Izvještaj o poslovanju 2009.

2009

Opšte informacije

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Sadržaj

Uvodna riječ Predsjednika Odbora direktora

U istoriji postojanja Banke, 2009. godina će ostati upamćena kao izuzetno važna jer je u martu 2009. godine Banka postala dio Erste Group Bank, jedne od vodećih finansijskih institucija na području centralne i istočne Evrope, sa tradicijom od 190 godina i sa preko 17 miliona zadovoljnih klijenata.

Akvizicija je obavljena preko Erste&Steiermärkische Bank d.d. koja je kupila 100% akcijskog kapitala Opportunity Bank AD Podgorica.

Postavši dijelom velike i uspješne Erste porodice, Banka je krenula u proces transformacije i uskladjivanja sa Erste standardima. Akcenat je bio na unifikaciji kao sredstvu povećanja profitabilnosti i kvaliteta poslovanja Banke; jasnom definisanju procesa upravljanja Bankom i odgovornosti njegovih nosilaca; jačanju ljudskih resursa i unapredjenju usluga koje se pružaju klijentima. U procesu transformacije vodilo se računa o specifičnostima Banke, njenoj istoriji, poziciji na tržištu, poslovnim vezama, ljudskim resursima i vrijednostima koje je Banka promovisala.

Ostvareni rezultati su najbolji pokazatelj uspjeha Banke.

I u otežanim uslovima ekonomske i finansijske krize, Banka je 2009. godinu završila sa pozitivnim finansijskim rezultatom i ostalim pokazateljima poslovanja. Likvidnost Banke nikada nije dovedena u pitanje, adekvatnost kapitala i koeficijent solventnosti su bili iznad propisanog minimuma. Banka ni u jednom trenutku nije prekinula kreditne aktivnost niti je koristila obaveznu rezervu niti pozajmice od Centralne banke. U uslovima smanjene kreditne aktivnosti i pada depozita, Banka je u 2009. godini uspjela da ostvari rast u obje kategorije - kod kredita rast od 15,28%, a kod depozita rast od 18,67%. U toku 2009. godine zabilježen je stalni rast tržišnog udjela u obje kategorije što je rezultat proaktivnog pristupa i novih tržišnih mogućnosti koje su otvorene pod Erste brendom.

Ukupan broj klijenata Banke je u 2009. godini porastao za 5,43% što predstavlja najbolju potvrdu povjerenja koje Banka uživa medju svojim klijentima. U sektoru privrede zabilježen je rast u broju klijenata od čak 12,19% dok je broj klijenata u segmentu stanovništva porastao za značajnih 5,13%.

U segmentu poslovanja sa stanovništvom, fokus Banke je bio na uvodjenju novih retail proizvoda (gotovinskih potrošačkih kredita, stambenih kredita, minusa po tekućem računu, trajnog naloga, web e-banking, kredita za pomorce) i povećanju baze retail klijenata. U ovom segmentu zabilježen je rast tržišnog učešća od 9,35%.
U sektoru privrede, akcenat je bio na rastu kredita i depozita kako bi se iskoristili potencijali tržišta; osvajanju tržišta u smislu povećanja aktivnosti u pogledu prikupljanja depozita javnih ustanova i finansijskih institucija kao dijela tržišta u kom Banka nije bila prisutna. U 2009. godini, portfolio Banke u ovom segmentu je porastao 32.78%, a tržišno učešće je povećano na 2.49%
U dijelu mreže filijala, u 2009. godini počela je modernizacija filijala Banke i njihovo uskladjivanje sa vizuelnim identitetom Erste Grupe.

Banka je, kao društveno odgovorna institucija, i u 2009. godini nastavila da pruža podršku lokalnoj zajednici kroz niz donacija i sponzorstava.

Na kraju, iskoristiću priliku da se, u ime Odbora direktora, zahvalim rukovodstvu Banke i svim zaposlenima na zalaganju, profesionalnom i timskom radu koji Banku čine pokretačkom snagom na tržištu i predstavljaju osnov za izazove koji nas čekaju. Našim klijentima i poslovnim partnerima sa sigurnošću mogu reći da će Erste Bank AD Podgorica nastaviti da bude siguran i pouzdan partner i u periodu koji je pred nama i da će oni i njihove potrebe i dalje biti prioriteti.

Reinhard Ortner,
Predsjednik Odbora direktora

Uvodna riječ Glavnog izvršnog direktora

U ime Izvršnog odbora Erste banke AD Podgorica, zadovoljstvo mi je da predstavim rezultate koje je Banka ostvarila u 2009. godini. Ponosan sam da je Banka nastavila da pruža pouzdanu podršku svojim klijentima, zaposlenima i lokalnoj zajednici.

Dobro je poznato da je globalna ekonomska i finansijska kriza uzrokovala ogromnu promjenu u bankarskom sektoru. Situacija je bila veoma ozbiljna, jer je s jedne strane ekonomska kriza stvarala strah i nesigurnost na crnogorskom tržištu dok su se s druge strane kritikovali elementi bankarskog sektora kao glavnog uzroka krize.

Međutim, Erste banka je bila u mogućnosti da ostvari planove koji su bili najavljeni na početku 2009. godine i prevaziđe ovaj buran period. Banka je u tom vremenu ostala profitabilna, održala je solidan nivo prihoda i završila godinu sa pozitivnim rezultatom i dobrim nivoom likvidnosti. Nasuprot tržišnom trendu, Banka je smanjila kamatne stope na kredite i depozite.

Krajem 2009. godine ukupna aktiva Banke iznosila je 181.04 miliona EUR-a, što predstavlja povećanje od 9.3% u odnosu na prethodnu godinu kada je ukupna aktiva iznosila 165.64 miliona EUR-a.

Neto profit Banke iznosio je 654 hiljade eura 2009. godine i predstavlja smanjenje od 84.5% u odnosu na 2008. godinu kada je iznosio 4,230 hiljade eura EUR-a.

Glavna karakteristika poslovanja Banke u finansijskoj 2009. godini je ostvarivanje rasta iznad prosjeka u glavnim tržišnim segmentima.

Tržišni udio Banke u ukupnim kreditima se povećao sa 4.28% koliko je iznosio na kraju 2008. godine na 6.03% 2009. godine. Tržišno učešće ukupnih depozita se povećalo sa 4.55% na 31. decembar 2008. godine na 6.09% na kraju 2009. godine.

Ovaj uspjeh predstavlja pokazatelj povjerenja koji Banka ima kod svojih klijenata i koji je izgrađen i osnažen od početka finansijske krize u Crnoj Gori. Taj uspjeh predstavlja rezultat angažovanosti svih zaposlenih i odgovornog stava Banke prema svojim klijentima. Vjerujemo da je promjena vlasničke strukture Banke iz marta 2009. godine kada je Banka postala dio renomirane Erste Grupe takođe doprinijela postignutom uspjehu. To je obezbijedilo dodatan polet i snagu za nastavak rada u cilju poboljšanja ponude proizvoda za fizička i pravna lica.

Pored toga, krajem 2009. godine, Banka nije iskoristila mogućnost da poveća profit smanjenjem rezervi za potencijalne gubitke. Da je je iskorištena ova prednost koju je Centralna banka dozvolila svim bankama u Crnoj Gori, profit bi se povećao na oko dva miliona eura.

Tokom 2009. godine, Banka je posvetila posebnu pažnju korporativnoj društvenoj odgovornosti. U programu sponzorstva i donacija, Banka je investirala više od 80 hilj. EUR-a u kulturne, durštvene, humanitarne i sportske projekte.
Nastavićemo da kontrolišemo rast kreditne aktivnosti tokom 2010. godine istovremeno održavajući sve finansijske pokazatelje na viskom nivou. Banka ima bogate kapacitete i spobnost da podrži dugoročne kreditne linije, mala i srednja preduzeća, kao i velike kompanije. Takođe, novi proizvodi će biti dostupni i fizičkim licima.

Namjera je da se koriste resursi Banke kako bi se donijela nova energija na tržište i kako bi se doprinijelo oživljavanju ekonomije Crne Gore na zdravoj osnovi.
Na kraju, želim da se zahvalim svim našim klijentima i poslovnim partnerima koji su ukazali povjerenje Banci i ostali joj lojalni, što predstavlja nagradu za sav trud i naporan rad.
Moja iskrena zahvalnost Izvršnom odboru i svim zaposlenima na značajnim naporima koje ulažu svakodnevno da obezbijede uspjeh strategije dugoročnog razvoja i stabilnog rasta Banke.

Duboko sam uvjeren da će Erste banka u Crnoj Gori efikasno odgovoriti na sve izazove u 2010. godini i ostati stabilna na svom uspješnom i razvojnom putu.

Keith Flintham
Glavni izvršni direktor

Izvršni direktori

KEITH FLINTHAM, glavni izvršni direktor

- nadležan za Službu interne revizije, Službu sprečavanja pranja novca i Službu ljudskih resursa

ALEKSA LUKIĆ, komercijalni izvršni direktor

- nadležan za Sektor privrede, Sektor stanovništva, Službu upravljanja distributivnim kanalima, Službu marketinga i komunikacija i Službu lizinga

DARKO KEKOVIĆ, izvršni direktor za bankarske operacije

- nadležan za Sektor informacione tehnologije i organizacije, Sektor procesinga, Sektor upravljanja imovinom i Službu pravnih poslova

PREDRAG LALOVIĆ, finansijski izvršni direktor

- nadležan za Sektor finansija i računovodstva, Sektor upravljanja rizicima i Službu riznice

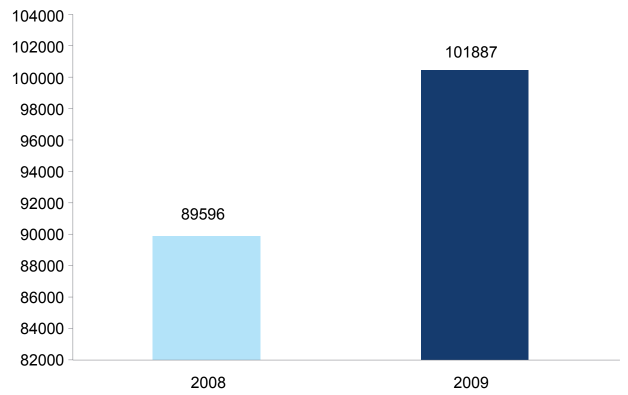
Sektor stanovništva

Poslovanje Sektora stanovništva tokom 2009. godine obilježeno je suprotno trendu na bankarskom tržištu Crne Gore rastom u svim segmentima poslovanja, čime su prodajni planovi u velikoj mjeri realizovani. Konstantnim osluškivanjem sve složenijih zahtjeva tržišta tokom 2009. godine, banka je u dijelu poslovanja sa stanovništvom proširila svoju paletu proizvoda.

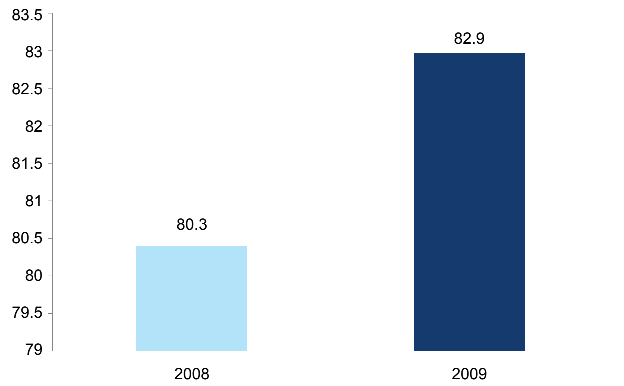
U drugom kvartalu 2009. godine uvedeni su gotovinski potrošački krediti i stambeni krediti, a već u trećem kvartalu tržištu su ponudjene usluge trajnog naloga, WEB ebanking, minus po tekućem računu te specijalna ponuda za pomorce. U istom kvartalu, zbog velikog interesovanja klijenata, revidirani su uslovi za gotovinski potrošački kredit i stambeni kredit. Produžen je rok otplate sa 60 na 90 mjeseci, a pružena je mogućnost da se gotovinski potrošački kredit veže za stambeni kredit sa rokom otplate do 120 mjeseci, a kod stambenih kredita uvedena je mogučnost učešća klijenta umjesto garantnog depozita.

Takodje, u posljednjem kvartalu dolazi do smanjenja kamatnih stopa na oročenu štednju u prosjeku za 0,50% te na štednju po vidjenju 1%.

Graf 1. Krediti Sektora stanovništva u hiljadama eura



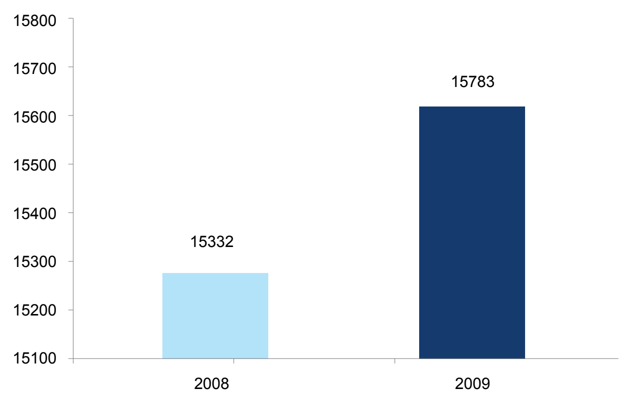
Graf 2. Depoziti Sektora stanovništva u milionima eura



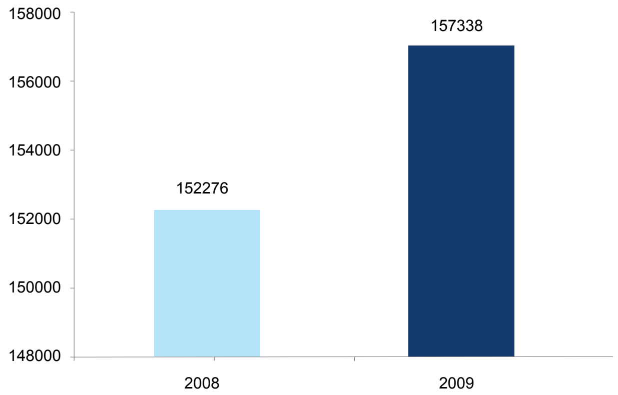
U 2009. ostvaren je rast u pogledu aktivnih kartica za 3% i pored zatvaranja neaktivnih kartica u velikom broju. Zatvaranje kartica za Maestro se primarno odnosio na sve kartice koje nijesu uopšte korištene niti preuzete. Kreditna kartica MC Standard je takođe zabilježila rast u broju aktivnih kartica u odnosu na 2008. Iako je ostvareno povećanje u ukupnom broju transakcija u ukupnom iznosu promet je pao za cijelih 19% što navodi na zaključak da je i prosječna transakcija pala u odnosu na 2008.

I pored pada prometa u ukupnom iznosu i povećanja uplata, kreditni portfolio platnih kartica je rastao za 11.48% na kraju 2009. u odnosu na 2008. prevashodno zahvaljujući karticama koje su izdate u prethodnom periodu.

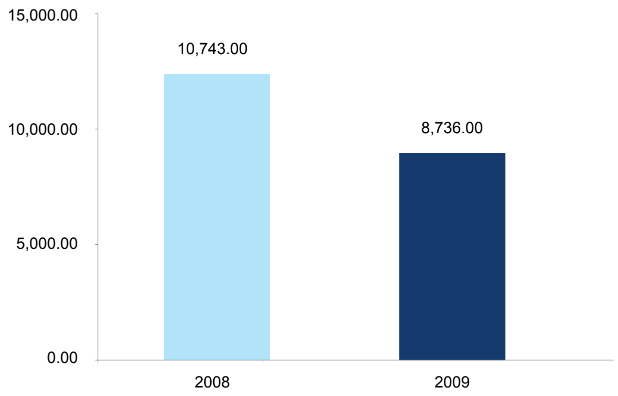
Graf 3. Ukupan broj izdatih Maestro kartica



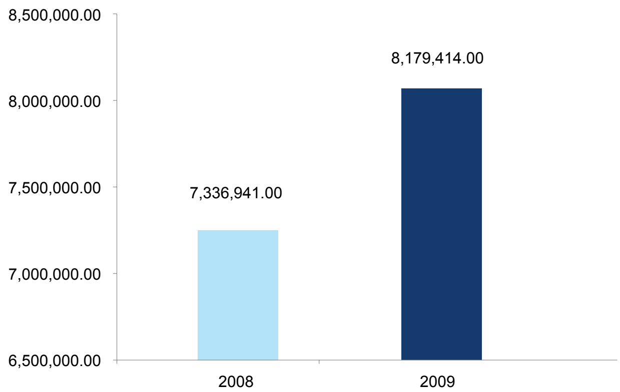
Graf 4. Ukupan broj transakcija - MasterCard standard



Graf 5. MasterCard standard - prometu u hiljadama eura



Graf 6. MasterCard standard - kartični portfelj



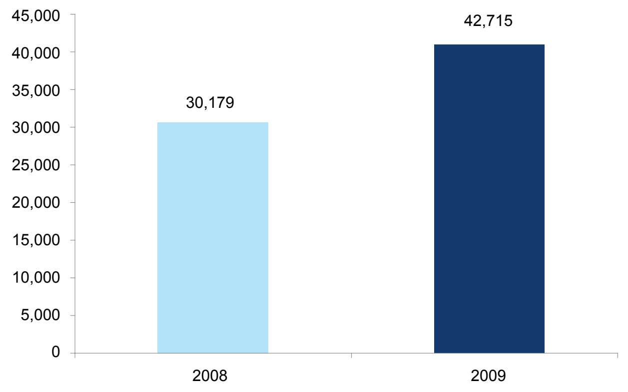
Sektor privrede

Tokom 2009. godine Sektor privrede je svoju aktivnost usmjerio na konstantan rast kredita i depozita što je rezultiralo porastom tržišnih udijela istih. Istovremeno tržište je pratio konstantan pad kredita i depozita.
Ukupna aktiva bankarske industrije pala je za 8,02% na godišnjem nivou. Kao posljedica ekonomske i finansijske krize opala je likvidnost sistema što je direktno uticalo na poslovanje privrede i preduzeća koja su se fokusirala uglavnom na održavanje likvidnosti a manje na investicije.
Banka je ostvarila rast od 12,19% u broju klijenata pravnih lica, dok je broj korisnika kredita porastao za 21% što je rezultat aktivnog pristupa klijentima i novih tržišnih mogućnosti pod Erste brendom. Ostvaren je rast kredita za mala i srednja preduzeća koji dominiraju kreditnim portfolijom.
Intenzivirane su aktivnosti u pogledu prikupljanja depozita javnih ustanova i finansijskih institucija dijelu tržišta u kom Banka nije bila prisutna i izvršena je modifikacija kamatnih stopa na oročene i depozite po vidjenju, tendencija smanjivanja istih.
Tokom II kvartala uvedena je nova metodologija kreditnog zahtjeva po Erste standardu i sprovedena obuka finansijskih savjetnika od strane kolega iz ESB Hrvatska, Sektor gospodarstva.
Kontinuitet u poboljšanju kvaliteta usluga i zadovoljenja potreba klijenata doprinijeli su povećanju povjerenja klijenata u Banku i uspješnim rezultatima u 2009. godini.

Krediti privredi

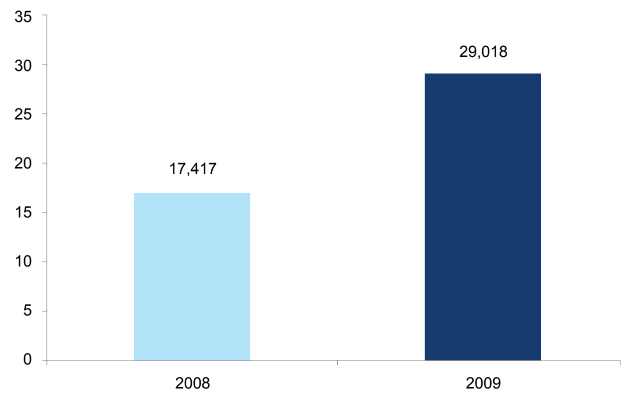
Banka je tokom 2009. godine ostvarila rast kredita pravnim licima od 41,54%, dok je u istom period tržište u padu od -12%. Ukupni tržišni udio u kreditima privredi porastao je sa 1,72% (31.12.2008.) na 2,90%(31.12.2009.), dok je tržišni udio kredita malih i srednjih preduzeća iskazao rast od 1,36 p.p. odnosno sa 1,86% (31.12.2008.) na 3,22% (31.12.2009.).

Graf 1. Krediti privredi u hiljdama eura



Rast kredita za mala i srednja preduzeća iznosio je 66,60% sa 17,42miliona (31.12.2008.) na 29,02 miliona (31.12.2009.).

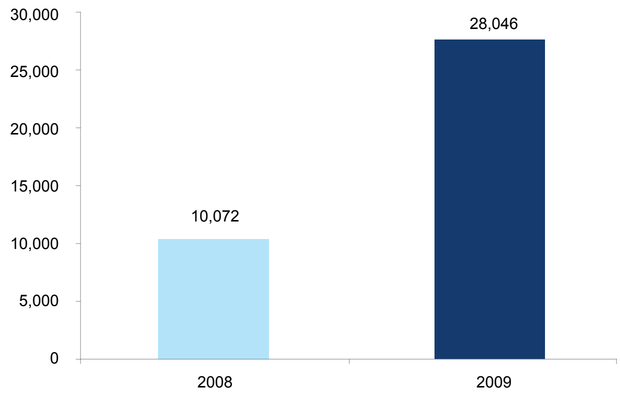
Graf 2. SME krediti u hiljadama eura



Depoziti

Tokom 2009. godine zabilježen je rast dopozita od 173%, dominantan je rast oročenih depozita od 51,45% dok je kod depozita po viđenju primjećen blagi pad 6,76% kao posljedica nelikvidnosti sistema.
U period od 31.12.2008. godine do 31.12.2009. godine tržišni udio depozita pravnih lica iskazao je rast od 1.98 p.p. odnosno sa 0,89% na 2,87%.

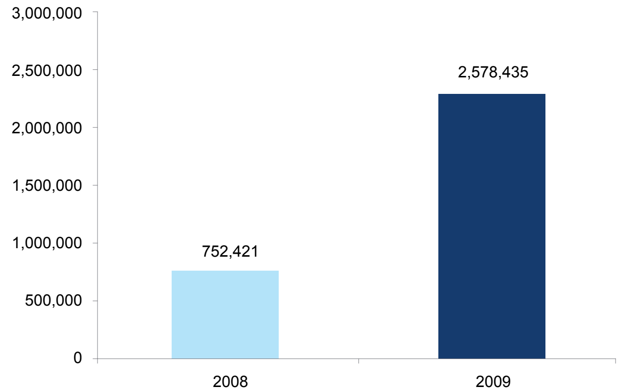
Graf 3. Depoziti u hiljadama eura



Vanbilansna evidencija

U vanbilansnoj evidenciji stavka garancije ostvaren je rast od 249,33%.

Graf 4. Garancija u milionima eura



Platni promet

Platni promet sa inostranstvom

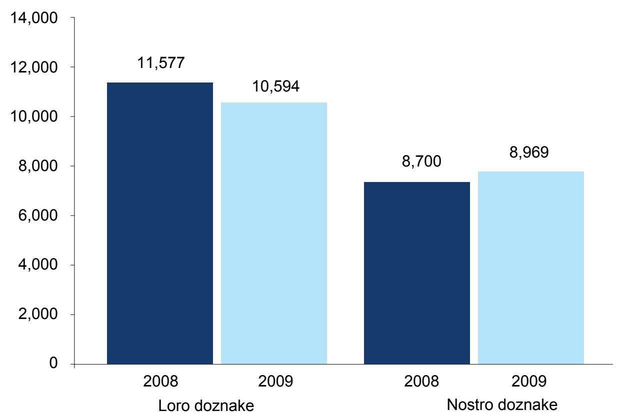
Banka ima brzu i kvalitetnu uslugu u poslovima platnog prometa sa inostranstvom. Posebna prednost u izvršavanju naloga u medjunarodnom platnom prometu jeste realizacija plaćanja sa istim datumom valute.

Uporedo sa razvojem korespondentnih i drugih odnosa sa stranim bankama, Erste banka obavlja i poslove plaćanja i naplata iz inostranstva, prijem inostranih čekova, poslove trade finance-a i dr. U 2009. godini realizovano je 8,969 nostro doznaka i 10.594 loro doznaka.

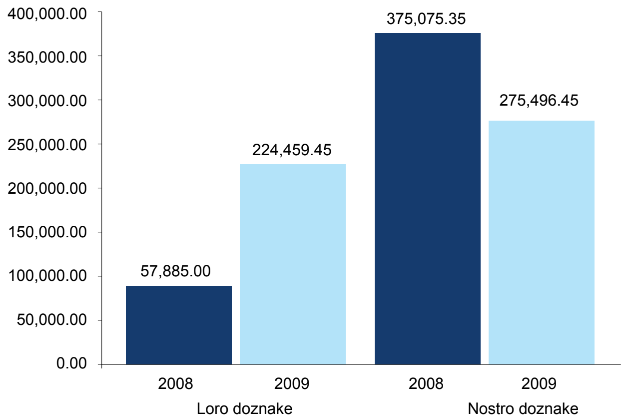
Ukupan prihod po ovim poslovima iznosio je 499.955,90 eura čime je ostvaren rast od 15.47% u odnosu na ostvarene prihode iz 2008. godine.

Tokom 2009. Erste bank A.D. Podgorica je izdala 129 bankarskih garancija i ostvarila rast od 65.38% u odnosu na 2008. godinu. Po ovim poslovima ukupan prihod iznosio je 37.236,77 eura. Od 632 primljena inostrana čeka, naplaćeno je 621, od kojih je ostvarena provizija u iznosu od 6,405.09 eura.

Graf 1. Loro/Nostro doznake



Graf 2. Prihodi od Loro/Nostro doznaka

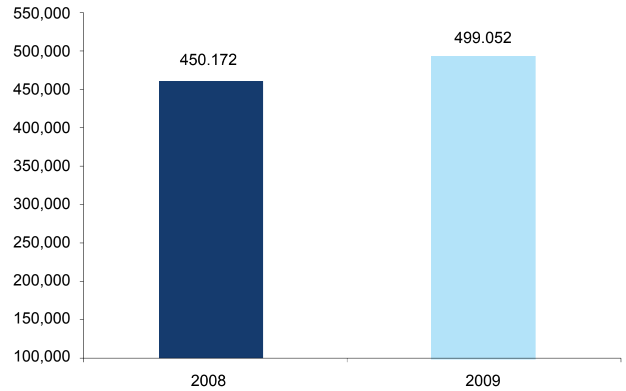


Platni promet u zemlji

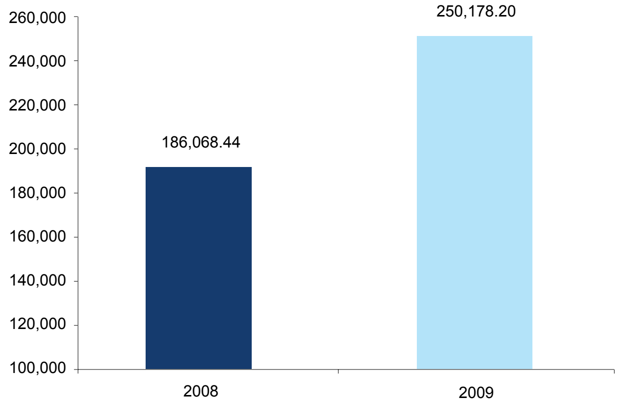
Klijenti - pravna lica u Erste banci su prepoznali sigurnog i pouzdanog partnera za svoje poslovanje, što je za rezultat imalo otvaranje 617 novih računa za obavljanje poslova platnog prometa u zemlji. Preko filijala obavljeno je 499.052 transakcije i ostvaren ukupan promet u iznosu 499.052.574.76 eura.

Ostvareni prihodi za obavljanje platnog prometa u zemlji iznose 250,178.20 eura (34.45% više u odnosu na 2008. godinu), dok su troškovi po osnovu procesuiranja naloga medjubankarskog platnog prometa od strane CBCG iznosili 104,841.50 eura (37.89% više u odnosu na 2008 godinu).

Graf 3. Broj transakcija



Graf 4. Prihod u hiljadama eura



Savremeni trendovi elektronskog poslovanja dostupni su i klijentima Erste banke. E banking usluga je odlično prihvaćena od strane klijenata, pa je od ukupnog broja realizovanih naloga u platnom prometu u zemlji skoro 5.2% ispostavljeno kanalom e bankinga (po iznosu oko 12 % od ukupnog obima poslovanja).

ERSTE BANK A.D., PODGORICA

IFRS Financial Statements
31 December 2009

Ernst & Young
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INDEPENDENT AUDITOR'S REPORT

TO SHAREHOLDERS OF ERSTE BANK A.D., PODGORICA

We have audited the accompanying financial statements of Erste Bank A.D., Podgorica, which comprise the balance sheet as of 31 December 2009, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Financial statements as of and for the year ended 31 December 2008 were audited by another auditor whose report dated 31 March 2009 expressed an unqualified opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Erste Bank A.D., Podgorica as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Podgorica, 31 March 2010

Ernst & Young Montenegro

Ernst & Young Montenegro d.o.o.

PIB: 02759080 • Matični broj: 02759080 • Upisan i unet osnovni kapital: [illegible].000,00 EUR
Registarski broj: 5-0537154/001 kod Centralnog registra Privrednog suda u Podgorici
Poslovni račun: 2325011-02759080 kod Crnogorske Komercijalne Banke AD Podgorica

ERSTE BANK A.D., PODGORICA
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of EUR	Notes	2009	2008
Interest income	5	22,536	21,087
Interest expense	5	(7,296)	(4,737)
Net interest income		15,240	16,350
Fee and commission income	6	1,187	1,129
Fee and commission expense	6	(359)	(380)
Net fee and commission income		828	749
Trading income	7	168	31
Credit loss expense	8	(5,339)	(2,066)
General administrative expenses	9	(9,776)	(10,164)
Other operating result	10	(328)	(203)
Profit before tax		793	4,697
Income tax	11	(139)	(467)
Profit for the year		**654**	**4,230**
Other comprehensive income			
Gains on financial instruments available for sale		106	-
Actuarial gains on long-term employee benefits		17	-
Revaluation of buildings		-	850
Income tax relating to items of other comprehensive income		(11)	(74)
Total other comprehensive income for the year, net of tax		**112**	**776**
Total comprehensive income for the year, net of tax		**766**	**5,006**

The accompanying notes are an integral part of these financial statements

Podgorica, 31 March 2010

Approved by and signed on behalf of Erste Bank A.D., Podgorica

Aleksa Lukić	Predrag Lalović	Kristina Bukilić
Executive Director	Executive Director	Director of Finance and Accounting

ERSTE BANK A.D. PODGORICA
ERSTE
UPRAVA

ERSTE BANK A.D., PODGORICA
STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of EUR	Note	2009	2008
ASSETS			
Cash and balances with banks and Central Bank	12	16,628	23,893
Loans and advances to banks, net	13	9,960	17,700
Loans and advances to customers, net	14	137,895	116,342
Financial assets available for sale	15	5,859	33
Financial assets held to maturity	16	2,377	-
Property and equipment	17	5,035	4,381
Intangible assets	18	618	667
Current tax assets		446	94
Deferred tax assets	11	10	85
Other assets, net	19	2,208	2,441
Total assets		**181,036**	**165,636**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	20	674	783
Deposits from customers	21	110,467	89,775
Other borrowed funds	22	44,122	49,900
Deferred tax liabilities	11	129	79
Other liabilities	23	2,674	2,895
Total liabilities		158,066	143,432
Shareholders' equity	24		
Share capital		5,339	5,339
Share premium		1,571	1,571
General loan reserves		-	332
General risk reserves		182	495
Other capital reserves		300	-
Revaluation reserves		719	741
Fair value reserves		96	-
Retained earnings		14,763	13,726
Total shareholders' equity		22,970	22,204
Total liabilities and shareholders' equity		**181,036**	**165,636**

The accompanying notes are an integral part of these financial statements.

Podgorica, 31 March 2010

Approved by and signed on behalf of Erste Bank A.D., Podgorica

Aleksa Lukić Executive Director	Predrag Lalović Executive Director	Kristina Bukilić Director of Finance and Accounting

ERSTE BANK AD PODGORICA ERSTE BANK UPRAVA

ERSTE BANK A.D., PODGORICA
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of EUR	2009	2008 Restated
Operating activities		
Net income	654	4,230
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	768	859
Written off fixed assets	112	-
Foreign currency translation gains	(135)	(187)
Interest on securities	(143)	-
Provision for loan losses	6,088	2,403
Income tax expense	139	467
Change in operating assets and liabilities:		
Decrease in mandatory reserves with the Central Bank of Montenegro	6,779	8,515
Increase in loans to customers	(26,030)	(19,456)
Increase in accrued interest and other assets	(476)	(398)
Increase in securities available for sale	(5,826)	-
Increase in securities held to maturity	(2,377)	-
Increase/(decrease) in deposits from financial institutions	5	(642)
Increase/(decrease) in customers deposits	20,578	(42,625)
Decrease in other liabilities	(531)	(222)
Paid income tax	(471)	(607)
Paid bonuses for staff	(452)	(1,090)
Net cash provided by operating activities	**(1,318)**	**(48,753)**
Investing activities		
Net additions to fixed and intangible assets	(1,483)	(1,587)
Net cash used in from investing activities	**(1,483)**	**(1,587)**
Financing activities		
Proceeds from borrowings	(5,425)	37,384
Net cash used in from financing activities	**(5,425)**	**37,384**
Net (decrease) in cash and cash equivalents	(8,226)	(12,956)
Cash and cash equivalents at beginning of year	27,638	40,594
Cash and cash equivalents at end of year (Notes 12 and 13)	**19,412**	**27,638**
Interest paid	6,952	3,822
Interest received	20,941	19,469

The accompanying notes are an integral part of these financial statements.

Podgorica, 31 March 2010

Approved by and signed on behalf of Erste Bank A.D., Podgorica

Aleksa Lukić Executive Director	Predrag Lalović Executive Director	Kristina Bukilić Director of Finance and Accounting

ERSTE BANK AD PODGORICA ERSTE UPRAVA

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ERSTE BANK A.D., PODGORICA
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of EUR	Share capital	Share premium	Other reserves	General loan reserves	General risk reserves	Revaluation reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2008	5,339	1,571	-	-	506	-	-	9,793	17,209
Total comprehensive income	-	-	-	-	-	776	-	4,230	5,006
Transfer from / to retained earnings	-	-	-	332	-	-	-	(332)	-
Amortization of revalued fixed assets	-	-	-	-	-	(35)	-	35	-
Utilized general risk reserve	-	-	-	-	(11)	-	-	-	(11)
Balance as at 31 December 2008	**5,339**	**1,571**	**-**	**332**	**495**	**741**	**-**	**13,726**	**22,204**
Balance as at 1 January 2009	5,339	1,571	-	332	495	741	-	13,726	22,204
Total comprehensive income	-	-	-	-	-	-	96	670	766
Amortization of revalued fixed assets	-	-	-	-	-	(22)	-	22	-
Transfer from / to retained earnings	-	-	300	(332)	(313)	-	-	345	-
Balance as at 31 December 2009	**5,339**	**1,571**	**300**	**-**	**182**	**719**	**96**	**14,763**	**22,970**

The accompanying notes are an integral part of these financial statements.

Podgorica, 31 March 2010

Approved by and signed on behalf of Erste Bank A.D., Podgorica

Aleksa Lukić
Executive Director

Predrag Lalović
Executive Director

Kristina Bukilić
Director of Finance and Accounting

1. ACTIVITY

Erste Bank A.D., Podgorica ("the Bank") was registered in April 2002, based on the Decision of the Monetary Council of the Central Bank of Montenegro as Opportunity Bank A.D., Podgorica. The Bank changed its name in July 2009 to Erste Bank A.D., Podgorica. The Bank has received a license to perform payments and deposit activities domestically and abroad.

The Bank is a joint stock company incorporated and domiciled in Montenegro. Its registered office is at Marka Miljanova 46, Podgorica, Montenegro.

In accordance with the Law on Banks, Articles of Association, Statute and Decision of the Central Bank of Montenegro, the Bank performs the following operations:

- accepting deposits and other funds of private individuals and legal entities and the use of these funds, either partially or wholly, for granting loans or investing on the Bank's own behalf;
- issuing guarantees and accepting other obligations;
- purchase and collection of claims;
- issuing, processing and recording payment instruments (including credit cards, travel and bank checks);
- foreign payment operations;
- financial leasing;
- trading on its own behalf and for its own account or for the account of clients with foreign
- currencies, including exchange operations,
- currency and interest rate instruments;
- collecting, analyzing and giving information and advice on credit worthiness of companies and
- entrepreneurs and other issues regarding operations;
- deposit operations;
- safe-keeping services;
- activities directly related to the operations of the Bank and other activities, which are of an ancillary nature in relation to the Bank operations.

The Bank conducts its operations through its Head Office and fourteen branches located in the cities of Podgorica, Berane, Nikšić, Bijelo Polje, Pljevlja, Bar, Kotor, Ulcinj, Budva, Herceg Novi, Rožaje, Cetinje and Tivat.

In 2009 previous shareholders of the Bank sold all their shares to Erste & Steiermarkische Bank D.D. Croatia and the new owner holding 100% shares registered its ownership in the Central Depository Agency on 27 February 2009. The ultimate parent of the Group is Erste Group Bank AG, Vienna, Austria. The previous majority shareholder of the Bank was Opportunity Transformation Investments Inc, USA.

As at 31 December 2009, the Bank had 225 employees (2008: 219).

2. BASIS OF PREPARATION

Statements of compliance

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

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in accordance with Montenegrin banking regulation and related instructions. These financial statements are based on the Bank's statutory books and records, as adjusted and reclassified in order to comply with IFRS.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the financial instruments at fair value through profit or loss, financial instruments available for sale and property which are measured at fair value.

Functional and presentation currency

The financial statements are presented in thousands of Euro (EUR) which is the Bank's functional and presentation currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 4.

A summary of the principal accounting policies applied in preparing the IFRS financial statements are set out within Note 3 to the financial statements.

Consolidation

The Bank does not have control over any other entity.

Going concern

The financial statements are prepared in accordance with the going concern concept, which assumes that the Bank will continue in operation for the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

In 2009, the Bank changed accounting policy with respect to presentation of cash and cash equivalents and excluded mandatory reserves from cash and cash equivalents in the amounts of EUR 7,176 thousand as of 31 December 2009 (2008: EUR 13,955 thousand). As this has no impact on the statement of the financial position, the Bank did not present the statement of the financial position as of the beginning of the earliest comparative period presented.

In 2009, the Bank also changed accounting policy on recognition of actuarial gains and losses on long-term employee benefits to comply with the Erste Group's accounting policy. The Bank recognized actuarial gains and losses on long-term employee benefits in other comprehensive income, which were previously recognized in income statement. The Bank did not make retrospective adjustment to the 2008 statement of comprehensive income since the management believes that the relating effects are not materially significant to the financial statements.

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Bank.

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.
The Bank has elected to present comprehensive income in one single statement. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or made significant retrospective reclassifications of items in the financial statements.

IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Additional disclosures are provided in Notes 27 and 28.

IAS 23 "Borrowing Costs"(Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank adopted this as a prospective change.
No changes were made for borrowing costs incurred to 1 January 2009 that have been expensed.

Changes in accounting policies (continued)

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions.
These amendments did not have any impact on the Bank.

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations

Amendment to IFRS 2 was issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a nonvesting condition is not satisfied. This amendment did not have any impact on the financial position or performance of the Bank.

IFRS 8 "Operating Segments"

IFRS 8 became effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Adoption of this Standard did not have any impact on the Bank's financial statements.

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Bank's financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Bank's financial statements.

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Bank's financial statements as no reclassifications were made for instruments that contained embedded derivatives.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Bank as the Bank has no transfers of assets from its customers.

Foreign currency translation

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at the statement of financial position date. Foreign exchange differences arising on translation are recognized in the income statement.

Foreign currency translation (continued)

Non-monetary assets denominated in foreign currency are translated at the rate ruling at the historic date.

Official exchange rates for major currencies used in the translation of assets and liabilities denominated in foreign currencies at 31 December 2009 and 2008 are as follows:

In EUR	2009	2008
USD	0.6974	0.7093
CHF	0.6721	0.6683
GBP	1.1062	1.0265

Recognition of income and expenses

Interest

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.
The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fees and commissions

Fees and commissions income/expenses arising upon financial services provided by/to the Bank include transfer payments and other banking services. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized in the income statement on an accrual basis.
Other fees and commission expense relate mainly to transaction and service fees, which are recognized in income statement as the services are provided or received.

Net trading income

Foreign exchange rate gains includes foreign currency exchange gains (realized and unrealized) and losses, fair value adjustments and gains/losses on sale of financial assets at fair value through profit or loss.

Operating lease expenses

The Bank is involved in operating lease arrangements as the lessee. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.
Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Income and other taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax

Current tax represents an amount calculated and payable under the Montenegrin Corporate Income Tax Law. The income tax rate is 9% (2008: 9%) and is payable on taxable profit.
Taxable profit includes the profit shown in the statutory income statement, as adjusted for differences, as defined by the Montenegrin Corporate Income Tax Law.

Montenegrin Tax Law does not allow tax losses of the current period to be used to recover tax paid within a specific carry back period. However, current year losses may be used to decrease taxable profits for future periods up to a maximum of five years.

Deferred tax

Deferred tax is provided using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently, enacted tax rates are used in the determination of deferred income tax. Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.
A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Financial assets and liabilities

Classification

The Bank classified its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and advances.
Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or upon initial recognition are designated by the Bank as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that the Bank acquired or incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or derivatives.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and the ability to hold them to maturity.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. If there is no local active market for financial assets of this nature and that those are financial assets with fixed maturity, available for sale assets were measured at amortized cost using the effective interest rate method.
Equity investments are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in equity prices. If there is no local active market for investments of this nature, equity investments are included in the balance sheet at cost.

Recognition

The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the settlement date. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.
The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank writes off certain loans when they are determined to be uncollectible (see Note 28).

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement

The fair values stated for financial instruments are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values of certain financial instruments stated with their nominal values are approximately equivalent to their carrying amounts. These include cash as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates. The directors are of the opinion that as a result of Bank's nature of operations and general policies, there is no material difference between the book value and fair value of the Bank's financial assets and liabilities.

Subsequent measurement

Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Financial assets and liabilities (continued)

Subsequent measurement (continued)

Loans and advances

Loans and advances are subsequently measured at amortized cost using the effective interest rate method less allowances for impairment. Amortized cost is calculated by taking into account any issuance costs and any discount or premium on settlement. The losses arising from impairment are recognized in the income statement.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

If a lessor transfers substantially all the risks and rewards incident to the ownership of an asset to the lessee, lease contracts are classified as finance leases. The Bank, as a lessor, recognizes assets held under a finance lease in its balance sheet and presents them as finance lease receivables at an amount equal to the net investment in the lease. The sum of future minimum lease payments and initial origination fees equate to the gross investment in the lease (since finance lease contracts include a purchase clause at the end of the lease period there is no unguaranteed residual value). The difference between the gross and net investment in the lease represents unearned finance income, which is recognized as interest income over the lease term at a constant periodic rate of return on the net investment in the lease.

Financial assets available for sale

Financial assets available-for-sale are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity in the fair value reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding financial asset available for sale are recognized in the income statement when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement in and removed from the fair value reserve.

Financial assets held to maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, financial assets held-to-maturity are subsequently measured at amortized cost using the effective interest rate, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in interest income. The losses arising from impairment of such investments are recognized in the income statement.

Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed individually for impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in income statement and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through income statement.

Financial assets and liabilities (continued)

Subsequent measurement (continued)

Identification and measurement of impairment (continued)

Impairment losses on financial assets available for sale are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to income statement. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, current accounts with the Central Bank of Montenegro and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. As disclosed above, in 2009, the Bank changed its accounting policy with respect to presentation of cash and cash equivalents. Cash and cash equivalents are carried at amortized cost in the balance sheet.

Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at historical cost except buildings that are stated at valuation. Valuation of buildings was made in March 2008 by authorized valuator and total effect of the valuation was posted within the revaluation reserve. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Depreciation rates in use are as follows:

Description	%
Building	2.5
Computers and related equipment	14.29 - 25
Furniture and other equipment	10 - 33.33

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of buildings and depreciation based on the assets original cost. Maintenance and repairs are charged to profit and loss account when incurred. Improvements are capitalized.

Intangible assets

Intangible assets are stated at cost decreased for accumulated amortisation and impairment. Intangible assets represent computer software, Swift license, Master Card license and other intangible assets. Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives. Amortisation rate used range from 6.67% to 33.33%.

Acquired assets held for sale

The Bank acquired fixed asset through the enforcement of security over loans and advances. Acquired fixed assets are measured at the lower of its carrying amount and fair value less cost to sell.

Liabilities for grants

Grants are recognized as income over the life of a depreciable asset by way of a reduced depreciation charge.

Employment benefits

Pursuant to the Collective Bargaining Agreement, the Bank is obligated to pay retirement benefits in an amount equal to six average monthly salaries in the Bank. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.
Provision for retirement benefits is calculated by independent actuary. The liability recognized in the balance sheet is the present value of the obligation, determined by discounting estimated future outflows using the projected unit credit method. Actuarial gains and losses are recognized in the period in which they arise in other comprehensive income. As disclosed above, in 2009, the Bank changed its accounting policy with respect to recognition of actuarial gains and losses.

Financial guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees, performance bonds and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition the Bank's liability under each guarantee should be measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.
Any increase in the liability relating to the financial guarantees is taken to the income statements.
The premium received is recognised in the income statements on a straight line basis over the life of the guarantee.

Comparative information

The Bank made certain changes in presentation of financial statements to agree the presentation used for internal reporting. Comparative information was reclassified where necessary to conform to the current year presentation. The reclassifications in the income statement relate to the following:

• loan origination fees in the amount of EUR 940 thousand from fee and commission income to interest income;
• origination fees on borrowings in the amount of EUR 62 thousand from fee and commission expense to interest expense;
• losses on fair value measurement of call option in the amount of EUR 118 thousand from fee and commission expense to net trading income;
• losses on fair value measurement of call option in the amount of EUR 38 thousand from fee and commission expense to net trading income;
• payment into deposit insurance fund in the amount of EUR 334 thousand from fee and commission expense to other operating result;
• various income in the amount of EUR 60 thousand from net trading income to other operating result;
• amortization of grant in the amount of EUR 127 thousand, losses on disposals of fixed assets in the amount of EUR 26 thousand and other expenses in the amount of EUR 12 thousand from general and administrative expenses to other operating result.

Changes in the statement of financial position relate to the following:

- Cash and balances with banks and Central Bank and loans and advances to banks were previously presented as a single item 'Cash and balances with banks and Central Bank';
- Acquired assets held for sale representing assets received on foreclosed loans are included in other assets and were previously presented as a separate item in the statement of financial position;
- Current tax assets are presented as a separate line in the statement of financial position and were previously included under other assets.
- Liabilities for grants are included in other liabilities and were previously presented as a separate item in the statement of financial position.

In addition, in 2009, the Bank netted off deferred origination fees on loans and borrowings against the carrying values of relating assets and liabilities. The relating adjustment has not been made in the comparative information as it was not practicable to do so.

The Bank's management believes that the above changes in presentation do not significantly affect the Bank's financial statements.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IAS 24 "Related party disclosures" (Revised) - The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. Management does not expect the revised IAS 24 to affect the Bank's financial statements as the Bank is not controlled or significantly influenced by a government.

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Bank's financial statements as the Bank has not entered into any such hedges.

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accountingfor business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss.

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008) (continued)

Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

Revised IFRS 1 "First-time Adoption of International Financial Reporting Standards"

This revision of IFRS 1 issued in November 2008 retains the substance of the previous version, but within a changed structure. It replaces the previous version and is effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 July 2009. There is no impact on the financial statements of the Bank as a result of this revision.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" will have no significant impact on the accounting policies, financial position or performance of the Bank.

Amendments to IAS 32 "Financial instruments: Presentation: Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
The Bank expects that this amendment will have no impact on the Bank's financial statements.

Amendments to IFRS 1 "Additional Exemptions for First-time Adopters"

These amendments become effective for accounting periods beginning on or after 1 January 2010 and provide relief from the full retrospective application of IFRS for the measurement of oil and gas assets and leases. This amendment does not apply to the Bank.

IFRS 9 "Financial Instruments"

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

Future changes in accounting policies (continued)

Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement

The amendment was made to remove an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. It requires entities to treat such early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. The amendment is *effective for annual periods beginning on or after 1 January 2011.*The Bank does not currently have any plans with minimum funding requirements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is *effective for annual periods beginning on or after 1 July 2010 and* clarifies that equity instruments issued to a creditor to extinguish a financial liability are “consideration paid” in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Bank does not currently have any transactions within the scope of the Interpretation.

Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

Relief is given to first-time adopters from providing comparative information for the disclosures required by the amendments to *IFRS 7 Financial Instruments: Disclosure* in the first year of application. The amendment is *effective for accounting periods beginning on or after 1 July 2010.* This amendment does not apply to the Bank.

4. USE OF ESTIMATES AND JUDGMENTS

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

These disclosures supplement the commentary on financial risk management (see Note 28).

Key sources of estimation uncertainty

Impairment: Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 3.

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, local economic conditions that correlate with defaults on assets.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair values: The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy in Note 3. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

5. NET INTEREST INCOME

In thousands of EUR	**2009**	**2008**
Interest income		
Current accounts	2	28
Time deposits with foreign banks	382	823
Loans and advances to customers	21,944	20,131
Financial assets available for sale	113	-
Financial assets held to maturity	55	-
Other	40	105
Total interest income	**22,536**	**21,087**
Interest expense		
Deposits from banks	(1,552)	(248)
Deposits from customers	(5,553)	(4,205)
Subordinated liabilities	(191)	(284)
Total interest expense	**(7,296)**	**(4,737)**
Net interest income	**15,240**	**16,350**

6. NET FEE AND COMMISSION INCOME

In thousands of EUR	2009	2008
Fee and commission income		
Lending business	16	16
Payment transfers	750	633
Card transactions	359	400
Other fee and commission income	62	80
Total fee and commission income	**1,187**	**1,129**
Fee and commission expense		
Lending business	(6)	-
Payment transfers	(165)	(240)
Card transactions	(188)	(140)
Total fee and commission expense	**(359)**	**(380)**
Net fee and commission income	**828**	**749**

7. TRADING INCOME

In thousands of EUR	2009	2008
Net foreign exchange gains	182	187
Losses on fair value of call option	(14)	(156)
Total	**168**	**31**

8. CREDIT LOSS EXPENSE

In thousands of EUR	**2009**	**2008**
Loans and advances to customers	7,576	2,409
Loans and advances to banks	5	-
Accrued interest and other assets	(3)	22
Provision for contingent liabilities	104	(28)
Total	**7,682**	**2,403**
Recognition of loans written off	(1,594)	-
Recoveries of loans written off	(749)	(337)
Total	**5,339**	**2,066**

9. GENERAL ADMINISTRATIVE EXPENSES

In thousands of EUR	2009	2008
Personnel expenses	(5,686)	(5,802)
Other administrative expenses	(3,322)	(3,503)
Depreciation of property and equipment	(652)	(699)
Amortisation of intangible assets	(116)	(160)
Total	**(9,776)**	**(10,164)**

Personnel expenses

In thousands of EUR	2009	2008
Wages and salaries	(4,202)	(4,213)
Legal social security contribution	(1,160)	(1,527)
Other personnel expenses	(260)	(2)
Provision for long-term employee benefits	(64)	(60)
Total	**(5,686)**	**(5,802)**

Employees of the Bank receive their pensions from the Montenegrin Pension and Disability Insurance Fund and medical benefits from the Montenegrin Health Insurance Fund, which are accounted as defined contribution plans.

Other administrative expenses

In thousands of EUR	2009	2008
Expenses dependent upon personnel	(241)	(301)
Expenses for office space	(814)	(843)
Office operating expenses	(574)	(565)
IT expenses	(619)	(304)
Advertising / marketing	(493)	(589)
Legal and consulting costs	(580)	(854)
Sundry administrative expenses	(1)	(47)
Total	**(3,322)**	**(3,503)**

Legal and consulting costs include the amount of EUR 139 thousand (2008: EUR 122 thousand) relate to consultancy agreement with Opportunity Transformation Investments, USA.

10. OTHER OPERATING RESULT

In thousands of EUR	2009	2008
Other operating income	135	187
Payment into deposit insurance fund	(311)	(334)
Losses on disposals of fixed assets	(112)	(27)
Other expense	(40)	(29)
Total	**(328)**	**(203)**

11. INCOME TAX

The components of income tax for the years ended 31 December 2009 and 2008 are:

In thousands of EUR	2009	2008
Current tax – current income tax	25	514
Deferred tax – relating to origination and reversal		
of temporary differences	114	(47)
Total income tax expense in income statement	**139**	**467**

A reconciliation between the tax expense and the accounting result multiplied by the Montenegrin tax rate for the year ended 31 December 2009 and 2008 is as follows:

In thousands of EUR	2009	2008
Accounting profit before tax	793	4,697
At Montenegrin statutory tax rate of 9%	71	423
Non-deductable expenses	6	63
Tax credits and reliefs	-	(19)
Other	62	-
Income tax reported in the income statement	**139**	**467**

Deferred tax related to items charged or credited directly to equity during the year is as follows:

In thousands of EUR	2009	2008
Gains on financial assets available for sale	9	-
Actuarial gains on long-term employee benefits		
recognised in equity	2	-
Revaluation of property	-	74
Total	**11**	**74**

Deferred tax assets and liabilities recognized in balance sheet relate to the following:

	2009			2008		
In thousands of EUR	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Depreciation of fixed assets	-	(42)	(42)	-	(5)	(5)
Actuarial gains on longterm employee benefits recognised in equity	-	(2)	(2)	-	-	-
Gains on financial assets available for sale	-	(9)	(9)	-	-	-
Revaluation of property	-	(76)	(76)	-	(74)	(74)
Allowances for loan losses	10	-	10	85	-	85
Net tax assets/(liabilities)	**10**	**(129)**	**(119)**	**85**	**(79)**	**6**

12. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

In thousands of EUR	2009	2008
Cash on hand	5,919	6,306
Current accounts with the Central Bank of Montenegro	3,533	3,629
Other	-	3
Total included in cash and cash equivalents	9,452	9,938
Deposits with the Central Bank of Montenegro	7,176	13,955
Balance as at 31 December	**16,628**	**23,893**

Deposits with the Central Bank of Montenegro relate to mandatory reserve requirements and are calculated on the average weekly amount of sight and term deposits at rate of 10%. These reserves and are kept on the level of calculated reserves of the average weekly amount of sight and term deposits of the first week June 2009. If the average amount of deposits is lower then the average amount of deposits in the June 2009 period, reserves will be decreased and are calculated at rate of 10% of those average deposits. The Bank can hold 25% of those reserves in treasury bills issued by the Government of Montenegro. Mandatory reserve deposits are available for use up to 50% in the Bank's day-to-day operations.

13. LOANS AND ADVANCES TO BANKS, NET

In thousands of EUR	**2009**	**2008**
Current accounts with foreign banks	9,750	17,481
Deposit for Master Card business	215	219
	9,965	17,700
Allowance for impairment	(5)	-
Balance as at 31 December	**9,960**	**17,700**

14. LOANS AND ADVANCES TO CUSTOMERS, NET

	2009			2008		
In thousands of EUR	Gross Amount	Impairment	Carrying Amount	Gross Amount	Impairment	Carrying Amount
Retail customers						
Personal loans	80,603	(4,769)	75,834	67,837	(1,580)	66,257
Credit cards	8,203	(327)	7,876	7,337	(146)	7,191
Finance lease	3,721	(179)	3,542	3,161	(63)	3,098
Other lending	10,605	(193)	10,412	7,205	(84)	7,121
Corporate customers						
Finance lease	3,129	(269)	2,860	4,780	(128)	4,652
Other lending	39,342	(2,143)	37,199	29,428	(1,405)	28,023
Public customers						
Finance lease	20	-	20	-	-	-
Other lending	149	(2)	147	-	-	-
Other customers						
Other lending	5	-	5	-	-	-
Balance as at 31 December	**145,777**	**(7,882)**	**137,895**	**119,748**	**(3,406)**	**116,342**

A reconciliation of allowance for impairment of loans and advances to customers is as follows:

In thousands of EUR	2009	2008
Specific impairment		
Balance as at 1 January	566	446
Charge for the year	4,429	120
Balance as at 31 December	**4,995**	**566**
Portfolio impairment		
Balance as at 1 January	2,840	1,835
Charge for the year	3,147	2,289
Written off loans	(3,100)	(1,284)
Balance as at 31 December	**2,887**	**2,840**

Analysis of loans and advances to customers by sector is as follows:

In thousands of EUR	2009	2008
Agriculture	6,715	7,062
Building construction	3,525	3,280
Trade	39,547	32,365
Tourism	14,603	13,760
Production	673	2,407
Transportation	3,153	3,040
Administration and other public services	13,439	13,797
Other	64,122	44,037
Less: Allowance for impairment	(7,882)	(3,406)
Balance as at 31 December	**137,895**	**116,342**

The Bank manages its exposure to credit risk by applying a range of control measures including:
regular assessments using agreed credit criteria and diversification of sector risk to avoid undue concentration in any particular type of business or geographic location. The Bank obtains security in the form of mortgages, guarantees and pledges in order to reduce the level of credit risk.
For loans granted to individuals weighted average interest rate was 18.15% p.a. and for loans granted to companies weighted average interest rate was 11.15% p.a.

Finance lease receivables

Loans and advances to customers include the following finance lease receivables:

In thousands of EUR	2009	2008
More than five years	371	613
Between one and five years	5,011	6,772
Less than one year	2,580	2,517
Gross investment in financed leases, receivable	7,962	9,902
Unearned future income on finance leases	(1,025)	(1,961)
Net investment in finance leases	**6,937**	**7,941**

Future minimum lease payments receivable, unearned future income and the net investment in finance lease by maturity as at 31 December 2009 and 2008 are as follows:

	2009		
In thousands of EUR	**Gross Investment**	**Unearned Income**	**Investment in the lease**
Less than one year	371	(438)	2,142
Between one and five years	5,011	(552)	4,459
More than five years	2,580	(35)	336
Investment in finance leases at end of year	**7,962**	**(1,025)**	**6,937**

	2008		
In thousands of EUR	**Gross Investment**	**Unearned Income**	**Investment in the lease**
Less than one year	2,517	(723)	1,794
Between one and five years	6,772	(1,147)	5,625
More than five years	613	(91)	522
Investment in finance leases at end of year	**9,902**	**(1,961)**	**7,941**

15. FINANCIAL ASSETS AVAILABLE FOR SALE

In thousands of EUR	2009	2008
Debt instruments – Treasury bills of the Croatian Government	5,826	-
Equity instruments	33	33
Balance as at 31 December	**5,859**	**33**

16. FINANCIAL ASSETS HELD TO MATURITY

In thousands of EUR	2009	2008
Treasury bills of the Montenegrin Government	2,377	-
Balance as at 31 December	**2,377**	**-**

17. PROPERTY AND EQUIPMENT

The movements in tangible assets for the year were as follows:

In thousands of EUR	Buildings	Computers	Other assets	Total
Cost or valuation				
As at 1 January 2008	1,055	843	2,817	4,715
Revaluations	931	-	-	931
Additions	-	166	890	1,056
Disposals	-	(200)	(43)	(243)
As at 31 December 2008	1,986	809	3,664	6,459
Additions	1,074	178	166	1,418
Disposal	-	(102)	(180)	(282)
As at 31 December 2009	3,060	885	3,650	7,595
Accumulated depreciation				
As at 1 January 2008	65	349	1,101	1,515
Revaluations	81	-	-	81
Depreciation for the year	86	156	457	699
Disposals	-	(190)	(27)	(217)
As at 31 December 2008	232	315	1,531	2,078
Depreciation for the year	46	166	440	652
Disposal	-	(75)	(95)	(170)
As at 31 December 2009	278	406	1,876	2,560
Net Book Value as at 31 December 2008	**1,754**	**494**	**2,133**	**4,381**
Net Book Value as at 31 December 2009	**2,782**	**479**	**1,774**	**5,035**

The last valuation of the Bank's property was performed in 2008. Had the Bank carried property under the cost model the net carrying value of the revalued property would amount to EUR 938 thousand as of 31 December 2009 (31 December 2008: EUR 989 thousand).

18. INTANGIBLE ASSETS

The movements in intangible assets for the year were as follows:

In thousands of EUR	**Computer Software**	**Purchased Licenses**	**Other intangible assets**	**Total**
Cost				
As at 1 January 2008	511	90	206	807
Additions	531	-	-	531
As at 31 December 2008	1,042	90	206	1,338
Additions	69	-	-	69
As at 31 December 2009	1,111	90	206	1,407
Accumulated amortization				
As at 1 January 2008	224	88	199	511
Charge for the year	151	2	7	160
As at 31 December 2008	375	90	206	671
Charge for the year	116	-	-	116
Other	2	-	-	2
As at 31 December 2009	493	90	206	789
Net Book Value as at				
31 december 2008	**667**	**-**	**-**	**667**
Net Book Value as at				
31 december 2009	**618**	**-**	**-**	**618**

19. OTHER ASSETS

In thousands of EUR	2009	2008
Accrued interest	1,456	1,043
Accrued commissions	10	6
Prepaid expenses	264	518
Other receivables	500	885
Positive fair value of call option	35	49
	2,265	2,501
Less: Allowance for impairment	(57)	(60)
Balance as at 31 December	**2,208**	**2,441**

The Bank entered into a call option agreement with Commerzbank Aktiengesellschaft, Frankfurt ("Commerzbank") on 14 February 2008 which expires on 13 January 2013. The Bank paid a premium to Commerzbank in the amount of EUR 205 thousand. As at 31 December 2009 fair value of the call option is EUR 35 thousand (2008: EUR 49 thousand).

A reconciliation of the allowance for impairment of other assets is as follows:

In thousands of EUR	2009	2008
Balance as at 1 January	60	38
Additions	154	54
Written off interest	(157)	(32)
Balance as at 31 December	**57**	**60**

20. DEPOSITS FROM BANKS

In thousands of EUR	2009	2008
Demand deposits	174	283
Term deposits	500	500
Balance as at 31 December	**674**	**783**

21. DEPOSITS FROM CUSTOMERS

In thousands of EUR	2009	2008
Demand deposits	41,933	44,691
Term deposits	68,534	45,084
Balance as at 31 December	**110,467**	**89,775**

Demand deposits include current account balances of enterprises, citizens and other customers.

22. OTHER BORROWED FUNDS

In thousands of EUR	**2009**	**2008**
Current (due within one year)	9,050	26,925
Non-current (due after one year)	35,425	22,975
Deferred origination fees	(353)	-
Balance as at 31 December	**44,122**	**49,900**

Borrowings from EFSE Luxembourg, presented on the following page, are subject to the collateralization of loan assets to a value equivalent of 10,852 thousand EUR. The Bank assigned to the EFSE Luxemburg as collateral all present and future payment claims and all other rights which relate to any Sub-Loan refinanced under Framework Agreement between Bank and EFSE Luxembourg and any rights and claims arising from any collateral or guarantee granted either by the Sub-Borrower or any other obligor as a security for such Sub-Loan.

22. OTHER BORROWED FUNDS (continued)

Borrowings from financial institutions and banks

As at 31 December 2009, the Bank had borrowings in the following gross amounts:

Borrowings

Bank/Financial institution	Amount outstanding 12/31/2008	Repaid loan	New debt	Amount outstanding 12/31/2009	Origination date	Maturity date	Interest rate
EFSE Luxembourg	900	700	-	200	Sep 07	22/3/2010	4% p.a.
EFSE Luxembourg	3,000	300	-	2,700	Jul 08	3/22/2009 to 9/22/2013	7.66% p.a.
EFSE Luxembourg	2,500	925	-	1,575	Mar 08	9/22/2011 to 3/22/2018	7.25% p.a.
EFSE Luxembourg	7,500	-	-	7,500	Mar 08	9/22/2011 to 3/22/2015	6.87% p.a.
Compartment Opportunity Eastern Europe	2,000	2,000	-	-	Dec 05	Oct 09	4.5 yr swap rate + 4.17%
Compartment Opportunity Eastern Europe	2,000	-	-	2,000	Apr 06	1/4/2010	4.5 yr swap rate + 4.17%
Compartment Opportunity Eastern Europe	2,000	-	-	2,000	Oct 06	1/10/2010	4.5 yr swap rate + 4.17%
Oikocredit Subordinated debt	4,000	-	-	4,000	Mar 08	18/03/2013 to 18/03/2016	6 month EURIBOR + 3.9%
Blue Orchard	3,000	3,000	-	-		3/10/2009	6 month EURIBOR + 3%
ING Bank	3,000	-	-	3,000	Jun 08	19/6/2010	3 month EURIBOR + 2.75%
Erste Group Bank	20,000	20,000	3,835	3,835	Dec 09	31/12/2014	1 month EURIBOR + 3.7%
Steiermaerkische und Sparkassen Graz	-	-	2,665	2,665	Dec 09	31/12/2014	1 month EURIBOR + 3.7%
KFW GERMANY	-	-	2,000	2,000	Jul 09	30/06/2011 to 30/06/2016	2.4% FIXED
KFW GERMANY	-	-	4,000	4,000	Jul 09	30/06/2011 to 30/06/2016	6.6% FIXED
KFW GERMANY	-	-	4,500	4,500	Oct 09	30/06/2011 to 30/06/2016	6.6% FIXED
KFW GERMANY	-	-	4,500	4,500	Dec 09	30/06/2011 to 30/06/2016	6.6% FIXED
Total	**49,900**	**26,925**	**21,500**	**44,475**			

23. OTHER LIABILITIES

In thousands of EUR	2009	2008
Accrued interest	1,811	1,623
Deferred fees	-	272
Accrued expenses	157	67
Accrued employee benefits	59	454
Provision for long term employee benefits	146	99
Provision for contingent liabilities	210	106
Liabilities for grants	-	112
Items in course of collection and other liabilities	291	162
Balance as at 31 December	**2,674**	**2,895**

Provision for long-term employee benefits relates to upon retirement benefits payable in an amount equal six average monthly salaries in the Bank. Provision for retirement benefits is calculated by independent actuary. The liability recognized in the balance sheet is the present value of the obligation, determined by discounting estimated future outflows using the projected unit credit method. The actuary used discount rate of 5.3% and expected increase in salaries of 5% and personnel turnover rate of 2.14%.

A reconciliation of provision for long term employee benefits is as follows:

In thousands of EUR	2009	2008
Balance as at 1 January	99	38
Additions:		
- service costs	58	61
- interest costs	6	-
Actuarial gains	(17)	-
Balance as at 31 December	**146**	**99**

Provision for contingent liabilities relates to the following:

In thousands of EUR	**2009**	**2008**
Issued guarantees	83	13
Credit commitments:		
- overdrafts	71	47
- credit cards	56	46
Balance as at 31 December	**210**	**106**

A reconciliation of provision for contingent liabilities is as follows:

In thousands of EUR	**2009**	**2008**
Balance as at 1 January	106	134
Additions	104	(28)
Balance as at 31 December	**210**	**106**

24. SHAREHOLDER'S EQUITY

In thousands of EUR	2009	2008
Share capital	5,339	5,339
Share premium	1,571	1,571
General risk reserves	182	495
General loan reserves	-	332
Other capital reserves	300	-
Fair value reserves	96	-
Revaluation reserves	719	741
Retained earnings	14,763	13,726
Balance as at 31 December	**22,970**	**22,204**

Share capital

As at 31 December 2009, the Bank's share capital comprised 5,339 ordinary shares of individual par value of EUR 1,000 each.

Share premium

Share premium represents the amount by which the issue price of the shares exceeded their accounting par value.

General risk reserves

General risk reserves relate to reserves for operational risks equal to 0.1% of total assets (2008: 0.3% of total assets). These reserves are recognized in income statement and reported as liabilities in the financial statements prepared under regulations of the Central Bank of Montenegro.

General loan reserves

General loan reserve was set aside in accordance with previously effective regulation of the Central Bank of Montenegro which required allocations to general loan reserves when loan portfolio had annual increase over specified percentages.

Other capital reserves

Other capital reserves represent amounts allocated from retained earnings based on decision of the Bank's General Assembly.

Fair value reserves

This reserve comprises changes in fair value of financial assets available for sale.

Revaluation reserves

Revaluation reserves represent surplus on revaluation of property. The revaluation surplus is transferred to retained earnings as the assets are depreciated.

Retained earnings

Retained earnings represent accumulated net profits brought forward, as well as income and expenses recognized in other comprehensive income.

Dividends

The Board of Directors of the Bank did not declare dividends for the year 2009.

25. CONTINGENT LIABILITIES AND COMMITMENTS

The Bank provides guarantees, overdraft loans, finance lease and limits on credit cards. These agreements have fixed limits and generally extend for a period up to one year. The contractual amounts of contingent liabilities are set out in the following table by category. The amounts reflected in the table for guarantee, overdraft loans and credit card limits represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

In thousands of EUR	2009	2008
Guarantees	2,628	752
Unused overdraft limit on loans	3,635	2,776
Credit cards	3,760	4,295
Provisions for impairment of contingent liabilities	(210)	(106)
Balance as at 31 December	**9,813**	**7,717**

Legal claims

On the statement of financial position date, the Bank is involved in 34 court cases as defendant. Out of 34 court cases 30 relate to compensation of damage, 3 to labor disputes and 1 to confirmation of ownership rights. The value is not currently practically determinable, however the Bank expects favorable resolutions of these claims. The financial statements do not contain any corresponding adjustments for legal proceedings.

Operating lease commitments

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

In thousands of EUR	2009	2008
Commitments due within one year	517	510
Commitments due in period from 1 to 5 years	967	1,230
Commitments due after 5 years	312	520
Balance as at 31 December otal	**1,796**	**2,260**

Unused amount of loans granted for project financing

Total unused amount of loans granted for project financing is EUR 3,992 thousand, as of 31 December 2009.

26. RELATED PARTY TRANSACTIONS

As disclosed in Note 1, the Bank is owned by Erste & Steiermarkische Bank D.D. Croatia and ultimately owned by Erste Group Bank AG, Vienna, Austria. The previous majority shareholder of the Bank was Opportunity Transformation Investments Inc, USA.
In the course of its business, the Bank has entered into various transactions with related parties. A summary of the Bank's transactions with related parties in the years 2009 (Erste Bank Group entities) and 2008 (Opportunity International entities) were as follows:

In thousands of EUR	**2009**	**2008**
Assets		
Current accounts with foreign banks	6,742	-
Liabilities		
Demand deposits	1	2
Term deposits	6,890	2,125
Borrowings	6,500	-
	13,391	2,127
Income		
Interest and similar income	364	-
Expenses		
Interest and similar expenses	1,514	14
Management fee	-	122
	1,514	136

The above stated amounts of assets as at 31 December 2009 and interest and similar income in 2009 include amounts of EUR 2,902 thousand and EUR 316 thousand relating to Erste & Steiermarkische Bank D.D. Croatia.

Compensation to and other transactions with key management personnel of the Bank

In 2009 the Bank paid to management team personnel gross salaries and other compensations in amount of EUR 670 thousand (2008: EUR 787 thousand) which include deferred compensations relating to an long-term incentive plan, which fully vested upon the sale of the shares in the Bank to Erste & Steiermarkische Bank D.D. Croatia, in the amount of EUR 81 thousand (2008: EUR 472 thousand).

Compensation to and other transactions with key management personnel of the Bank (continued)

The year end balances of loans to and deposits from members of the Board of Directors were as follows:

In thousands of EUR	2009	2008
Assets		
Loans	38	31
Liabilities		
Demand deposits	29	19
Term deposits	215	68
Indexed deposits	19	20
	263	107

The Bank did not grant any loans to the members of the Board of Directors during 2009 (2008: nil). The outstanding balance as at 31 December 2009 for previously granted loans to the Board of Directors amounted to EUR 38 thousand (2008: EUR 31 thousand).

The Bank granted housing loans to the local management personnel who are not members of the Board of Directors. The outstanding balance as at 31 December 2009 for granted loans amounted to EUR 115 thousand (2008 EUR 231 thousand). Interest income on granted loans to management personnel in 2009 amounted to EUR 6 thousand (2008 EUR 31 thousand).

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances at the yearend are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2009, the Bank has not made any provisions for doubtful debts relating to amounts owned by related parties (2008: nil).

27. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The table below sets out the Bank's classification of financial assets and liabilities, and their fair values (excluding accrued interest):

In thousands of EUR	Total carrying value	Stated at fair value	Stated at amortised cost	Fair value
As at 31 December 2009				
Cash and balances with banks and Central bank	16,628	-	16,628	16,628
Loans and advances to Banks, net	9,960	-	9,960	9,960
Loans and advances to customers, net	137,895	-	137,895	137,895
Financial assets available for sale	5,859	5,859	-	5,859
Financial assets held to maturity	2,377	-	2,377	2,377
	172,719	**5,859**	**166,860**	**172,719**
Deposits from banks	674	-	674	674
Deposits from customers	110,467	-	110,467	110,467
Other borrowed funds	44,122	-	44,122	44,122
	155,263	**-**	**155,263**	**155,263**
As at 31 December 2008				
Cash and balances with banks and Central bank	23,893	-	23,893	23,893
Loans and advances to Banks, net	17,700		17,700	17,700
Loans and advances to customers, net	116,342	-	116,342	116,342
Financial assets available for sale	33	33	-	33
	157,968	**33**	**157,935**	**157,968**
Deposits from banks	783	-	783	783
Deposits from customers	89,775	-	89,775	89,775
Other borrowed funds	49,900	-	49,900	49,900
	140,458	**-**	**140,458**	**140,458**

Assets recorded at fair value

Financial assets available for sale as at 31 December 2009 in the amount of EUR 5,826 thousand (2008: nil) are stated at fair value determined using valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly (Level 2) and in the amount of EUR 33 thousand (2008: EUR 33 thousand) at fair value determined using techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (Level 3).

Assets not recorded at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than one year) it is assumed that the carrying amount approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

28. FINANCIAL RISK MANAGEMENT

Introduction and overview

The main objectives of Bank's risk management framework are the following:

- Contribute to development of various business lines optimising their overall risk adjusted profitability;
- Bank should be very qualitative and competitive entity at the Montenegrin market, including part of foreign clients without neglecting the quality of loan portfolio and efficient risk control;
- Guaranteeing Bank's sustainability through the implementation of qualitative risk management infrastructure.

The Bank's risk management model depends on:

- Strong management influence, from Board of Directors to local operational teams;
- Strong internal procedures and guidelines framework;
- Continuous supervision by independent bodies.

Traditionally, the Bank is mainly exposed to credit risk and consequently the largest focus is given to the management and continuous development and improvement of credit risk management, but not neglecting in any instance other risks the Bank is exposed to in its activities such as liquidity risk, operational risk, market risks, legal risk, reputation risk and the like.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO), Credit Committee and Supervisory Board Committee which are responsible for developing and monitoring Bank risk management policies in their specified areas. Board of Directors consists of executive director, shareholders and other members.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Board of Directors adopted following policies:

- Policies and procedures for management of the credit risk;
- Policies and procedures for management of the liquidity risk;
- Policies and procedures for management of the market risks;
- Policies and procedures for management of the country risk;
- Policies and procedures for management of the operational risks;
- Risk provisioning policy.

Risk policies cover all aspects of the respective type of risk and requirements, quantitative limitations with regard to risk management, risk control as well as, if applicable, performance control, accounting and also regulatory requirements.

The Bank's Internal Audit monitors compliance with the Bank's risks management policies and procedures and undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.
According to the Law on Banks, the Bank complied with all requirements relating to corporate governance. Requirements relate to election of the members of the Board of Directors, election of executive directors and formation of audit committee.

The Bank's Audit Committee is responsible for analyzing Bank's financial reports, analyzing and monitoring the system of internal controls, activities undertaken by executive directors in order to inform Board of Directors, compliance with law, regulations and Bank's acts. Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.

Credit risk

Credit risk is the risk of financial loss occurring as a result of a counterparty's default regarding its contractual obligations to the Bank.

To manage the level of credit risk, the Bank:

• reviews the creditworthiness of customers applying for loans, guarantees and other credit products,
• establishes credit limits on the basis of the risk assessment,
• deals with counterparties of good credit standing and takes appropriate collateral.

Customers are monitored continually and risk limits are adjusted if necessary. Risk limits also take into account various collateral types.

The Bank's primary exposure to credit risk arises through its loans granted to small and medium sized companies and individuals. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet.

Basic principles of loan portfolio are:

• Diversification of loans by industries;
• Diversification within the industry and region;
• Diversification by exposure (limit, individual and group);
• Diversification by maturity;
• Diversification by products.

In accordance with the Central Bank of Montenegro regulations, the total amount of loans and receivables including off balance sheet liabilities, that relate to one client or the group of related clients cannot exceed 25% of bank's own funds. Exceptions are exposures to the Government of Montenegro and Governments and Central banks of OECD countries rated A or better by S&P or exposures unconditionally guaranteed by the Government of Montenegro or governments and Central banks fulfilling above condition.

According to regulation exposure to one client or the group of related clients that exceeds 10% of bank's own funds is considered as large exposure.

For certain types of loans to individual's authorization limits are delegated to Client Advisors. Larger facilities require approval by Branch Manager or Risk management. Loans to companies are granted through 5 Credit Committees depending on level of exposure and level of non secured exposure.

The Risk management department continuously monitors and measures the level of credit risk and prepares monthly reports on the level of credit risk and reports it to management and the Board of Directors. The sector for legal and loan administration is responsible for the collection of bad loans and regularly report to Board of Directors.

Credit risk (continued)

Exposure to credit risk

In thousands of EUR	**Loan and advances to customers**		**Investment securities AfS and HtM**	
	2009	**2008**	**2009**	**2008**
Individually impaired				
Category A	-	6,216	-	-
Category B	-	6,070	-	-
Category C	2,989	231	-	-
Category D	3,971			-
Category E	1,607			-
Impairment	(5,000)	(566)	-	-
Carrying amount	3,567	11,951	-	-
Collectively assessed				
Category A	102,421	95,115	-	-
Category B	32,468	8,774	-	-
Category C	-	1,712	-	-
Category D	-	203	-	-
Impairment	(2,882)	(2,840)	-	-
Carrying amount	132,007	102,964	-	-
Past due but not impaired				
Category A Low risk	142	76	-	-
Carrying amount	142	76	-	-
Past due comprise				
Up to 30 days	141	74	-	-
30-60 days	1	2	-	-
Carrying amount	142	76	-	-
Neither past due nor impaired				
Category A Low risk	2,179	1,351	8,236	33
Carrying amount	2,179	1,351	8,236	33
Total carrying amount	**137,895**	**116,342**	**8,236**	**33**

Impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance is a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

In 2009, the Bank changed internal model used for assessment of impairment losses. The Bank grades credit risk exposures into various categories in groups A , B (performing assets) and C, D and E (non-performing assets). The Bank estimates recoverable amounts by discounting future cash flows on individual level for all individually significant exposures classified in the non performing categories. Collective provisions for performing categories are based on estimations of probabilities of default and losses given default for corporate and retail exposures. Collective provisions for corporate exposures are based on adjusted historic information of Erste Group in Croatia and on the Bank specific historic information for retail exposures. Previously, the Bank individually assessed all individually significant exposures higher than 1% of share capital and applied collective provisions.

Credit risk (continued)

Impairment (continued)

The classification of assets into the risk categories A to E is briefly outlined as follows:

Category A - good assets; includes items which are expected to be fully collected in accordance with the agreed terms;
Category B - assets with the special remark include items that have low probability of loss. These items require special remark of the Bank as a result of potential risk that would arise in case it is not adequately monitored and therefore has weaker prospects in terms of full collection;
Category C - substandard assets include items that have high probability of loss as a result of obvious loss indicators that influence collection of payments;
Category D - Doubtful assets include items for which collection is unlikely, considering creditworthiness of the borrower, collateral value and possibility of collateral foreclosure;
Category E - Loss include items that are entirely uncollectable or will be collected in insignificant amount.

Individually impaired loans and securities

Individually impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and securities agreement. These loans are graded C to E in the Bank's internal credit risk grading system.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loan and advances to customers	
In thousands of EUR	**Gross**	**Net**
Category C	2,989	1,925
Category D	3,971	1,625
Category E	1,607	17
Total as at 31 December 2009	**8,567**	**3,567**
Category C	231	216
Total as at 31 December 2008	**231**	**216**

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms amounted to EUR 2,181 thousand as at 31 December 2009 (2008: EUR 79 thousand).

Credit risk (continued)

Write-off policy

The Bank writes off a loan balance when determines that the loans are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation and there is no perspective that will pay in the future and there is no qualitative collateral. For smaller balance standardized loans, secured mainly with guarantors and there is no payment from guarantors, charge off decisions generally are based on a product specific past due status. These loans are graded E (citizens) or R4 (companies) in the Bank's internal credit risk grading system.

Unrecoverable borrowings E, R4 are those where it is considered that the total receivables will not be recovered by primary or secondary cash flow. Concerning unrecoverable placements E, R4, by default the present value of these receivables equals zero, except when there is a very good collateralization of approved loan.
Written off loans that are considered irrecoverable in off balance sheet amounts to EUR 2,260 thousand as of 31 December 2009 (2008: EUR 1,649 thousand).

Collateral

The amount and type of collateral depend on an assessment of the credit risk of the counterparty.

The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, pledge, guarantors and bill of exchange. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities and no such collateral was held at 31 December 2009 or 2008.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

In thousands of EUR	**Loan and advances to customers**	
	2009	**2008**
Against individually impaired - property	1,673	11,101
Against collectively impaired		
Property	46,496	21,421
Other pledges	10,372	7,790
Against past due but not impaired – ca deposits	2,904	76
Against neither past due nor impaired – cash deposits	6,709	1,351
Total	**68,154**	**41,739**

Collateral values above do not include co-guarantors that the Bank may use as security for loans and advances.

Credit risk (continued)

Collateral (continued)

It is the Bank's policy to dispose of reposed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

During the year the Bank took possession of collaterals with a carrying value of EUR 220 thousand (2008: EUR 160 thousand) at the statement of financial position date, which the Bank is in process of selling.

Credit risk concentrations

The Bank monitors concentrations of credit risk by industry sector to mitigate its risk and diversify its portfolio. An analysis of concentrations of credit risk at the reporting date is shown below:

In thousands of EUR	**Loan and advances to customers**		**Investment securities**	
	2009	**2008**	**2009**	**2008**
Retail customers	97,664	83,433	-	-
Corporate customers	40,064	32,895	-	-
Government	167	14	2,377	-
Other	-	-	5,859	33
Carrying amount	**137,895**	**116,342**	**8,236**	**33**

Industrial risk concentrations are presented in Note 14.

The maximum credit exposure to any customer (excluding banks investment securities) as at 31 December 2009 was EUR 2,573 thousand (2008: EUR 2,205 thousand).

Country risk

Country risk is the probability of incurring losses to the bank due to the inability of persons or companies outside of Montenegro to repay obligations due to political, social and economic environment of the country of the debtor. Risks include:

- Political-economic risk, where loss is probably due to political restrictions created by the acts of the country, state bodies or other bodies in the country of the debtor, and/or because of the general economic condition in the country;
- Transfer risk, where probability of loss due to currency restrictions created by the acts of the country, state bodies or other bodies in the country of the debtor, and/or because of the general economic condition in the country.

Risk management department monitors risk on an ongoing basis and recommends any needed changes in order to keep the policy and procedures in line with the Bank's strategy and goals.

Country risk (continued)

Risk management department submits to the Board monthly reports about country risk exposure. The Board of Directors reviews the adequacy of the system used to manage country risk and approve any policy changes if needed.

Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its liquidity position. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an
appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using:

- deposits with wide ranges of maturity;
- long term borrowings;
- share capital.

The Bank's general policy aim is to manage liquidity risk in order to meet its obligations associated with its financial liabilities and to increase its liquidity level. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank's strategy.

The daily liquidity position is monitored by Risk department and Treasury department which have formal procedures. Control of liquidity level is necessary in order to maintain liquidity risk on acceptable level. The Bank follows its internal and legal limits prescribed by the Central Bank of Montenegro.

The table below presents undiscounted assets and liabilities by earliest remaining contractual maturities.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Liquidity risk (continued)

In thousands of EUR	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total undiscounted financial assets/ liabilities**
Non derivative assets					
Cash and cash equivalents	22,855	-	3,803	-	26,658
Loans and advances to customers	21,071	52,692	88,986	15,736	178,485
Financial assets available for sale	-	6,000	32	-	6,032
Financial assets held to maturity	2,392	-	-	-	2,392
Total as at 31 December 2009	**46,318**	**58,692**	**92,821**	**15,736**	**213,567**
Non derivative liabilities					
Deposits from banks	727	-	-	-	727
Deposits from customers	43,813	46,677	23,334	164	113,988
Other borrowed funds	2,079	9,748	33,449	8,446	53,722
Total as at 31 December 2009	**46,619**	**56,425**	**56,783**	**8,610**	**168,437**

Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices and foreign exchange rates will affect the Bank's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return of risk.

Management of market risk

Management of market risk is one of the main Bank's aims in order to limit potential losses caused by adverse changes in interest rates, currency risks, prices index and other market factors that could influence the value of financial instruments, impacting profitability and the capital adequacy of the Bank.

Market risk is monitored by the Risk management department. The Bank's system for managing the market risk consists of:

- Identification of current market risk and possible risks from new business activities;
- Measure of market risks through established mechanism and procedures for correct and updated market risk estimate;
- Monitoring market risk through analyzing of its status, changes and trends;
- Control of market risk by managing risk at level acceptable for risk profile of the Bank.

The Bank manages all market risks to which it is exposed, especially:

- Interest rate risk;
- Currency risk and
- Placement risk.

Management of market risk (continued)

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature at different times or in differing amounts.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

In managing interest rate structure, senior management considers among others:

- macro and micro economic forecasts;
- forecasts in liquidity conditions and
- the anticipated trends in interest rates.

The Bank takes on exposure to the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes or may reduce creating losses in the event that unexpected movements by reprising periods arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily. The table below summarizes the Bank's exposure to interest rate movements.

28. FINANCIAL RISK MANAGEMENT (continued)

Management of market risk (continued)

Interest rate risk (continued)

Exposure to interest rate movements:

This analysis has been provided on basis of interest reset period or maturity date whichever is earlier.

In thousands of EUR	Carrying amount	Up to 3 months	3 months to 1 year	1-5 years	More than 5 years	Non interest sensitive	Impairment
As at 31 December 2009							
Assets							
Cash and balances with banks	16,628	5,382	-	-	-	11,246	-
Loans and advanced to banks	9,960	-	-	215	-	9,750	(5)
Loans and advances to customers	137,895	15,600	46,280	73,003	10,894	-	(7,882)
Financial assets available for sale	5,859	-	5,827	-	-	32	-
Financial assets held to maturity	2,377	2,377	-	-	-	-	-
	172,719	23,359	52,107	73,218	10,894	21,028	(7,887)
Liabilities							
Deposits from Banks	674	656	-	-	-	18	-
Deposits from customers	110,467	41,161	42,929	22,144	43	4,190	-
Other borrowed funds	44,122	10,616	8,890	18,677	5,939	-	-
Total	155,263	52,433	51,819	40,821	5,982	4,208	-
Interest rate gap	**17,456**	**(29,074)**	**288**	**32,397**	**4,912**	**16,820**	**(7,887)**
As at 31 December 2008							
Assets							
Cash and balances with banks	23,893	6,977	-		-	16,916	-
Loans and advanced to Banks	17,700	17,481		219	-	-	-
Loans and advances to customers	116,342	11,145	43,042	59,707	5,854	-	(3,406)
Financial assets available for sale	33	-	-	-	-	33	-
	157,968	35,603	43,042	59,926	5,854	16,949	(3,406)
Liabilities							
Deposits from banks	669	169	-	500	-	-	-
Deposits from customers	89,889	39,769	29,398	18,371	-	2,351	-
Other borrowed funds	49,900	3,700	26,225	13,500	6,475	-	-
	140,458	43,638	55,623	32,371	6,475	2,351	-
Interest rate gap	**17,510**	**(8,035)**	**(12,581)**	**27,555**	**(621)**	**14,598**	**(3,406)**

Management of market risk (continued)

Interest rate risk (continued)

The Bank prepares Montenegrin GAAP reports for measuring interest rate risk for all positions of assets, liability and off-balance items, as well as for all other compensations or expenditures that are exposed to interest rate risk. The Montenegrin GAAP reports are used to measure risk to Net Interest Income (NII) arising from the re-pricing of assets and liabilities over time. The risk is measured upon the size and duration potential movements in interest rates. The bank is aware that maintaining a balanced position for all time periods in a gap reports does not ensure immunity from Interest Rate Risk (IRR). The Bank is aware of the following gap reporting limitations:

- Risk may be hidden in the re-pricing frames;
- Interest rates on assets and liabilities do not always move together;
- Exposure arising from new business.

To avoid such limitations the Bank use simulations (assumptions) with intend of projecting the future composition of the balance sheet and applying different interest rate scenarios. Impact of loan prepayments and early withdrawing of deposits is also taken into account.
Additionally, the Bank is focused on interest rate spreads. Bank is aware that volatility of IRR spread is potential interest rate risk indicator. This spread is managed by loan pricing, deposit pricing, and investing. The Bank strives to have neither the lowest nor the highest loan or deposit rates in the market. Loans are priced in order to achieve a fair return on shareholder investment. Deposits are priced to provide fair treatment for the Bank's customers and to be reasonably competitive without increasing the Bank's cost of funds.
The management of interest rate risk against interest rate gap limits is supplemented by monitoring the net interest income sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100, 200 and 300 basis point (bp) parallel fall or rise in all yield curves in Montenegro. Analysis of the Bank's sensitivity to an increase or decrease in market interest rates is as follows:

In thousands of EUR	**100 bp parallel increase**	**100 bp parallel decrease**	**200 bp parallel increase**	**200 bp parallel decrease**	**300 bp parallel increase**	**300 bp parallel decrease**
Average for the period	(330)	330	(661)	661	(991)	991
Maximum for the period	(492)	492	(984)	984	(1476)	1476
Minimum for the period	(196)	196	(392)	392	(589)	589
As at 31 December 2009	**(352)**	**352**	**(705)**	**705**	**(1057)**	**1057**
Average for the period	(63)	63	(126)	126	(189)	189
Maximum for the period	(208)	208	(417)	417	(625)	625
Minimum for the period	23	(23)	46	(46)	68	(68)
As at 31 December 2008	**(208)**	**208**	**(417)**	**417**	**(625)**	**625**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored on daily basis.

Since the open positions in USD, CHF and GBP amounted to EUR 2 thousand, EUR 52 thousand and EUR 17 thousand, the management of the Bank considers that the Bank is currently not significantly exposed to the currency risk.

Placement risk

When determining limits of exposure to the placement risk, the Bank establishes limits of placements, not just as Bank's equity expressed as percentage, but, as fixed limits also, which are at acceptable levels and which are not affected by changes in the Bank's equity.

Operational risk

Operational risk means the probability of incurring losses in the Bank's operations, as a result of inadequate internal processes, controls and systems, weaknesses and errors in performance, illegal actions and external events that may expose the Bank to loss. This includes errors, omissions, systems breakdown, natural disasters, terrorist attack and fraudulent activity, causing an impact in terms of unavailability of services, financial loss, increased costs and loss of reputation or failure to make anticipated income or profit.

The goal of operational risk management is to balance cost and risk within the constraints of the risk appetite of the Bank, but to be consistent with the prudent management required of a financial organization.

Risk Management priorities are identified through a combination of:

- experience and observation;
- internal audit assessment and knowledge;
- internal controls;
- detailed risk assessment work;
- change management procedures;
- common sense;
- incident reports.

The Bank has established a system for management of operational risks that includes:

- Policies and procedures for managing operational risks which provides identification,
- measurement, tracking and controlling risks;
- Responsibility for implementation and effectiveness of Operational Risk rests with the Risk Management Department, as well as monitoring and tracking the risk;
- Responsibility for identifying and managing Operational Risk lies with line management;
- Internal Audit is responsible for the completion of an agreed audit program covering all departments and branches, identifying risk and non adherence to procedures, completing special investigations and reporting to the CEO and supervisory board.

Capital management

The Bank's regulator, the Central Bank of Montenegro, sets and monitors capital requirements for the Bank. In implementing current capital requirements the Central bank of Montenegro requires the Bank to maintain a prescribed solvency ratio of 10%.

The regulatory capital of the Bank is classified as:

- Basic capital;
- Supplementary capital I;
- Supplementary capital II.

Basic capital consists of:

- The paid up share capital excluding cumulative preferential shares;
- Premiums realized on issuance (share premium account);
- Reserve allocated from income after taxes (legal, statutory and other reserves);
- Undistributed retained profit from previous years;
- Current profit on which Shareholders assembly made decision to be included in the basic capital;
- Capital gains on purchases and sales of own shares.

Deductible items on basic capital are: losses from current and accumulated losses from prior years, capital losses on purchases and sales of own shares, intangible assets, the outstanding balances of purchased own shares and additional losses assessed in controls of the Central Bank.

Supplementary capital I consists of:

- The nominal amount of cumulative preferential shares;
- General reserves for losses on assets up to 1.25% of risk weighted assets of the bank;
- Subordinated debt according to the Central Bank regulation;
- Hybrid instruments according to the Central Bank regulation;
- Revaluation reserves.

Deductible items on supplementary capital I consist of: outstanding balance of purchased own cumulative preferential shares and liabilities and contingent liabilities secured by hybrid instruments included in Supplementary capital.

Capital management (continued)

Supplementary capital II consists of:

- Subordinated debt according to the Central Bank regulation.

In 2009, the Central Bank made certain changes to the regulation which primarily relate to the introduction of Supplementary Capital II, exclusion of the current year profit from supplementary capital and treatment of deductable items.

Basic capital and Supplementary Capital I can be used for fulfilling the capital needs for credit, market and operational risk. Supplementary Capital II can only be used for fulfilling the capital needs for market risk, except capital need for settlement risk and counterparty risk.

Bank is obliged to follow the following limitations when calculating regulatory capital:

- Total sum of supplementary capital I and supplementary capital II must not be higher than basic capital;
- Total sum of subordinated debt included in supplementary capital I and the amount of cumulative preferential shares cannot exceed 50% of basic capital;
- To cover capital need for market risk, the Bank can use supplementary capital II, but only up to amount of 150% of basic capital used to cover capital needs for market risk, and which is not used to for covering other types of risks.

The Bank is required to maintain the solvency ratio at the level of at least 10%. The Policy of the Bank is to maintain strong base of capital in order to maintain confidence of market, investors and creditors and for future development.

28. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

The Bank's regulatory capital and capital adequacy is calculated as follows:

In thousands of EUR	2009	2008
Basic Capital		
Share capital	5,339	5,339
Share premium	1,571	1,571
Retained earnings from the previous year	14,711	9,849
Reserves allocated from retained earnings	300	332
Deductible items on basic capital	(618)	-
	21,303	**17,091**
Supplementary capital I		
Subordinated debt	3,400	3,800
Revaluation reserves	720	741
Profit in current year	-	4,814
General reserves for losses on assets	-	1,476
	4,120	10,831
Supplementary capital II	**-**	**-**
Deducted items on capital	-	(700)
Total regulatory capital	**25,423**	**27,222**
Risk weighted assets:		
- balance sheet	109,486	111,019
- off balance sheet	4,040	7,056
Capital charge for:		
- market risks	145	-
- operational risk	2,746	-
- country risk	436	-
- other risks	270	-
Total capital requirements	**117,123**	**118,075**
Capital Adequacy	**17%**	**23%**

In 2009, the Bank was required to apply new regulation of the Central Bank of Montenegro on calculation on capital adequacy which changed the method for calculation of regulatory capital and risk weighted assets introduced capital charges for market, operational, country and other risks.

The Bank calculates regulatory capital and capital adequacy based on financial statements prepared in accordance with regulations of the Central Bank of Montenegro.

Podgorica, 31 March 2010

Approved by and signed on behalf of Erste Bank A.D., Podgorica

Aleksa Lukić Executive Director	Predrag Lalović Executive Director	Kristina Bukilić Director of Finance and Accounting

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