

**DEPOSIT PROTECTION FUND,
PODGORICA**

**Financial Statements
Year Ended December 31, 2015
and Independent Auditors' Report**

DEPOSIT PROTECTION FUND, PODGORICA

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

INDEPENDENT AUDITORS' REPORT

To the Management Board of Deposit Protection Fund, Podgorica

We have audited the accompanying financial statements (pages from 2 to 20) of Deposit Protection Fund, Podgorica (hereinafter: the "Fund"), which comprise the statement of financial position as of December 31, 2015, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on accounting and auditing of Montenegro, as well as for internal controls which management consider to be relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of the Fund as of December 31, 2015, as well as of its financial performance and cash flows for the year then ended in accordance with the accounting regulations of Montenegro.

Deloitte d.o.o. Podgorica

April 25, 2016

Katarina Bulatović, Certified Auditor
(Licence no 067 issued on March 31, 2015)

STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2015
(In EUR)

<i>Number of prescribed form</i>	<i>Category / Position</i>	<i>Note</i>	Current 2015	Previous 2014
	OPERATING INCOME		<u>12,065,035</u>	<u>10,787,675</u>
1	Sales income	3.1, 4	12,063,647	10,786,978
5	Other operating income		1,388	697
	OPERATING EXPENSES		<u>(341,945)</u>	<u>(306,457)</u>
2	Materials expenses	5	(7,414)	(10,163)
3	Staff costs	6	(225,944)	(193,158)
4	Depreciation and amortization and provisions	10, 11	(15,822)	(12,888)
5	Other operating expenses	7	<u>(92,765)</u>	<u>(90,248)</u>
A	PROFIT FROM OPERATIONS		<u>11,723,090</u>	<u>10,481,218</u>
I	Finance income	8	91,671	279,350
II	Finance expenses	9	<u>(154,800)</u>	<u>(152,083)</u>
B	FINANCIAL RESULT		<u>(63,129)</u>	<u>127,267</u>
I	Other income		49	46
II	Other expenses		-	<u>(500)</u>
C	RESULT FROM OTHER ACTIVITIES		49	(454)
D	RESULT FROM OPERATIONS BEFORE TAX		<u>11,660,010</u>	<u>10,608,031</u>
H	TAX EXPENSE FOR THE PERIOD		-	-
1	Current income tax		-	-
I	NET COMPREHENSIVE INCOME		<u>11,660,010</u>	<u>10,608,031</u>

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

These financial statements were prepared and adopted by management of Deposit Protection Fund as at March 24, 2016.

Signed on behalf of Deposit Protection Fund by:

Preparer of
Financial Statements

Director of the Fund

Slavica Žarić

Predrag Marković

STATEMENT OF FINANCIAL POSITION
As of December 31, 2015
(In EUR)

<i>Number of prescribed form</i>	<i>Category / Position</i>	<i>Note</i>	Current 2015	Previous 2014
	ASSETS			
B	NON-CURRENT ASSETS		<u>308,651</u>	<u>68,537</u>
II	Intangible assets	10	<u>16,980</u>	<u>22,585</u>
III	Property, plant, equipment and biological assets		<u>36,490</u>	<u>45,952</u>
1	Property, plant and equipment	11	<u>36,490</u>	<u>45,952</u>
IV	Long-term financial placements			
3	Other long-term financial placements	12	<u>255,181</u>	<u>-</u>
			<u>255,181</u>	<u>-</u>
E	CURRENT ASSETS		<u>67,740,820</u>	<u>56,322,264</u>
II	Short-term receivables, investments and cash		<u>67,740,820</u>	<u>56,322,264</u>
1	Accounts receivable	13	<u>28,600</u>	<u>44,783</u>
3	Short-term financial placements	14	<u>12,965,857</u>	<u>10,541,241</u>
4	Cash equivalents and cash	15	<u>54,746,363</u>	<u>45,736,240</u>
F	TOTAL ASSETS		<u>68,049,471</u>	<u>56,390,801</u>
	EQUITY AND LIABILITIES			
A	EQUITY		<u>67,949,888</u>	<u>56,289,878</u>
I	Foundation capital		<u>56,289,878</u>	<u>45,681,847</u>
VI	Retained earnings		<u>11,660,010</u>	<u>10,608,031</u>
D	CURRENT PROVISIONS AND CURRENT LIABILITIES		<u>99,583</u>	<u>100,923</u>
I	CURRENT LIABILITIES		<u>99,583</u>	<u>100,923</u>
3	Accounts payable		<u>4,462</u>	<u>6,296</u>
4	Other short-term liabilities and accruals	16	<u>95,121</u>	<u>94,627</u>
E	TOTAL EQUITY AND LIABILITIES		<u>68,049,471</u>	<u>56,390,801</u>

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

STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2015
(In EUR)

<u>Category / Position</u>	<u>Foundation capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance, as at January 1, 2014	36,370,700	9,311,147	45,681,847
Transfer	9,311,147	(9,311,147)	-
Net income for the year		10,608,031	10,608,031
	<u>45,681,847</u>	<u>10,608,031</u>	<u>56,289,878</u>
Balance, as at December 31, 2014			
Transfer	10,608,031	(10,608,031)	-
Net income for the year	-	11,660,010	11,660,010
	<u>56,289,878</u>	<u>11,660,010</u>	<u>67,949,888</u>
Balance, as at December 31, 2015			

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

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015
(In EUR)

Category/Position	Current 2015	Previous 2014
A. Cash flows from operating activities		
I. Cash generated from operating activities	12,109,154	10,896,239
Sales and advances received	12,063,647	10,786,978
Interest receipts from operating activities	45,457	109,155
Other cash generated from operating activities	50	106
II. Outflow from operating activities	(477,543)	(454,153)
Payments to suppliers and given advances	(74,564)	(108,212)
Staff costs	(225,944)	(193,158)
Interest payments	(152,917)	(152,083)
Payments of other public duties	(24,118)	(700)
Net cash flows from operating activities	11,631,611	10,442,086
B. Cash flows from investing activities		
I. Cash generated from investing activities	75,221	162,941
Interest received from investing activities	75,221	162,941
II. Outflow from investing activities	(2,696,709)	(3,467,126)
Purchase of intangible assets, property, plant, equipment, and biological assets	(881)	(64,682)
Other financial activities (net outflow)	(2,695,828)	(3,402,444)
Net cash flows from investing activities	(2,621,488)	(3,304,185)
D. Net cash flows	9,010,123	7,137,901
E. Cash at the beginning of the reporting period	45,736,240	38,598,339
H. Cash at the end of the reporting period	54,746,363	45,736,240

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

1. FOUNDATION AND BUSINESS ACTIVITY

Deposit Protection Fund, Podgorica (hereinafter the "Fund") was established in accordance with Law on Deposits Protection ("Off. Gazette of Montenegro", No. 40/03) and duly inscribed in the Central Registry of the Commercial Court in Podgorica as at November 18, 2004. The new law of the protection of deposits (Official Gazette, No. 44/10, 40/11 and 47/15) made the further harmonization with EU Directive (increasing the level of protection from EUR 5,000 to EUR 50,000 as well as shortening the time of payment of guaranteed deposits from 90 to 20 days), and also made the separation of the control and management functions of the Fund, on the way that functions of the Fund are divided into the Board of the Fund and Director of the Fund. Amendments to the Law on Deposits Protection (Official Gazette of Montenegro, No. 47/15) additionally shortened this deadline to 15 days.

The commercial banks licensed by the Central Bank of Montenegro (hereinafter referred to as the Central Bank) are obliged to pay premiums to the Fund in order to provide protection of their deposits in the conditions and manner determined by the Law on Deposit Protection.

The main activity of the Fund is to achieve protection of bank deposits and is obliged to the emergence of the case (the "protected event") prior to the payment of guaranteed deposits pay guaranteed deposits, as required under the Deposit Protection Law. Protection of deposits includes deposits with banks on or before the protected event. Protected event occurs on the day the decision to open bankruptcy proceedings against the bank. The Fund will pay out guaranteed deposits from January 1, 2013 in the amount up to EUR 50,000 for depositor, regardless of the number and amount of the deposits which the depositor possesses in the bank over which the bankruptcy proceedings is started. During the transitional period from January 1 to December 31, 2011, this limit amounted EUR 20,000 and from January 1 to December 31, 2012 amounted to EUR 35,000.

The registered seat of the Fund is in Podgorica, St. Miljana Vukova nn.

As of December 31, 2015, the Fund had seven employees (December 31, 2014: seven employees).

Members of the Management Board of the Fund

Central Bank appoints Committee consisting of three members. One member of the Board of Directors is appointed at the proposal of the Ministry of Finance, and one is suggested by the Association of Banks and Financial Institutions. As of the date of the financial statements, the Board consists of members whose names are presented below:

First name and surname	Position held
Velibor Milošević, PhD	Vice Governor of the CBM, Management Board President General Director of the Directorate for the financial system and improving of the business environment, Member of the Management Board
Bojana Bošković, MD	Management Board
Marko Backović, Prof. PhD	Banks Association, Member of the Management Board

In 2016, the new Chairman of the Management Board of the Fund was elected - Darko Bulatović, Director of the Bank Supervision Department with the Central Bank.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Basis of Preparation and Presentation of the Financial Statements

The Fund has an obligation to maintain its accounting records and prepare statutory financial statements in accordance with the Law on Accounting and Auditing of Montenegro ("Official Gazette of the Republic of Montenegro", No. 69/05, 80/08 and No. 32/11) and the Rules on content and form of the financial statements for the companies and other legal entities ("Official Gazette of Montenegro", No. 5/11).

In accordance with the Law on Accounting and Auditing of Montenegro, the International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board, should be adopted and published by the respective competent authority of Montenegro which got the right on translation and publishing from the International Federation of Accountants (IFAC). Therefore, only IFRS and IAS officially adopted and published by the respective and competent authority of Montenegro may be applicable. The latest officially translated IAS and IFRS (except for IFRS 7) were those from 2009, in addition to the newly adopted IFRS 10, 11, 12 and 13, which are applicable from 2013. Bearing in mind the effects which the derogations of the accounting regulations of Montenegro from IAS and IFRS may have on the presentation of the Fund's financial statements, the accompanying financial statements in that section are different and those depart from IFRS and IAS and cannot be treated as having been prepared in accordance with IFRS and IAS.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

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

These financial statements have been prepared in accordance with the historical cost convention, unless otherwise stated in the accounting policies.

In the preparation of those accompanying financial statements, the Fund has adhered to the accounting policies described in Note 3 to the financial statements, which are grounded on the accounting and tax regulations of Montenegro.

The official currency in Montenegro and reporting currency of the Fund is the Euro (EUR).

2.2. Use of Estimates

The presentation of the financial statements requires the management to make best estimates and reasonable assumptions that affect the disclosure of potential receivables and liabilities as of the date of the preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available as of the date of preparation of the financial statements. However, future actual results may vary from these estimates.

These estimations mostly refer to the estimations of the useful life of equipment.

2.3. Going concern

The accompanying financial statements for 2015 have been prepared assuming that the Fund will continue as a going concern and do not contain corrections, which would eventually be necessary if the Fund is unable to continue its operating as a going concern.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies that have been applied by the Fund are set out in the following paragraphs:

3.1. Revenue recognition

Income from Deposits Protection Premiums

Income from deposits protection premiums represents funds that commercial banks in Montenegro are obliged to pay to the Fund in accordance with the Law on Deposit Protection ("Official Gazette of Montenegro", No. 44/10, 40/11 and 47/15) and in accordance with the Decision of the premium level for calculation of a regular premium and manner of calculation of a regular premium that banks shall pay to the Fund ("Official Gazette of Montenegro", No. 47/14).

Income from Deposits Protection Premiums of the Fund shall be ensured out of the:

- initial premiums;
- annual premiums.

The bank that was issued a license by the Central Bank shall, prior to commencement of the activity performance, at the expense of the Fund, perform a payment of the initial premium in the amount of 50,000 EUR.

Banks are required to pay annual deposit insurance premiums to the Fund in quarterly instalments, or through regular premium, with the beginning of the quarter calculated from the first day of January, April, July and October of the current year. The basis for the calculation of the regular premium shall be the average of the total deposits of the bank on the last day of each month in the previous quarter. The rate for the calculation of regular premium cannot exceed 0.5%. Amendments to the Law on Deposits Protection from July 2015 prescribes this rate not to exceed 0.8%. The decision on the rate for the calculation of the regular premium and the method of calculation shall be adopted by the Management Board, as a rule, by the end of November for the forthcoming year. Banks are required to pay the regular premium at the beginning of the quarter for the current quarter, the latest within eight days of receipt of the invoice of the Fund.

During 2015, the Fund calculated the annual premium. Amount of the annual premium shall be determined for each financial year and shall be published in the Official Gazette of Montenegro.

Pursuant to the Decision on determining the amount of regular premium, the Management Board may establish different levels of premiums by rating and the level of risk in individual banks operations (differential premiums).

When the Fund's assets reach a level of 10% of guaranteed deposits, the Management Board of the Fund may issue a decision to reduce the rate of regular premium, or temporarily suspend the collection of a regular premium.

Income from Donations

Donations received for the purpose of purchase of equipment, i.e. nonmonetary grants, are shown as deferred income and are depreciated during the useful life of granted equipment. The amount of depreciation of granted equipment is recorded as other operating income during the useful life of granted equipment.

Income from Technical and Financial Support of Central Bank

Income from technical support of the Central Bank represent the monetary grants approved to the Fund for the purpose of temporary financing of its operations. The funds received are recognized as income on a systematic and rational basis over the period in the amount necessary to cover the regular operating expenses. The income disclosed in the statement of comprehensive income in the current period are matched with their associated expenses.

3.2. Employee Benefits

// Employee Contributions for Social Security

In accordance with the regulations prevailing in Montenegro, the Fund has an obligation to pay contributions to various State Social Security Funds.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.2. Employee Benefits (Continued)***/i/ Employee Contributions for Social Security (Continued)*

These obligations involve the payment of contributions on behalf of an employee by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Fund is also legally obliged to withhold contributions from gross salaries of employees, and to, on behalf of employees, transfer the withheld portions directly to those funds. Contributions paid by employer and those paid by an employee are charged to expenses of the period to which those relate.

/ii/ Retirement Benefits

According to the Fund management's estimation, the present value of future liabilities thereof pursuant to the Collective Bargaining Agreement of Montenegro has no material effect on the financial statements taken as a whole and, therefore, in these financial statements the Fund itself made no additional provisions for the employees benefits.

3.3. Foreign Exchange Gains and Losses

All assets and liabilities denominated in foreign currencies are translated into EUR at the official exchange rates prevailing at the statement of financial position date published by the Central Bank.

Foreign currency transactions during the year are translated into EUR at the official exchange rates in effect at the date of each transaction.

Foreign exchange gains or losses arising upon the translation of assets and liabilities in foreign currencies and translation of transactions during the year are credited or debited as appropriate, to the statement of comprehensive income.

3.4. Taxes

In accordance with the Deposits Protection Law from July 2015, the Fund was exempted from paying taxes, duties and fees that arise in the activities on deposit protection. Pursuant to the Amendments to the Law on Deposit protection from July 2015, the Fund is a taxpayer in accordance with the law. The Fund is obliged to pay taxes and contributions on salaries of employees in accordance with the regulations applicable in Montenegro. In accordance with the Article 6 of the Law on Corporate Income Tax Law ("Official Gazette of the Republic of Montenegro", No. 065/01 dated 31/12/2001, 012/02 dated 15/03/2002, 080/04 dated 29/12/2004, "Official Gazette of Montenegro", No. 040/08 dated 27/06/2008, 086/09 dated 25/12/2009, 040/11 dated 08/08/2011, 014/12 dated 07/03/2012, 061/13 dated 30/12/2013), which is a *lex specialis*, public funds are exempt from paying the income tax.

3.5. Intangible Assets

Intangible assets are stated at cost and primarily include acquired computer software. Cost of intangible assets represents the price invoiced by suppliers increased for all expenses incurred in putting intangible assets into functional use.

3.6. Property, plant and equipment

Equipment is stated at cost decreased by total accumulated impairment and eventual total accumulated losses due to the value impairment. Cost represents the price invoiced by suppliers, as increased by all expenses incurred in putting the new assets into functional use.

Additional expenses, such as replacements of the equipment parts (installation of new parts), are recognized as an increase in cost of the respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Fund, and when the cost can reliably be measured.

The maintenance and repair expenses are recognized as an increase to cost of the respective assets in the period to which they relate. Gains or losses arising upon disposal and/or sale of buildings and equipment are disclosed in the income statement within other operating income/expenses.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Amortization

Amortization of intangible assets and equipment is calculated on the purchase price, using the straight-line method in order to write them off over their useful life.

The applied amortization rates are listed below:

	<u>Amortization rate (%)</u>
Software usage licences	20.00
Computers and related equipment	20.00 – 33.33
Technical equipment	12.50 – 20.00
Office furniture	10.00 – 12.50

3.8. Financial Instruments

Financial assets are classified into the following categories: "Long-term placements", "Short-term financial placements held to maturity", "Receivables" and "Cash and Cash Equivalents". The classification depends on the nature and purpose of financial assets and is determined upon initial recognition.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of financial assets and of allocating interest income or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period.

Long-term investments

Long-term financial investments comprise loans to employees. Loans are initially recognized at fair value. Those are subsequently measured at amortized cost using the effective interest rate method. The difference between the fair value at the recognition and distributed assets is recognized as prepaid employee benefits in the context of long-term receivables from employees. Prepaid employee benefits are amortized over the period of receiving the benefits. The receiving period shall be the expected service life of the employee, and can not be longer than the period for which the loan was approved.

Short-term financial investments held to maturity

Short-term investments held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Fund's management has the positive intention and ability to hold to maturity. Investments held to maturity are related to treasury bills issued by the Ministry of Finance in Montenegro.

The above investments are carried at amortized cost using the effective interest method, less any impairment based on management's judgment about their probable recoverability

Accounts receivable

Claims based on premiums and other operating receivables that have fixed or determinable payments that are not quoted in an active market can be measured at amortized cost using the effective interest method, less any impairment based on management's judgment about their probable recoverability.

Cash and Cash Equivalents

In the cash flow statement, cash and cash equivalents comprise cash on bank accounts held by the Central Bank of Montenegro and time deposits placed with the Central Bank for the period up to three months, which could be easily converted into the exact amounts of cash followed by insignificant risk of changes.

Impairment of financial assets

An entity shall assess at each financial statement preparation date whether there is any indication that a financial asset may be impaired.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

Impairment of financial assets (Continued)

A financial asset is impaired if the estimated future cash flows pertaining to that asset have been changed as a result of one or more events which occurred upon the initial recognition of a financial asset.

Objective evidence of financial assets' impairment could include the following:

- significant financial difficulty of the legal entity; or
- delay or default in payments of the interest or the premium; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization procedure.

Carrying value of accounts receivable is reduced through the allowance for impairment account. When an account receivable is not collectible, it is written off through the impairment account. Subsequent collections of previously written off amounts are disclosed as a decrease in the allowance for impairment. Changes in carrying value of allowance for impairment are recognized in the income statement.

If the amount of impairment recognized is decreased in future period and that decrease can be related to the event occurred upon the recognition of an impairment loss, such impairment loss can be adjusted through profit and loss until the carrying value of the asset becomes greater than the amortized loss would have been, had the impairment loss not been recognized as of the date when the impairment was reversed.

Derecognition of Financial Assets

The Fund ceases to recognize financial assets only when the contracting rights on cash flows arising from financial assets expire, or if it transfers the financial assets and thus transfers substantially all the risks and rewards of ownership. If the Fund neither transfers nor substantially retains any of the risks and property returns, and if it retains control over financial assets, it continues to recognize financial assets

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Fund derecognises financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire.

3.9. Conditioned donations

Conditioned donations represent liabilities that bear no interest. Conditioned donations are disclosed in the amount of received assets and these could be capitalized after the conditions stipulated by the contracts on donations have been fulfilled. (Note 3.1)

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

4. SALES INCOME

Sales income in the amount of EUR 12,063,647 (2014: EUR 10,786,978) is entirely related to income from premiums for deposit protection and represents funds that commercial banks in Montenegro are obligated to pay to the Fund in accordance with the Deposit Protection Law ("Official Gazette of Montenegro", no. 44/10, 40/11 and 47/15) and the Decision on the amount of the premium that banks pay to the Fund ("Official Gazette of Montenegro", No. 47/14).

5. MATERIALS EXPENSES

	(In EUR)	
	Year Ended December 31,	
	2015	2014
Materials expenses	1,159	3,922
Fuel, water and energy consumed	6,255	6,241
	<u>7,414</u>	<u>10,163</u>

6. STAFF COSTS

	(In EUR)	
	Year Ended December 31,	
	2015	2014
Gross salaries	157,204	142,840
Contributions on salaries and benefits paid by employer	19,169	17,062
Compensation to the members of the Management Board	15,329	15,404
Business trip expenses	19,728	13,513
Other payments to employees	14,514	4,339
	<u>225,944</u>	<u>193,158</u>

7. OTHER OPERATING EXPENSES

	(In EUR)	
	Year Ended December 31,	
	2015	2014
Marketing and advertising	23,864	27,903
Professional services	6,741	15,188
Telecommunication and other postage expenses	4,545	4,820
Maintenance	5,470	4,035
Entertainment	4,130	4,338
Bank charges	28,495	2,258
Other operating expenses	19,520	31,706
	<u>92,765</u>	<u>90,248</u>

Marketing and advertising costs for the year ended December 31, 2015 amounted to EUR 23,864 (2014: EUR 27,903) mostly relate to the services provided under the Lease contract of terms for advertising in electronic media concluded with the M.A.S CODE d.o.o. Podgorica in amount of EUR 20,860.

Bank charges for the year ended December 31, 2015 in the amount of EUR 28,495 (2014: EUR 2,258) mostly refer to the cost of fees for participation in the auction of T-bills in the amount of EUR 24,118.

Other operating expenses for the year ended December 31, 2015 in the amount of EUR 19,520 mostly refer to membership expenses for IADI ("International Association of Deposit Insurers") in amount of EUR 10,925.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

8. FINANCE INCOME

	(In EUR)	
	Year Ended December 31,	
	2015	2014
Interest income from placements of:		
- funds of the Fund from the deposit insurance premium	8,013	71,257
Income from default interest and penalties payable upon unduly payment of deposit protection premiums	36,324	34,152
Income from interest on treasury bills (Note 13)	47,334	173,882
Other income	-	59
	<u>91,671</u>	<u>279,350</u>

9. FINANCE EXPENSES

Financial expenses as of December 31, 2014 in the amount of EUR 154,800 (December 31, 2014 in the amount of EUR 152,083) referred to the interest towards the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 152,083 and the costs of interest arising on negative interest rates on short-term time deposits in the amount of EUR 2,717. As of November 8, 2010, the Fund concluded the contract with the EBRD on a "stand-by" - credit arrangement, to the amount of EUR 30,000,000. These funds would be available to the Fund in the event that the assets of the Fund would not be sufficient to cover the guaranteed deposit (bank insolvency) in one of the banks in the system. The loan is granted for 15 years, with the possibility to use it in the next 7 years. The interest rate of 0.50% is calculated and paid in the period until the withdrawal of funds, and 1.00% in the period after the withdrawal of funds.

10. INTANGIBLE ASSETS

Movements on intangible assets for 2015 and 2014 are as represented in the following table:

	(In EUR)	
	2015	2014
Cost		
Balance at the beginning of the year	42,884	42,884
Acquisitions during the year	-	-
Balance at the end of the year	<u>42,884</u>	<u>42,884</u>
Accumulated Depreciation		
Balance at the beginning of the year	20,299	14,673
Charge for the year	5,605	5,626
Balance at the end of the year	<u>25,904</u>	<u>20,299</u>
Net book value as of December 31	<u>16,980</u>	<u>22,585</u>

As of December 31, 2015, the intangible assets mostly refer to the license for the Oracle software as well as the software for the calculation of the payment of the sums insured.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

11. PROPERTY, PLANT AND EQUIPMENT

Movements on property, plant and equipment for 2015 and 2014 are as presented in the following table:
(In EUR)

	Computer and IT equipment	Office furniture	Other equipment	Total
Cost				
Balance, January 1, 2014	25,594	11,784	19,552	56,930
Acquisitions during the year	16,002	3,299	28,881	48,182
Write-off	-	-	(11,392)	(11,392)
Balance, December 31, 2014	<u>41,596</u>	<u>15,083</u>	<u>37,041</u>	<u>93,720</u>
Balance, January 1, 2015	41,596	15,083	37,041	93,720
Acquisitions during the year	-	-	755	755
Balance, December 31, 2015	<u>41,596</u>	<u>15,083</u>	<u>37,796</u>	<u>94,475</u>
Accumulated depreciation				
Balance, January 1, 2014	22,746	9,527	19,124	51,397
Charge for the year	4,327	198	2,738	7,263
Write-off	-	-	(10,892)	(10,892)
Balance, December 31, 2014	<u>27,073</u>	<u>9,725</u>	<u>10,970</u>	<u>47,768</u>
Balance, January 1, 2015	27,073	9,725	10,970	47,768
Charge for the year	4,219	836	5,162	10,217
Balance, December 31, 2015	<u>31,292</u>	<u>10,561</u>	<u>16,132</u>	<u>57,985</u>
Net book value:				
As of December 31, 2015	<u>10,304</u>	<u>4,522</u>	<u>21,664</u>	<u>36,490</u>
As of December 31, 2014	<u>14,523</u>	<u>5,358</u>	<u>26,071</u>	<u>45,952</u>

12. OTHER LONG-TERM INVESTMENTS

Other short-term investments that as of December 31, 2015 were in the amount of EUR 255,181 (2014: EUR 0) are long-term receivables from employees. In 2015, the Fund granted interest-free loans to its employees to solve the residential needs in the amount of EUR 271,212. In order to protect the credit risk, the employees have established a mortgage in favor of the Fund until the final repayment of the loan. The maturity of granted loans was 15 or 30 years.

	(In EUR)	
	December 31, 2015	December 31, 2014
Long-term investments - fair value of the granted loans:	268,004	-
Less: Current portion of receivables from employees based on granted loans (Note 13)	<u>(12,823)</u>	-
	<u>255,181</u>	-

Maturity of receivables arising from long-term loans granted to employees as of December 31, 2015 is shown in the following table (undiscounted contractual maturities of future cash flows).

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

12. OTHER LONG-TERM INVESTMENTS (Continued)

	December 31, 2015	(In EUR) December 31, 2014
- up to one year	12,823	-
- from one to two years	12,823	-
- from two to three years	12,823	-
- from three to four years	12,823	-
- from four to five years	12,823	-
- more than five years	203,889	-
	<u>268,004</u>	<u>-</u>

13. ACCOUNTS RECEIVABLE

	December 31, 2015	(In EUR) December 31, 2014
Accrued interest income on invested funds:		
- Accrued interest on treasury bills	15,199	43,086
- Accrued Interest on balances held with the Central Bank	<u>578</u>	<u>1,697</u>
Receivables from employees – current portion (Note 12)	<u>12,823</u>	<u>-</u>
	<u>28,600</u>	<u>44,783</u>

14. SHORT-TERM INVESTMENTS

Short-term investments - treasury bills that as of December 31, 2015 were in the amount of EUR 12,965,857 (2014: EUR 10,541,241), referred to debt securities issued by the Central Bank on behalf of the Ministry of Finance of Montenegro.

Treasury bills owned by the Fund were the bills purchased in the period from August 25, 2015 to September 2, 2015, for a period of six months (due in the period from February 23, 2016 till March 2, 2016), with rate of return of 0.3 % to 0.4%.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

15. CASH EQUIVALENTS AND CASH

	(In EUR)	
	December 31, 2015	December 31, 2014
Gyro account	4,387,335	84,540
Cash in hand	759	2,564
	<u>4,388,094</u>	<u>87,104</u>
Cash equivalents - interest-bearing deposits	<u>50,358,269</u>	<u>45,649,136</u>
	<u><u>54,746,363</u></u>	<u><u>45,736,240</u></u>

Cash equivalents as of December 31, 2015 in the amount of EUR 50,358,269 referred to a short-term time deposits held with the Central Bank.

In accordance with the Agreement on the management of the funds, which entered into force on May 7, 2012, the Management Board of the Fund hired and authorized the Central Bank to, in a capacity of an Asset Manager, manage the available resources of the Fund. Accordingly, the Central Bank gives the orders for placements in deposits and the purchase and sale of portfolio investments for the Fund's account with a bank or a dealer of its choice and which, according to information available to the Central Bank, provides safety, liquidity and the most favorable yield to the Fund at the given moment.

The primary objective of all investment decisions is safety, for the protection of the Fund's capital. The Fund invests funds in debt instruments, which was by one of the internationally recognized rating agency, minimally ranked with: Standard & Poor's A/A- 1 A2/P-1 Moody 's , Fitch A/F1. Investments in shares and investments that carry higher risk are excluded:

- debt securities denominated in EUR and issued by a bank, financial institution or a state rated by internationally acclaimed credit rating agencies as belonging to "A" or "P1" credit rating category at least.
- deposits denominated in EUR, placed with banks in the EU or OECD member countries rated by internationally acclaimed credit rating agencies as belonging to "P1" credit rating category at least.

As an exception to the above, the Fund may also invest the funds into debt securities denominated in EUR and issued and guaranteed by the State of Montenegro up to 20% of total investment portfolio, as well as into deposits in EUR held with the Central Bank.

The Central Bank will manage the Fund's funds independently, without specific instructions, in accordance with the acts of the Central Bank to manage international reserves, acting in compliance with the principles of investment policy of the Fund.

In accordance with the terms of the Asset Management Contract, the available resources of the Fund bear interest that is attributable to the deposit, unless otherwise ordered by the Fund. As of December 31, 2015, the short-term time deposits of the Fund in the amount of EUR 41,407,450 (out of the total amount of EUR 50,358,269) are calculated the negative interest rates of -0.05% and -0.03%.

As of December 31, 2015, the Central Bank holds the entire amount of the interest-bearing deposits of the Fund placed with two banks in the countries of the European Union, which are, in compliance with the contract signed with the Central Bank, at the internationally recognized rating agency - Standard & Poor's, ranked as A/A-1.

16. OTHER CURRENT LIABILITIES AND ACCRUALS

	(In EUR)	
	December 31, 2015	December 31, 2014
Accrued interest payables EBRD	60,000	60,834
Deferred donations from the Central Bank due to the technical and financial support	31,752	31,752
Deferred donations for acquired equipment	653	2,041
Time deposits interest payables	<u>2,716</u>	<u>-</u>
	<u><u>95,121</u></u>	<u><u>94,627</u></u>

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

16. OTHER CURRENT LIABILITIES AND ACCRUALS (Continued)

Changes in deferred income from donations for equipment purchase are shown in the table below:

	(In EUR)	
	Year Ended December 31,	
	2015	2014
Balance, beginning of the year	2,041	2,738
Depreciation of donated equipment	(1.388)	(697)
Balance, end of year	<u>653</u>	<u>2,041</u>

17. FINANCIAL INSTRUMENTS

17.1. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

17.2. Categories of Financial Instruments

	December 31, 2015	December 31, 2014
Financial assets		
Loans and receivables (including cash and cash equivalents)	55,030,144	45,781,023
Short-term investments	<u>12,965,857</u>	<u>10,541,241</u>
	67,996,001	56,322,264
Financial Liabilities		
Accounts payable and other liabilities	<u>67,179</u>	<u>67,130</u>

17.3. Financial risk management objectives

In the ordinary course of business, the Fund is, in different degrees, exposed to certain financial risks i.e. the following: market risk (including the risk of changes in foreign currency exchange risk from changes in interest rates and the risk of price changes), liquidity risk and credit risk. Risk management in the Fund is focused on minimizing potential adverse effects on the financial position and operations of the Fund in the unpredictability of financial markets. Risk management is defined by the accounting policies, financial policies, and fund, approved by the Funds' Management Board.

17.4. Market Risk

(a) Foreign Currency Risk

The Management of the Fund assesses that the Fund is not significantly exposed to the foreign currency risk in transactions in the country and abroad, as all business operations are performed in the local currency (EUR).

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2015

17. FINANCIAL INSTRUMENTS (Continued)

17.4. Market Risk (Continued)

(b) The risk of changes in interest rates

The risk to the Fund from the changes in fair value of interest rate risk arises primarily from receivables on the basis of term deposits placed with the Central Bank. The funds are deposited at interest rates that are based on the decisions of the Central Bank fluctuating and expose the Fund to cash flow interest rate risk, while deposits at fixed rates expose the Fund to the risk of changes in fair value of interest rate.

Given that the Fund has no significant interest-bearing liabilities, the expenses of the Fund are substantially independent of changes in market interest rates.

(c) The risk of price changes

The Fund is not exposed to services price changes, as it faces no competition in the area in which the Fund provides its services.

(d) Receivables

The structure of accounts receivable as of December 31, 2015 is shown in the following table:

	Gross exposure	Accumulated Depreciation	(In EUR) Net exposure
Accrued accounts receivable	15,777	-	15,777
Accrued receivables from employees	268,004	-	268,004
Matured, non-adjusted accounts receivable	-	-	-
	<u>283,781</u>	<u>-</u>	<u>283,781</u>

The structure of accounts receivable as of December 31, 2014 is shown in the following table:

	Gross exposure	Accumulated Depreciation	(In EUR) Net exposure
Accrued accounts receivable	44,783	-	44,783
Matured, non-adjusted accounts receivable	-	-	-
	<u>44,783</u>	<u>-</u>	<u>44,783</u>

17.5. Liquidity Risk

The ultimate responsibility for liquidity risk management is born by the management of the Fund, which established an appropriate management system for short-term, medium-term and long-term financing of the Fund and liquidity management. The Fund manages the liquidity risk by maintaining adequate cash reserves by continuous monitoring of projected and actual cash flows, as well as by the maintenance of the adequate proportion of the maturity of assets and liabilities.

Table of the liquidity risk

The following table shows the details of the remaining contractual maturities of financial assets and financial liabilities. The amounts are based on the undiscounted cash flows arising from financial assets and financial liabilities on the earliest date on which the Fund will be able to collect such receivables and settle such liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

17. FINANCIAL INSTRUMENTS (Continued)

17.5. Liquidity Risk (Continued)

In EUR	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash balances and deposit accounts with depository institutions	13,338,913	3,407,450	38,000,000	-	-	-	54,746,363
Loans and receivables form clients	15,777	-	-	-	-	-	15,777
Loans and receivables form employees	1,069	2,137	3,206	6,412	64,120	191,060	268,004
Securities held to maturity	-	-	12,965,857	-	-	-	12,965,857
	-	-	-	-	-	-	-
Total:	13,355,759	3,409,587	50,969,063	6,412-	64,120-	191,060-	67,996,001
Financial liabilities							
Accounts payable and other liabilities	4,462	62,717	-	-	-	-	67,179
	-	-	-	-	-	-	-
Total:	4,462	62,717	-	-	-	-	67,179
Maturity gap:							
December 31, 2015	13,351,297	3,346,870	50,969,063	6,412-	64,120-	191,060-	67,928,822
December 31, 2014	45,774,726	(60,833)	10,541,241	-	-	-	56,255,134
Cumulative GAP:							
December 31, 2015	13,351,297	16,698,167	67,667,230	67,673,642	67,737,762	67,928,822	
December 31, 2014	45,774,726	45,713,893	56,255,134	56,255,134	56,255,134	56,255,134	

17.6. Credit risk

Credit risk is the risk of counterparties not being able to settle their liabilities toward the Fund in full and in due time, which would result in a financial loss to the Fund. The Fund has adopted a policy under which it cooperates exclusively with individuals with good creditworthiness and sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss that occurs when debtors Fund does not meet its obligations. The Fund enters into transactions with parties whose creditworthiness is classified at the same level as an investment, or whose creditworthiness is better ranked.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

17. FINANCIAL INSTRUMENTS (Continued)

17.7. The fair value of financial assets and liabilities

	December 31, 2015		(In EUR) December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and receivables (including cash and cash equivalents)	55,030,144	55,030,144	45,781,023	45,781,023
Short-term investments	12,965,857	12,965,857	10,541,241	10,541,241
Financial liabilities				
Accounts payable and other liabilities	<u>67,179</u>	<u>67,179</u>	<u>67,130</u>	<u>67,130</u>

17.8. Financial Risk Management

The business activities of the Fund are not exposed to any risk, except for an interest rate risk. There is a formal capital risk management framework implemented in the Fund and it represents a competence of the Management Board. The objective of the Management Board of the Fund, in the field of managing the financial risks, is to mitigate the risk and minimize potential losses that those may eventually cause.

18. LITIGATIONS

As of December 31, 2015, the Fund was involved in litigations neither as a defendant nor as a plaintiff.

19. TAXATION RISKS

Montenegro currently has several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include taxes and contributions on salaries (social taxes) and other indirect taxes. Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, which may create uncertainties. Tax declarations, together with other legal compliance matters are subject to the review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Fund may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Fund may be charged additional taxes, penalties and interest. In accordance with the Law on Tax Administration of Montenegro (Official Gazette of Montenegro, No. 65/01, 80/04, 29/05, 20/11 and 28/2012), expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability.

20. EVENTS AFTER THE REPORTING PERIOD

There were no adjusting events after the reporting date. In 2016, a new Chairman of the Management Board of the Fund was appointed - Darko Bulatović, Director of the Bank Supervision Department at the Central Bank.