T R A N S L A T I O N

Independent Auditor's Report

TO THE COUNCIL

OF THE CENTRAL BANK OF MONTENEGRO

We have audited the accompanying financial statements of the Central Bank of Montenegro (hereinafter: “the Bank”), which comprise the Statement of financial position as at 31 December 2013, Statement of profit and loss, Statement of other comprehensive income, Statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and true and objective presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements present truly and objectively, the financial position of the Bank as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

TRANSLATION

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 29 where it is disclosed that Article 11 of the Law on the Central Bank of Montenegro (Official Gazette of Montenegro No. 40/10, 46/10 and 06/13) prescribes that the capital of the Central Bank of Montenegro comprises core capital and reserves. Article 12 of the aforementioned law defines the Central Bank of Montenegro core capital amounts to EUR 50,000 thousand. The increase in core capital of Central Bank will be provided from funds of general reserves. In case the general reserve funds are not sufficient to cover determined increase in core capital, the shortfall may be provided from the budget of Montenegro. As at 31 December 2014, core capital of the Central Bank of Montenegro amounted to EUR 40,000 thousand and was entirely comprised of monetary assets. The additional required amount of core capital amounted to EUR 10,000 thousand as at 31 December 2014.

Comparative Information

The financial statements of the Bank as at and for the year ended 31 December 2013 (from which the comparative information on the financial position as at 31 December 2013 and 1 January 2013 has been derived), excluding the adjustments described in Note 2.3 to the financial statements were audited by another auditor who expressed an unqualified opinion with an emphasis of matter paragraph on those financial statements as at 10 March 2014. The previous auditor drew attention to the insufficient amount of core capital in the amount of EUR 10,000 thousand as at 31 December 2013.

As part of our audit of the financial statements as at and for the year ended 31 December 2014, we audited the adjustments described in Note 2.3 that were applied to restate the comparative information presented as at and for the year ended 31 December 2013 and the statement of financial position as at 1 January 2013. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2013 or 31 December 2012 or to the statement of financial position as at 1 January 2013, other than with respect to the adjustments described in Note 2.3 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 2.3 are appropriate and have been properly applied.

Podgorica, 30 March 2015 KPMG d.o.o. Podgorica

(L.S.)

Vojnovic Branko
Certified Auditor

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

Podgorica, 30 March 2015 KPMG d.o.o. Podgorica

(L.S.)

Vojnovic Branko
Certified Auditor

STATEMENT OF PROFIT AND LOSS
For the period from 1 January to 31 December 2014
(In thousands of EUR)

	Note	2014	Mod. 2013*
Interest income	6a	1,130	838
Interest expenses	6b	(168)	(31)
Net interest income		962	807
Fee and commission income	7a	8,592	7,336
Fee and commission expenses	7b	(116)	(227)
Net fee and commission income		8,476	7,109
NET INTEREST, FEE AND COMMISSION INCOME		9,438	7,916
Other revenue and income	8	1,257	886
Net foreign exchange gains/(losses)	9	63	(31)
Net gains/(losses) from financial assets available for sale	10	31	156
Staff costs	11	(6,602)	(6,146)
Other operating expenses	12	(3,290)	(2,920)
NET PROFIT		897	(139)

* see note 2.3 for more information

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 26 by:

Valentina Ivanović, PhD.
Director of Finance, Accounting and Controlling Department

MSc Milojica Dakić
Governor of Central Bank of Montenegro

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from 1 January to 31 December 2014
(In thousands of EUR)

	Note	2014	Mod. 2013*
Net profit		897	(139)
Fair value adjustments of financial assets available for sale	15	367	(705)
Other comprehensive income/(expenses)		367	(705)
Total comprehensive income		1,264	(844)

* see note 2.3 for more information

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

STATEMENT OF FINANCIAL POSITION
As of December 31, 2014
(In thousands of EUR)

	Notes	31-Dec-2014	Mod. 31-Dec-2013*	Mod. 1-Jan-2013*
ASSETS				
Cash and demand deposits	13	82,380	76,263	94,555
Term deposits with foreign banks	14	186,995	192,266	108,484
Financial assets available for sale	15	223,764	101,761	89,876
Financial assets held to maturity		12,308	16,589	16,727
Assets held with International Monetary Fund	16	64,149	60,095	62,560
Loans and advances	17	1,051	1,039	1,064
Accounts receivable	18	2,110	2,331	2,082
Inventories	23	602	600	605
Investment property	19	2,915	2,958	2,049
Intangible assets	20	119	165	219
Property, plant and equipment	21	25,457	26,051	27,191
Long-term receivables from employees	22	1,670	1,729	1,770
Other assets	24	406	313	333
Total assets		603,926	482,160	407,515
EQUITY AND LIABILITIES				
Banks and other financial institutions' accounts	25	461,301	357,143	266,945
Government and other state organizations' accounts	26	17,795	5,040	16,795
Liabilities to the International Monetary Fund	27	64,233	60,174	62,643
Other liabilities	28	825	1,003	1,002
Total liabilities		544,154	423,360	347,385
EQUITY	29			
Core capital		40,000	40,000	39,648
General reserves		978	634	500
Special reserves		263	263	263
Revaluation reserves for property, plant and equipment		19,048	19,482	19,688
Fair value reserves for financial assets available for sale		429	62	767
Retained earnings		(946)	(1.641)	(736)
Total equity		59,772	58,800	60,130
Total equity and liabilities		603,926	482,160	407,515
Off-balance-sheet items		49,885	52,631	64,184

* see note 2.3 for more information

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

STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 2014
(In thousands of EUR)

	Core capital	General reserves	Special reserves	Revaluation reserves for property, plant and equipment	Fair value reserves	Retained earnings	Total
Balance as of 1 January 2013	**39,648**	**500**	**263**	**19,688**	**(942)**	**973**	**60,130**
Mod. of opening balance - revaluation reserves	-	-	-	-	1,709	-	1,709
Mod. of result from 2012	-	-	-	-	-	(1,103)	(1,103)
Mod. of retained earnings for prior years	-	-	-	-	-	(606)	(606)
Mod. Balance as of 1 January 2013	**39,648**	**500**	**263**	**19,688**	**767**	**(736)**	**60,130**
Transfer of retained earnings	352	134	-	-	-	(486)	-
Mod. decrease of revaluation reserves	-	-	-	(206)	-	206	-
Distribution of profit pursuant to the Decision on profit distribution and the Protocol on the method of mutual obligations settlement	-	-	-	-	-	(486)	(486)
Fair value adjustment of securities available for sale	-	-	-	-	(705)	-	(705)
Mod. profit for the period	-	-	-	-	-	(139)	(139)
Mod. Balance as of 31 December 2013	**40,000**	**634**	**263**	**19,482**	**62**	**(1,641)**	**58,800**
Balance as of 1 January 2014	**40,000**	**634**	**263**	**19,482**	**62**	**(1,641)**	**58,800**
Effect of applying calculation on securities held to maturity	-	-	-	-	-	53	53
Transfer from retained earnings	-	344	-	-	-	(344)	-
Distribution of profit pursuant to the Decision on profit distribution for 2013 and the Protocol on the method of mutual obligations settlement						(345)	(345)
Decrease of revaluation reserves				(434)		434	-
Fair value adjustment of securities available for sale	-	-	-		367		367
Profit for the year	-	-	-	-	-	897	897
Balance as of 31 December 2014	**40,000**	**978**	**263**	**19,048**	**429**	**(946)**	**59,772**

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

STATEMENT OF CASH FLOWS
For the period from 1 January to 31 December 2014
(In thousands of EUR)

	Notes	2014	Mod. 2013*
CASH FLOW FROM OPERATING ACTIVITIES			
Interest receipts		3,380	2,868
Fee and commission receipts		8,941	7,154
Receipts of other operating income		713	534
Interest paid		(174)	(50)
Fee and commission paid		(116)	(227)
Payments to and on behalf of employees		(6,589)	(6,452)
Accounts payable		(2,572)	(2,047)
Net cash inflow/(outflow) before value adjustments of assets and liabilities		3,583	1,780
Value adjustments of assets and liabilities			
Decrease of loans and advances		90	45
Increase/(decrease) of financial assets available for sale		(124,070)	(13,267)
Decrease/(increase) of financial assets held to maturity		4,281	137
(Decrease)/increase in banks and other financial institutions' accounts		104,158	89,816
(Decrease)/increase in Government and other organizations' accounts		12,754	(12,565)
Net cash (outflow)/inflow from operating activities		796	65,946
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(404)	(425)
Purchase of intangible assets		(9)	-
Sale of properties		400	-
Net cash outflow from investing activities		(13)	(425)
CASH FLOW FROM FINANCING ACTIVITIES			
Net cash inflow/(outflow) from financing activities		-	-
Effects of foreign exchange		63	(31)
Net (decrease)/increase in cash and cash equivalents		846	65,490
Cash and cash equivalents, beginning of year		268,529	203,039
Cash and cash equivalents, end of year	31	269,375	268,529

* see note 2.3 for more information

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 Law on the Central Bank of Montenegro (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 Law on the Central Bank of Montenegro.

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 the banking system, governed by the Council of the Central Bank and managed by the Governor of the Central Bank.

The new Law on the Central bank of Montenegro created legal preconditions for harmonizing the status, objectives, functions and organization of the Central Bank of Montenegro with Article 143 of the Constitution of Montenegro in such manner that at the same time optimizes governing and managing of 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 (Articles 119, 123 and 127 to 133) 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 specifies that the CBM shall perform the following functions:

1) overseeing and maintaining stability of the financial system as a whole and passing pertinent regulations and measures;
2) issue licenses and approvals to banks and other financial institutions and supervise banks and financial institutions;
3) carry out bankruptcy and liquidation proceedings against banks and financial institutions in line with the Law;
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, analyze and assess the impact of certain factors on the financial system stability as a whole;
11) collect and statistically process data and information of importance for the achievement of objectives and the exercising of functions of the Central Bank, which are in accordance with this law and law governing statistics and statistical system;
12) set up the information system required for undisturbed exercising of its functions;
13) perform transfers in the national and international finance 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 laws;
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;
- 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, Articles 11, 12 and 13 of the new CBM Law define the following:

- The Bank's capital shall comprise of core equity and reserves;
- The Bank's core equity shall amount to EUR 50 million;
- The Bank's core equity shall be state property;
- The core equity may be increased by amounts suggested by the CBM and approved by the Government from the Montenegrin State Budget;
- 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 core capital of EUR 50,000 thousand is specified by the Constitution of Montenegro for the purpose of creating adequate material preconditions for performance of the defined CBM functions. The amount of 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.

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 afore described funds are insufficient to ensure the core capital of the Bank, any shortfall in the funds shall be provided from the State 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, 20000 Podgorica.

As of December 31, 2014, the Bank had 354 employees (December 31, 2013: 333 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 purpose 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.

(b) Basis of Preparation of the Financial Statements

The Bank's financial statements were prepared at historical cost principle, as modified by applying revaluation of financial assets available for sale, property, equipment and other financial assets and liabilities (including derivative financial instruments) at fair value through profit and loss statement.

(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 that comply 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 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.

The areas demanding higher-level or higher-complexity estimates, or areas where the estimates and assumptions are materially significant for 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.

(e) Standards and Interpretations adopted for the first time 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:

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

(e) Standards and Interpretations adopted for the first time in the Current Period (Continued)

- Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014),
- Amendments to IAS 39 Financial instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014),
- Amendments to IAS 36 “Impairment of assets”: Recognition and Measurement – Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014),
- IFRIC 21 Levies (effective for annual periods beginning on or after January 1, 2014),
- Amendments to IFRS 10 Consolidated financial statements – Investment Entities (effective for annual periods beginning on or after January 1, 2014),

Adoption of these standards and interpretations has not led to any changes in the CBM accounting policies, i.e. had no material effects on financial statements for 2014.

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

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" and subsequent amendments (effective for annual periods beginning on or after January 1, 2018)
- IFRS 15 Revenue (effective for annual periods beginning on or after January 1, 2017),
- Amendments to IAS 19 "Employee Benefits" - Defined benefit plans: Contributions for employees (effective for annual periods beginning on or after July 1, 2014);
- Annual improvements to IFRSs 2010-2012 Cycle (effective for annual periods beginning on or after July 1, 2014),
- Annual improvements to IFRSs 2011-2013 Cycle (effective for annual periods beginning on or after July 1, 2016)
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016)
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016)
- Amendments to IAS 16 Property Plant and Equipment and IAS 38 Intangible assets – Clarifying 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 (effective for annual periods beginning on or after January 1, 2016)
- 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 (effective for annual periods beginning on or after January 1, 2016)
- Annual improvements to IFRSs 2012-2014 Cycle (effective for annual periods beginning on or after July 1, 2016).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

The CBM management considers the impact of the aforecited standards and interpretations on the financial statements, as well as their effective dates, and holds that their adoption will not have materially significant effects on the Bank's financial statements in the period of their initial adoption.

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.

2.3. Correction due to full implementation of the effective interest rate method

The CBM made a correction of prior year financial statements due to full and consistent implementation of effective interest rate method in revenue recognition on financial assets available for sale and related gains from realization.

	December 31, 2013			January 1, 2013		
	Balance in financial statements	Correction	Adjusted balance	Balance in financial statements	Correction	Adjusted balance
The statement of profit and loss						
Interest income	2,840	(2,002)	838	2,706	(1,643)	1,063
Gains/(losses) from financial assets available for sale	(1,222)	1,378	156	(330)	540	210
Net profit/(loss)	**485**	**(624)**	**(139)**	**761**	**(1,103)**	**(342)**
Correction of result as at 2011					**(606)**	
The statement of financial position						
Financial assets available for sale	101,769	(8)	101,761	89,876	-	89,876
Fair value reserves of financial assets available for sale	(2,263)	2,325	62	(942)	1.709	767
Retained earnings/(accumulated losses)	692	(2,333)	(1,641)	973	(1,709)	(736)

The statement of cash flow is adjusted in such a way that net effects based on realized gains and losses on financial assets available for sale are netted with movements in these financial assets items and are consistently presented in accordance with adjustments in the statement of profit and loss and statement of financial position (full and consistent implementation of the effective interest rate method). Performed reclassification did not have impact on net cash flows or balance of cash and cash equivalents.

	2013	Mod. 2013
Realized difference in fair value of financial assets available for sale	(1,222)	-
Increase/(decrease) of financial assets available for sale	(12,045)	(13,267)
	(13,267)	**(13,267)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest and fee and commission 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 method. The 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 the interest rate, CBM estimates cash flows considering all the contractual terms of a financial instrument, but does not consider future credit losses.

Once a financial asset or a group of related financial assets are written off as a result of an impairment loss, interest income is recognized based on the interest rate applied for discounting future cash flows for the purpose of impairment loss measurement.

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.

3.2. 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 income statement 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 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 income statement.

3.4. Taxes and Contributions

Income Taxes

In accordance with the Central Bank of Montenegro Law, the 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

(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 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 on these instruments is calculated using the effective interest method and classified as interest income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Financial Assets (Continued)

(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. Subsequent 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 is calculated using the effective interest rate and recorded within 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

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.

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 occurrence of the loss and its identification is determined by the Bank for each financial asset portfolio. In general, the periods may vary from 3 to 12 months; in exceptional cases, longer periods are permitted.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Financial Assets (Continued)

(d) Impairment of Financial Assets ***(Continued)***

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 income statement.

Financial Liabilities

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

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 the value of the computer software in use. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Property, Plant and Equipment (Continued)

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 income statement of the reporting period in which they are incurred.

Depreciation is calculated on a straight-line basis to the cost of property and equipment by applying the following annual rates in order to write them off over their useful lives.

Depreciation of major categories 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 equipment	8.33 – 50.00
Furniture and other equipment	10.00 – 50.00
Motor vehicles	12.50 – 25.00

Gains and losses on disposals of property, plant and equipment are determined as the difference between the cash receipt and the carrying amount 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. Revaluation was performed in September 2011.

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 income statement. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Depreciation of investment property is calculated using the straight-line method to allocate its residual value over its estimated useful life, ranging from 50 to 75 years.

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. A provision is recognized even if the likelihood of an outflow of assets in respect of any item included in the same class of liabilities is minor.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Employee Benefits (Continued)

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.

3.13. 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, 2014, the core capital of the Bank amounted to EUR 40,000 thousand.

3.14. Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an normal transaction between market participants at the measurement date.

Fair value is the price achieved in the sale of asset, i.e. transfer of liabilities in a transaction with a market participant at the main market, i.e. market with the highest turnover and the most intense activity of the respective asset or liability. If there is no main market then the most favorable market price is used, i.e. markets in which the subject could achieve the best price

Fair value of a non-financial asset is measured at its maximum and best possible use with market participant. When determining the maximum and the best possible use it must be considered whether the asset is physically possible, legally permissible and financially feasible. If the market or other factors do not indicate otherwise, it is assumed that the current use of resources in the subject is the best possible and at its maximum.

Fair value of a liability or subject's equity instrument is determined under the assumption that the instrument will be transferred at the measurement date.

When transactions are directly observable in the market, the determination of fair value is relatively easy, and if this is not the case, then three valuation techniques that operators may use in determining fair value can be used:

- The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities, or a group of assets and liabilities.
- Valuation techniques that convert future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount.
- A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The Bank is under obligation to disclose all information about the fair value of assets and liabilities whereof there is available market information and whereof a materially significant difference between their carrying values and fair values is identified.

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
- Operational risk.

Risk exposure is inherent to 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 the 2014 year, in the light of significant changes having occurred in the international financial market, the Bank had transferred deposits from foreign commercial banks into foreign central banks in order to improve the placement safety and risk protection.

(b) Debt Securities and Other Bonds:

In the composition of the investment portfolio of the CBM at the end of 2014 are included the following highly liquid and readily marketable debt securities:
Government bonds in EUR, 0- 3 years, whose issuers have a rating between maximum AAA by S & P in / and / or Aaa by Moody's and / or AAA by Fitch and a minimum of BBB by S & P and / or Baa2 by Moody's and / or BBB by Fitch.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.1. Credit Risk Measurement and Set Limit Control *(Continued)*

(b) Debt Securities and Other Bonds (Continued)

Euro quasi-government bonds, 1-3 years, whose issuers have a rating between maximum AAA by S & P in / and / or Aaa by Moody's and / or AAA by Fitch and a minimum of A- by S & P and / or A3 by Moody's and / or A- by Fitch. As in securities that have a rating between maximum AAA by S & P in / and / or Aaa by Moody's and / or AAA by Fitch and a minimum of BBB by S & P and / or Baa2 by Moody's and / or BBB by Fitch, whose emitting country where the official currency is not the euro or the province of developed countries that emit Eurobonds.

Euro Pfandbrief bonds, 1-3 years, which have a rating between maximum AAA by S & P in / and / or Aaa by Moody's and / or AAA by Fitch and a minimum of A- by S & P and / or A3 by Moody's and / or A- by Fitch.

These debt securities are held at the securities account with Deutsche Bundesbank, Frankfurt 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, 2014.		**December 31, 2013.**	
	Loans and advances, gross	**Allowance for Impairment (%)**	**Loans and advances, gross**	**Allowance for Impairment (%)**
Loans to employees – short-term portion (Note 17)	1,051	-	1,039	-
Loans to employees – long-term portion (Note 22)	1,635	-	1,729	-
Government loans	-	-	-	-
Total, gross	2,686	-	2,768	-

4. FINANCIAL INSTRUMENTS (Continued)

Credit Risk (Continued)

4.2.3. Maximum Exposure to Credit Risk without Collaterals

The table below presents the worst case scenario of credit risk exposure as of December 31, 2014 and 2013. 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, 2014	December 31, 2013
Cash, cash equivalents and demand deposits (Note 13)	82,380	76,263
Placements with foreign banks (Note 14)	186,995	192,266
Financial assets available for sale (Note 15)	223,764	101,761
Financial assets held to maturity (Note 15)	12,308	16,589
Assets held with IMF (Note 16)	64,149	60,095
Housing loans approved to employees (Notes 17 and 22)	2,687	2,768
Receivables (Note 18)	1,932	2,127
Total	574,215	451,869

As shown in the table above, 14% of the total maximum exposure relates to the demand deposits held with foreign banks (2013 year: 17%) and 33% to fixed-term deposits held with foreign banks (2013 year: 42%).

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, 2014 and 2013.

	December 31, 2014			In thousands of EUR December 31, 2013		
Credit rating	**Placements with foreign banks**	**Debt securities**	**Total**	**Placements with foreign banks**	**Debt securities**	**Total**
AAA	-	236,072	236,072	-	118,350	118,350
Central banks	186,995	-	186,995	192,266	--	192,266
Total	186,995	236,072	423,067	192,266	118,350	310,616

4. FINANCIAL INSTRUMENTS (Continued)

Credit Risk (Continued)

4.2.4. Financial Placements

Financial placements were classified as follows:

In thousands of EUR

	Term deposits with foreign banks (Note14)	Financial assets available for sale and held to maturity (Note 15)	Assets held with the IMF-a (Note 16)	Receivables (Note 18)	Housing loans approved to employees (Note 17 and 22)	Total
Not matured	186,995	236,072	64,149	-	2,687	489,903
Matured and not impaired	-	-	-	1,932	-	1,932
Individually impaired	-	-	-	-	-	-
Not matured	186,995	236,072	64,149	1,932	2,687	491,835
Less:						
Allowance for impairment	-	-	-	-	-	-
Net	186,995	236,072	64,149	1,932	2,687	491,835

In thousands of EUR

	Term deposits with foreign banks (Note14)	Financial assets available for sale and held to maturity (Note 15)	Assets held with the IMF-a (Note 16)	Receivables (Note 18)	Housing loans approved to employees (Note 17 and 22)	Total
Not matured	192,266	118,350	60,095	-	2,768	373,479
Matured and not impaired	-	-	-	2,127	-	2,127
Individually impaired	-	-	-	-	-	-
Gross	192,266	118,350	60,095	2,127	2,768	375,606
Less:						
Allowance for impairment	-	-	-	-	-	-
Net	192,266	118,350	60,095	2,127	2,768	375,606

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. For this reason 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, 2013. 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 and cash equivalents	7	1	36,869	36,877
Demand deposits held with foreign banks	45,265	238	-	45,503
Placements with foreign banks	186,666	329	-	186,995
Financial assets available for sale	223,764	-	-	223,764
Financial assets held to maturity	12,308			12,308
Assets held with the IMF	-	64,149	-	64,149
Loans and advances	-	-	2,687	2,687
Other financial assets	-	-	1,932	1,932
Balance at December 31, 2014	468,010	64,717	41,488	574,2015
Balance at December 31, 2013	355,940	60,644	35,655	452,239

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

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. Since June 2012, CBM introduced into its portfolio the securities held to maturity.

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.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Market Risk Measurement Techniques (Continued)

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, 2014, the maximum VAR was -0.35%, whereas the minimum VAR was -0.34% of the entire portfolio market value.

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, 2014. 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, 2014				
Assets				
Cash and demand deposits	82,141	239	-	82,380
Fixed-term deposits with foreign banks	186,666	329	-	186,995
Assets held with the IMF	-	-	64,149	64,149
Financial assets available for sale	223,764	-	-	223,764
Financial assets held to maturity	12,308	-	-	12,308
Loans and advances	2,687	-	-	2,687
Other financial assets	1,932	-	-	1,932
Total financial assets	509,498	568	64,149	574,215
Liabilities				
Payables arising from the accounts of other banks and financial institutions	461,301	-	-	461,301
Payables arising from the Government's and other organization's accounts	17,795	-	-	17,795
Liabilities to IMF	-	-	64,233	64,233
Other financial liabilities	46	-	-	46
Total financial liabilities	479,142	-	64,233	543,375
Net statement of financial position	30,356	568	(84)	30,840
Balance at December 31, 2013				
Total financial assets	391,225	549	60,095	451,869
Total financial liabilities	362,216	-	60,174	422,390
Net statement of financial position	29,009	549	(79)	29,479

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Foreign Currency Risk (Continued)

As of December 31, 2014, had the USD strengthened/weakened by 5% against EUR and all other variables remained unchanged, net profit for the year would have been EUR 31 thousand lower/higher (December 31, 2013: EUR 29 thousand), as a result foreign exchange losses/gains.

4.3.3. Interest Rate Risk

Cash flow interest rate risk is the risk that 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, 2014						
Assets						
Cash, cash equivalents and demand deposits	82,380	-	-	-	-	82,380
Fixed- term deposits with foreign banks	1,935	185,060	-	-	-	186,995
Assets held with the IMF	64,149	-	-	-	-	64,149
Financial assets available for sale	-	47,917	175,847	-	-	223,764
Financial assets held to maturity	-	2,043	10,265	-	-	12,308
Loans and advances	-	-	-	-	2,687	2,687
Other financial assets	-	1,932	-	-	-	1,932
Total financial assets	148,464	236,952	186,112	-	2,687	574,215
Liabilities						
Payables arising from the accounts of other banks and financial institutions	449,358	-	-	-	11,943	461,301
Payables arising from the Government's and other organizations' accounts	17,715	-	-	-	80	17,795
Liabilities to the IMF	64,233	-	-	-	-	64,233
Other financial liabilities	-	-	-	-	46	46
Total financial liabilities	531,306	-	-	-	12,069	543,375
Net exposure to change in interest rate risk	(382,842)	236,952	186,112	-	(9,382)	30,840
Balance at December 31, 2013						
Net exposure to change in interest rate risk	20,160	-	-	-	9,319	29,479

The interest rate sensitivity analysis is determined based on the exposure to interest rate risk as of the reporting date. As of December 31, 2014, 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, 2014 would have respectively increased/decreased by approximately EUR 309 thousand (December 31, 2013: approximately EUR 294 thousand).

4. FINANCIAL INSTRUMENTS (Continued)

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

4.4.1. 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 fulfill 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 so as to maintain wide diversification by currency, region, supplier, etc.

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

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	Total
Balance at December 31, 2014					
Assets					
Cash, cash equivalents and demand deposits	82,380	-	-	-	82,380
Fixed-term deposits with foreign banks	1,935	185,060	-	-	186,995
Assets held with the IMF	64,149	-	-	-	64,149
Financial assets available for sale	-	47,917	175,847	-	223,764
Financial assets held to maturity	-	2,043	10,265	-	12,308
Loans and advances	-	-	-	2,687	2,687
Other financial assets	-	1,932	-	-	1,932
Total financial assets	148,464	236,952	186,112	2,687	574,215
Liabilities					
Payables arising from the accounts of other banks and financial institutions	461,301	-	-	-	461,301
Payables arising from the Government's and other organizations' accounts	17,795	-	-	-	17,795
Liabilities to the IMF	64,233	-	-	-	64,233
Other financial liabilities	46	-	-	-	46
Total financial liabilities	543,375	-	-	-	543,375
Liquidity GAP	(394,911)	236,952	186,112	2,687	30,840
Balance at December 31, 2013					
Total assets	136,720	194,393	117,988	2,768	451,869
Total liabilities	422,390	-	-	-	422,390
Liquidity GAP	(285,670)	194,393	117,988	2,768	29,479

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.

4.5. Fair value of Financial Assets and Liabilities

Available-for-sale financial assets are presented at fair value. All other financial assets and liabilities are presented at amortized cost. Due to the fact that the largest portion of the CBM's financial assets and liabilities carried at amortized cost have a maturity less than a month, the management believes that their carrying amounts are not materially different from their fair value.

Fair value Hierarchy

Financial assets and liabilities carried at fair value as per levels:

In thousands of EUR

	Level 1	Level 2	Level 3	Total
Financial assets available-for-sale	223,764	-	-	223,764
Total	223,764	-	-	223,764

4. FINANCIAL INSTRUMENTS (Continued)

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

For the financial assets and liabilities that are not carried at fair value, the Bank's management believes that there is no material difference between their net book value and their fair value at the statement of financial position date. These are assets and liabilities carried at amortized cost, and for which contractual terms are concluded in accordance with market trends, with specific characteristics that apply to the central bank, but which in the opinion of the Banks's management do not lead to material differences in terms of fair the value of these assets and liabilities.

Financial assets and liabilities that are not carried at fair value as per levels:

Financial assets 31 December 2014 — **In thousands of EUR**

	Level 1	Level 2	Level 3	Total
Cash, cash equivalents and demand deposits	-	82,380		82,380
Fixed-term deposits with foreign banks	-	186,995		186,995
Financial assets held to maturity		12,608		12,608
Loans and advances		2,687		2,687
Other assets		1,932		1,932
Total	-	286,302	-	286,302

Financial liabilities 31 December 2014

	Level 1	Level 2	Level 3	Total
Payables arising from the accounts of other banks and financial institutions	-	461,301		461,301
Payables arising from the Government's and other organizations' accounts	-	17,795		17,795
Other liabilities		46		46
Total	-	479,142	-	479,142

Financial assets and liabilities that are not carried at fair value as per levels:

Financial assets 31 December 2013 — **in thousands of EUR**

	Level 1	Level 2	Level 3	Total
Cash, cash equivalents and demand deposits	-	76,263		76,263
Fixed-term deposits with foreign banks	-	192,266		192,266
Financial assets held to maturity		16,589		16,589
Loans and advances		2,768		2,768
Other assets		2,127		2,127
Total	-	290,013	-	290,013

Financial liabilities 31 December 2013

	Level 1	Level 2	Level 3	Total
Payables arising from the accounts of other banks and financial institutions	-	357,143		357,143
Payables arising from the Government's and other organizations' accounts	-	5,040		5,040
Other liabilities		33		33
Total	-	362,216	-	362,216

Level 1 – Quoted prices in active markets for identical instruments.
Level 2 – Inputs other than quoted market for those assets or liabilities are directly observable.
Level 3 – Inputs for an asset or a liability that are not based on observable market data (unobservable inputs).

4. FINANCIAL INSTRUMENTS (Continued)

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 fulfill all its functions defined by the CBM Law; and
- To maintain sufficient capital 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 core equity.

As of December 31, 2014, 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 State 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 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 to a high degree based on judgement, 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.

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

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 the 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. INTEREST INCOME AND EXPENSES

a) Interest Income

In thousands of EUR

	Year Ended December 31 2014	Mod. 2013
Fixed-term deposits held with foreign banks	299	89
Financial assets available-for-sale	695	633
Financial assets held to maturity	136	116
	1,130	838

b) Interest Expenses

In thousands of EUR

	Year Ended December 31 2014	2013
Mandatory reserves of commercial banks	7	3
Public sector deposits	90	27
Other financial institutions	71	1
	168	31

7. FEE INCOME AND EXPENSES

a) Free and commission income

In thousands of EUR

	Year Ended December 31 2014	2013
Participation in RTGS	275	265
Order processing in RTGS	1,425	1,308
Order processing in DNS	483	451
State Treasury order processing	1,938	1,771
Processing orders for public duties payables	280	284
Cash payments and disbursements through customers' accounts	171	268
Forced collection orders issuance and realization	608	441
Registration of state commercial papers	613	626
Servicing of foreign debt	322	343
Income on inspection of banks and microcredit financial institutions	2,031	1,098
Credit regulatory body services	407	411
Transfers from the CBM accounts held abroad	26	6
Other fee income	13	64
	8,592	7,336

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 , 58/13, 12/14,22/14 and 48/14).

b) Fee and commission expenses

In thousands of EUR

	Year Ended December 31 2014	2013
Import and export of foreign money	31	139
Registration of the state commercial papers	68	70
Payment transactions	15	12
Money transport services	2	6
	116	227

8. OTHER INCOME

In thousands of EUR

	Year Ended December 31 2014	2013
Operating lease of premises - rental	184	182
Sales of bills of exchange forms	326	315
Sale of precious metals	8	11
Income from sale of fixed assets	408	-
Collection of receivables previously written off	-	22
Reversal of provisions for litigation	184	72
Other income	147	109
	1,257	886

9. FOREIGN EXCHANGE GAINS AND LOSSES, NET

In thousands of EUR

	Year Ended December 31 2014	Year Ended December 31 2013
Foreign exchange gains:		
- CBM's foreign bank accounts	224	303
- Vault cash	4	7
- IMF accounts in the country	2	6
	230	316
Foreign exchange losses:		
- CBM's foreign bank accounts	(155)	(328)
- Vault cash	(4)	(16)
- IMF accounts in the country	(8)	(3)
	(167)	(347)
	63	(31)

10. GAINS ON FINANCIAL ASSETS AVAILABLE FOR SALE, NETTED OFF

In thousands of EUR

	Year Ended December 31 2014	Year Ended December 31 Mod. 2013
Gains on sales of securities available for sale	31	156
Losses on sales of securities available for sale	-	-
	31	156

11. STAFF COSTS

In thousands of EUR

	Year Ended December 31 2014	Year Ended December 31 2013
Gross salaries	3,948	3,903
Contributions paid by the employer and employee	1,881	1,724
Other employee benefits	773	519
	6,602	6,146

12. OTHER OPERATING EXPENSES

In thousands of EUR

	Year Ended December 31 2014	2013
Costs of materials	92	96
Fuel and energy costs	158	157
Marketing and advertising	32	19
Service contracts	1	11
The Governor's Council and Audit Committee members payments	72	78
Other fee payables to individuals	62	55
Professional services	30	22
Property maintenance	393	369
Property insurance	13	12
Telecommunications and postal services	262	270
Tax expenses	11	13
Depreciation and amortization	805	694
Humanitarian actions	348	278
Entertainment	48	43
Seminars	116	116
Provisions for potential litigation losses (Note 33)	360	361
Other operating expenses	487	326
	3,290	2,920

13. CASH AND DEMAND DEPOSITS

In thousands of EUR

	December 31, 2014	December 31, 2013
Vault cash and cash on hand		
- in EUR	36,876	30,717
- in foreign currency	1	44
	36,877	30,760
Interest-bearing demand deposits	45,009	45,289
Non-interest-bearing demand deposits - foreign currency	239	186
Non-interest-bearing demand deposits - EUR	255	28
	82,380	76,263

As of December 31, 2013, CBM had interest-bearing demand and short-term deposits placed in accounts with foreign central and commercial banks in the amount of EUR 45,289 thousand. The Bank had interest income on these assets at the annual level of Eonia minus 10 basis points.

14. TERM DEPOSITS HELD WITH FOREIGN BANKS

In thousands of EUR

	December 31, 2014	December 31, 2013
Short-term time deposits held with central banks	186,986	192,242
Interest receivables from short-term time deposits	9	24
	186,995	192,266

These placements have maturities ranging from 1 to 3 months.

15. FINANCIAL ASSETS AVAILABLE FOR SALE

As of December 31, 2014, financial assets available for sale in the amount of EUR 223,764 thousand comprise debt securities issued by the German Government, Dutch, French, Austrian, Finnish, Spanish, Irish, Belgian and the Italian Government, with maturities from 1 to 3 years.

Financial assets held to maturity totaling EUR 12,308 thousand as of December 31, 2014 represent debt securities issued by the German Federal Regions and securities issued by agencies.

16. ASSETS HELD WITH THE INTERNATIONAL MONETARY FUND

In thousands of EUR

	December 31, 2014	December 31, 2013
Reserves with IMF (Note 27)	7,876	7,374
Promissory note on IMF membership (Note 27)	24,856	23,273
SDR allocation (Note 27)	30,996	29,034
Accrued interest receivable (Note 27)	325	296
Asset holding fee (Note 27)	96	118
	64,149	60,095

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.

As of December 31, 2014, the amount of cash contribution totaled EUR 7,876 thousand, whereas the value of the promissory note was EUR 24,856 thousand.

17. LOANS AND ADVANCES

As of December 31, 2014, loans and advances in the amount of EUR 1,051 thousand relate to the housing loans approved to CBM employees (December 31, 2013: EUR 1,039 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 in favor 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.

18. RECEIVABLES

In thousands of EUR

	December 31, 2014	December 31, 2013
Payment transaction charges	212	243
Receivables from forced collection order realization	485	426
Receivables from inspection fees for banks and microcredit financial institutions	165	331
Receivables from fiscal agency services fees	613	627
Prepaid expenses	178	204
Receivables from entitlement to apartments not entered in the Land Registry	-	123
Receivables from employees	69	55
Other receivables	388	322
	2,110	2,331

19. INVESTMENT PROPERTY

In thousands of EUR

	Investment property
Balance at January 1, 2013	2,087
Transfer to fixed assets	940
Balance at December 31, 2013	3,027
Accumulated depreciation	
Balance at January 1, 2013	38
Charge for the year	31
Balance at December 31, 2013	69
Net book value	
- as at December 31, 2013	2,958
Balance at January 1, 2014	3,027
Transfer to fixed assets	-
Balance at December 31, 2014	3,027
Accumulated depreciation	
Balance at January 1, 2014	69
Charge for the year	43
Balance at December 31, 2014	112
Net book value	
- as at December 31, 2014	2,915

20. INTANGIBLE ASSETS

	In thousands of EUR Intangible assets
Cost	
Balance at January 1, 2013	287
Increase	-
Balance at December 31, 2013	287
Accumulated amortization	
Balance at January 1, 2013	68
Charge for the year	54
Balance at December 31, 2013	122
Balance at December 31, 2013	165
Cost	
Balance at January 1, 2014	287
Increase	9
Balance at December 31, 2014	296
Accumulated amortization	
Balance at January 1, 2014	122
Charge for the year	55
Balance at December 31, 2014	177
Balance at December 31, 2014	119

21. PROPERTY, PLANT AND EQUIPMENT

In thousand of EUR

	Land	Buildings	Equipment	Fixed assets under Construction	Total
Cost					
Balance at January 1, 2013	3,703	21,847	1,423	938	27,911
Additions	-	-	-	424	424
Transfers	-	63	346	(409)	-
Transfers from investment property	-	-	-	(940)	(940)
Disposals	-	-	(24)	-	(24)
Write-offs	-	-	(1)	-	(1)
Balance at December 31, 2013	3,703	21,910	1,744	13	27,370
Accumulated depreciation					
Balance at January 1, 2013	-	454	268	(2)	720
Depreciation	-	365	243	-	608
Transfers from investment property	-	-	-		
Disposals	-	-	(8)	(1)	(9)
Balance at December 31, 2013	-	819	503	(3)	1,319
Balance at December 31, 2013	3,703	21,091	1,241	16	26,051
Cost					
Balance at January 1, 2014	3,703	21,910	1,744	13	27,370
Additions	-	-	-	412	412
Transfers	-	114	296	(410)	-
Disposals	-	(300)	(18)	-	(318)
Write-offs	-	-	(5)	-	(5)
Balance at December 31, 2014	3,703	21,724	2,017	15	27,459
Accumulated depreciation					
Balance at January 1, 2014	-	819	503	(3)	1,319
Depreciation	-	363	343	-	706
Disposals	-	(14)	(9)	-	(23)
Balance at December 31, 2014	-	1,168	837	(3)	2,002
Balance at December 31, 2014	3,703	20,556	1,180	18	25,457

As of September 30, 2011, the CBM's fixed assets and investment property were evaluated by the independent assessor DOO Reviko, Podgorica. The positive revaluation effect in the amount of EUR 8,080 thousand is credited to revaluation reserves within equity for the year 2011, whereas the negative effects are recognized in the income statement in the amount of EUR 9 thousand.

At the end of 2014, certain reserves were transferred even while the assets was in use. The amount of the transferred reserve represents the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset. The amount of reserves transferred to retained earnings amounted to EUR 190 thousand.

22. LONG-TERM RECEIVABLES FROM EMPLOYEES

Long-term receivables from employees in the amount of EUR 1,670 thousand represent prepaid employee benefits calculated as a difference between the outstanding nominal value of non-interest bearing housing loans approved to employees and amortized (fair) value of loans at the statement of financial position date (Note 17). The loan amount is amortized through loan repayment from the employees during their years of service with the Bank.

23. INVENTORIES

In thousands of EUR

	December 31, 2014	December 31, 2013
Materials and fixtures	17	20
Bill of exchange forms	25	21
Inventories of silver readily convertible into cash	13	14
Jubilee gold and silver coins	7	7
Montenegrin coins	540	538
	602	600

24. OTHER ASSETS

In thousands of EUR

	December 31, 2014	December 31, 2013
Library fund	231	224
Equity investments	175	89
	406	313

As of December 31, 2014, the equity investments refer to the investments in Central Depository Agency a.d., Podgorica in the amount of EUR 175 thousand. These investments are recognized at cost. The Central Depository Agency a.d. made a decision on the issue of shares based on division. CBM based on that decision owner of 136,908 shares of nominal value 1.27822975 EUR or 35%.

25. BANKS AND OTHER FINANCIAL INSTITUTIONS' ACCOUNTS

In thousands of EUR

	December 31, 2014	December 31, 2013
Demand deposits	245,033	172,352
Mandatory reserves in the country	59,758	72,031
Mandatory reserves abroad	110,861	77,886
Fixed-term deposits	45,649	34,874
	461,301	357,143

As of December 31, 2014, the mandatory required reserve of the commercial banks represents the minimum of deposits set aside in accordance with the CBM regulations and the Decision on the Mandatory Reserves of Banks Held with CBM (Official Gazette of Montenegro no. 35/11, 22/12, 61/12, 57/13 and 52/14). In accordance with the aforesaid, commercial banks calculate mandatory reserve on both demand deposits and term deposits.

25. BANKS AND OTHER FINANCIAL INSTITUTIONS' ACCOUNTS (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.

Council of the Central Bank of Montenegro as at November 29, 2013 adopted the Decision on amendments of the Decision on Banks' Required Reserves Held with the Central Bank. Commercial banks may set aside and hold up to 30% of the mandatory reserve in the form of commercial papers issued by Montenegro maturity up to 182 days and 13% of mandatory reserve in the form of commercial papers issued by Montenegro maturity up to 91 days.

Pursuant to the Decision on Amendment of the Decision on Banks' Required Reserves Held with the Central Bank (enacted as at November 29, 2013), 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 7% 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 to less than zero. This Decision came into effect as at January 1, 2014. The mandatory reserve is held in EUR.

Banks may use up to 50% of the mandatory reserve set aside to maintain daily liquidity. CBM does not charge any fee to commercial banks if the amount of the mandatory reserve used for liquidity purposes is returned to the reserve account within the same day. Commercial banks are under obligation to pay fees for the amounts of the mandatory reserve used and not returned to the reserve account within the same day. The fee is paid on a monthly basis, at a rate determined by CBM regulation.

26. ACCOUNTS OF THE GOVERNMENT AND OTHER STATE ORGANIZATIONS

In thousands of EUR

	December 31, 2014	December 31, 2013
Government's accounts	17,715	4,964
Other state organizations' accounts	80	76
	17,795	5,040

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

27. LIABILITIES TO THE INTERNATIONAL MONETARY FUND

In thousands of EUR

	December 31, 2014	December 31, 2013
Deposits with IMF (Note 16)	39,293	36,822
Account no.1	83	78
Account no.2	1	1
Promissory note - account no. 3 (Note 16)	24,856	23,273
	64,233	60,174

27. LIABILITIES TO THE INTERNATIONAL MONETARY FUND (Continued)

Deposits held with the IMF in the amount of EUR 39,293 thousand as of December 31, 2014 are comprised of:

- reserves held with the IMF in the amount of EUR 7,876 thousand (Note 16), which represents the cash contribution of 24% of the quota in the amount of SDR 27,500 thousand translated at the exchange rate prevailing as of the statement of financial position,
- SDR allocation by the IMF to Montenegro as a member country in 2009 in the amount of SDR 25,822 thousand, which as of December 31, 2014 totaled EUR 30,996 thousand (Note 16),
- interest accrued in the amount of EUR 324 thousand (Note 16) and
- consideration for funds deposited in the amount of EUR 96 thousand (Note 16).

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.

28. OTHER LIABILITIES

In thousands of EUR

	December 31, 2014	December 31, 2013
Interest payable on the mandatory reserve of the banks	1	7
Advances received	284	307
Reservation for potential litigation losses (Note 33)	396	504
Accruals	100	80
Other liabilities	44	105
	825	1,003

29. 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 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, 2014 totaled 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, 2014.

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

The total CBM capital as of December 31, 2014 totaled EUR 59,772 thousand.

29. EQUITY (Continued)

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

		In thousands of EUR
	December 31, 2014	**December 31, 2013**
Core equity	40,000	40,000
General reserves	978	634
Special reserves	263	263
Revaluation reserves and fair value reserves	19,477	19,544
Retained earnings	(946)	(1,641)
Total equity	59,772	58,800

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 its 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.

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 totaled 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 of 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 state budget of Montenegro.

As at March 27, 2014, the CBM Council enacted the Decision on the distribution of CBM profit for 2013. The net profit of the CBM for the year 2013 amounted to EUR 485 thousand. Profit available for distribution totaled EUR 688 thousand and shall be distributed in the following manner:

- 50% to the general reserves - in the amount of EUR 344 thousand
- 50% as income to the Budget of Montenegro - in the amount of EUR 344 thousand.

30. TRANSAKCIJE SA POVEZANIM LICIMA

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, 2014 is presented in the following:

In thousands EUR

	December 31, 2014	December 31, 2013
Receivables and payables		
Receivables		
Fee and other receivables from the Government	732	745
	732	745
Payables		
Payables on the accounts of the Government and other state institutions	17,795	5,040
	17,795	5,040
Payables, net	(17,063)	(4,295)
Income and expenses		
Income		
Fee and commissions income from the Government	3,658	2,571
	3,658	2,571
Expenses		
Interest from the Government	(90)	(1)
	(90)	(1)
Income, net	3,568	2,570

In 2014 the gross remunerations disbursed to the key management totaled EUR 217 thousand (2013: EUR 190 thousand).

In 2014 the gross remunerations disbursed to the members of Council of CBM, which are not employed in CBM, totaled 64 thousand (2013: EUR 66 thousand).

31. CASH AND CASH EQUIVALENTS (for the purpose of Statement of cash flow preparation)

In thousands EUR

	December 31, 2014	December 31, 2013
Cash, cash equivalents and demand deposits	82,380	76,263
Short-term time deposits with foreign banks	186,995	192,266
	269,375	268,529

32. SUBSEQUENT EVENTS

The Council of the Central Bank issued the Decision on amendments to the Decision on Banks' Required Reserves at the Central Bank of Montenegro. In the Decision on Banks' Required Reserves at the Central Bank of Montenegro ("Official Gazette of Montenegro", no. 35/11, 22/12, 61/12 and 57/13) Article 17a was amended as follows:

Notwithstanding the provisions of Articles 8 and 12 of this Decision, till December 31, 2015:

- Up to 35% of required reserves a bank can set aside and hold in the form of treasury bills issued by Montenegro of maturities up to 182 days;
- on 15% of required reserves set aside in accordance with Article 7, paragraph 1 hereof and item 1 of this Article, the Central Bank pays a bank monthly, until the eighth day of the month for the previous month, a fee calculated at the rate of EONIA minus 10 basis points per annum, provided that this rate cannot be less than zero. "

This decision came into force as at January 1, 2015.

33. LITIGATIONS

As of December 31, 2014 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 396 thousand, as of December 31, 2014 (Note 28). Out of the total sum, the amount of EUR 226 thousand relates to housing issue lawsuits, whereas the amount of EUR 170 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, in 2014 CBM stated expenses for provisions in the amount of EUR 76 thousand (Note12).

34. 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, 2014 and 2013, were as follows:

	December 31, 2014	December 31, 2013
USD	1.2160	1.3783
CHF	1,2028	1,2259
GBP	0,7823	0,8364
SDR	1,1933	1,1173

Signed on behalf of the Central Bank of Montenegro, Podgorica, on March 26 by.

Valentina Ivanović, PhD.
Director of Finance, Accounting and Controlling Department

MSc Milojica Dakić
Governor of Central Bank of Montenegro