Deposit Protection Fund

DEPOSIT PROTECTION FUND
ANNUAL REPORT
2014

Podgorica, April 2015

Contents

LIST OF ABBREVIATIONS

ISA .... *Insurance Supervision Agency*

CBCG .... *Central Bank of Montenegro*

EBRD .... *European Bank for Reconstruction and Development*

EFDI .... *European Forum of Deposit Insurers*

EC .... *European Commission*

EU...................................... *European Union*

Fund .... *Deposit Protection Fund*

FSAP .... *Financial Sector Assessment Program*

IADI .... *International Association of Deposit Insurers*

SEC................................. *Securities and Exchange Commission*

MF .... *Ministry of Finance*

MMF .... *International Monetary Fund*

SB .... *World Bank*

MB .... *Managing Board*

Law .... *Deposit Protection Law*

Directive 94/19/EC .... *Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes*

Directive 2014/49/EC .... *Directive 2014/49/EC of the European Parliament and of the Council of 16 April 2014 on deposit-guarantee schemes*

The global economy continued growing in 2014 although at a somewhat slower pace than in the previous year, reaching the rate of 3.3% (compared to 3.0% in 2013). Growth remained relatively uneven and the IMF`s assessments ranged from 1.8% for advanced economies to 4.4% for emerging/developing economies. It is also estimated that the volume of trade and services will grow at the rate of 3.1% (2.7% in 2013).

Uneven development was characteristic for both advanced and emerging/developing markets. Structural problems in some developing countries and the fact that the EU and Japan did not ensure a steady growth, that is, a safe exit from recession, indicate that although the global economy's growth trending has been positive, certain risks remain present.

As a small and open euroised economy, Montenegro is largely exposed to global economic trends. Observing from the aspect of foreign trade, Montenegro is primarily connected with the Western Balkans and the EU. However, since the Western Balkan region itself is connected with the EU, Montenegro's links with the EU are even more pronounced.

From the aspect of economic criteria, it is estimated that the economy of Montenegro recorded a somewhat lower growth than initially expected. The rate of 1.5%[1] in 2014 is not satisfactory considering the current difference in the living standard in comparison with the EU countries to which the Montenegrin society aspires although it has been doing rather well compared to the region.

Negotiations with the European Union

Montenegro continued a positive dialogue with the EU through bilateral consultations with, and expert support from, the member states. The focus remains on the institutional strengthening aimed at more efficient accomplishment of objectives and tasks on the European agenda, followed by the implementation of adopted legislation in the field of justice and the ensuring of preconditions for further economic growth.

During 2014, the financial system participants, including the Fund, carried out significant activities involving the fulfilment of obligations on Montenegro's road towards the EU accession. They participated in the drafting of the revised Program of Montenegro's Accession to the EU 2014-2018 in the part covering the competences of the Central Bank of Montenegro (CBCG) and other participants in the financial system.

Banking System in Montenegro

With a view to fostering and preserving a sound banking system, the banking system was subject to continuous supervision and analysis. The managing of international reserves followed the principles of liquidity and safety, indicating that the CBCG`s role of the fiscal agent was successful. So, the banking system was stable, solvent and liquid, as confirmed by the liquidity and solvency ratios that were way above the statutory minimums in the reporting year.

However, the banking system still faces certain risks and this indicates that special attention should be paid to preserving financial stability that is to be a joint effort by the CBCG, the MF, the SEC, the ISA, and the Fund.

Finally, the Montenegrin deposit insurance scheme is for the most part in line with the core principles of deposit insurance in the EU, whereby the Fund's activities are aimed at further implementation of international standards in deposit insurance. Therefore, together with other participants in the financial system, the Fund significantly contributes to the stability of the banking system and the financial system as a whole.

1 Preliminary data published by Monstat on 29 April 2015 and the final data will be published at end-September this year.

1. BASIC INFORMATION ABOUT DEPOSIT INSURANCE

1.1. Deposit Protection Fund

In order to enable depositors to get to their deposits captured in a bank in bankruptcy, the Deposit Protection Law enacted in 2003 established the Deposit protection Fund, regulated the deposit insurance scheme, and set up the principles of the Fund's operation. The first funds were paid in by the CBCG, and the Law prescribed the fee to be paid by the member banks on ex ante basis. All banks registered in Montenegro, that is, banks licensed by the CBCG, are obliged to pay the premium that is the same for all banks and which is calculated at the premium rate on all deposits, and the Fund's resources are to be used for the payout of depositors in case of bank failure.

The 2005 amendments to the Law provided for the alignment with the Directive 94/19/EC. The outbreak of the economic and financial crisis in 2008 necessitated a different approach to regulating deposit insurance, so Montenegro responded to the crisis challenges by enacting a set of laws in July 2010. Together with other EU financial regulators, the EC drafted and adopted a new Directive 2014/49/EC and deposit insurance in Montenegro is largely compliant with the changed principles of deposit insurance set out in this Directive.

The Fund's Mission

The Fund's mission is to ensure the safety of deposits (monetary assets) of private citizens and legal persons held in banks and to provide for an efficient and expedient payout of guaranteed deposits in case of bankruptcy initiated in any of the banks in Montenegro.

The Fund's Vision

A stable financial system based on the confidence of citizens, legal persons and entrepreneurs that their deposits in banks are insured even in case of a bank failure.

The Fund's Objectives

Improved confidence of depositors in the Montenegrin banking system and improved financial stability in the country, including the protection of depositors against loss in case of bank failure. The Fund attains these objectives with clearly defined obligations towards depositors, the promotion of public confidence in the system, reduction of expenses in bank resolution, and ensuring finds for the protection of depositors of a failed bank.

Governance and Management of the Fund

The Fund is governed by the three-member Managing Board (MB) appointed by the Central Bank of Montenegro, whereby one member is nominated by the Ministry Finance and one member is nominated by the Association of Montenegrin Banks and Financial Institutions. Pursuant to the Law, the MB holds meetings at least on quarterly basis.

The Fund's Director General is appointed by the MB, as per the job vacancy announcement, to a four-year term and he/she may be reappointed. The Director General represents and acts on behalf of the Fund, manages its operations, and is responsible for the legality of the Fund's operations.

The Fund's seat is in Podgorica, Miljana Vukova bb Sreet.

Web address: www.fzdcg.org; E-mail: fzd@t-com.me

1.2. Deposit Protection Fund Members

There were twelve banks pursuing business in Montenegro in 2014 (three domestic banks and nine banks with foreign ownership structure), including a new bank established in the reporting year as a result of a Montenegrin-German partnership, "Lovćen banka AD Podgorica".

All banks are members of the Fund, which means that bank clients` deposits in all banks are insured under the Montenegrin deposit insurance scheme, in line with the Law. The banks paid the 2014 deposit protection premium in the total aggregate amount of 10,786,978€ (plus 50,000€ of the initial premium per each bank).

Two dominant categories in the structure of deposits in banks, corporate and household deposits, accounted for 90.75% of total deposits at end-2014.

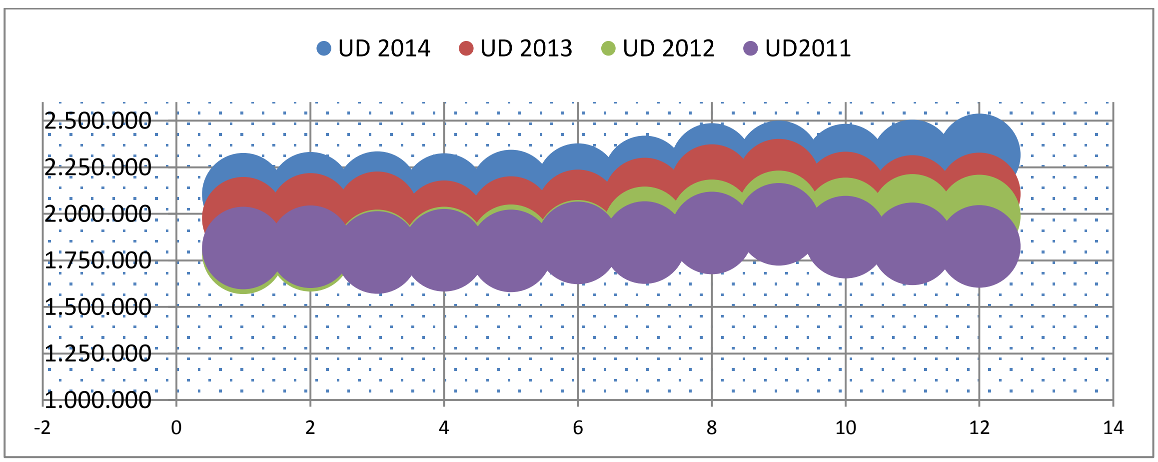
Deposits outside the deposit insurance scheme made up 9.25% of total deposits as at 31 December 2014.

Chart 1 shows the trending of total deposits over the 2011-2014 period, whereby deposit dynamics in 2014 was similar to that in 2013.

Growth in total deposits over the observed one-year period was mostly due to an increase in household deposits (7.52%) and corporate deposits (19.45%).

A significant upward trending of total deposits in Q3 every year was due to increases in revenues during summer tourist season (5.63% in Q3 2014), and this uptrend has been present as of 2006 (since the Fund has been tracking information on deposit trending).

Chart 1. Movement of total bank deposits in the period 2011- 2014, in 000 €



****Source: monthly bank reports***

1.3. Novelties in international regulatory frameworks aimed at more efficient deposit insurance schemes

The most important European regulations governing deposit insurance were completed in spring 2014, on the basis of intensive debates within the European bodies over 2013.

The new provisions introduce changes in deposit insurance schemes in the EU countries, with the obligation of competent national authorities to transpose these provisions in their respective national frameworks in the course of 2015.

The most important provisions that are in line with EU regulations on deposit insurance are contained in:

- Directive 2014/49/EC on deposit-guarantee schemes;
- Directive 2014/59/EU establishing a framework for recovery and resolution of credit institutions and investment firms.

Therefore, the most important changes in deposit insurance schemes in all EU countries are: the established level of guaranteed deposits is mandatory and amounts to 100,000 € per depositor per bank; the deposit-guarantee schemes are obliged to ensure that the compensation starts within 7 working days following a bank failure instead of the current 20 working days, and the implementation is to start no later than as of January 2024, with the following transitional repayment periods allowed following the entry into force of Directive 2014/49/EC:

- 20 working days until 31 December 2018;
- 15 working days from 1 January 2019 until 31 December 2020;
- 10 working days from 1 January 2021 until 31 December 2023.

A very important document for the establishment of more efficient deposit insurance schemes at the global level, is the "Core Principles for Effective Deposit Insurance Systems". To wit, in 2009, in cooperation with the Basel Committee on Banking Supervision (BSBS), the International Association of Deposit Insurers (IADI) set up this international document with which national deposit insurers are to harmonize and which specifies cooperation with other financial system participants.

These principles were officially adopted in 2011 by the Financial Stability Board (FSB), and the WB and the IMF have used it ever since in their financial system assessments.

2. LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES

2.1. Total deposits

Total bank deposits as at 31 December 2014 amounted to 2.317.256.000 €, whereas at end-2013 they totalled 2.107.443.000 €, which is the year-on-year increase of 9.96% (year-on-year growth in 2013 was 5.97%).

During 2014, total deposits` quarterly growth averaged as follows: 0.40% (Q1), 2.05% (Q2), 5.63% (Q3), and 1.70% (Q4).

Table 1. Balance of total deposits by quarters (in 000 €)

	31.12.2013.	31.03.2014.	30.06.2014.	30.09.2014.	31.12.2014.
TOTAL	2.107.443	2.113.561	2.156.969	2.278.449	2.317.256

***Source: monthly bank reports**

The biggest depositors are the household and corporate sectors that recorded increases in their deposits in the reporting year.

The share of household deposits in total deposits as at 31 December 2014 amounted to 1.309 million €, i.e. 56.50%, making this sector the most significant depositor in the Montenegrin banking system. The number of household depositors amounted to 867,903 at end-2014, which is 92.90% of the total number of depositors at end-2014.

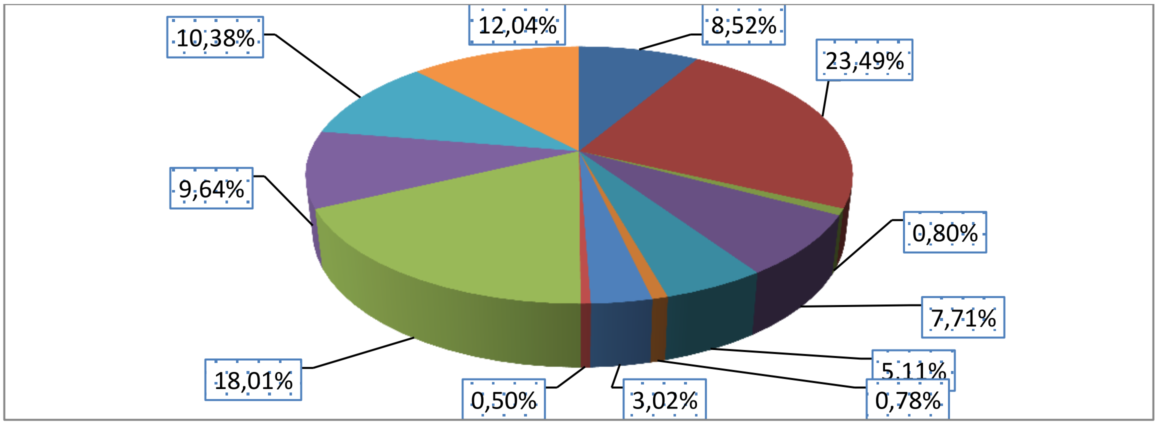
The corporate sector accounted for 34.25% or 793.4 million € of total deposits in banks. The number of corporate depositors amounted 64,200 at end-2014, which is 6.80% of total depositors.

The total number of depositors reached 934,330 million € at end-2014 and this represents the year-on-year increase of 4.57% (893,454 million € at end-2013).

It is obvious that the percentage share of deposits in banks has been changing over the years, speaking in favour of redistribution of deposits by banks in the Montenegrin banking system (back at end-2008, total deposit portfolio of banks was as follows: two banks accounted for 60.33%, six banks made up 37.32%, and three banks accounted for 2.35%).

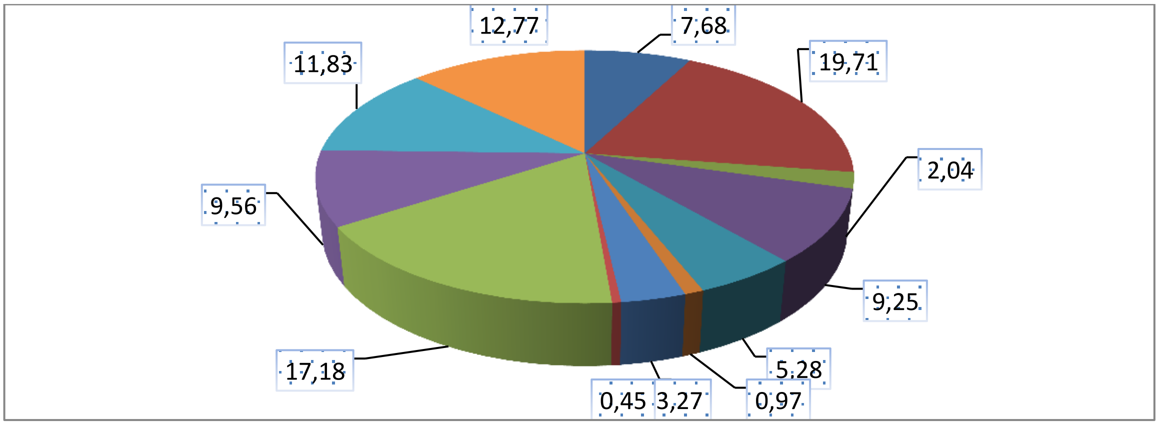
The shares of individual banks in the total deposit portfolio at end-2013 and end-2014 are presented in Charts 2 and 3 below.

Chart 2 Share of banks in total deposits (2,107,443,000 €) as at 31 December 2013



Source: monthly bank reports

Chart 3 Share of banks in total deposits (2.317.256.000 €) as at 31 December 2014



Source: monthly bank reports

While the biggest bank accounted for 23.49% of total deposits in 2013, its share declined in the reporting year to 19.71%.

The second biggest banks reduced its deposit share from 18.01% to 17.18%.

The third bank in the system slightly increased its share in deposits from 12.04% to 12.77%.

Two banks recorded percentage increase in deposit shares in total deposits from 7.75% to 9.25% (1.50% increase) and from 10.44% to 11.83% (1.40% increase), respectively. Other banks retained similar year-on-year deposit levels in 2014.

2.2. Deposits by persons not entitled to the guaranteed deposit payout

Deposits by persons who are not entitled to the guaranteed deposit payout in line with Article 6 paragraph 2 points 1-12 and paragraph 3 points 1 and 2 of the Law are presented in Table 2.

Deposits by persons not entitled to the guaranteed deposit payout amounted to 214,389,000 € as at 31 December 2014, as compared to 225,324,000 € a year before, which is 4.85% decline.

Quarterly data indicate a slight increase in these deposits over Q1, Q2, and Q3, and a decline in Q4 2014 (5.79%), which resulted in the year-on-year decrease indicated in the previous paragraph.

The number of depositors not entitled to the guaranteed deposit payout amounted to 2,227 at end-2014, which is 14.61% more than a year before (1,943).

Table 2 Deposits by persons not entitled to the guaranteed deposit payout, by quarters in 2014 (in 000 €)

	31.12.2013.	31.03.2014.	30.06.2014.	30.09.2014.	31.12.2014.
Deposits by persons not entitled to payout	25,324	226,300	227,869	227.556	214.389
TOTAL DEPOSITS	2,107,443	2,113,561	2,156,969	2.278.449	2.317.256
% share in total deposits	10.69	10.71	10.56	9,99	9,25

***Source: monthly bank reports**

As at 31 December 2014, this category accounted for 9.25% of total deposits. The share of this category in total deposits changed in comparison with end-2013 when it made up 10.69% of total deposits.

Deposits by state bodies and organisations accounted for the main share of depositors that are not entitled to the guaranteed deposit payout (41.53%). The share of deposits by financial institutions made up 5.61%, whereas those by legal persons engaged in insurance business accounted for 17.78%, and deposits by legal persons with either direct or indirect participation in capital or voting rights in the relevant bank of 5% or more made up 19.40%.

The year-on-year percentage decrease of deposits by persons not entitled to the guaranteed deposit payout (of 4.85%) is the result of the following changes in the structure of this category of deposits:

- an increase of 71.48% or 6 million euros in deposits by persons who are members of bank governance bodies and/or standing bodies of the bank management, persons responsible for daily bank operations, managers of organizational units in bank, legal persons holding, whether directly or indirectly, at least 5% share in the bank capital or voting rights, as well as their spouses and children;

- and an increase of 27.23% or 19 million euros in deposits by state bodies and organizations, municipal bodies and organizations and/or other forms of local self-government;

The following categories of deposits by persons not entitled to the guaranteed deposit payout recorded decreases:

- deposits by legal persons engaged in insurance business (a decrease of 22.05% or 10 million euros);

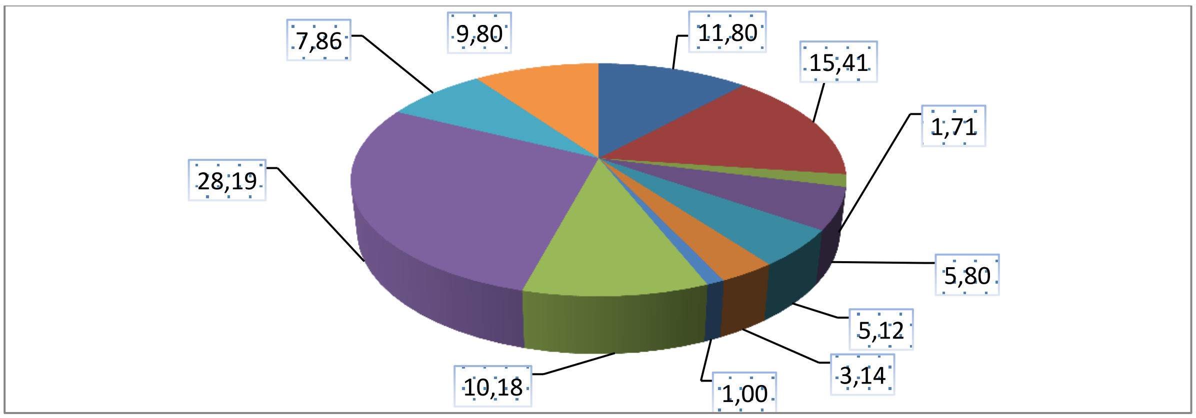
- deposits by Funds for mandatory health, pension and social insurance (a decrease of 55% or 3.3 million euros;

- deposits by banks, credit unions, microcredit financial institutions and persons performing credit and guarantee operations (a decrease of 60.55% or 18 million euros);

- deposits by holders of securities and other financial instruments issued by a bank or which payout is guaranteed by the bank (a decrease of 80.20% or 2.9 million euros).

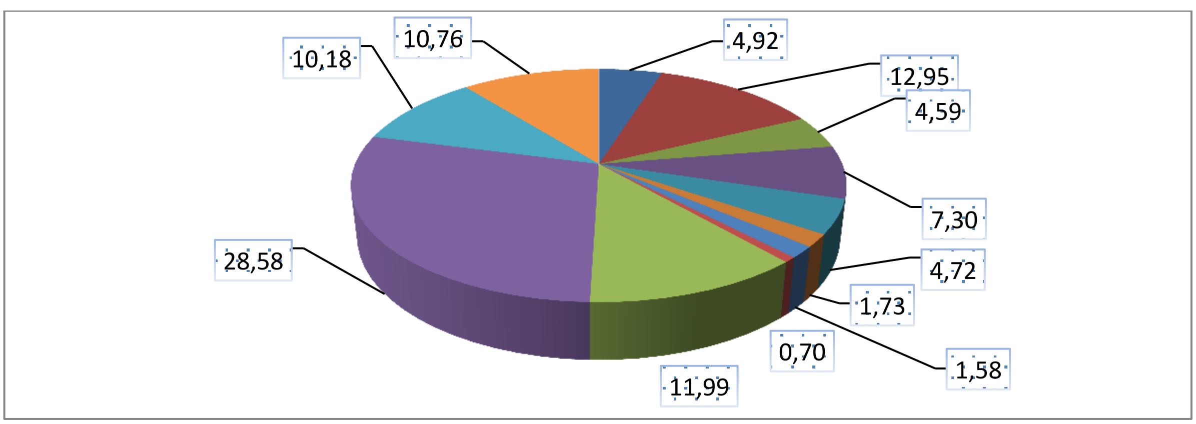
Other categories of deposits by persons not entitled to the guaranteed deposit payout experienced no significant changes at the end of the reporting year as compared to the previous year.

Chart 4. Deposits by persons not entitled to the guaranteed deposit payout, by banks, as at 31 December 2013



****Source: monthly bank reports***

Chart 5. Deposits by persons not entitled to the guaranteed deposit payout, by banks, as at 31 December 2014



****Source: monthly bank reports***

The movement of deposits by entities not entitled to the guaranteed deposit payout has no direct impact on the deposit protection scheme but it is necessary to monitor their trending from the aspect of the total deposits to guaranteed deposits ratio for the purpose of determining the methodology for the calculation of the regular premium rate.

2.3. Deposits by persons entitled to the guaranteed deposit payout

All depositors whose deposits are not excluded within the meaning of Article 6 paragraph 2 points 1-12 and paragraph 3 points 1 and 2 of the Law shall be entitled to the guaranteed deposit payout (Table 3).

Deposits by persons entitled to the guaranteed deposit payout, that is, total deposits by natural and legal persons included in the deposit protection scheme amounted to 2.102.867.000 € as at 31 December 2014, recording the year-on-year increase of 11.73% (1.882.119.000 € as at 31 December 2013).

Deposits by persons entitled to the guaranteed deposit payout rose in Q1 2014 by 0.27% in comparison with Q4 2013. In Q2 2014, these deposits also increased quarter-on-quarter by 2.22%, continuing in the same fashion and increasing 6.31% in Q3. The quarter-on-quarter increase in Q4 2014 amounted to 2.53%.

Table 3. Deposits by persons entitled to the guaranteed deposit payout (in 000 €)

	TOTAL	Natural persons	Legal persons		
	1	2	3	%	%
31.12.2013.	1,882,119	1,217,919	664,200	64.71	35.29
31.03.2014.	1,887,260	1,216,880	670,380	64.48	35.52
30.06.2014.	1,929,100	1,223,095	706,005	63.40	36.60
30.09.2014.	2,050,893	1,277,661	773,232	62.30	37.70
31.12.2014.	2,102,867	1,309,415	793,451	62.27	37.73
31.12.14. / 31.12.13. %	11.73	7.51	19,.6		
31.12.14. – 31.12.13.	220,748	91,497	129,251		

Source: monthly bank reports

Deposits by natural persons accounted for the main share in the structure of deposits by persons entitled to the guaranteed deposit payout. Household deposits made up 62.27% and corporate deposits accounted for 37.73% of total deposits by persons entitled to the guaranteed deposit payout.

The structure of these deposits did not significantly change year-on-year in 2014. Both categories of deposits recorded growth in the reporting period (household deposits increased by 7.52% and corporate deposits rose 19.45%), so an increase of this category of deposits amounted to 11.73% overall.

Table 3.1. Number of depositors entitled to the guaranteed deposit payout

	TOTAL	Natural persons	Legal persons		
	1	2	3	%	%
31.12.2013.	891,522	830,329	61,193	93.14	6.86
31.03.2014.	895,061	833,336	61,725	93.10	6.90
30.06.2014.	900,952	838,070	62,882	93.02	6.98
30.09.2014.	912,996	849,169	63,827	93.01	6.99
31.12.2014	932,105	867,903	64,202	93.11	6.89
31.12.14. / 31.12.13. %	4.55	4.53	4.92		
31.12.14. – 31.12.13.	40,583	37,574	3,009		

Source: monthly bank reports

The total number of depositors entitled to the guaranteed deposit payout increased year-on year to from 891,522 in 2013 to 932,105 in 2014 or 4.55%, whereby the number of natural persons rose 4.53% and legal person increased by 4.92%.

Of 932,105 depositors entitled to the guaranteed deposit payout as at 31 December 2014, 103,818 (1.193 or 1.14% fewer depositor than a year before) have liabilities towards banks higher than their deposits with banks. Table 3.2, column 1 shows the number of depositors whose deposits exceed their liabilities to banks, that is, the number of depositors who would be entitled to the guaranteed deposit payout by the Fund in case of bank failure (828,287 depositors).

Table 3.2. The number of depositors whose deposits[2] exceed their due liabilities to banks

	TOTAL	Natural persons	Legal persons		
	1	2	3	%	%
31.12.2013	*786,511*	*730,147*	*56,364*	*93.13*	*6.87*
31.03.2014	*781,086*	*724,282*	*56,804*	*92.88*	*7.12*
30.06.2014	*795,186*	*737,383*	*57,803*	*92.73*	*7.27*
30.09.2014	*807,506*	*748,512*	*58,994*	*92.72*	*7.28*
31.12.2014	*828,287*	*768,995*	*59,292*	*92.83*	*7.17*
31.12.14 / 31.12.13 %	*5.31*	*5.32*	*5.19*		
31.12.14 – 31.12.13,	*41,776*	*38,848*	*2,928*		

Source: monthly bank reports

The total number of depositors entitled to the guaranteed deposit payout and whose deposits exceed due liabilities (the number of depositors holding guaranteed deposits) recorded year-on-year growth of 5.31% in 2014.

The indicated data show that the increase in depositors is mainly due to risk dispersion, that is, one depositor's holding deposits in several banks (this refers to both natural and legal persons).

2 Guaranteed deposit is established for every individual depositor by reducing matured liabilities of a depositor with a bank, including any accrued interest, from aggregate deposits held by the depositor with that bank as at the protected event (hence the difference in the number of depositors in Table 3.2 and Table 3.1 because a certain number of depositors have due liabilities that exceed their deposits).

2.4. Guaranteed deposits

Guaranteed deposits amounted to 1,063,632,000 € as at 31 December 2014, whereas they totalled 952,047,000 € the year before, thus showing the year-on-year increase in the reporting year of 11.72%.

The enactment of the new Law and the alignment with the new Directive 2009/14/EC provided for an increase of the level of insured deposit from 5,000 € to 50,000 € and reducing the payout deadline from 90 to 20 working days. In Q4 2010 and 2011, the guaranteed deposit amounted to 20,000 €, in 2012 it was 35,000 €, and as of 1 January 2013 it rose to 50,000 €.

Growth of the guaranteed deposits in 2014 was rather uneven observed by quarters. In Q1 they slightly increased (0.24%) in comparison with Q4 2013. The quarter-on-quarter growth in Q2 2014 was 2.04%, and this trend continued both in Q3 and Q4 when guaranteed deposits increased 7.20% and 1.88%, respectively.

On 31 December 2013, guaranteed deposits accounted for 45.18% of total deposits, and at the end of the reporting year they reached 45.90% of total deposits.

Table 4. Share of guaranteed deposits in total deposits in 2014 (000 €)

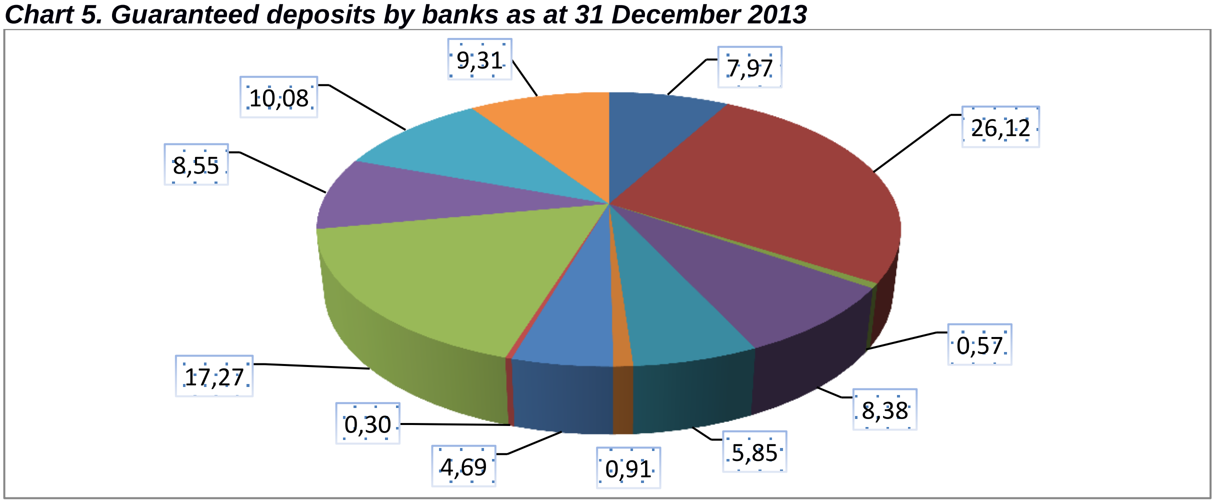
	31.12.2013. GD – 50,000€	31.03.2014. GD – 50,000€	30.06.2014. GD – 50,000€	30.09.2014. GD – 50,000€	31.12.2014. GD – 50,000€
GUARANTEED DEPOSITS	952,047	954,301	973,806	1,043,965	1,063,632
TOTAL DEPOSITS	2,107,443	2,113,561	2,156,969	2,278,449	2,317,256
SHARE OF GD* in TD** %	45.18%	45.15%	45.15%	45.82%	45.90%

Source: monthly bank reports *Guaranteed deposits GD; **Total deposits TD

On 31 December 2014, guaranteed deposits were 111.6 million € higher than the year before.

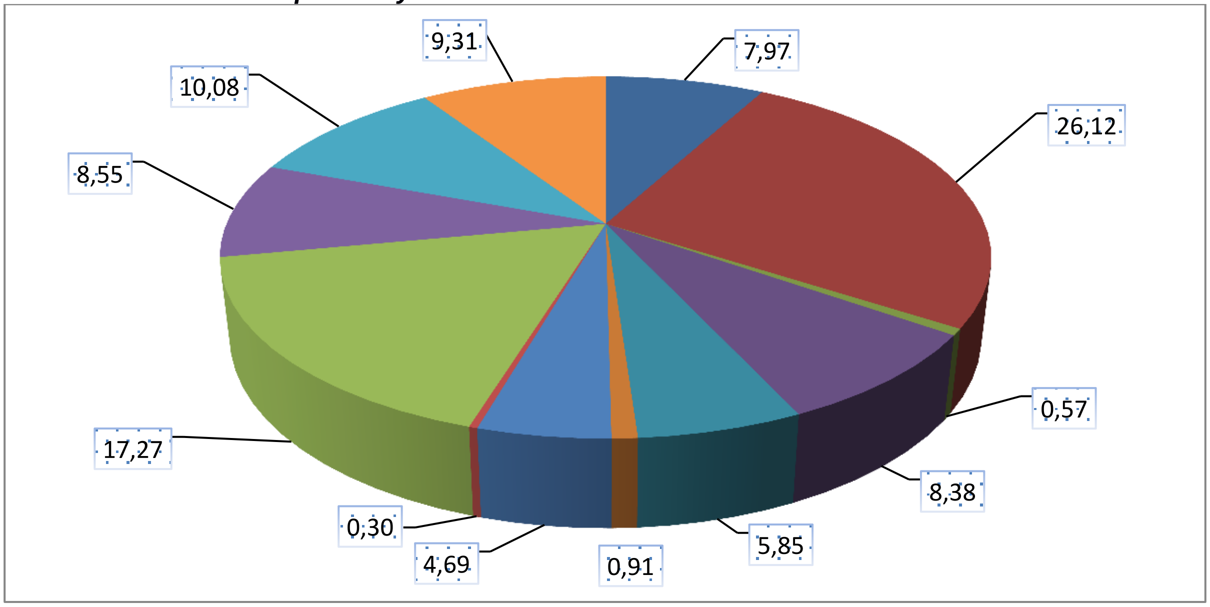
Regardless of their increase during the reporting year, the structure of guaranteed deposits did not significantly change compared to end-2013.

Chart 5. Guaranteed deposits by banks as at 31 December 2013



Source: monthly bank reports

Chart 6. Guaranteed deposits by banks as at 31 December 2014



Source: monthly bank reports

Two banks held 43.39% of total guaranteed deposits, which is the year-on-year decline (from 48.04% at end-2013).

The bank with the highest amount of guaranteed deposits reduced its share in total guaranteed deposits from 29.53% to 26.12%. The second bank in terms of size of guaranteed deposits slightly declined its share in total guaranteed deposits, from 18.51% to 17.27%, whereas the third bank retained its share of 10.08%.

At the end of the reporting period, two banks that held 36.90% of total deposits held 43.39% of guaranteed deposits, which is less than a year before when the had 41.70% of total deposits and 48.04% of guaranteed deposits, which indicates a positive trend in deposit diversification and risk dispersion, respectively.

Table 4.1. Guaranteed deposits (natural and legal persons), 000 €

	TOTAL	Natural persons	Legal persons	NP %	LP %
	1	2	3	4	5
31.12.2013	**952,048**	**812,294**	**139,754**	**85.32**	**14.68**
31.03.2014	**954,301**	**820,147**	**134,154**	**85.94**	**14.06**
30.06.2014	**973,806**	**831,805**	**142,001**	**85.42**	**14,.58**
30.09.2014	**1.,043,965**	**883,447**	**160,518**	**84.62**	**15.38**
31.12.2014	**1,063,632**	**909,734**	**153,898**	**85.53**	**14.47**
31.12.14 / 31.12.13, %	**1.12**	**1.12**	**1.10**		
31.12.14 – 31.12.13	111,584	97,440	14,144		

Source: monthly bank reports

As at 31 December 2014, guaranteed deposits were 11.72% higher (deposits by natural persons by 12.00% and deposits by legal persons by 10.12%) year-on-year.

Table 4.2. Total number of depositors whose deposits exceed their liabilities to bank and who are entitled to the guaranteed deposit payout; and the number of depositors whose guaranteed deposit is below or equals 50,000 €

TOTAL NUMBER OF DEPOSITORS WHOSE DEPOSITS EXCEED THEIR LIABILITES TO BANK AND WHO ARE ENTITLED TO the guaranteed deposit payout (AFTER DEDUCTING DUE LIABILITIES)				NUMBER OF DEPOSITORS HOLDING A DEPOSIT LOWER OR EQUAL TO THE AMOUNT OF GUARANTEED DEPOSIT OF 50,000 €					
	TOTAL	Natural persons	Legal persons	TOTAL	Natural persons	Legal persons	Coverage %	Coverage %	Coverage%
	1	2	3	4	5	6	7	8	9
-							= 4/1	= 5/2	= 6/3
31.12.13	786,511	730,147	56,364	781,001	725,788	55,213	99.30	99.40	97.96
31.03.14	781,086	724,282	56,804	775,558	719,860	55,698	99.29	99.39	98.05
30.06.14	795,186	737,383	57,803	789,586	732,952	56,634	99.30	99.40	97.98
30.09.14	807,506	748,512	58,994	801,414	743,801	57,613	99.25	99.37	97.66
31.12.14	828,287	768,995	59,292	822,128	764,164	57,964	99.26	99.37	97.76

Source: monthly bank reports

The number of depositors holding the guaranteed deposit ≤ 50,000 € at the banking system level amounted to 822,128 (764,164 natural persons – 99.37% of the total number of private depositors entitled to payout; 57,964 legal persons – 97.76% of the total number of legal persons entitled to payout), which made up 99.26% deducting of the total number of depositors entitled to the guaranteed deposit payout. They accounted for 36.38% of total eposits by depositors entitled to the guaranteed deposit payout after deducing their due liabilities.

The number of depositors holding guaranteed deposits >50,000 € amounted to 6,159, of which 4,831 were natural persons (or 0.62% of the total number of entitled depositors) and 1,328 legal persons (2.23%), which accounted for 0.74% of the total number of entitled depositors whose deposits exceed their liabilities (Table 4.3).

Total deposits by natural persons entitled to the guaranteed deposit payout after the deduction of their liabilities amounted to 1,296,148,829€ as at 31 December 2014, of which 668,184,603 € or 50.94% were guaranteed deposits ≤ 50.000€.

At the same time, total deposits by legal persons entitled to the guaranteed deposit payout after the deduction of their liabilities amounted to 765,075,631€, of which 87,497,830€ or 11.44% were guaranteed deposits ≤ 50.000 €.

Total deposits by persons entitled to the guaranteed deposit payout after the deduction of due liabilities amounted to 2,061,224,460€ as at 31 December 2014, of which 755,682,433€ or 36.38% were guaranteed deposits ≤ 50.000 €.

Table 4.3. Guaranteed deposits (natural and legal persons), 000 €

	As at: 31.12.2014	Amount	No, of depositors	Due liabilities	Balance	No. of depositors holding GD	% of coverage
	Deposits	**A**	**B**	**C**	**D**	**E**	
I	**Deposits by persons entitled to the guaranteed deposit payout (legal and natural = 1 + 3)**	***2,102,867***	***932,105***	***347,038***	***2,061,224***	***828.,287***	
1	**Deposits by natural persons entitled to the guaranteed deposit payout**	***1,309,415***	***867,903***	***171,146***	***1,296,149***	***768,995***	
1a	Deposits by natural persons ≤50.000€	679,564	863,006	169,911	668,184	764,164	**99.37%**
1b	Deposits by natural persons >50.000 ≤100.000€	209,854	3,217	474	209,127	3,172	
1c	Deposits by natural persons >100.000€	419,997	1,680	761	418,837	1,659	
2	**GUARANTEED DEPOSITS BY NATURAL PERSONS**				***909,734***	***768,995***	
3	**Deposits by legal persons entitled to the guaranteed deposit payout**	***793,451***	***64,202***	***175,892***	***765,076***	***59,292***	
3a	Deposits by legal persons ≤50.000€	91,897	62,732	138,303	87,498	57,964	**97.76%**
3b	Deposits by legal persons >50.000 ≤100.000€	42,203	600	8,781	39,933	543	
3c	Deposits by legal persons >100.000€	659,351	870	28,807	637,644	785	
4	**GUARANTEED DEPOSITS BY LEGAL PERSONS**				***153,898***	***59,292***	
5	**GUARANTEED DEPOSITS (2+4)**				***1,063,632***	***828,287***	**99.30%**

Source: monthly bank reports

An average amount of the guaranteed deposit amounted to 1,284€ as at 31 December 2014, which is 6.11% more than the year before (1,210 €).

An average amount of the guaranteed deposit by a legal person amounted to 2,595€ at end-2014, which is the year-on-year growth of 4.7% (2,479 € in 2013).

An average amount of the guaranteed deposit by a natural person amounted to 1,183€ or 6.29% more that at end-2013 (1,113 €).

3. EXPOSURE OF THE FUND TO BANKS

Total exposure of the Fund to banks is represented with the coverage ratio, i.e. the Fund`s assets/Fund's liabilities ratio in case of a hypothetical bankruptcy of all banks.

The Fund's assets amounted to 56,322,263€ as at 31 December 2014, and the guaranteed deposits totalled 1,063,632,433€.

The coverage ratio is the internationally recognized ratio for the measurement and indication of the degree of coverage of guaranteed deposits. The coverage of guaranteed deposits with the Fund's assets at the aggregate level amounted to 5.30% (for the guaranteed deposit ≤ 50.000 €), whereas it totalled 4.81% in 2013.

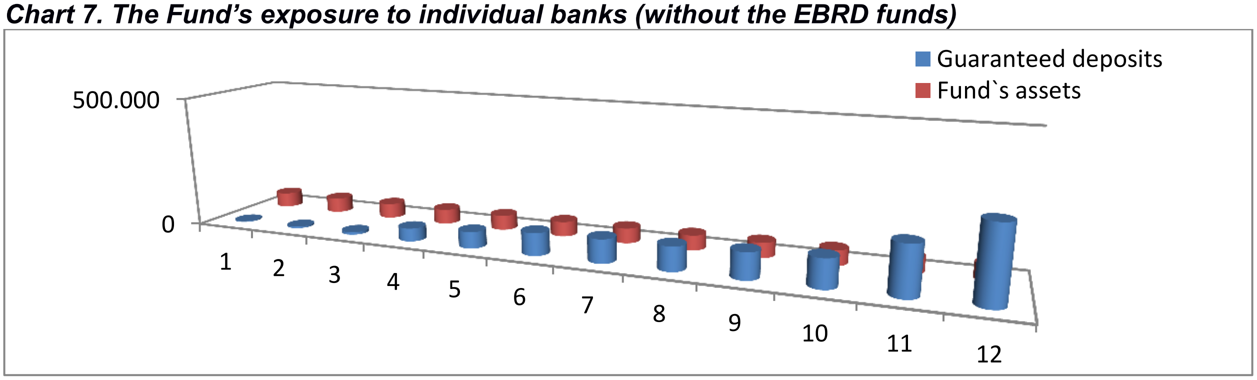
The Fund's exposure to individual banks (the Fund's assets to the guaranteed deposits in one bank – the coverage of guaranteed deposits by the bank) is presented in Table 5 and Chart 7 below.

Table 5. Coverage of guaranteed deposits with the Fund's assets (000 €)

BANKS	GUARANTEED DEPOSITS	FUND`S ASSETS	Coverage (%)	FUND`S ASSETS WITH EBRD FUNDS	Coverage[3] (%)	Lacking funds 1	Lacking funds 2
1	2	3	4	5	6	7	8
			3/2		5/2	3 - 2	5 -2
1	3,178	56,322	1.772.03	86,322	2.715.91	53,144	83,144
2	6,084	56,322	925.69	86,322	1.418.76	50,238	80,238
3	9,669	56,322	582.48	86,322	892.74	46,653	76,653
4	49,834	56,322	113.02	86,322	173.22	6,488	36,488
5	62,239	56,322	90.49	86,322	138.69	-5,917	24,083
6	84,736	56,322	66.47	86,322	101.87	-28,414	1,586
7	89,174	56,322	63.16	86,322	96.80	-32,852	-2,852
8	90,899	56,322	61.96	86,322	94.97	-34,577	-4,577
9	99,058	56,322	56.86	86,322	87.14	-42,736	-12,736
10	107,228	56,322	52.53	86,322	80.50	-50,906	-20,906
11	183,673	56,322	30.66	86,322	47.00	-127,351	-97,351
12	277,860	56,322	20.27	86,322	31.07	-221,538	-191,538
UKUPNO	1,063,632	56,322	5.30	86,322	8.12		

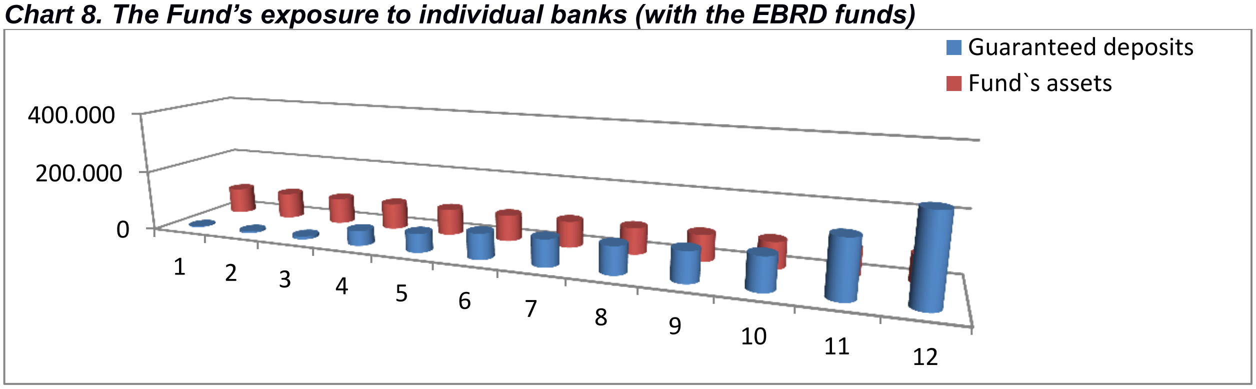
****Source: monthly bank reports and the Fund`s bookkeeping***

Chart 7. The Fund's exposure to individual banks (without the EBRD funds)



****Source: monthly bank reports and the Fund`s bookkeeping***

Chart 8. The Fund's exposure to individual banks (with the EBRD funds)



****Source: monthly bank reports and the Fund`s bookkeeping***

3 Calculated resources of the Fund with the donation and credit of 30.0 million € from the EBRD.

In case of introduction of bankruptcy in any of the 8 banks, the Fund`s assets (total of 56.3 million € at end-2014) and funds provided from the Stand-by arrangement with the EBRD (30 million €) would be sufficient for the compensation of all depositors in any of the 8 banks (of the eight indicated banks, two have a shortfall in funds of 2.5-4.5 million € that are at the Fund`s disposal already from the first regular premium instalment for 2015, as presented in Chart 8).

In case of bankruptcy in one of the three biggest banks, the lacking funds in the biggest bank would total to 191 million €, the second biggest bank would have a 97 million € shortfall, and the third bank would need 21 million € (Table 5). The shortfalls by the bank in 2014 are almost the same as in 2013.

The Fund would provide the shortfall from additional sources in one of the manner prescribed in the Law (charging the extraordinary premium; borrowing from the Budget of Montenegro; taking loans from foreign banks and financial institutions; and issuing securities; or a combination of two or more of the listed sources).

At end-2014, guaranteed deposits in 12 banks in the system amounted to 1,063,632,433 €, whereas the Fund`s resources totalled 56,322,263 €. The coverage ratio was 5.30%. Pursuant to the Law, the aimed coverage ratio is 10% of the guaranteed deposits. When the Fund's resources reach the level of 10% of the guaranteed deposits, the Managing Board may pass a decision on reducing the regular premium rate and/or temporary discontinuation of the regular premium collection.

In 2010, the Fund signed the Loan Agreement with the EBRD regulating the withdrawal of 30 million € over seven years for the purpose of guaranteed deposits payout. Thus the EBRD provides the coverage ratio of 8.12% through the stand-by arrangement (to be used solely in case of a bank bankruptcy) (Table 6).

Table 6. Coverage ratio for guaranteed deposits in the system

Guaranteed deposits as at 31.12.2014	Fund's resources as at 31.12.2014	% of coverage of guaranteed deposits
1	**2**	**2/1**
1,063,632,433	**56,322,263**[4]	**5.30%**
1,063,632,433	**86,322,263**[5]	**8.12 %**

Source: monthly bank reports and the Fund`s bookkeeping

4. ACTIVITIES OF THE FUND IN 2014

4.1. General remarks

Activities of the Fund over the reporting period were carried out in accordance with planned obligations set out in the Fund's Work programme for 2014 and which resulted from regular obligations, implementation of the new Law, and novelties in deposit insurance schemes.

The main activities of the Fund referred to the obligations from regular operations, obligations related to the alignment of the deposit guarantee principle with the applicable

4 The Fund's resources (from the premium, donations, and the Fund's operating income)

5 The Fund`s resources increased by funds provided via the EBRD loan (30 million €)

European principles, and the contractual obligations to the EBRD, with a view to achieving the set priorities:

- Improvement of the Fund's capacity in terms of :

    a) Acquisition and installation of new hardware and software for the payout of guaranteed deposits, as well as the training of employees for their use through the "protected event" simulation exercise using realistic data of one of the banks in the system;
    b) Education and training of employees in the Fund and banks aimed at the improvement of the deposit protection system;
    c) Timely and comprehensive information to the public on the deposit protection scheme – promotion of deposit insurance.

Considering that the basic function of the Fund is to act as a pay-box, the Fund is the payer of guaranteed deposits and this requires ongoing coordination between the Fund and the CBCG, and between the Fund and the MF.

At the same time, the Fund is involved in ongoing monitoring and improvement of the National Contingency Plan, as well as in active participation in meetings of the working group for Chapter 9 – Financial services in Montenegro's EU accession negotiations.

a) In Q3 2014, software for guaranteed deposit payout was installed; it had been prepared on the basis of the guaranteed deposit payout experience in the region and in accordance with changes in deposit insurance schemes. After the installation, IT professionals from the CBCG and "Dialogue" (software supplier) assisted in the "protected event" simulation exercise based on actual data from one bank in the system. The exercise aimed at considering the revision of the applicable regulations governing guaranteed deposit payout, training of the Fund employees and their better preparedness for potential protected event occurrence. It was concluded that similar simulation exercises are to be carried out in 2015 as well.
b) Training of staff is carried out on continuous basis either in the form of internal workshops or the participation of the Fund's representatives in international workshops organized by the EFDI and the IADI. As a part of activities on the education of bank tellers and PR managers in banks, the Fund has been organizing workshops to make bank staff familiar with the system of deposit insurance in Montenegro. The activities particularly focused on the training of employees in the agent bank in the use of the new software for the guaranteed deposit payout.
c) During the reporting year, the Fund also paid particular attention to the marketing campaign. In accordance with the highest transparency standards, the public was timely informed about the Fund's activities, objectives, and results via web presentations and media appearances. The main objective is to properly inform the public on ongoing basis on the deposit protection scheme, and thus the Fund contributes to growing confidence of depositors in stability of the banking system of Montenegro.

The promotion of positive aspects of the deposit insurance scheme was realized via campaigns carried out in the period 8 June – 13 July 2014 and 15 December 2014 - 15 January 2015. Through press releases, appearances in educational shows, press and radio interviews, the Fund informed the public on its role in preserving stability of the banking and financial systems and significantly contributed to the depositors` confidence in banks.

A brochure, which explains the mission of the Fund and the basic concepts of the guaranteed deposit, depositors' rights, and the manner of compensation of the guaranteed deposits in a simple and understandable way, was distributed to the public through the print media in the last quarter of 2014. The brochure, along with posters and stickers (which banks are obliged to display in their premises, in accordance with the Law), was distributed to all banks in order to comply with the Rulebook on notification of depositors and make it available to all bank customers.

Analysis of deposit trending is an ongoing task Fund. With a view to obtaining accurate information about the situation in the banking system, the Fund exchanged information with the Central Bank of Montenegro. On the basis of the analysis of deposits movement, the Fund prepared scenarios and made analysis of the Fund's exposure in relation to the amount of the guaranteed deposit.

4.2. Investment activities and accounting in 2014

The Fund invested its assets in 2014 in accordance with its Investment Policy, the Asset Management Agreement with the CBCG (dated 4 May 2012), and the financial situation in the world market.

Through asset management (CGCB) and in line with the Investment Policy, the Fund invested its available assets in time and overnight deposits. The Fund independently invested a part of deposits (20% of total assets) in debt securities issued by the CBCG on behalf of the MF of Montenegro.

Considering the restrictions prescribed by the Law, the Fund's By-Law and Investment Policy, the Fund may invest in:

1) securities issued or guaranteed by Montenegro;

2) securities issued by a foreign bank, a financial institution and/or a country holding a high rating assigned by an internationally recognized rating agency;

3) deposits in central banks and foreign banks holding high ratings assigned by an internationally recognized rating agency.

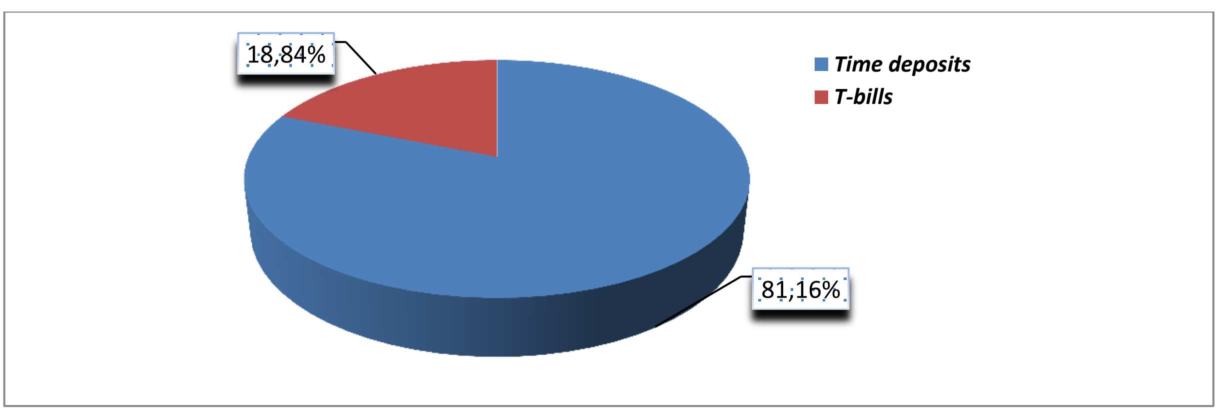
During 2014, the CBCG invested the Fund's assets in three-month time deposits with renowned commercial banks holding high credit ratings.

Average interest received by the Fund on the account of time deposits in H1 and H2 2014 amounted to 0.22959% and 0.14083%, respectively.

Offered and accepted rates of return for investments in 182-day T-bills ranged from 1.20 to 3.20% and from 0.30% to 1.80% in H1 and H2, respectively.

The structure of the Fund's total assets is illustrated in Chart 9.

Chart 9.Structure of the Fund's total assets as at 31.12.2014



The reporting period was characterized by low interest rates in the financial market that ranged between 6bp and 20bp, which resulted in rather unfavourable total results measured by interest income.

In line with the prescribed obligation, the Fund hired the tender winning audit firm “Deloitte” d.o.o Podgorica to audit its 2014 annual accounts and financial statements.

The Fund independently performs its financial and accounting operations and prepares financial statements for every business year. On the basis of bookkeeping data, information and overviews were prepared with a view to monitoring the implementation of the Fund’s Financial Plan that was the subject of regular reporting to the MB.

4.3. Normative – legal activities

After the enactment of the new Law, the main activities of the Fund were aimed at the harmonisation of the current internal regulations with the Law.

The MB of the Fund adopted the following normative acts in 2014:

- Decision on the adoption of the Annual financial statements of the Deposit Protection Fund for 2013;
- Decision on the regular premium calculation rate and the method of the regular premium calculation in 2015 (the Managing Board decided that the regular premium rate in 2015 shall be 0.50% of total deposits in banks (same as in 2014));
- Decision on amendments to the By-law of the Deposit Protection Fund.

During the reporting year, the Fund’s MB discussed and adopted:

- The Annual activity report of the Fund for 2013 (submitted to the CBCG for adoption, and to the Government and the Parliament for information);
- Financial statements of the Fund for 2013 (prepared in line with the IAS, adopted by the Fund’s MB, and submitted to the CBCG, the Parliament, and the Government);
- External auditor report for 2013 was considered by the Fund. The report was prepared by the audit firm “Deloitte” d.o.o. Podgorica. The opinion of the independent external auditor is that “the financial statements fairly and accurately present the position of the Fund and they have been prepared in accordance with the laws of Montenegro and the IAS”);
- Financial plan of the Fund for 2015;

At the same time, in addition to the aforesaid reports, the MB also considered monthly and quarterly reports on deposit trending in the banking system, the position of the Fund’s assets, the fulfilment of planned activities, and investments..

4.4. Managing Board Activities

Members of the Fund’s MB in the reporting year were:

- Dr. Velibor Milošević, Chairman (CBCG Vice-governor);
- Bojana Bošković, member (Assistant Minister of Finance);
- Prof. Dr. Marko Backović, member (professor at the Faculty of Economics in Belgrade).

The MB held nine meetings in 2014.

4.5. Human Resources

Position	Qualifications
Director General	B. Sc. Econ
Adviser to Director General	B. Sc. Econ
Secretary	B.Sc. Law
Adviser on deposit insurance	B. Sc. Econ
Adviser on deposit insurance	B. Sc. Econ
IT officer	B. Sc. IT
Accountant	economist

As at 31 December 2014, the Fund had seven employees (six in 2013).

In 2014, the Fund ensured both general and professional training of its employees. The participation in seminars organised by international associations allows the employees to be up to date with changes in the deposit insurance schemes and to apply the best EU practices.

4.6. International Cooperation

As a full-fledged member of the European Forum of Deposit Insurers (EFDI), which is an association of European deposit insurance funds on a voluntary basis enabling the exchange of ideas and experiences in deposit insurance in Europe, the Fund attended the seminars and participated in working activities organised by this association in 2014. Representatives of the Fund used these opportunities to make contacts and share experiences in the drafting of secondary legislation aimed at its alignment with the Directive 2014/49/EC. At the same time, representatives of the Fund actively participated in surveys used as the main guidelines for the improvement of deposit guarantee schemes, on the basis of experiences of all EFDI members.

The Fund participated in the EFDI annual conference held in September 2014 in Bucharest, Romania. Representatives of all deposit insurance funds in Europe attended the conference. The main topic was “DGSs in a New Regulatory Environment”, and the following panels discussed the topics of “Challenges for DGSs”, “Driving towards a Nee Banking Environment”, Financing of Deposit Guarantee Schemes”.

At the beginning of the reporting year, the Fund became a full-fledged member of the International Agency pf Deposit Insurers (IADI) with a view to sharing experiences and actively participating in analyses used for the establishment of new deposit insurance frameworks. Representatives of the Fund participated in the annual IADI conference whereat they presented the Montenegrin deposit insurance scheme. The main topic of the conference was “Updated Core Principles to Strengthen the Financial Stability Architecture”.

During the reporting year, the Fund had active cooperation with the EFDI and IADI members to share experiences and views with regard to the compensation of guaranteed deposits in the shortest possible time.

5. FINANCIAL OPERATIONS OF THE DEPOSIT PROTECTION FUND IN 2014[6]

STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT)

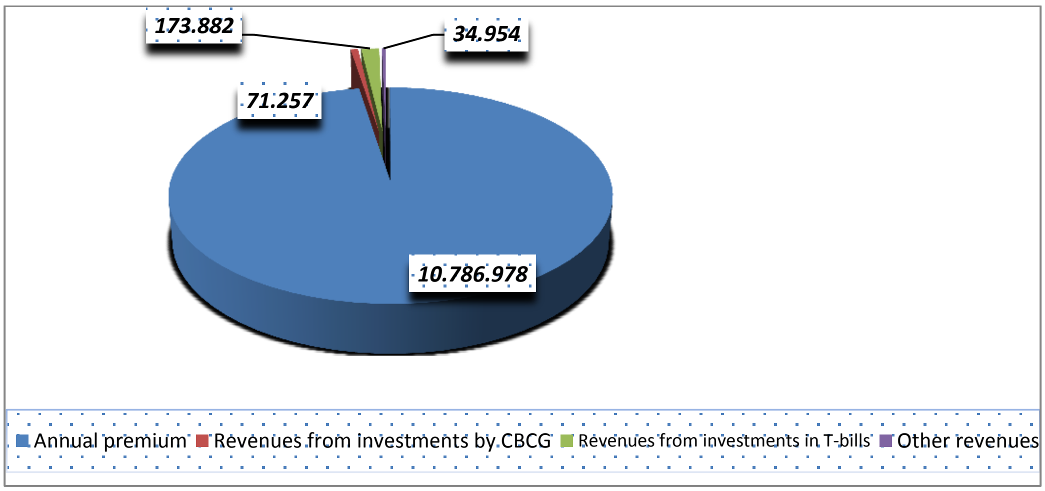
5.1.1. THE FUND`S INCOME

The Fund's income amounted to **11,067,071 €** in 2014, exceeding the plan for the reporting year by 4.81% and being 13.74% higher year-on-year.

The income consists of two main groups of income:

- revenues *from premium and*
- *financial and other income.*

Chart 8. Structure of total income in the period January – December 2014



Source: Bookkeeping of the Fund

5.1.1.1. The most significant income item is **revenues from premium** and they accounted for 97.48% of total income. The income plan envisages the annual premium in the amount of 10,250,000€, yet billed and collected premium in 2014 amounted **10,786,978 €** or 5.25% more than planned and 15.80% more than in 2013.
The increase in these revenues is a result of the increased premium base, that is, the premium for 2014 was planned on the basis of total deposits of 2.1 billion euros, but this category of deposits amounted to 2.3 billion euros in Q3 and Q4 2014.

5.1.1.2. Financial income amounted to **279,291 €** and it was 32.67% lower than in the previous year and 9.00% lower than planned. This income covers:

- *Revenues from the Fund's investments*
- *Other revenues*

[6] Overview of income and expenditure in 2013 and 2014 and the plan of income and expenditure for 2014 are given in the Annex hereto

5.1.1.2.1. *Revenues from the Fund's investments* amounted to **245,139 €** or 20.15% less than planned and 11.62% less year-on-year, accounting for 2.2% of total income.

5.1.1.2.2. *Other revenues* totalled **34,954 €** and they made up 12.51% of financial income in the reporting year, and they were 74.63% lower than in 2013. These revenues accounted for 0.32% of total income, with the breakdown as follows:

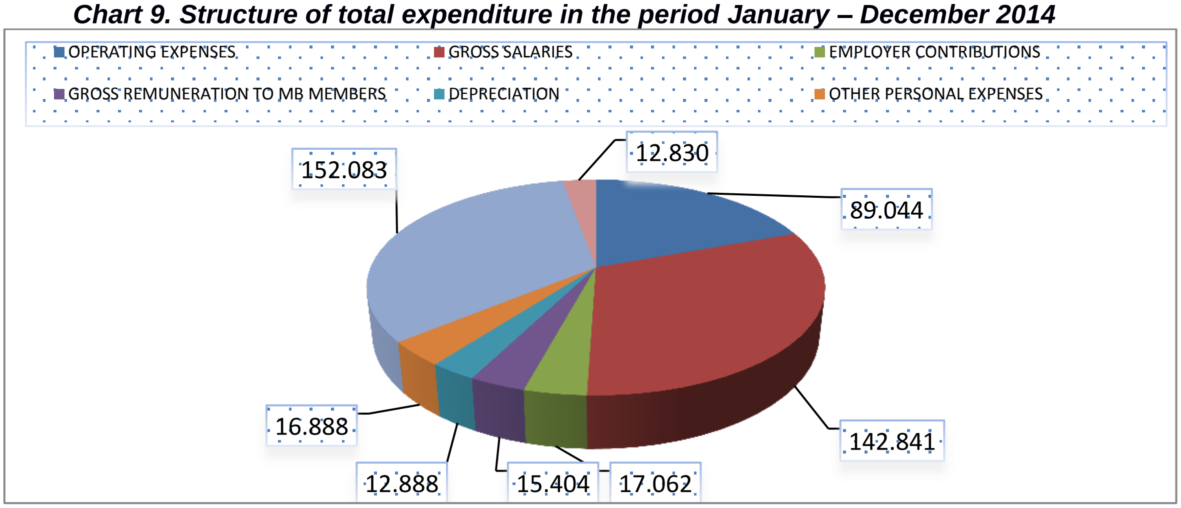
a)	Revenues from fines and penalties imposed by the CBCG	34,152 €
b)	Revenues from purchased tender documents and reduced liabilities	105€
c)	Revenues from donated fixed assets	697€

5.1.2. <u>THE FUND`S EXPENDITURE</u>

Total expenditure reached **459,040€,** being 7.13% lower than planned but 9.52% higher year-on-year. Total expenditure is classified in two main groups:

- *financial expenses and*
- *operating expenses.*

Chart 9. Structure of total expenditure in the period January – December 2014



**** Source: The Fund`s bookkeeping information***

5.1.2.1. *Financial expenses* cover interest payables for the EBRD loan in the amount of **152,083 €** and they accounted for 33.13% of total expenditure.

5.1.2.2. *Operating expenses* amounted to **306,957 €** or 14.94% more than in 2013 yet 10.19% less than planned for the reporting year.

Operating expenses involved:

- *Cost of material and fuel and energy;*
- *Cost of salaries, fringe benefits, and other personal expenses;*
- *Depreciation;*
- *Other operating expenses.*

5.1.2.2.1. *Cost of material and fuel and energy (cost of lease and maintenance of commercial premises, cost of office supply, cost of fuel) amounted to* **12,830 €** *and they exceeded that in the previous year by 48.74%, but they were 1.82% lower than planned for the reporting year.*

5.1.2.2.2. *Cost of salaries, fringe benefits, and other personal expenses totalled* **192,195 €** *or 4.29% less than in 2013 and 12.88% less than planned for the reporting year.*

- *Gross salaries amounted to* **142,841 €** *and they were 4.26% higher year-on-year and they exceeded the plan for 2014 by 1.10% because of a new employee hired in Q3.*
- *Net salaries amounted to* **90.303 €** *and they were 3.58% and 0.45% higher than in the previous year and the plan for the reporting year.*
- *Gross remunerations to the MB members amounted to* **15,404 €** and *they were 0.47% lower year-on-year and 56.61% below the plan.*
- *Daily allowances, business travel and accommodation expenses reached* **13,511 €** *(daily allowances 2,265 €; travel expenses 7,760 €; accommodation expenses 3,486 €) and they were 12.87% higher than in the previous year and 42.56% lower than planned for 2014.*

5.1.2.2.3. *Depreciation was calculated in the amount of* **12,888 €** *or 61.10% more than planned or two times more than in the previous year. These expenses accounted for 2.72% of total expenditure.*

5.1.2.2.4. *Other operating expenses totalled* ***89,044 €*** *or 88.87% of the planned for the reporting year, and they were 66.25% higher than in the previous year.*

- *Cost of advertising and promotional material had been planned in the amount of 36,000 €, and the amount spent was* **30,203 €** or *83.90% of the plan. These costs were 1.81% higher year-on-year and 16.10% lower than planned.*
- *Costs of professional services covered the external audit of financial statements, and education and training and they were 80.04% higher than in the previous year, and 21.91% lower than planned.*
- *Costs of representation reached* **4,338 €** *or 86.76% of the plan for the reporting year and they were 11.03% higher than in the previous.*
- *Cost of membership fees in the international associations amounted to* **22,010 €** *and it was 22.00% higher than planned.*
- *Cost of postal and payment system services, and other business expenses totalled* **14,923 €** *or 79.80% of the planned for 2014, and they were 45.91% higher year-on-year.*

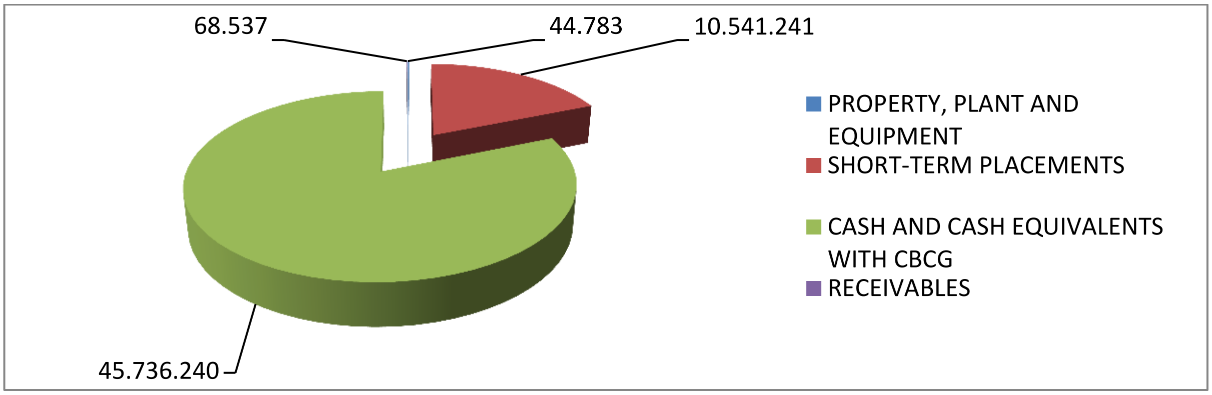
The Fund's **business result** in 2014 amounted to **10,481,218 €,** whereas the financial result is **127,267 €.** Total net result amounted to **10,608,031 €** or 5.40% more than planned or 13.93% more year-on-year.

5.2 STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

Total assets and liabilities of the Fund amounted to **56,390,801 €** as at 31 December 2014**.**

The year-on-year increase in assets and liabilities of **10,582,333 €** or 23.10% in 2014 was primarily due to undistributed profit in 2013.

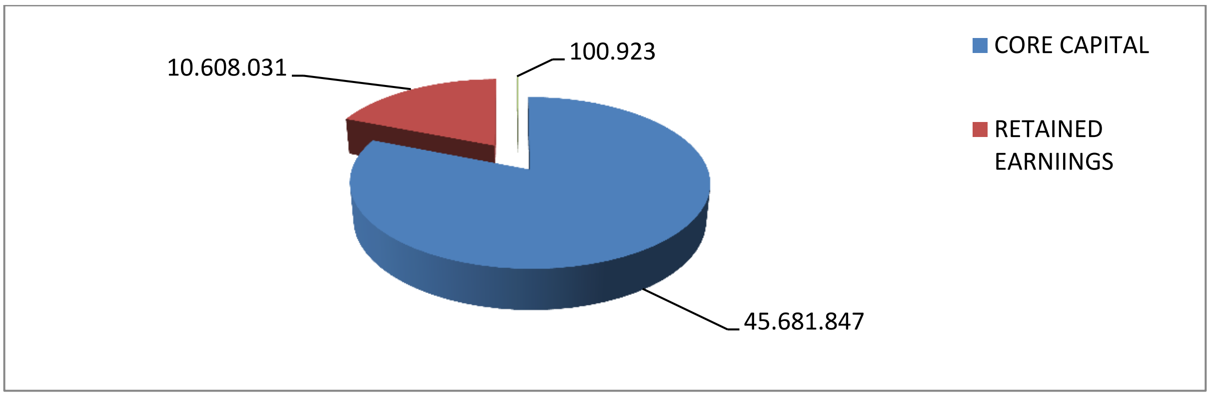
Chart 10. Structure of balance sheet assets as at 31 December 2014



Source: Fund's bookkeeping

In the structure of total assets, equipment accounted for 0.12%, 0.08% was receivables, 18.69% were investments in T-bills, and 81.11% were funds invested with the CBCG.

Chart 11. Structure of balance sheet liabilities as at 31 December 2014



Source: Fund's bookkeeping

In the structure of total liabilities, core capital made up 81.01%, retained earnings accounted for 18.81%, whereas short-term reserves[7] made up 0.18%.

STATEMENT OF CHANGES IN EQUITY

The balance of capital was **56,289,878 €** as at 31 December 2014, which is 23.22% more than in the previous year.

At the same time, investments in T-bills amounted to 10,541,241 € (7,138,797 € in 2013) with the following maturity dates:

a) 14.01. 2015, interest rate of 1.20% (1,987,940€);
b) 24.02.2015, interest rate of 1.10% (3,977,879€);
c) 24.02.2015, interest rate of 1.20% (3,876,482€);
d) 24.06.2015, interest rate of 0.30% (698,940€);

7 This amount represents payables to suppliers, interest payables to the EBRD, accrued income for technical assistance of the CBCG, and donation of fixed assets.

6. OBJECTIVES AND TASKS OF THE FUND IN 2015

The Fund's ongoing tasks involve the monitoring of deposit trending in banks, the premium collections, and investment of collected funds.

As Montenegro opened EU accession negotiations with the European Commission in 2012, the Fund has made its capacities available to the negotiating mission over the past two years (and this will continue in 2015) in the part related to Chapter 9 – Financial services that also covers deposit guarantee schemes and investor protection.

Improvement of the institutional capacity of the Fund for the purpose of timely intervention at the moment of a "protected event" occurrence is also a constant task of the Fund. In order to achieve greater capacity for efficient and rapid compensation of the guaranteed deposits, and considering that the equipment has been innovated, the Fund will perform the "protected event" exercise to test real data with several banks from the system.

7. EVENTS FOLLOWING THE REPORTING PERIOD

In accordance with the Law and its powers, the Managing Board decided to announce a public competition for the appointment of the Director General of the Fund, carried out the procedure, and adopted the Decision on the appointment of the Director General of the Fund.

Pursuant to the Law, the Managing Board may, in accordance with the risk profile of an individual bank and in line with the specifically established methodology, determine different rates for the regular premium calculation (differential premiums). Accordingly, with a view to aligning with the Directive 2014/49/EC, the Fund will pay particular attention to drafting a methodology for the establishment of the differential rate for the regular premium calculation.

In accordance with Directives 2014/35/EU and 2014/59/EU, it is planned that the working group within the Fund (in cooperation with representatives of international institutions and the FSAP mission, and taking into account the features of the financial system of Montenegro) will prepare the methodology for the differential premium calculation in 2015 on the basis of preliminary Guidelines issued by the European Banking Authority (EBA).

This will ensure the highest possible degree of compliance with European and international practices whilst taking into account the level of development of the Montenegrin financial system.

According to the plan of the FSAP mission that is comprised of the IMF and WB representatives, a compliance assessment of the Law with European practice and the Core Principles for Efficient Deposit Insurance Systems will be performed to suggest possible future steps of the Fund to be taken towards further compliance.

ANNEX 1 Income and expenditure in 2014 as compared to 2013 and the plan for 2014

	DESCRIPTION	2013	2014	PLAN 2014	INDEX 4/3	INDEX 4/5
1	2	3	4	5	6	7
A.	**TOTAL INCOME**	**9,730,299**	**11,067,071**	**10,559,150**	**1.14**	**1.05**
A.1.	**OPERATING INCOME**	**9,315,380**	**10,787,675**	**10,250,000**	**1.16**	**1.05**
A.1.1.	*PREMIUM*	*9,315,125*	*10,786,978*	*10,250,000*	*1.16*	*1.05*
A.1.2.	*OTHER*	*255*	*697*		*2.73*	
A.2.	**FINANCIAL INCOME**	**414,779**	**279,291**	**307,000**	**0.67**	**0.91**
A.2.1.	*Interest on time deposits*	*28,011*	*71,257*	*27,000*	*2.54*	*2.64*
A.2.2.	*Interest on T-bills*	*249,350*	*173,882*	*280,000*	*0.70*	*0.62*
A.2.3.	*Fines and penalties*	*137,418*	*34,152*		*0.25*	
A.3.	***Other***	***140***	***105***	***2,150***	***0.75***	***0.05***
B.	**TOTAL EXPENDITURE**	**419,152**	**459,040**	**494,300**	**1.10**	**0.93**
B.1.	**OPERATING EXPENSES**	**267,069**	**306,957**	**341,800**	**1.15**	**0.90**
B.1.1.	***Cost of material and energy***	***8,626***	***12,830***	***13,000***	***1.49***	***0.99***
B.1.1.1.	*Cost of office supply*	*618*	*1,507*	*1,500*	*2.44*	*1.00*
B.1.1.2.	*Cost of fuel, water, energy, maintenance*	*8,008*	*11,323*	*11,500*	*1.41*	*0.98*
B.1.2.	***SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES***	***200,813***	***192,195***	***220,600***	***0.96***	***0.87***
B.1.2.1.	**Gross wages and salaries**	**137,000**	**142,841**	**141,283**	**1.04**	**1.01**
B.1.2.1.1.	*Net salary*	*87,179*	*90,303*	*89,897*	*1.04*	*1.00*
B.1.2.1.2.	*Taxes*	*16,941*	*18,160*	*17,321*	*1.07*	*1.05*
B.1.2.1.3.	*Contributions*	*32,880*	*34,378*	*34,065*	*1.05*	*1.01*
B.1.2.2.	***EMPLOYER CONTRIBUTIONS***	***16,253***	***17,061***	***16,817***	***1.05***	***1.01***
B.1.2.3.	***REMUNERATION TO MB MEMBERS***	***15,476***	***15,404***	***35,500***	***1.00***	***0.43***
B.1.2.3.1.	*Net remuneration to MB members*	*11,562*	*11,508*	*26,698*	*1.00*	*0.43*
B.1.2.3.2.	*Taxes*	*1,393*	*1,386*	*5,176*	*0.99*	*0.27*
B.1.2.3.3.	*Contributions*	*2,521*	*2,510*	*3,626*	*1.00*	*0.69*
B.1.2.4.	***OTHER PERSONAL EXPENSES***	***32,084***	***16,889***	***27,000***	***0.53***	***0.63***
B.1.2.4.1.	*Assistance to employees*	*18,833*	*1,660*	*5,000*	*0.09*	*0.33*
B.1.2.4.2.	*Service contracts*	*1,281*	*1,718*	*2,000*	*1.34*	*0.86*
B.1.2.4.3.	*Daily allowances*	*1,798*	*2,265*	*4,500*	*1.26*	*0.50*
B.1.2.4.4.	*Business travel transport*	*6,235*	*7,760*	*8,500*	*1.24*	*0.91*
B.1.2.4.5.	*Business travel accommodation*	*3,937*	*3,486*	*7,000*	*0.89*	*0.50*
B.2.	***DEPRECIATION***	***4,070***	***12,888***	***8,000***	***3.17***	***1.61***
B.3.	***OTHER OPERATING EXPENSES***	***53,560***	***89,044***	***100,200***	***1.66***	***0.89***
B.3.1.	***Cost of advertising and promotion***	***29,667***	***30,203***	***36,000***	***1.02***	***0.84***
B.3.2.	***Cost of professional services***	***9,759***	***17,570***	***22,500***	***1.80***	***0.78***
B.3.2.1.	*Audit*	*7,669*	*4,082*	*6,000*	*0.53*	*0.68*
B.3.2.2.	*Education and training*	*2,090*	*13,488*	*14,000*	*6.45*	*0.96*
A.3.2.3.	*Surveying*					
B.3.2.4.	*Cost of licenses and copyright*			***2,500***		
B.3.3.	***Membership fees to international associations***		***22,010***	***18,000***		***1.22***
B.3.4.	***Cost of postal services***	***5,507***	***4,820***	***7,000***	***0.88***	***0.69***
B.3.5.	***Cost of representation***	***3,907***	***4,338***	***5,000***	***1.11***	***0.87***
B.3.6.	***Cost of payment system services***	***1,226***	***1,557***	***1,700***	***1.27***	***0.92***
B.3.7.	***Other expenses***	***3,494***	***8,546***	***10,000***	***2.45***	***0.85***
C.	**FINANCIAL EXPENSES**	**152,083**	**152,083**	**152,500**	**1.00**	**1.00**
C.1.	EBRD contracted interest	152,083	152,083	152,500	1.00	1.00
	TOTAL RESULT	**9,311,147**	**10,608,031**	**10,064,850**	**1.14**	**1.05**
	Investments in 2014		**achieved no**	**planned**		
D.1.	COMPUTER EQUIPMENT LICENSES			2,500		
D.2.	PASSENGER CAR		27,980	28,000		1.00
D.3.	OFFICE EQUIPMENT		1,979			
D.	**TOTAL INVESTMENTS**		**29,959**	**30,500**		**0.98**

DEPOSIT PROTECTION FUND,
PODGORICA

Financial Statements
Year Ended December 31, 2014
and Independent Auditors' Report

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

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

Deloitte d.o.o.
Bulevar ISvetog Petra Cetinjskog bb
Zgrada Maxim, I sprat
81000 Podgorica
Crna Gora

Tel: +382 (20) 228-324
+382 (20) 228-096
Fax: +382 (20) 228-327
www.deloitte.com/montenegro

INDEPENDENT AUDITORS' REPORT

To the Management Board of Deposit Protection Fund, Podgorica

We have audited the accompanying financial statements (pages from 2 to 20) of Deposit Protection Fund, Podgorica (hereinafter: the "Fund"), which comprise the statement of financial position as of December 31, 2014, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects, the financial position of Deposit Protection Fund, Podgorica, as of December 31, 2014, as well as of its financial performance and cash flows for the year then ended in accordance with the accounting regulations of Montenegro.

Deloitte d.o.o. Podgorica
Podgorica, Crna Gora
February 13, 2015

Žarko Mionić, Certified Auditor
(Licence no 062 issued on March 10, 2011)

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

STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2014
(In EUR)

Number of prescribed form	**Category / Position**	**Note**	**Current 2014**	**Previous 2013**
	OPERATING INCOME		10.787.675	9.315.380
1	Sales income	3.1, 4	10.786.978	9.315.125
5	Other operating income		697	255
	OPERATING EXPENSES		(306.457)	(267.069)
2	Materials expenses	5	(10.163)	(15.725)
3	Staff costs	6	(193.158)	(200.813)
4	Depreciation and amortization and provisions		(12.888)	(4.070)
5	Other operating expenses	7	(90.248)	(46.461)
A	**PROFIT FROM OPERATIONS**		10.481.218	9.048.311
I	Finance income	8	279.350	414.919
II	Finance expenses	9	(152.083)	(152.083)
B	**FINANCIAL RESULT**		127.267	262.836
I	Other income		46	-
II	Other expenses		(500)	-
C	**RESULT FROM OTHER ACTIVITIES**		(454)	-
D	**RESULT FROM OPERATIONS BEFORE TAX**		10.608.031	9.311.147
I	**NET PROFIT FOR THE YEAR**		10.608.031	9.311.147

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

These financial statements were adopted by Management of Deposit Protection Fund, Podgorica.

Signed on behalf of Deposit Protection Fund, Podgorica by:

Preparer of Financial Statements	**Director of the Fund**
Slavica Žarić	Predrag Marković

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

Number of prescribed form	**Category / Position**	**Note**	**Current 2014.**	**Pervious 2013.**
	ASSETS			
B	**NON-CURRENT ASSETS**		68.537	33.744
II	Intangible assets	10	22.585	28.211
III	Property, plant, equipment and biological assets		45.952	5.533
1	Property, plant and equipment	11	45.952	5.533
E	**CURRENT ASSETS**		56.322.264	45.774.724
II	Short-term receivables, investments and cash		56.322.264	45.774.724
1	Accounts receivable	12	44.783	37.588
3	Short-term investments	13	10.541.241	7.138.797
4	Cash and cash equivalents	14	45.736.240	38.598.339
F	**TOTAL ASSETS**		56.390.801	45.808.468
	EQUITY AND LIABILITIES			
A	**EQUITY**		56.289.878	45.681.847
I	Equity		45.681.847	36.370.700
VI	Retained earnings		10.608.031	9.311.147
D				
	CURRENT PROVISIONS AND LIABILITIES		100.923	126.621
I	**CURRENT LIABILITIES**		100.923	126.621
3	Accounts payable		6.296	31.298
4	Other short-term liabilities and accruals	15	94.627	95.323
E	**TOTAL EQUITY AND LIABILITIES**		56.390.801	45.808.468

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

STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2014
(In EUR)

Category / Position	Equity	Retained earnings	Total
Balance, as at January 1,2013	26.951.606	9.419.094	36.370.700
Transfer	9.419.094	(9.419.094)	-
Net income for the year	-	9.311.147	9.311.147
Balance, as at December 31,2013	36.370.700	9.311.147	45.681.847
Transfer	9.311.147	(9.311.147)	-
Net profit for the year	-	10.608.031	10.608.031
Balance, as at December 31,2014	45.681.847	10.608.031	56.289.878

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

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014
(In EUR)

Category / Position	Current 2014.	Pervious 2013.
A. Cash flows from operating activities		
I. Cash generated from operating activities	10.896.239	9.476.065
Sales and advances received	10.786.978	9.315.125
Interest receipts from operating activities	109.155	160.800
Other cash generated from operating activities	106	140
II. Outflow from operating activities	(454.153)	(402.337)
Payments to suppliers and given advances	(107.512)	(48.217)
Payments to employees	(193.158)	(200.813)
Payments of interest	(152.083)	(152.083)
Payments on other public income	(700)	(1.224)
Net cash flows from operating activities	**10.442.086**	**9.073.728**
B. Cash flows from investing activities		
I. Cash generated from investing activities	162.941	228.597
Interest received from investing activities	162.941	228.597
II. **Outflow from investing activities**	(3.467.126)	(1.258.910)
Purchase of intangible assets, property, plant, equipment, and biological assets	(64.682)	(12.400)
Other financial activities (net loss)	(3.402.444)	(1.246.510)
Net cash flows from investing activities	(3.304.185)	(1.030.313)
D. Net cash flows	7.137.901	8.043.415
E. Cash at the beginning of the reporting period	38.598.339	30.554.924
H. Cash at the end of the reporting period	45.736.240	38.598.339

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2014

1. FOUNDATION AND BUSINESS ACTIVITY

Deposit Protection Fund, Podgorica (hereinafter the “Fund”) was established in accordance with Law on Deposits Protection ("Off. Gazette of Montenegro", no. 40/2003) i and duly inscribed in the Central Registry of the Commercial Court in Podgorica, November 18, 2004. The new law of the protection of deposits (Official Gazette no.: 44/10 and 40/11) made the further harmonization with EU Directive (increasing the level of protection from EUR 5,000 to EUR 50,000 as well as shortening the time of payment of guaranteed deposits from 90 to 20 days), and also made the separation of the control and management functions of the Fund, on the way that functions of the Fund are divided into the Board of the Fund and Director of the Fund.

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

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

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

As of December 31, 2014 the Fund had seven employees (December 31, 2013: six employees).

Members of the Management Board of the Fund

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

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

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

2.1. Basis of Preparation and Presentation of the Financial Statements

The Company maintains its accounting records and prepares its financial statements in accordance with the Accounting and Auditing Law of Montenegro (Official Gazette of Montenegro no. 69/2005, 80/2008 and no. 32/2011).

In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 3 to the financial statements, based on the accounting and tax regulations of Montenegro.

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

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

2.2. Adoption of Newly-Issued and Revised Standards

Currently Effective Standards and Interpretations

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 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 1 January 2014),
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards and interpretations has not led to any significant changes in the Fund's accounting policies.

Standards and Interpretations Issued not yet Adopted

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2017),
- 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 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),

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

2.2. *Adoption of Newly-Issued and Revised Standards (Continued)*

- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Fund’s management has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The management anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

2.3. Use of Estimates

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

2.4. Going concern

Enclosed financial statements for 2014 have been prepared under the assumption of its continuous operations and do not include adjustments, which would eventually be needed if the Fund is not able to continue its operations in accordance with the concept of going concern.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Revenue recognition

Income from Deposits Protection Premiums

Income from deposits protection premiums represents funds that commercial banks in Montenegro are obliged to pay to the Fund in accordance with the Law on Deposit Protection (Official Gazette of Montenegro, No. 44/10 and 40/11) and in accordance with decision of the premium level that banks pays to the Fund (Official Gazette of Montenegro No. .58/11).

Income from Deposits Protection Premiums comprises:

- initial premiums;
- annual premiums.

The bank that was issued licenses by the Central Bank of Montenegro shall, prior to commencement of the activity, at the expense of the Fund's payment of the initial premium in the amount of 50,000 EUR.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Revenue recognition (continued)

Banks are required to pay annually Deposit insurance premium by the Fund in quarterly installments, or through regular premium, with the beginning of the quarter, calculated from the first day of January, April, July and October of each year. The basis for the calculation of the regular premium is the average of the total deposits of the bank on the last day of each month in the previous quarter. The rate for the calculation of regular premiums cannot be higher than 0.5%. The decision on the rate for the calculation of the regular premium and the method of calculation is adopted by the Management Board, as a rule, by the end of November for the forthcoming year. Banks are required to pay the regular premium at the beginning of the quarter for the current quarter, the latest within eight days of receipt of invoice Fund.

The Fund during 2014 calculated the annual premium. Amount of the annual premium is determined for each financial year and shall be published in the Official Gazette of Montenegro. Annual premiums for 2014. was 0.5% of the base, which makes the average amount of total deposits of the last day of each month of the year. The annual premium is calculated and paid quarterly, using the 1/4 above the rate (0.125%), the base consisting of average total deposits of the last day of each month for the previous quarter.

Decision on determining the amount of regular premiums, the Board maybe can establish different levels of premiums by rating and level of risk in individual banks (differential premiums).

Central Bank of Montenegro deliver data to the Fund on the ratings and bank risk level of its operations.

When the Fund's assets reach a level of 10% of guaranteed deposits, the Board of Directors of the Fund may decide to reduce the rate of regular premiums, or suspend payment of regular premiums.

Income from Donations

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

Income from Technical and Financial Assistance of Central Bank of Montenegro

Revenues for the technical assistance of the Central Bank are funding grants approved funds for the purpose of temporary financing of its operations. Funds received are recognized as income on a systematic and rational basis over the period, the amount necessary to cover operating expenses. Revenues reported in the statement of comprehensive income in the current period, they face their associated costs.

3.2. Employee Benefits

/i/ Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in Montenegro, the Fund has an obligation to pay contributions to various State Social Security Funds. These obligations involve the payment of contributions on behalf of an employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Fund is also legally obliged to withhold contributions from gross salaries to employees, and on behalf of employees, to transfer the withheld portions directly to government funds. Contributions paid by employer and those paid by employees are charged to expenses of related period.

/ii/ Retirement Benefits

According to the management's estimation, the present value of future liabilities thereof pursuant to the Collective Bargaining Agreement of Montenegro has an immaterial effect on the financial statements as a whole and therefore in these financial statements the Company itself made additional provisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Foreign Exchange Gains and Losses

Assets and liabilities' components denominated in foreign currencies are translated into EUR at the official exchange rates prevailing at the balance sheet date published by the Central Bank of Montenegro.

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

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

3.4. Taxes

In accordance with the Deposits Protection Law, the Fund is exempted from paying taxes, duties and fees which arise in the activities on deposit protection.

3.5. Intangible Assets

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

3.6. Property, plant, equipment and biological assets

Equipment is stated at cost. Cost represents the price invoiced by suppliers, as increased by all expenses incurred in putting the new assets into functional use.

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

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

3.7. Amortization

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

The principal effective amortization rates are listed below:

	Amortization rate (%)
Software usage licences	20,00
Computers and related equipment	20,00 – 33,33
Technical equipment	12,50 – 20,00
Office furniture	10,00 – 12,50

3.8. Financial Instruments

Financial assets are classified into the following categories: „Short-term financial placements due to expiration“,„Receivables“ and “Cash and Cash Equivalents”. The classification depends on the nature and purpose of financial assets and is determined upon initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (continued)

Effective interest rate method

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

Short-term financial investments – placed deposits

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

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

Trade receivables

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

Cash and Cash Equivalents

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

Impairment of financial assets

An entity shall assess at each reporting date whether there is any indication that a financial asset may be impaired. A financial asset is impaired if the estimated future cash flows pertaining to that asset have been changed as a result of one or more events which occurred upon the initial recognition of a financial asset.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

Derecognition of Financial Assets

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

Other financial liabilities

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

Derecognition of financial liabilities

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

3.9. Conditioned donations

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2014

4. SALES INCOME

Sales income in the amount of EUR 10,787,675 (2013: EUR 9,315,380) is entirely related to income from premiums for deposit protection and represents funds that commercial banks in Montenegro are obligated to pay to the Fund in accordance with the Deposit Protection Law ("Official Gazette of Montenegro", no. 44/10 and 40/11) and the Decision on the amount of the premium that banks pay to the Fund ("Official Gazette of Montenegro" no. 58/11).

5. MATERIALS EXPENSES

	Year Ended December 31 (In EUR)	
	2014	2013
Materials	3.922	9.649
Fuel, water and energy consumed	6.241	6.076
	10.163	15.725

6. STAFF COSTS

	Year Ended December 31 (In EUR)	
	2014	2013
Gross salaries	142.840	137.000
Contributions on salaries and benefits paid by employer	17.062	16.253
Compensation to members of the Board	15.404	15.476
Business trip expenses	13.513	11.969
Other payments to employees	4.339	20.115
	193.158	200.813

7. OTHER OPERATING EXPENSES

	Year Ended December 31 (In EUR)	
	2014	2013
Marketing and advertising	27.903	18.186
Professional services	15.188	9.176
Telecommunication and other postage expenses	4.820	5.507
Maintenance	4.035	1.932
Entertainment	4.338	3.907
Bank charges	2.258	1.226
Other operating expenses	31.706	6.527
	90.248	46.461

Advertising costs for the year ended December 31, 2014 amounted EUR 27.903 (2013: 18.186) mostly relate to the services provided under the Lease contract of terms for advertising in electronic media concluded with the M.A.S CODE d.o.o. Podgorica in amount of EUR 20.168.

Other operating expenses for the year ended December 31, 2014 amounted EUR 31.707 mostly relate to membership expenses for IADI(“International Association of Deposit Insures”) in amount of EUR 22.010.

8. FINANCE INCOME

	(In EUR) Year ended December 31 2014	2013
Interest income from placements of:		
Fund from the deposit insurance premium	71.257	28.011
Income from default interest payable upon unduly payment of deposit protection premiums	34.152	137.418
Interest income on treasury bills (Note 13)	173.882	249.350
Other income	59	140
	279.350	414.919

9. FINANCE EXPENSES

Financial expenses as of December 31, 2014 amounted EUR 152.083 (December 31, 2013. amounted EUR 152,083) relating to interest by the European Bank for Reconstruction and Development (EBRD). As of November 8, 2010, the Fund concluded the contract with the EBRD on "stand-by" - credit arrangement, the amount of EUR 30,000,000. These funds would be available to the Fund in the event that the assets of the Fund would not be sufficient to cover the guaranteed deposit (bank insolvency) in one of the banks in the system. The loan is granted for 15 years, with the possibility to use the same in the next 7 years. The interest rate of 0.50% is calculated and paid in the period until the withdrawal of funds, and 1.00% in the period after the withdrawal of funds.

10. INTANGIBLE ASSETS

Movements on intangible assets for the 2014 and 2013 are as represented in the following table:

	(In EUR) 2014.	2013.
Cost value		
Balance at beginning of year	42.884	14.859
Additions during the year	-	28.025
Balance at end of year	42.884	42.884
Accumulated Depreciation		
Balance at beginning of year	14.673	14.423
Amortization	5.626	250
Balance at end of year	20.299	14.673
Net value as od December 31	22.585	28.211

Intangible assets as of December 31, 2014 mostly relate to the license for the Oracle software as well as software for the calculation of the payment of the insured amount.

11. PROPERTY, PLANT AND EQUIPMENT

Movements on equipment for 2014 and 2013 are as presented in the following table:

(In EUR)

	Computer and IT equipment	Furniture	Other equipment	Total
(Audited by other auditor)				
Cost value				
Balance, January 1, 2013.	24.718	11.784	19.552	56.054
Additions during the year	876	-	-	876
Balance, December 31, 2013	25.594	11.784	19.552	56.930
Balance, January 1, 2014	25.594	11.784	19.552	56.930
Additions during the year	16.002	3.299	28.881	48.182
Write-off	-	-	(11.392)	(11.392)
Balance, December 31, 2014	41.596	15.083	37.041	93.720
Accumulated depreciation				
Balance, January 1, 2013.	19.922	8.674	18.981	47.577
Depreciation	2.824	853	143	3.820
Balance, December 31, 2013	22.746	9.527	19.124	51.397
Balance, January 1, 2014.	22.746	9.527	19.124	51.397
Depreciation	4.327	198	2.738	7.263
Write-off	-	-	(10.892)	(10.892)
Balance, December 31, 2014	27.073	9.725	10.970	47.768
Net book value:				
As of December 31, 2014	14.523	5.358	26.071	45.952
As of December 31, 2013	2.848	2.257	428	5.533

12. ACCOUNTS RECEIVABLE

(In EUR)

	December 31, 2014	December 31, 2013
Accrued interest income on invested funds:		
- Accrued interest on Public bills	43.086	32.145
- Accrued Interest on balances with Central Bank	1.697	5.443
	44.783	37.588

13. SHORT-TERM INVESTMENTS

Short-term investments - treasury bills that as of December 31, 2014 amount EUR EUR 10.541.241 (2013: EUR 7.138.797), are debt securities issued by the Central Bank on behalf of the Ministry of Finance. Treasury bills owned by Fund are purchased in the period from July 17, 2014 to December 24, 2014, for a period of six months (due in the period from January 14, 2015 till the June 24, 2015), with rate of return of 0.3 % to 1.20%.

14. CASH AND CASH EQUIVALENTS

	December 31, 2014	(In EUR) December 31, 2013
Gyro accounts	84.540	3.723.198
Cash in hand	2.564	1.008
	87.104	3.724.206
Cash equivalents - interest-bearing deposits	45.649.136	34.874.133
	45.736.240	38.598.339

Cash equivalents as of December 31, 2014 amounted EUR 45.649.136 a short-term time deposits with the Central Bank of Montenegro ("Central Bank") .

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

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

- debt securities denominated in EUR and issued by banks, financial institutions or states rated by internationally acclaimed credit rating agencies as belonging to “A” or “P1” credit rating category at least.
- deposits denominated in EUR, placed with banks in the EU and/or OECD member countries rated by internationally acclaimed credit rating agencies as belonging to “P1” credit rating category at least.

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

The Central Bank will manage the Fund's assets independently without specific instructions, in accordance with the bylaws of the Central Bank to manage composer’s reserves, and observance of the principles of investment policy of the Fund.

In accordance with the terms of the Asset Management, the available resources of the Fund bear interest that is attributable to the deposit, unless otherwise ordered by the Fund.

As at 31 December 2014, the Central Bank the entire amount of interest-bearing deposits of the Fund holds placed in two banks in the EU countries which are in compliance with the contract signed with Central Bank at the internationally recognized rating agencies - Standard & Poor's, ranked as A/A-1.

15. OTHER CURRENT LIABILITIES AND ACCRUALS

	December 31, 2014.	(In EUR) December 31, 2013
Accrued Interest EBRD	60.833	60.833
Deferred donations from the Central Bank due to the technical and financial assistance	31.752	31.752
Deferred donations for acquired equipment	2.042	2.738
	94.626	95.323

15. OTHER CURRENT LIABILITIES AND PVR (continued)

Changes in deferred income from grants for equipment are seen below:

	(In EUR)	
	Year ended December,31.	
	2014.	**2013.**
Balance, beginning of year	2.738	2.992
Depreciation of donated equipment	(696)	(254)
Balance, end of year	2.042	2.738

16. Financial Instruments

16.1 Significant accounting policies

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

16.2 Categories of Financial Instruments

		(In EUR)
	December 31,2014.	**December 31,2013.**
Financial assets		
Loans and receivables (including cash and cash equivalents)	45.781.023	38.635.927
Short term investments	10.541.241	7.138.797
	56.322.264	45.774.724
Financial Liabilities		
Accounts payable and other liabilities	67.130	92.131

16.3 Financial risk management objectives

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

16.4 Market Risk

(a) Currency Risk

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

(b) The risk of changes in interest rates

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

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

16. Financial Instruments(continued)

16.4 Market Risk (continued)

(c) The risk of price changes

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

(d) Receivables

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

(In EUR)

	Gross exposure	Accumulated Depreciation	Net exposure
Accrued receivable	44.783	-	44.783
Matured, non-adjusted receivable	-	-	-
	44.783	-	44.783

The structure of accounts receivable as of December 31, 2013 is shown in the following table:

(In EUR)

	Gross exposure	Accumulated Depreciation	Net exposure
Accrued receivable	37.588	-	37.588
Matured, non-adjusted receivable	-	-	-
	37.588	-	37.588

16.5 Liquidity Risk

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

Table liquidity risk

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

16. FINANCIAL INSTRUMENTS (continued)

16.5 Liquidity risk (continued)

In EUR	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash balances and deposit accounts with depository institutions	45.736.240	-	-	-	-	-	45.736.240
Loans and other receivables form clients	-	-	-	-	-	-	44.783
Securities held to maturity		-	10.541.241	-	-	-	10.541.241
Total:	45.781.023 45.736.240	-	10.541.241	-	-	-	56.322.264
Financial liabilities							
Accounts payable and other liabilities	6.297	60.833	-	-	-	-	67.130
Total:	6.297	60.833	-	-	-	-	67.130
Maturity gap:							
- December 31. 2014	45.774.726	(60.833)	10.541.241	-	-	-	56.255.134
- December 31. 2013	38.604.630	2.350.163	4.727.801	-	-	-	45.682.594
Cumulative GAP:							
- December 31. 2014	45.774.726	45.713.893	56.255.134	56.255.134	56.255.134	56.255.134	
- December 31. 2013	38.604.630	40.954.793	45.682.594	45.682.594	45.682.594	45.682.594	

16.6 Credit risk

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

16. FINANCIAL INSTRUMENTS (continued)

16.7 The fair value of financial assets and liabilities

(In EUR)

	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans and receivables (including cash and cash equivalents)	45.781.023	45.781.023	38.635.927	38.635.927
Short-term investments	10.541.241	10.541.241	7.138.797	7.138.797
Financial liabilities				
Accounts payable and other liabilities	67.130	67.130	92.131	92.131

16.8. Financial Risk Management

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

17. LITIGATIONS

As at December 31, 2014, the Company was not involved in litigations neither as a defendant nor as a plaintiff.

18. TAXATION RISKS

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

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

19. EVENTS AFTER THE REPORTING PERIOD

There were no adjusting and non-adjusting events after the reporting date.