CENTRAL BANK OF MONTENEGRO
PODGORICA

Financial Statements
Year Ended December 31, 2016
and Independent Auditors' Report

This Report is 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.

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INDEPENDENT AUDITORS' REPORT

To the Council of the Central Bank of Montenegro, Podgorica

We have audited the accompanying financial statements of the Central Bank of Montenegro, Podgorica (hereinafter: "CBM"), which comprise the statement of financial position as of December 31, 2016 and the related statement of profit and loss, 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 International Financial Reporting Standards, as well as for internal control considered by the Management 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 performed our audit in accordance with the Law on Auditing of Montenegro, Law on Accounting of Montenegro and strandards on auditing applicable in Montenegro. 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 Bank's internal controls. 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 qualified opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Central Bank of Montenegro as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 31 to the financial statements where it is disclosed that Article 11 of the Law on Central Bank of Montenegro (Official Gazette of Montenegro No. 40/10, 46/10 and 06/13) prescribes that the capital of Central Bank of Montenegro comprised of the core equity and reserves. Article 12 of the aforecited law defines the Central Bank of Montenegro core equity in the amount of EUR 50,000 thousand and that the increase in the core equity of the Central Bank shall be provided from the general reserve funds. In case the general reserve funds are not sufficient to cover the determined increase in the core equity, the shortfalls may be provided from the budget of Montenegro. As of December 31, 2016, the core equity of the Central Bank of Montenegro amounted to EUR 40,000 thousand. The additional required amount of the core equity amounted to EUR 10,000 thousand as of December 31, 2016. Our opinion is not qualified in respect to the above matter.

Other Matter

The financial statements for the year ended December 31, 2015 were audited by another auditor who issued a report as at March 21, 2016, having expressed an unqualified opinion with emphasis of matter on the amount of the insufficient capital.

Nada Suđić
Partner

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

Deloitte d.o.o. Podgorica
March 16, 2017

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In the case of any discrepancy between the Montenegrin and English versions, the Montenegrin shall prevail.

Nada Suđić
Partner

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

Deloitte d.o.o. Podgorica
March 16, 2017

STATEMENT ON PROFIT AND LOSS
Year Ended December 31, 2016
(In thousands of EUR)

	Notes	2016	2015 Adjusted
Interest income	7	2,974	1,637
Interest expense		(1)	(78)
Net interest income		2,973	1,559
Fee income	8a	9,536	8,890
Fee expense	8b	(208)	(92)
Net fee income		9,328	8,798
INTEREST AND FEE INCOME NET		12,301	10,357
Other income and gains	9	766	1,877
Other financial loss / revenue, net	10	(430)	(43)
Foreign currency exchange differences, net	11	21	65
Inflows from financial assets available for sale		84	33
Staff costs	12	(7,971)	(7,155)
Other operating expenses	13	(2,945)	(2,690)
NET PROFIT		1,826	2,444

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

Signed on behalf of the Central Bank of Montenegro, Podgorica, on March 15, 2017 by:

Valentina Ivanović , PhD

Director of Finance, Accounting and Controlling Department

Radoje Žugić, PhD
Governor of the Central Bank of Montenegro

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STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2016
(thousands of EUR)

	Notes	2016	2015 (Adjusted)
Net profit		1,826	2,444
Change in fair value of the assets available for sale	16	291	311
Change in fair value of property, plant and equipment	24	57	-
Other comprehensive income		348	311
Total comprehensive income		2,174	2,755

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

STATEMENT OF FINANCIAL POSITION
As of December 31, 2016
(thousands of EUR)

	Notes	December 31, 2016	December 31, 2015 Adjusted
ASSETS			
Cash and demand deposits	14	152,389	78,426
Time deposits with foreign banks	15	208,308	176,237
Financial assets available for sale	16	344,530	318,339
Financial assets held to maturity	17	55,767	58,813
Assets held with International Monetary Fund	18	99,992	68,386
Loans and advances	19	1,027	1,043
Receivables	20	2,484	2,293
Inventories	21	663	602
Investment property	22	2,925	3,027
Intangible assets	23	36	66
Property, plant and equipment	24	25,759	26,272
Long-term receivables from employees	25	1,424	1,521
Other assets	26	417	412
Total assets		895,721	735,437
EQUITY AND LIABILITIES			
Banks and other financial institutions' accounts	27	718,425	579,098
Government and other state organizations' accounts	28	12,272	22,450
Liabilities to the International Monetary Fund	29	100,186	68,476
Other liabilities	30	706	2,780
Total liabilities		831,589	672,804
EQUITY	31		
Core capital		40,000	40,000
General reserves		710	34
Special reserves		263	263
Revaluation reserves for property, plant and equipment		17,713	17,803
Revaluation reserves for financial assets available for sale		1,031	740
Unrealized revaluation losses		(8)	(8)
Retained earnings		4,423	3,801
Total equity		64,132	62,633
Total equity and liabilities		895,721	735,437
OFF-BALANCE-SHEET ITEMS		45,020	57,701

The accompanying notes on the following pages
form an integral part of these financial statement

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016
(thousands of EUR)

	Core capital	General reserves	Special reserves	Revaluation reserves for property, plant and equipment	Revaluation reserves for financial assets available for sale	Nerealizo-vani revalo-rizacioni gubici	Retained earnings/ (Accumulated losses)	Total
Balance as at January 1, 2015	40,000	978	263	19,048	429	-	(946)	59,772
Adjustement of the opening balance	-	-	-	(1,063)	-	-	1,175	112
Balance as at January 1, 2015, after adjustment	40,000	978	263	17,985	429	-	229	59,884
Transfer of retained earnings	-	-	-	-	-	-	-	-
Decrease of revaluation reserves	-	-	-	(182)	-	-	182	-
Fair value adjustment of securities available for sale	-	-	-	-	311	-	-	311
Transfer of general reserve to retained earnings	-	(944)	-		-	-	944	-
Unrealized revaluation losses	-	-	-	-	-	(8)	-	(8)
Adjustment of retained earnings	-	-	-	-	-	-	2	2
Profit for the current year	-	-	-	-	-	-	1,168	1,168
Balance as at December 31, 2015	40,000	34	263	17,803	740	(8)	2,525	61,357
Balance as at January 1, 2016	40,000	34	263	17,803	740	(8)	2,525	61,357
Adjustment of the opening balance	-	-	-	-	-	-	1,276	1,276
Balance as at January 1, 2016, After adjustment	40,000	34	263	17,803	740	(8)	3,801	62,633
Transfer of retained earnings	-	676	-	-	-	-	(676)	-
Decrease of revaluation reserves	-	-	-	(147)	-	-	147	-
Distribution of profit pursuant to the Decision on profit distribution for 2015 and the Protocol on the method of mutual obligations settlement (	-	-	-	-	-	-	(675)	(675)
Change in fair value of property, plant and equipment	-	-	-	57	-	-	-	57
Fair value adjustment of securities available for sale	-	-	-	-	291	-	-	291
Profit for the current year	-	-	-	-	-	-	1,826	1,826
Balance at December 31, 2016	40,000	710	263	17,713	1,031	(8)	4,423	64,132

STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(thousands of EUR)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		3,812	3,443
Fee receipts		8,458	7,899
Other receipts		985	763
Interest paid		(5)	(80)
Fees paid		(208)	(92)
Payments to employees		(8,063)	(7,046)
Payments to suppliers		(2,440)	(2,010)
Net cash inflows before value adjustment of assets and liabilities		2,539	2,877
Value adjustment of assets and liabilities			
Decrease of loans and advances		130	120
Increase of financial assets available for sale		(25,615)	(93,348)
Increase of financial assets to maturity		-	(46,504)
Increase/(decrease) in other banks and financial institutions' accounts		139,330	117,797
Increase/(decrease) in Government and other organizations' accounts		(10,177)	4,654
Net (inflow)/outflow cash from operating activities		106,207	(14,404)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(178)	(372)
Purchase of intangible assets		(16)	(2)
Net cash used in financing activities		(194)	(374)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash provided by/(used in) financing activities		-	-
Effect of exchange rate differences		21	66
Net increase/(decrease) in cash and cash equivalents		106,034	(14,712)
Cash and cash equivalents, beginning of year		254,663	269,375
Cash and cash equivalents, end of year	33	360,697	254,663

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

1. FOUNDATION AND ACTIVITY

The Central Bank of Montenegro (hereinafter: the "Bank" or "CBM") was founded under the Law on the Central Bank of Montenegro (Official Gazette of RM, no. 52/00, 53/00, 47/01 and 4/05), adopted by the Parliament of Montenegro in November 2000.

The Parliament of Montenegro enacted a new Central Bank of Montenegro Law (Official Gazette of Montenegro, no. 40/10, 46/10 and 6/13) in July 2010 (hereinafter: "the new CBM Law") stipulating the continuation of the Central Bank of Montenegro's operations thereunder.

The status, objectives, functions, performance and organization of the Central Bank of Montenegro are regulated by the Constitution of Montenegro and the Central Bank of Montenegro Law.

Pursuant to Article 143 of the Constitution of Montenegro, the Central Bank of Montenegro is an independent organization, responsible for monetary and financial stability and banking system, governed by the Council of the Central Bank and managed by the Governor of the Central Bank.

The new CBM Law created legal preconditions for adjustment of the status, objectives, functions and organization of the Central Bank of Montenegro to Article 143 of the Constitution of Montenegro in the manner that at the same time optimizes governing and managing the Central Bank and preserves its independence.

The new CBM Law also enabled compliance of the Central Bank functions and operations with the general principles relating to the operations of national central banks as defined by the relevant European Union regulations, primarily the provisions of the Treaty on the Functioning of the European Union and provisions of the Protocol No. 4 on the Statute of the European System of Central Banks and of the European Central Bank.

The new CBM Law defines that CBM shall perform the following functions:

1) oversee the maintenance of stability of the financial system as a whole and pass the pertinent regulations and measures;
2) issue licenses and approvals to banks and financial institutions and supervise banks and financial institutions;
3) carry out bankruptcy and liquidation proceedings against banks and financial institutions;
4) regulate and oversee the national and international payment systems;
5) may be a payment system owner and operator and a participant in other payment systems;
6) license payment systems other than the one it operates and oversee these payment systems;
7) manage the foreign reserves;
8) act as payment and/or fiscal agent towards international financial institutions and may be a representative of Montenegro in international financial institutions;
9) perform macroeconomic analyses, including monetary, fiscal, financial and the balance of payments analyses, and tender economic policy recommendations to the Government;
10) identify, analyses and assess the impact of certain factors on the financial system stability as a whole, which are in accordance with this law and law governing statistics and statistical system;
11) collect and statistically process data and information of importance for the achievement of objectives and the exercising of functions of the Central Bank;
12) set up the information system required for undisturbed exercising of its functions;
13) perform transfers in the national and international financial markets;
14) accept deposits of banks, state bodies and organizations and financial institutions and other parties in accordance with the regulations;
15) open accounts for banks and financial institutions, state bodies and organizations, foreign banks, central banks, international financial institutions, organizations donating funds to state bodies and organizations, and other entities in accordance with the law and other regulations, and provide financial services for those accounts;
16) pass regulations and measures pursuant to its authority granted under this and other law;
17) perform other activities in accordance with this and other laws.

1. FOUNDATION AND ACTIVITY (Continued)

The new CBM Law regulates the performance of the Central Bank's functions and operations in detail, particularly pertaining to the following:

- monetary and other instruments;
- foreign reserves of Montenegro;
- provision and protection of banknotes and coins and redemption of rare and original currency;
- responsibility for the functioning of the banking system;
- plat payment transactions and payment systems;
- collection, processing and dissemination of data and information, including statistical data and information;
- relationships between the CBM and other state bodies and organizations;
- governance and management of the Central Bank;
- capital, assets, income and expenses of the Central Bank;
- internal audit of the Central Bank.

Pursuant to the new CBM Law, the Parliament of Montenegro appointed the first Governor of the Central Bank of Montenegro in mid-October 2010. Two vice-governors and four "external‟ CBM Council members were appointed by the end of October 2010 so that the newly appointed CBM Council commenced work in early November 2010.

With regard to the CBM capital and reserves of the new CBM Law define the following:

- The Bank's capital shall comprise of the core equity and reserves;
- The Bank's core equity shall amount to EUR 50 million;
- The Bank's core equity shall be the state property;
- The core equity may be increased by amounts suggested by the CBM. Increase of the core capital of the Central Bank is performed from the funds of the general reserves. If the funds of the general reserves are not sufficient for providing the determined amount of increase of core capital, the missing funds can be provided from the Budget of Montenegro,
- The CBM reserves shall comprise general, special and revaluation reserves, where general reserves shall be used for absorption of losses incurred by the Bank;
- The Bank may, after consultation with the Government, establish special reserves in order to cover specific operating expenses.

The amount of the core capital of EUR 50,000 thousand is determined by the Law on Central Bank of Montenegro for the purpose of creating adequate material preconditions for performance of the defined CBM functions. The amount of the core capital was determined based on the Bank's responsibility for maintaining financial and monetary stability by using monetary and other instruments available in the circumstances (approval of loans to banks, open market operations, lender of last resort actions, etc.), and with the view to creation of conditions for performance of other CBM functions, imposed the need for the establishment of core capital in the planned amount.

With regard to the CBM core capital in the amount of EUR 50,000 thousand, Article 90 of the new CBM Law defines the manner of providing the prescribed amount as follows: it shall be provided from the founding capital stipulated by the Law on the Central bank of Montenegro (Official Gazette of the Republic of Montenegro, no. 52/00 and 47/01) and from general reserves which shall be at the CBM's disposal as at the date of entry into force of the new CBM Law. If the aforedescribed funds are insufficient to provide the core capital of the Bank, any shortfall in the funds shall be provided from the Budget of Montenegro.

The registered Head Office of the Central bank of Montenegro is located in Podgorica, at the following street address: Bulevar Svetog Petra Cetinjskog 7.

As of December 31, 2016, the Bank had 361 employees (December 31, 2015: 361 employees).

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

2.1. Basis of Preparation and Presentation of Financial Statements

The accompanying financial statements have been prepared for the general usage and in accordance with the International Financial Reporting Standards (IFRS).

(a) Statement on Financial Statements' Compliance with IFRS

The accompanying financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The presentation of the financial statements in accordance with IFRS requires the Bank's management to use certain critical accounting estimates and assumptions in the process of implementing the Bank's accounting policies. The areas demanding higher-level or higher-complexity estimates, or the areas where the estimates and assumptions are materially significant for the financial statements are disclosed in Note 2.1.(d).

The Bank consistently adhered to the accounting policies in line with IFRS that are disclosed in the following passages for all the accounting periods presented in the accompanying financial statements.

During 2016, there were changes neither in accounting policies nor presentation modes in relation to the comparative year.

(b) Basis of Preparation of the Financial Statements

The financial statements have been prepared according to the historical cost, with the exception of assets available for sale and investment properties, which are measured at fair value, then property, equipment recorded using the revaluation model, as well as other financial assets and liabilities (including derivative financial instruments) after fair value through profit or loss.

(c) Functional and Reporting Currency

The Bank's financial statements are stated in thousands of EUR, which is the Bank's functional currency. All the financial data are stated in thousands of EUR and rounded off to the nearest thousand.

(d) Use of Accounting Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires the usage of certain critical accounting estimates and assumptions that influence the effects of policies applied, and amounts of assets and liabilities, i.e. income and expense amounts stated over the reporting period. Estimates and assumptions are made based on historical experience and other factors, including expectations referring to the future events that are deemed reasonable in the circumstances where the results present a solid basis for appraisal of the carrying value of assets and liabilities and where other sources result in uncertainties. Actual future results may vary from these estimates.

Estimates and assumptions are subject to constant review. Changes to the accounting estimates are recognized in the current period if they relate to that period only or, both in the current period and the ensuing periods if the change affects both the current and the ensuing periods.

Special areas of estimation uncertainty and critical estimates in applying accounting policies that are of great importance for the amounts disclosed in the financial statements are disclosed in Note 5 to the financial statements.

In the preparation of the accompanying financial statements in line with the IFRS the Bank adhered to the accounting policies described in Note 3.

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

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

(e) Standards and Interpretations in Effect in the Current Period

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue and in effect:

In the current year, CBM applied the following amendments and revisions to IFRS issued by the International Accounting Standards Board ("IASB") mandatorily effective for the accounting periods beginning on or after January 1, 2016:

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016).
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Inititative (effective for annual periods beginning on or after January 1, 2016).

(f) Standards and Interpretations in Effect in the Current Period

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue and in effect for the financial year ended December 31, 2016:

- IFRS 9 "Financial Instruments" and subsequent amendments, supplanting the requirements of IAS 39 "Financial Instruments: Recognition and Measurement," with regard to classification and measurement of financial assets. This standard eliminates the categories existing under IAS 39 – assets held to maturity, assets available for sale and loans and receivables. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  In accordance with IFRS 9, financial assets shall be classified in one of the following two categories upon initial recognition: financial assets at amortized cost or financial assets at fair value. A financial asset shall be measured at amortized cost if the following two criteria are met: financial assets relate to the business model whose objective is to collect the contractual cash flows and the contractual terms provide the basis for collection at certain future dates of cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets shall be measured at fair value. Gains and losses on the fair value measurement of financial assets shall be recognized in the profit and loss statement, except for investments in equity instruments which are not traded, where IFRS 9 allows at initial recognition a subsequently irreversible choice to recognize changes in fair value within other gains and losses in the statement of comprehensive income. An amount recognized in such a manner within the statement of comprehensive income cannot subsequently be recognized in profit and loss.

- IFRS 15 "Revenue from Contracts with Customers," defining the framework for revenue recognition. IFRS 15 supplants IAS 18 "Revenue," IAS 11 "Construction Contracts," IFRIC 13 "Customer Loyalty Programs," IFRIC 15 "Agreements for the Construction of Real Estate" and IFRIC 18 "Transfers of Assets from Customers." IFRS 15 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted;

2. Basis of Preparation and Presentation of Financial Statements (Continued)

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

(f) Standards and Interpretations in Issue not yet in Effect (Continued)

- IFRS 16 "Leases" provides a comprehensive model for identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As from its effective date, January 1, 2019, this standard shall supplant the following lease standards and interpretations: IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease," SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease.";
- Amendments to IFRS 2 "Share-Based Payment" - Classification and Measurement of Share-Based Payment Transactions, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted;
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ought to have been effective for annual periods beginning on or after January 1, 2016; however, in December 2015 IASB deferred the effective date indefinitely, with early adoption permitted;
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative require and entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Amendments to IAS 7 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted;

- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses, shall be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

IFRS 9 „Financial instruments"

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The Key requirements of IFRS 9 are:

- All recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election upon initial recognition to measure an equity investment (that is not held for trading) at fair value through other comprehensive income, with only dividend income generally recognized in profit or loss.

3. Basis of Preparation and Presentation of Financial Statements (Continued)

3.1. Basis of Preparation and Presentation of Financial Statements (Continued)

(f) Standards and Interpretations in Effect in the Current Period (Continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The Bank's management considers the impact of the above standards and interpretations on the financial statements of the Bank, as well as the date of their entry into force, and believes that their adoption will not have a material effect on the financial statements of the Bank for the period of their initial application. The Management of the Bank does not consider the earlier application to the above standards.

2.2. Use of Accounting Estimates

The presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the financial statements' preparation date, and income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us at the financial statements' preparation date and mostly relate to the estimated amounts of the provisions for loans and interest payables, provisions for deposits held with other banks, permanent investments and off-balance sheet items. However, actual results may depart from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest and fee Income and Expenses

Interest income and expenses arising from all interest-bearing financial instruments are recognized in the income statement within "interest income" and "interest expenses" applying the effective interest rate methodThe effective interest rate method is a method of calculating repayment costs of a financial asset or liability and of allocating interest income or interest expenses over the relevant period. The effective interest rate is the rate that accurately discounts estimated future cash payments or receipts over the expected life of the financial asset, or when appropriate, over a shorter time period, to the net present value of the financial asset or liability. When calculating interest rate, CBM estimates cash flows considering all the contractual terms of a financial instrument but does not consider future credit losses.

Fee income and expenses from banking services rendered or used, are recognized on the accrual basis when such services are invoiced and rendered. Fees primarily comprise bank charges for domestic payment transactions, fiscal agency services and other services CBM renders in accordance with the relevant law. In the accounting period under review, CBM did not have fee income and expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Operating Lease

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Assets leased out under operating lease are included in investment property in the statement of financial position. They are depreciated over their expected useful lives in the manner consistent with the one applied to the similar assets owned by the Bank. Rental income (net of any incentives granted to lessees) is recognized as income in the statement of profit and loss, on a straight-line basis over the lease term.

3.3. Foreign Currency Translation

Functional and Reporting Currency

Items included in the financial statements of CBM are measured using the currency of the primary economic environment the Bank operates in ("the functional currency''). The amounts in the financial statements are presented in thousands of EUR, the EUR being the functional and reporting currency of the Bank.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses arising from settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies at the end of the year are recognized in the statement of profit and loss.

3.4. Taxes and Contributions

Income Taxes

In accordance with the Central Bank of Montenegro Law, CBM is exempt from income tax payment.

Indirect Taxes and Contributions

Indirect taxes and contributions are included in other operating costs. Tax amounts the Bank is obligated to pay are included in other liabilities as tax payables.

3.5. Cash and Cash Equivalents

For the purposes of the statement of cash flows preparation, cash and cash equivalents comprise balances with less than a three-month maturity from the date of acquisition, including vault cash, demand deposits and short-term placements with foreign banks.

3.6. Financial Instruments

Financial Assets

CBM classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets and financial assets to maturity. The Bank's management classifies financial assets at initial recognition

(a)Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances are initially recognized at fair value All loans and advances are recognized when cash is advanced to borrowing customers. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial instruemnts (continued)

Financial Assets (continued)

(b) Financial Assets Available-for-Sale

Financial assets available for sale represent financial instruments which are intended to be held over an indefinite time period and which may be sold for liquidity purposes due to the movements in interest rates, exchange rates or prices of capital.

Regular purchase and sale of investments are recognized at the date of transaction, which is the date when the Bank has committed to purchase or sell the asset.

Financial assets are initially recognized at fair value increased by the transaction costs.

Financial assets available for sale are subsequently carried at fair value.

Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized within equity until the moment of disposal or impairment. At this time, cumulative gains or losses previously recognized within equity, are recognized in profit and loss account.

The fair value of financial assets quoted in an active market is based on current bid and demand prices. If there is no active market for a financial asset, CBM determines its fair value using valuation techniques. These include using recent arm's length transactions, experience with similar instruments, discounted cash flow analysis and other valuation techniques commonly used by participants in the market.

Interest income on these instruments is calculated using the effective interest rate and stated within the interest income.

(c) Financial Assets Held to Maturity

Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturity that CBM has the positive intention and ability to hold to maturity. Susbequent to initial recognition, held-to-maturity securities are measured at amortized cost using the effective interest rate method, less any allowance for impairment, i.e. impairment loss. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

Interest income on these instruments is calculated using the effective interest rate and stated within the interest income.

(d) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legal right to offset the recognized amounts as well as if there is an intention to reconcile them on net basis or realize the asset and settle the liability at the same time.

(e) Impairment of Financial Assets Carried at Amortized Cost

CBM assesses at each balance date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. *Financial instruments (continued)*

The indicators that the Bank uses to determine whether there is objective evidence of an impairment loss include the following:

- defaults in contractual payments of principal or interest,
- cash flow problems on the part of the borrower (e.g. decrease in capital adequacy ratios or decrease in profitability),
- breach of contractual covenants or conditions,
- initiation of the bankruptcy procedure,
- deterioration of the borrower's competitive position,
- decrease in the value of collateral.

The estimated period between the inception of the loss and its identification is determined by the Bank's for each financial asset portfolio. In general, the periods may vary from 3 to 12 months; in exceptional cases, longer periods are warranted.

The Bank assesses whether objective evidence of impairment exists individually for financial assets.

The amount of the loss is measured as the difference between the asset's carrying amount and its recoverable value, being the present value of estimated future cash flows (excluding future credit losses not yet incurred), discounted at the original effective interest rate for that particular financial asset. The carrying value is decreased in the account of allowance for impairment and the impairment loss is recognized in the income statement.

(e) Impairment of Financial Assets

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from realization of the collateral, netted of the collateral acquisition and sale costs, regardless of the likelihood of such realization.

Uncollectible loans are written off in the account of allowance for impairment of loans after completion of all the necessary procedures and establishment of the loss amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improvement of the borrower's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of and loss as a reduction of loss on the basis of impairment of loans.

Financial Liabilities

Financial liabilities are initially recognized at fair value, which is usually the value of inflows netted of the transaction costs incurred. Financial liabilities are subsequently measured at amortized cost, using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Intangible Assets

Acquired computer software licenses are capitalized in the amount of expenditure incurred upon purchase and bringing the software into use. Expenses relating to new computer software development are recognized when incurred. Expenditure directly attributable to the development of the existing software applications under CBM control are capitalized only when it is likely that future economic benefits associated with investments into such software will flow to the Bank and when the expenses can be reliably measured. Directly attributable expenses include staff costs of the software development team.

Costs of improving computer program performances so that they extend beyond their original specifications are recognized as increase in value of the computer software in usage. Computer software is amortized on a straight-line basis, over its estimated useful life, but no longer than five years

Other expenditure arising from development and/or maintenance of computer software programs is recognized as expense when incurred.

Intangible assets are reviewed for impairment whenever events or changes in the circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized in the amount whereby an asset's carrying amount is higher than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

3.8. Property, Plant and Equipment

CBM's property, plant and equipment are stated at fair value, as described below, less accumulated depreciation.

Land is stated at cost and is not depreciated.

Subsequent costs are included in the asset’s carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to statement of profit and loss of the reporting period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Depreciation of major categoriesfor 2015 and 2016 of property, plant and equipment is calculated by applying the following depreciation rates determined based on their estimated useful lives:

Major categories of property, plant and equipment	**Depreciation rate after revaluation(%)**
Buildings	1,47 – 2,63
Ancillary premises	1,30 – 33,33
Substations, power stations and generators	6,67 – 20,00
Money handling equipment	100,00
Computer equipment	25,00 – 50,00
Mobile phones	33,33 – 50,00
Telecommunication and postal equipment	8,33 – 50,00
Office furniture and equipment	10,00 – 50,00
Motor vehicles	12,50 – 25,00

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Property, Plant and Equipment (continued)

Gains and losses on disposals of property, plant and equipment are determined as a difference between the cash receipt and the carrying value and are recognized in the income statement as other operating expenses.

Residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each statement of financial position date. Fixed assets are reviewed for impairment whenever events or changes in the circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized in the amount whereby an asset's carrying amount is higher than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the changes in fair values of the assets being revalued. When an asset is revalued, its accumulated revaluation is restated proportionately to the changes in its gross carrying amount up to the date of new revaluation, so that the carrying amount of the asset after revaluation equals its revalued amount. The revaluation was carried out in September 2016.

Increase in the carrying amount of the property, plant and equipment arising on revaluation is credited to revaluation reserves, within equity. Decrease that offsets previous increase in the value of the same asset is charged against revaluation reserves directly; all other decreases are charged to the statement of profit and loss. The revaluation reserve is transferred directly to retained earnings/(accumulated losses) upon the asset's disposal or sale.

However, certain reserves may be transferred even during the use of the relevant asset. In such instances, the amount of the reserve transferred represents the difference between depreciation based on the appraised carrying value of the asset and its initial cost. Transfer of revaluation reserves to retained earnings is not performed via the statement of comprehensive income.

3.9. Investment Property

Investment property comprises business premises not occupied by CBM but rented out mainly to commercial banks. Investment property is stated at cost less accumulated depreciation/cost. Transaction costs are included in the initial measurement. Cost of purchased investment property comprises its purchase price and any directly attributable expenditure.

Investment properties are subsequently measured at fair value estimated by an independent appraiser, while profit or loss derived from changes in fair value shall be recognized in favor of or against the statement of profit and loss.

Gains or losses that occur during the withdrawal from use (when no future economic benefits are expected from the disposal of investment property) or the sale of investment property are determined as the difference between the sales proceeds and the carrying amount of investment property in the period of withdrawal from the use of the asset and are recognized in the statement of profit and loss as part of operating income or as part of operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Numismatic Coins

Numismatic coins are stated at the lower of cost and its net realizable value.

3.11. Provisions

Provisions for litigation claims are recognized when: CBM has a present legal or contractual liability resulting from past events; it is more likely than not that the settlement of the liability will require an outflow of assets; when the amount of the liability can be reliably estimated.

Where there are a number of similar liabilities, the likelihood that an outflow of assets will be required for settlement is determined by considering the class of liabilities as a whole. Provisions are measured at the present value of the expenditures expected to arise from the settlement of the liability using a pre-tax rate that reflects current market estimate of the time value of money and specific risks associated with the liability. Increase in provisions due to passage of time is recognized as interest expense.

3.12. Employee Benefits

a) Retirement Benefits

CBM pays the following mandatory contributions for all employees to the state funds: pension and disability insurance contribution, healthcare insurance contribution and unemployment insurance contribution. Pension and disability insurance contributions paid by the employee are determined by applying the rate of 15% to the gross salary amount. Pension and disability insurance contributions paid by the employer are determined by applying the rate of 5.5% to the gross salary amount. Contributions paid are recognized as expenses when incurred and are stated in the statement of comprehensive income within staff costs. CBM is under no obligation to pay any contributions other than the aforedescribed contributions.

b) Severance/Redundancy Payments

Severance or redundancy payments are paid upon employment termination by CBM before retirement or when an employee accepts consensual employment termination in exchange for severance or redundancy payment. CBM recognizes severance or redundancy payments when it is evidently committed to either terminate employment according to a detailed official plan without any possibility of withdrawal; or providing redundancy benefits in order to encourage voluntary redundancy and reduce the number of employees. Benefits falling due within periods exceeding 12 months after the statement of financial position are discounted to the present value.

c) Residential Housing Loans

In accordance with the Employee Housing Rules of Procedure and the Decision of the Employee Housing Commission, CBM approves housing loans to the employees. Housing loans are initially recognized at fair value and subsequently measured at amortized cost based on the effective interest rate. The difference between the initial fair value of the loans and the cash disbursed to the beneficiary employees is recognized as prepaid employee benefits within long-term receivables from employees. The prepaid employee benefits are amortized over the benefit period. The benefit period is the expected service life of the employee that cannot exceed the term of the loan. If the employees terminated employment with the Bank before the end of their working life, the funds recognized at that moment as prepaid benefits are written off and the related loss is recorded in the statement of profit and loss.

d) Bonuses

CBM recognizes the liability and expense for bonuses disbursed to employees in accordance with the Rules on the evaluation of staff performance in CBM.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Core Capital and Reserves

The new Central Bank of Montenegro Law defines that the Bank's capital shall comprise the core capital and reserves and that the minimum core capital amount shall total EUR 50,000 thousand.

In accordance with the new CBM Law, the capital was transformed whereby the founding capital and general reserves were converted into the core capital. The new law introduced new categories of reserves: general, special and revaluation reserves.

As of December 31, 2016, the core capital of the Bank amounted to EUR 40,000 thousand.

3.14. Fair Value

Fair value is defined as an amount an asset can be exchanged for or a liability settled with in a transaction between well informed and willing counterparties.

Fair value is the price achieved in the sale of assets or transfer of liabilities in a transaction with a market participant at the main market, ie. the market with the highest turnover and the most intensive activities of the claimed property and liability. If there is no major market, it is used the winning market price, ie. the market in which the entity could achieve the best price.

The fair value of non-financial asset is measured by the maximum and the best possible use with market participant. If the market or other factors do not indicate otherwise, it is assumed that the current use of resources with the entity is the maximum and the best possible one.

The fair value of a liability or equity instrument of the entity is determined by assuming that the instrument be transferred to the measurement date.

When transactions are directly visible in the market, the determination of fair value is relatively easy, and if not, three shall be used there valuation techniques that operators may use in determining the fair value, as follows:

- Market Approach - the CBM uses prices and other pertinent information from the market transactions of identical or comparable (i.e., similar to) assets, an identical or comparable (ie. the similar) liabilities or a group of property and liabilities;
- Revenue (Income) Approach - the CBM reduces the future amounts (i.e., cash flows or revenues and expenditure) to a current (i.e. discounted) amount.
- Cost Approach - valuation technique which results in an amount that would be required at the present time to replace the service capacity of an asset (often referred to as current replacement cost).

CBM has an obligation to disclose all information related to the fair value of assets and liabilities for which there is available market information and that are materially different from the carrying value and the fair value. The management of CBM considers that the carrying value of assets and liabilities does not differ from the fair value.

4. FINANCIAL INSTRUMENTS

4.1. Risk Management

Owing to the nature of its activities, the Bank is exposed to the following major risks:

- Credit risk,
- Market risk (which includes the interest risk, currency risk and other market risks),
- Liquidity risk and
- Operational risk.

Risk exposure is inherent in the Bank's business operations, and operational risks are their inevitable consequences. It is therefore CBM's objective to achieve appropriate balance between the risks taken and return aimed at and to minimize the potential adverse effects on its financial performance. CBM's adequate response to risks includes risk analysis, estimates and management of certain degree of risk.

CBM's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls and to monitor the risks and adherence to the limits set by means of reliable and up-to-date information system.

Risk management is conducted within the Financial and Banking Operations Sector under policies approved by the CBM Council. the Financial and Banking Operations Sector identifies and assesses financial risks in collaboration with other CBM departments. The Council defines and provides written procedures for overall risk management as well as written procedures to cover specific areas, such as foreign exchange rate risk, interest rate risk, liquidity risk and credit risk.

4.2. Credit Risk

CBM is exposed to credit risk, which represents the risk of negative effects on the Bank’s financial result arising from the transaction counterparty’s inability to settle its committed liability.

Significant changes in the economies where the Bank's portfolio is concentrated might result in losses different from those stated at the statement of financial position date. Therefore, the management prudently manages the Bank’s credit risk exposure. Credit risk exposure is mainly associated with placements with foreign banks and debt securities.

Credit risk management and risk exposure control are centralized within the Financial and Banking Operations Sector, and regularly reported on to the CBM Council.

4.2.1. Credit Risk Measurement and Set Limit Control

(a) *Placements with Foreign Banks*

During 2016, funds were deposited with commercial banks that meet requirements set by the Guidelines for management of international reserves.

(b) *Debt Securities and Other Bonds*

The liquid portfolio as at the end of 2016 comprised the state debt short-term securities of the original maturity of one year, whose emitters are rated according to the S&P with BBB- and upward, whereby only a limited part of resources may be of the lowest rating.

The investment portfolio available for sale as at the end of 2016 included debt securities of selected benchmarks that have a minimum rating of BBB by S&P, with strictly defined rules on the percentage of exposure to securities of the lowest rating.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (continued)

4.2.1. Credit Risk Measurement and Set Limit Control

Investment strategy allows an investment of funds into government securities with the maturity of zero to ten years, quasi-government and covered bonds of the maturity of zero to five years.

In addition, the special investment portfolio to maturity at the end of 2016 included Eurobonds whose issuer is the country of Montenegro with maturity up to five years, provided that the purchase of these bonds is made on the secondary market.

Securities are kept in custody accounts with Deutsche Bundesbank, Frankfurt and Clearstream, Luxembourg.

The entire debt securities portfolio is denominated in EUR.

4.2.2. Impairment and Allowance for Impairment Policy

The internal and external rating systems focus on credit-quality mapping based on the lending and investing activities. In contrast, allowance for impairment is recognized for financial reporting purposes only for losses incurred as of the statement of financial position based on the objective evidence of impairment.

(In thousands of EUR

	December 31, 2016		December 31, 2015	
	Loans and advances, gross	**Allowance for Impairment (%)**	**Loans and advances, gross**	**Allowance for Impairment (%)**
Loans to employees – short-term portion (Note 19)	1,027	-	1,043	-
Loans to employees – long-term portion (Note 25)	1,407	-	1,468	-
Securities held to maturity (Note 17)	55,767		58,813	
Total, gross	58,201	-	61,324	-

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued

4.2.3. Maximum Exposure to Credit Risk Without Collateral

The following table presents the maximum exposure to credit risk as of December 31, 2016 and December 31, 2015. The statement of financial position items exposure is based on the net carrying amounts as stated in the statement of financial position:

		(In thousands of EUR)
	December 31, 2016	**December 31, 2015**
Cash, cash equivalents and demand deposits (Note 14)	152,389	78,426
Placements with foreign banks (Note 15)	208,308	176,237
Financial assets available for sale (Note 16)	344,530	318,339
Financial assets held to maturity (Note 17)	55,767	58,813
Assets held with IMF (Note 18)	99,992	68,386
Receivables (Note 20)	2,234	2,074
Total	863,220	702,275

As seen from the table above, the most significant exposure to credit risk is arising from financial assets available for sale, which account for 40% of the total maximum exposure as of December 31, 2016 (2015: 45%), while 18% of the total maximum exposure as of December 31, 2016 is arising from demand deposits with foreign banks (2015: 11%) and 24% of time deposits with foreign banks (2015: 25%).

Credit risk is managed by selecting a financial institution – a central bank or a debt securities issuer based on the criteria adopted by the CBM Council. The table below presents the analysis of CBM placements with foreign banks and debt securities issuers as of December 31, 2016 and 2015.

		December 31, 2016			**In thousand of EUR December 31, 2015**
Securities available for sale	**AAA**	43,080	Securities available for sale	**AAA**	32,515
	AA	89,346		**AA**	98,454
	A	39,306		**A**	23,282
	BBB	172,798		**BBB**	164,088
Total		**344,530**	**Total**		**318,339**
Securities held to maturity	**AA**	5,664	Securities held to maturity	**AA**	9,100
	B	50,103		**B**	49,713
Total		**55,767**	**Total**		**58,813**
Banks	**AAA**	5,013	Banks	**AAA**	584
	AA	510		**AA**	-
	A	218,138		**A**	206,297
	BBB	1		**BBB**	77
Total		**223,662**	**Total**		**206,958**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Financial Placements

Financial placements were classified as follows:

December 31, 2016 — **In thousands of EUR**

	Time placements with foreign banks (Note 15)	Financial assets available for sale and held to maturity (Note 16 and 17)	Assets held with the IMF (Note 18)	Receivables (Note 20)	Housing loans approved to employees (Notes19 and 25)	Total
Not matured	208,308	400,297	99,992	-	2,434	711,031
Matured, not written off	-	-	-	2,234	-	2,234
Individually written off	-	-	-	-	-	-
Gross	208,308	400,297	99,992	2,234	2,434	713,265
Less:						
Allowance for impairment	-	-	-	-	-	-
Net	208,308	400,297	99,992	2,234	2,434	713,265

December 31, 2015 — **In thousands of EUR**

	Time placements with foreign banks (Note 15)	Financial assets available for sale and held to maturity (Note 16 and 17)	Assets held with the IMF (Note 18)	Receivables (Note 20))	Housing loans approved to employees (Notes19 and 25)	Total
Not matured	176,237	377,152	68,386	-	2,511	624,286
Matured, not written off	-	-	-	2,074	-	2,074
Individually written off	-	-	-	-	-	-
Gross	176,237	377,152	68,386	2,074	2,511	626,360
Less:						
Allowance for impairment	-	-	-	-	-	-
Net	176,237	377,152	68,386	2,074	2,511	626,360

4. FINANCIAL INSTRUMENTS (Continued)

Credit Risk (Continued)

4.2.4. Financial Placements (continued)

Placements to foreign banks and loans approved to the Government and domestic commercial banks are not collateralized. That is why CBM did not disclose fair value of collaterals accepted for the loans approved.

4.2.5. Risk Concentration of the Financial Assets with Credit Risk Exposure

Geographical Regions

The following table breaks down the CBM's main credit risk exposures at the assets' carrying amounts per geographical regions as of December 31, 2016. In this table credit risk exposure is based on the country of domicile of the CBM's counterparty banks and institutions.

In thousands of EUR

	EU countries	USA	Montenegro	Total
Cash	19	2	137,014	137,035
Demand deposits held with foreign banks	15,034	320	-	15,354
Placements with foreign banks	208,119	189	-	208,308
Financial assets available for sale	344,530	-	-	344,530
Financial assets held to maturity	5,664		50,103	55,767
Assets held with the IMF	-	99,992	-	99,992
Loans and advances	-	-	2,434	2,434
Other financial assets	-	-	2,234	2,234
Balance at December 31, 2016	573,366	100,503	191,785	865,654
Balance at December 31, 2015	583,540	68,971	52,275	704,786

4.3. Market Risk

CBM is exposed to market risks which refer to the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise from outstanding balances due to changes in interest rates, foreign currency exchange rates and prices of securities. CBM operates only with portfolios that are not held for trading.

Market risks arising from the CBM portfolio are managed by the Financial and Banking Operations Sector and regularly reported on to the CBM Council.

The CBM portfolio is mostly comprised of securities available for sale and securities held to maturity.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (continued)

4.3.1. Market Risk Measurement Techniques

Major measurement techniques used to measure and control market risks are outlined in the following paragraphs.

CBM applies "Value at Risk" methodology (VAR) to estimate the market risk exposures and the maximum losses expected based on a number of assumptions for various changes of market conditions. The CBM Council sets limits on the value of risk acceptable for CBM, which is monitored on a monthly basis and according to the reports submitted by the Financial and Banking Operations Sector.

VAR represents a statistical methodology for assessing the maximum change in foreign reserve value arising from changes in the financial instrument prices and in foreign exchange rates together with certain level of confidence for particular time frame. The 1998 Basel Agreement recommends that the bank apply a 99% level of confidence within a 10-day interval when calculating VAR. The VAR methodology estimates how much the foreign reserves will decrease as a result of the price fluctuations and changes in foreign reserves of the currencies comprising the foreign reserves with a 99% confidence for a 30-day interval. Fluctuations of instrument prices and foreign exchange rates are determined according to the historical changes in prices, instruments and currencies comprising the foreign reserves at the end of the month. The value of VAR resulting in 99% confidence level denotes the maximum change in the foreign reserves in the environment of common market changes with probability of 99%.

The use of this approach does not prevent losses outside these limits in the circumstances of more significant market movements.

As VAR constitutes an integral part of CBM's market risk control regime, VAR limits are established and by the Council annually for investments in securities. Actual exposure against limits is reviewed by the Financial and banking Operations Sector on a monthly basis.

As of December 31, 2013, the maximum VAR was -0.28%, whereas the minimum VAR was - 0.20% of the entire portfolio market value. When the VAR is calculated on a monthly basis for the entire portfolio as of December 31, 2016 under normal conditions, in 5% of cases it can be expected a loss of more than 0.20%, or EUR 606 thousand.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (continued)

4.3.2. Foreign Currency Risk

CBM is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on the statement of financial position items and cash flows. The table below summarizes the CBM's exposure to foreign currency exchange rate risk as of December 31, 2016. Included in the table are the CBM's financial assets and liabilities at their carrying amounts and classified by currency

In thousands of EUR

	EUR	USD	SDR	Total
Balance at December 31, 2016				
Assets				
Cash and demand deposits	152,067	322	-	152,389
Fixed-term deposits with foreign banks	208,119	189	-	208,308
Assets held with the IMF	-	-	99,992	99,992
Financial assets available for sale	344,530	-	-	344,530
Financial assets held to maturity	55,767	-	-	55,767
Loans and advances	2,434	-	-	2,434
Other financial assets	2,234	-	-	2,234
Total financial assets	765,151	511	99,992	865,654
Liabilities				
Payables arising from the accounts of other banks and financial institutions	718,425	-	-	718,425
Payables arising from the Government's and other organization’s accounts	12,272	-	-	12,272
Liabilities to IMF	-	-	100,186	100,186
Other financial liabilities	161	-	-	161
Total financial liabilities	730,858	-	100,186	831,044
Net statement of financial position position	34,293	511	(194)	34,610
Balance at December 31, 2015				
Total financial assets	635,816	584	68,386	704,786
Total financial liabilities	601,563	-	68,476	670,039
Net statement of financial position position	34,253	584	(90)	34,747

As of December 31, 2016, had the USD strengthened/weakened by 10% against EUR and all other variables remained unchanged, net profit for the year would have been EUR 35 thousand lower/higher (December 31, 2015: EUR 35 thousand), as a result foreign exchange losses/gains.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (continued)

4.3.3. Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both their fair value and cash flow risks. Interest margins may increase as a result of such changes, but they may also reduce losses in the event when unexpected movements arise. The Council sets limits on the level of mismatch of interest rate repricing, which may be undertaken and which is monitored monthly by the Financial and Banking Operations sector.

The following table summarizes the Bank's exposure to the interest rate risk. It presents financial instruments of the CBM carried at carrying values, categorized by the earlier of contractual repricing or maturity dates.

In thousands of EUR

	Up to 1 month	From 1 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total
Balance at December 31, 2016						
Assets						
Cash, cash equivalents and demand deposits	152,389	-	-	-	-	152,389
Fixed-term deposits with foreign banks	-	208,308	-	-	-	208,308
Assets held with the IMF	99,992	-	-	-	-	99,992
Financial assets available for sale	-	217,853	71,991	54,686	-	344,530
Financial assets held to maturity	-	3,558	52,209	-	-	55,767
Loans and advances	-	-	-	-	2,434	2,434
Other financial assets	-	2,234	-	-	-	2,234
Total financial assets	252,381	431,953	124,200	54,686	2,434	865,654
Liabilities						
Payables arising from the accounts of other banks and financial institutions	549,011	-	-	-	169,414	718,425
Payables arising from the Government's and other organizations' accounts	12,224	-	-	-	48	12,272
Liabilities to the IMF	100,186	-	-	-	-	100,186
Other financial liabilities	-	-	-	-	161	161
Total financial liabilities	661,421	-	-	-	169,623	831,044
Net exposure to change in interest rate risk	(409,040)	431,953	124,200	54,686	(167,189)	34,610
Balance at December 31, 2015						
Net exposure to change in interest rate risk	(376,379)	355,323	200,140	-	(144,337)	34,747

The interest rate sensitivity analysis is determined based on the exposure to interest rate risk as of the reporting date. As of December 31, 2016, had the interest rate been 100 basis points higher/lower and all other variables remained unchanged, the Bank's net profit for the 12-month period ended December 31, 2016 would have respectively increased/decreased by approximately EUR 346 thousand (December 31, 2015: approximately EUR 347 thousand).

4.4. Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to settle its financial liabilities when due and to replace the funds withdrawn. The consequences thereof may be default and breach of contractual obligations.

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk(continued)

4.4.1. Liquidity Risk Management Process

The CBM's liquidity risk management process, as conducted within CBM and monitored by an expert team of the CBM Treasury, includes the following:

- day-to-day funding managed by monitoring future cash flows in order to fulfil the expected requirements. This involves replenishment of funds as they mature or as they are borrowed;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruptions to cash flows;
- monitoring statement of financial position liquidity ratios according to internal and regulatory requirements; and
- managing the risk concentration and the maturities of debt securities.

Monitoring and reporting entail cash flow measurement and projections for the following day, week and month as these are the key periods to liquidity management. The starting point for such projections is an analysis of the contractual maturity of the financial liabilities and the expected date of collection of the financial assets.

4.4.2. Funding Approach

Sources of liquidity are regularly reviewed by CBM's Financial and Banking Operations Sector s as to maintain wide diversification by currency, region, supplier, product and terms, etc.

4.4.3. Non-Derivative Cash Flows

The table below presents the non-derivative cash flows for CBM financial assets and liabilities. The amounts presented in the table represent contractual non-discounted cash flows.

	Up to 1 month	From 1 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing
Balance at December 31, 2016					
Assets					
Cash, cash equivalents and demand deposits	152,389	-	-	-	152,389
Fixed-term deposits with foreign banks	-	208,308	-	-	208,308
Assets held with the IMF	99,992	-	-	-	99,992
Financial assets available for sale	-	217,858	72,286	54,386	344,530
Financial assets held to maturity	-	3,558	52,209	-	55,767
Loans and advances	-	-	-	2,434	2,434
Other financial assets	-	2,234	-	-	2,234
Total financial assets	252,381	431,958	124,495	56,820	865,654
Liabilities					
Payables arising from the accounts of other banks and financial institutions	718,425	-	-	-	718,425
Payables arising from the Government's and other organizations' accounts	12,272	-	-	-	12,272
Liabilities to the IMF	100,186	-	-	-	100,186
Other financial liabilities	161	-	-	-	161
Total financial liabilities	831,044	-	-	-	831,044
	(578,663)	431,958	124,495	56,820	34,610
Liquidity GAP					
Balance at December 31, 2015	146,812	355,323	200,140	2,511	704,786
Total assets	670,039	-	-	-	670,039
Liquidity GAP	(523,227)	355,323	200,140	2,511	34,747

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk(continued)

4.4.3. Non-Derivative Cash Flows (Continued)

Assets available for settlement of all liabilities include cash and demand deposits, placements held with foreign banks and loans and advances. CBM can also respond to the unexpected cash outflows by selling available-for-sale assets (securities portfolio).

4.5. Fair value of Financial Assets and Liabilities

CBM establishes fair value of financial assets available for sale on the basis of official market prices in active markets for identical instruments.

The carrying value of cash and demand deposits as well as accounts of banks and financial institutions and accounts of the Government and other organizations in itself represents fair value.

The Bank's management has assessed the fair value of assets and liabilities carried at amortized cost using the method of discounting future cash flows, taking into account prevailing market conditions when determining the discount rate. Following the opinion of management, this assessment did not lead to material differences between the fair value and the carrying value of these assets and liabilities.

Fair Value Hierarchy:

Financial assets December 31, 2016				**In thousands of EUR**
	Level 1	**Level 2**	**Level 3**	**Total**
Cash, cash equivalents and demand deposits	152,389	-	-	152,389
Fixed-term deposits with foreign banks	-	208,308	-	208,308
Financial assets available-for-sale	344,530	-	-	344,530
Loans and advances	-	2,434	-	2,434
Other financial assets	-	2,234	-	2,234
Total	**496,919**	**212,976**	**-**	**709,895**

Financial liabilities as of December 31, 2016				**In thousands of EUR**
	Level 1	**Level 2**	**Level 3**	**Total**
Payables arising from the accounts of other banks and financial institutions	718,425	-	-	718,425
Payables arising from the Government's and other organizations' accounts	12,272		-	12,272
Other liabilities	-	161	-	161
Total	**730,697**	**161**	**-**	**730,858**

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair value of Financial Assets and Liabilities (continued)

Financial assets December 31, 2015 — **In thousands of EUR**

	Level 1	Level 2	Level 3	Total
Cash, cash equivalents and demand deposits	78,426	-	-	78,426
Fixed-term deposits with foreign banks	-	176,237	-	176,237
Financial assets available-for-sale	318,339	-	-	318,339
Loans and advances	-	2,511	-	2,511
Other financial assets	-	2,074	-	2,074
Total	**396,765**	**180,822**	**-**	**577,587**

Financial liabilities December 31, 2015 — **In thousands of EUR**

	Level 1	Level 2	Level 3	Total
Payables arising from the accounts of other banks and financial institutions	579,098	-	-	579,098
Payables arising from the Government's and other organizations' accounts	22,450	-	-	22,450
Other liabilities	-	15	-	15
Total	**601,548**	**15**	**-**	**601,563**

Level 1 - Quoted prices of identical financial instruments that are quoted in active markets.

Level 2 - Parameters that can be directly noticed at the market, and not being on the previous level.

Level 3 – Inputs for an asset or a liability that are not based on observable market data (unobservable inputs).

4.6. Capital Management

The bank's objectives when managing capital, which is a broader concept than equity stated in the statement of financial position, are the following:

- To comply with the capital requirements defined by the CBM Law;
- To preserve the Bank's ability to continue as a going concern in the foreseeable future and fulfil all its functions defined by the CBM Law; and
- To maintain sufficient capital level to support further development of its activities.

The CBM Law defines the following:

(a) the CBM capital shall comprise the core equity and reserves;
(b) the core equity shall amount to EUR 50,000 thousand.

Pursuant to the CBM Law, in the year 2010 the capital was transformed in such a manner that the founding capital and general reserves were transformed into the core equity.

As of December 31, 2013, the core equity amounted to EUR 40,000 thousand. The additional required capital amount of EUR 10,000 thousand is to be obtained from the Budget of Montenegro (Article 90., paragraph 2 of the CBM Law, Official Gazette of Montenegro no. 40/10, 46/10 and 6/13).

5. REVIEW OF SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and judgments are continually assessed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

a) Impairment of Securities Available for Sale

The Bank establishes whether the securities available for sale have been impaired when there is a significant or prolonged decrease in their fair value below their cost. Determining what is significant or prolonged decrease requires judgment. Impairment is justified when there is evidence of deterioration of the financial standing of the entity invested into, or industry, industrial sector or cash flows from operating and financing activities.

b) Provisions

Provisions are highly judgmental, particularly in the cases of litigations. CBM assesses the probability of an adverse outcome as a result of the past events and if the probability is higher than 50%, CBM fully provides for the liability. The Bank's management is prudent in such assessments, but due to a high level of uncertainty, in some cases the estimated outcome may deviate from the actual outcome of an event.

c) Retirement and Other Long-Term Employee Benefits

In accordance with the Labor Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. The Bank’s obligation is incurred at the time of termination of employment of an employee who has fulfilled the legal requirements for retirement. Present value of retirement pension obligation depends on many factors - the salary growth rate, discount rates, labor turnover rates, etc.

d) Financial Crisis

The ongoing global financial and economic crisis that emerged in the second half of 2008, among other things, has resulted in a lower level of capital market funding, lower liquidity levels across the banking sector and, at times, higher interbank interest rates and high volatility in security markets. Uncertainties in the global financial markets have also led to failures of banks and to the bank rescues organized in the United States, Western Europe, Russia and elsewhere. The full extent of the impact of the financial crisis is proving to be difficult to anticipate or completely guard against.

Besides the global financial market turmoil, the Montenegrin banking system remained sound and stable, which can be explained by low financial integration and lack of significant exposure of domestic financial sector to risk-bearing securities abroad. However, deepening of the financial and economic crisis has affected he domestic economic activity more intensely, resulting in a reduced external demand for export products and goods from Montenegro, as well as in a further pressure exerted on the country's economic growth rate. Further indirect impact is expected on the level and terms of domestic crediting activity, deposit growth rate and more restricted external financing terms.

The CBM management is unable to reliably estimate the effects of any further liquidity deterioration of the financial markets and the increased volatility in the currency and capital markets on the CBM's future financial position. The management holds that it is taking all the necessary measures to support sustainability and development of the bank's operations in the current circumstances.

6. ADJUSTMENT OF FINANCIAL STATEMENTS OF COMPARATIVE PERIODS

CBM has made certain adjustments of previously disclosed statement of financial position as of December 31, 2015 and the statement of profit and loss for the year ended December 31, 2015, for the purpose of correction of financial statements from previous periods, as well as a change in accounting policy for investment property, in accordance with the requirements of IAS 8 "Accounting policies, changes in accounting estimates and errors".

Management of CBM has changed its accounting policy for subsequent measurement of investment property so that instead of the previously used cost method, the new accounting policy defines fair value method for measurement after the recognition and such a new policy shall be applied to all investment property of CBM. The Management of CBM carried out the aforementioned voluntary change in accounting policy for the purpose of preparation of the financial statements that will result in providing more reliable and more relevant information about the effects of transactions on the financial position and financial performance of the CBM. The afore mentioned resulted in an increase in other operating expenses totalling EUR 44 thousand, an increase of investment property in the amount of EUR 156 thousand, a reduction of revaluation reserves in the amount of EUR 1,063 thousand and an increase in retained earnings in the amount of EUR 1,219 thousand.

In addition, in 2015, CBM became the owner of the land the value of which is estimated in the amount of EUR 1,232 thousand. CBM made adjustments to the financial statements for 2015 through an increase in other income and gains amounting to EUR 1,232 thousand in favor of property, plant the equipment.

Effects of adjustments on the statement of profit and loss of the Bank for the year ended December 31, 2015 are shown in the following table:

	2015	**Adjustment**	**2015 Adjusted**
Interest income	1,637	-	1,637
Interest expenses	(78)	-	(78)
Net interest income	1,559	-	1,559
Fee income	8,890	-	8,890
Fee expense	(92)	-	(92)
Net fee income	8,798	-	8,798
FEE INCOME AND EXPENSES	10,357	-	10,357
Other income and gains	645	1,232	1,877
Other financial expenses	(43)	-	(43)
Foreign exchange differences, net	65	-	65
Income from financial assets available for sale	33	-	33
Staff costs	(7,155)	-	(7,155)
Other operating expenses	(2,734)	44	(2,690)
NETO PROFIT	1,168	1,276	2,444

6. ADJUSTMENT OF FINANCIAL STATEMENTS OF COMPARATIVE PERIODS (Continued)

Effects of adjustments on the Statement of Financial Position of the Bank for the year ended December 31, 2015 are shown in the following table:

	2015	Adjustment	2015 Adjusted
ASSETS			
Cash, cash equivalents and demand deposits	78,426	-	78,426
Fixed-term deposits with foreign banks	176,237	-	176,237
Financial assets available for sale	318,339	-	318,339
Financial assets held to maturity	58,813	-	58,813
Assets held with International Monetary Fund	68,386	-	68,386
Loans and advances	1,043	-	1,043
Receivables	2,293	-	2,293
Inventories	602	-	602
Investment property	2,871	156	3,027
Intangible assets	66	-	66
Property, plant and equipment	25,040	1,232	26,272
Long-term receivables from employees	1,521	-	1,521
Other assets	412	-	412
Total assets	734,049	1,388	735,437
EQUITY AND LIABILITIES			
Banks and other financial institutions' accounts	579,098	-	579,098
Government and other state organizations' accounts	22,450	-	22,450
Liabilities to the International Monetary Fund	68,476	-	68,476
Other liabilities	2,780	-	2,780
Total liabilities	672,804	-	672,804
EQUITY			
Core capital	40,000	-	40,000
General reserves	34	-	34
Special reserves	263	-	263
Revaluation reserves for property, plant and equipment	18,866	(1,063)	17,803
Revaluation reserves for financial assets available for sale	740	-	740
Unrealized revaluation losses	(8)	-	(8)
Retained earnings	1,350	2,451	3,801
Total equity	61,245	1,388	62,633
Total equity and liabilities	734,049	1,388	735,437
Off-balance-sheet items	57,701	-	57,701

7. INTEREST INCOME EXPENSES

	In thousands of EUR Year ended December 31, 2016	2015
Fixed-term deposits held with foreign banks	5	70
Financial assets available for sale	558	664
Financial assets held to maturity	2,411	903
	2,974	1,637

8. FEE INCOME AND EXPENSES

a) Fee income

	In thousands of EUR Year ended December 31, 2016	2015
Participation in RTGS	321	299
Order processing in RTGS	1,271	1,280
Order processing in DNS	652	583
State Treasury order processing	1,981	1,669
Processing orders for public duties payables	281	268
Cash payments and disbursements through customers' accounts	212	163
Forced collection orders issuance and realization	569	652
Registration of state commercial papers	609	578
Servicing of foreign debt	747	774
Inspection of banks and microcredit financial institutions	2,328	2,073
Credit regulatory body services	502	443
Transfers from the CBM accounts held abroad	32	-
Other fee income	31	108
	9,536	8,890

For the services rendered the Bank charges fees in the amount and manner determined by the Decision on Determination of Tariffs for Calculation of Fees for Services Rendered by CBM (Official Gazette of Montenegro, No. 29/11, 22/12 and 58/13, 12/14, 22/14, 48/14 and 32/15).

b) Fee expenses

	In thousands of EUR Year ended December 31, 2016	2015
Import and export of foreign money	52	24
Registration of the state commercial papers	110	42
Payment transactions	26	
Money transport services	12	20
Import and export of foreign money	8	6
	208	92

9. OTHER INCOME AND GAINS

	In thousands of EUR Year ended December 31, 2016	2015
Operating lease of premises - rental	158	164
Sales of bills of exchange forms	356	368
Sale of precious metals	25	9
Reversal of provisions for potential litigation losses	153	49
Other income and gains	74	1,287
	766	1,877

10. OTHER FINANCIAL INCOME AND EXPENSES, NET

	In thousands of EUR Year ended December 31, 2016	2015
Financial income		
Financial income from deposits	87	-
Financial expenses		
Other financial expenses - negative interest rate of securities	(116)	(4)
Other financial expenses - negative interest rate of foreign banks	(401)	(8)
Other financial expenses	-	(31)
	(517)	(43)
	(430)	(43)

Other financial expenses include the effects of negative interest rates of interest-bearing financial assets and relate to expenses arising from negative interest rates on deposits held by the Central Bank of Montenegro with the foreign commercial banks and negative returns on investments in securities.

11. FOREIGN EXCHANGE GAINS AND LOSSES, NET

	In thousands of EUR Year ended December 31, 2016	2015
Foreign exchange gains:		
- CBM's foreign bank accounts	277	414
- Vault cash	8	7
- IMF accounts in the country	-	6
	285	427
Foreign exchange losses:		
- CBM's foreign bank accounts	(260)	(352)
- Vault cash	(4)	(7)
- IMF accounts in the country	-	(3)
	(264)	(362)
	21	65

12. STAFF COSTS

	In thousands of EUR Year ended December 31, 2016	2015
Gross salaries	4,654	4,317
Contributions paid by the employer and employee	2,305	2,042
Other employee benefits	1,012	796
	7,971	7,155

13. OTHER OPERATING EXPENSES

	In thousands of EUR Year ended December 31, 2016	2015
Costs of materials	66	99
Fuel and energy costs	151	167
Marketing and advertising	29	17
Service contracts	1	1
The Governor’s Council and Audit Committee members payments	70	71
Other fee payables to individuals	113	56
Professional services	27	28
Property maintenance	416	365
Property insurance	14	13
Telecommunications and postal services	258	247
Tax expenses	18	21
Depreciation and amortization	784	798
Humanitarian actions	383	266
Entertainment	45	45
Seminars	108	131
Provisions for potential litigation losses (Note 35)	4	22
Other operating expenses	142	125
Costs of materials	214	218
Impairment based on the effects of investment property assessment	102	-
	2,945	2,690

14. CASH AND DEMAND DEPOSITS

	In thousands of EUR December 31, 2016	December 31, 2015
Vault cash and cash on hand:		
- in EUR	137,014	47,690
- in foreign currency	21	8
	137,035	47,698
Interest-bearing demand deposits		
Non interest-bearing demand deposits – foreign currency	15,008	30,393
Non interest-bearing demand deposits – EUR	320	309
Vault cash and cash on hand:	26	26
	152,389	78,426

As of December 31, 2016, CBM had interest-bearing demand and short-term deposits placed in the accounts with foreign central and commercial banks in the amount of EUR 15,008 thousand.

15. FIXED-TERM DEPOSITS HELD WITH FOREIGN BANKS

	In thousands of EUR December 31, 2016	December 31, 2015
Short-term time deposits held with central banks	208,307	176,229
Interest receivables from short-term time deposits	1	8
	208,308	176,237

These placements have maturities ranging from 1 to 6 months.

16. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale in the amount of EUR 344,530 thousand as of December 31, 2016 comprise debt securities issued by government, supranational institutions, government agencies and provinces and external financial institutions, the investment rating and maturity up to ten years.

The exposure of the portfolio available for sale towards the states:

Country	As of December 31, 2016	As of December 31, 2015
Denmark	64,739	57,457
France	43,967	45,329
Spain	101,392	118,802
Netherland	13,072	16,395
Lithuania	13,842	14,445
Italiy	71,406	45,286
Finland	-	6,212
Ireland	9,924	5,565
Slovakia	3,139	3,272
Other EU countries	-	2,573
Belgium	16,541	2,169
Austria	-	834
UAE	6,508	-
TOTAL	**344,530**	**318,339**

17. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity as of December 31, 2016 in the amount of EUR 55,767 thousand (December 31, 2015: EUR 58,813 thousand), for the most portion in the amount of EUR 50,103 thousand (2015: EUR 49,713 thousand) referred to eurobonds issued by the Government of Montenegro. The remaining amount related to debt securities issued by the German Federal provinces and agency securities.

18. ASSETS HELD WITH THE INTERNATIONAL MONETARY FUND

	In thousands of EUR December 31, 2016	December 31, 2015
Reserves with IMF(Note 29)	18,939	8,401
Promissory note on IMF membership (Note 29)	58,025	26,512
SDR allocation (Note 29)	22,593	33,050
Accrued interest (Note 29)	359	341
Asset holding fee (Note 29)	76	82
	99,992	68,386

18. ASSETS HELD WITH THE INTERNATIONAL MONETARY FUND (Continued)

In 2007 the IMF Board established the membership quota for Montenegro in the amount of SDR 27,500 (SDR – Special Drawing Rights). Montenegro made 24% of its quota in cash and the remaining amount was settled through a promissory note on membership issued by the Ministry of Finance of Montenegro.

In February 2016, there was an increase in the quota in accordance with the 14th general revision of quotas amounting to 60,500 thousand of SDR (Special Drawing Rights - SDR).

Following the instructions of the IMF, the payment of the share of capital reserve account is the charge of SDR allocations account with 8,250 thousand SDR with a value date of February 8, 2016.

Based on these changes, the value of the reserves in the IMF as of December 31, 2016 amounted to EUR 18,939 thousand, while the value of the note for membership amounted to EUR 58,025 thousand.

19. LOANS AND ADVANCES

As of December 31, 2016, loans and advances in the amount of EUR 1,027 thousand relate to the housing loans approved to CBM employees (December 31, 2015: EUR 1,043 thousand related to housing loans approved to CBM employees.

Housing loans were approved to employees in accordance with the Employee Housing Rules of Procedure and the Decision of the Employee Housing Commission, under the following terms:

-housing loans approved to employees are non-interest bearing, with 1 to 2-year grace period and 30 to 35-year maturity;
-for the purpose of credit risk protection, the borrowing employees are under obligation to sign mortgage agreements for the account of CBM during the grace period at the latest and verify the agreements with the competent court; the mortgages are assigned until the date of full loan repayment.

20. RECEIVABLES

	In thousands of EUR	
	December 31, 2016	**December 31, 2015**
Bank charges receivables	315	206
Receivables from forced collection order realization	590	574
Receivables from inspection fees for banks and microcredit financial institutions	190	177
Receivables from fiscal agency services fees	609	578
Prepaid expenses	250	219
Receivables from employees	20	53
Loan register receivables	130	118
Other receivables	380	368
	2,484	2,293

21. INVENTORIES

	In thousands of EUR	
	December 31, 2016	December 31, 2015
Materials and fixtures	11	12
Bill of exchange forms	21	20
Inventories of silver readily convertible into cash	15	12
Jubilee gold and silver coins	52	7
Montenegrin coins	564	551
	663	602

22. INVESTMENT PROPERTY

Investment properties reported as of December 31, 2016 in the amount of EUR 2,925 thousand (December 31, 2015: EUR 3,027 thousand) related to the facilities leased to third parties. During 2016, Central Bank estimated the value of investment properties. Negative effects of the estimate were recorded in the amount of EUR 102 thousand within other operating expenses (Note 13).

23. INTANGIBLE ASSETS

	In thousands of EUR Intangible assets
Cost	
Balance at January 1, 2015	296
Write-off	(5)
Balance at December 31, 2015	291
Allowance for impairment	
Balance at January 1, 2015	177
Charge for the year	48
Balance at December 31, 2015	225
Cost	
Balance at January 1, 2016	291
Acquisition	16
Balance at December 31, 2016	307
Allowance for impairment	
Balance at January 1, 2016	225
Charge for the year	46
Balance at December 31, 2016	271
Carrying value	
- as of December 31, 2016	36
- as of December 31, 2015	66

24. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR

	Land	**Buildings**	**Equipment**	**Fixed assets under construction**	**Total**
Cost					
Balance at January 1, 2015	3,703	21,724	2,017	15	27,459
Adjustment of the opening balance	1,232	-	-	-	1,232
Balance at January 1, 2015, after adjustment	4,935	21,724	2,017	15	28,691
Increase	-	84	266	-	350
Write-off	-	-	(65)	-	(65)
Balance at December 31, 2015	4,935	21,808	2,218	15	28,976
Balance at January 1, 2016	4,935	21,808	2,218	15	28,976
Increase	-	15	163	-	178
Write-off	-	-	(70)	-	(70)
Valuation	(34)	(1,679)	-	-	(1,713)
Balance at December 31, 2016	4,901	20,144	2,311	15	27,371
Allowance for Impairment					
Balance at January 1, 2015	-	1,168	837	(3)	2,002
Charge for the year	-	362	270	-	632
Write-off	-	-	64	6	70
Balance at December 31, 2015	-	1,530	1,171	3	2,704
Balance at January 1, 2016	-	1,530	1,171	3	2,704
Charge for the year	-	355	383	-	738
Valuation	-	(1,772)	-	-	(1,772)
Write-off			(58)	-	(58)
Balance at December 31, 2016	-	113	1,496	3	1,612
Carrying value					
- December 31, 2016	4,901	20,031	815	12	25,759
- December 31, 2015	4,935	20,278	1,047	12	26,272

24. PROPERTY, PLANT AND EQUIPMENT (Continued)

Land, property and investment property CBM are estimated as at September 30, 2016, by authorized appraisers. The positive effect of the assessment in the amount of EUR 57 thousand was reported to revaluation reserves in equity in 2016.

In 2016, a part of revaluation reserves was transferred to retained earnings. The amount of transferred revaluation reserve represents a realized reserve which is equal to the difference between depreciation based on revaluated carrying amount and the depreciation based on the original cost of the product. The amount of reserves transferred to retained earnings amounted to EUR 147 thousand.

25. LONG-TERM RECEIVABLES FROM EMPLOYEES

Long-term receivables from employees stated as of December 31, 2016 in the amount of EUR 1,424 thousand (December 31, 2015: EUR 1,521 thousand), mainly in the amount of EUR 1,407 thousand (as at 31 December 2015 year: EUR 1,468 thousand) represent prepaid employee benefits, obtained as the difference between the remaining nominal amount of interest-free housing loans to employees and amortized value of the loans as of the balance sheet (Note 19). The loan amount is amortized through loan repayment from the employees during their years of service with the Bank.

26. OTHER ASSETS

	In thousands of EUR	
	December 31, 2016	December 31, 2015
Library	242	237
Equity investments	175	175
	417	412

As of December 31, 2013, the equity investments refer to the investments in Central Depository Agency a.d. Podgorica in the amount of EUR 89 thousand.

27. ACOUNTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	In thousands of EUR	
	December 31, 2016	December 31, 2015
Demand deposits	442,268	333,087
Mandatory reserves in the country	93,293	82,667
Mandatory reserves abroad	132,592	112,986
Fixed-term deposits	50,272	50,358
	718,425	579,098

Required reserve of commercial banks as of December 31, 2016, shall be determined in accordance with the regulations of the Central Bank of Montenegro and the Decision on mandatory reserves with the Central Bank of Montenegro ("Off. Gazette of Montenegro", no. 35/11, 22/12, 61/12, 57/13, 52/14, 7/15 and 33/16). In accordance with the aforesaid, commercial banks calculate mandatory reserve on both demand deposits and fixed-term deposits.

27. ACOUNTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

The banks calculate the mandatory reserve by applying the rate of:

- 9.5% to the portion of the principal comprised of demand deposits and deposits with maturity of up to 1 year, i.e. up to 365 days;
- 8.5% to the portion of the principal comprised of deposits with maturity of over 1 year, i.e. over 365 days

A rate of 9.5% is applied to fixed-term deposits with maturities over 365 days and with a pre-term withdrawal clause within periods of less than 365 days.

Commercial banks can up to 25% of the required reserve set aside and keep in the form of treasury bills issued by Montenegro of any maturity up to 182 days and can afterwards additional reserve up to 10% set aside and keep in the form of Treasury bills issued by Montenegro with maturity up to 182 days.

Pursuant to the Decision on Amendment of the Decision on Banks' Required Reserves (enacted as at February 17, 2015), the calculated mandatory reserve is deposited on the mandatory reserve account in the country and/or to the accounts of the CBM held abroad. CBM accrues interest on the 15% of the total amount of the mandatory reserve at an annual interest rate of EONIA decreased for 10 basis points on an annual basis, taken into consideration that this rate cannot amount less than zero. The mandatory reserve is held in EUR

The Council of the Central Bank issued the Decision on Banks' Required Reserves with the Central Bank of Montenegro. In the Decision on Banks' Required Reserves with the Central Bank of Montenegro ("Official Gazette of Montenegro", No. 73/15) Article 7 is amended as follows:

"Calculated required reserve shall be allocated by the banks to the reserve requirement account in the country and / or to the accounts of the Central Bank abroad, and it can not be set aside and kept in a different form.

The mandatory reserve is held in EUR."

Also, it is the amended the Article 16 which by this Decision shall read as follows:

"Notwithstanding of the provisions of Art. 7 and 11 of this Decision, until December 31, 2016:

- Banks can be up to 25% of the required reserve set aside and keep in the form of Treasury bills issued by Montenegro;
- Fee prescribed by the Article 11 of this Decision shall be paid by the Central Bank to the banks in the amount which represents the difference between 50% of the total required reserve funds allocated in accordance with Article 7, Paragraph 1 hereof and paragraph 1, line 1 of this article and the amount of resources allocated in the form of treasury bills, at a maximum of 25% of the total funds of required reserve allocated in accordance with Section 7, Paragraph 1 of this decision and paragraph 1, item 1 of this Article. "

Banks that use the option referred to in paragraph 1, item 1 of this Article are obliged to submit the appropriate certificate from the registry maintained by the Central Depository Agency. Banks that on the day of application of this decision set aside and hold more than 25% of their reserves in the form of Treasury bills, may continue to hold the bills as part of their reserve until their maturity. Banks that as at December 31, 2016 set aside and held the reserve requirement in Treasury bills in accordance with paragraph 1, item 1 of this Article, may continue to hold those bills as part of their reserve until their maturity, but not longer than June 30, 2017.

This Decision shall apply from January 1, 2016.

28. ACCOUNTS OF THE GOVERNMENT AND OTHER STATE ORGANIZATIONS

	(In thousands of EUR) December 31, 2016	December 31, 2015
Government's accounts	12,224	22,355
Other state organizations' accounts	48	95
	12,272	22,450

The Government, state organizations and other organizations hold their current accounts with CBM for the purpose of participation in domestic payment operations.

29. LIABILITIES TO THE INTERNATIONAL MONETARY FUND

	(In thousands of EUR) December 31, 2016	December 31, 2015
Deposits with IMF (Note 16)	41,967	41,874
Account no.1	193	89
Account no.2	1	1
Promissory note – account no. 3 (Note 16)	58,025	26,512
	100,186	68,476

Deposits held with the IMF in the amount of EUR 41,967 thousand as of December 31, 2016 are comprised of:

- reserves held with the IMF in the amount of EUR 18,939 thousand (Note 18);
- SDR allocation by the IMF to Montenegro as a member country in 2009 in the amount of SDR 15,572 thousand, which as of December 31, 2016 totalled EUR 22,593 thousand (Note 18);
- interest accrued in the amount of EUR 359 thousand (Note 16) and
- consideration for funds deposited in the amount of EUR 76 thousand (Note 18).

Account no. 1 is used for IMF operation transactions, whereas account no. 2 is used for payment of IMF operating expenses in the currency of the member state.

30. OTHER LIABILITIES

	(In thousands of EUR) December 31, 2016	December 31, 2015
Received advances	261	2,332
Provisions for litigations (Note 35)	202	350
Accruals	82	81
Other liabilities	161	17
	706	2,780

31. EQUITY

Article 11 of the CBM Law (Official Gazette of Montenegro no. 40/10, 41/10 and 6/13) defines the CBM equity as comprising of the core equity and reserves. Article 12 of the same Law sets the core equity in the amount of EUR 50,000 thousand.

Transitional and closing provisions of the Law (Article 90) stipulate that the core equity shall be provided from the founding capital determined by the CBM Law (Official Gazette of the Republic of Montenegro no. 52/00, 53/00, 47/01 and 4/05) and from general reserves made available to CBM at the date of entry into force of the new CBM Law, while the additional amount is to be provided from the Montenegro Budget.

The CBM core equity as of December 31, 2016 totalled EUR 40,000 thousand and was entirely in the form of monetary assets. The lacking amount of the core equity was EUR 10,000 thousand as of December 31, 2016.

The CBM reserves are comprised of general reserves, special reserves and revaluation reserves.

The total CBM capital as of December 31, 2016 totalled EUR 64,132 thousand.

The structure of the CBM capital is presented in the table below:

		(In thousands of EUR)
	December 31, 2016	**December 31, 2015**
Core equity	40,000	40,000
General reserves	710	34
Special reserves	263	263
Revaluation reserves and fair value reserves	18,736	18,535
Retained earnings	4,423	3,801
Total equity	64,132	62,633

Net profit or loss of the Bank is determined for each fiscal year in accordance with the International Financial reporting Standards. Pursuant to Article 68 of the CBM Law, profit available for distribution is determined by subtracting unrealized revaluation gains from the net profit and adding to it unrealized revaluation gains subtracted from the net profit in prior years and realized in the current year.

Profit available for distribution allocated to general reserves in the amount of 50% of the realized profit, until the level of general reserves reaches 10% of the total CBM financial liabilities. A portion of profit available for distribution may be allocated to special reserves in the amount defined by the CBM Council but not exceeding 10% of the determined profit available for distribution. The remaining amount of the profit available for distribution comprises income of the Montenegro Budget, as stipulated by the CBM Law.

As at April 8, 2011 the Protocol on Provision of the Lacking Amount of the Initial CBM Capital was signed between the Ministry of Finance on one side and CBM on the other side. The Protocol established that the CBM core equity amounted EUR 2,556 thousand as of December 31, 2010 and that general reserves amounted to EUR 31,286 thousand at the same date, as well as that the lacking amount of the core equity to be provided from the Budget of Montenegro totalled EUR 16,158 thousand. The parties agreed that, due to the significant lacking amount to be provided from the Budget of Montenegro, the amount could not be provided as a single payment and consented to forwarding a portion of the CBM profit, which would comprise income of the Montenegro Budget under Article 69 of the CBM Law, to the CBM core equity until the prescribed amount is reached.

As at January 22, 2013 a Protocol on the temporary suspension of the application of the Protocol on the method of securing the missing amount of funding the core equity of CBM has been concluded between the Ministry of Finance, on the one hand and the Central Bank, on the other, which determined that an appropriate part of the profits of the Central Bank for 2012 and 2013 is not to be diverted into core equity of the Central Bank, but is to be paid into the budget of Montenegro.

31. EQUITY (Continued)

As at December 2, 2014 a Protocol on the temporary suspension of the application of the Protocol on the method of securing the missing amount of funding the core equity of CBM has been concluded between the Ministry of Finance, on the one hand and the Central Bank, on the other, which determined that an appropriate part of the profits of the Central Bank for 2014 and 2015 is not to be diverted into core equity of the Central Bank, but is to be paid into the budget of Montenegro.

Pursuant to the Protocol on the method of settlement of mutual obligations of the Ministry of Finance and the Central Bank of Montenegro, as at April 8, 2016, it was carried out the off-setting of mutual obligations in the amount of EUR 578,319 (liabilities of the Ministry of Finance towards CBM fo the conducted auctions of treasury bills in 2015 in the amount of EUR 578,319 i.e. CBM's liabilities towards the Ministry of Finance on the basis of the transfer of the corresponding amount of profit for 2015 in the amount of EUR 675,522), with the obligation of CBM to pay the remaining amount of profit of EUR 97,203 paid to the account of the Ministry of Finance.

32. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. CBM has a related party relationship with the Government of Montenegro, including all public institutions.

The review of receivables and payables, as well as income and expenses and off-statement of financial position items from the related party transactions as of December 31, 2016 is presented in the following table:

	(In thousands of EUR) December 31, 2016	December 31, 2015
Receivables and payables		
Receivables		
Bonds issued by Montenegro	50,103	49,713
Fee and other receivables from the Government	849	744
	50,952	50,457
Payables		
Payables on the accounts of the Government and other state institutions	(12,272)	(22,450)
Received advances liabilities	(261)	(2,332)
	(12,533)	(24,782)
Payables, net	38,419	25,675
Income and expenses		
Income		
Fee and commissions income from the Government	2,908	2,416
Interest from the Government - bonds issued by Montenegro	2,328	794
	5,236	3,210
Expenses		
Expenses of interest from the Government	-	(70)
	-	(70)
Income, net	5,236	3,140

32. RELATED PARTY TRANSACTIONS (continued)

During 2016 the gross remunerations disbursed to the key management totalled EUR 221 thousand (2015: EUR 218 thousand) During 2016, CBM disbursed gross remunerations in the amount of EUR 62 thousand (2015: EUR 64 thousand) to the Council members who are not CBM's employees.

33. CASH AND CASH EQUIVALENTS (for the purpose of Statement of Cash Flows preparation)

(In thousands of EUR)

	December 31, 2016	December 31, 2015
Cash, cash equivalents and demand deposits	152,389	78,426
Short-term time deposits with foreign banks	208,308	176,237
	360,697	254,663

34. SUBSEQUENT EVENTS

In accordance with the Decision of the Council of CBM on real estate sales issued at the 5th session held on February 27, 2017, it was initialized the procedure of sale of real estate in Podgorica and Budva by public advertising, with a starting price of EUR 295 thousand and EUR 1,581 thousand, respectively, as well as the procedure of sale of real estate in Danilovgrad through direct negotiation with the tenant of the premises the carrying value of which amounted to EUR 77 thousand. In addition, there were no significant events after the reporting date that could affect the financial position and results as at and for the period ended December 31, 2016.

35. LITIGATION

As of December 31, 2016 there were a number of lawsuits filed against the Bank by legal entities and individuals.

At times, in the regular course of operations, CBM receives damage claims. Based on its own and assessment of internal professional counsel, the Bank's management deems that there may be losses resulting from such lawsuits. Accordingly, provision thereof is included in all financial statements in the amount of EUR 202 thousand, as of December 31, 2016 (Note 30). Out of the total sum, the amount of EUR 126 thousand relates to housing issue lawsuits, whereas the amount of EUR 76 thousand relates to property rights - legal disputes.

As per estimate of the Legal Affairs Directorate of the CBM that there is a risk of losing lawsuits, CBM stated expenses for provisions in the amount of EUR 4 thousand (Note 13).

36. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of statement of financial position components denominated in foreign currencies into EUR as of December 31, 2016 and 2015, were as follows:

	December 31, 2016	December 31, 2015
USD	1,0541	1,0926
CHF	1,0739	1,0814
sGBP	0,8562	0,7379
SDR	1,2634	1,2728