Izvještaj o poslovanju 2010.

2010

Opšte informacije

ERSTE BANK AD PODGORICA
Matični broj: 0235124
Žiro račun: 907-54001-10
SWIFT: OPPO ME PG
Internet: www.erstebank.me
E-mail: info@erstebank.me
Info telefon: +382 20 440 440

SJEDIŠTE ERSTE BANK AD PODGORICA
Marka Miljanova 46, 81 000 Podgorica, Crna Gora
Tel: +382 (0) 20 440 440
Fax: +382 (0) 20 440 432

Sadržaj

Obraćanje Predsjednika Odbora direktora

Ambijent u kojem smo poslovali u 2010. godini bio je upravo onakav kakav smo očekivali. Kriza likvidnosti je i dalje predstavljala izazov za finansijski sistem, koji je velikim dijelom stagnirao.

Za Erste banku je 2010. godina bila godina nadgradnje temelja postavljenih ulaskom u Erste grupaciju. I ponovo, to je bila godina u kojoj je naša izvedba rezultirala rastom u svim kategorijama, nasuprot pravcu u kojem se kretalo bankarsko tržište kao cjelina.

Sa velikim zadovoljstvom i ponosom mogu saopštiti da smo nadmašili postavljene planove u smislu rasta tržišnog učešća i finansijskih performansi, uz očuvanje kvaliteta aktive na nivou iznad propisanih kriterijuma.

Naš rad je bio usmjeren na obezbjeđenje finansijskih sredstava građanima, javnom i privatnom sektoru, u cilju njihovog bezbolnijeg prolaska kroz krizne godine. Ozbiljno shvatajući svoju ulogu i uticaj na ukupne poslovne prilike, zadržali smo vjeru u ekonomiju Crne Gore i pokazali da smo partner na čiju podršku mogu računati oni koji vuku naprijed. Uz dodatni impuls koji nam daje članstvo u Erste grupaciji, poboljšali smo poziciju na tržištu u svim segmentima i ostvarili dvocifreni rast ukupne aktive, kreditiranja i depozita klijenata.

Tržišni udio Erste banke u ukupnim kreditima porastao je za 2,74 procentna poena na 8,77%, dominantno podstaknut rastom u korporativnom sektoru. To je rezultat konkurentne i prilagođene ponude i privlačenja nekih od najboljih kompanija i lidera u svojim branšama.

Uprkos generalnom padu ukupnih depozita u sektoru, ostvarili smo rast i povećali tržišni udio za 1,2 procentna poena na 7,29%. Ovo je pokazatelj visokog stepena povjerenja klijenata i svojevrsno je priznanje za profesionalan i odgovoran odnos prema njima u vrijeme dok je finansijska kriza bila na svom vrhuncu.

Veoma intenzivan spoljašnji i organizacioni preobražaj Banke i podizanje standarda poslovanja ka nivou Grupe, osnovna je karakteristika u 2010. godini. Uz prihvatanje baznih vrijednosti Grupe, zaokružen je vizuelni identitet i postignuta je prepoznatljivost brenda među ciljnim grupama, što je i olakšalo pristup novim mogućnostima za rast.

Nastavljajući tradiciju društvene odgovornosti, od prošle godine smo ponosni sponzor Crnogorskog simfonijskog orkestra. Svjesni smo značaja kulture za opšti društveni napredak i povezivanje sa globalnim vrijednostima, kao i toga da se u kriznim vremenima veoma često ove potrebe nepravedno zanemaruju. Dodatni motiv za ovo partnerstvo je zajednička posvećenost vrhunskom kvalitetu i želja da svakog dana budemo bolji u poslu koji smo izabrali. Takođe, dali smo doprinos saniranju posljedica poplava koje su zadesile veliki dio Crne Gore krajem 2010. godine i pomogli brojnim građanima da se vrate u svoje domove.

Sa velikim poštovanjem ovom prilikom bih se zahvalio bivšem Glavnom izvršnom direktoru Erste banke gospodinu Keithu Flinthamu na ogromnom doprinosu i ličnoj posvećenosti uspjehu banke i njenoj glatkoj transformaciji ka standardima Erste Grupe.

Sa entuzijazmom bih poželio dobrodošlicu novom glavnom izvršnom direktoru Aleksi Lukiću, koji je imenovan u aprilu 2010. godine. Rezultati njegovog rada dok je obavljao funkciju izvršnog direktora, daju nam vjeru da će nastaviti kontinuitet uspjeha i ostvariti zajedničku viziju u novom poglavlju istorije Banke.

U ime Odbora direktora želio bih da čestitam menadžerskom timu i svim zaposlenima na izvanrednom poslu koji su uradili na jačanju pozicije Banke. Uvjeren sam da ćemo u 2011. nastaviti ovim putem i da ćemo biti još bliži poziciji strateške banke na tržištu.

Reinhard Ortner
predsjednik Odbora direktora

Obraćanje Glavnog izvršnog direktora

U drugoj godini nakon akvizicije i postavljanja temelja za intenzivan rast i razvoj, Erste banka je ispunila sve zacrtane ciljeve. Potvrdili smo poziciju u vrhu prema finansijskim pokazateljima poslovanja. Ostvarili smo neto profit od oko 2,24 mil EUR, što predstavlja rast od 242% u odnosu na godinu ranije. Svi značajniji pokazatelji poslovanja ispunjeni su ili nadmašili plan. Ostvareno nije rezultat jednokratnih poteza Banke, već kontinuiranog rasta portfolija i tržišnog učešća, kako u sektoru stanovništva tako i u javnom i sektoru privrede.

Ukupna aktiva Banke je na kraju 2010. iznosila 238,85 mil EUR ili 31,93% više u odnosu na uporedni period prethodne godine. Nastavili smo sa sprovođenjem promišljene i politike zdravog kreditnog rasta, zadržavši kvalitet aktive na nivou iznad zahtjeva regulatora i prosjeka tržišta.

Rast aktive je rezultat prije svega proaktivnog pristupa Banke i iskorišćavanja otvorenog prostora za privlačenje nekih među najboljim malim i srednjim kompanijama na tržištu. Naši napori usmjereni su na stvaranje dugoročnih veza sa njima, uz poštovanje najbolje bankarske prakse, etički i transparentno. Krediti odobreni malom i srednjem biznisu rasli su za 79,11% u odnosu na godinu ranije, a fokus je bio dominantno na sektorima turizma, prehrambene industrije i trgovine.

Nastavili smo sa unapređivanjem odnosa sa javnim sektorom, gdje je ostvaren enorman rast. On je rezultat niske osnove iz 2009. godine, u kojoj smo napravili tek prvi, ali veoma važan korak u ovom sektoru. Obim kreditiranja od 12,5 mil EUR pokazuje da postoji značajan potencijal za dalji rast u budućnosti.

U sektoru stanovništva, akcenat aktivnosti bio je na inovacijama, modifikaciji postojećih i uvođenju niza novih kreditnih proizvoda i usluga prilagođenih tržišnim uslovima.

Reagovali smo na potrebe građana pogođenih ekonomskom krizom koja se nastavila i u 2010. godini. Postojećim i novim klijentima ponudili smo kredit „iz minusa u plus“ koji im omogućava da refinansiraju kreditne obaveze na duži vremenski period, snize mjesečne rate, iskoriste višak sredstava za aktuelne potrebe i u perspektivi dostignu pun finansijski opravak. Učestvovali smo u projektu 1000+ koji je subvencionisala Vlada, a čiji je cilj rješavanje stambenih pitanja zaposlenih u javnom službama i ostalih građana pod uslovima povoljnijim od tržišnih.

Ostvarili smo rast i u ukupnim depozitima, koji su na kraju godine dostigli 130,5 mil EUR ili 17,4% više nego godinu ranije. Ovaj rast je podstaknut povećanjem depozita stanovništva, među kojima dominiraju oročeni depoziti.

Politika snižavanja aktivnih i pasivnih kamatnih stopa je nastavljena, u skladu sa potrebom praćenja tržišnih prilika i uvođenjem atraktivnijih kreditnih proizvoda. Unaprijedili smo efikasnost radnih procesa, tako da smo, uporedo sa rastom broja zaposlenih za deset odsto, snizili odnos troškova i prihoda za 7,6 procentnih poena.

U cilju održavanja kvaliteta portfolija i unapređenja efikasnosti procesa uveli smo niz novih analitičkih alata. Uporedo, Banka je formirala i organizovala zasebnu službu naplate u okviru sektora stanovništva, svjesna da će nelikvidnost i u narednom periodu ostati najveći izazov.

Mreža filijala Erste banke je bogatija za još jednu filijalu, treću u Podgorici. Još jednom smo podigli ljestvicu i postavili nove standarde kvaliteta na tržištu.

Zaključujući ove redove, želio bih se toplo zahvaliti svim zaposlenima i menadžerskom timu na još jednoj izvanrednoj godini, u kojoj smo pokazali da dijelimo zajedničke vrijednosti, posvećenost i elan da koračamo novim uzbudljivim profesionalnim koracima.

Uvjeren sam da imamo znanja i sposobnosti da nastavimo stazama uspjeha i u budućnosti.

Aleksa Lukić
glavni izvršni direktor

Izvršni direktori

ALEKSA LUKIĆ, glavni izvršni direktor

- nadležan za Sektor stanovništva, Službu ljudskih resursa, Službu interne revizije, Službu komunikacija i Službu upravljanja distributivnim kanalima

ALMA MEKIĆ ĆERDIĆ, izvršni direktor

- nadležna za Sektor privrede, Službu riznice, Službu marketinga i Službu lizinga

DARKO KEKOVIĆ, izvršni direktor

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

PREDRAG LALOVIĆ, izvršni direktor

- nadležan za Sektor finansija i računovodstva, Sektor upravljanja rizicima i Službu sprečavanja pranja novca

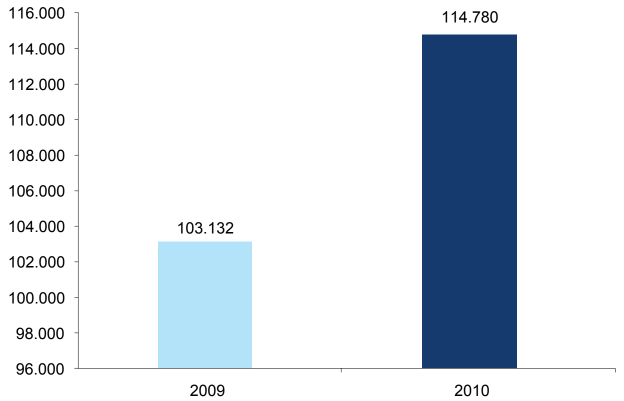
Stanovništvo

Poslovanje Sektora stanovništva u 2010. godini bilježi nastavak trenda iz prethodne godine i rast, kako u kreditnom tako i u depozitnom portfelju. Tržišno učešće je raslo u odnosu na prethodnu godinu. Realizacija prodajnih planova ostvarena je konstantnim prilagođavanjem proizvoda kao i širenjem palete proizvoda.

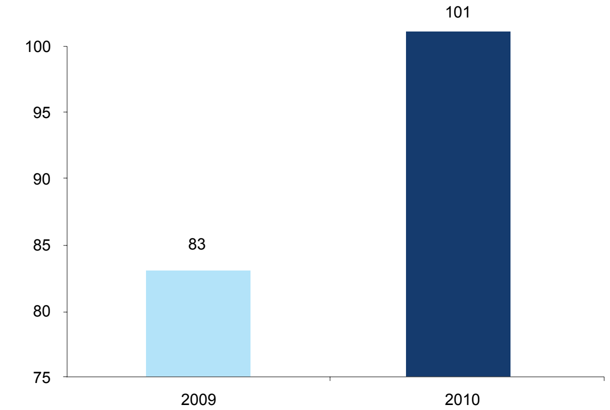
Među novim proizvodima su krediti za refinansiranje „iz minusa u plus“, krediti za refinansiranje mikro & agro kredita unutar banke i hipotekarni krediti. Maksimalan iznos kredita je povećan kod kredita za dokup i adaptaciju stambenog prostora i bezgotovinskih potrošačkih kredita. Rok otplate je produžen kod stambenih i bezgotovinskih potrošačkih kredita. Uvedena je posebna Ponuda za penzionere koji su prepoznati kao ciljna grupa i nova mogućnost kupovine zemljišta i poslovnog prostora putem stambenog kredita.

U drugom kvartalu dolazi do sniženja kamatnih stopa na oročenu štednju za 1 procentni poen (p.p.) i u četvrtom kvartalu za još 0,50.

Graf 1. Krediti Sektora stanovništva u hiljadama eura



Graf 2. Depoziti Sektora stanovništva u milionima eura

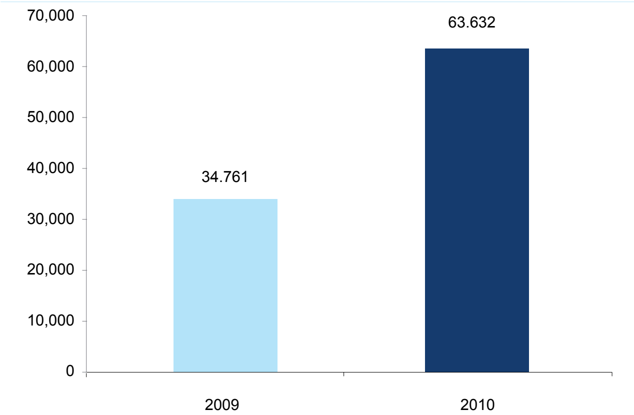


Tržišno učešće u kreditima je povećano za +1,82 p.p. na 12,81%, odnosno u depozitima za +0,77 p.p. na 10,60%. Broj klijenata koji su prenijeli primanje svoje plate/penzije na račune kod Erste banke se uvećao za novih 3.171, što predstavlja porast od 148% u odnosu na prethodnu godinu.

Upravljanje distributivnim kanalima prodaje

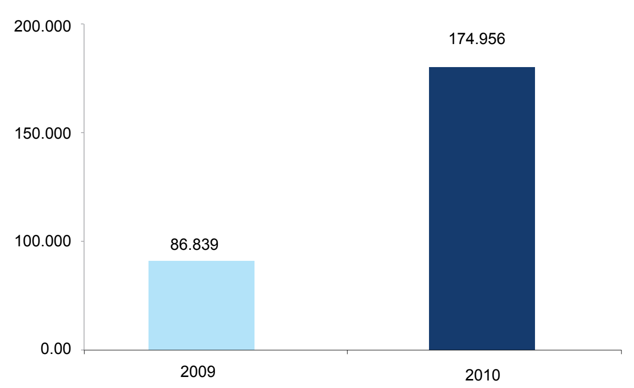
Tokom 2010. ostvaren je rast prihoda po debitnim karticama, koji je iznosio 63.632 eura iako je u toj godini zatvoreno oko 6.000 neaktivnih Maestro kartica. Isti prihod je 2009. godine iznosio 34.761 eura.

Graf 1. Ukupan prihod po debitnim karticama u eurima

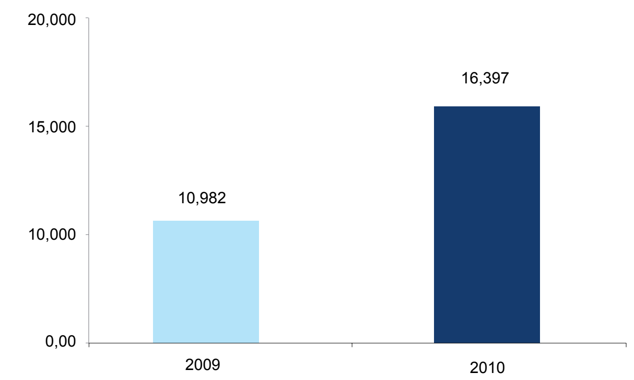


Ostvaren je rast u broju transakcija debitnim karticama sa 86.839 u 2009. godini na 174.956 u 2010, dok je ukupan promet za isti period povećan sa 10,982 miliona eura na 16,397 miliona eura u 2010.

Graf 2. Broj transkacija debitnom karticom

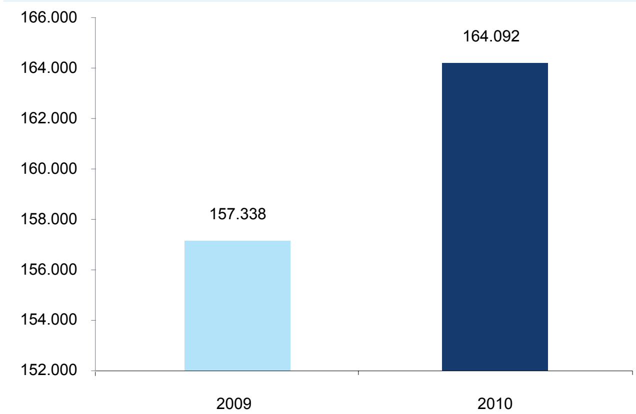


Graf 3. Ukupan promet po debitnoj kartici u milionima eura



U broju izdatih kreditnih kartica ostvaren je rast sa 7.583 u 2009. godini na 7.723 u 2010. godini. U istom periodu broj transakcija povećan je sa 157.338 na 164.092, dok je ostvaren pad u ukupnom prometu za 4,7% posljedica pada iznosa prosječne transakcije.

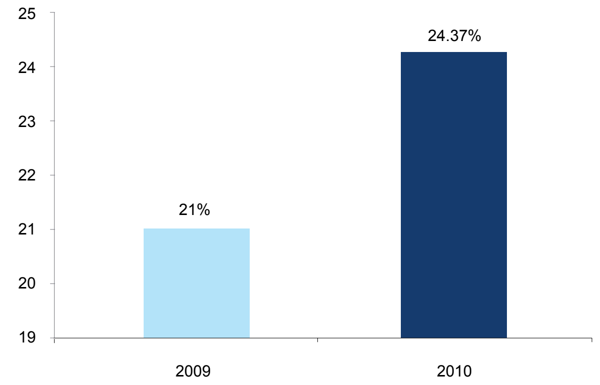
Graf 4. Broj transakcija kreditnom karticom



U ukupnom broju izdatih kreditnih kartica na crnogorskom bankarskom tržištu, tržišno učešće Erste banke iznosi 23,59%. U ukupnom kreditnom kartičnom portfelju tržišno učešće je povećano za 3,37 p.p. u odnosu na mart 2009. godine* i iznosi 24,37% u 2010. godini.

* Podaci CBCG na kraju 2010. godine nijesu dostupni

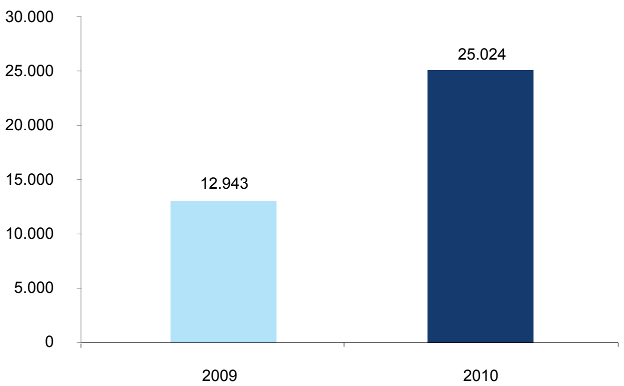
Graf 5. Tržišno učešće u ukupnom kreditnom karticnom portfelju



Broj transakcija na bankomatima Erste banke povećan je za 31,7% u odnosu na 2009, dok je obim prometa na bankomatima za isti period porastao za 3,7 miliona eura.

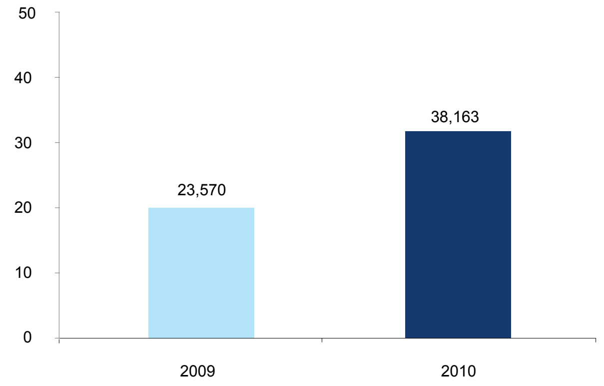
Ukupan broj e-banking korisnika kako pravnih, tako i fizičkih lica, rastao je u 2010. u odnosu na 2009. godini. Broj korisnika pravnih lica povećan je za 26,63%, dok je broj korisnika fizičkih lica veći za 145,31%.

Graf 6. Broj transakcija e-bankinga



Broj transakcija e-bankinga za isti period porastao je za 93,34%, a obim prometa za 61,91%. Učešće e-banking transakcija i prometa u ukupnom platnom prometu Erste banke je povećano sa 5,14% na 9,19%, odnosno sa 11,67% u 2009.godini na 14,03% u 2010. godini, respektivno.

Graf 7. Ukupan promet u milionima eura



Privreda

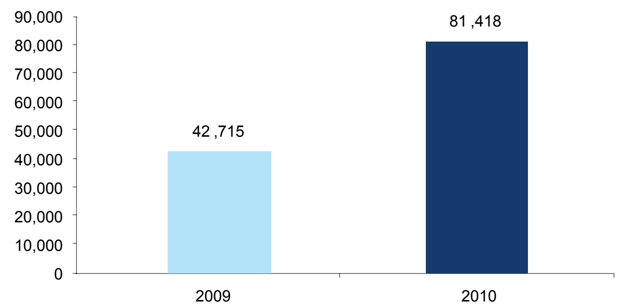
Uvođenjem Erste brenda na crnogorsko tržište, poseban naglasak je stavljen na poslovanje sa pravnim licima. Tokom 2010. godine Sektor privrede je ostvario snažan rast kreditnog portfelja i porast depozita uprkos lošem poslovnom ambijentu koji se ogledao u smanjenoj likvidnosti cjelokupne privrede i manjim investicijama privrednih subjekata.
U 2010. godini nastavio se dalji pad ukupne aktive bankarske industrije za 8,77% i pad ukupnih depozita za 12%. Istovremeno, Sektor privrede je ostvario rast tržišnog učešća u dijelu kredita sa 2,93% na 5,51% (2,58 p.p) i u dijelu depozita sa 3,02% na 3,40% (0,38 p.p) .

Ponuda Banke je dopunjena novim proizvodima poput escrow računa i inicirane su aktivnosti za dalje proširenje ponude koje će uslijediti tokom 2011. godine.
Uspostavljena je saradnja sa Investiciono razvojnim fondom i Evropskom bankom za obnovu i razvoj što je omogućilo našim klijentima pristup stimulativnim kamatnim stopama za kreditne aranžmane.
Posebna pažnja je usmjerena na privlačenje kvalitetnih i lojalnih klijenata sa posebnim naglaskom na tržišnim liderima. Takođe, dobra praksa poslovanja se ogleda i u povezivanju klijenata i obavljanju njihovih poslovnih relacija u sistemu Banke.
U saradnji sa našom matičnom kućom u Zagrebu, organizovano je više posjeta i seminara u cilju obuke prodajnog osoblja i usaglašavanja sa Erste standardima.
Aktivnim pristupom prema klijentima, proširenjem palete proizvoda i adekvatnom cjenovnom politikom ostvarili smo uspješne rezultate u 2010. godini i povećali bazu zadovoljnih klijenata.

Krediti privredi

Sektor privrede je tokom 2010. godine ostvario rast kreditnog portfelja od 93,76%. Najveći rast u nominalnom iznosu je ostvaren u public segmentu sa kojim je Banka otpočela saradnju u 2010. godini. Fokus rada je bio u dijelu SME/Corporate kredita gdje je ostvaren rast od 79,11%.

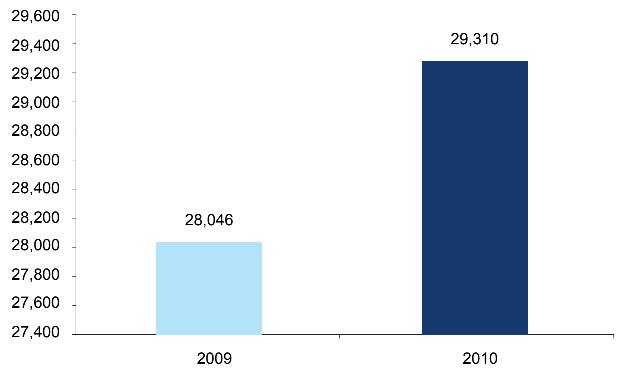
Graf 1. Krediti u milionima eura



Depoziti

Tokom 2010. godine zabilježen je rast depozita od 4.5%.

Graf 2. Depoziti u milionima eura



Najveći rast je u dijelu depozita po viđenju, dok je u dijelu oročenih depozita došlo do smanjenja u posljednjim mjesecima 2010. godine usljed redovnih transfera klijenata i potreba finansiranja.

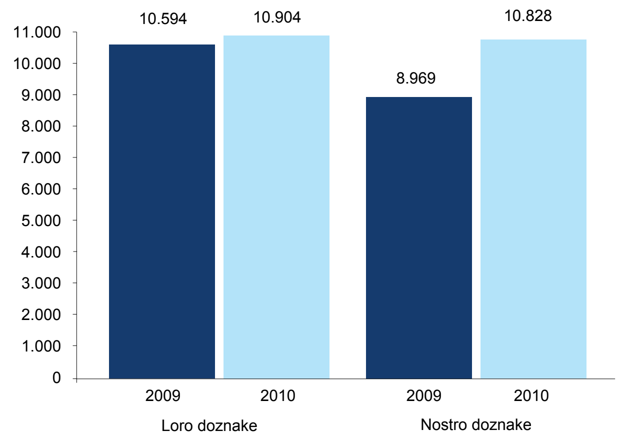
Platni promet

Unapređenje procesa rada, implementacija novih rješenja, te nastavak poboljšanja kvaliteta u obavljanju usluga bili su glavna obilježja poslova platnog prometa u 2010. godini.

Platni promet sa inostranstvom

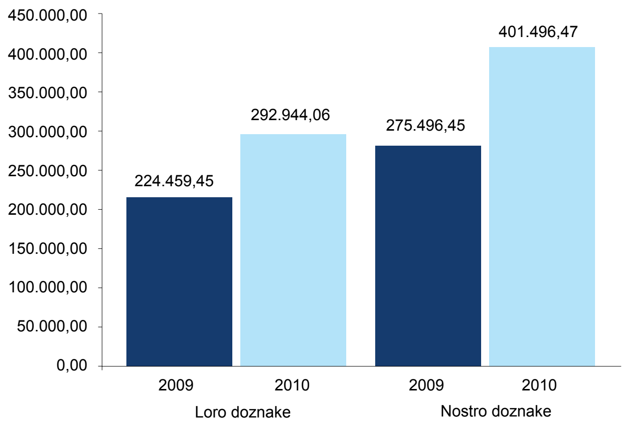
Uporedo sa razvojem korespondentnih i drugih odnosa sa stranim bankama, Erste Bank AD Podgorica obavlja i poslove plaćanja i naplata iz inostranstva, prijem inostranih čekova, poslove trade finance-a i dr. U 2010. godini realizovano je 10.828 nostro doznaka ukupnog iznosa oko 121 milion eura i 10.904 loro doznaka u ukupnom iznosu 192,5 miliona eura.

Graf 1. Loro/Nostro doznake



Ukupan prihod po ovim poslovima iznosio je 694.440,53 eura čime je ostvaren rast od 38,90% u odnosu na ostvarene prihode iz 2009. godine.

Graf 2. Prihod od Loro/Nostro doznaka u eurima



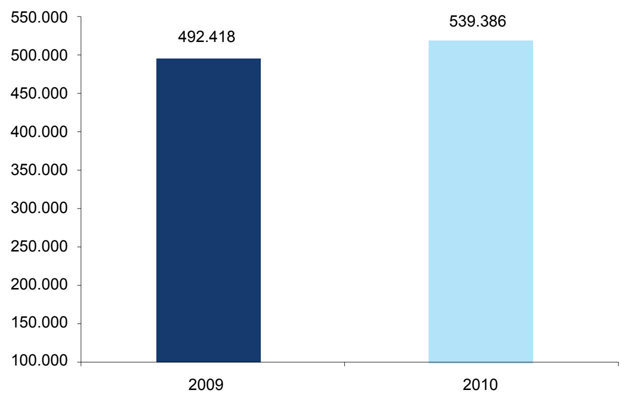
Tokom 2009. Erste bank AD Podgorica je izdala 178 bankarskih garancija i ostvarila rast od 37,98% u odnosu na 2009. godinu. Po ovim poslovima ukupan prihod iznosio je 36.624,64 eura.

Naplaćeno je 1.070 inostranih čekova, čijom je realizacijom ostvaren prihod u iznosu od 11.517 eura.

Platni promet u zemlji

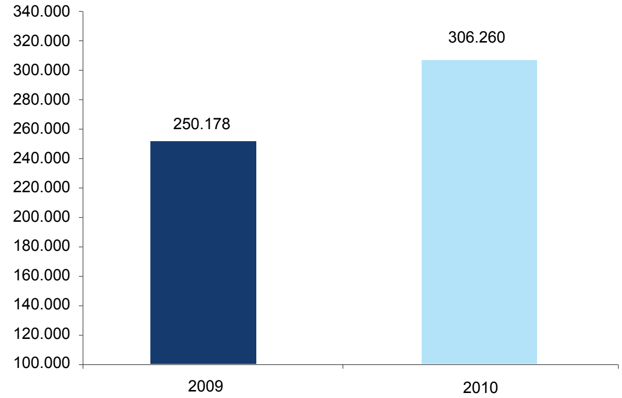
Preko široke mreža filijala i poslovnih jedinica realizovano je 539.386 transakcija u platnom prometu u zemlji, a obim plaćanja je porastao za 17,27% i iznosio je oko 585 miliona eura.

Graf 3. Platni promet u zemlji - broj transakcija



Ostvareni prihodi za obavljanje platnog prometa u zemlji iznose 306.259,92 eura (24,95% više u odnosu na 2009. godinu), dok su troškovi po osnovu procesuiranja naloga međubankarskog platnog prometa od strane CBCG iznosili 121.151,27 eura (15,56% više u odnosu na 2009. godinu).

Graf 4. Platni promet u zemlji - prihod



Upravljanje rizicima

Tokom 2010. godine makroekonomski ambijent u Crnoj Gori je poboljšan. Ekonomija se počela oporavljati. Zabilježen je rast BDP. Rizikne likvidnosti bankarskog sistema je znatno umanjen, dok je izloženost kreditnom riziku ubrzano rasla usljed nelikvidnosti realnog sektora koja je i dalje izražena.

Rizični profil Erste banke u 2010. godini bio je znatno bolji od profila bankarskog tržišta kao cjeline. To se ogleda u znatno boljim pokazateljima kvaliteta aktive i nižeg kreditnog rizika od industrijskog prosjeka. Izraženo su niži procenti dana kašnjenja i NPL-a u odnosu na sistemske vrijednosti. Kašnjenje kredita se tokom 2010. godine stabilizovalo i ostalo je znatno niže od prosjeka u zemlji. Pokrivenost NPL-a rezervama od 72% bez uključivanja kolaterala je na zadovoljavajućem nivou. Likvidnost Banke je konstanto bila jaka – svi pokazatelji likvidnosti znatno iznad zakonskih minimuma. Izloženost tržišnom riziku je i tokom 2010. godine ostala na niskom nivou. Banka je 2010. godinu završila kao dobro kapitalizovana banka sa koeficijentom solventnosti od 15,61% koji je jako iznad zakonskog minimuma od 10%.

Tokom 2010. godine Banka je uspjela da ostvari zavidan rast tržišnog učešća u svim sferama, pritom izuzetno vodeći računa o kvalitetu plasmana orijentacijom na klijente i industrijske grane koji su minimalno ili nijesu pogođeni krizom i čija perspektiva poslovanja je neupitna. Izlaganje banke prema granama industrije koje su značajnije pogođene krizom, npr. građevinarstvu, ostala je minimalna i te grane nijesu bile u fokusu interesovanja.

Ljudski resursi

U 2010. godini Služba ljudskih resursa je svoje aktivnosti usmjerila na dizajniranje politika i procedura koje se odnose na rad zaposlenih, usvajanje platnih razreda i kataloga poslova, kao i pregovaranje sa sindikalnom organizacijom Erste banke u cilju potpisivanja Kolektivnog ugovora.

Na kraju 2010. godine Banka je brojila 249 zaposlenih, a prema odrađenim satima rada u banci je tokom 2010. godine radilo 223 zaposlena. U toku 2010. godine zaposlili smo 31 osobu.

Edukacija zaposlenih se odvijala prema planu edukacije i većinom je bila usmjerena na Erste&Steiermaerkische Bank dd, iz Hrvatske. U toku godine smo učestvovali i u programu Erste grupe za talente, što će biti nastavljeno i u 2011. godini.

Krajem godine je usvojen i sistem upravljanja učinkom na osnovu modela kompetencija Erste grupe.

ERSTE BANK A.D., PODGORICA

IFRS Financial Statements
31 December 2010

ERNST & YOUNG
Quality In Everything We Do

ERNST & YOUNG

Ernst & Young Montenegro d.o.o.
Podgorica, ul. Serdara Jola Piletića,
Poslovni centar PALADA, lokal 2A

Tel: +382 20 238 477
Fax: +382 20 238 476

www.ey.com

INDEPENDENT AUDITOR'S REPORT

TO THE OWNERS ERSTE BANK A.D., PODGORICA

We have audited the accompanying financial statements of Erste Bank A.D., Podgorica (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2010, 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.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Podgorica, 10 March 2011

Ernst & Young Montenegro d.o.o.

DRUŠTVO ZA REVIZIJU ERNST & YOUNG MONTENEGRO DOO PODGORICA

ERSTE BANK A.D., PODGORICA

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of EUR	Notes	2010	2009
Interest income	5	25,922	22,536
Interest expense	5	(7,305)	(7,296)
Net interest income		18,617	15,240
Fee and commission income	6	1,828	1,187
Fee and commission expense	6	(389)	(359)
Net fee and commission income		1,439	828
Trading income	7	134	168
Credit loss expense	8	(6,576)	(5,339)
General administrative expenses	9	(10,616)	(9,776)
Other operating result	10	(474)	(328)
Profit before tax		2,524	793
Income tax	11	(287)	(139)
Profit for the year		**2,237**	**654**
Other comprehensive income			
Gains on financial instruments available for sale		155	106
Actuarial gains on long-term employee benefits		62	17
Income tax relating to items of other comprehensive income		(19)	(11)
Total other comprehensive income for the year, net of tax		**198**	**112**
Total comprehensive income for the year, net of tax		**2,435**	**766**

The accompanying notes are an integral part of these financial statements

Podgorica, 10 March 2011

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 VIII ERSTE BANK FILIJALA PODGORICA

ERSTE BANK A.D., PODGORICA

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of EUR	Note	2010	2009
ASSETS			
Cash and balances with banks and Central Bank	12	18,508	16,628
Loans and advances to banks, net	13	13,343	9,960
Loans and advances to customers, net	14	185,088	137,895
Financial assets available for sale	15	10,249	5,859
Financial assets held to maturity	16	2,376	2,377
Property and equipment	17	5,641	5,035
Intangible assets	18	427	618
Current tax assets		227	446
Deferred tax assets	11	-	10
Other assets, net	19	2,992	2,208
Total assets		**238,851**	**181,036**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	20	-	674
Deposits from customers	21	130,492	110,467
Other borrowed funds	22	79,243	44,122
Deferred tax liabilities	11	163	129
Other liabilities	23	3,548	2,674
Total liabilities		213,446	158,066
Shareholders' equity	24		
Share capital		5,339	5,339
Share premium		1,571	1,571
General risk reserves		182	182
Other capital reserves		300	300
Revaluation reserves		698	719
Fair value reserves		237	96
Retained earnings		17,078	14,763
Total shareholders' equity		25,405	22,970
Total liabilities and shareholders' equity		**238,851**	**181,036**

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

Podgorica, 10 March 2011

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 VIII FILIJALA PODGORICA

ERSTE BANK A.D., PODGORICA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of EUR	2010	2009
Operating activities		
Net income	2,237	654
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	910	768
Net losses on fixed assets	12	112
Foreign currency translation gains	(134)	(135)
Interest on securities	(515)	(143)
Provision for loan losses	6,576	6,088
Income tax expense	287	139
Change in operating assets and liabilities:		
Decrease in mandatory reserves with the Central Bank of Montenegro	-	6,779
Increase in loans to customers	(53,182)	(26,030)
Increase in accrued interest and other assets	(699)	(476)
Increase in securities available for sale	(4,354)	(5,826)
Increase in securities held to maturity	(1)	(2,377)
Increase in deposits from banks and customers	19,517	20,583
Increase in other liabilities	833	(531)
Paid income tax	-	(471)
Paid bonuses for staff	(38)	(452)
Net cash used in operating activities	(28,551)	(1,318)
Investing activities		
Net additions to fixed and intangible assets	(1,236)	(1,483)
Net cash used in investing activities	(1,236)	(1,483)
Financing activities		
Proceeds from borrowings	35,050	(5,425)
Net cash from/(used in) financing activities	35,050	(5,425)
Net increase/(decrease) in cash and cash equivalents	5,263	(8,226)
Cash and cash equivalents at beginning of year	19,412	27,638
Cash and cash equivalents at end of year (Notes 12 and 13)	24,675	19,412
Interest paid	7,050	6,952
Interest received	24,343	20,941

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

Podgorica, 10 March 2011

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 VIII ERSTE BANK FILIJALA PODGORICA

ERSTE BANK A.D., PODGORICA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

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 2009	5,339	1,571	-	332	495	741	-	13,726	22,204
Total comprehensive income	-	-	-	-	-	-	96	670	766
Depreciation 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**
Balance as at 1 January 2010	5,339	1,571	300	-	182	719	96	14,763	22,970
Total comprehensive income	-	-	-	-	-		141	2,294	2,435
Depreciation of revalued fixed assets	-	-	-	-		(21)	-	21	-
Balance as at 31 December 2010	**5,339**	**1,571**	**300**	**-**	**182**	**698**	**237**	**17,078**	**25,405**

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

Podgorica, 10 March 2011

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 VIII ERSTE BANK FILIJALA PODGORICA

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 fifthteen branches located in the cities of Podgorica, Berane, Nikšić, Bijelo Polje, Pljevlja, Bar, Kotor, Ulcinj, Budva, Herceg Novi, Rožaje, Cetinje and Tivat.

Erste & Steiermarkische Bank d.d. Croatia owns 100% shares of the Bank from 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 2010, the Bank had 247 employees (2009: 225).

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 Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendments) effective 1 January 2010
- IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- IFRIC18 Transfers of Assets from Customers effective from 1 July 2009

Improvements to IFRS

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations effective 1 January 2010

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives

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.

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 2010 and 2009 are as follows:

In EUR	2010	2009
USD	0.7530	0.6974
CHF	0.8016	0.6721
GBP	1.1625	1.1062

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.

Recognition of income and expenses (continued)

Fees and commissions (continued)

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% (2009: 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.

Financial assets and liabilities (continued)

Classification (continued)

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.

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 and liabilities (continued)

Subsequent measurement (continued)

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.
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.
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 December 2010 by authorized valuer and there was no material change in value.

Cost includes expenditure that is 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 amortization and impairment.
Intangible assets represent computer software, Swift license, Master Card license and other intangible assets. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives. Amortization rates used range from 20% to 25%.

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.

Employment benefits

Pursuant to the Collective Bargaining Agreement, the Bank is obliged 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.

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 recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition the Bank's liability under each guarantee is measured at the higher of the amortized 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 statement.
The premium received is recognized in the income statement on a straight line basis over the life of the guarantee.

Future changes in accounting policies

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the bank after initial application.

Future changes in accounting policies (continued)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Bank.

IFRS 7 *Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (amended)*

IFRS 7 is effective for annual periods beginning on or after 1 July 2011. The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitisations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments broadly align the relevant disclosure requirements of IFRSs and US GAAP.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

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).

The most significant uses of judgment and estimates are as follows:

Impairment losses on loans

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 value of financial instruments

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.

Long-term employee benefits

The cost of the long-term employee benefits is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases and personnel turnover rate. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Useful lives of intangible assets, property, plant and equipment

The Bank reviews useful lives of intangible assets, property, plant and equipment as of each annual reporting period.

5. NET INTEREST INCOME

In thousands of EUR	2010	2009
Interest income		
Current accounts	-	2
Time deposits with foreign banks	32	382
Loans and advances to customers	25,265	21,944
Financial assets available for sale	515	113
Financial assets held to maturity	86	55
Other	24	40
Total interest income	**25,922**	**22,536**
Interest expense		
Deposits from banks	(2,092)	(1,552)
Deposits from customers	(5,013)	(5,553)
Subordinated liabilities	(200)	(191)
Total interest expense	**(7,305)**	**(7,296)**
Net interest income	**18,617**	**15,240**

6. NET FEE AND COMMISSION INCOME

In thousands of EUR	2010	2009
Fee and commission income		
Lending business	51	16
Payment transfers	1,173	750
Card transactions	369	359
Other fee and commission income	235	62
Total fee and commission income	**1,828**	**1,187**
Fee and commission expense		
Lending business	-	(6)
Payment transfers	(172)	(165)
Card transactions	(189)	(188)
Custodial fees	(10)	-
Other fee and commission expenses	(18)	-
Total fee and commission expense	**(389)**	**(359)**
Net fee and commission income	**1,439**	**828**

7. TRADING INCOME

In thousands of EUR	2010	2009
Net foreign exchange gains	164	182
Losses on fair value of call option	(30)	(14)
Total	**134**	**168**

8. CREDIT LOSS EXPENSE

In thousands of EUR	2010	2009
Loans and advances to customers	5.921	7,576
Loans and advances to banks	2	5
Accrued interest and other assets	727	(3)
Provision for contingent liabilities	(74)	104
Total	**6,576**	**7,682**
Recognition of loans written off	-	(1,594)
Recoveries of loans written off	-	(749)
Total	**6,576**	**5,339**

9. GENERAL ADMINISTRATIVE EXPENSES

In thousands of EUR	2010	2009
Personnel expenses	6,272	5,686
Other administrative expenses	3,434	3,322
Depreciation of property and equipment (Note 17)	710	652
Amortization of intangible assets (Note 18)	200	116
Total	**10,616**	**9,786**
Personnel expenses		
In thousands of EUR	2010	2009
Wages and salaries	4,625	4,202
Legal social security contribution	1,321	1,160
Other personnel expenses	300	260
Provision for long-term employee benefits	26	64
Total	**6,272**	**5,686**

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	2010	2009
Expenses dependent upon personnel	222	241
Expenses for office space	937	814
Office operating expenses	673	574
IT expenses	654	619
Advertising / marketing	476	493
Legal and consulting costs	449	580
Sundry administrative expenses	22	1
Total	**3,433**	**3,322**

10. OTHER OPERATING RESULT

In thousands of EUR	2010	2009
Other operating income	197	135
Payment into deposit insurance fund	(327)	(311)
Net losses from fixed assets	(12)	(112)
Provision for litigation	(187)	-
Other provisions	(58)	-
Other expense	(87)	(40)
Total	**(474)**	**(328)**

11. INCOME TAX

The components of income tax for the years ended 31 December 2010 and 2009 are:

In thousands of EUR	2010	2009
Current tax – current income tax	263	25
Deferred tax – relating to origination and		
reversal of temporary differences	24	114
Total income tax expense in income statement	**287**	**139**

Reconciliation between the tax expense and the accounting result multiplied by the Montenegrin tax rate for the year ended 31 December 2010 and 2009 is as follows:

In thousands of EUR	2010	2009
Accounting profit before tax	2,524	793
At Montenegrin statutory tax rate of 9%	202	71
Non-deductable expenses	61	6
Other	24	62
Income tax reported in the income statement	**287**	**139**

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

In thousands of EUR	2010	2009
Gains on financial assets available for sale	5	9
Actuarial gains on long-term employee benefits		
recognised in equity	14	2
Total	**19**	**11**

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

	2010			2009		
In thousands of EUR	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Depreciation of fixed assets	-	(41)	(41)	-	(42)	(42)
Actuarial gains on long-term employee benefits recognized in equity	-	(7)	(7)	-	(2)	(2)
Gains on financial assets available for sale	-	(23)	(23)	-	(9)	(9)
Revaluation of property	-	(80)	(80)	-	(76)	(76)
Allowances for loan losses	-	(12)	(12)	10	-	10
Net tax assets/(liabilities)	**-**	**(163)**	**(163)**	**10**	**(129)**	**(119)**

12. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

In thousands of EUR	2010	2009
Cash on hand	5,767	5,919
Current accounts with the Central Bank of Montenegro	5,565	3,533
Total included in cash and cash equivalents	11,332	9,452
Deposits with the Central Bank of Montenegro	7,176	7,176
Balance as at 31 December	**18,508**	**16,628**

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 than 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	2010	2009
Current accounts with foreign banks	13,114	9,750
Deposit for Master Card business	236	215
	13,350	9,965
Allowance for impairment	(7)	(5)
Balance as at 31 December	**13,343**	**9,960**

14. LOANS AND ADVANCES TO CUSTOMERS, NET

	2010			2009		
In thousands of EUR	Gross Amount	Impairment	Carrying Amount	Gross Amount	Impairment	Carrying Amount
Retail customers						
Personal loans	80,263	(7,791)	72,472	80,603	(4,769)	75,834
Credit cards	8,732	(322)	8,410	8,203	(327)	7,876
Finance lease	2,491	(245)	2,246	3,721	(179)	3,542
Other lending	23,294	(679)	22,615	10,605	(193)	10,412
Corporate customers						
Finance lease	2,269	(233)	2,036	3,129	(269)	2,860
Other lending	67,815	(2,995)	64,820	39,342	(2,143)	37,199
Public customers						
Finance lease	14	-	14	20	-	20
Other lending	12,495	(56)	12,439	149	(2)	147
Other customers						
Other lending	36	-	36	5	-	5
Balance as at 31 December	**197,409**	**(12,321)**	**185,088**	**145,777**	**(7,882)**	**137,895**

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

In thousands of EUR	2010	2009
Balance as at 1 January	7,882	3,406
Charge for the year, net of recoveries	5,921	7,576
Write off	(1,482)	(3,100)
Balance as at 31 December	**12,321**	**7,882**

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

In thousands of EUR	2010	2009
Agriculture	5,550	6,715
Building construction	3,435	3,525
Trade	41,278	39,547
Tourism	18,461	14,603
Production	837	673
Transportation	10,512	3,153
Administration and other public services	22,630	13,439
Other	94,706	64,122
Less: Allowance for impairment	(12,321)	(7,882)
Balance as at 31 December	**185,088**	**137,895**

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 15.68% p.a. and for loans granted to companies weighted average interest rate was 9.66% p.a.

Finance lease receivables

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

In thousands of EUR	2010	2009
More than five years	239	371
Between one and five years	3,011	5,011
Less than one year	2,129	2,580
Gross investment in finance leases, receivable	5,379	7,962
Unearned future income on finance leases	(610)	(1,025)
Net investment in finance leases	**4,769**	**6,937**

Future minimum lease payments receivable, unearned future income and the net investment in finance lease by maturity as at 31 December 2010 and 2009 are as follows:

	2010		
In thousands of EUR	**Gross Investment**	**Unearned income**	**Investment in the lease**
Less than one year	2,129	(298)	1,831
Between one and five years	3,011	(289)	2,722
More than five years	239	(23)	216
Investment in finance leases at end of year	**5,379**	**(610)**	**4,769**

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

15. FINANCIAL ASSETS AVAILABLE FOR SALE

In thousands of EUR	2010	2009
	-	5,826
Debt instruments – Treasury bills of the Croatian Government		
Debt instruments – Eurobonds of the Ministry of Finance of the		
Government of Montenegro	10,214	-
Equity instruments	35	33
Balance as at 31 December	**10,249**	**5,859**

16. FINANCIAL ASSETS HELD TO MATURITY

In thousands of EUR	2010	2009
Treasury bills of the Ministry of Finance of the Government of Montenegro	2,376	2,377
Balance as at 31 December	**2,376**	**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
As at 31 December 2009	3,061	885 3	,650	7,596
Additions	-	230	1,091	1,321
Disposals	-	-	(24)	(24)
Write-off	-	(33)	(158)	(191)
Other	-	55	42	97
As at 31 December 2010	**3,061**	**1,137**	**4,601**	**8,799**
Accumulated depreciation				
As at 31 December 2009	278	407	1,876	2,561
Depreciation for the year	62	186	462	710
Disposals	-	-	(24)	(24)
Write-off	-	(25)	(124)	(149)
Other	-	36	24	60
As at 31 December 2010	**340**	**604**	**2,214**	**3,158**
Net Book Value as at 31 December 2010	**2,721**	**533**	**2,387**	**5,641**
Net Book Value as at 31 December 2009	**2,783**	**478**	**1,774**	**5,035**

The last valuation of the Bank's property was performed in 2010. Had the Bank carried property under the cost model the net carrying value of the revalued property would amount to EUR 1,949 thousand as of 31 December 2010 (31 December 2009: EUR 913 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 2009	1,045	90	206	1,341
Additions	66	-	-	66
As at 31 December 2009	1,111	90	206	1,407
Additions	9	-	-	9
As at 31 December 2010	1,120	90	206	1,416
Accumulated amortization				
As at 1 January 2009	377	90	206	673
Charge for the year	116	-	-	116
As at 31 December 2009	493	90	206	789
Charge for the year	200	-	-	200
As at 31 December 2010	693	90	206	989
Net Book Value as at 31 December 2009	**618**	**-**	**-**	**618**
Net Book Value as at 31 December 2010	**427**	**-**	**-**	**427**

19. OTHER ASSETS

In thousands of EUR	2010	2009
Accrued interest	1,891	1,456
Accrued commissions	90	10
Prepaid expenses	371	264
Other receivables	698	500
Positive fair value of call option	6	35
	3,056	2,265
Less: Allowance for impairment	(64)	(57)
Balance as at 31 December	**2,992**	**2,208**

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

In thousands of EUR	2010	2009
Balance as at 1 January	57	60
Charge for the year, net of recoveries	727	(3)
Write off	(720)	-
Balance as at 31 December	**64**	**57**

20. DEPOSITS FROM BANKS

In thousands of EUR	**2010**	**2009**
Demand deposits	-	174
Term deposits	-	500
Balance as at 31 December	**–**	**674**

21. DEPOSITS FROM CUSTOMERS

In thousands of EUR	2010	2009
Demand deposits	55,407	41,933
Term deposits	75,085	68,534
Balance as at 31 December	**130,492**	**110,467**

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

22. OTHER BORROWED FUNDS

In thousands of EUR	2010	2009
Current (due within one year)	13,394	9,050
Non-current (due after one year)	66,131	35,425
Deferred origination fees	(282)	(353)
Balance as at 31 December	**79,243**	**44,122**

Borrowings also include loans from Erste & Steiermarkische Bank D.D. Croatia in the amount of EUR 10,000 thousand (2009: nil). These loans are collateralized by Eurobonds of the Ministry of Finance of the Government of Montenegro (Note 15) under repurchase arrangements.

Borrowings include loans from EFSE Luxembourg in the amount of EUR 9,925 thousand (2009: EUR 11,975 thousand), The Bank assigned to the EFSE Luxemburg as collateral for these loans all present and future payment claims and all other rights which relate to any Sub-Loan refinanced under Framework Agreement between the 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.

23. OTHER LIABILITIES

In thousands of EUR	2010	2009
Accrued interest	1,980	1,811
Deferred fees	-	-
Accrued expenses	180	157
Accrued employee benefits	698	59
Provision for long term employee benefits	110	146
Provision for contingent liabilities	136	210
Provision for legal claims	187	-
Provision for operating risk	58	-
Items in course of collection and other liabilities	199	291
Balance as at 31 December	**3,548**	**2,674**

Provision for long-term employee benefits relates to upon retirement benefits payable in an amount equal to 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 7.875% (2009: 5.3%) and expected increase in salaries of 5% (2009:5%) and personnel turnover rate of 2.91% (2009: 2.14%).

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

In thousands of EUR	2010	2009
Balance as at 1 January	146	99
Additions:		
- service costs	19	58
- interest costs	7	6
Actuarial gains	(62)	(17)
Balance as at 31 December	**110**	**146**

Provision for contingent liabilities relates to the following:

In thousands of EUR	**2010**	**2009**
Issued guarantees	34	83
Credit commitments:		
- overdrafts	44	71
- credit cards	43	56
- project financing	15	-
Balance as at 31 December	**136**	**210**

A reconciliation of provision for contingent liabilities is as follows:

In thousands of EUR	**2010**	**2009**
Balance as at 1 January	210	106
Reversals/(additions)	(74)	104
Balance as at 31 December	**136**	**210**

24. SHAREHOLDER'S EQUITY

In thousands of EUR	2010	2009
Share capital	5,339	5,339
Share premium	1,571	1,571
General risk reserves	182	182
Other capital reserves	300	300
Fair value reserves	237	96
Revaluation reserves	698	719
Retained earnings	17,078	14,763
Balance as at 31 December	**25,405**	**22,970**

Share capital

As at 31 December 2010, 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 (2009:
0.1% 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.

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 2010.

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	**2010**	**2009**
Guarantees	3,314	2,628
Unused overdraft limit on loans	4,014	3,635
Unused project financing limit on loans	523	-
Credit cards	3,472	3,760
Provisions for impairment of contingent liabilities	(136)	(210)
Balance as at 31 December	**11,187**	**9,813**

Legal claims

On the statement of financial position date, the Bank is involved in 53 court cases as defendant. The Bank made a provision for the value of possible compensation on legal claims estimated at EUR 187 thousands (2009: nil).

Operating lease commitments

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

In thousands of EUR	**2010**	**2009**
Commitments due within one year	613	517
Commitments due in period from 1 to 5 years	1,524	967
Commitments due after 5 years	148	312
Balance as at 31 December total	**2,285**	**1,796**

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. In the course of its business, the Bank has entered into various transactions with related parties.
The Bank's related parties are: immediate parent company, ultimate parent company and other Erste group entities, and key members of management.

A summary of the Bank's transactions with the Erste Group Bank entities were as follows:

In thousands of EUR	**2010**	**2009**
Assets		
Current accounts with foreign banks	4,702	6,742
Other assets	15	-
	4,717	6,742
Liabilities		
Demand deposits	176	1
Term deposits	-	6,890
Borrowings	46,000	6,500
Other liabilities	326	-
	46,502	13,391
Income		
Interest and similar income	17	364
Fee and commission income	191	-
Other operating income	15	
Expenses		
Interest and similar expenses	1,306	1,514
Fee and commission expenes	9	-
Other administrative expenses	1	-
	1,316	**1,514**

The above stated amounts include following amounts relating to Erste & Steiermarkische Bank D.D. Croatia

In thousands of EUR	2010	2009
Assets		
Current accounts with foreign banks	3,675	2,902
Other assets	15	-
	3,690	**2,902**
Liabilities		
Borrowings	10,000	2,665
Accrued interest	7	-
Other liabilities	16	-
	10,023	**2,665**
Income		
Interest and similar income	10	316
Fee and commission income	18	-
Other operating income	15	-
	43	**316**
Expenses		
Interest and similar expenses	11	-
Fee and commission expenses	6	-
Other administrative expenses	1	-
	18	**-**

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

In 2010 the Bank paid to top management personnel gross salaries and other compensations in the amount of EUR 470 thousand (2009: EUR 425 thousand) which include bonuses in amount of 38 thousand (2009 EUR 49 thousand).

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

In thousands of EUR	2010	2009
Assets		
Loans	19	38
Liabilities		
Demand deposits	34	29
Term deposits	-	215
Indexed deposits	29	19
	63	**263**

The Bank did grant new loans to the members of the Board of Directors in amount of 7 thousand during 2010 (2009: did not grant any loans to the members of the Board of Directors). The outstanding balance as at 31 December 2010 for previously granted loans to the Board of Directors amounted to EUR 19 thousand (2009: EUR 38 thousand).

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

The Bank did not grant any loans to the local management personnel who are not members of the Board of Directors. The outstanding balance as at 31 December 2010 for granted loans amounted to EUR 53 thousand (2009 EUR 115 thousand). Interest income on granted loans to management personnel in 2010 amounted to EUR 3 thousand (2009 EUR 6 thousand).

Outstanding balances due from related parties at the year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Bank has not made any provisions for doubtful debts relating to amounts owned by related parties (2009: 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 2010				
Cash and balances with banks and Central bank	18,508	-	18,508	18,508
Loans and advances to Banks, net	13,343	-	13,343	13,343
Loans and advances to customers, net	185,088	-	185,088	185,088
Financial assets available for sale	10,249	10,249	-	10,249
Financial assets held to maturity	2,376	-	2,376	2,376
	229,564	**10,249**	**219,315**	**229,564**
Deposits from banks	-	-	-	-
Deposits from customers	130,492	-	130,492	130,492
Other borrowed funds	79,243	-	79,243	79,243
	209,735	**-**	**209,735**	**209,735**

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

Assets recorded at fair value

Financial assets available for sale as at 31 December 2010 in the amount of EUR 10,214 thousand (2009: 5,826) 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 35 thousand (2009: 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 the 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 Committees and Audit Committee which are responsible for developing and monitoring Bank risk management policies in their specified areas. Board of Directors consists of executive director's representatives, shareholders representatives 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 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 BBB+ 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.

Loans to individuals and loans to companies are granted through 7 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.

Credit risk (continued)

Exposure to credit risk

In thousands of EUR	**Loan and advances to customers**		**Investment securities AfS and HtM**	
	2010	**2009**	**2010**	**2009**
Individually impaired				
Category A	-	-	-	-
Category B	-	-	-	-
Category C	6,199	2,989	-	-
Category D	5,307	3,971	-	-
Category E	5,535	1,607	-	-
Impairment	(8,766)	(5,000)	-	-
Carrying amount	**8,275**	**3,567**	**-**	**-**
Collectively assessed				
Category A	142,508	102,421	-	-
Category B	35,900	32,468	-	-
Category C	-	-	-	-
Category D	-	-	-	-
Impairment	(3,555)	(2,882)	-	-
Carrying amount	**174,853**	**132,007**	**-**	**-**
Past due but not impaired				
Category A Low risk	162	142	-	-
Carrying amount	162	142	-	-
Past due comprise				
Up to 30 days	139	141	-	-
30-60 days	7	1		
60-90 days	17	-	-	-
Carrying amount	**163**	**142**	**-**	**-**
	1,797	2,179	12,625	8,236
Neither past due nor impaired				
Category A Low risk	1,797	2,179	12,625	8,236
Carrying amount				
Total carrying amount	**185,088**	**137,895**	**12,625**	**8,236**

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.

Credit risk (continued)

In 2010, the Bank changed internal model used for assessment of impairment losses. The Bank grades credit risk exposures to individuals into various categories in groups A , B (performing assets) and C, D and E (non-performing assets). The Bank grades credit risk exposures to companies into various categories in groups 1-8 (performing assets) and R (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 using its own historical data.

The classification of assets into the risk categories A to E for individuals 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 for individuals or R for companies 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.

In thousands of EUR	**Gross Net**	**Loan and advances to customers**
Category C	6,199	3,708
Category D	5,307	3,446
Category E	5,535	1,121
Total as at 31 December 2010	**17041**	**8275**
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**

Credit risk (continued)

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 4,625 thousand as at 31 December 2010 (2009: EUR 2,181 thousand).

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 3,705 thousand as of 31 December 2010 (2009: EUR 2,260 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 2010 or 2009.

Credit risk (continued)

Collateral (continued)

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**	
	2010	**2009**
Against individually impaired - property	4,973	1,673
Against collectively impaired:		
Property	81,255	46,496
Other pledges	6,859	10,372
Montenegro Government guarantees	32,624	-
Guarantee of banks with rating A or more	27	-
Against past due but not impaired – ca deposits	283	2,904
Against neither past due nor impaired – cash deposits	3,619	6,709
Total	**129,640**	**68,154**

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

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 collateral with a carrying value of EUR 437 thousand (2009: EUR 220 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**	
	2010	**2009**	**2010**	**2009**
Retail customers	105,743	97,664	-	-
Corporate customers	61,845	39,876	-	-
Other financial institution	5,011	183	-	-
Government	12,453	167	12,590	2,377
Other	36	5	35	5,859
Carrying amount	**185,088**	**137,895**	**12,625**	**8,236**

Industrial risk concentrations are presented in Note 14.
The maximum credit exposure to any customer as at 31 December 2010 was EUR 3,299 thousand (2009: EUR 2,573 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.

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.

Liquidity risk (continued)

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.

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	28,034	-	3,824	-	31,858
Loans and advances to customers	21,647	45,881	119,464	38,656	225,648
Financial assets available for sale	-	-	14,035	-	14,035
Financial assets held to maturity	2,392	-	-	-	2,392
Total as at 31 December 2010	**52,073**	**45,881**	**137,323**	**38,656**	**273,933**
Non derivative liabilities					
Deposits from banks	-	-	-	-	-
Deposits from customers	87,386	40,147	5,804	960	134,297
Other borrowed funds	11,406	3,932	57,422	7,979	80,739
Total as at 31 December 2010	**98,792**	**44,079**	**63,226**	**8,939**	**215,036**

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.

Management of market risk (continued)

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

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

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 2010							
Assets							
Cash and balances with banks	18,508	1,794	-	-	-	16,714	-
Loans and advanced to Banks	13,343	-	-	-	-	13,350	(7)
Loans and advances to customers	185,088	23,641	71,538	70,783	25,908	5,539	(12,321)
Financial assets available for sale	10,249	-	-	10,214	-	35	-
Financial assets held to maturity	2,376	2,376	-	-	-	-	-
	229,564	**27,811**	**71,538**	**80,997**	**25,908**	**35,638**	**(12,328)**
Liabilities							
Deposits from banks	-	-	-	-	-	-	-
Deposits from customers	130,492	77,651	37,475	4,302	334	10,730	-
Other borrowed funds	79,243	39,880	14,783	17,830	6,750	-	-
	209,735	**117,531**	**52,258**	**22,132**	**7,084**	**10,730**	**-**
Interest rate gap	**19,829**	**(89,720)**	**19,280**	**58,865**	**18,824**	**24,908**	**(12,328)**
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)**

Management of market risk (continued)

Interest rate risk (continued)

The Bank prepares reports in accordance with regulations of the Central Bank of Montenegro 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. Reports prepared in accordance with regulations of the Central Bank of Montenegro 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.

Management of market risk (continued)

Interest rate risk (continued)

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	(348)	348	(696)	696	(1044)	1044
Maximum for the period	(493)	493	(987)	987	(1480)	1480
Minimum for the period	(219)	219	(438)	438	(656)	656
As at 31 December 2010	**(388)**	**388**	**(777)**	**777**	**(1165)**	**1165**
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 December2009	**(352)**	**352**	**(705)**	**705**	**(1057)**	**1057**

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.

Operational risk (continued)

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 consist 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.

Supplementary capital II consists of:

- Subordinated debt according to the Central Bank regulation.

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.

ERSTE BANK A.D. PODGORICA

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

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

In thousands of EUR	2010	2009
Basic Capital		
Share capital	5,339	5,339
Share premium	1,571	1,571
Retained earnings from the previous year	15,126	14,711
Reserves allocated from retained earnings	300	300
Deductible items on basic capital	(427)	(618)
	21,909	**21,303**
Supplementary capital I		
Subordinated debt	2,800	3,400
Revaluation reserves	698	720
Profit in current year	-	-
General reserves for losses on assets	-	-
	3,498	**4,120**
Supplementary capital II	**-**	**-**
Deducted items on capital	-	-
Total regulatory capital	**25,407**	**25,423**
Risk weighted assets:		
- balance sheet	116,272	109,486
- off balance sheet	3,980	4,040
Capital charge for:		
- market risks	370	145
- operational risk	3,203	2,746
- country risk	184	436
- other risks	499	270
Total capital requirements	**124,508**	**117,123**
Capital Adequacy	**16%**	**17%**

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

Podgorica, 10 March 2011

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 VIII ERSTE BANK FILIJALA PODGORICA