DEPOSIT PROTECTION FUND, PODGORICA

Financial Statements for the Year ended 31 December 2016 in accordance with the Accounting Regulations prevailing in Montenegro

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Management Board of the Deposit Protection Fund, Podgorica

We have audited the accompanying financial statements of the Deposit Protection Fund, Podgorica (hereinafter the "Fund"), which comprise the statement of financial position as of 31 December 2016, and the 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 information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations prevailing in the Republic of Montenegro, based on the Law on Accounting ("Official Gazette of Montenegro", no. 52/2016), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

BDO d.o.o. Podgorica; Registarski broj 5-0600769 u Centralnom registru Privrednog suda u Podgorici; Matični broj 02828235
PIB 02828235; PDV 30/31-10388-5; Poslovni račun: 540-0000000004377-12 kod Erste banke a.d. Podgorica
Upisani i uplaćeni osnivački kapital Društva 10.000,00 EUR
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INDEPENDENT AUDITOR'S REPORT

To the Management Board of the Deposit Protection Fund, Podgorica (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Montenegro, based on the Law on Accounting, and accounting policies disclosed in Note 3 to the financial statements.

Other matters

The financial statements for the year ended 31 December 2015 were audited by another auditor who expressed an unqualified opinion on those financial statements in its report from 25 April 2016.

Podgorica, 20 March 2017

Društvo za reviziju BDO d.o.o. Podgorica

Milovan Popović
Certified Auditor

STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT)
In the period from 1 January to 31 December 2016
In EUR

	Note	2016	2015
OPERATING INCOME			
Sales	4	13,423,150	12,063,647
Other operating income	5	77,891	1,388
		13,501,041	**12,065,035**
OPERATING EXPENSES			
Costs of material	6	(6,729)	(7,414)
Salaries, compensations and other personal expenses	7	(224,280)	(225,944)
Depreciation and amortization	8	(15,927)	(15,822)
Other operating expenses	9	(127,663)	(92,765)
		(374,599)	**(341,945)**
OPERATING RESULT		**13,126,442**	**11,723,090**
Financial income	10	279,217	91,671
Financial expenses	11	(237,273)	(154,800)
FINANCIAL RESULT		**41,944**	**(63,129)**
Other income		34	49
Other expenses		-	-
RESULT FROM OTHER ACTIVITIES		**34**	**49**
PROFIT/(LOSS) BEFORE TAX		**13,168,420**	**11,660,010**
Tax expense of the period		-	-
Deferred tax expenses		-	-
NET PROFIT/(LOSS)		**13,168,420**	**11,660,010**

The accompanying notes on the pages 7 to 21
are an integral part of these financial statements.

The accompanying financial statements were adopted for issuance on 14 February 2017 and signed on behalf of the Fund's management by:

Slavica Zaric
Person responsible for the preparation of the financial statements

FOND ZA ZAŠTITU DEPOZITA • PODGORICA

Predrag Markovic
Director

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
As of 31 December 2016
In EUR

	Note	31/12/2016	31/12/2015
ASSETS			
Non-current assets			
Intangible assets	12	11,376	16,980
Property, plant and equipment	13	26,167	36,490
Other long-term financial placements	14	2,442,357	255,181
		2,479,900	**308,651**
Current assets			
Accounts receivable	15	125,360	28,600
Short-term financial placements	16	13,318,502	12,965,857
Cash and cash equivalents	17	65,303,289	54,746,363
		78,747,151	**67,740,820**
TOTAL ASSETS		**81,227,051**	**68,049,471**
EQUITY AND LIABILITIES			
Equity	18		
Basic capital		67,949,888	56,289,878
Retained earnings		13,168,420	11,660,010
		81,118,308	**67,949,888**
Current liabilities			
Accounts payable		1,234	4,462
Other short-term liabilities, accruals and deferred income	19	107,509	95,121
		108,743	**99,583**
TOTAL EQUITY AND LIABILITIES		**81,227,051**	**68,049,471**

The accompanying notes on pages 7 to 21
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
In the period from 1 January to 31 December 2016
In EUR

	Basic capital	Retained earnings	Total equity
Balance as of 1 January 2015	**45,681,847**	10,608,031	**56,289,878**
Transfer	10,608,031	(10,608,031)	-
Net movements in 2015	-	11,660,010	11,660,010
Balance as of 31 December 2015	**56,289,878**	**11,660,010**	**67,949,888**
Transfer	11,660,010	(11,660,010)	**-**
Net movements in 2016	-	13,168,420	13,168,420
Balance as of 31 December 2016	**67,949,888**	**13,168,420**	**81,118,308**

The accompanying notes on pages 7 to 21
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
In the period from 1 January to 31 December 2016
In EUR

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales and received advances	13,423,150	12,063,647
Received interests from operating activities	55,611	45,457
Other receipts from operating activities	45,520	50
Outflows from payments to suppliers and advances paid	(93,301)	(74,564)
Salaries, compensations and other personal expenses	(224,280)	(225,944)
Interests paid	(192,395)	(152,917)
Public revenues paid	(31,580)	(24,118)
Net cash generated from operating activities	**12,982,725**	**11,631,611**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash receipts from investing activities	126,846	75,221
Purchase of intangible assets, property, plant and equipment	-	(881)
Other financial placements (net outflows)	(2,552,645)	(2,695,828)
Net cash generated from investing activities	**(2,425,799)**	**(2,621,488)**
Net cash (outflow)/inflow	**10,556,926**	**9,010,123**
Cash and cash equivalents, beginning of the year	54,746,363	45,736,240
Foreign exchange gains from translation of cash and cash equivalents	-	-
Foreign exchange gains from translation of cash and cash equivalents	-	-
Cash and cash equivalents, end of the year (Note 17)	**65,303,289**	**54,746,363**

The accompanying notes on pages 7 to 21
are an integral part of these financial statements.

1. CORPORATE INFORMATION

The Deposit Protection Fund, Podgorica (hereinafter: the "Fund") was established pursuant to the Law on Deposits Protection ("Official Gazette of Montenegro", no. 40/2003) and officially started with its business activities on 18 November 2004, when it was inscribed in the Register maintained by the Statistics Bureau of Montenegro. In accordance with the Law on Deposits Protection (Official Gazette of Montenegro no.. 44/10, 40/11 and 47/15), further harmonization with the EU Directive EU 94/19 EC (increase in the protection level from EUR 5,000 to EUR 50,000, as well as the reduction of payment periods of guaranteed deposits from 90 to 20 days), and, simultaneously, the separation of the administrative and management function of the Fund were performed, by dividing the Fund's bodies to the Management Board and director of the Fund. Pursuant to the amendments and supplements to the Law on Deposit Protection (Official Gazette of Montenegro no. 47/15) this payment period was additionally reduced to 15 days.

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

The Fund's principal activity is to provide protection for banks' deposits and undertake payment of the guaranteed deposits whenever events requiring the payments of guaranteed deposit occur (hereinafter: the "protected event") as requested by the Law on Deposits Protection. Deposit protection shall cover deposits placed with bank prior to, or on the day of the protected event. The protected event occurs on the date of passing a resolution of the initiation of the bankruptcy proceedings against a bank. The Fund will perform the payments of the guaranteed deposits from 1 January 2013, up to the amount of EUR 50,000 per depositor, regardless of the number and the amount of deposits the depositor holds with the bank against which the bankruptcy procedure has been initiated. In the transitional period from 1 January 2011 to 31 December 2011 that amount totalled EUR 20,000, i.e., from 1 January to 31 December 2012, EUR 35,000.
The registered seat of the Fund is in Podgorica, Miljana Vukova bb.

As of 31 December 2016, the Fund has seven employees (31 December 2015: seven employees).

Members of the Management Board of the Fund

The Central Bank of Montenegro (hereinafter: the Central Bank) appoints the Management Board of three members. One member of the Management Board was nominated by the Ministry of Finance, one by the Association of Banks and financial institutions. As of the date of issuance of these financial statements, the members of the Management Board are as listed in the table below:

Name and surname	Position held by a member
Darko Bulatović	Banking Supervision Department Director in CBM, Chairman of the Management Board
Bojana Bošković, MA	General Director of the Financial System and Improvement of Business Environment Directorate, Member of the Management Board
Marko Backović, PhD	Association of Banks, Member of the Management Board, professor at the Faculty of Economics in Belgrade.

In March 2016, instead of Velibor Milosevic, PhD, pursuant to the decision of the Central Bank, Darko Bulatovic, Banking Supervision Department Director in CBM was appointed Chairman of the Management Board.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND CAUSE FOR THE AUDIT

2.1. Basis of Preparation of the Financial Statements

The Fund has the obligation to maintain its accounting records and prepare its statutory financial statements in conformity with the Law on Accounting of Montenegro (Official Gazette of Montenegro, no. 52/16) and the Guidelines on the Content and Form of the Financial Statements for Companies and Other Legal Entities (Official Gazette of Montenegro, no. 5/2011).

In accordance with the Law on Accounting of Montenegro, International Accounting standards ("IAS") and the International Standards Financial Reporting (“IFRS") published by the International Accounting Standards Board, must be adopted and promulgated by the appropriate competent authority of Montenegro which is authorised by the International Federation of Accountants (IFAC) to translate and publish them. Therefore, only IFRS and IAS officially approved and published by the competent bodies of Montenegro may be applicable. The last officially translated IFRS and IAS are from 2009 (except for IFRS 7), as well as the newly published IFRS 10, 11, 12 and 13 which have been applied since 2013. Bearing in mind the effects of the aforementioned departures of the accounting regulations of Montenegro from IFRS and MRS may have on the presentation of the financial statements of the Fund, the financial statements in this section depart and differ from IFRS and IAS, and cannot be treated as financial statements prepared in accordance with IFRS and IAS.

The accompanying financial statements have been prepared under historical cost convention, unless the accounting policies set forth different requirements.

In the preparation of these financial statements, the Fund has adhered to the accounting policies disclosed in Note 3, which are based on the accounting and tax regulations prevailing in 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 Fund’s 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 estimates mainly relate to the estimates of the useful life of equipment.

2.3. Going concern principle

The accompanying financial statements for the year ended 31 December 2016 have been prepared on the assumption that the Company will continue as a going concern and do not include adjustments, which would be necessary if the Fund was unable to continue in accordance with the going concern principle.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies that have been applied by the Fund in preparation of the financial statements for the year ended 31 December 2016 are set out in the following paragraphs.

3.1. Income Recognition

3.1.1. Income from Deposit 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 the Decision on the Amount of the Annual Premium Payable and the Method of Calculation of the Annual Premium Payable by Banks to the Fund (Official Gazette of Montenegro, no. 58/15).

Income from Deposits Protection Premiums comprises:

- initial premiums;
- annual premiums.

A Bank to which the license for operations has been issued by the Central Bank of Montenegro, shall, prior to starting the operations, pay to the Fund's account the initial premium in the amount of EUR 50,000.

Banks are obliged to pay to the Fund annual premiums for deposit protection in quarterly instalments, i.e., through regular premium, whereat as the commencement of the quarter the 1st January, April, July and October of the current year are set. The basis for calculating the annual premium instalments is the average amount of total deposits as of the last day of each month in the previous quarter. The rate for the calculation of the annual premium cannot exceed 0.5%. Pursuant to the amendments and supplements to the Law on Deposit Protection from July 2015, this rate cannot exceed 0.8%. The decision on the amount of the rate for the calculation of the regular premium and the manner of calculation is adopted by the Management Board, by the end of November of the current year for the following year, as a rule. The banks are obliged to pay the regular premium at the beginning of a quarter for the current quarter, in the period of eight days from the reception of the Fund's invoice.

In 2016, the Fund calculated the annual premium. The amount of the annual premium is determined for each financial year individually and it is announced in the Official Gazette of Montenegro.

Pursuant to the decision on establishing the amount of the annual premium, the Management Board may establish different premium amounts according to the rating and the degree of operating risk of individual banks (differential premiums).

In case the Fund's assets reach the level of 10% of guaranteed deposits, the Management Board of the Fund may consider the possibility of reducing the annual premium, i.e., it may temporarily withhold the premium repayment.

3.1.2. Income from donations

Donations received for the purpose of acquiring 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Income Recognition (Continued)

3.1.3. Income from Technical and Financial Assistance of Central Bank of Montenegro

Income generated from the technical assistance of the Central Bank of Montenegro represents financial assets granted to the Fund with the purpose of temporary financing of its operating activities. The granted assets are recognized as income on a systematic and rational basis over the period, in the amount necessary to cover the costs in the regular course of business. The income disclosed in the statement of comprehensive income for the current period matches the related expenses.

3.2. Employee Benefits

3.2.1. Employee Taxes and 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.

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 to employees, and on behalf of employees, to transfer the withheld portions directly to government funds. Contributions paid by employer and those paid by employees are charged to expenses of the related period.

3.2.2. Retirement Benefits

The present value of other future liabilities according to the Collective Bargaining Agreement, such as retirement benefits after required conditions have been fulfilled, pursuant to the estimations made by the Fund's management, does not have a materially significant effect on the financial statements regarded as a whole. Accordingly, provisions for employee benefits are not disclosed in these financial statements.

3.3. Foreign exchange gains/losses

All assets and liabilities denominated in foreign currencies are translated into EUR using the exchange rates prevailing as of the reporting date, published by the Central Bank of Montenegro. Business transactions in foreign currencies during the year are translated into EUR at the official exchange rates prevailing at the dates of transactions. Foreign exchange gains/losses arising from the translation of assets and liabilities denominated in foreign currencies and from the translation of transactions during the year are credited/debited to the statement of comprehensive income.

3.4. Taxes

Prior to the Amendments to the Law on Deposit Protection from July 2015, the Fund was exempt from paying taxes, duties and fees while performing its activities of deposit protection. Pursuant to the amendments and supplements 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 employee salaries in accordance with the regulations applicable in Montenegro. In accordance with Article 6 Of the Corporate Income Tax Law ("Official Gazette of Montenegro", no. 65/01 of 31 December 2001, 12/02 of 15 March 2002, 80/04 of 29 December 2004, Official Gazette of Montenegro, no. 40/08 of 27 June 2008, 86/09 of 25 December 2009, 40/11 of 8 August 2011, 14/12 of 7 March 2012, 61/13 of 30 December 2013) which is a Lex Specialis, public funds are exempt from paying income taxes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 less accumulated depreciation and impairment losses, if any. Cost represents the price invoiced by suppliers, 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.

3.7. Depreciation and Amortization

The amortization of intangible assets and depreciation of property, plant and equipment are provided for on a straight-line basis in order to fully write off the cost of the assets over their estimated useful life.
Depreciation and amortization rates in use are as follows:

Principal groups of assets	Rate (%)
Software usage licenses	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.

3.8.1. 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 over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 on current value of financial assets or financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.2. Long-term placements

Long-term financial placements include bonds held to maturities and loans extended to employees.

Bonds issued by Montenegro in November 2016, with maturity of principal on 16 November 2020 and interest-bearing vouchers that mature annually, were purchased at the nominal value (interest rate of 4%), and are accounted for as securities held to maturity. The fund may sell bonds in case of lack of funds for the payment of guaranteed deposits if there was a bankruptcy of some of the commercial banks in Montenegro.

Loans are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method. The difference between the fair value at the recognition and disbursed funds is recognised as prepaid employee benefits in long-term receivables from employees. The prepaid employee benefits are amortised over the period of receiving benefits. The period of receiving benefits is the expected service period of employees, and it may not be longer than the period for which the loan was granted.

3.8.3. Short-term financial placements held to maturity

Short-term financial placements held to maturity are non-derivate financial assets with fixed and determinable payments and fixed maturity, and for which the Fund's management has the intention and the ability to hold it to maturity. Investments that are held to maturity are related to Treasury bills issued by the Ministry of Finance of Montenegro.

These investments are stated at amortised cost using the effective interest rate method less the reduction of value based on management's assessment of their prospected recoverability.

3.8.4. Accounts receivable

Receivables from premiums and other accounts receivable that have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method, less any impairment in accordance with the estimations made by the Management on the possibility of their collectability.

3.8.5. 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 of Montenegro for the period up to three months, which could be easily converted into the exact amounts of cash followed by insignificant risk of changes.

3.8.6. Impairment of financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.6. 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; or
- *it becoming 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 statement of comprehensive income.

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 the statement of comprehensive income 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.

3.8.7. 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.

3.8.8. 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.

3.8.9. 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 represent the amounts of received assets and these could be capitalized after the conditions stipulated by the contracts on donations have been fulfilled (Note 3.1.2.).

4. SALES

Revenues from sale in 2016 amount to EUR 13,423,150 (2015: EUR 12,063,647) and relate to revenues from deposit protection premiums. Revenues from deposit protection premiums represent the funds 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 Decision on the Amount of the Annual Premium Payable and the Method of Calculation of the Annual Premium Payable by Banks to the Fund (Official Gazette of Montenegro no. 58/15 of 9 October 2015).

5. OTHER OPERATING INCOME

(Amounts in EUR)

	2016	2015
Structure of income:		
Reimbursements	46,139	1,388
Other operating income	31,752	-
Total as of 31 December	**77,891**	**1,388**

Reimbursements which in 2016 amounted to EUR 77,891 (in 2015: EUR 1,388) relate to reimbursements for sick leaves of two employees. Other operating income represent the accrued amount of technical aid of CBM from prior years.

6. COSTS OF MATERIAL

(Amounts in EUR)

	2016	2015
Costs of material	(6,729)	(7,414)
Total as of 31 December	**(6,729)**	**(7,414)**

7. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

(Amounts in EUR)

	2016	2015
Structure of staff costs:		
Gross salaries	(158,663)	(157,204)
Payroll contributions payable by the employer	(19,198)	(19,169)
Reimbursement to the Management Board members	(24,544)	(15,329)
Business trips	(17,502)	(19,728)
Other personal expenses	(4,373)	(14,514)
Total as of 31 December	**(224,280)**	**(225,944)**

8. DEPRECIATION AND AMORTISATION

Total depreciation and amortisation charges for 2016 amounting to EUR 15,927 (for 2015: EUR 15,822) include depreciation calculated in accordance with Note 3.7.

9. OTHER OPERATING EXPENSES

(Amounts in EUR)

	2016	2015
Structure of other operating expenses:		
Advertising and marketing	(44,342)	(23,864)
Fees- bills	(29,730)	(24,118)
Membership fees	(17,213)	(11,925)
Training - education	(6,039)	(910)
Postal services	(5,085)	(4,545)
Maintenance	(4,957)	(5,471)
Other expenses	(20,297)	(21,932)
Total as of 31 December	**(127,663)**	**(92,765)**

In 2016, pursuant to the Decision of the General Meeting of the International Association of Deposit Protection Funds (IADI), the amount of the membership fee was increased from SFR 10,000 to SFR 17,500. The Management Board of the Fund considered the issue of the increase in the amount of the membership fee and decided to pay the above mentioned fee, and to strive to change the amount of the fee, together with other members – for the fee to be determined based on the amount of the funds' assets. This initiative is in the procedure, and the decision can be expected in 2018.

Fees - bills, relate to the fees to the Ministry of Finance (0.10% to the amount of purchased bills).

Other expenses relate to the costs of audit, bank charges, insurance policies, entertainment and humanitarian aid.

10. FINANCIAL INCOME

(Amounts in EUR)

	2016	2015
Structure of financial income:		
Interest income	224,276	55,347
Other financial income	54,941	36,324
Total as of 31 December	**279,217**	**91,671**

Interest income on treasury bills and government bonds is stated in the amount of EUR 224,276, while income from penalties and fines introduced by CBM in the process of control, amounted to EUR 54,941.

11. FINANCIAL EXPENSES

(Amounts in EUR)

	2016	2015
Structure of financial expenses:		
Interest expense – European Bank	(152,500)	(152,083)
Interest expense – term deposits	(84,773)	(2,717)
Total as of 31 December	**(237,273)**	**(154,800)**

11. FINANCIAL EXPENSES (Continued)

Financial expenses with the balance as of 31 December 2016 amounting to EUR 237,273 (31 December 2015: EUR 154,800) relate to interests to the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 152,500 and interest expenses from negative interest rates on the short-term deposits in the amount of EUR 84,773.

On 8 November 2010, the Fund concluded with the European Bank for Reconstruction and Development (EBRD) the Agreement on the “Stand-by” - credit arrangement, to the amount of EUR 30,000,000. These funds were made available to the Fund in the event that the Fund’s assets are not sufficient to cover the guaranteed deposit (bank bankruptcy) in some of the banks in the system. The loan is granted for the period of 15 years, with the possibility to be used in the next 7 years. The interest rate of 0.50% is calculated and paid in the period preceding the withdrawal of funds, and of 1.00% in the period after the withdrawal of funds.

12. INTANGIBLE ASSETS

		(Amounts in EUR)
	2016	**2015**
Structure of intangible assets:		
Intangible assets	42,884	42,884
Accumulated amortisation	(31,508)	(25,904)
Total as of 31 December	**11,376**	**16,980**

Intangible assets with the balance as of 31 December 2016 amounting to EUR 11,376 (as of 31 December 2015: EUR 16,980), mostly relate to the license for Oracle software, as well as the software for calculation of the payments of insured sums.

13. PROPERTY, PLANT AND EQUIPMENT

				(Amounts in EUR)
	Office IT equipment	**Office furniture**	**Other equipment**	**Total**
Costs				
Balance as of 1 January 2016	41,596	15,083	37,794	94,473
Additions in 2016	-	-	-	-
Balance as of 31 December 2016	**41,596**	**15,083**	**37,794**	**94,473**
Accumulated depreciation				
Balance as of 1 January 2016	(31,292)	(10,561)	(16,130)	(57,983)
Depreciation for the year	(3,771)	(396)	(6,156)	(10,323)
Balance as of 31 December 2016	**(35,063)**	**(10,957)**	**(22,286)**	**(68,306)**
Carrying value as of 31 December 2016	**6,533**	**4,126**	**15,508**	**26,167**
Carrying value as of 31 December 2015	**10,304**	**4,522**	**21,664**	**36,490**

14. OTHER LONG-TERM FINANCIAL PLACEMENTS

(Amounts in EUR)

	2016	2015
Structure of placements:		
Government bonds	2,200,000	-
Loans to employees – housing loans	242,357	255,181
Total as of 31 December	**2,442,357**	**255,181**

Other long-term financial placements which amount to EUR 2,442,357 as of 31 December 2016 (31 December 2015: EUR 255,181) relate to placements into bonds of Montenegro purchased in November 2016 and loans extended to employees in 2015.

Placements into the above mentioned bonds amounting to EUR 2,200,000 with maturity in 2020 and interest-bearing vouchers due annually to the amount of EUR 88,000 (interest rate of 4% per annum).

Loans extended to employees in 2015 are repaid in accordance with the annuity plan. In 2015 the amount of EUR 2,385 was repaid, and in 2016 the amount of EUR 12,825. Loans are divided into short-term (up to 1 year), mid-term (2-5 years) and long-term liabilities of employees (over 5 years).

Maturity of receivables arising from long-term loans to employees with the balance as of 31 December 2016 is presented in the table below (maturity of the undiscounted future cash flows).

(Amounts in EUR)

	2016	2015
Maturity period:		
Up to one year	12,823	12,823
From one to two years	12,823	12,823
From two to three years	12,823	12,823
From three to four years	12,823	12,823
From four to five years	12,823	12,823
Over five years	191,066	203,889
Total as of 31 December	**255,181**	**268,004**

15. ACCOUNTS RECEIVABLE

(Amounts in EUR)

	2016	2015
Structure of accounts receivable:		
Receivables from interests accrued	112,536	15,776
Receivables from employees – housing loans	12,824	12,824
Total as of 31 December	**125,360**	**28,600**

16. SHORT-TERM FINANCIAL PLACEMENTS

Short-term financial placements – treasury bills, amounting as of 31 December 2016 to EUR 13,318,502 (2015: EUR 12,965,857), represent debt securities issued by the Central Bank on behalf of the Ministry of Finance.

Treasury bills owned by Fund are purchased in from 15 July 2016 to 31 August 2016, for the six months period (maturity from 13 January 2017 to 1 March 2017), with contribution rate ranging from 1.8 to 2.30%.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2016 amount to EUR 65,303,289 (as of 31 December 2015: EUR 54,746,363) and relate to assets held with the Central Bank of Montenegro.

(Amounts in EUR)

	2016	2015
Structure of cash and cash equivalents:		
Gyro account	14,984,470	4,387,335
Cash on hand	695	759
Cash equivalents – interest bearing deposits	50,318,124	50,358,269
Total as of 31 December	**65,303,289**	**54,746,363**

Cash and cash equivalents with the balance as of 31 December 2016 in the amount of EUR 50,318,124 (as of 31 December 2015: EUR 50,358,269) represent short-term deposits with the Central Bank.

Pursuant to the Asset Management Agreement which came into force on 7 May 2012, the Fund's Management Board engaged and authorized the Central Bank to manage the Fund's available resources in the capacity of an Asset Manager. As in accordance with the aforementioned, the Central Bank issues orders for investments in deposits and for the purchase into and sale from the investment portfolio for the Fund's account performed with chosen banks and dealers and which offer security, liquidity and most favourable rates of return on investment to the Fund at the given moment.

The primary objective of all investment decisions is security for the purpose of capital preservation in the Fund. The Fund invests into assets and debt instruments rated by acclaimed international rating agencies into a category no less favourable than those marked as: Standard & Poor's A/A-1, Moody's A2/P-1, and Fitch A/F1. Investments in risk-weighted shares and investments are not allowed:

- debt securities denominated in EUR and issued by banks, financial institutions or states rated by internationally acclaimed credit rating agencies, which is not lower than “A“ or “P1“;

- deposits denominated in EUR, placed with banks in the EU and/or OECD member countries rated by internationally acclaimed credit rating agencies, which is not lower than “P1“.

17. CASH AND CASH EQUIVALENTS (Continued)

As an exception to the above, the Fund may also invest assets into debt securities denominated in EUR and issued and backed 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 shall manage the funds independently, without special instructions, in accordance with the acts of the Central Bank for the management of the international reserves, observing the principles of Investment Policies of the Fund.

In accordance with the Contract on Asset management, on the available funds of the Fund interest attributable to the deposit is calculated, except in cases when the Fund instructs otherwise. As of 31 December 2016, on the short-term deposits of the Fund amounting to EUR 50,318,124 negative interest rates of 0.21% and 0.28% are calculated.

As of 31 December 2016, the Central Bank of Montenegro holds the total amount of interest-bearing deposits placed with the three banks located in the EU countries, which are ranked, in accordance with the agreement with the Central Bank, with the A/A-1 rating.

18. EQUITY

(Amounts in EUR)

	2016	2015
Structure of equity:		
Basic capital	67,949,888	56,289,878
Retained earnings	13,168,420	11,660,010
Total as of 31 December	**81,118,308**	**67,949,888**

The Deposit Protection Fund was founded in 2009, pursuant to the Law on Deposit Protection (Official Gazette of Montenegro no. 40/03). Considering that the Fund was established pursuant to the Law, the founding deposit was not paid, the total amount of equity (which was recorded as of 31 December 2016 in the Fund's books of account in the amount of EUR 67,949,888 – as basic capital, and the amount of EUR 13,168,420 relates to retained earnings from 2016), represents the accumulated profit for the period from establishment to 31 December 2016.

19. OTHER SHORT-TERM LIABILITIES, ACCRUALS AND DEFERRED INCOME

(Amounts in EUR)

	2016	2015
Structure of short-term liabilities:		
Interest payable – European Bank	60,833	60,000
Interest payable – CBM	46,676	2,717
Accrued grants	-	32,404
Total as of 31 December	**107,509**	**95,121**

20. FINANCIAL INSTRUMENTS

20.1. 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 instruments are disclosed in Note 3 to the financial statements.

20.2. Categories of Financial Instruments

(Amounts in EUR)

	2016	2015
Financial assets:		
Cash and cash equivalents	65,303,289	54,746,363
Short-term financial placements	13,318,502	12,965,857
Other long-term financial placements	2,442,357	255,181
Accounts receivable	125,360	28,600
Total as of 31 December	**81,189,508**	**67,996,001**
Financial liabilities:		
Trade payables and other interest payable	108,743	67,179

20.3. Fair Value of Financial Assets and Liabilities

(Amounts in EUR)

	31 December 2016 Carrying value	31 December 2015 Fair value	31 December 2016 Carrying value	31 December 2015 Fair value
Financial assets:				
Cash and cash equivalents	65,303,289	65,303,289	54,746,363	54,746,363
Short-term financial placements	13,318,502	13,318,502	12,965,857	12,965,857
Other long-term financial placements	2,442,357	2,442,357	255,181	255,181
Accounts receivable	125,360	125,360	28,600	28,600
Financial liabilities:				
Trade payables and other interests payable	108,743	108,743	67,179	67,179

20.4. Financial Risk Management

The business activities of the Fund are not exposed to any risk, except for interest rate risk. There is a formal capital risk management framework implemented in the Fund and it is conducted by its Management Board. The intention of the Management Board while managing the financial risks is to mitigate the risk and minimize potential losses.

21. LITIGATION

As of 31 December 2016, the Fund does not act as a defendant or a plaintiff in any litigations.

22. TAX RISKS

Montenegro currently has several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include payroll - social taxes, together with other taxes not depending on results. In addition, laws governing these taxes have not been applicable for a long time, in contrast from the developed market economics, and, furthermore, regulations governing 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, creating uncertainties and areas of legal contention. Tax returns, 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.

Interpretation of tax laws by tax authorities as applied to the transactions and activities of the Fund may differ from the management's interpretations. As a result, transactions may be challenged by tax authorities and additional taxes, penalties and interest can be determined to the Fund. In accordance with the Tax Administration Law of Montenegro (Official Gazette of Montenegro, no. 65/01, 80/04, 29/05, 73/10, 20/11, 28/12, 8/15), the expiration period for a tax liability is five years, meaning that the tax authorities have the right to determine the payment of the outstanding tax liabilities in the period of 5 years from the time the liability occurred.

23. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events subsequent to the reporting date, which may affect the financial performance and the result of the Fund as of 31 December 2016.

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