Erste Bank AD Podgorica

Godišnji izvještaj 2013.

ERSTE Bank

Opšte informacije

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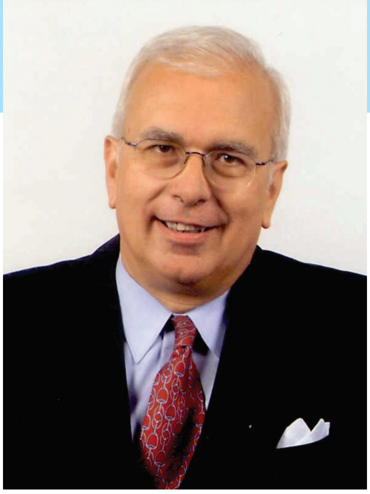


Obraćanje Predsjednika Odbora direktora

Ekonomsko okruženje je u 2013. godini zabilježilo pozitivna kretanja, ali su glavni izazovi ostali i dalje prisutni. Ekonomija je nakon pada iz prethodne godine uspjela ostvariti rast, najviše pod uticajem energetike i turizma, dok su likvidnost privrede i visoka unutrašnja dugovanja još duboko ukorijenjen problem. Nastavljajući poslovanje na liniji postavljenih strategijskih ciljeva, Erste banka je u prošloj godini uspjela da ostvari najvažnije zacrtane ciljeve.

Poslovanje Erste banke rezultiralo je rastom u svim ključnim kategorijama, aktivi, kreditima i depozitima. Učvrstili smo poziciju među strateškim bankama na tržištu i ostali u samom vrhu kada su u pitanju pokazatelji uspješnosti poslovanja. Ovaj rezultat predstavlja još veće dostignuće u svjetlu činjenice da smo u 2013. uspješno završili i zahtjevan projekat migracije bančinog poslovanja na novi informacioni sistem. Očekujemo da novi sistem bude podrška ostvarenju naših ciljeva i pružanju dodatnog kvaliteta našim klijentima. U ovoj godini ćemo takođe proširivati mogućnosti za klijente, kako za fizička, tako i za pravna lica.

Tokom 2013. godine Erste banka je uspjela da ostvari rast tržišnog učešća u najvažnijim kategorijama zadržavši kvalitet plasmana, iako je bankarsko tržište bilo znatno dinamičnije nego prethodnih nekoliko godina.

Tržišni udio u ukupnim kreditima na kraju godine je blago porastao na 13,47%, dok je udio u ukupnoj aktivi u istom periodu blago smanjen na 11,86%. Rast tržišnog udjela u kreditima je vođen prvenstveno rastom u segmentu kreditiranja pravnih lica, ali i u segmentu stanovništva. Usklađivanje kamatnih stopa na depozite nije se negativno odrazilo visinu depozita, a tržišni udio je, u skladu sa očekivanjima, blago smanjen na 10,32%.

Kvalitet našeg poslovanja je i u 2013. zapažen u međunarodnoj bankarskoj zajednici. Ugledni finansijski magazin The Banker, u izdanju Financial Times Group, dodijelio je ponovo Erste banci prestižno priznanje „Banka godine u Crnoj Gori". Ova prestižna nagrada je dodatni motiv za nas da i dalje nastavimo u istom pravcu. Banka će i dalje fokusirati sve svoje resurse kako bi podržala klijente i lokalnu ekonomiju.

Lokalna zajednica je naš veoma važan partner sa kojim dijelimo sve naše uspjehe. U prošloj godini uspjeli da povećamo broj i obim finansiranih projekata. Generalnom sponzorstvu Crnogorskog simfonijskog orkestra i Prve crnogorske košarkaške lige – Erste lige, dodali smo niz projekata u lokalnoj zajednici, sa naglaskom na projekte koji podržavaju razvoj mladih i djece - onih koji predstavljaju budućnost ove zemlje.

Erste banka će i u 2014. godini prilagođavati ponudu potrebama i mogućnostima klijenata, biti posvećena unapređenju kvaliteta usluge i povećanju operativne efikasnosti.

U ime Odbora direktora zahvaljujem se svim zaposlenima i menadžerskom timu na posvećenosti i zalaganju i čestitam na uspješno savladanim izazovima. Neka i 2014. bude obilježena zajedničkim uspjesima.

Reinhard Ortner
Predsjednik Odbora direktora

Obraćanje Glavnog izvršnog direktora

Sa velikim zadovoljstvom predstavljam rezultate koje je Erste banka ostvarila u 2013. godini. Nastavljen je kontinuitet ostvarivanja kvalitetnih finansijskih rezultata, uz posebnu pažnju usmjerenu na rast kreditne aktivnosti, upravljanje rizicima i operativnu efikasnost. Ostvaren je rast neto profita, depozita i kredita u odnosu na kraj 2012. godine.

Erste banka je ostvarila neto dobit od 5,42 miliona EUR što je 13,64% više nego prethodne godine. Povrat na kapital iznosi 14,7% i povrat na aktivu 1,55%. Ukupan prihod iz poslovanja ostvaren je u iznosu 22,4 miliona EUR.

Ukupna aktiva Banke je na kraju 2013. godine iznosila 350,92 miliona EUR i porasla je za 0,63% u odnosu na 2012. Neto krediti klijentima su na kraju 2013. godine iznosili 259,42 miliona EUR i porasli su 5,27% u odnosu na godinu ranije. Kreditni rast je ostvaren zahvaljujući kontinuiranom povećanju ovima saradnje s pravnim licima, preduzetnicima i stanovništvom.

U segmentu stanovništva, ostvaren je kreditni rast od 0,85% u odnosu na kraj prethodne godine. Naveći rast ostvaren je u portfoliju gotovinskih i stambenih kredita. Iako je nivo aktivnosti privrednih subjekata na tržištu i tražnja za investicionim kreditima i dalje na niskom nivou, u sektoru privrede ostvaren je rast od 7,89%, uz zadržavanje kvaliteta portfolija.

Prilagođavanje pasivnih kamatnih stopa nastavljeno je i u 2013. godini, a Banka je uspjela očuvati trend rasta depozita, što je pokazatelj povjerenja klijenata. Depoziti su na kraju godine iznosili 219,78 miliona EUR i bili su 3,75% viši u odnosu na kraj 2012.

Tokom 2013. godine Banka je zadržala značajno tržišno učešće u svim sferama, pritom izuzetno vodeći računa o kvalitetu plasmana i orjentišući se ka klijentima i industrijskim granama čija je perspektiva poslovanja neupitna.

Rizični profil Erste banke u 2013. godini bio je znatno bolji od profila bankarskog tržišta kao cjeline. Izraženi su značajno niži procenti dana kašnjenja i NPL-a u odnosu na sistemske vrijednosti. Troškovi rezervisanja i trošak kreditnog rizika su niži u odnosu na kraj 2012. godine.

Likvidnost Banke je konstantno bila jaka, a svi pokazatelji znatno iznad zakonskih minimuma. Banka je 2013. godinu završila kao dobro kapitalizovana banka sa koeficijentom solventnosti od 15,55% (bez uključene dobiti tekuće godine) koji je znatno iznad zakonskog minimuma od 10%.

Banka je i u prošloj godini širila mrežu bankomata i nastavila sa rekonstrukcijom filijala ka standardima Erste Grupe. Naš tim uspješno je zatvorio do sada najzahtjevniji projekat u Banci – migraciju na novi informacioni sistem. Zahvalio bih svim zaposlenima na ovom zajedničkom uspjehu, a svim klijentima na razumijevanju. U ovoj godini ćemo takođe pokazati posvećenost klijentima i namjeru da podržimo njihove kvalitetne projekte u cilju oporavka ekonomije.

Hvala svim zaposlenima, poslovnim partnerima i klijentima na izuzetnoj saradnji. Uvjeren sam da će 2014. godina biti još uspješnija.

Aleksa Lukić
Glavni izvršni direktor

Izvršni direktori

ALEKSA LUKIĆ, glavni izvršni direktor

- nadležan za Sektor stanovništva, Sektor privrede, Službu riznice, Službu marketinga i Službu komunikacija

DARKO KEKOVIĆ, izvršni direktor

- nadležan za Sektor informacione tehnologije i organizacije, Sektor procesinga, Sektor upravljanja imovinom i Službu upravljanja distributivnim kanalima prodaje

PREDRAG LALOVIĆ, izvršni direktor

- nadležan za Sektor finansija i računovodstva, Službu ljudskih resursa, Sektor upravljanja rizicima i Službu pravnih poslova

Vlasnička struktura

Erste Bank AD Podgorica je u 100% vlasništvu Erste & Steiermaerkische Bank d.d.

Informacija o radu Odbora direktora

U skladu sa Zakonom o bankama Crne Gore („Sl. list CG" br. 17/08, 44/10 i 40/11), tokom 2013. godine održano je 15 sjednica – od toga, 12 redovnih (u skladu sa zakonskom obavezom) i tri vanredne sjednice. Tokom 2013. godine nije dolazilo do izmjena u sastavu Odbora direktora, ali su izmjene u sastavu najavljene za 2014. godinu.

Rad Odbora direktora bio je usmjeren na ispunjenje obaveza definisanih zakonskom regulativom i podzakonskim aktima, kao i Statutom i drugim opštim aktima Banke. Odbor direktora Banke je redovno razmatrao sva pitanja od značaja za rad Banke, uključujući mjesečne izvještaje o finansijskim rezultatima, kreditnom i tržišnom riziku, riziku likvidnosti i operativnom riziku, funkcionisanju sistema interne kontrole i donosio odluke iz svog djelokruga rada.

Članovi Odbora direktora su odlučivali o pitanjima u skladu sa važećom zakonskom regulativom, kao i internim aktima Banke. Budući da je u 2013. godini fokus bio na projektu implementacije novog informacionog sistema, članovi Odbora su pratili njegovu realizaciju. Na sjednici održanoj 25.10.2013. usvojen je Okvir za praćenje usklađenosti, koju čine Politika praćenja usklađenosti, Priručnik o praćenju usklađenosti, te Pravilnik praćenja rizika usklađenosti, kojima su regulisane obaveze i načini za praćenje usklađenosti u skladu sa grupnim standardima. Predmet odlučivanja bile su i izmjene u organizacionoj strukturi banke, kao i odobrenje uvođenja novih proizvoda.

Makroekonomski ambijent*

Nakon pada BDP-a Crne Gore u 2012. godini od 2,5%, u 2013. godini ostvaren je rast od 3,5%. Najveći uticaj na rast BDP-a u četvrtom kvartalu imala je prerađivačka industrija, zatim građevinarstvo, saobraćaj i skladištenje, kao i poslovanje nekretninama. Na rast industrijske proizvodnje u 2013. godini najviše je uticao rast proizvodnje električne energije od 40,8%. Generator razvoja i dalje predstavlja turizam koji ostvaruje rast dolazaka i noćenja turista, doprinoseći povećanju prometa u maloprodaji. Tokom 2013. Crnu Goru je posjetilo 3,6% više turista nego u istom periodu prethodne godine, dok je broj ostvarenih noćenja viši za 2,8%. Stopa nezaposlenosti za 2013. godinu porasla je na 14,9%, dok je prosječna godišnja stopa inflacije u decembru 2013. godine iznosila 2,2%. Neto priliv SDI u 2013. godini iznosio je 323,9 miliona EUR, što je za 29,8% manje u odnosu na 2012. godinu. Analiza priliva stranih direktnih investicija pokazuje da je u prethodnom periodu oko 35% SDI uloženo u nekretnine, što je najmanje poželjan oblik priliva investicija, jer smanjuje raspoloživi fiksni kapital koji je jedna od komponenti budućeg rasta. Na kraju 2013. godine, crnogorski državni dug iznosio je 1.873,15 miliona EUR ili 56,6% BDP-a, što je više za 10,2% u odnosu na 2012. godinu kada je iznosio 1.699,5 miliona EUR ili 54% BDP-a.

Bankarski sektor u 2013. godini karakteriše stabilnost, uz rast depozita, nivoa likvidnih sredstava, a spred kamatnih stopa u oktobru je iznosio iznad 6%. Akutan problem crnogorskog bankarskog sistema predstavljaju nekvalitetni krediti, sa zabrinjavajućim učešćem od 17,7% u ukupnim kreditima i potraživanjima na kraju 2013. godine. Nasuprot zadovoljavajućoj likvidnosti bankarskog sektora, nelikvidnost realnog sektora je i dalje zabrinjavajuća. Ukupan iznos duga je iznosio 437 miliona EUR i na godišnjem nivou je smanjen za 1,8%. Pokazalo se da je individualan pristup u restrukturiranju duga, koji se pretežno bazirao na reprogramiranju, dao pozitivne efekte jedino u slučajevima kada je dužnik bio suočen sa privremenim problemima.

*izvori: Ministarstvo finansija, MONSTAT, Centralna banka Crne Gore

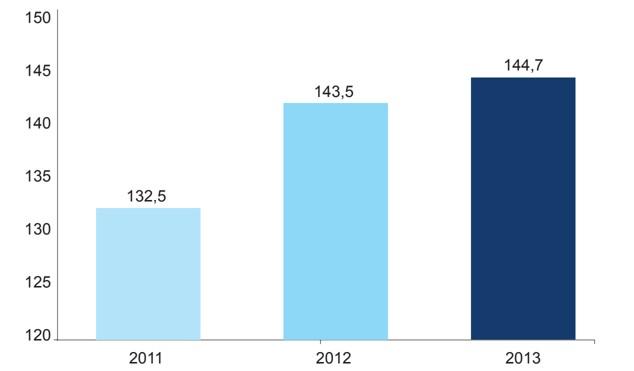
Stanovništvo

Sektor stanovništva, uprkos izazovima, nastavlja rast i razvoj u svim segmentima. Fokus je, kao i uvijek, na potrebama klijenata, uz konstantno prilagođavanje i unapređivanje ponude proizvoda i usluga, sa jasnim ciljem da sa njima gradimo i održavamo dobre odnose na duge staze. Poslovanje u 2013. bilježi ne samo uvećanje broja aktivnih klijenata, kojih je na kraju godine bilo 68.577, već i rast pokazatelja kontinuiranih marketinških istraživanja za bankarski sektor*, što je između ostalih, i jedan od stožera strategije sektora i Banke u cjelini.

Krediti Sektora stanovništva

Najznačajniji pokazatelj konstantne podrške klijentima je iznos kreditnih plasmana, koji je u 2013. godini doprinio povećanju ukupnog iznosa kredita stanovništva u otplati za 0,85% u odnosu na kraj prethodne godine, što je dovelo do tržišnog učešća u ovom segmentu od 16,24% na kraju decembra.

Krediti Sektora stanovništva u milionima eura



Najveći rast od 17,6 miliona EUR ili 31,14% je zabilježen u portfoliju gotovinskih kredita. Kao aktivan učesnik na tržištu stambenih kredita, uvođenjem povoljnosti i inovacija u segmentu stambenih kredita povećan je i njihov iznos u otplati za 5,6 miliona EUR ili 21,61%. Ovaj rezultat predstavlja još veći uspjeh ako uzmemo u obzir da je u prethodnoj godini smanjen obim prometa nekretninama na tržištu.

Rast kratkoročnih pozajmica kroz dozvoljeno prekoračenje po tekućim računima u otplati za aktivne klijente još je jedan od segmenata gde su postignuti zapaženi rezultati. Uprkos činjenici da se radi o kreditima relativno malog iznosa, portfolijo je porastao za 15,08%.

U namjeri da učvrstimo ulogu dobrog poslovnog partnera i izađemo u susret potrebama klijenata, uveli smo novi kreditni proizvod svenamjenski kredit za refinansiranje, kojeg karakteriše najniža kamatna stopa, najduža ročnost i najveći iznos za odobrenje na tržištu za ovu vrstu proizvoda.

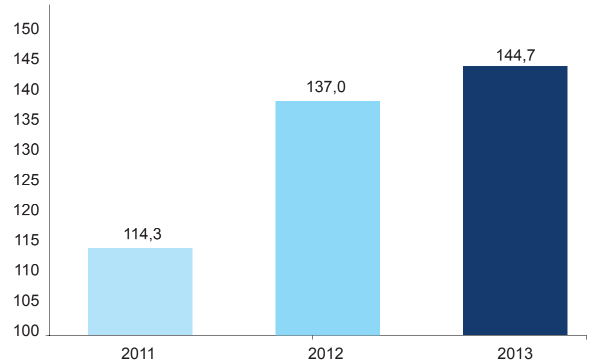
*Ipsos Strategic Marketing

Depoziti sektora stanovništva

U toku 2013. godine nastavljena je optimizacija kamatnih stopa na depozite, koja nije uticala na dinamiku priliva novih depozita, odnosno zadržavanje postojećih. Zahvaljujući povjerenju klijenata, zabilježen je rast depozitnog portfolija za 5,62%, odnosno 7,7 miliona EUR. Tržišno učešće u depozitima iznosilo je 11,45% na kraju 2013.

Shodno strategiji, kod ročne strukture primjetan je veći procenat rasta depozita po viđenju 12,61%, dok je procenat kod dugoročnih depozita povećan za 1,80%, što ranije nije bio slučaj.
Učešće kratkoročnih depozita u ukupnim (oročenim) depozitima iznosi 39,77%.

Depoziti Sektora stanovništva u milionima eura



Privreda

Tokom 2013. godine Sektor privrede je ostvario rast u kreditnom portfoliju, dok je u dijelu depozitnog portfolija ostvareno planirano oslobađanje viška likvidnosti putem otpuštanja nekoliko većih depozita.

Nastavljena je saradnja sa javnim sektorom, ali je fokus pažnje i dalje ostao na malim i srednjim preduzećima sa ciljem stvaranja lojalne mreže klijenata, njihovog povezivanja na nivou banke i stvaranje pretpostavki za dalji rast i razvoj saradnje.

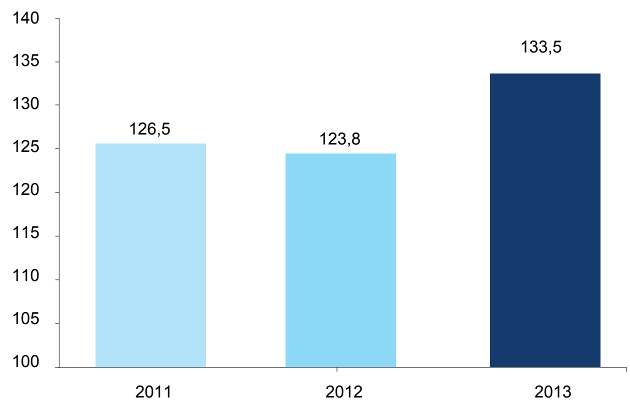
Kriza realnog sektora je nastavljena i tokom 2013. godine, što je za posljedicu imalo nizak nivo aktivnosti privrednih subjekata i nastavak manje potražnje za investicionim kreditima. Uprkos tome u sektoru privrede ostvaren je rast od 7,89%, uz zadržavanje kvaliteta portfolija. Aktivnim pristupom i adekvatnom cjenovnom politikom broj klijenata sa kreditnom izloženošću je povećan za 13,77%. Istovremeno, NPL izloženost na nivou Sektora privrede je smanjena za neto 2,62%.

Prošlu godinu je obilježilo uvođenje novog informacionog sistema koji je postavio osnov za dalje osvajanje tržišta kroz uvođenje novih proizvoda i usluga, te je istovremeno izvršena reorganizacija poslovnih procesa unutar Banke u cilju podizanja efikasnosti i kvaliteta u servisiranju potreba klijenata.

Krediti Sektora privrede

Kreditni portfelj je porastao za 9,77 miliona EUR, odnosno 7,89% u prethodnoj godini, što je dovelo do rasta tržišnog učešća na 11,39% (uz isključenje segmenta Banaka). Istovremeno, generalno na tržištu ostvaren je pad kredita privredi nakon usklađivanja sa Odlukom Centralne banke Crne Gore o minimalnim standardima za upravljanje kreditnim rizikom u bankama, gdje su banke u obavezi da primjenjuju pravila MRS 39 – Finansijski instrumenti: priznavanje i mjerenje, za procjenu obezvrijeđenja finansijskih sredstava.

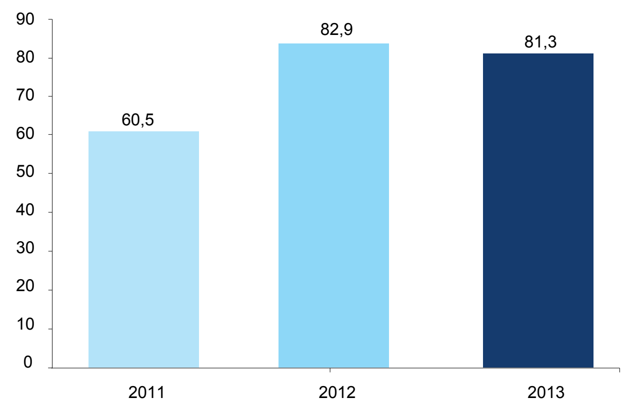
Krediti Sektora privrede u milionima eura



Depoziti Sektora privrede

Depozitni portfelj je smanjen za 1,55 miliona EUR ili 1,87%, usljed planiranog otpuštanja viška likvidnosti kroz nekoliko većih depozita. Tržišno učešće u depozitima je, u skladu s planom, smanjeno na 8,66%. U istom periodu je izvršeno dalje usklađivanje kamatnih stopa u skladu sa potrebama Banke i cijenom na tržištu, ali to nije imalo značajnijeg efekta na potražnju za ovim proizvodom, što je pokazatelj dobre pozicioniranosti i povjerenja u Banku u cjelini.

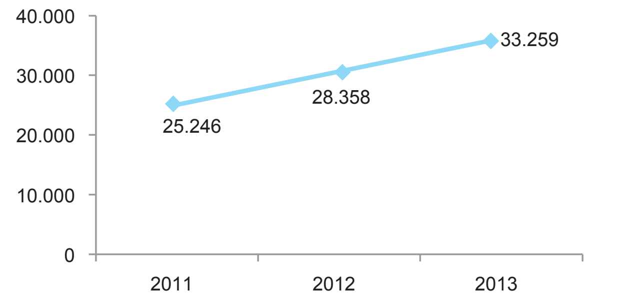
Depoziti Sektora privrede u milionima eura



Upravljanje distributivnim kanalima prodaje

U 2013. godini zabilježen je rast u ukupnom broju kartica od 17,28%, te je njihov broj povećan na 33.259. Debitnih kartica bilo je 26.691, dok je ukupan broj kreditnih kartica bio 6.568.

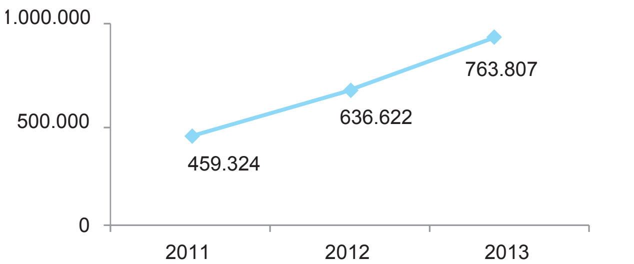
Ukupan broj kartica



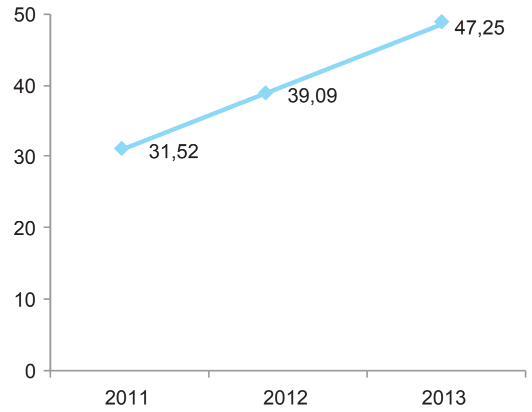
Ukupan broj transakcija platnim karticama bilježi rast od 19,98% u prethodnoj godini i porastao na 763.807. Od tog broja, transakcije debitnom karticom činile su 83,5%, a ostatak su transakcije kreditnim karticama.

Ukupan promet ostvaren platnim karticama banke u 2013. bio je 47,25 miliona EUR ili 20,90% više nego u odnosu na 2012. Promet koji je ostvaren debitnim karticama u tom periodu iznosio je 41,76 miliona EUR, dok je ukupan promet ostvaren kreditnim karticama iznosio 5,48 miliona EUR.

Ukupan broj transakcija - izdate kartice



Ukupan promet platnim karticama
u milionima eura - izdate kartice



Ukupan broj transakcija na bankomatima u 2013. u odnosu na 2012. porastao je za 8,50%, i iznosio je 394.232. Ukupan promet na bankomatima dostigao je 42,54 miliona EUR i uvećan je za 18,63%. Ponuda platnih kartica proširena je u novembru 2013. uvođenjem beskontaktne - Maestro PayPass debitne kartice.

Broj eBanking naloga je na kraju 2013. godine porastao za 16,58% u odnosu na 2012. Ukupan broj transakcija u domaćem platnom prometu putem elektronskog bankarstva porastao je za 30,75%, te su transakcije elektronskim bankarstvom dostigle 26,27% ukupnog broja transakcija u domaćem platnom prometu banke. U 2013. godini, elektronsko bankarstvo za pravna lica je uanprijeđeno, te je dodata funkcionalnost plaćanja u inostranom prometu.

Broj korisnika koji dobijaju SMS notifikaciju o promjenama na računu je i u prošloj godini porastao, za 32,72%.

Platni promet

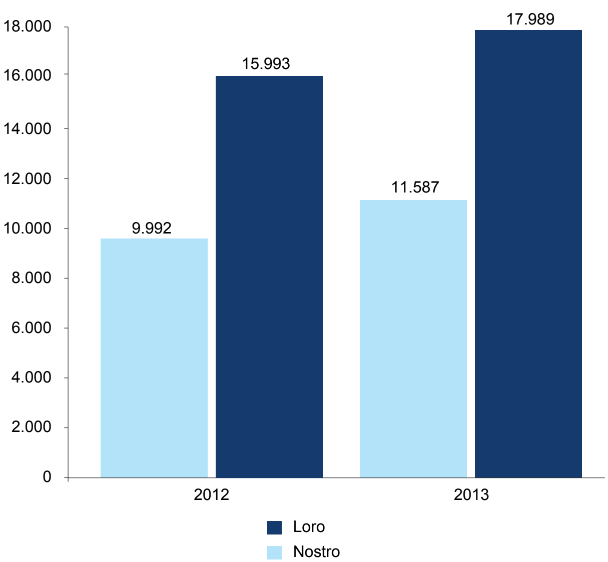
U 2013. godini u oblasti platnog prometa prioritetne aktivnosti Banke su bile efikasno i kvalitetno obavljanje usluga platnog prometa, kako za postojeće, tako i za nove klijente. Trendovi rasta u platnom prometu nastavljeni su, te je ostvaren veći obim i vrijednost transakcija, kako u domaćem, tako i u inostranom platnom prometu

Usvojen je novi Zakon o platnom prometu, usklađen sa tri relevantne evropske direktive: Direktivom 2007/64/EZ o platnim uslugama na unutrašnjem tržištu, Direktivom 2009/110/EZ o osnivanju, poslovanju i prudencionoj kontroli poslovanja institucija za elektronski novac, Direktivom 98/26/EZ o konačnosti poravnanja u platnim sistemima i Direktivom 2009/44/EZ kojom se mijenja ova direktiva. Uz podzakonske akte, novi Zakon će pružati nove inpute i smjernice za obavljanje poslova platnog prometa u skladu sa regulativom Evropske unije.

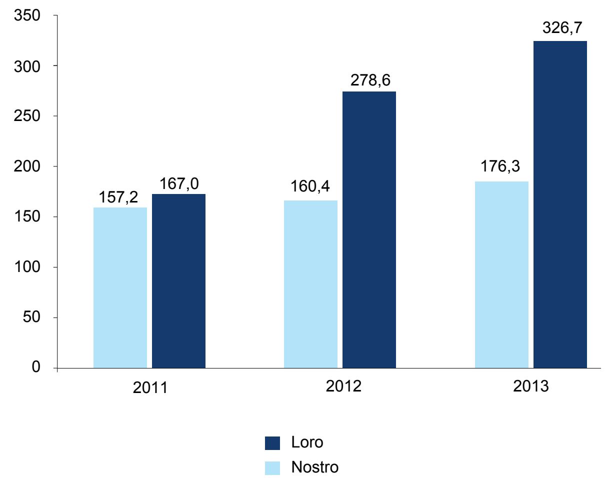
Platni promet sa inostranstvom

Erste banka pruža usluge plaćanja i naplate iz inostranstva za fizička i pravna lica, prijem inostranih čekova, poslove trade finance-a i druge. U 2013. godini realizovano je 17.989 loro doznaka u ukupnom iznosu 326,7 miliona EUR i 11.587 nostro doznaka, ukupnog iznosa 176,3 miliona EUR.

Broj Loro/Nostro doznaka



Vrijednost Loro/Nostro doznaka u milionima EUR

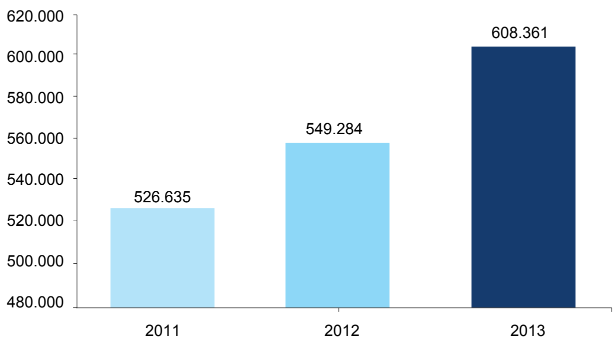


Tokom 2013. Erste banka je naplatila 753 inostrana čeka.

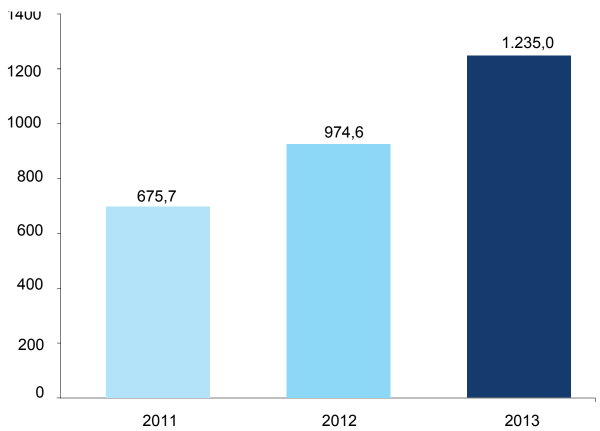
Platni promet u zemlji

Platni promet u zemlji u 2013. uvećan je u odnosu na prethodnu godinu i prema broju i prema ukupnoj vrijednosti transakcija. Realizovano je 608.361 transakcija i ostvaren rast od 10,7% u odnosu na 2012. Učešće internih transakcija zastupljeno je sa 41,6%, dok su međubankarska plaćanja (RTGS i DNS) sa 58,4% učestvovala u ukupnom broju transakcija. Ukupna vrijednost ostvarenog platnog prometa iznosila je oko 1.235,0 miliona EUR, što predstavlja rast od 26,7% u odnosu na 2012.

Obim transakcija u platnom prometu u zemlji



Vrijednost platnog prometa u zemlji u milionima EUR



Riznica - prihod od trgovanja

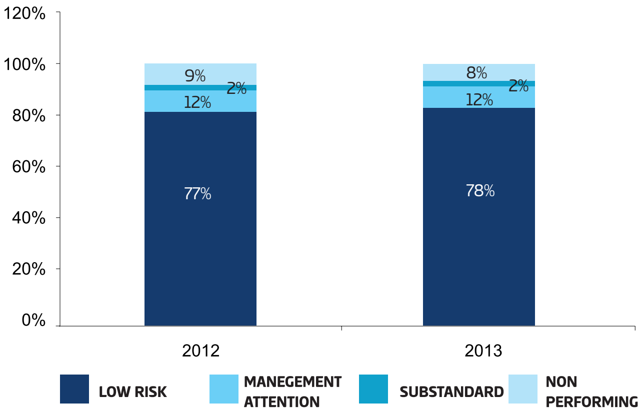
Prihod do FX poslova u 2013. godini iznosio je 366.000 EUR, što je za 18,50% veći rezultat u odnosu na 2012. Aktivom i pasivom, u smislu likvidnosti, ročne usklađenosti izvora i plasmana sredstava je upravljao ALCO komitet na način kako je propisano internim odlukama i usklađeno sa zakonskim odredbama koje propisuje regulator. Likvidnost je pažljivo praćena, planirana i projektovana. Dio viškova likvidnosti, koji je proistekao iz porasta nivoa depozita klijenata, plasiran je u hartije od vrijednosti, tako da je prihod od ovih poslova iznosio 1,705 miliona EUR, što je za 34% više nego u 2012. godini.

Upravljanje rizicima

Tokom 2013. godine makroekonomski ambijent u Crnoj Gori je poboljšan. BDP preliminarno pokazuje rast, u odnosu na 2012. kad je zabilježen pad od 2,5%. Znatno su poboljšani fiskalni indikatori, naročito budžetski deficit koji je, u odnosu na 2012. godinu snižen sa 6,7% BDP-a na 4,6% BDP-a, koliko se procjenjuje da će iznositi na kraju 2013. godine. Kod javnih finansija prisutna su određena negativna kretanja u vezi sa nivoom i trendom javnog duga. Bankarski sistem je stabilan sa aspekta likvidnosti.

Rizični profil Erste banke u 2013. godini bio je znatno bolji od profila bankarskog tržišta kao cjeline. To se ogleda u izrazito boljim pokazateljima kvaliteta aktive i nižeg kreditnog rizika od industrijskog prosjeka. Izraženi su niži procenti dana kašnjenja i NPL-a u odnosu na sistemske vrijednosti. Troškovi rezervisanja niži su za 46% u odnosu na 2012. godinu. Trošak kreditnog rizika iznosi 0,9% i znatno je niži u odnosu na kraj 2012. godine kad je iznosio 1,8%. Pokrivenost NPE rezervama visoka je i iznosila je 76,65% na kraju 2013. bez uključivanja vrijednosti kolaterala.

Izloženost prema kategorijama rizika u Erste Bank AD Podgorica



Likvidnost Banke je konstantno bila jaka – svi pokazatelji likvidnosti znatno su iznad zakonskih minimuma. Izloženost tržišnom riziku je i u 2013. godini ostala na niskom nivou.

Banka je 2013. godinu završila kao dobro kapitalizovana banka sa koeficijentom solventnosti od 15,55% (bez uključene dobiti tekuće godine), što je znatno iznad zakonskog minimuma od 10%.

Tokom 2013. godine Banka je zadržala značajno tržišno učešće u svim sferama, pritom izuzetno vodeći računa o kvalitetu plasmana i orjentišući se ka klijentima i industrijskim granama koje nijesu ili su minimalno pogođene krizom i čija je perspektiva poslovanja neupitna. Izlaganje banke prema granama industrije koje su jače pogođene krizom, npr. građevinarstvu, ostala je minimalna i te grane nijesu bile u fokusu interesovanja.

Novi informacioni sistem

Erste banka je 2. septembra 2013. godine, nakon intenzivnih priprema u predprojektnoj i projektnoj fazi, počela rad na novom bankarskom informacionom sistemu. Novi informacioni sistem implementiran je u saradnji sa Erste&Steiermaerkische Bank d.d. Rijeka i Erste Bank a.d. Novi Sad, koje već uslužuju ukupno više od 1,1 milion klijenata posredstvom ovog informacionog sistema.

Projekat je započet u oktobru 2012. godine, a tokom 11 mjeseci implementacije, na njemu je bio angažovan veliki broj zaposlenih Erste banke, Erste& Steiermaerkische Bank i Erste Bank Novi Sad. Za rad na novom sistemu obučeno je više od 220 zaposlenih Erste Bank AD Podgorica, koji će i raditi na sistemu.

Banka je investirala značajna sredstva u implementaciju novog rješenja, od kojeg se očekuje pružanje bankarskih usluga na bolji, sveobuhvatniji i efikasniji način, a takođe i brža primjena inovativnih tehnoloških rješenja prilikom uvođenja novih proizvoda i obogaćivanja ponude za klijente.

Ljudski resursi

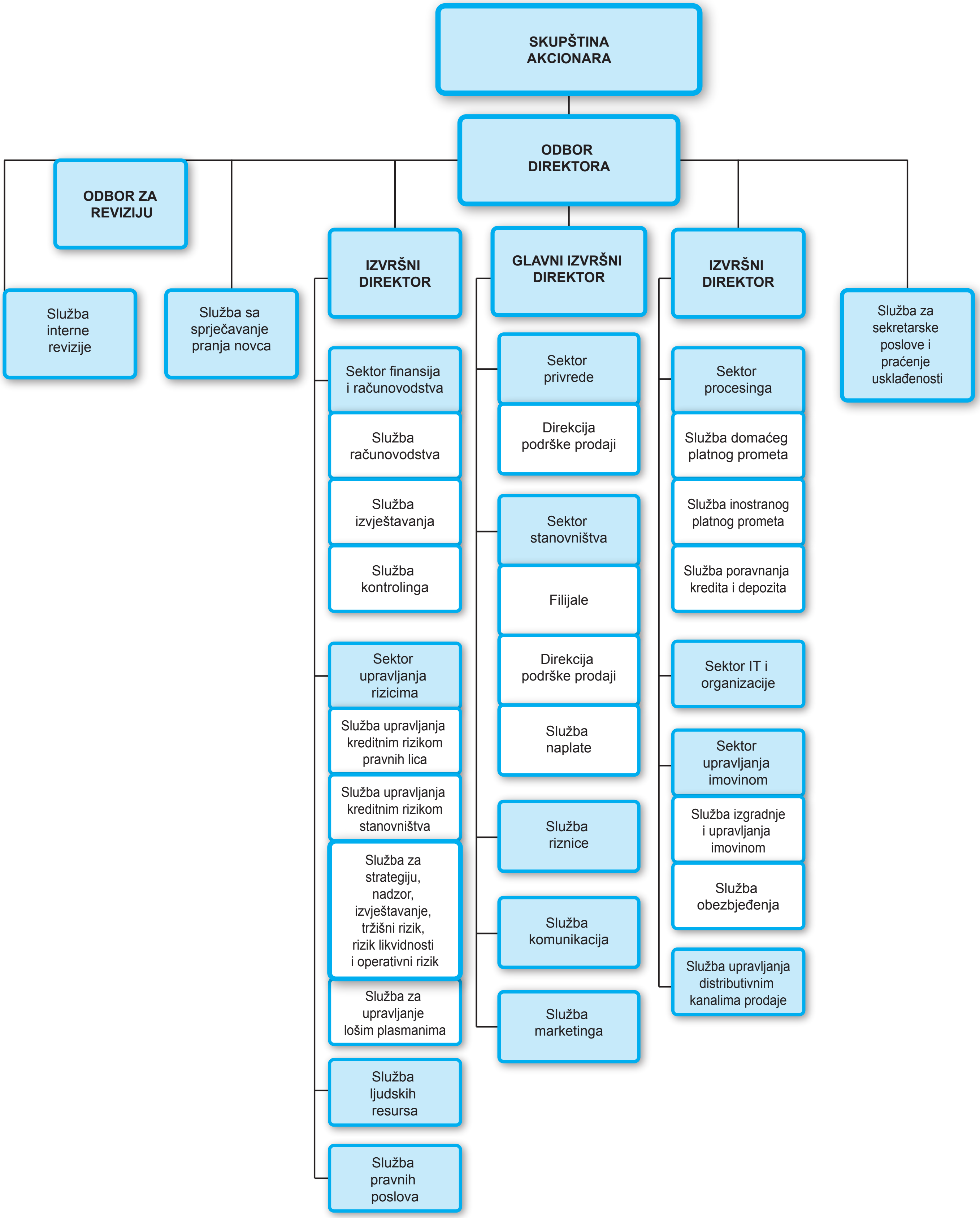
Kako su zaposleni osnov na kojem se gradi uspjeh organizacije, Banka nastoji obezbijediti potrebne resurse i uslove za rad svim svojim zaposlenima, te omogućiti kontinuiranu edukaciju i stručno usavršavanje.
Erste banka je na kraju 2013. godine imala 253 zaposlena, od kojih su 51% žene, a prosječna starosna dob je 37 godina.

U 2013. godini organizovano je mnoštvo pojedinačnih obuka, na kojima je učestvovalo 157 zaposlenih ili 62% od ukupnog broja zaposlenih, što je za 8% više od prethodne godine, s tim da su pojedini zaposleni bili na više edukacija. Većina grupnih edukacija u 2013. godini bila fokusirana na obuku zaposlenih za novi informacioni sistem. Za potrebe obuke formiran je edukacioni centar u Podgorici. Uložen je veliki napor u obuku zaposlenih kroz razne radionice, s namjerom da se podigne nivo kompetentnosti za bolje i sigurnije obavljanje radnih zadataka. Fokus obuka je bio na aktivnoj metodi učenja, koja se zasniva na razmjeni i nadograđivanju znanja, vještina i iskustva sa ostalim kolegama. Za potrebe projekta obučeno je 10 intrenih trenera (pet za blagajničko poslovanje i pet za kreditno poslovanje) koji su imali veoma izazovan, ali istovremeno i težak posao, jer su svoje znanje i iskustvo uspješno prenijeli kolegama.

Erste banka je u 2013. godini omogućila obavljanje stručne prakse za 30 visokoškolaca u okviru Vladinog projekta Program stručnog osposobljavanja lica sa visokim obrazovanjem, a njih šest je po završetku projekta zasnovalo radni odnos u Banci.

Obavljanje poslovanja Banke organizovano je u sedam sektora i devet službi opremljenih i osposobljenih za specijalizovano obavljanje grupa srodnih poslova iz predmeta poslovanja Banke.

Organizaciona struktura



Širenje mreže

Erste banka je u prošloj godini nastavila sa rekonstrukcijom mreže poslovnica i njihovim prilagođavanjem standardima i poslovanju Erste Grupe. Relocirane su i prilagođene standardima filijale u Bijelom Polju i Kotoru.
U 2013. mreža bankomata proširena je za 15,38%.

ERSTE BANK A.D., PODGORICA

IFRS FINANCIAL STATEMENTS

31 DECEMBER 2013

Ernst & Young Montenegro d.o.o.
Serdara Jola Piletića
PC Palada (II sprat) lokal 2A
81000 Podgorica, Crna Gora

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ey.com

Building a better working world

INDEPENDENT AUDITOR'S REPORT

TO THE OWNERS OF 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 2013, 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 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Podgorica, 19 March 2014

Ernst . Young Montenegro d.o.o.

Ernst & Young Montenegro d.o.o.

ERSTE BANK A.D., PODGORICA

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

In thousands of EUR	**Notes**	**2013**	**2012**
Interest income	5	28,351	29,511
Interest expense	5	(9,366)	(10,011)
Net interest income		18,985	19,500
Fee and commission income	6	3,593	2,993
Fee and commission expense	6	(532)	(463)
Net fee and commission income		3,061	2,530
Trading income	7	366	309
Credit loss expense	8	(2,456)	(4,569)
General administrative expenses	9	(12,790)	(11,655)
Other operating result	10	(1,207)	(809)
Profit before tax		5,959	5,306
Income tax	11	(536)	(534)
Profit for the year		**5,423**	**4,772**
Other comprehensive income			
Gains on available for sale financial assets		673	1,690
Income tax effect		(65)	(152)
Actuarial gains on long-term employee benefits		29	4
Income tax effect		(3)	-
Loss on revaluation of property		(258)	-
Income tax effect		32	-
Total other comprehensive income for the year, net of tax		408	1,542
Total comprehensive income for the year, net of tax		**5,831**	**6,314**

The accompanying notes are an integral part of these financial statements

Podgorica, 19 March 2014

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

Aleksa Lukić	Predrag Lalović	Kristina Šukilić
Chief Executive Director	Executive Director	Director of Finance and Accounting

ERSTE BANK A.D., PODGORICA

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2013

In thousands of EUR	Note	2013	2012
ASSETS			
Cash and balances with banks and Central Bank	12	33,222	39,574
Loans and advances to banks, net	13	24,996	30,406
Loans and advances to customers, net	14	259,417	246,435
Financial assets available for sale	15	18,670	17,980
Financial assets held to maturity	16	6,174	6,974
Property and equipment	17	4,424	5,605
Intangible assets	18	2,299	241
Other assets, net	19	1,718	1,507
Total assets		**350,920**	**348,722**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		144	61
Deposits from customers	20	219,781	211,844
Other borrowed funds	21	71,871	83,884
Debt securities	22	15,016	15,007
Current tax liability		601	525
Deferred tax liabilities	11	265	293
Other liabilities	23	3,427	3,124
Total liabilities		**311,105**	**314,738**
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
Regulatory reserves for credit losses		1,467	-
Revaluation reserves		430	656
Fair value reserves		958	350
Retained earnings		29,568	25,586
Total shareholders' equity		39,815	33,984
Total liabilities and shareholders' equity		**350,920**	**348,722**

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

Podgorica, 19 March 2014

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

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

ERSTE BANK AD PODGORICA

3

ERSTE BANK A.D., PODGORICA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

In thousands of EUR	2013	2012
Operating activities		
Net income	5,423	4,772
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	1,150	944
Net losses on fixed assets	283	28
Foreign currency translation gains	(366)	(309)
Interest on securities	(1,704)	(1,595)
Provision for loan losses	2,456	4,569
Income tax expense	536	534
Change in operating assets and liabilities:		
Increase in mandatory reserves with the Central Bank of Montenegro	(1,331)	(2,320)
Increase in loans to customers	(13,142)	(4.036)
Increase in other assets	780	(488)
Increase in securities available for sale	(690)	(1,707)
Decrease/(increase) in securities held to maturity	800	(598)
Increase in deposits from banks and customers	8,021	45,860
Increase in other liabilities	(443)	1,512
Paid income tax		-
Paid bonuses for staff	(653)	(806)
Net cash used in operating activities	1.120	46.360
Investing activities		
Net additions to fixed and intangible assets	(2,310)	(756)
Net cash used in investing activities	(2,310)	(756)
Financing activities		
Repayment of borrowings	(11,987)	(5,120)
Net cash from/(used in) financing activities	(11,987)	(5,120)
Net increase/(decrease) in cash and cash equivalents	(13,177)	40.484
Cash and cash equivalents at beginning of year	56.090	15,606
Cash and cash equivalents at end of year (Notes 12 and 13)	**42.913**	**56.090**
Interest paid	9,447	10,214
Interest received	28,802	28,087

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

Podgorica, 19 March 2014

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

ERSTE BANK AD PODGORICA ERSTE Bank 3

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

In thousands of EUR	Share capital	Share premium	Other reserves	General risk reserves	Regulatory reserves for credit losses	Revaluation reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2012	5,339	1,571	300	182	-	677	(1,188)	20,789	27,670
Total comprehensive income	-	-	-	-	-	-	1,538	4,776	6,314
Depreciation of revalued property	-	-	-	-	-	(21)	-	21	-
Balance as at 31 December 2012	**5,339**	**1,571**	**300**	**182**	**-**	**656**	**350**	**25,586**	**33,984**
Transfer to regulatory reserves for credit losses	-	-	-	-	1,467	-	-	(1,467)	-
Total comprehensive income	-	-	-	-	-	(226)	608	5,449	5,831
Depreciation of revalued property	-	-	-	-	-	-	-	-	
Balance as at 31 December 2013	**5,339**	**1,571**	**300**	**182**	**1,467**	**430**	**958**	**29,568**	**39,815**

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

Podgorica, 19 March 2014

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

Aleksa Lukic
Chief Executive Director

Predrag Lalović
Executive Director

Kristina Bukilić
Director of Finance and Accounting

1. ACTIVITY

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

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

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

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

The Bank conducts its operations through its Head Office and sixteen 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., Rijeka, Croatia owns 100% shares of the Bank from 27 February 2009. The ultimate parent of the Group is Erste Group Bank AG, Vienna, Austria.

As at 31 December 2013, the Bank had 253 employees (2012: 275).

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

In 2013, the Bank changed accounting policy with respect to presentation of cash and cash equivalents and included time accounts with foreign banks up to 90 days in cash and cash equivalents in the amounts of EUR 8,000 thousand as of 31 December 2013 (2012: EUR 7,717 thousand). As this has no impact on the statement of the financial position, the Bank did not present the statement of the financial position as of the beginning of the earliest comparative period presented.

Apart from the above, the accounting policies adopted are consistent with those of the previous financial year.

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 - Government Loans (Amendments) – effective January 1, 2013*
- *IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
- *IFRS 7 Financial Instruments: Disclosures (Amendment), effective January 1, 2013*
- *IFRS 13 Fair Value Measurement – effective January 1, 2013*
- *IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets;*
- *IAS 19 Employee benefits (revised) – effective January 1, 2013*
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – effective January 1, 2013*
- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*

The adoption of the standards or interpretations is described below:

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment shall be applied as from the commencement date of its first financial year starting on or after 1 January 2013.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Standard did not affect financial position and performance of the Bank but has affected the Bank's fair value disclosures. Standard is effective for annual periods beginning on or after 1 January 2013.

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment shall be applied as from the commencement date of its first financial year starting on or after 1 January 2013 and there has been no effect on the Bank's financial position, performance or its disclosures.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment is effective for annual periods beginning on or after 1 January 2013. There has been no impact on the Bank's financial position or results.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation did not have an impact on the Bank.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. There has been no impact of the standard on the Bank's financial position or results.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation Special Purpose Entities. There has been no impact of the standard on the Bank's financial position or results.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. There has been no impact of the standard on the Bank's financial position or results.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. There has been no impact of the standard on the Bank's financial position or results.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Bank's financial position or performance. There has been no impact of the standard on the Bank's financial position or results.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2013 and 2012 are as follows:

In EUR	2013	2012
USD	0.7255	0.7586
CHF	0.8157	0.8278
GBP	1.1956	1.2241

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 deferred and recognized as a part of the effective interest rate.

When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized in the income statement on an accrual basis.

Other fees and commission expense relate mainly to transaction and service fees, which are recognized in income statement as the services are provided or received.

Net trading income

Foreign exchange rate gains include 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 and financial assets available for sale.

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% (2012: 9%) and is payable on taxable profit.

Taxable profit includes the profit shown in the statutory income statement, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses (continued)

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 classifies 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. The Bank classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

Financial assets or liabilities at fair value through profit or loss are financial instruments 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 or liabilities 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.

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.

Recognition

Financial assets or liabilities at fair value through profit or loss, held to maturity investments and financial assets available for sale are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. All other financial assets and liabilities are recognized on the settlement date, i.e., the date that an asset is delivered to or by Bank.

Initial measurement

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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 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 and removed from the fair value reserve.

Financial assets held to maturity

Financial assets held-to-maturity are non-derivative financial assets quoted in an active market 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

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 modelling 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 modelling. 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 2012 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

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 14,29% to 33,33%.

Acquired assets held for sale

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

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 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

The standards and interpretations that are issued, but not yet effective are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Hedge accounting

A new chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces significant improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management. **T**he standard does not currently indicate the mandatory effective date. The IASB decided to defer the mandatory effective date of IFRS 9 until the date of the completed version of IFRS 9 is known. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Bank is in the process of assessing impact of the standard on financial position and performance of the Bank.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future changes in accounting policies (continued)

IFRIC 21 Levies

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognizing a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. The interpretation is effective for annual periods beginning on or after January 1, 2014. The new interpretation will have no impact on the Bank.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)

In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after January 1, 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. These amendments are not expected to impact the Bank's financial position or performance.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. These amendments are not expected to impact the Bank's 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. 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	**2013**	**2012**
Interest income		
Time deposits with foreign banks	3	8
Loans and advances to customers	26,640	27,877
Financial assets available for sale	1,312	1,316
Financial assets held to maturity	392	279
Other	4	31
Total interest income	**28,351**	**29,511**
Interest expense		
Deposits from banks	(2,703)	(3,284)
Deposits from customers	(6,107)	(5,962)
Debt securities	(423)	(557)
Subordinated liabilities	(133)	(208)
Total interest expense	**(9,366)**	**(10,011)**
Net interest income	**18,985**	**19,500**

6.NET FEE AND COMMISSION INCOME

In thousands of EUR	**2013**	**2012**
Fee and commission income		
Lending business	295	406
Payment transfers	1,438	1,511
Card transactions	579	577
Other fee and commission income	1,281	499
Total fee and commission income	**3,593**	**2,993**
Fee and commission expense		
Lending business	(7)	-
Payment transfers	(224)	(210)
Card transactions	(254)	(198)
Custodial fees	(35)	(35)
Other fee and commission expenses	(12)	(20)
Total fee and commission expense	(532)	(463)
Net fee and commission income	**3,061**	**2,530**

7. TRADING INCOME

In thousands of EUR	2013	2012
Net foreign exchange gains	366	309
Total	**366**	**309**

8. CREDIT LOSS EXPENSE

In thousands of EUR	**2013**	**2012**
Loans and advances to customers	3,136	4,615
Recoveries of written of loans	(816)	(527)
Loans and advances to banks	(8)	13
Provision for contingent liabilities	(112)	468
Direct write offs	256	-
Total	**2,456**	**4,569**

9. GENERAL ADMINISTRATIVE EXPENSES

In thousands of EUR	**2013**	**2012**
Personnel expenses	6,998	6,810
Other administrative expenses	4,642	3,901
Depreciation of property and equipment (Note 17)	920	764
Amortization of intangible assets (Note 18)	230	180
Total	**12,790**	**11,655**

Personnel expenses

In thousands of EUR	**2013**	**2012**
Wages and salaries - net	4,208	3,881
Tax on salaries	680	541
Employee contributions	1,312	1,392
Legal social security contribution	748	715
Other personnel expenses	38	191
Provision for long-term employee benefits	12	90
Total	**6,998**	**6,810**

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	**2013**	**2012**
Expenses dependent upon personnel	169	237
Expenses for office space	1,348	1,111
Office operating expenses	636	606
IT expenses	1,003	663
Advertising / marketing	547	613
Legal and consulting costs	926	662
Sundry administrative expenses	13	9
Total	**4,642**	**3,901**

10. OTHER OPERATING RESULT

In thousands of EUR	**2013**	**2012**
Other operating income	450	153
Payment into deposit insurance fund	(1,069)	(695)
Net losses from fixed and acquired assets	(69)	(43)
Provision for litigation	(17)	10
Provisions for other assets	(174)	(46)
Write off fee and other receivables	(282)	(74)
Other provisions	(21)	(48)
Other expense	(25)	(66)
Total	**(1,207)**	**(809)**

11. INCOME TAX

The components of income tax for the years ended 31 December 2013 and 2012 are:

In thousands of EUR	**2013**	**2012**
Current tax – current income tax	600	491
Deferred tax – relating to origination and reversal of temporary differences	(64)	43
Total income tax expense in income statement	**536**	**534**

Reconciliation between the tax expense and the accounting result multiplied by the Montenegrin tax rate for the year ended 31 December 2013 and 2012 is as follows:

In thousands of EUR	**2013**	**2012**
Accounting profit before tax	5,959	5,306
At Montenegrin statutory tax rate of 9%	536	478
Non-deductible expenses	63	54
Other	(63)	2
Income tax reported in the income statement	**536**	**534**

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

In thousands of EUR	**2013**	**2012**
Gains on financial assets available for sale	65	152
Actuarial gains on long-term employee benefits recognized in equity	3	-
Revaluation of property	(32)	-
Total	**36**	**152**

11. INCOME TAX (continued)

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

	2013			2012		
In thousands of EUR	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Depreciation of fixed assets	-	(100)	(100)	-	(23)	(23)
Actuarial gains on long-term employee benefits recognized in equity	-	(11)	(11)	-	(8)	(8)
Gains on financial assets available for sale	-	(100)	(100)	-	(35)	(35)
Depreciation of fixed assets - property	-	(54)	(54)	-	(86)	(86)
Allowances for loan losses	-	-	-	-	(141)	(141)
Net tax assets/(liabilities)	**-**	**(265)**	**(265)**	**-**	**(293)**	**(293)**

12. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

In thousands of EUR	**2013**	**2012**
Cash on hand	10,818	10,788
Current accounts with the Central Bank of Montenegro	7,407	15,119
Total included in cash and cash equivalents	18,225	25,907
Deposits with the Central Bank of Montenegro	14,997	13,667
Balance as at 31 December	**33,222**	**39,574**

Deposits with the Central Bank of Montenegro relate to mandatory reserve requirements and are calculated by applying rate of 9.5% on demand deposits and term deposits with original maturity up to one year (original maturity up to 365 days) and rate 8.5% on the part of the deposit with original maturity over one year (original maturity over 365 days). If deposits with original maturity over one year (original maturity up to 365 days) have option clause for early repayment within one year, then the rate of 9.5% is applied. The Bank can hold 35% 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	**2013**	**2012**
Current accounts with foreign banks	16,688	22,466
Time accounts with foreign banks	8,000	7,717
Total included in cash and cash equivalents	24,688	30,183
Deposit for Master Card business	315	238
	25,003	**30,421**
Allowance for impairment	(7)	(15)
Balance as at 31 December	**24,996**	**30,406**

14. LOANS AND ADVANCES TO CUSTOMERS, NET

In thousands of EUR	2013 Gross Amount	2013 Impairment	2013 Carrying amount	2012 Gross amount	2012 Impairment	2012 Carrying amount
Retail customers						
Personal loans	92,652	(7,740)	84,912	91,922	(9,621)	82,301
Credit cards	6,297	(820)	5,477	8,296	(1,278)	7,018
Finance lease	308	(215)	93	817	(357)	460
Other lending	45,438	(2,309)	43,129	42,444	(1,451)	40,993
Corporate customers						
Credit cards	38	(2)	36	3	-	3
Finance lease	769	(250)	519	1,182	(433)	749
Other lending	69,654	(7,070)	62,584	76,558	(7,437)	69,121
Public customers						
Finance lease	1	-	1	4	-	4
Other lending	62,639	(374)	62,265	45,576	(213)	45,363
Other customers						
Other lending	428	(27)	401	441	(18)	423
Balance as at 31 December	**278,224**	**(18,807)**	**259,417**	**267,243**	**(20,808)**	**246,435**

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

In thousands of EUR	2013	2012
Balance as at 1 January	20,808	16,193
Charge for the year, net of recoveries	3,316	4,615
Write off	(5,137)	-
Balance as at 31 December	**18,807**	**20,808**

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

In thousands of EUR	2013	2012
Agriculture	2,795	589
Building construction	3,796	1,193
Trade	33,761	33,179
Tourism	4,194	7,169
Production	7,290	2,758
Transportation	2,826	4,879
Administration and other public services	713	18,542
Retail	143,222	143,479
Other	79,627	55,455
Less: Allowance for impairment	(18,807)	(20,808)
Balance as at 31 December	**259,417**	**246,435**

14. LOANS AND ADVANCES TO CUSTOMERS, NET (continued)

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 11,66% p.a. and for loans granted to companies weighted average interest rate was 7,61% p.a.. As disclosed in Note 21, the Bank assigned to the EFSE Luxemburg as collateral for loans granted from the EFSE loan fund of EUR 3,475 thousand relating to 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.

Finance lease receivables

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

In thousands of EUR	**2013**	**2012**
Less than one year	605	1,475
Between one and five years	470	593
More than five years	50	34
Gross investment in finance leases, receivable	**1,125**	**2,102**
Unearned future income on finance leases	(47)	(99)
Net investment in finance leases	**1.078**	**2,003**

Future minimum lease payments receivable, unearned future income and the net investment in finance lease by maturity as at 31 December 2013 and 2012 are as follows:

		2013	
In thousands of EUR	**Gross**	**Unearned**	**Investment**
	investment	**income**	**in the lease**
Less than one year	605	(21)	584
Between one and five years	470	(22)	448
More than five years	50	(4)	46
Investment in finance leases at end of year	**1.125**	**(47)**	**1.078**

		2012	
	Gross	**Unearned**	**Investment**
In thousands of EUR	**investment**	**income**	**In the lease**
Less than one year	1,475	(52)	1,423
Between one and five years	593	(41)	552
More than five years	34	(6)	28
Investment in finance leases at end of year	**2,102**	**(99)**	**2,003**

15. FINANCIAL ASSETS AVAILABLE FOR SALE

In thousands of EUR	2013	2012
Debt instruments – Eurobonds of the Ministry of Finance of the Government of Montenegro	18,636	17,945
Equity instruments	34	35
Balance as at 31 December	**18,670**	**17,980**

16. FINANCIAL ASSETS HELD TO MATURITY

In thousands of EUR	**2013**	**2012**
Treasury bills of the Ministry of Finance of the Government of Montenegro	4,945	5,442
Bonds of Work Fund	1,229	1,532
Balance as at 31 December	**6,174**	**6,974**

17. PROPERTY AND EQUIPMENT

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

In thousands of EUR	Buildings	Computers	Other assets	Total
Cost As at 31 December 2012	3,061	1,363	5,616	10,040
Additions	-	199	538	737
Disposals			(225)	(225)
Revaluation	(258)	-	-	(258)
Write-off	-	(124)	(552)	(676)
Reclassification	-	348	(1,908)	(1,560)
As at 31 December 2013	**2,803**	**1,786**	**3,469**	**8,058**
Accumulated depreciation				
As at 31 December 2012	486	905	3,043	4,434
Depreciation for the year	73	191	656	920
Disposals	-	-	(225)	(225)
Write-off	-	(120)	(521)	(641)
Reclassification	-	345	(1,199)	(854)
As at 31 December 2013	**559**	**1,321**	**1,754**	**3,634**
Net Book Value as at 31 December 2013	**2,244**	**465**	**1,715**	**4,424**
Net Book Value as at 31 December 2012	**2,575**	**458**	**2,573**	**5,605**

The last valuation of the Bank's buildings was performed in 2013. Had the Bank carried buildings under the cost model the net carrying value of the revalued buildings would amount to EUR 2,245 thousand as of 31 December 2013 (31 December 2012: EUR 1,877 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 2012	1,146	226	206	1,578
Additions	8	-	-	8
Reclassification	129	77	(206)	-
As at 31 December 2012	**1,283**	**303**	**-**	**1.586**
Additions	1,581	1	-	1,582
Write-off	-	(296)	-	(296)
Reclassification	-	-	1,560	1,560
As at 31 December 2013	**2,864**	**8**	**1,560**	**4,432**
Accumulated amortization				
As at 1 January 2012	858	101	206	1,165
Reclassification	11	196	(206)	-
Charge for the year	180	-	-	180
As at 31 December 2012	**1,049**	**296**	**-**	**1,345**
Charge for the year	227	3	-	230
Write-off	-	(296)	-	(296)
Reclassification	-	-	854	854
As at 31 December 2013	**1,276**	**3**	**854**	**2,133**
Net Book Value as at 31 December 2013	**1,588**	**5**	**706**	**2,299**
Net Book Value as at 31 December 2012	**116**	**125**	**-**	**241**

19. OTHER ASSETS

In thousands of EUR	2013	2012
Accrued commissions	153	142
Prepaid expenses	157	173
Assets received on foreclosed loans	1,342	436
Other assets	374	890
	2,026	1,641
Less: Allowance for impairment	(308)	(134)
Balance as at 31 December	**1,718**	**1,507**

Movements in allowances are presented as follows:

In thousands of EUR	2013	2012
Balance as at 1 January	134	143
Charge/(release) for the year	174	(9)
Balance as at 31 December	**308**	**134**

20. DEPOSITS FROM CUSTOMERS

In thousands of EUR	2013	2012
Demand deposits	94,135	71,895
Term deposits	122,159	137,232
Interest accrued	3,487	2,717
Balance as at 31 December	**219,781**	**211,844**

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

21. OTHER BORROWED FUNDS

In thousands of EUR	2013	2012
Current (due within one year)	5,380	11,846
Non-current (due after one year)	66,093	71,615
Accrued interest	513	594
Deferred origination fees	(115)	(171)
Balance as at 31 December	**71,871**	**83,884**

Borrowings include loans from EFSE Luxembourg of EUR 3,475 thousand (2012: EUR 5,685 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.

As of 31 December 2012, current borrowings included possible early repayment of a loan from KfW in the amount of EUR 8,273 thousand due to breach of covenants. According to the amendment to the loan agreement with KfW signed in 2013, the covenants have been amended. As of 31 December 2013, the Bank is not breaching debt covenants with KfW.

22. DEBT SECURITIES

Debt securities issued as of 31 December 2013 of EUR 15,016 thousand (2012: 15,007 thousand) relate to 15,000 bills of nominal value of EUR 1,000 issued on 10 March 2011. These bills mature on 10 March 2016 and were fully purchased by Erste & Steiermarkische Bank D.D. Croatia.

23. OTHER LIABILITIES

In thousands of EUR	2013	2012
Accrued expenses	456	525
Accrued employee benefits	563	648
Provision for long term employee benefits	191	211
Provision for contingent liabilities	783	895
Provision for legal claims	106	89
Provision for operating risk	169	166
Items in course of collection and other liabilities	1,159	590
Balance as at 31 December	**3,427**	**3,124**

Provision for long-term employee benefits relates to upon retirement benefits payable in an amount equal to six average monthly salaries in the Bank and for jubilee provisions. 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 7.62% (2012: 7,25%) and expected increase in salaries of 1% (2012:5%) and personnel turnover rate of 4.28% (2012: 2.87%).

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

In thousands of EUR	2013	2012
Balance as at 1 January	211	131
Additions:		
Service costs	1	81
Interest costs	11	12
Actuarial gains on jubilee provisions	(17)	(3)
Use	(3)	(6)
Actuarial gains on upon retirement benefits	(12)	(4)
Balance as at 31 December	**191**	**211**

23. OTHER LIABILITIES (continued)

Provision for contingent liabilities relates to the following:

In thousands of EUR	**2013**	**2012**
Issued guarantees	387	654
Credit commitments:		
- overdrafts	182	169
- credit cards	78	50
- project financing	136	22
Balance as at 31 December	**783**	**895**

A reconciliation of provision for contingent liabilities is as follows:

In thousands of EUR	**2013**	**2012**
Balance as at 1 January	895	427
(Reversals)/additions	(112)	468
Balance as at 31 December	**783**	**895**

24. SHAREHOLDER'S EQUITY

In thousands of EUR	**2013**	**2012**
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	958	350
Regulatory reserves for credit losses	1,467	-
Revaluation reserves	430	656
Retained earnings	29,568	25,586
Balance as at 31 December	**39,815**	**33,984**

Share capital

As at 31 December 2013, 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 (2012: 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.

Regulatory reserves for credit losses

Regulatory reserves for credit losses relate to the difference between the provisions for impairment of financial assets and provision for contingent liabilities recorded in the Bank's statutory accounts as of 31 December 2012 and the amount of the relating provisions assessed in accordance with the new regulation of the Central Bank of Montenegro applicable from 1 January 2013. These reserves are not distributable.

Retained earnings

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

Dividends

The Board of Directors of the Bank did not declare dividends for the year 2013.

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	**2013**	**2012**
Guarantees	24,741	24,603
Unused overdraft limit on loans	7,627	7,344
Unused project financing limit on loans	-	548
Credit cards	3,354	3,145
Provisions for impairment of contingent liabilities	(783)	(895)
Balance as at 31 December	**34,939**	**34,745**

Legal claims

On the statement of financial position date, the Bank is involved in 116 court cases as defendant. The Bank made a provision for the value of possible compensation on legal claims estimated at EUR 106 thousands (2012: EUR 89 thousand).

Operating lease commitments

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

In thousands of EUR	**2013**	**2012**
Commitments due within one year	763	598
Commitments due in period from 1 to 5 years	1,981	1,510
Commitments due after 5 years	191	32
Balance as at 31 December total	**2,935**	**2,140**

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	**2013**	**2012**
Assets		
Current accounts with foreign banks	15,233	14,294
Other assets	1,016	325
	16,249	**14,619**
Liabilities		
Demand deposits	410	1,008
Borrowings	64,902	71,394
	65,312	**72,402**
Income		
Fee and commission income	603	229
Expenses		
Interest and similar expenses	2,362	2,941
Fee and commission expense	35	34
Other administrative expenses	63	49
	2,460	**3,024**

26. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of EUR	**2013**	**2012**
Assets		
Current accounts with foreign banks	6.035	8,447
Other assets	907	263
	6.942	**8,710**
Liabilities		
Borrowings/Debt securities	15.035	15,006
	15.035	**15,006**
Income		
Fee and commission income	-	101
	-	**101**
Expenses		
Interest and similar expenses	414	568
Other administrative expenses	-	49
	414	**617**

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

In 2013 the Bank paid to top management personnel gross salaries and other compensations in the amount of EUR 634 thousand (2012: EUR 650 thousand) which include bonuses in the amount of 229 thousand (2012: EUR 259 thousand).

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

In thousands of EUR	**2013**	**2012**
Assets		
Loans	-	-
Liabilities		
Demand deposits	-	-
Indexed deposits	-	49
	-	**49**

The Bank did not grant new loans to the members of the Board of Directors during 2013 (2012: nil).
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 2013 for granted loans amounted to EUR 11 thousand (2012: EUR 35 thousand). Interest income on granted loans to management personnel in 2013 amounted to EUR 0 thousand (2012: EUR 2 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 2013, the Bank has not made any provisions for doubtful debts relating to amounts owned by related parties (2012: 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:

In thousands of EUR	**Total carrying value**	**Stated at fair value**	**Stated at amortised cost**
As at 31 December 2013			
Cash and balances with banks and Central bank	33,222	-	33,222
Loans and advances to Banks, net	24,996	-	24,996
Loans and advances to customers, net	259,417	-	259,417
Financial assets available for sale	18,670	18,670	-
Financial assets held to maturity	6,174	-	6,174
	342,479	18,670	323,809
Deposits from banks	144	-	144
Deposits from customers	219,781	-	219,781
Other borrowed funds	71,871	-	71,871
	291,796	**-**	**291,796**
As at 31 December 2012			
Cash and balances with banks and Central bank	39,574	-	39,574
Loans and advances to Banks, net	30,406	-	30,406
Loans and advances to customers, net	246,435	-	246,435
Financial assets available for sale	17,980	17,980	-
Financial assets held to maturity	6,974	-	6,974
	341,369	**17,980**	**323,389**
Deposits from banks	61	-	61
Deposits from customers	211,844	-	211,844
Other borrowed funds	83,884	-	83,884
	295,789	**-**	**295,789**

27. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (continued)

Assets recorded at fair value

Financial assets available for sale as at 31 December 2013 in the amount of EUR 18,636 thousand (2012: EUR 17,945 thousand) 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 of the fair value hierarchy) and in the amount of EUR 33 thousand (2012: EUR 36 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 of the fair value hierarchy).

Assets not recorded at fair value

Management on the Bank considers that the fair values of financial assets and liabilities not recorded at fair value do not depart significantly from their fair values, which is based on the following assumptions used to determine fair values which correspond to Level 3 of the fair value hierarchy.

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 approximates 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 to the extent that such rates are observable. 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 optimizing their overall risk adjusted profitability;
- The 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 of 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 the Bank`s risk management policies in their specified areas. The Board of Directors consists of 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.

28. FINANCIAL RISK MANAGEMENT (continued)

The Bank's Audit Committee is responsible for analyzing the 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 the 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`s 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.

The credit quality of financial assets is managed by the bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the bank's internal credit rating system. The amounts presented are gross of impairment allowances.

28. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2013

	Neither past due nor impaired					
	Low Risk	**Management attention**	**Substandard**	**Past due but not impaired**	**Individually impaired**	**Total**
	2013	**2013**	**2013**	**2013**	**2013**	**2013**
Loans and advances to banks, gross	**25,003**	-	-	-	-	25,003
Loan and advances to customers, gross	**188,891**	**27,914**	**4,544**	**31,471**	**25,404**	278,224
Public sector	53,314	5,942		3,384		62,640
Commercial customers	34,033	13,206	3,868	9,191	9,815	70,113
Other financial institutions	348	-	-	-	-	348
Private customers	101,149	8,389	676	18,892	15,589	144,695
Other	47	377	-	4	-	428
Investment securities AfS and HtM	24,844	-	-	-	-	24,844
Financial assets available for sale	18,670	-	-	-	-	18,670
Financial assets held to maturity	6,174	-	-	-	-	6,174

31 December 2012

	Neither past due nor impaired					
	Low Risk	**Management Attention**	**Substandard**	**Past due but not impaired**	**Individually impaired**	**Total**
	2012	**2012**	**2012**	**2012**	**2012**	**2012**
Loans and advances to banks, gross	**30,421**	-	-	-	-	**30,421**
Loan and advances to customers, gross	190,660	19,123	3,789	26,104	27,567	**267,243**
Public sector	38,668	5,441	-	1,471	-	**45,580**
Commercial customers	43,951	12,704	3,466	5,912	11,243	**77,276**
Other financial institutions	363	-	-	104	-	**467**
Private customers	107,588	796	323	18,454	16,319	**143,480**
Other	90	182	-	163	5	**440**
Investment securities AfS and HtM	24,954	-	-	-	-	**24,954**
Financial assets available for sale	17,980	-	-	-	-	17,980
Financial assets held to maturity	6,974	-	-	-	-	6,974

28. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Past due loans and advances include those that are only past due by a few days. An analysis of past due but not impaired loans by age is provided in the following tables.

31 December 2013

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 day	Total
	2013	**2013**	**2013**	**2013**	**2013**
Loan and advances to customers, gross	**22,598**	**7,136**	**1,585**	**152**	**31,471**
Public sector	3,384	-	-	-	**3,384**
Commercial customers	5,087	3,613	456	35	**9,191**
Private customers	14,127	3,519	1,129	117	**18,892**
Other	-	4	-	-	**4**

31 December 2012

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 day	Total
	2012	**2012**	**2012**	**2012**	**2012**
Loan and advances to customers, gross	**16,891**	**6,542**	**2,671**	**-**	**26,104**
Public sector	1,471	-	-	-	1,471
Commercial customers	4,433	1,107	372	-	5,912
Other financial institutions	-	104	-	-	104
Private customers	10,978	5,331	2,145	-	18,454
Other	9	-	154	-	163

See Note 14 for more detailed information on the allowance for impairment losses on loans and advances to customers.

28. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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.

The Bank grades credit risk exposures to individuals and companies into various categories. 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.

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.

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 4,991 thousand as at 31 December 2013 (2012: EUR 10,966 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 R4 in the Bank's internal credit risk grading system.

Unrecoverable borrowings R4 are those where it is considered that the total receivables will not be recovered by primary or secondary cash flow. Concerning unrecoverable placements 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 and which are registered in the off balance sheet records of the Bank amount to EUR 9,554 thousand as of 31 December 2013 (2012: EUR 5,699 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 reassessment according local regulation. 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 2013 or 2012.

28. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (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
	2013	2012
Against individually impaired – property	17,244	17,323
Against collectively impaired:		
Property	108,984	115,924
Other pledges	5,615	9,275
Montenegro Government guarantees	7,414	9,747
Guarantee of banks with rating A or more	787	-
Against past due but not impaired – cash deposits	802	99
Against neither past due nor impaired – cash deposits	6,308	2,033
Total	**147,154**	**154,401**

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 1,073 thousand (2012: EUR 353 thousand) at the statement of financial position date, which the Bank is in process of selling.

28. FINANCIAL RISK MANAGEMENT (continued)

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		Debt securities (HTM and AFS)	
	2013	**2012**	**2013**	**2012**
Retail customers	133,611	130,773	-	-
Corporate customers	62,801	69,873	-	-
Other financial institution	338	455	-	-
Government	62,266	44,912	24,810	24,919
Other	401	422	34	35
	259,417	**246,435**	**24,844**	**24,954**

Industrial risk concentrations are presented in Note 14.

The maximum credit exposure to any customer (apart from the Government or the Government guaranteed and other banks) as at 31 December 2013 was EUR 5,003 thousand (2012: EUR 5,529 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.

28. FINANCIAL RISK MANAGEMENT (continued)

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

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

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

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	25,723	-	7,499	-	33,222
Loans and advances to banks	24,688	-	315	-	25,003
Loans and advances to customers	37,838	67,201	178,270	76,606	359,915
Financial assets available for sale	-	-	17,645	-	17,645
Financial assets held to maturity	3,900	1,403	900	-	6,203
Total as at 31 December 2013	**92,149**	**68,604**	**204,629**	**76,606**	**441,988**
Non derivative liabilities					
Deposits from banks	144	-	-	-	144
Deposits from customers	43,180	56,449	138,228	216	238,073
Other borrowed funds	2,850	5,528	57,946	12,765	79,089
Debt securities	155	502	15,721	-	16,378
Total as at 31 December 2013	**46,329**	**62,479**	**211,895**	**12,981**	**333,684**

28. FINANCIAL RISK MANAGEMENT (continued)

The table below shows an analysis of the Bank's financial assets and liabilities analyzed according to when they are expected to be recovered or settled.

In thousands of EUR	Up to 1 year	More than 1 year	Total
Assets			
Cash and cash equivalents	25,723	7,499	33,222
Loans and advanced to banks	24,688	315	25,003
Loans and advances to customers	84,480	193,744	278,224
Financial assets available for sale	18,636	34	18,670
Financial assets held to maturity	5,273	901	6,174
Total as at 31 December 2013	**158,800**	**202,493**	**361,293**
Liabilities			
Deposits from banks	144	-	144
Deposits from customers	95,613	124,168	219,781
Other borrowed funds	5,834	66,037	71,871
Debt securities	35	14,981	15,016
Total as at 31 December 2013	**101,626**	**205,186**	**306,812**

Market risks

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

Management of market risk

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

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

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

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

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

28. FINANCIAL RISK MANAGEMENT (continued)

Management of market risk (continued)

Interest rate risk

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

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

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

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

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

28. FINANCIAL RISK MANAGEMENT (continued)

Management of market risk (continued)

Interest rate risk (continued)

Exposure to interest rate movements: This analysis has been provided on basis of interest reset period or maturity date whichever is earlier.

In thousands of EUR	Carrying amount	Up to 3 months	3 months to 1 year	1-5 years	More than 5 years	Non interest sensitive	Impairment
As at 31 December 2013							
Assets							
Cash and balances with banks	33,222	2,996	-	-	-	30,226	-
Loans and advanced to Banks	24,996	8,000	-	-	-	17,003	(7)
Loans and advances to customers	259,417	104,021	37,258	83,619	51,489	1,837	(18,807)
Financial assets available for sale	18,670	-	-	18,670	-	-	-
Financial assets held to maturity	6,174	3,878	1,395	901	-	-	-
Total	**342,479**	**118,895**	**38,653**	**103,190**	**51,489**	**49,066**	**(18,814)**
Liabilities							
Deposits from banks	144	-	-	-	-	144	-
Deposits from customers	219,781	50,543	87,453	52,990	1,429	27,366	-
Other borrowed funds	71,871	42,702	14,632	11,203	3,334	-	-
Debt securities	15,016	-	15,016	-	-	-	-
Total	**306,812**	**93,245**	**117,101**	**64,193**	**4,763**	**27,510**	**-**
Interest rate gap	**35,667**	**25,650**	**(78,448)**	**38,997**	**46,726**	**21,556**	**(18,814)**
As at 31 December 2012							
Assets							
Cash and balances with banks	39,574	2,880	-	-	-	36,694	-
Loans and advanced to banks	30,406	7,717	-	-	-	22,704	(15)
Loans and advances to customers	246,435	37,564	88,016	83,250	44,937	13,476	(20,808)
Financial assets available for sale	17,980	-	-	17,980	-	-	
Financial assets held to maturity	6,974	-	5,443	1,531	-	-	-
Total	**341,369**	**48,161**	**93,459**	**102,761**	**44,937**	**72,874**	**(20,823)**
Liabilities							
Deposits from Banks	61	61	-	-	-	-	-
Deposits from customers	211,844	140,101	25,087	25,239	2,017	19,400	-
Other borrowed funds	83,884	2,277	9,629	48,657	23,321	-	-
Debt securities	15,007	-	15,007	-	-	-	-
Total	**310,796**	**142,439**	**49,723**	**73,896**	**25,338**	**19,400**	**-**
Interest rate gap	**30,573**	**(94,278)**	**43,736**	**28,865**	**19,599**	**53,474**	**(20,823)**

28. FINANCIAL RISK MANAGEMENT (continued)

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, liabilities 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 of potential movements in interest rates. The Bank is aware that maintaining a balanced position for all time periods in a gap reports does not ensure immunity from Interest Rate Risk (IRR). The Bank is aware of the following gap reporting limitations:

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

To avoid such limitations the Bank use simulations (assumptions) with intend of projecting the future composition of the balance sheet and applying different interest rate scenarios. Impact of loan prepayments and early withdrawing of deposits is also taken into account.

Additionally, the Bank is focused on interest rate spreads. Bank is aware that volatility of IRR spread is potential interest rate risk indicator. This spread is managed by loan pricing, deposit pricing, and investing. The Bank strives to have neither the lowest nor the highest loan or deposit rates in the market. Loans are priced in order to achieve a fair return on shareholder investment. Deposits are priced to provide fair treatment for the Bank's customers and to be reasonably competitive without increasing the Bank's cost of funds.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the net interest income sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis to a reasonable possible change in interest rates of 100 basis point (bp) parallel fall or rise in all yield curves in Montenegro. Analysis of the Bank's income statement 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**
Average for the period	(364)	364
Maximum for the period	(535)	535
Minimum for the period	(99)	99
As at 31 December 2013	**(99)**	**99**
Average for the period	(547)	547
Maximum for the period	(662)	662
Minimum for the period	(442)	422
As at 31 December 2012	**(662)**	**662**

28. FINANCIAL RISK MANAGEMENT (continued)

Management of market risk (continued)

Interest rate risk (continued)

The sensitivity of equity calculated by revaluing fixed rate available–for–sale financial assets at 31 December 2013, for the effects of the assumed changes in interest rates of 100 bp increase/decrease is EUR 99 thousand decrease/increase. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

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 GBP, CHF and USD amounted to EUR 1 thousand, EUR 69 thousand and EUR 37 thousand, respectively, the management of the Bank considers that the Bank is currently not significantly exposed to the currency risk.

Placement risk

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

Operational risk

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

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

Risk Management priorities are identified through a combination of:

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

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

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

28. FINANCIAL RISK MANAGEMENT (continued)

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 (bank own funds) of the Bank consists of:

- Basic capital and
- Supplementary capital

Basic capital consists of:

- The paid up share capital excluding cumulative preferential shares;
- Premiums realized on issuance (share premium account);
- Reserve allocated from profit after taxes (legal, statutory and other reserves);
- Undistributed retained profit from previous years for which shareholders assembly decided to be included in basic capital, less profit tax and other expected expenses;
- Current profit if following conditions are fulfilled:
- Shareholders assembly or Board of directors with power of attorney given by shareholders assembly made decision to include it in increase of share capital or reserves or undivided profit.
- Existence of profit was confirmed by external auditor
- Central bank approved inclusion of profit in basic capital

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

Supplementary capital consists of:

- The nominal amount of cumulative preferential shares;
- Realized issuance premiums based on cumulative preferred 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 or subordinated debt included in Supplementary capital.

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

- Total sum of supplementary capital must not be higher than basic capital;
- Total sum of subordinated debt and cumulative preferred shares cannot exceed 50% of basic capital;

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. During the year, the Bank complied with the minimal solvency ratio requirement of the Central Bank of Montenegro.

28. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

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

In thousands of EUR	2013	2012
Basic Capital		
Share capital	5,339	5,339
Share premium	1,571	1,571
Retained earnings from the previous year	24,179	19,807
Reserves allocated from retained earnings	300	300
Deductible items on basic capital	(2,299)	(241)
Supplementary capital I		
	29,090	**26,776**
Subordinated debt	600	1,200
Revaluation reserves	429	655
Profit in current year	-	-
General reserves for losses on assets	-	-
Supplementary capital II	**1,029**	**1,855**
Total regulatory capital	**30,119**	**28,631**
Risk weighted assets:		
- balance sheet	138,403	139,042
- off balance sheet	13,042	14,526
Capital charge for:		
- market risks	-	24
- operational risk	4,093	3,710
- country risk	573	486
- other risks	797	774
Total risk weighted assets and capital charges for risks	**156,908**	**158,562**
Capital Adequacy	15.55%	14.07%

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

Podgorica, 19 March 2014

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

ERSTE BANK AD PODGORICA ERSTE Bank 3

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