR SALE**

(In 000 EUR)

|                      | <b>31-Dec-14</b> | <b>31-Dec-13</b> |
|----------------------|------------------|------------------|
| Assets held for sale | 5,434            | 8,906            |
|                      | <b>5,434</b>     | <b>8,906</b>     |

Assets held for sale in the amount of EUR 5,434 thousand (2013: EUR 8,906 thousand) relate to assets acquired within less than 365 days. The Bank reported assets acquired within less than 365 days under assets held for sale, in accordance with IFRS 5 and at the recommendation of CBM, for assets acquired over 365 days ago the Bank is advised to record them under account 1918 - Proceeds from collection of receivables and to include them in Other operating receivables, while 1710 account should present assets acquired within less than 365 days and which should be recognized under assets held for sale.

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### **NOTES TO THE FINANCIAL STATEMENTS December 31, 2014**

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During 2014, the Bank acquired real estate held for sale in the amount of EUR 5,479 thousand:

- Office buildings, EUR 3,864 thousand
- Residential units, EUR 92 thousand
- Land, EUR 1,524

At issue is out-of-court settlement.

During the year one housing unit has been sold at a price higher than the acquired value and on the basis of this transaction the bank realized a capital gain of EUR 42 thousand.

#### **22. OTHER FINANCIAL RECEIVABLES**

(In 000 EUR)

|                             | <b>31-Dec-14</b> | <b>31-Dec-13</b> |
|-----------------------------|------------------|------------------|
| Other financial receivables |                  |                  |
| Property investment         | 2,189            | -                |
| Receivables from customers  | 124              | 113              |
| Receivables from employees  | 57               | 45               |
| Other                       | 222              | 383              |
|                             | <b>2,592</b>     | <b>542</b>       |

Other financial receivables mainly relate to receivables against the company Property Investment.

The growth of EUR 1.8 million was caused by the emergence of the above receivables against the company with which the bank is in the court proceedings for the collection of the same.

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### 23. INTANGIBLE ASSETS

(In 000 EUR)

|  | <b>Software and license</b> |
|--|-----------------------------|
| <b>Acquisition cost</b>                |                             |
| Balance as of January 1,2013           | 964                         |
| Additions                              | 20                          |
| <b>Balance as of December 31, 2013</b> | <u>984</u>                  |
| <b>Acquisition cost</b>                |                             |
| Balance as of January 1,2014           | 984                         |
| Additions                              | 152                         |
| <b>Balance as of December 31, 2014</b> | <u>1,136</u>                |
| <b>Accumulated Depreciation</b>        |                             |
| Balance as of January 1,2014           | 904                         |
| Amortization                           | 43                          |
| <b>Balance as of December 31, 2013</b> | <u>947</u>                  |
| <b>Accumulated Depreciation</b>        |                             |
| Balance as of January 1,2013           | 947                         |
| Amortization                           | 46                          |
| <b>Balance as of December 31, 2014</b> | <u>993</u>                  |
| <b>Net book value:</b>                 |                             |
| - December 31, 2014                    | <u>143</u>                  |
| - December 31, 2013                    | <u>37</u>                   |

As of 31 December 2014, the Bank has ownership of intangible assets, and there are no restrictions nor any limitations on their use in accordance with IAS 38.

### 24. DEPOSITS FROM BANKS

(In 000 EUR)

|   | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|---|------------------|------------------|
| <b>A vista deposits:</b>                      |                  |                  |
| State banks, residents – non-interest bearing | 20               | 8                |
| Private banks, residents – interest bearing   | <u>1,500</u>     | <u>1,500</u>     |
|   | <u>1,520</u>     | <u>1,508</u>     |

Bank deposits relate to a deposit from Atlas Bank in the amount of EUR 1,500 thousand with a maturity of 13 months and 5% p.a.

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PRVA BANKA CRNE GORE A.D., PODGORICA –  
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### 25. DEPOSITS FROM CLIENTS

(In 000 EUR)

|  | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|--|------------------|------------------|
| <b>A vista deposits:</b>   |                  |                  |
| Companies dealing with brokerage activities at capital market, residents | 136              | 69               |
| Other private depository institutions, residents                         | 251              | 26               |
| Other institutions involved in financing activity                        | 4                | 4                |
| Companies owned by the state, residents                                  | 4,294            | 6,043            |
| Public services of local self-government units                           | 2,373            | 1,359            |
| Companies privately owned, residents                                     | 16,161           | 15,875           |
| Entrepreneurs-interest non-bearing                                       | 287              | 212              |
| Companies, non-residents   | 3,058            | 2,724            |
| Retail clients resident  | 24,651           | 22,220           |
| Retail clients, non-residents  | 4,110            | 4,063            |
| Non-government and other non-profit organizations, residents             | 801              | 1,111            |
| EPCG   | 3,181            | 3,508            |
| Other - non-financial sector   | 119              | 8                |
| Government of Montenegro   | 3,912            | 816              |
| Local self-government units  | 6,561            | 1,412            |
| Other beneficiaries of the Budget of Montenegro                          | 1,249            | 1,364            |
| Other - non-interest bearing   | 932              | 1,016            |
| Regulatory agencies, residents   | 1,898            | 268              |
| Investment and Development Fund of Montenegro                            | 793              | 12               |
| Health Insurance Fund of Montenegro                                      | 99               | 570              |
| Pension and Disability Insurance Fund of Montenegro                      | 63               | 54               |
| Investment funds, residents  | 188              | 395              |
| Insurance companies / reinsurance in the private property, residents     | 455              | 510              |
|  | <b>75,575</b>    | <b>63,638</b>    |
| <b>Short-term deposits:</b>  |                  |                  |
| Companies dealing with brokerage activities at capital market, residents | -                | 50               |
| Companies owned by the state, residents                                  | 6,848            | 8,980            |
| Public services of local self-government units                           | 3,972            | 2,855            |
| Companies privately owned, residents                                     | 5,567            | 2,793            |
| Entrepreneurs – interest bearing   | -                | 1                |
| Companies, non-residents   | -                | 471              |
| Retail clients resident  | 36,426           | 18,238           |
| Retail clients, non-residents  | 7,063            | 2,022            |
| Non-government and other non-profit organizations, residents             | 275              | 5                |
| EPCG   | 6,584            | 42,121           |
| Others   | 30,102           | 101              |
| Government of Montenegro   | -                | 3,921            |
| Local self-government units  | 850              | 350              |
| Other beneficiaries of the Budget of Montenegro                          | -                | 13               |
| Regulatory agencies, residents   | 1,850            | 2,500            |
| Investment and Development Fund of Montenegro                            | 1,500            | -                |
| Insurance companies/reinsurance in the private property, residents       | 1,434            | 1,630            |
|  | <b>102,472</b>   | <b>86,051</b>    |

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**PRVA BANKA CRNE GORE A.D., PODGORICA –**  
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### **Long-term deposits:**

|  |                |                |
|--|----------------|----------------|
| Companies dealing with brokerage activities at capital market, residents | 50             | -              |
| Companies owned by the state, residents                                  | 378            | 820            |
| Companies privately owned, residents                                     | 4,193          | 4,607          |
| Companies, non-residents   | 696            | 970            |
| Retail clients, residents  | 20,670         | 27,618         |
| Retail clients, non-residents  | 14,206         | 13,312         |
| Non-government and other non-profit organizations, residents             | 40             | 173            |
| Local self-government units  | 1,000          | 1,000          |
| Investment and Development Fund of Montenegro                            | -              | 2,350          |
| Insurance companies / reinsurance in the private property, residents     | 553            | 950            |
|  | <b>41,786</b>  | <b>51,799</b>  |
| <b>Total deposits</b>  | <b>219,833</b> | <b>201,488</b> |
| Interest invoiced: Deposits  | <b>1,801</b>   | <b>2,164</b>   |
|  | <b>221,634</b> | <b>203,652</b> |

Retail demand deposits denominated in EUR were deposited at an interest rate of 0.23% annually, while retail demand deposits denominated in foreign currency earned no interest. Demand deposits of corporate clients denominated in EUR earned interest at rate ranging from 0.03% to 0.1% annually, depending on the average balance on the account. Demand deposits of corporate clients denominated in foreign currency earned no interest.

Short-term general purpose deposits of retail clients denominated in EUR were placed at interest rates ranging from 0.20% to 3.90% annually, depending on the time periods, and the amount to be deposited. Long-term general purpose deposits of retail clients denominated in EUR are placed at interest rates ranging from 3.90% to 4.80% annually, depending on time period, and the amount to be deposited. For term amounts for a period longer than 36 months and the amount of over EUR 100 thousand, the interest rate can be agreed for each individual case.

Short-term general purpose deposits of retail customers denominated in foreign currency are placed at interest rates ranging from 0.10% to 0.35% annually, depending on the deposit period. Long-term general purpose deposits of retail customers denominated in foreign currency are placed at interest rates ranging from 0.35% to 0.5% annually, depending on the deposit period.

Short-term general purpose deposits of corporate clients denominated in EUR are placed at interest rates ranging from 0.15% to 3.80% annually depending on depositing period and the amount deposited. Long-term general purpose deposits of corporate clients denominated in EUR are placed at interest rates ranging from 3.80% to 4.20% annually, depending on depositing period and amount deposited. For term deposit amounts for a period longer than 36 months and the amount over EUR 100 thousand, as well for all special purpose deposits a special interest rate is contractually agreed, the interest rate can be agreed for each individual case.

Short-term deposits of corporate clients denominated in foreign currency are deposited at interest rates ranging from 0.05% to 0.3% annually, depending on the deposit period. Long-term deposits of corporate clients denominated in foreign currencies are deposited at interest rates in the range of 0.3% to 0.4% annually, depending on the deposit period.

Short-term deposits EPCG, with the balance of EUR 36,584 thousand as at December 31, 2014, relate to four deposits in the amount of EUR 84 thousand, EUR 28,000 thousand, EUR 6,500 thousand and EUR 2,000 thousand placed for a period of 1 month, 366 days, 12 months and 15 months after at interest rates of 0.15%, 3.35%, 2.65% i 3.09% p.a. respectively.

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### **26. BORROWED FUNDS FROM OTHER CLIENTS**

(In 000 EUR)

|   | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|---|------------------|------------------|
| <i>Special purpose loans from government agencies</i> |                  |                  |
| - Investment and Development Fund of Montenegro       | 1,587            | 2,272            |
| - Agency for development of SME                       | 18               | 109              |
|   | <u>1,605</u>     | <u>2,380</u>     |

The borrowings from IRF are taken at an interest rate ranging from 1% -4% per annum with a maturity of 4-8 years and a grace period of 12-24 months.

The borrowings from the Directorate for SME have been taken at an interest rate of 2% with a maturity of 66 months and a grace period of 18 months.

### **27. SUBORDINATED DEBT**

(In 000 EUR)

| <b>Name of creditor</b>                            | <b>Maturity date</b> | <b>Interest rate</b> | <b>December 31, 2014</b> | <b>December 31, 2013</b> |
|--|----------------------|----------------------|--------------------------|--------------------------|
| „ELEKTROPRIVREDA CG" Nikšić                        | 31/03/2020           | 8.5%                 | 6,000                    | 6,000                    |
| "BEMAX" DRUŠTVO SA OGRANICENOM ODGOVORNO Podgorica | 20/04/2019           | 8.0%                 | 1,100                    | 1,100                    |
| KOLAREVIĆ METO MEHMED                              | 28/01/2016           | 8.0%                 | 600                      | 600                      |
| NICOVIC DJORDJE                                    | 18/04/2020           | 8.5%                 | 720                      | 720                      |
| ZEC BLAŽO RADOMIR                                  | 28/01/2016           | 8.0%                 | 600                      | 600                      |
|  |                      |                      | <u>9,020</u>             | <u>9,020</u>             |
| Invoiced interest                                  |                      |                      | 170                      | 168                      |
|  |                      |                      | <u>9,190</u>             | <u>9,188</u>             |

On 31 March 2010, the Bank has concluded the Subordinated debt agreement with the EPCG AD Nikšić in the amount of EUR 10,000 thousand with a maturity period of 5 years at an interest rate of 10% annually. The Loan is to be repaid in full on the debt maturity date. In case of default payment of interest, the applicable annual interest rate will be 15% a. On 19 April 2011, annex to the Agreement was signed which defines the early repayment of EUR 3,000 thousand by conversion into shares of the Bank.

In May 2012, the Bank signed the Annex II to the Subordinated debt agreement, entered into with EPCG AD Nikšić as of 31 March 2010, which stipulates that a portion of the subordinated debt, in the amount of EUR 1 million, upon the approval of the Central Bank of Montenegro, is to be paid to the creditor prior to maturity, whereas for the remaining portion of subordinated debt of EUR 6 million, subsequent to the payment of the aforementioned amount, the maturity is extended up to the end of February 2018, at agreed annual interest rate of 8.5%.

In December 2010, the Bank concluded the Subordinated debt Agreements with retail customers in the total amount of EUR 3,020 thousand, with maturity of 5 years and annual interest rates ranging from 8% to 8.5%. Loans are due for

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### **NOTES TO THE FINANCIAL STATEMENTS December 31, 2014**

### **PRVA BANKA CRNE GORE A.D., PODGORICA – OSNOVANA 1901. GODINE**

settlement in full at their maturity dates. On 15 April 2011, Annexes to the Agreement were signed which define the early repayment by conversion of the total debt outstanding into the Bank's shares, i.e. by purchase of 8,605 of primary issue common shares at the price of EUR 127.82 (EUR 1,100 thousand).

On December 30, 2011 and January 20, 2012, the Bank concluded Agreements on subordinated debt with Bemax d.o.o. Podgorica, amounting to EUR 800 thousand, i.e. and EUR 1,000 thousand, respectively, with maturity period of 64 months at annual interest rate of 8%.

On June 30, 2013 the Bank reduce liabilities to companies Bemax d.o.o. based on subordinated debt of EUR 700 thousand. Further, the Bank, after permission CBM concluded with BEMAX Annex to the Agreement on subordinated, pursuant to which the total amount of debt of EUR 1,100 thousand is due on 20 April 2019th year.

In 2014 the Bank annexed the Agreement on subordinated debt with EPCG maturity on March 31, 2020 and the agreement on subordinated debt with Nicović Đorđio to maturity April 18, 2020.

In accordance with the Decision on capital adequacy ("Official Gazette of Montenegro", no. 38/11 and 55/12), subordinated loans are included in supplementary capital when calculating capital adequacy ratio.

## **28. OTHER LIABILITIES**

(In 000 EUR)

|   | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|---|------------------|------------------|
| Accounts payable  | 356              | 362              |
| Taxes payable   | 563              | 545              |
| Liability arising from advances received:                       | 1,763            | 1,654            |
| - advanced payments based on loans                              | 861              | 663              |
| - advanced payments based on cards                              | 408              | 441              |
| - Government of Montenegro advance based on subsidized interest | 373              | 437              |
| - other liabilities based on advances received                  | 121              | 113              |
| Liabilities toward employees                                    | 132              | 259              |
| Temporary and suspense I accounts                               | 6,226            | 245              |
| - Temporary RN-dep. for opening RN                              | 6,517            | 81               |
| - Temporary RN -other   | (290)            | 164              |
| Liabilities arising from operations on consignment              | 103              | 324              |
| Liabilities arising from dividend payments                      | 388              | 20               |
| Other liabilities   | 117              | (62)             |
|   | <u>9,650</u>     | <u>3,348</u>     |

The amount of EUR 6,500 thousand on the temporary account refers to a special purpose deposit for opening a financial institution in Montenegro. This deposit after opening the institution has been transferred to their account.

## **29. RESERVES**

(In 000 EUR)

|   | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|---|------------------|------------------|
| <b>Reserves for loan losses based on:</b> |                  |                  |
| - IAS 19                                  | 212              | 191              |
| - off-balance exposures                   | -                | -                |
| - disputes                                | 85               | -                |
| - operational risk                        | 12               | 13               |
|   | <u>309</u>       | <u>204</u>       |

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TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail



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### NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

### PRVA BANKA CRNE GORE A.D., PODGORICA – OSNOVANA 1901. GODINE

#### 30. EQUITY

##### (A) Shareholder's equity

As of December 31, 2014 the Bank's share capital comprised 410,168 common shares (December 31, 2013: 410,168), with the individual par value of EUR 127.82 and 23,471 non-cumulative preference shares (December 31, 2013: 23,471) with individual par value of EUR 127.82.

As of December 31, 2014, the Bank had a total number of 284 shareholders (2013: 290 shareholders).

On December 30, 2009 the Board of Directors adopted the Decision on the XVII share issuance amounting EUR 10,000 thousand, i.e. 78,237 shares of "RE-17" series, with the individual par value of EUR 127.82. According to the adopted Decision, the Bank's share capital was increased during 2011 based on the realized XVII share issuance in the total amount of EUR 8,666 thousand, i.e. 67,800 common shares of the individual par value of EUR 127.82, which were fully paid in cash. On April 27, 2011, the Securities and Exchange Commission adopted the Decision establishing the success of share issuance of the total value of EUR 8,666 thousand, representing 86.66% of the approved volume of the share issuance.

| Shareholder   | 31-Dec-14      |               |              |             | 31-Dec-13      |               |              |             |
|---|----------------|---------------|--------------|-------------|----------------|---------------|--------------|-------------|
|   | Shares         | Common        | Preferential | % Part      | Shares         | Common        | Preferential | % Part      |
| DJUKANOVIĆ ACO  | 170,073        | 21,739        |              | 39.22%      | 170,073        | 21,739        |              | 39.22%      |
| ELEKTROPRIVREDA CRNE GORE<br>A.D NIKŠIĆ                                 | 81,035         | 10,358        | 3,000        | 24.10%      | 81,035         | 10,358        | 3,000        | 24.10%      |
| HIPOTEKARNA BANKA A.D<br>Podgorica/HB - Custody account 1               | 18,649         | 2,384         |              | 4.30%       | 9,114          | 1,165         |              | 2.10%       |
| PRVA BANKA CRNE GORE AD.<br>PODGORICA/PA - Custody account<br>1         | 14,010         | 1,791         |              | 3.23%       | 14,010         | 1,791         |              | 3.23%       |
| CRNOGORSKA KOMERCIJALNA<br>BANKA A.D/CK - Custody account 1             | 12,695         | 1,623         |              | 2.93%       | 12,695         | 1,623         |              | 2.93%       |
| LOVČEN OSIGURANJE<br>PODGORICA  | 9,508          | 1,215         |              | 2.19%       | 9,508          | 1,215         |              | 2.19%       |
| P & G AGENCY  | 7,821          | 1,000         |              | 1.80%       | 8,211          | 1,050         |              | 1.90%       |
| IVANOVIĆ MIODRAG  | 7,041          | 900           |              | 1.62%       | 7,041          | 900           |              | 1.62%       |
| STADION   | 5,794          | 741           |              | 1.34%       | 5,794          | 741           |              | 1.34%       |
| ĆUPIĆ BRANKO  | 5,042          | 644           |              | 1.16%       | 5,042          | 644           |              | 1.16%       |
| MONIINVEST  | 4,675          | 598           |              | 1.08%       | 4,675          | 598           |              | 1.08%       |
| HP " FJORD" A.D KOTOR   | 3,952          | 505           |              | 0.91%       | 3,952          | 505           |              | 0.91%       |
| Petričević Jelica   | 3,919          | 501           |              | 0.90%       | 3,919          | 501           |              | 0.90%       |
| Otvoreni investicioni fond "TREND"-<br>in the process of transformation | 3,277          | 419           |              | 0.76%       | 0              | 0             |              | 0.00%       |
| TABACCO SHOP  | 2,998          | 383           |              | 0.69%       | 2,998          | 383           |              | 0.69%       |
| OSTOJIĆ ŽELJKO  | 2,893          | 370           |              | 0.67%       | 2,893          | 370           |              | 0.67%       |
| Others  | 56,786         | 7,258         |              | 13.10%      | 69,208         | 8,846         |              | 16.00%      |
| <b>Total</b>  | <b>410,168</b> | <b>52,427</b> | <b>3,000</b> | <b>100%</b> | <b>410,168</b> | <b>52,428</b> | <b>3,000</b> | <b>100%</b> |

##### (B) Bank's performance indicators – compliance with regulations of the CBM

The Bank is obligated to fully reconcile the scope of its operations with the Regulations of the Central Bank of Montenegro.

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December 31, 2014

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| Performance indicators  | Prescribed   | Achieved on<br>December 31,  |  |
|---|--|--|--|
|   |  | 2014   | 2013   |
| Equity  | The minimum amount of foundation capital EUR 5 million | 55,862   | 55,428   |
| Capital adequacy ratio  | Minimum 10%  | 13.58%   | 11.05%   |
| The total amount of own shares and other elements of own funds acquired by the Bank   | Max 5% of own funds of the Bank                        | 0,00%  | 0,00%  |
| The Bank's total exposure to individual party or groups of related parties  | Maximum 25% of bank's own funds                        | 25% and less except with two clients (50.95%; 26.28%)                  | 25% and less except with 3 clients (69.63%; 36.41%; 36.14%)                |
| Sum of large exposures  | Maximum 800% of bank's own funds                       | 222.38%  | 290.11%  |
| Total exposure to bank's related parties  | Maximum 200% of bank's own funds                       | 55.61%   | 102.19%  |
| Total exposure to a member of Board of Directors, Audit committee or the Executive Board  | Maximum 2% of bank's own funds                         | Largest exposure – 0.031%  | Largest exposure – 0.37%   |
| Total exposure to a party controlled by member of Board of Directors, Audit committee or the Executive Board  | Maximum 10% of bank's own funds                        | -  | Largest exposure 0.11%   |
| Total exposure to an employee   | Maximum 1% of bank's own funds                         | Largest exposure 0.32%   | Largest exposure 0.37%   |
| Total exposure to the shareholder who has no qualified stake in a Bank  | Maximum 10% of bank's own funds                        | 10% and less except with 1 shareholders (12.16%)                       | 10% and less except with 4 shareholders (23.29%; 13.70%; 11.53%; 14.23%)   |
| Total exposure to the shareholders who have qualifying holdings in the bank, including exposure to legal entities which are under the control of the shareholders | Maximum 20% of bank's own funds                        | 0.12%  | 13.16%   |
| Total exposure to legal entities which control the person that controls the bank  | Maximum 20% of bank's own funds                        | -  | -  |
| Total exposure to entities controlled by the Bank   | Maximum 20% of bank's own funds                        | 12.37%   | 14.57%   |
| Minimum liquidity ratio   | 0.9 on a daily basis/1 on a decade basis               | 1.24; 1.32   | 1.12; 1.16   |
| Currency risk - net open position on an individual basis  | 15% of the core capital                                | Largest net open position on an individual basis per currency 1% (GBP) | Largest net open position on an individual basis per currency 10.11% (USD) |
| Currency risk - net open position on an aggregate basis   | 20% of the core capital                                | 4.11%  | 4.87%  |
| Total bank investments in real estate and fixed assets  | Maximum 40% of bank's own funds                        | 34.63%   | 46.90%   |

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### **NOTES TO THE FINANCIAL STATEMENTS December 31, 2014**

### **PRVA BANKA CRNE GORE A.D., PODGORICA – OSNOVANA 1901. GODINE**

In accordance with the Law on Banks (Official Gazette of Montenegro, No 17/2008 as of 11 March 2008, 44/2010 as of 30 July 2010 and no. 40/2011 as of 8 August 2011) the Bank is obligated to limit its exposure to its related parties.

As of December 31, 2014, the Bank did not comply with the prescribed maximum of 10% of own funds in its exposure to one customer: 14 September.

In accordance with the Law on Banks (Official Gazette of Montenegro, No. 17/2008 as of 11 March 2008, 44/2010 as of 30 July 2010 and no. 40/2011 as of 8 August 2011) the Bank is obligated to limit its total exposure to an individual and group of related parties.

As of December 31, 2014, the Bank did not comply with the prescribed limit of 25% of its own funds in its exposure to 2 customers: Lunez One S.R.O. and Zurecon.

#### **Own funds**

According to the Law on Banks ("Official Gazette of Montenegro" 17/08 from 11.03.2008, 44/10 from 30/07/2010, and 40/11 from 08/08/2011) the amount of the founding capital cannot be less than EUR 5 million. As prescribed by the Decision on the Capital adequacy of banks ("Off. Gazette of Montenegro", 38/2011 and 55/2012) the Bank is obliged to determine its capital adequacy based on its own funds, as an absolute capital adequacy indicator and capital adequacy ratio, as a relative capital adequacy indicator. The Bank's own funds represent the sum of the paid-in share capital and other core and supplementary elements of own funds, decreased by deductible items.

The amount of own funds must always be at a level equal to or greater than:

- a. the minimum amount of cash part of founding capital;
- b. the total amount of capital requirement for all risks.

The total amount of required capital is the sum of:

1. The required capital for credit risk, market risk and operational risk, calculated by applying the appropriate methodology,
2. The required capital for country risk calculated in accordance with the Central Bank of Montenegro which prescribes the methodology for the calculation of required capital for country risk;
3. The required capital for other risks calculated using the selected methodology.

Starting as of January 1, 2013, the Bank evaluates items of balance sheet assets and off-balance sheet items in accordance with International Accounting Standards and presents them in accordance with International Financial Reporting Standards. The transition to the new accounting policy secures certain changes in the structure of the Bank's own funds. In fact, according to the Decision on Amendments to the Decision on the capital adequacy of banks added component in the basic elements of its own resources - reserves for estimated losses on regulatory requirements, allocated in accordance with the decision laying down minimum standards for credit risk management in banks, as well as component the deduction from core capital - a positive difference between the amount of accrued reserves for potential losses and the sum of allowances for items of balance sheet assets and provisions for off-balance sheet items.

Net assets at December 31, 2014 amounted to EUR 26,435 thousand (December 31, 2013: EUR 20,989 thousand).

#### ***Bank's capital adequacy ratio***

Pursuant to the provisions of the Decision on the capital adequacy of banks ("Official Gazette of Montenegro", No. 38/2011 and 55/2012) the Bank calculated capital required for the risks it is exposed to in the course of its operations, as well as its capital adequacy ratio. The minimum capital adequacy ratio must not be below 12% according to decision of the CBM "T" no 0102-2/3, February 13, 2014.

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The capital adequacy ratio represents the percentage ratio of the Bank's own funds and the sum of the following:

1. total amount of risk weighted assets for credit risk (including risk weighted assets for counterparty risk)
2. capital requirements for market risks;
3. capital requirements for operational risks;
4. total amount of risk weighted assets for other risks.

As of December 31, 2014, according to the Bank's calculations, the capital adequacy ratio equal 13.58% (December 31, 2013: 11.05%).

### **Other reserves**

Other reserves included within the capital, in the amount of EUR 9,753 thousand represent the difference between the calculated less allowance for items of balance sheet assets and provisions for off-balance sheet items as at January 1, 2013 in relation to the provisions for potential credit losses and write-offs (EUR 9,319 thousand) and profit gained in 2013 (EUR 434 thousand), in accordance with regulations as of CBM.

### **31. CASH AND CASH EQUIVALENTS**

Within the cash and cash equivalents for the purpose of creating the statement of cash flows are included in the bank position:

(In 000 EUR)

|  | Note | <u>31-Dec-14</u>     | <u>31-Dec-13</u>     |
|--|------|----------------------|----------------------|
| Cash and deposit accounts with central banks | 12   | 40,668               | 27,356               |
| Loans and receivables with banks             | 13   | 11,210               | 5,814                |
| <b>Total</b>                                 |      | <u><b>51,878</b></u> | <u><b>33,170</b></u> |

### **32. RELATED PARTY TRANSACTIONS**

Pursuant to the Law on Banks ("Official Gazette of Montenegro, no. 17/08 as of March 11, 2008, no. 44/10 as of July 30, 2010 and no. 40/11 as of August 8, 2011), the entities with significant influence on the Banks operations are those with at least one representative in the Board of Directors or in a similar body, either through shareholding, based on agreement with the owners or in some other way.

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As of December 31, 2014 and 2013, the summary of receivables and liabilities, arising from transactions with related parties is provided in the table below:

|                                    | In 000 EUR    |               |
|------------------------------------|---------------|---------------|
|                                    | 31-Dec-14     | 31-Dec-13     |
| <b>Loans and receivables</b>       |               |               |
| MONTENEGRO INVESTMENT CREDIT       | 3,224         | 2,950         |
| 14 SEPTEMBAR D.O.O. PODGORICA      | 2,650         | 2,650         |
| TEHNOPUT D.O.O. Podgorica          | 2,137         | 2,490         |
| RUDNIK UGLJA AD PLJEVLJA           | 1,890         | -             |
| „JAVORAK MB“ d.o.o. - Nikšić       | 1,444         | 1,331         |
| AD SKI RESORT KOLASIN 1450         | 892           | 800           |
| ZLA GORA DOO                       | 778           | 754           |
| BOOSTER DOO                        | 765           | 765           |
| EUROINVEST A.D. PODGORICA          | 708           | 667           |
| MEHMED KOLAREVIĆ                   | 643           | 702           |
| HTP MIMOZA TIVAT                   | 457           | -             |
| Others                             | 4,523         | 16,368        |
| <b>Total</b>                       | <b>20,111</b> | <b>29,477</b> |
| <b>Off-balance positions</b>       |               |               |
| TABACCO SHOP                       | 1,101         | 1,096         |
| BAMBI-99                           | 870           | 70            |
| MARTEX D.O.O.                      | 354           | 350           |
| CELEBIC                            | 273           | -             |
| KAPITAL TRADE MM                   | 200           | 200           |
| Others                             | 1,114         | 5,530         |
| <b>Total</b>                       | <b>3,912</b>  | <b>7,246</b>  |
| <b>Deposits from clients</b>       |               |               |
| A vista deposits                   |               |               |
| ELEKTROPRIVREDA                    | 3,181         | 3,508         |
| ACO ĐUKANOVIĆ                      | 2,243         | 2,688         |
| RADIO-DIFUZNI CENTAR               | 1,123         | -             |
| AD RADVENT                         | 1,010         | 1             |
| Others                             | 3,376         | 2,709         |
| <b>Total</b>                       | <b>10,933</b> | <b>8,906</b>  |
| Term deposits                      |               |               |
| ELEKTROPRIVREDA                    | 36,584        | 42,121        |
| CAPITAL INVEST                     | 1,030         | 1,030         |
| "MONTENEGROPROMET" BUDVA AD        | 1,000         | 1,000         |
| RADIO-DIFUZNI CENTAR               | 500           | -             |
| Others                             | 1,942         | 5,755         |
| <b>Total</b>                       | <b>41,056</b> | <b>49,906</b> |
| <b>Total deposits from clients</b> | <b>51,989</b> | <b>58,812</b> |
| <b>Subordinated debt</b>           |               |               |
| ELEKTROPRIVREDA                    | 6,000         | 6,000         |
| NICOVIĆ ĐORĐE                      | 720           | 720           |
| MEHMED KOLAREVIĆ                   | 600           | 600           |
| <b>Total</b>                       | <b>7,320</b>  | <b>7,320</b>  |

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|   | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|---|------------------|------------------|
| <b>Interest income</b>                        |                  |                  |
| TEHNOPUT D.O.O. Podgorica                     | 249              | 248              |
| SUBLIME DEVELOPMENTS                          | 144              | -                |
| ZLA GORA DOO                                  | 95               | 15               |
| „JAVORAK MB" d.o.o. - Nikšić                  | 85               | 113              |
| BOOSTER DOO                                   | 81               | 14               |
| BROADBAND MONTENEGRO                          | 51               | -                |
| MESNA INDUSTRIJA GORANOVIĆ                    | 51               | 59               |
| EUROINVEST A.D. PODGORICA                     | 41               | 43               |
| MARTEX D.O.O.                                 | 41               | 34               |
| MEHMED KOLAREVIĆ                              | 30               | 36               |
| Others  | 370              | 783              |
| <b>Total</b>                                  | <b>1,238</b>     | <b>1,345</b>     |
| <b>Fee income</b>                             |                  |                  |
| ELEKTROPRIVREDA                               | 12               | 7                |
| MARTEX D.O.O.                                 | 11               | 10               |
| BAMBI-99                                      | 10               | 2                |
| BOOSTER DOO                                   | 7                | 7                |
| „JAVORAK MB" d.o.o. - Nikšić                  | 7                | -                |
| KRUŠO D.O.O.                                  | 6                | 6                |
| TABACCO SHOP                                  | 5                | 6                |
| REPUBLIČKI ZAVOD ZA URBANIZAM I PROJEKTOVANJE | 5                | 3                |
| HTP MIMOZA TIVAT                              | 5                | -                |
| KAPITAL TRADE MM                              | 5                | 5                |
| Others  | 39               | 193              |
| <b>Total</b>                                  | <b>112</b>       | <b>239</b>       |
| <b>Total income</b>                           | <b>1,350</b>     | <b>1,584</b>     |
| <b>Expenses</b>                               |                  |                  |
| ELEKTROPRIVREDA                               | 1,904            | 2,534            |
| ACO ĐUKANOVIĆ                                 | 236              | 236              |
| CAPITAL INVEST                                | 60               | 1                |
| MONTENEGROPROMET BUDVA                        | 58               | -                |
| INDUSTRIJA PIVA I SOKOVA "TREBJESA"           | 29               | 30               |
| Others  | 116              | 188              |
| <b>Total</b>                                  | <b>2,404</b>     | <b>2,989</b>     |
| <b>Income/expenses, net</b>                   | <b>(1,054)</b>   | <b>(1,405)</b>   |

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Remunerations paid to the members of the Banks main boards are presented in the table below:

(In 000 EUR)

|   | 2014       |            | 2013       |            |
|---|------------|------------|------------|------------|
|   | Net        | Gross      | Net        | Gross      |
| Board of Directors  | 84         | 122        | 110        | 162        |
| Audit Committee   | 25         | 26         | 25         | 27         |
| Chief Executive Officer, Executive Directors and heads of departments | 213        | 342        | 175        | 278        |
| <b>Total:</b>   | <b>322</b> | <b>490</b> | <b>310</b> | <b>467</b> |

### 33. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

Availability of the Bank's funds is affected, besides inflows and other transactions, by customer's requests for withdrawal of funds from their current accounts and deposits.

The maturities of the Bank's asset and liability components, as of December 31, 2014 were as follows:

| Financial assets in balance sheet          | 1-30 days     | 31 - 90 days  | 91 - 180 days | 181 - 365 days | 1 - 5 year     | Over 5 year   | TOTAL          | Allowance for impairment | In 000 EUR     |
|--|---------------|---------------|---------------|----------------|----------------|---------------|----------------|--------------------------|----------------|
|  |               |               |               |                |                |               |                |                          | Total net      |
| Cash balances, deposits with central banks | 40,668        | -             | -             | -              | -              | -             | 40,668         | -                        | 40,668         |
| Loans and receivables with banks           | 9,453         | -             | 721           | -              | 1,054          | -             | 11,228         | -                        | 11,228         |
| Loans and receivables with customers       | 39,897        | 12,640        | 9,805         | 33,754         | 69,736         | 24,828        | 190,660        | 19,151                   | 171,509        |
| Assets held for sale                       | -             | -             | -             | -              | 5,434          | -             | 5,434          | -                        | 5,434          |
| Financial assets held for trading          | 293           | -             | -             | -              | -              | -             | 293            | -                        | 293            |
| Securities held to maturity                | -             | 4,492         | 1,499         | -              | -              | -             | 5,991          | -                        | 5,991          |
| Investments in subsidiaries                | -             | -             | -             | -              | 3,252          | -             | 3,252          | -                        | 3,252          |
| Property, plant and equipment              | -             | -             | -             | -              | -              | 1,547         | 1,547          | -                        | 1,547          |
| Intangible assets                          | -             | -             | -             | -              | -              | 143           | 143            | -                        | 143            |
| Deferred tax assets                        | -             | -             | -             | -              | -              | 202           | 202            | -                        | 202            |
| Other financial receivables                | 278           | -             | 125           | -              | 2,189          | -             | 2,592          | -                        | 2,592          |
| Other operating receivables                | -             | -             | -             | -              | 33,514         | -             | 33,514         | 35                       | 33,479         |
| <b>Total</b>                               | <b>90,589</b> | <b>17,132</b> | <b>12,150</b> | <b>33,754</b>  | <b>115,179</b> | <b>26,720</b> | <b>295,524</b> | <b>19,186</b>            | <b>276,338</b> |

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| Financial liabilities in balance sheet | 1-30 days     | 31 - 90 days  | 91 - 180 days | 181 - 365 days | 1 - 5 year    | Over 5 year  | TOTAL          | Allowance for impairment | Total net      |
|--|---------------|---------------|---------------|----------------|---------------|--------------|----------------|--------------------------|----------------|
| Deposits from banks and customers      | 41,280        | 41,110        | 79,985        | 41,192         | 18,935        | 652          | 223,154        | -                        | 223,154        |
| Borrowings from other clients          | 65            | 162           | 91            | 278            | 801           | 208          | 1,605          | -                        | 1,605          |
| Reserves                               | -             | -             | -             | 159            | 150           | -            | 309            | -                        | 309            |
| Other liabilities                      | 8,995         | 655           | -             | -              | -             | -            | 9,650          | -                        | 9,650          |
| Subordinated debt                      | -             | 124           | 46            | -              | 2,300         | 6,720        | 9,190          | -                        | 9,190          |
| <b>Total</b>                           | <b>50,340</b> | <b>42,051</b> | <b>80,122</b> | <b>41,629</b>  | <b>22,186</b> | <b>7,580</b> | <b>243,908</b> | <b>-</b>                 | <b>243,908</b> |
| <b>Maturity gap</b>                    |               |               |               |                |               |              |                |                          |                |
| 31 December 2014                       | 40,249        | (24,919)      | (67,972)      | (7,875)        | 92,993        | 19,140       | 51,616         |                          |                |
| 31 December 2013                       | 16,653        | (52,625)      | (33,377)      | (7,224)        | 103,487       | 24,674       | 51,589         |                          |                |
| <b>Cumulative GAP:</b>                 |               |               |               |                |               |              |                |                          |                |
| 31 December 2014                       | 40,249        | 15,330        | (52,642)      | (60,517)       | 32,476        | 51,616       |                |                          |                |
| 31 December 2013                       | 16,653        | (35,972)      | (69,349)      | (76,573)       | 26,914        | 51,589       |                |                          |                |

A vista deposits are allocated within the position deposits from banks and customers in accordance with the methodology for establishing a stable level of deposits. The basic assumption that the Bank uses to determine a stable level of a vista deposits is the amount of the daily balance of a vista deposits, for which the expected outflow in the period of 91 days or more from the date of initial state of a vista deposits can be considered as a stable level of a vista deposits. The selected statistical method for estimating the maximum expected outflow of a vista deposits at a particular day in the coming period is the VaR method. Bearing in mind that VaR is the number that expresses the maximum expected loss for a given period of time and for a given level of confidence, the Bank uses the Value at Risk - VaR (Value at Risk) statistical method for determining the maximum expected outflow of a vista deposits for a particular period of time with a given level of confidence.

The Bank's liquidity, considered as its ability to settle its liabilities when due, depends on the one hand on its balance sheet structure, and on the other hand, on the matching or balanced mismatching between inflows and outflows of funds. As of December 31, 2014 the structure of financial assets and liabilities indicates a liquidity gap between the maturity of assets and liabilities in the period of up to one year. During 2014, the Bank experienced no liquidity issues. The Bank's management believes that the negative cumulative GAP of up to 1 year will not cause liquidity problems in the next year.

Further, in order to mitigate negative cumulative GAP up to 1 year, the Bank's management has defined and carried out the set of measures in 2014, which among other includes: defining the collection strategies for different asset positions, granting of loans with shorter maturities and without one-time payments, increasing deposits diversification and improvement deposit structure by increasing of time deposits' portion in the amount of total deposits. In addition, the Bank's management has also defined and carried out a set of activities, including making plans for anticipated funds inflows and outflows, together with key depositors, rescheduling of significant deposits, by prolonging the maturity periods and at lower interest rates, and annexation of matured deposits, as well as providing new funds in order to ensure their stability.



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### **34. INTEREST RATE RISK**

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk requires special attention from the Bank, due to existing circumstances of frequent interest rate fluctuations, and the unbalanced level of capital supply and demand. Interest rate risk is unfavourable when there is fluctuation in the price of a loan in relation of the level of effective interest rates on deposits, and the potential reduction in the optimal difference between the average interest rates on loans one hand, and deposits on the other.

The following table shows the interest-bearing and non-interest bearing assets and liabilities of the Bank as at 31 December 2014:

|  | <b>In 000 EUR</b>       |                             |                |
|--|-------------------------|-----------------------------|----------------|
| <b>ASSETS</b>                                | <b>Interest bearing</b> | <b>Non-interest bearing</b> | <b>Total</b>   |
| Cash and deposit accounts with central banks | 1,455                   | 39,213                      | 40,668         |
| Loans and receivables with banks             | 984                     | 10,244                      | 11,228         |
| Loans and receivables with customers         | 171,509                 | -                           | 171,509        |
| Assets held for sale                         | -                       | 5,434                       | 5,434          |
| Financial assets held for trading            | -                       | 293                         | 293            |
| Securities held to maturity                  | 5,991                   | -                           | 5,991          |
| Investments in subsidiaries                  | -                       | 3,252                       | 3,252          |
| Other financial receivables                  | 15                      | 2,577                       | 2,592          |
| <b>Total assets</b>                          | <b>179,954</b>          | <b>61,013</b>               | <b>240,967</b> |
| <b>LIABILITIES</b>                           |                         |                             |                |
| Deposits from banks                          | 1,500                   | 20                          | 1,520          |
| Deposits from customers                      | 212,162                 | 9,472                       | 221,634        |
| Borrowings from other clients                | 1,605                   | -                           | 1,605          |
| Other liabilities                            | 2,360                   | 7,290                       | 9,650          |
| Subordinated debt                            | 9,190                   | -                           | 9,190          |
| <b>Total liabilities</b>                     | <b>226,817</b>          | <b>16,782</b>               | <b>243,599</b> |
| <b>Exposure to interest rate risk</b>        |                         |                             |                |
| <b>31 December 2014</b>                      | <b>(46,863)</b>         | <b>44,231</b>               | <b>(2,632)</b> |
| <b>31 December 2013</b>                      | <b>(31,647)</b>         | <b>34,974</b>               | <b>3,327</b>   |

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The table below shows the Bank's exposure to interest rate risk as of December 31, 2014:

|   | In 000 EUR    |               |               |               |               |                |                          |                |
|---|---------------|---------------|---------------|---------------|---------------|----------------|--------------------------|----------------|
| ASSETS  | 1-30 days     | 31-90 days    | 91-180 days   | 181-365 days  | Over 1 year   | Total          | Allowance for impairment | Total net      |
| Cash and deposit accounts with central banks          | 1,455         | -             | -             | -             | -             | 1,455          | -                        | 1,455          |
| Loans and receivables with banks                      | -             | -             | 721           | -             | 263           | 984            | -                        | 984            |
| Loans and receivables with customers                  | 39,897        | 12,640        | 9,805         | 33,754        | 94,564        | 190,660        | 19,151                   | 171,509        |
| Securities held to maturity                           | -             | 4,492         | 1,499         | -             | -             | 5,991          | -                        | 5,991          |
| Other financial receivables                           | 15            | -             | -             | -             | -             | 15             | -                        | 15             |
| <b>Total assets</b>                                   | <b>41,367</b> | <b>17,132</b> | <b>12,025</b> | <b>33,754</b> | <b>94,827</b> | <b>199,105</b> | <b>19,151</b>            | <b>179,954</b> |
| <b>LIABILITIES</b>                                    |               |               |               |               |               |                |                          |                |
| Deposits from banks and customers                     | 31,787        | 41,111        | 79,985        | 41,192        | 19,587        | 213,662        | -                        | 213,662        |
| Borrowings from other clients                         | 65            | 162           | 91            | 278           | 1,009         | 1,605          | -                        | 1,605          |
| Other liabilities                                     | 1,631         | 683           | 46            | -             | -             | 2,360          | -                        | 2,360          |
| Subordinated debt                                     | -             | 125           | 45            | -             | 9,020         | 9,190          | -                        | 9,190          |
| <b>Total liabilities</b>                              | <b>33,483</b> | <b>42,081</b> | <b>80,167</b> | <b>41,470</b> | <b>29,616</b> | <b>226,817</b> | <b>-</b>                 | <b>226,817</b> |
| <b>GAP</b>  |               |               |               |               |               |                |                          |                |
| GAP – as at 31 December 2014                          | 7,884         | (24,949)      | (68,142)      | (7,716)       | 65,211        | (27,712)       |                          |                |
| GAP – as at 31 December 2013                          | (1,613)       | (48,040)      | (24,658)      | (10,253)      | 76,038        | (8,527)        |                          |                |
| Cumulative Gap - Positive/Negative – 31 December 2014 | 7,884         | (17,065)      | (85,207)      | (92,923)      | (27,712)      |                |                          |                |
| Cumulative Gap - Positive/Negative – 31 December 2013 | (1,613)       | (49,653)      | (74,311)      | (84,565)      | (8,527)       |                |                          |                |
| Cumulative Gap / Total assets - 31 December 2014      | 22.9%         | (6.2)%        | (30.8)%       | (33.6)%       | (10)%         |                |                          |                |
| Cumulative Gap / Total assets - 31 December 2013      | -0.6%         | -19.8%        | -29.6%        | -33.7%        | -3.4%         |                |                          |                |

Bank simulates the impact of changes in interest rates on net interest income of the Bank, based on forecast trends in interest rates for all time intervals shown in the table in relation to the newcomers' average active interest rate. The impact on annual net interest income (NII) for individual GAP is obtained based on the formula:

The impact on annual NII = (periodic GAP) \*(period GAD (yr)) \* (interest rate change in basis points)

Given the maturity mismatch of interest-bearing assets and liabilities, i.e. mainly negative periodic GAP up to one year, the Bank will have a negative impact on annual net interest income in the event of an increase in interest rates.

(in 000 EUR)

|  | 31-Dec-14 | 31-Dec-13 |
|--|-----------|-----------|
| Increase for 100bps - impact on annual net interest income | (488)     | (601)     |
| Increase for 200bps - impact on annual net interest income | (976)     | (1,202)   |

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TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail

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### 35. CURRENCY RISK

Financial position and cash flows of the Bank are exposed to the effects of foreign currency exchange rate. Exposure to currency risk is regularly monitored by harmonizing them with the limits prescribed by the Central Bank of Montenegro.

Exposure to fluctuations in the exchange rate as at 31 December 2014 is shown in the following table:

| ASSETS                                       | In 000 EUR     |                                |                                |                            |                |
|--|----------------|--------------------------------|--------------------------------|----------------------------|----------------|
|  | USD            | OTHER<br>FOREIGN<br>CURRENCIES | TOTAL<br>FOREIGN<br>CURRENCIES | LOCAL<br>CURRENCY<br>(EUR) | TOTAL          |
| Cash and deposit accounts with central banks | 1,285          | 691                            | 1,976                          | 38,692                     | 40,668         |
| Loans and receivables with banks             | 4,818          | 509                            | 5,327                          | 5,901                      | 11,228         |
| Loans and receivables with customers         | 15             | -                              | 15                             | 171,494                    | 171,509        |
| Assets held for sale                         | -              | -                              | -                              | 5,434                      | 5,434          |
| Financial assets held for trading            | -              | -                              | -                              | 293                        | 293            |
| Securities held to maturity                  | -              | -                              | -                              | 5,991                      | 5,991          |
| Investments in subsidiaries                  | -              | -                              | -                              | 3,252                      | 3,252          |
| Other financial receivables                  | -              | -                              | -                              | 2,592                      | 2,592          |
| <b>Total assets</b>                          | <b>6,118</b>   | <b>1,200</b>                   | <b>7,318</b>                   | <b>233,649</b>             | <b>240,968</b> |
| <b>LIABILITIES</b>                           |                |                                |                                |                            |                |
| Deposits from banks                          | -              | -                              | -                              | 1,520                      | 1,520          |
| Deposits from customers                      | 6,247          | 258                            | 6,505                          | 215,129                    | 221,634        |
| Borrowings from other clients                | -              | -                              | -                              | 1,605                      | 1,605          |
| Other liabilities                            | 12             | -                              | 12                             | 9,638                      | 9,650          |
| Subordinated debt                            | -              | -                              | -                              | 9,190                      | 9,190          |
| <b>Total liabilities</b>                     | <b>6,259</b>   | <b>258</b>                     | <b>6,517</b>                   | <b>237,082</b>             | <b>243,599</b> |
| <b>Net exposure</b>                          |                |                                |                                |                            |                |
| <b>31 December 2014</b>                      | <b>(141)</b>   | <b>942</b>                     | <b>802</b>                     | <b>(3,433)</b>             | <b>(2,631)</b> |
| <b>31 December 2013</b>                      | <b>(1,553)</b> | <b>805</b>                     | <b>(748)</b>                   | <b>4,074</b>               | <b>3,326</b>   |
| <b>% from share equity</b>                   |                |                                |                                |                            |                |
| <b>31 December 2014</b>                      | <b>(1%)</b>    | <b>5%</b>                      | <b>4%</b>                      | <b>(18%)</b>               | <b>(13%)</b>   |
| <b>31 December 2013</b>                      | <b>(10%)</b>   | <b>5%</b>                      | <b>(5%)</b>                    | <b>27%</b>                 | <b>22%</b>     |

The following table summarizes the net foreign currency position as at 31 December 2014. The Bank is exposed to effects of fluctuations in foreign currency exchange rates, which affect its financial position and cash flows. The management sets limits on the level of exposure by currency which are monitored regularly.

#### Sensitive analysis

Managing exposure to foreign currency risk, beside analysis of receivables and liabilities denominated in foreign currencies, includes a sensitivity analysis of changes in the exchange rate which affect operating result and equity. The following table shows the scenario of fluctuation in the exchange rate in the range of + 10% to -10% compared to the EUR.

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| ASSETS                                       | TOTAL          | TOTAL<br>FOREIGN<br>CURRENCIES | In 000 EUR<br>Fluctuation of exchange rate |              |
|--|----------------|--------------------------------|--|--------------|
|  |                |                                | 10%  | -10%         |
| Cash and deposit accounts with central banks | 40,668         | 1,976                          | 198  | (198)        |
| Loans and receivables with banks             | 11,228         | 5,327                          | 533  | (533)        |
| Loans and receivables with customers         | 171,509        | 15                             | 2  | (2)          |
| <b>Total assets</b>                          | <b>223,405</b> | <b>7,318</b>                   | <b>733</b>                                 | <b>(733)</b> |
| <b>LIABILITIES</b>                           |                |                                |  |              |
| Deposits from customers                      | 221,634        | 6,505                          | 650  | (650)        |
| Other liabilities                            | 9,650          | 12                             | 1  | (1)          |
| <b>Total liabilities</b>                     | <b>231,284</b> | <b>6,517</b>                   | <b>651</b>                                 | <b>(651)</b> |
| <b>Net exposure</b>                          |                |                                |  |              |
| <b>31 December 2014</b>                      |                |                                | <b>82</b>                                  | <b>(82)</b>  |
| <b>31 December 2013</b>                      |                |                                | <b>(75)</b>                                | <b>75</b>    |

As at December 31, 2014, assuming that all other parameters remain the same, change in the exchange rate of EUR against other currencies by + 10% and -10%, Bank's profit and the Bank's capital, would be maximized or minimized for the amount of EUR 80 thousand (December 31, 2013: profit would have decreased or increased by the amount of 75 thousand EUR). The cause of the low Bank's exposure to the exchange rate is the fact that most receivables and liabilities are denominated in EUR.

### 36. CREDIT RISK

Definition, sources and elements of credit risk

In accordance with the internal definition, formulated in the Methodology for processes of identification and assessment of significance (materiality) of the Bank's risks and the Bank's Catalogue of risks, the credit risk (risk of default), which is included to Pillar 1, means the risk of arising of negative effects on the Banks financial result and capital due to a debtor's failure to meet his obligations related to granted loans, other placement and contingent receivables (off-balance sheet items), to the Bank. A debtor's failure to meet his obligations includes late payment, placements restructuring or his bankruptcy or insolvency. Credit risk actually means the risk of arising of negative effects on the Bank's financial result and capital due to debtor's failure to meet his obligations to the Bank. Credit risk depends on debtors' credit worthiness, availability to meet their obligations to the Bank as agreed, as well as quality of collaterals, served as security for the Bank's placements.

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Credit risk is encountered by the Bank in the areas involving risk bearing balance sheet items based on which the Bank is exposed to risk of defaulted payments and risk bearing off-balance sheet items representing the Bank's contingent liabilities, such as:

- Loans and advances to banks (including deposits held with banks, interest and fees);
- Loans and advances to customers (including interest and fees, lease receivables, forfeiting and factoring);
- Financial assets at fair value through profit or loss (debt and equity securities that are not included in the trading book, or are included in the trading book, but for them, the Bank does not calculate the capital requirement for market risks in accordance with the Decision on capital adequacy of banks);
- Investment securities (securities held to maturity and securities available for sale);
- Equity investments in other legal entities, except for the equity instruments representing the Bank's own assets deductible item, in accordance with the Decision on capital adequacy of banks;
- Guarantees;
- Given credit obligations (approved, but undrawn credits);
- Bills of exchange and acceptance;
- Other commitments;
- Unsecured letters of credit.

Elements of Credit Risk Management in the Bank

Key elements of the Bank's implemented credit risk management are:

1. Make of appropriate decisions on undertaking of credit risk, based on detailed analysis performed in accordance with the Bank's Methodology for determination of credit worthiness of corporate and retail clients and the Bank's internal credit rating
2. Diversification and limitation of the Bank's exposure to credit risk
3. Regular measurement, monitoring and reporting on the Bank's credit risk exposure

Making of appropriate decisions on undertaking of credit risk, based on detailed analysis performed in accordance with the Bank's Methodology for determination of credit worthiness of corporate and retail clients and the Bank's internal credit rating.

In accordance with the internally determined Methodology for determination of credit worthiness of corporate and retail clients, the Bank assigns an internal credit rating and evaluates creditworthiness of potential clients, based on previously performed detailed debtor's position analysis, achieved results and performance indicators in current and previous period, client's credit history, client's market position, collateral's adequacy and its marketability, as well as placement coverage by collateral and stability and adequacy assessment of resources for credit repayment. Creditworthiness assessment and compliance of loan application with the Bank's strategy and policies represent the basis for making the decision on approval of the client's loan application. In the process of loan approval, the Bank primarily considers mortgages on residential or commercial property with appropriate values. Furthermore, based on general practices, credit risk bearing placements are primarily granted: to small and medium-sized companies whose predominant business is conducted through the Bank, entrepreneur and others entities that perform their business activities throughout the Bank, highly profitable corporate clients with rapid capital turnover and shorter periods of refunding, customers who have a continuing positive and sustainable business, public sector and individuals with residence in Montenegro, who receive their salaries using Bank's services.

Diversification and credit risk limitation

In order to ensure diversification of its lending activities, the Bank defined different limits of exposure to one client, a group of (related) clients, for specific industries (activities), geographic regions and the Bank's specific products.

Measurement, monitoring and reporting on the Bank's exposure to credit risk on regular basis

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Measurement, monitoring and reporting on the Bank's exposure to credit risk is performed on the basis of individual exposure and the whole portfolio basis by various organizational units of the Bank.

The Bank performs assessment analysis of credit risk on a monthly and quarterly basis, and more frequently if necessary, and reports to the ALCO and the Board of Directors of the Bank, at least on a monthly basis. Analysis and control of credit risk exposure is based on monitoring of key information which includes at least:

- Structure of the total Bank's exposure to credit risk, i.e. participation and structure of balance sheet and off balance sheet credit risk bearing items in the total exposure
- Exposure concentration
- Monitoring limitations in area of credit risk
- Structure of loans by maturity and industries
- Analysis of clients whose KRP were classified as bad assets;
- Review of largest debtors on balance and off balance sheet items;
- Exposure to shareholders and related parties;
- Large exposure to a single client or group of related entities
- Review of newly approved and restructured loans;
- Allocation of balance sheet items and off-balance sheet items and provisions by risk category
- Loans collection for the period;

On a monthly basis the Bank performs classification of credit risk bearing balance sheet and off-balance sheet items and calculates provisions by applying prescribed percentages defined by the Decision on Temporary Measures for credit risk management in banks. ("Official Gazette of Montenegro ", 22/12, 55/12 and 57/13).

At least quarterly the Bank assesses asset quality, determine whether there is objective evidence of impairment of assets balance sheet items, and the probable loss arising from off-balance sheet items and accounted for an adequate amount of that impairment, or the probable loss. The Bank assesses impairment on two levels: individual and collective.

The Bank performs individual assessment of impairment losses on individually significant customer or transaction, if there is objective evidence of impairment. The exposure is considered significant when the total gross exposure to a single client or group of related parties (for legal entities), or exposure to an out-standing amount of the transaction with a physical person, amounts to EUR 50,000 or more.

The level of impairment for loans is determined on the basis of projected cash flows that will be billed on the basis of the contract with client, taking into account historical data of borrowers' creditworthiness, with an understanding of current and future business plans, client, realizable value of collateral, the terms for the realization of collateral, etc. Level of impairment of loans is determined by comparing the present value of estimated future cash flows to carrying value of receivables.

The bank shall perform collective assessment for the following receivables:

- 1) for which individual assessment showed no objective evidence of impairment of balance sheet assets or probable losses on off-balance sheet items;
- 2) which do not represent individually significant receivables referred

In collective impairment assessment homogeneous groups of loans (buckets) are analysed, which represents loans and placements with similar characteristics and risk profile. Collective impairment is assessed on a migration matrix basis. The Bank calculates the migration matrix based on historical trends of exposure, i.e. the observed portfolio between buckets for the last three years (36 months), in order to ensure that is covered entire economic cycle and that the real percentages are calculated for impairment, based on % probability of occurrence status of failing to pay obligations (PD) and % loss due to the occurrence status of failing to pay obligations (LGD) for each group of claims (product).

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The maximum exposure to credit risk for balance and off-balance items

|  | In 000 EUR            |                       |
|--|-----------------------|-----------------------|
|  | <u>31-Dec-14</u>      | <u>31-Dec-13</u>      |
| <b>Assets</b>                          |                       |                       |
| Loans and receivables with banks       | 11,228                | 5,851                 |
| Loans and receivables with customers   | 171,509               | 169,029               |
| Assets held for sale                   | 5,434                 | 8,906                 |
| Financial assets held for trading      | 293                   | 294                   |
| Securities held to maturity            | 5,991                 | 6,462                 |
| Investments in subsidiaries            | 3,252                 | 3,252                 |
| <b>Total assets</b>                    | <b><u>197,707</u></b> | <b><u>193,794</u></b> |
| <b>Off-balance items</b>               |                       |                       |
| Issued performance guarantees          | 11,214                | 15,990                |
| Issued payable guarantees              | 19,392                | 19,621                |
| Irrevocable commitments to grant loans | 3,843                 | 3,772                 |
| <b>Total off-balance</b>               | <b><u>34,449</u></b>  | <b><u>39,383</u></b>  |
| <b>Total exposure to credit risk</b>   | <b><u>232,156</u></b> | <b><u>233,177</u></b> |

Exposure to credit risk is partly controlled by obtaining collateral and guarantees from legal and natural persons.

Types of collateral include:

- deposits;
- pledges against industrial machines, securities, inventories, receivables and vehicles;
- mortgages and fiduciary transfer of ownership;
- bills;
- authorizations;
- authorizations for account withdrawal;
- guarantors;
- insurance policies, and
- guarantees.

### **Loans and placements**

Exposure to credit risk in respect of loans and placements is shown in the following tables:

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| in 000 EUR                             | Undue and group non-impaired | Past due and group non-impaired | Group impaired | Individually estimated | Total gross    | Individual allowance for impairment | Group allowance for impairment | Total allowance for impairment | Total net      |
|--|------------------------------|---------------------------------|----------------|------------------------|----------------|-------------------------------------|--------------------------------|--------------------------------|----------------|
| <b>31-Dec-14</b>                       |                              |                                 |                |                        |                |                                     |                                |                                |                |
| Housing loans                          | 6,617                        | 5,859                           | 10,529         | 1,731                  | 24,736         | 530                                 | 483                            | 1,013                          | 23,723         |
| Cash loans                             | 4,871                        | 3,655                           | 23,112         | 2,840                  | 34,478         | 1,072                               | 1,629                          | 2,701                          | 31,777         |
| Other special purpose loans            | 1,554                        | 2,602                           | 2,943          | 233                    | 7,332          | 55                                  | 338                            | 393                            | 6,939          |
| Credit cards                           | 39                           | 61                              | 3,943          | 117                    | 4,160          | 88                                  | 2,086                          | 2,174                          | 1,986          |
| Overdraft                              | 3                            | 346                             | 2,995          | -                      | 3,344          | -                                   | 289                            | 289                            | 3,055          |
| Corporate loans                        | 17,649                       | 25,019                          | 20,924         | 28,047                 | 91,639         | 11,589                              | 921                            | 12,510                         | 79,129         |
| Loans to Government and municipalities | -                            | -                               | -              | 2                      | 2              | 1                                   | -                              | 1                              | 1              |
| Loans with financial institutions      | -                            | -                               | 3,224          | -                      | 3,224          | -                                   | 70                             | 70                             | 3,154          |
| Factoring and forfeiting               | 21,415                       | -                               | -              | -                      | 21,415         | -                                   | -                              | -                              | 21,415         |
| Accruals                               | 331                          | -                               | -              | -                      | 331            | -                                   | -                              | -                              | 331            |
|  | <b>52,478</b>                | <b>37,542</b>                   | <b>67,670</b>  | <b>32,970</b>          | <b>190,660</b> | <b>13,335</b>                       | <b>5,816</b>                   | <b>19,151</b>                  | <b>171,509</b> |
| Loans and placements with banks        | 11,228                       | -                               | -              | -                      | 11,228         | -                                   | -                              | -                              | 11,228         |
| <b>Total</b>                           | <b>63,706</b>                | <b>37,542</b>                   | <b>67,670</b>  | <b>32,970</b>          | <b>201,888</b> | <b>13,335</b>                       | <b>5,816</b>                   | <b>19,151</b>                  | <b>182,737</b> |



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| in 000 EUR                             | Undue and group non-impaired | Past due and group non-impaired | Group impaired | Individually estimated | Total gross    | Individual allowance for impairment | Group allowance for impairment | Total allowance for impairment | Total net      |
|--|------------------------------|---------------------------------|----------------|------------------------|----------------|-------------------------------------|--------------------------------|--------------------------------|----------------|
| <b>31-Dec-13</b>                       |                              |                                 |                |                        |                |                                     |                                |                                |                |
| Housing loans                          | 6,194                        | 6,323                           | 9,562          | 5,432                  | 27,511         | 1,475                               | 572                            | 2,047                          | 25,464         |
| Cash loans                             | 3,230                        | 2,393                           | 20,869         | 4,591                  | 31,083         | 1,275                               | 2,158                          | 3,433                          | 27,650         |
| Other special purpose loans            | 814                          | 1,208                           | 4,753          | 1,511                  | 8,286          | 49                                  | 305                            | 354                            | 7,932          |
| Credit cards                           | 31                           | 97                              | 4,381          | 182                    | 4,691          | 141                                 | 1,769                          | 1,910                          | 2,781          |
| Overdraft                              | 9                            | 267                             | 3,356          | -                      | 3,632          | -                                   | 55                             | 55                             | 3,577          |
| Corporate loans                        | 5,790                        | 7,186                           | 17,087         | 63,699                 | 93,762         | 13,471                              | 2,278                          | 15,749                         | 78,013         |
| Loans to Government and municipalities | -                            | -                               | -              | 8                      | 8              | 3                                   | -                              | 3                              | 5              |
| Loans with financial institutions      | -                            | -                               | 2,950          | -                      | 2,950          | -                                   | 64                             | 64                             | 2,886          |
| Factoring and forfeiting               | 20,461                       | -                               | -              | -                      | 20,461         | -                                   | -                              | -                              | 20,461         |
| Accruals                               | 261                          | -                               | -              | -                      | 261            | -                                   | -                              | -                              | 261            |
|  | <b>36,790</b>                | <b>17,474</b>                   | <b>62,958</b>  | <b>75,423</b>          | <b>192,644</b> | <b>16,414</b>                       | <b>7,201</b>                   | <b>23,615</b>                  | <b>169,029</b> |
| Loans and placements with banks        | 5,851                        | -                               | -              | -                      | 5,851          | -                                   | -                              | -                              | 5,851          |
| <b>Total</b>                           | <b>42,641</b>                | <b>17,474</b>                   | <b>62,958</b>  | <b>75,423</b>          | <b>198,495</b> | <b>16,414</b>                       | <b>7,201</b>                   | <b>23,615</b>                  | <b>174,880</b> |

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Past due group unimpaired loans and placements

| in 000 EUR                     | overdue up to<br>30 days | overdue from<br>31 to 60 days | overdue from<br>61 to 90 days | overdue from<br>91 to 180 days | overdue from<br>181 to 365<br>days | overdue from 1<br>to 5 years | Total         |
|--------------------------------|--------------------------|-------------------------------|-------------------------------|--------------------------------|------------------------------------|------------------------------|---------------|
| <b>31-Dec-14</b>               |                          |                               |                               |                                |                                    |                              |               |
| Housing loans                  | 2,755                    | 952                           | 429                           | 523                            | 305                                | 895                          | 5,859         |
| Cash loans                     | 1,366                    | 226                           | 143                           | 599                            | 145                                | 1,176                        | 3,655         |
| Other special purpose<br>loans | 714                      | 104                           | 103                           | 285                            | 226                                | 1,170                        | 2,602         |
| Credit cards                   | -                        | 49                            | -                             | -                              | -                                  | 12                           | 61            |
| Overdraft                      | 331                      | 10                            | 4                             | 1                              | -                                  | -                            | 346           |
| Corporate loans                | 6,642                    | 2,233                         | 1,276                         | 4,829                          | 2,154                              | 7,885                        | 25,019        |
| <b>Total</b>                   | <b>11,808</b>            | <b>3,574</b>                  | <b>1,955</b>                  | <b>6,237</b>                   | <b>2,830</b>                       | <b>11,138</b>                | <b>37,542</b> |

| in 000 EUR                     | overdue up to<br>30 days | overdue from<br>31 to 60 days | overdue from<br>61 to 90 days | overdue from<br>91 to 180 days | overdue from<br>181 to 365<br>days | overdue from 1<br>to 5 years | Total         |
|--------------------------------|--------------------------|-------------------------------|-------------------------------|--------------------------------|------------------------------------|------------------------------|---------------|
| <b>31-Dec-13</b>               |                          |                               |                               |                                |                                    |                              |               |
| Housing loans                  | 3,190                    | 991                           | 641                           | 748                            | 331                                | 422                          | 6,323         |
| Cash loans                     | 774                      | 591                           | 205                           | 207                            | 162                                | 454                          | 2,393         |
| Other special purpose<br>loans | 307                      | 149                           | 251                           | 288                            | 136                                | 77                           | 1,208         |
| Credit cards                   | 1                        | 82                            | -                             | 7                              | -                                  | 7                            | 97            |
| Overdraft                      | 181                      | 4                             | -                             | 1                              | 1                                  | 80                           | 267           |
| Corporate loans                | 2,245                    | 3,114                         | 972                           | 243                            | 227                                | 385                          | 7,186         |
| <b>Total</b>                   | <b>6,698</b>             | <b>4,931</b>                  | <b>2,069</b>                  | <b>1,494</b>                   | <b>857</b>                         | <b>1,425</b>                 | <b>17,474</b> |

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### Fair value of collateral

|                           | <u>31 December<br/>2014</u> | <u>In 000 EUR<br/>31 December<br/>2013</u> |
|---------------------------|-----------------------------|--|
| Deposits                  | 6,147                       | 1,326                                      |
| Pledge                    | 64,276                      | 67,964                                     |
| Mortgages and fiduciaries | 409,448                     | 403,157                                    |
| <b>Total</b>              | <u><b>479,871</b></u>       | <u><b>472,447</b></u>                      |

The following table shows the effects of using discounted net present value of the collateral to the amount of the impairment of loans and receivables to customers and actually represent the same level of additional costs for impairment in the case that the Bank did not use the value of the collateral during their calculations.

| <b>in 000 EUR</b> | <u>31-Dec-14</u>     | <u>31-Dec-13</u>     |
|-------------------|----------------------|----------------------|
| Deposits          | 6,147                | 1,326                |
| Pledge            | 6,020                | 3,257                |
| Mortgages         | 76,536               | 82,697               |
| <b>Total</b>      | <u><b>88,703</b></u> | <u><b>87,280</b></u> |

| <b>in 000 EUR</b>  | <u>31-Dec-14</u>     | <u>31-Dec-13</u>     |
|--|----------------------|----------------------|
| Group impaired to the amount of placement which are secured by those collaterals |                      |                      |
| Deposits   | 6,147                | 1,307                |
| Pledge   | 2,274                | -                    |
| Mortgages  | 62,199               | 34,671               |
| <b>Total</b>   | <u><b>70,620</b></u> | <u><b>35,978</b></u> |

| <b>in 000 EUR</b>   | <u>31-Dec-14</u>     | <u>31-Dec-13</u>     |
|---|----------------------|----------------------|
| Individually impaired to the amount of placement which are secured by those collaterals |                      |                      |
| Deposits  | -                    | 19                   |
| Pledge  | 3,746                | 3,257                |
| Mortgages   | 14,337               | 48,026               |
| <b>Total</b>  | <u><b>18,083</b></u> | <u><b>51,302</b></u> |

The Bank considers for collateral mortgage whose value, as appraised by certified appraisers, must have a minimum of 33% LTV ratio (loan amount / estimated real estate value \* 100). Properties used as collateral are residential properties, apartment buildings, office buildings, commercial properties and land depending, on the location and future use.

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Restructuring is performed only in cases of NPLs. Non-performing loans are those loans where:

- Clients delay in settlement of contractual obligations for more than 90 days
- Disorders and problems in creditworthiness of the client (retail clients) or in financial position of clients (corporate clients) are identified, which undoubtedly points to certain future delay.

View of restructured loans during the year and types of restructuring:

| <b>in 000 EUR</b>   | <b>31-Dec-14</b> | <b>31-Dec-13</b> |
|---|------------------|------------------|
| Extending of repayment period for principal or interest   | 6,785            | 17,254           |
| Decrease of interest rates on approved credit   | 45               | 47               |
| Overtaken receivables against a third party,<br>on behalf of complete or partial loan repayment | -                | -                |
| Decrease of the amount of debt, principal and interest  | 15               | 26               |
| Interest capitalization on loan approved  | 7,862            | 7,742            |
| Replacement of existing or existing loans with new loan   | 21,498           | 20,474           |
| Other similar benefits that facilitate financial position                                       | 28,397           | 32,316           |
|   | <b>64,602</b>    | <b>77,859</b>    |

### **Geographical concentration**

Geographical concentration of credit risk exposure is shown in the following table:

| <b>in 000 EUR</b>                       | <b>Montenegro</b> | <b>EU</b>     | <b>USA and<br/>Canada</b> | <b>Other</b> | <b>Total</b>   |
|---|-------------------|---------------|---------------------------|--------------|----------------|
| Loans and receivables with banks        | 1,002             | 7,877         | 2,328                     | 21           | 11,228         |
| Loans and receivables with<br>customers | 147,232           | 23,881        | -                         | 395          | 171,509        |
| Assets held for sale                    | 5,434             | -             | -                         | -            | 5,434          |
| Financial assets held for trading       | 292               | -             | -                         | 1            | 293            |
| Securities held to maturity             | 5,991             | -             | -                         | -            | 5,991          |
| Investments in subsidiaries             | 3,252             | -             | -                         | -            | 3,252          |
| <b>31-Dec-14</b>                        | <b>163,203</b>    | <b>31,758</b> | <b>2,328</b>              | <b>417</b>   | <b>197,707</b> |
| <b>31-Dec-13</b>                        | <b>162,122</b>    | <b>28,009</b> | <b>1,014</b>              | <b>2,649</b> | <b>193,794</b> |

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### Industrial concentration

Concentration by industry - credit risk exposure is shown in the following table:

| in 000 EUR  | Loans and placements with customers | Loans and placements with banks | Assets held for sale | Financial assets held for trading | Securities held to maturity | Investments in subsidiaries | Total          |
|---|-------------------------------------|---------------------------------|----------------------|-----------------------------------|-----------------------------|-----------------------------|----------------|
| <b>31-Dec-14</b>  |                                     |                                 |                      |                                   |                             |                             |                |
| Agriculture, forestry and fishing   | 2,523                               | -                               | -                    | -                                 | -                           | -                           | 2,523          |
| Mining  | 3,559                               | -                               | -                    | 4                                 | -                           | -                           | 3,563          |
| Manufacturing   | 7,472                               | -                               | -                    | 4                                 | -                           | -                           | 7,476          |
| Water   | 903                                 | -                               | -                    | -                                 | -                           | -                           | 903            |
| Construction  | 13,357                              | -                               | 3,159                | -                                 | -                           | -                           | 16,516         |
| Wholesale and retail trading and repair of motor vehicles and motorcycles | 28,564                              | -                               | 2,229                | 5                                 | -                           | -                           | 30,798         |
| Transport and storage   | 6,824                               | -                               | -                    | -                                 | -                           | -                           | 6,824          |
| Accommodations and food services  | 2,322                               | -                               | -                    | -                                 | -                           | -                           | 2,322          |
| Communication and informing   | 688                                 | -                               | -                    | -                                 | -                           | -                           | 688            |
| Financial and insurance services  | 4,674                               | 11,210                          | -                    | 280                               | 5,991                       | 904                         | 23,059         |
| Real estate business  | 577                                 | -                               | -                    | -                                 | -                           | 2,348                       | 2,925          |
| Professional, scientific and technical activities                         | 1,210                               | -                               | -                    | -                                 | -                           | -                           | 1,210          |
| Administrative and support service activities                             | 3,423                               | -                               | -                    | -                                 | -                           | -                           | 3,423          |
| Public administration, defense and compulsory social security             | 22                                  | -                               | -                    | -                                 | -                           | -                           | 22             |
| Education   | 82                                  | -                               | -                    | -                                 | -                           | -                           | 82             |
| Health and social services  | 1,866                               | -                               | -                    | -                                 | -                           | -                           | 1,866          |
| Art, entertainment and recreation   | 1,749                               | -                               | -                    | -                                 | -                           | -                           | 1,749          |
| Other service activities  | 68                                  | -                               | -                    | -                                 | -                           | -                           | 68             |
| Retail clients - residents  | 65,683                              | -                               | 46                   | -                                 | -                           | -                           | 65,729         |
| Non-residents   | 21,092                              | -                               | -                    | -                                 | -                           | -                           | 21,092         |
| <b>Total</b>  | <b>166,658</b>                      | <b>11,210</b>                   | <b>5,434</b>         | <b>293</b>                        | <b>5,991</b>                | <b>3,252</b>                | <b>192,838</b> |
| Interest-bearing receivables and allowance for impairment                 | 4,540                               | -                               | -                    | -                                 | -                           | -                           | 4,540          |
| Accrued interest, fee and allowance for impairment                        | 311                                 | 18                              | -                    | -                                 | -                           | -                           | 329            |
|   | <b>171,509</b>                      | <b>11,228</b>                   | <b>5,434</b>         | <b>293</b>                        | <b>5,991</b>                | <b>3,252</b>                | <b>197,707</b> |

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### **Off-balance evidence**

The maturity of off-balance items for which the Bank is exposed to credit risk is as follows:

|                   | in 000 EUR                                |               |               |
|-------------------|---|---------------|---------------|
| 31-Dec-14         | Irrevocable commitments<br>to grant loans | Guarantees    | Total         |
| up to 1 year      | 3,576                                     | 13,092        | 16,668        |
| from 1 to 5 years | 267                                       | 17,514        | 17,781        |
|                   | <b>3,843</b>                              | <b>30,606</b> | <b>34,449</b> |

  

|                   | in 000 EUR                                |               |               |
|-------------------|---|---------------|---------------|
| 31-Dec-13         | Irrevocable commitments<br>to grant loans | Guarantees    | Total         |
| up to 1 year      | 3,755                                     | 19,417        | 23,172        |
| from 1 to 5 years | 17  | 16,194        | 16,211        |
|                   | <b>3,772</b>                              | <b>35,611</b> | <b>39,383</b> |

In accordance with the Decision on amendments to the Decision on minimum standards for credit risk management in banks, the Bank has adopted a strategy for dealing with non-performing loans.

The strategy stipulates the manner and establishes a system for monitoring the structure, quality and a plan to slash non-performing loans, according to the nature, size and complexity of the overall portfolio of the Bank.

The Bank conducts its activities in the procedure of classifying non-performing loans to loans:

- that sustainable financial restructuring can restore the status of high-quality assets (classification groups "A" and "B") - Option "recovery" non-performing loans;
- that cannot be restored to the status of non-performing assets and are therefore committed to the ultimate collection - Options "Forced resolving" non-performing loans;
- that has not yet determined the action plan - Undistributed non-performing loans.

In order to resolve efficiently the problem of non-performing loans, the Bank defines the internal operational goals related to reducing the level of non-performing loans based on the adopted Strategy for dealing with non-performing loans.

The achievement of operational objectives is monitored on a quarterly basis and is adjusted whenever possible. The level of reduction of non-performing loans is defined by operational objectives. Compared to December 31, 2013, the Bank on December 31, 2014 decreased the amount of NPLs by EUR 3.8 million.

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### 37. FAIR VALUE

IFRS defines a hierarchy of valuation techniques based on whether the entries required by those valuation techniques are available or not. Available entries reflect market data obtained from independent sources; entries that are not available include the Bank's market assumptions. These two kinds of entries have created the following fair value hierarchy:

- Level 1 - Quoted values (unadjusted) in active markets of identical assets and liabilities. This level includes listed equity instruments.
- Level 2 - Inputs other than quoted values included in Level 1 that are available and related to a given asset or liability, either directly (i.e. in the form of price/value) or indirectly (in the form of conclusions based on price/value).
- Level 3 - Inputs for assets and liabilities that are not based on available market data. This level includes investments in equity under the Bank's market assumptions (no data available).

This hierarchy requires the use of available market data when they exist. The Bank, in its evaluation, takes into consideration market value whenever possible.

*Financial instruments carried at amortized cost*

|  | <b>Book value</b> | <b>Fair value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|--|-------------------|-------------------|----------------|----------------|----------------|
|  | 31-Dec-14         | 31-Dec-14         |                |                |                |
| <b>Financial assets</b>                      |                   |                   |                |                |                |
| Cash and deposit accounts with central banks | 40,668            | 40,668            | -              | -              | 40,668         |
| Loans and receivables with banks             | 11,228            | 11,228            | -              | -              | 11,228         |
| Loans and receivables with customers         | 171,509           | 171,509           | -              | -              | 171,509        |
| Securities held to maturity                  | 5,991             | 5,991             | 5,991          | -              | -              |
| Other financial receivables                  | 2,952             | 2,952             | -              | -              | 2,952          |
|  | <b>232,347</b>    | <b>232,347</b>    | <b>5,991</b>   | -              | <b>226,356</b> |
| <b>Financial liabilities</b>                 |                   |                   |                |                |                |
| Deposits from banks                          | 1,520             | 1,520             | -              | -              | 1,520          |
| Deposits from customers                      | 221,634           | 221,634           | -              | -              | 221,634        |
| Borrowings from other clients                | 1,605             | 1,605             | -              | -              | 1,605          |
| Other liabilities                            | 9,650             | 9,650             | -              | -              | 9,650          |
| Subordinated debt                            | 9,190             | 9,190             | -              | -              | 9,190          |
|  | <b>243,600</b>    | <b>243,600</b>    | -              | -              | <b>243,600</b> |

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|  | <b>Book value</b> | <b>Fair value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|--|-------------------|-------------------|----------------|----------------|----------------|
|  | <b>31-Dec-13</b>  | <b>31-Dec-13</b>  |                |                |                |
| <b>Financial assets</b>                      |                   |                   |                |                |                |
| Cash and deposit accounts with central banks | 27,356            | 27,356            | -              | -              | 27,356         |
| Loans and receivables with banks             | 5,851             | 5,851             | -              | -              | 5,851          |
| Loans and receivables with customers         | 169,029           | 169,029           | -              | -              | 169,029        |
| Securities held to maturity                  | 6,462             | 6,462             | 6,462          | -              | -              |
| Other financial receivables                  | 542               | 542               | -              | -              | 542            |
|  | <b>209,240</b>    | <b>209,240</b>    | <b>6,462</b>   | <b>-</b>       | <b>202,778</b> |
| <b>Financial liabilities</b>                 |                   |                   |                |                |                |
| Deposits from banks                          | 1,508             | 1,508             | -              | -              | 1,508          |
| Deposits from customers                      | 203,652           | 203,652           | -              | -              | 203,652        |
| Borrowings from other clients                | 2,380             | 2,380             | -              | -              | 2,380          |
| Other liabilities                            | 3,348             | 3,348             | -              | -              | 3,348          |
| Subordinated debt                            | 9,188             | 9,188             | -              | -              | 9,188          |
|  | <b>220,076</b>    | <b>220,076</b>    | <b>-</b>       | <b>-</b>       | <b>220,076</b> |

In estimating the fair value of financial instruments that can be applied to determining this value, the following methods and assumptions are used:

- a) Cash and deposit accounts with central banks

Considering the nature of this line item, management believes that the carrying amount is equal to fair value.

- b) Loans and placements with banks

Due to the short maturities and interest rates that are aligned with the market, the Bank's management believes that the amounts shown in the financial statements are credible.

- c) Loans, advances and other financial receivables with clients

Management believes that the Bank's interest rates do not differ significantly from prevailing market interest rates in the banking sector of Montenegro, which means that the fair value of loans with customers is calculated as the present value of future cash flows.

- d) Deposits, subordinated debt and borrowings

Interest rates on deposits, subordinated debt and borrowings are by the opinion of the Bank's management aligned with current market interest rates, and consequently the amounts in the financial statements in the given circumstances faithfully reflects the fair value of these financial instruments.



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*Financial instruments measured at fair value*

|                                   | <b>Book value</b> | <b>Fair value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|-----------------------------------|-------------------|-------------------|----------------|----------------|----------------|
|                                   | <u>31-Dec-14</u>  | <u>31-Dec-14</u>  |                |                |                |
| <b>Financial assets</b>           |                   |                   |                |                |                |
| Financial assets held for trading | 293               | 293               | 293            | -              | 293            |
|                                   | <b>293</b>        | <b>293</b>        | <b>293</b>     | <b>-</b>       | <b>293</b>     |
|                                   |                   |                   |                |                |                |
|                                   | <b>Book value</b> | <b>Fair value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|                                   | <u>31-Dec-13</u>  | <u>31-Dec-13</u>  |                |                |                |
| <b>Financial assets</b>           |                   |                   |                |                |                |
| Financial assets held for trading | 294               | 294               | 294            | -              | 294            |
|                                   | <b>294</b>        | <b>294</b>        | <b>294</b>     | <b>-</b>       | <b>294</b>     |

The Bank evaluates the financial assets held for trading based on the market value of the assets on the stock exchange.

### **38. LITIGATIONS AND LEGAL RISKS**

As of December 31, 2014, there were 22 law suits filed against the Bank by legal entities and private individuals. In the assessment of the Bank's legal department, the total value of the litigations amounts to EUR 13,230,481.22. The stated amount does not include potentially assessed penalty interest upon the outcome of the legal proceedings, given that the management is unable to determine the potential effects of penalty charges that may have been accrued based on these litigations until the date of these financial statements issuance.

The most significant litigations against the Bank are lawsuits brought by the following plaintiffs:

1. Persa Šofranac
2. Gatii s.r.l.
3. FZU "EUROFOND
4. Zavod za izgradnju Bara doo u stečaju
5. Jovo Divanović

As of December 31, 2014 provisions were made for potential losses on litigations in the amount of EUR 85 thousand.

The Bank has not registered ownership in the land registry for the real estate related to LN 2851 KO Budva and LN 188 KO Cetinje, which is treated as immovable property, within the acquired assets and fixed assets held for sale. The carrying amount of the real estate is approximately EUR 100 thousand. The Bank is carrying out activities on gathering the necessary documentation for registration in order to fulfil the required conditions.

### **39. TAX RISKS**

Montenegrin tax legislation is subject of varying interpretations, and legislative changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Bank may not concur with the views of the Bank's management. Consequently, transactions may be challenged by the relevant tax authorities and the Bank could be liable for additional taxes, penalties and interest. The period of obsolescence of the tax liability is five years. This practically means that the tax authorities are entitled to determine unpaid obligations in the period of five years from origination of the liability.

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### **40. SUBSEQUENT EVENTS**

The Central Bank in March 2015, adopted the Decision on amendments to the Decision on minimum standards for bank investments in real estate and fixed assets. The decision mitigated the impact of the property acquired over four years ago, which will have a positive effect on the level of own funds or solvency ratio considering the balance of the acquired assets.

Relating to December 31, 2014, the level of non-performing loans as at March 31, 2015 is effectively reduced in absolute terms by EUR 5,755 thousand.

There were no other events after the balance date which would require disclosure in the financial statements.

### **41. FOREIGN EXCHANGE RATES**

The official exchange rates for currencies used in the translation of foreign currency positions in statement of financial position in EUR as of 31 December 2014 and 2013 were:

|     | <u>31-Dec-14</u> | <u>31-Dec-13</u> |
|-----|------------------|------------------|
| USD | 0.8224           | 0.7255           |
| CHF | 0.8314           | 0.8157           |
| GBP | 1.2783           | 1.1956           |