Godišnji izvještaj 2012.

2012

Opšte informacije

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Sadržaj

Obraćanje Predsjednika Odbora direktora

Ambijent u kojem smo poslovali u 2012. godini bio je veoma zahtjevan, obilježen izazovima iz prethodnih godina među kojima su skromne stope ekonomskog rasta, nedovoljna likvidnost realnog sektora i visoka unutrašnja dugovanja. Prethodnu i početak ove godine karakterisale su brojne mjere štednje i najavljen rast poreskih opterećenja. Uprkos izazovnom okruženju, Erste banka je i u prošloj godini nastavila da čvrsto korača naprijed u skladu sa svojim strategijskim smjernicama i ostvarila je rast u svim ključnim kategorijama, uz očuvanje kvaliteta aktive na nivou znatno iznad propisanih kriterijuma.

Ostvarili smo rast ukupne aktive, kreditiranja i depozita klijenata. Sa zadovoljstvom mogu saopštiti da smo u 2012. godini zauzeli lidersku poziciju prema finansijskom rezultatu i učvrstili poziciju među vodećim bankama na tržištu prema aktivi, bruto kreditima i depozitima.

Tokom 2012. godine Erste banka je uspjela da ostvari značajan rast tržišnog učešća u svim sferama. Banka je u 2012. godini rasla znatno brže od lokalnog bankarskog tržišta i uspjela povećati svoj tržišni udio po svim relevantnim parametrima. Posebnu pažnju posvetili smo kvalitetu plasmana, a izlaganje granama industrije koje su značajnije pogođene krizom ostala je minimalna.

Tržišni udio u ukupnoj aktivi porastao je za 1,7 procentnih poena na 12,4% krajem 2012. U istom je periodu tržišni udio u ukupnim kreditima porastao za jedan procentni poen 13,2%, vođen prvenstveno značajnim rastom u segmentima kreditiranja malih i srednjih kompanija i stanovništva.

Banka je ojačala i poziciju na tržištu u pogledu ukupnih depozita, gdje je tržišno učešće povećano za 1,5 procentnih poena na 10,6% krajem 2012. godine. Prilagođavanje kamatnih stopa na depozite koje smo sproveli u prethodnoj godini nije uticalo na dinamiku priliva depozita, koji su nastavili rast, što je jasan pokazatelj percepcije banke na tržištu i povjerenja klijenata.

U prošloj godini smo nastavili praksu dijeljenja uspjeha u poslovanju sa zajednicom u kojoj poslujemo. Uz generalna sponzorstva Crnogorskog simfonijskog orkestra i Prve crnogorske košarkaške lige – Erste lige, Banka je podržavala i brojne projekte u lokalnim zajednicama.

U ovoj godini Erste banka će biti posvećena unapređenju kvaliteta usluge, ostvarivanju rasta u relevantnim pokazateljima i povećanju operativne efikasnosti. Očekujemo da će novi informacioni sistem dati veliki doprinos ovim našim ciljevima i obezbijediti dodatni kvalitet za naše klijente. I u ovoj godini nastavićemo rad na prilagođavanju ponude potrebama i mogućnostima klijenata, kako u segmentu stanovništva tako i segmentu pravnih lica.

Iskoristio bih priliku da se zahvalim na posvećenosti i doprinosu uspjehu Erste banke bivšim članovima Odbora direktora i da poželim dobrodošlicu novim članovima, Kristofu Šefbeku, Savi Dalbokovu i Dejanu Donevu.

Na kraju, u ime Odbora direktora, zahvalio bih se rukovodstvu Banke i svim zaposlenima na trudu, posvećenosti i timskom radu, koji čine Banku prepoznatljivom pokretačkom snagom na tržištu.

Rajnhard Ortner
Predsjednik Odbora direktora

Obraćanje Glavnog izvršnog direktora

Erste banka je u 2012. godini nastavila dobar trend. Iako je bankarsko tržište generalno i u 2012. godini bilježilo nastavak nekih negativnih kretanja, Erste banka je ostvarila rast profita, kredita i depozita u odnosu na kraj 2011. godine. Zahvaljujući posebnoj pažnji usmjerenoj na povećanje kreditne aktivnosti, upravljanje rizicima i operativnu efikasnost, ostvarili smo dobit prije oporezivanja u iznosu od 5,3 miliona EUR, što je 28% više u odnosu na prethodnu godinu. Neto dobit iznosi 4,77 miliona EUR ili 29,5% više nego godinu ranije, sa povratom na kapital od 15,6% i povratom na aktivu od 1,5%. Ukupan prihod iz poslovanja ostvaren je u iznosu 22,4 miliona EUR.

Ukupna aktiva Banke je na kraju 2012. godine iznosila 348,72 miliona EUR i porasla je za 16,47% u odnosu na godinu ranije. Neto krediti klijentima su na kraju 2012. godine iznosili 246,43 miliona EUR i bili su veći 1,5% u odnosu na godinu ranije. Kreditni rast je ostvaren zahvaljujući kontinuiranom povećanju obima saradnje sa stanovništvom, preduzetnicima i privredom. Rast u tim segmentima je u potpunosti neutralisao efekat planiranog smanjenja u kreditiranju javnog sektora.

U segmentu stanovništva ostvaren je rast kreditnog portfelja od 8,35%, prvenstveno zahvaljujući inoviranju ponude i njihovom prilagođavanju tržišnim okolnostima. Najveći dio odobrenih kredita u prošloj godini odnosio se na gotovinske kredite, stambene, kredite za refinansiranje, kao i na hipotekarne i kredite za adaptaciju stambenog prostora.

Krediti odobreni malom i srednjem biznisu su u prošloj godini zabilježili rast od 13,4% u odnosu na 2012. Rast u tom podsegmentu je, kako je već pomenuto, nadoknadio efekat planiranih otplata u javnom sektoru na ukupan portfelj pravnih lica, koji je u prethodnoj godini smanjen za 2,1%.

Erste banka je u 2012. godini vršila prilagođavanja pasivnih kamatnih stopa i istovremeno zadržala pozitivan trend rasta depozita. Depoziti su na kraju 2012. godine iznosili 219,8 miliona EUR, što je 25,8% više u odnosu na kraj 2011.

Rizični profil Erste banke bio je znatno bolji od nivoa bankarskog tržišta kao cjeline, što se ogleda u pokazateljima kvaliteta aktive i kreditnog rizika. Troškovi rezervisanja niži su za 21,9% u odnosu na 2011. Trošak kreditnog rizika iznosi 1,8% i značajno je niži u odnosu na kraj 2011. godine kad je iznosio 2,6%. Koeficijent solventnosti na kraju 2012. godine iznosio je 14,07% (bez uključene dobiti).

Erste banka je na kraju 2012. imala 275 zaposlenih, što je 3,8% više u odnosu na godinu ranije. U prethodnoj godini smo širili mrežu bankomata i nastavili sa rekonstrukcijom filijala ka standardima Erste Grupe.

U 2012. smo dokazali posvećenost klijentima i namjeru da podržimo kvalitetne projekte u cilju oporavka ekonomije. I u narednom periodu ćemo biti fokusirani na jačanje naše pozicije i učvršćivanje dugoročnih partnerskih veza sa klijentima. Duboko sam uvjeren da će Erste banka u Crnoj Gori efikasno odgovoriti na sve izazove u 2012. godini i ostati čvrsto na svom uspješnom i razvojnom putu.

Iskoristio bih priliku da se zahvalim svom timu, svim zaposlenima, poslovnim partnerima i klijentima na izuzetnoj saradnji.

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 („Sl. list CG“ br. 17/08, 44/10 i 40/11), Odbor direktora Banke je u 2012. godini održao 14 sjednica, ispunjavajući zakonsku obavezu da se sjednice održavaju najmanje jednom mjesečno. Tokom 2012. godine došlo je do promjena u sastavu Odbora direktora. U skladu sa odlukom Skupštine akcionara, broj članova smanjen je sa devet na sedam, a došlo je i do personalnih izmjena, pa su za nove članove imenovani Sava Dalbokov i Christoph Schoefboeck. Odluke Odbora direktora su u većini slučajeva donijete jednoglasno.

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. Od posebnog značaja je odluka Odbora direktora od 24. septembra 2012, kojom je odobren strateški važan projekat implementacije novog informacionog sistema, sa migracijom podataka iz postojećih sistema koji se koriste u Banci.

Makroekonomski ambijent*

Nivo ekonomske aktivnosti tokom 2012. godine nije bio zadovoljavajući. Nastavljeni su negativni trendovi u industrijskoj proizvodnji (pad od 7,1% u odnosu na isti period prethodne godine), smanjen je obim aktivnosti u građevinarstvu (pad od 13,2% u odnosu na prethodnu godinu) i šumarstvu (pad proizvodnje od 16,1% u odnosu na isti period prethodne godine), a i sektor saobraćaja u većini segmenata bilježi pad aktivnosti. Generator razvoja i dalje predstavlja turizam koji ostvaruje rast dolazaka i noćenja turista, doprinoseći povećanju prometa u maloprodaji. Tokom 2012. Crnu Goru je posjetilo 4,8% više turista nego u istom periodu prethodne godine, dok je broj ostvarenih noćenja viši za 4,3%. Stopa nezaposlenosti za 2012. godinu porasla je na 13,5% dok je godišnja stopa inflacije u decembru 2012. godine iznosila 5,1%. Evidentan je i rast stranih direktnih investicija, neto priliv SDI u prvih devet mjeseci 2012. godine je veći za 11,6% u odnosu na isti period prethodne godine, tako da će i u 2012. Crna Gora imati relativno visok priliv. Međutim, sa druge strane produbljena je eksterna neravnoteža i javni dug je u porastu. Na kraju 2012. godine državni dug je iznosio 51,1% BDP-a, što je za 15,1% više nego u 2011. godini. Zabrinjavajuća je tendencija daljeg rasta javnog duga. Ukupna spoljnotrgovinska razmjena Crne Gore za period januar-decembar 2012. god. prema konačnim podacima ukazuje na pad od 4%, u odnosu na isti period prethodne godine.

Bankarski sistem je stabilan. Rizik nelikvidnosti bankarskog sistema je znatno umanjen, ostvaren je rast bilansne sume banaka, likvidnih sredstava i depozita, ali je bankarska aktivnost bila ograničena. Izloženost kreditnom riziku je rasla usljed nelikvidnosti realnog sektora koja je i dalje izražena. Nekvalitetni krediti, ujedno i najveći problem bankarskog sektora unazad nekoliko godina, su na kraju 2012. godine zabilježili rast, a iznosili su 17,6% vrijednosti ukupnih kredita, u poređenju sa 15,5% sa kraja 2011. godine.

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

Stanovništvo

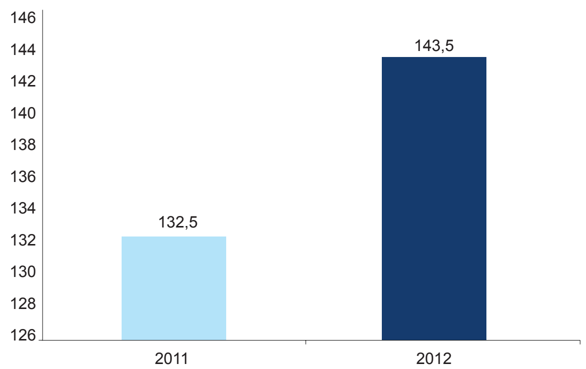
Poslovanje Sektora stanovništva u 2012. obilježeno je nastavkom trenda iz prethodne godine i rastom kako u kreditnom tako i u depozitnom portfelju, čime je udio tržišnog učešća rastao u odnosu na prethodnu godinu.

Realizacija prodajnih planova ostvarena je konstantnim prilagođavanjem proizvoda kao i širenjem palete proizvoda.

Od novih proizvoda uveden je stambeni kredit za strane državljane koji je namijenjen fizičkim licima nerezidentima koji žele da kupe nekretninu na teritoriji Crne Gore.

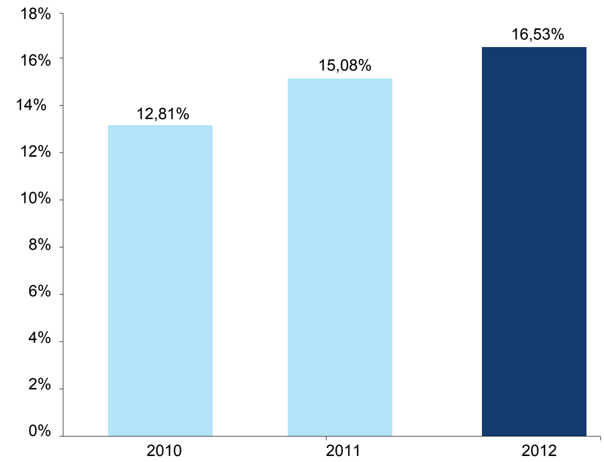
Kod gotovinskih kredita uveden je novi gotovinski kredit za penzionere koji je svojim karakteristikama (produžen rok otplate, povećan iznos bez žiranata, obavezno pokriće polisom osiguranja), dobro odabranim periodom implementacije i uz marketinšku podršku doprinio, ne samo uspješnim rezultatima na kraju 2012, već i stvaranjem kvalitetne osnove za 2013. godinu.

Krediti Sektora stanovništva u milionima eura



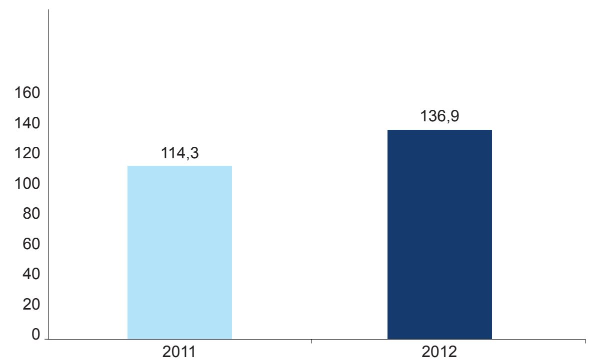
Kreditni portfolio je porastao za 8,35% u odnosu na prethodnu godinu.

Tržišno učešće kredita Sektora stanovništva



Tržišno učešće u kreditima se uvećalo za +1,45 procentni poen na 16,53%.

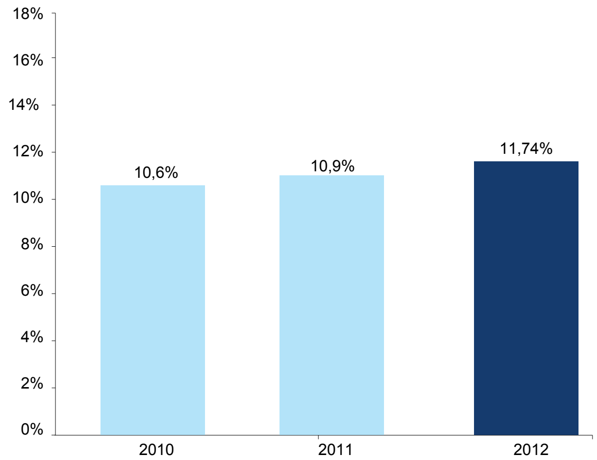
Depoziti Sektora stanovništva u milionima eura



Optimizacija kamatnih stopa u 2012. godini nije negativno uticala na nivo i dinamiku priliva novih depozita, što ukazuje na visok stepen povjerenja i sigurnosti klijenata u Erste banku. Depoziti sektora stanovništva su porasli za 19,77%

Broj klijenata koji primaju redovna mjesečna primanja na računu Erste banke se i u toku 2012. godine konstantno povećavao i zabilježen je rast od 30,5% u odnosu na prethodnu godinu.

Tržišno učešće depozita Sektora stanovništva



Tržišno učešće u depozitima u segmentu stanovništva povećano je za +0,84 procentnih poena na 11,74%.

Privreda

U 2012. godini je nastavljen trend rasta tržišnog učešća kako kreditnog tako i depozitnog portfelja. Fokus aktivnosti Sektora privrede u protekloj godini je bio na privlačenju novih klijenata, kompanija i malih i srednjih preduzeća, uvećanju nekamatnih prihoda kao i na daljoj optimizaciji procesa u cilju efikasnijeg poslovanja i pružanja usluga klijentima Banke.

I prošlu godinu je obilježila kriza u realnom sektoru i smanjenje kvalitetne potražnje za kreditima što je uz izmještanje NPL-a iz bilansa banaka, za posljedicu imalo pad tržišta kredita za 5,98 %. Sa druge strane tržište depozita je nakon konstantnog pada tokom 2011. i prve polovine 2012. ostvarilo rast u trećem kvartalu čime je postignut rast tržišta u 2012. godini od 6,37%.

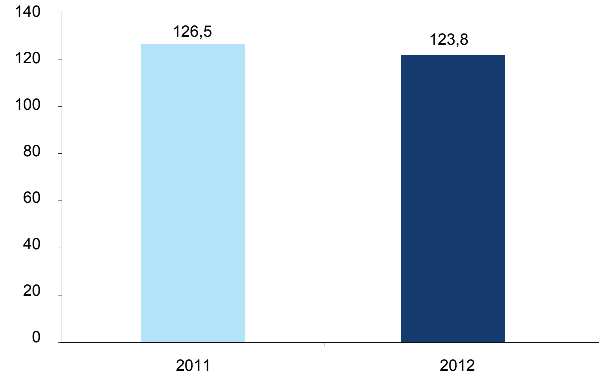
Nastavljen je rad na poboljšanju procedura i procesa kako bi ispunili očekivanja klijenata i zadržali dobru reputaciju na tržištu u pogledu fleksibilnosti i efikasnosti. Takođe, napravljen je i model za finansiranje obnovljivih izvora energije, kojim je Banka podržala aktivnosti na programima za očuvanje životne sredine. Značajne aktivnosti su preduzete na međusobnom povezivanju poslovanja naših klijenata i stimulisanju internih plaćanja unutar Banke.

U prethodnoj godini Sektor privrede je adekvatnom ponudom i aktivnim radom na terenu uspio da privuče 484 novih klijenata pravnih lica, što je 54 više nego u 2011. godini (430). Istovremeno, prihodi od platnog prometa su uvećani za 20,64% dok su prihodi od dokumentarnih poslova uvećani za 114,58%.

Krediti privredi

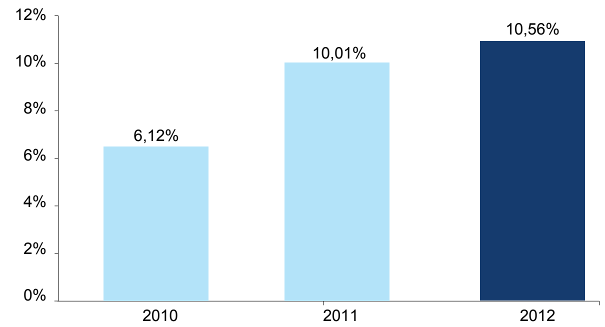
U fokusu pažnje Sektora privrede u 2012. godini bila su mala i srednja preduzeća, gdje je ostvaren rast portfelja od 13,43% a tržišno učešće uvećano sa 6,67% na 7,71%. Usljed očekivanog smanjenja portfelja u javnom sektoru, u 2012. godini je došlo do pada ukupnog portfelja Sektora privrede za 2,13%.

Krediti Sektora privrede u milionima eura



Erste banka je u 2012. godini ostvarila rast tržišnog učešća u dijelu kredita pravnim licima sa 10,01% na 10,56% uz zadržavanje visokog kvaliteta portfelja.

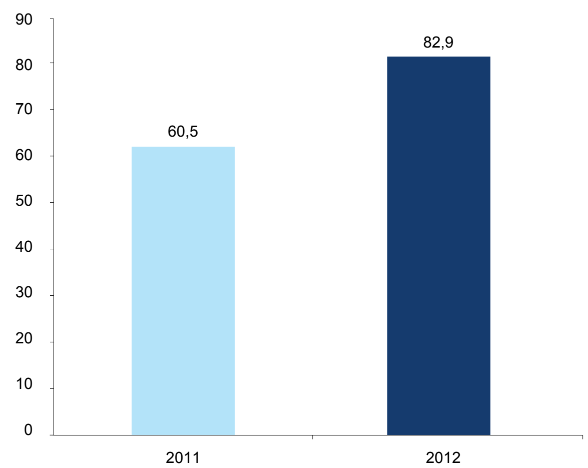
Tržišno učešće kredita Sektora privrede



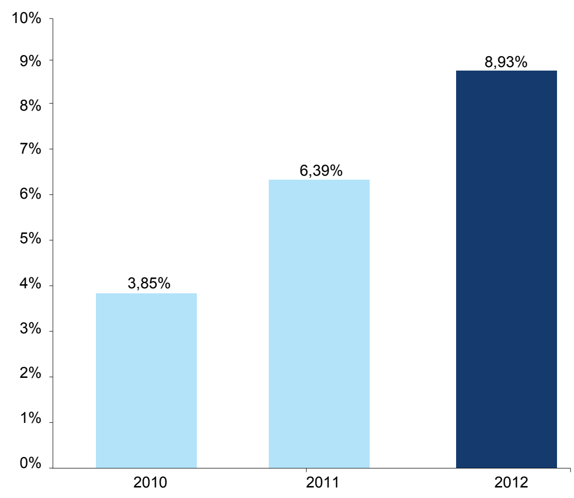
Depoziti privrede

Depoziti Sektora privrede su rasli značajno iznad tržišta 36,92% kao posljedica širenja mreže aktivnih klijenata kao i povjerenja u Banku u cjelini.
Depoziti po viđenju su u protekloj godini ostvarili rast od 119,33%, što je rezultat privlačenja klijenata i povećanja obima transakcija koje se obavljaju unutar banke. Oročeni depoziti su takođe imali pozitivan trend rasta od 17,53%.
Najveći rast se odnosi na depozite po viđenju, dok su oročeni depoziti imali nešto manji rast, što je inače karakteristika pravnih lica koja žele da imaju dostupna sredstva za investicije.

Depoziti Sektora privrede u milionima eura



Tržišno učešće depozita Sektora privrede

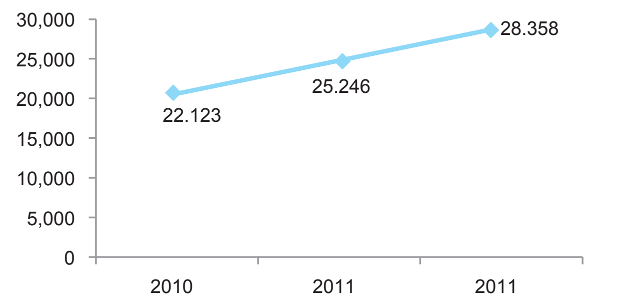


Depoziti sektora privrede su porasli značajno više od tržišta čime se tržišno učešće uvećalo sa 6,39 % na 8,93 %.

Upravljanje distributivnim kanalima prodaje

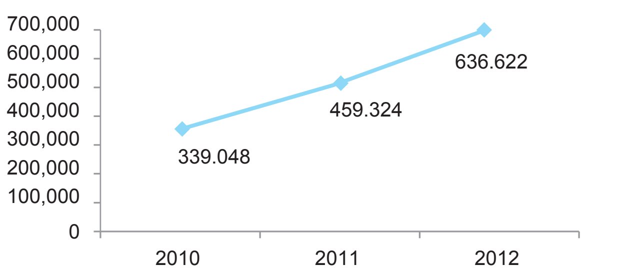
Na dan 31. 12. 2012. Erste banka je imala 28.358 aktivnih platnih kartica, što je u odnosu na kraj 2011. godinu povećanje od 12,33%. Broj debitnih kartica u ukupnom broju aktivnih izdatih kartica bio je 22.539, dok je broj aktivnih kreditnih kartica bio 6.644.

Ukupan broj aktivnih kartica



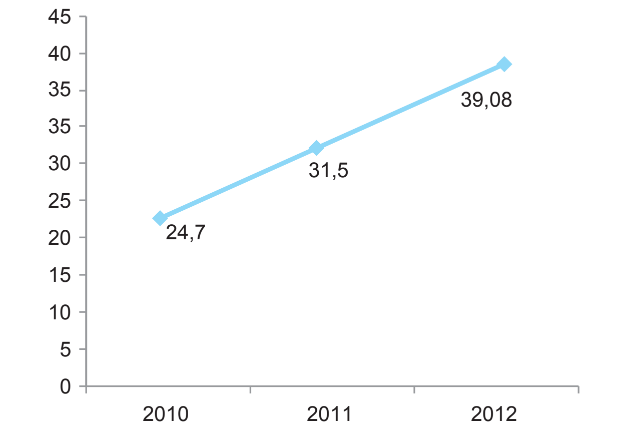
Broj transakcija platnim karticama je takođe porastao za 38,6%, sa 459.324 na 636.622 na kraju 2012. Od navedenog broja, broj transakcija debitnom karticom iznosi 507.923, odnosno 128.699 za kreditnu platnu karticu.

Broj transakcija platnim karticama



Ukupan ostvareni promet platnim karticama Erste banke na kraju 2012. iznosio je 39.08 miliona EUR i bio je veći za 24% u odnosu na kraj 2011. U navedenom prometu, debitne kartice su učestvovale sa 33.24 miliona EUR, dok je za kreditne kartice iznos bio 5.84 miliona EUR.

Ukupan promet platnim karticama u milionima eura



Povećan je i broj transakcija na bankomatima banke i bio je 363.335 ili 56,74% više u odnosu na uporedni period prošle godine.

Ukupan promet na bankomatima Erste banke uvećan je za 24,42% i iznosio je 35,86 miliona EUR.

Ponuda platnih kartica je proširena i business kreditnom karticom, koja može biti charge i revolving u zavisnosti od želje pravnog lica ali i boniteta klijenta. Stope revolving-a se kreću od 5%.

Broj eBanking naloga je na kraju 2012. godine povećan za 326,42%, dok je ukupna vrijednost transakcija dostigla 40,27% ukupnih naloga u platnom prometu.

Broj korisnika koji dobijaju SMS notifikaciju o promjenama na računu je u prošloj godini porastao za 117,66%. SMS servis je nadograđen na kvalitetniju isporuku u roaming-u.

Banka je uvela i Web SME eBanking pored Hal E-bank, kao jeftiniji proizvod za male i srednje preduzetnike.

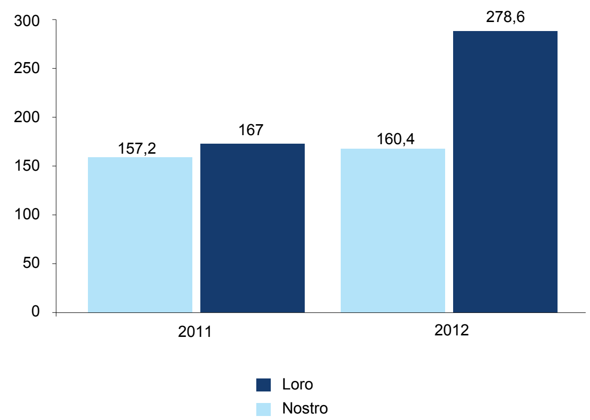
Platni promet

Trendovi rasta u platnom prometu u 2011. godini, nastavljeni su i u 2012. U toku prethodne godine sve aktivnosti bile su usmjerene ka unapređenju kvaliteta usluge, primjeni izmjena u regulatornim okvirima platnog prometa, kao i u sagledavanju novina koje će donijeti novi zakon o platnom prometu. Iako je obim i vrijednost platnog prometa na nivou Crne Gore u 2012. godini umanjen u odnosu na 2011, Banka je uspjela da ostvari uvećanja po raznim poslovima.

Platni promet sa inostranstvom

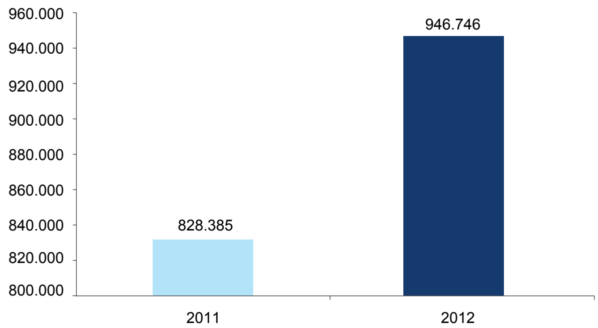
Erste banka pruža usluge plaćanja i naplate iz inostranstva za fizička i pravna lica, prijem inostranih čekova, poslove trade finance-a i druge. U 2012. godini realizovano je 15.993 loro doznaka u ukupnom iznosu 275,6 miliona EUR i 11.486 nostro doznaka, ukupnog iznosa oko 160 miliona EUR.

Vrijednost Loro/Nostro doznaka u milionima EUR



Ukupan prihod po ovim poslovima iznosio je 946.746 EUR čime je ostvaren rast od 14,28% u odnosu na ostvarene prihode iz 2011. godine.

Prihod od Loro/Nostro doznaka u eurima

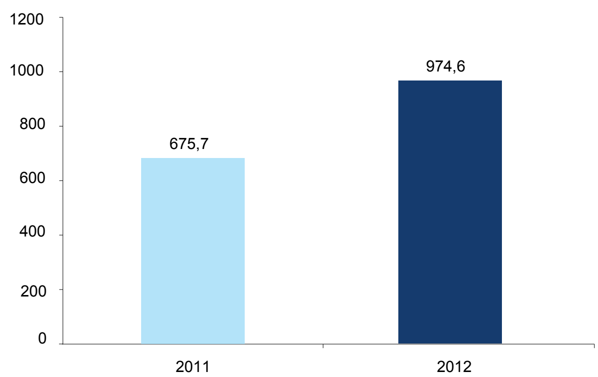


Tokom 2012. Erste banka je izdala 264 bankarske garancije te naplatila 559 inostrana čeka.

Platni promet u zemlji

Platni promet u zemlji u 2012. godini uvećan je u odnosu na 2011. godinu i po broju i ukupnoj vrijednosti transakcija. Realizovano je 549.284 transakcije i ostvaren rast od 4,3% u odnosu na prethodnu godinu. Učešće internih transakcija zastupljeno je sa 41,8%, dok su međubankarska plaćanja (RTGS I DNS) iznosila 58,2% od ukupnog broja transakcija. Ukupna vrijednost ostvarenog platnog prometa iznosila je oko 974,6 miliona EUR što predstavlja povećanje za više od 30% u odnosu na 2011. godinu.

Vrijednost platnog prometa u zemlji u milionima eura



Riznica - prihod od trgovanja

Prihod do FX poslova u 2012. godini iznosio je 309.000 EUR što je za oko 11,50% veći rezultat u odnosu na 2011.

Aktivom i pasivom, u smislu likvidnosti, ročne usklađenosti izvora i plasmana sredstava je upravljano preko ALCO komiteta na način kako je propisano internim odlukama i usklađeno sa zakonskim odredbama, propisanim od strane regulatora. 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 1,28 miliona EUR, što je za 25% više nego u 2011. godini.

Upravljanje rizicima

Rizični profil Erste banke u 2012. godini bio je znatno bolji od profila bankarskog tržišta kao cjeline. To se ogleda u znatno boljim pokazateljima kvaliteta aktive i nižeg kreditnog rizika od industrijskog prosjeka. Izraženi su niži procenti dana kašnjenja i NPL-a u odnosu na sistemske vrijednosti. Troškovi rezervisanja niži su za 21,9% u odnosu na 2011. godinu i bili su 26,6% niži od projektovanih za kraj godine. Trošak kreditnog rizika iznosi 1,8% i značajno je niži u odnosu na kraj 2011. godine kad je iznosio 2,6%. Pokrivenost NPL-a rezervama visoka je i iznosila je 77,14% na kraju 2012. Likvidnost Banke je konstantno bila jaka – svi pokazatelji likvidnosti znatno iznad zakonskih minimuma. Izloženost tržišnom riziku je i tokom 2012. godine ostala na niskom nivou. Banka je 2012. godinu završila kao dobro kapitalizovana banka sa koeficijentom solventnosti od 14,07% (bez uključene dobiti tekuće godine).

Tokom 2012. godine Banka je uspjela da ostvari zavidan rast tržišnog učešća 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 značajnije pogođene krizom, npr. građevinarstvu, ostala je minimalna i te grane nijesu bile u fokusu interesovanja.

Ljudski resursi

U skladu sa globalnom politikom da su stručni i zadovoljni radnici najvažniji resurs organizacije, Banka posebnu pažnju posvećuje stvaranju dobre radne klime i izgradnji kvalitetnih međusobnih odnosa zaposlenih.

Erste banka je na kraju poslovne 2012. godine brojila 275 zaposlenih, što je povećanje za 3,8% u odnosu na prethodnu godinu. Od ukupnog broja zaposlenih zastupljenost žena je 50%, a prosječna starosna dob je 36 godina.

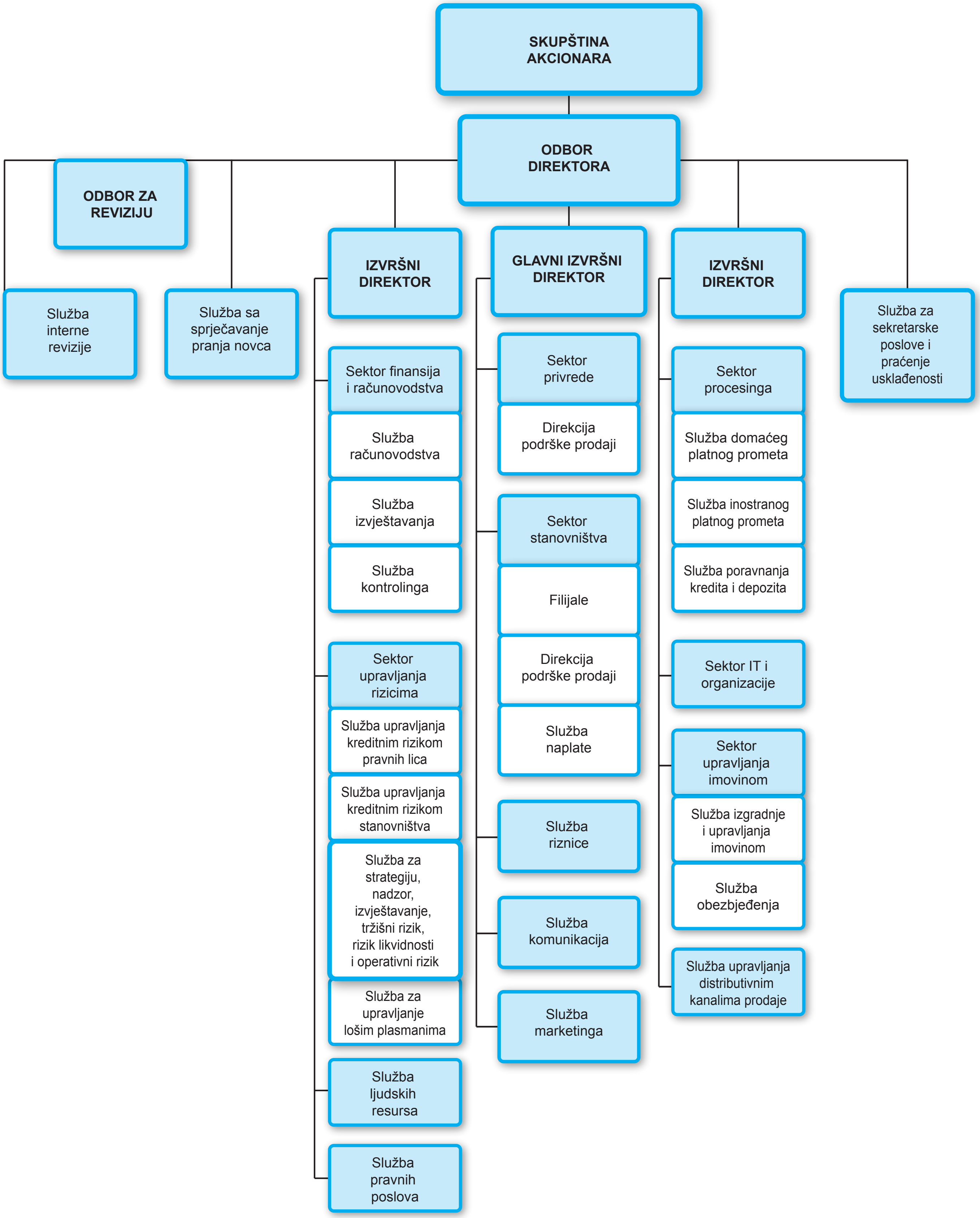
Kvalifikacionu strukturu zaposlenih koji posjeduju neophodne kompetencije za obavljanje bankarskih poslova čini 65% visokoobrazovanih, 5% zaposlenih ima višu stručnu spremu i 30% zaposlenih ima srednju stručnu spremu.

Kontinuirani razvoj zaposlenih obavlja se kroz različite vidove edukacija. U 2012. godini organizovano je 214 pojedinačnih obuka, na kojima je uzelo učešća 149 zaposlenih, što čini 54% od ukupnog broja zaposlenih, s tim što su pojedini zaposleni participirali u više edukacija.

Projektom Vlade Crne Gore „Stručno osposobljavanje visokoškolaca" Erste banka je omogućila obavljanje stručne prakse u trajanju od 9 mjeseci za 30 visokoškolaca i bila najtraženiji poslodavac u privatnom sektoru u Crnoj Gori.

Obavljanje poslovanja Banke organizovano je u 7 (sedam) sektora i 9 (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 njihovom prilagođavanju standardima i poslovanju Erste Grupe. Relocirane su i proširene filijale u Tivtu i Bijelom Polju, kao i filijala Podgorica 1. Takođe je završen i projekat Upravne zgrade Banke, relokacija i proširenje čime su svi sektori i službe smješteni pod „isti krov".

Mreža bankomata je proširena za 24%.

ERSTE BANK A.D., PODGORICA
IFRS FINANCIAL STATEMENTS
31 DECEMBER 2012

Ernst & Young
Quality In Everything We Do

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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 statement of financial position as at 31 December 2012, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Podgorica, 4 March 2013

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 2012

In thousands of EUR	Note	2012	2011
Interest income	5	29,511	28,449
Interest expense	5	(10,011)	(8,438)
Net interest income		**19,500**	**20,011**
Fee and commission income	6	2,993	2,600
Fee and commission expense	6	(463)	(484)
Net fee and commission income		**2,530**	**2,116**
Trading income	7	309	278
Credit loss expense	8	(4,569)	(5,831)
General administrative expenses	9	(11,655)	(11,602)
Other operating result	10	(809)	(827)
Profit before tax		5,306	4,145
Income tax	11	(534)	(461)
Profit for the year		**4,772**	**3,684**
Other comprehensive income			
Gains/(Losses) on financial instruments available for sale		1,690	(1,566)
Actuarial gains on long-term employee benefits		4	7
Income tax relating to items of other comprehensive income		(152)	140
Total other comprehensive income for the year, net of tax		1,542	(1,419)
Total comprehensive income for the year,		**6,314**	**2,265**

The accompanying notes are an integral part of these financial statements

Podgorica, 1 March 2013

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 A.D., PODGORICA

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of EUR	Note	2012	2011
ASSETS			
Cash and balances with banks and Central Bank	12	39,574	23,327
Loans and advances to banks, net	13	30,406	3,626
Loans and advances to customers, net	14	246,435	242,683
Financial assets available for sale	15	17,980	16,268
Financial assets held to maturity	16	6,974	6,346
Property and equipment	17	5,605	5,650
Intangible assets	18	241	413
Current tax assets		-	-
Other assets, net	19	1,507	1,082
Total assets		**348,722**	**299,395**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		61	54
Deposits from customers	20	211,844	164,572
Other borrowed funds	21	83,884	89,152
Debt securities	22	15,007	15,015
Current tax liability		525	161
Deferred tax liabilities	11	293	98
Other liabilities	23	3,124	2,673
Total liabilities		**314,738**	**271,725**
Shareholders' equity	24		
Share capital		5,339	5,339
Share premium		1,571	1,571
General risk reserves		182	182
Other capital reserves		300	300
Revaluation reserves		656	677
Fair value reserves		350	(1,188)
Retained earnings		25,586	20,789
Total shareholders' equity		**33,984**	**27,670**
Total liabilities and shareholders' equity		**348,722**	**299,395**

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

Podgorica, 1 March 2013

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 A.D., PODGORICA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of EUR	2012	2011
Operating activities		
Net income	4,772	3,684
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	944	960
Net losses on fixed assets	28	8
Foreign currency translation gains	(309)	(278)
Interest on securities	(1,595)	(1,174)
Provision for loan losses	4,569	5,831
Income tax expense	534	461
Change in operating assets and liabilities:		
Increase in mandatory reserves with the Central Bank of Montenegro	(2,320)	(4,171)
Increase in loans to customers	(11,531)	(61,541)
Increase / decrease in other assets	(488)	83
Increase in securities available for sale	(1,707)	(6,178)
Increase in securities held to maturity	(598)	(3,970)
Increase in deposits from banks and customers	45,860	32,680
Increase in other liabilities	1,512	1,803
Paid bonuses for staff	(805)	(738)
Net cash used in operating activities	**38,866**	**(32,542)**
Investing activities		
Acquisitions of fixed and intangible assets	(756)	(874)
Net cash used in investing activities	**(756)**	**(874)**
Financing activities		
Proceeds from borrowings	(5,120)	24,345
Net cash from/(used in) financing activities	**(5,120)**	**24,345**
Net increase / decrease in cash and cash equivalents	**32,990**	**(9,069)**
Cash and cash equivalents at beginning of year	15,606	24,675
Cash and cash equivalents at end of year (Notes 12 and 13)	**48,596**	**15,606**
Interest paid	10,214	7,770
Interest received	28,087	26,600

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

Podgorica, 1 March 2013

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

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

ERSTE BANK A.D., PODGORICA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of EUR	Share capital	Share premium	Other reserves	General risk reserves	Revaluation reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2011	5,339	1,571	300	182	698	237	17,078	25,405
Total comprehensive income	-	-	-	-	-	(1,425)	3,690	2,265
Depreciation of revalued fixed assets	-	-	-	-	(21)	-	21	-
Balance as at 31 December 2011	**5,339**	**1,571**	**300**	**182**	**677**	**(1,188)**	**20,789**	**27,670**
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 fixed assets	-	-	-	-	(21)	-	21	-
Balance as at 31 December 2012	**5,339**	**1,571**	**300**	**182**	**656**	**350**	**25,586**	**33,984**

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

Podgorica, 1 March 2013

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

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 2011 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 2012, the Bank had 275 employees (2011: 265).

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

The accounting policies adopted are consistent with those of the previous 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:

- Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011)

- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011)

- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012

- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

- IAS 24 Related Party Disclosures (Amended)

- IAS 32 Classification on Rights Issues (Amended)

- IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for the first time adopters (Amended)

- IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income - The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified.

- IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets. The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment 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. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. Management expects that the amendment will not have effects on the financial position or performance of the Bank.

- IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements. The amendment is effective for annual periods beginning on or after 1 July 2012. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment has only disclosure effects.

Improvements to IFRSs

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 First-time adoption
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments – Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

Changes in 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 2012 and 2011 are as follows:

In EUR	2012	2011
USD	0.7586	0.7729
CHF	0.8278	0.8226
GBP	1.2241	1.1972

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 recognised 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% (2011: 9%) and is payable on taxable profit.

Taxable profit includes the profit shown in the statutory income statement, as adjusted for differences, as defined by the Montenegrin Corporate Income Tax Law.

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

Deferred tax

Deferred tax is provided using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently, enacted tax rates are used in the determination of deferred income tax. Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences

Recognition of income and expenses (continued)

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.

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.

Financial assets and liabilities

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.

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.

Financial assets and liabilities (continued)

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.

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

Financial assets and liabilities (continued)

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 2011 by authorized valuer and there was no material change in value.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Depreciation rates in use are as follows:

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

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of buildings and depreciation based on the assets original cost.

Maintenance and repairs are charged to profit and loss account when incurred. Improvements are capitalized.

Intangible assets

Intangible assets are stated at cost decreased for accumulated amortization and impairment. Intangible assets represent computer software, Swift license, Master Card license and other intangible assets. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives. Amortization rates used range from 20% to 25%.

Acquired assets held for sale

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

Employment benefits

Pursuant to the Collective Bargaining Agreement, the Bank is obliged to pay retirement benefits in an amount equal to six average

Financial assets and liabilities (continued)

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

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

IAS 19 Employee Benefits (Amended)

The amendment is effective for annual periods beginning on or after 1 January 2013. 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. Early application is permitted. The Bank is in the process of assessing the impact of this amendment on the financial position or performance of the Bank.

IAS 27 Separate Financial Statements (Revised)

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. Management expects that the amendment will not have effects on the financial position or performance of the Bank.

IAS 28 Investments in Associates and Joint Ventures (Revised)

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 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. Earlier application is permitted. Management expects that the amendment will not have effects on the financial position or performance of the Bank.

IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies 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. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. Management expects that the amendment will not have effects on the financial position or performance of the Bank.

IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The amendment has only disclosure effects.

IFRS 9 Financial Instruments - Classification and Measurement

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. The Bank is in the process of assessing the impact of this standard on the financial position or performance of the Bank.

Future changes in accounting policies (continued)

IFRS 10 Consolidated Financial Statements

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. 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. Management expects that the standard will not have effects on the financial position or performance of the Bank.

IFRS 11 Joint Arrangements

The new standard is effective for annual periods beginning on or after 1 January 2013. 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. Management expects that the new standard will not have effects on the financial position or performance of the Bank.

IFRS 12 Disclosures of Involvement with Other Entities

The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13 Fair Value Measurement

The new standard is effective for annual periods beginning on or after 1 January 2013. 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. This standard should be applied prospectively and early adoption is permitted. The Bank is in the process of assessing the impact of this standard on the financial position or performance of the Bank.

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

The interpretation is effective for annual periods beginning on or after 1 January 2013.This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (striping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. Management expects that the interpretation will not have effects on the financial position or performance of the Bank.

Improvements to International Financial Reporting Standards

The improvements were issued in May 2012 and are effective for annual periods beginning 1 January 2013. The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

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	2012	2011
Interest income		
Time deposits with foreign banks	8	57
Loans and advances to customers	27,877	27,092
Financial assets available for sale	1,316	1,174
Financial assets held to maturity	279	100
Other	31	26
Total interest income	**29,511**	**28,449**
Interest expense		
Deposits from banks	(3,284)	(3,141)
Deposits from customers	(5,962)	(4,562)
Debt securities	(557)	(506)
Subordinated liabilities	(208)	(229)
Total interest expense	**(10,011)**	**(8,438)**
Net interest income	19,500	**20,011**

6. NET FEE AND COMMISSION INCOME

In thousands of EUR	2012	2011
Fee and commission income		
Lending business	406	164
Payment transfers	1,511	1,268
Card transactions	577	473
Other fee and commission income	499	695
Total fee and commission income	**2,993**	**2,600**
Fee and commission expense		
Payment transfers	(210)	(187)
Card transactions	(198)	(241)
Custodial fees	(35)	(36)
Other fee and commission expenses	(20)	(20)
Total fee and commission expense	**(463)**	**(484)**
Net fee and commission income	**2,530**	**2,116**

7. TRADING INCOME

In thousands of EUR	2012	2011
Net foreign exchange gains	309	278
Losses on fair value of call option	-	-
Total	**309**	**278**

8. CREDIT LOSS EXPENSE

In thousands of EUR	**2012**	**2011**
Loans and advances to customers	4,088	5,545
Loans and advances to banks	13	(5)
Provision for contingent liabilities	468	291
Total	**4,569**	**5,831**

9. GENERAL ADMINISTRATIVE EXPENSES

In thousands of EUR	2012	2011
Personnel expenses	6,810	6,823
Other administrative expenses	3,900	3,819
Depreciation of property and equipment (Note 17)	765	784
Amortization of intangible assets (Note 18)	180	176
Total	**11,655**	**11,602**

Personnel expenses

In thousands of EUR	2012	2011
Wages and salaries - net	3,881	4,034
Tax on salaries	541	545
Employee contributions	1,392	1,485
Legal social security contribution	715	720
Other personnel expenses	191	11
Provision for long-term employee benefits	90	28
Total	**6,810**	**6,823**

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	2012	2011
Expenses dependent upon personnel	237	308
Expenses for office space	1,111	1,005
Office operating expenses	606	796
IT expenses	663	569
Advertising / marketing	615	531
Legal and consulting costs	662	594
Sundry administrative expenses	6	16
Total	**3,900**	**3,819**

10. OTHER OPERATING RESULT

In thousands of EUR	2012	2011
Other operating income	153	123
Payment into deposit insurance fund	(695)	(546)
Net losses from fixed assets	(43)	(8)
Provision for litigation	10	88
Provision for other assets	(46)	(129)
Write off of fee and commission receivables	(74)	(256)
Other provisions	(48)	(60)
Other expense	(66)	(39)
Total	**(809)**	**(827)**

11. INCOME TAX

The components of income tax for the years ended 31 December 2012 and 2011 are:

In thousands of EUR	2012	2011
Current tax – current income tax	491	386
Deferred tax – relating to origination and		
reversal of temporary differences	43	75
Total income tax expense in income statement	**534**	**461**

Reconciliation between the tax expense and the accounting result multiplied by the Montenegrin tax rate for the year ended 31 December 2012 and 2011 is as follows:

In thousands of EUR	2012	2011
Accounting profit before tax	**5,306**	**4,145**
At Montenegrin statutory tax rate of 9%	478	373
Non-deductable expenses	54	84
Other	2	4
Income tax reported in the income statement	**534**	**461**

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

In thousands of EUR	2012	2011
Losses on financial assets available for sale	152	(141)
Actuarial gains on long-term employee benefits	-	1
Total	**152**	**(140)**

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

	2012			2011		
In thousands of EUR	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Depreciation of fixed assets	-	(23)	(23)	-	(35)	(35)
Actuarial gains on long-term employee benefits recognized in equity	-	(8)	(8)	-	(8)	(8)
Gains on financial assets available for sale	-	(35)	(35)	118	-	118
Revaluation of property	-	(86)	(86)	-	(83)	(83)
Allowances for loan losses	-	(141)	(141)	-	(90)	(90)
Net tax assets/(liabilities)	**-**	**(293)**	**(293)**	**118**	**(216)**	**(98)**

12. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

In thousands of EUR	**2012**	**2011**
Cash on hand	10,788	7,725
Current accounts with the Central Bank of Montenegro	15,119	4,255
Total included in cash and cash equivalents	**25,907**	**11,980**
Deposits with the Central Bank of Montenegro	13,667	11,347
Balance as at 31 December	**39,574**	**23,327**

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	**2012**	**2011**
Current accounts with foreign banks	22,466	3,386
Time accounts with foreign banks	7,717	-
Deposit for Master Card business	238	242
	30,421	3,628
Allowance for impairment	(15)	(2)
Balance as at 31 December	**30,406**	**3,626**

14. LOANS AND ADVANCES TO CUSTOMERS, NET

	2012			2011		
In thousands of EUR	Gross Amount	Impairment	Carrying Amount	Gross Amount	Impairment	Carrying Amount
Retail customers						
Personal loans	91,922	(9,621)	82,301	85,484	(9,118)	76,366
Credit cards	8,296	(1,278)	7,018	8,269	(419)	7,850
Finance lease	817	(357)	460	1,504	(207)	1,297
Other lending	42,444	(1,451)	40,993	37,166	(1,187)	35,979
Corporate customers						
Credit cards	3	-	3	-	-	-
Finance lease	1,182	(433)	749	1,582	(254)	1,328
Other lending	76,558	(7,437)	69,121	67,821	(4,740)	63,081
Public customers						
Finance lease	4	-	4	7	-	7
Other lending	45,576	(213)	45,363	56,717	(263)	56,454
Other customers						
Othe lending	441	(18)	423	326	(5)	321
Balance as at 31 December	**267,243**	**(20,808)**	**246,435**	**258,876**	**(16,193)**	**242,683**

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

In thousands of EUR	2012	2011
Balance as at 1 January	16,193	12,386
Charge for the year, net of recoveries	4,088	5,545
Write off	527	(1,738)
Balance as at 31 December	**20,808**	**16,193**

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

In thousands of EUR	2012	2011
Agriculture	589	424
Building construction	1,193	1,251
Trade	33,179	34,630
Tourism	7,169	7,253
Production	2,758	2,926
Transportation	4,879	5,678
Administration and other public services	18,542	27,523
Retail	143,479	132,423
Other	55,455	46,768
Less: Allowance for impairment	(20,808)	(16,193)
Balance as at 31 December	**246,435**	**242,683**

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 13.26% p.a. and for loans granted to companies weighted average interest rate was 9.19% 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 5,685 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	2012	2011
More than five years	34	133
Between one and five years	593	1,345
Less than one year	1,475	1,923
Gross investment in finance leases, receivable	**2,102**	**3,401**
Unearned future income on finance leases	(99)	(308)
Net investment in finance leases	**2,003**	**3,093**

Future minimum lease payments receivable, unearned future income and the net investment in finance lease by maturity as at 31 December 2012 and 2011 are as follows:

	2012		
In thousands of EUR	Gross Investment	Unearned income	Investment 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**

	2011		
In thousands of EUR	Gross Investment	Unearned income	Investment in the lease
Less than one year	1,923	(166)	1,757
Between one and five years	1,345	(127)	1,218
More than five years	133	(15)	118
Investment in finance leases at end of year	**3,401**	**(308)**	**3,093**

15. FINANCIAL ASSETS AVAILABLE FOR SALE

In thousands of EUR	**2012**	**2011**
Debt instruments – Eurobonds of the Ministry of Finance of the Government of Montenegro	17,945	16,232
Equity instruments	35	36
Balance as at 31 December	**17,980**	**16,268**

16. FINANCIAL ASSETS HELD TO MATURITY

In thousands of EUR	**2012**	**2011**
Treasury bills of the Ministry of Finance of the Government of Montenegro	5,443	6,346
Bonds of Work Fund	1.531	-
Balance as at 31 December	**6,974**	**6,346**

17. PROPERTY AND EQUIPMENT

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

In thousands of EUR	Buildings	Computers	Other assets	Total
As at 31 December 2011	3,061	1,247	5,211	9,519
Additions	-	151	597	748
Disposals	-	-	-	-
Write-off	-	(34)	(193)	(227)
Other	-	-	-	-
As at 31 December 2012	**3,061**	**1,364**	**5,615**	**10,040**
Accumulated depreciation				
As at 31 December 2011	413	758	2,698	3,869
Depreciation for the year	73	180	512	765
Disposals	-	-	-	-
Write-off	-	(32)	(167)	(199)
Other	-	-	-	-
As at 31 December 2012	**486**	**906**	**3,043**	**4,435**
Net Book Value as at 31 December 2012	**2,575**	**458**	**2,572**	**5,605**
Net Book Value as at 31 December 2011	**2,648**	**489**	**2,513**	**5,650**

The last valuation of the Bank's buildings was performed in 2010. Had the Bank carried buildings under the cost model the net carrying value of the revalued buildings would amount to EUR 1,877thousand as of 31 December 2012 (31 December 2011: EUR 1,898 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 2011	1,260	90	206	1,416
Additions	26	136	-	162
As at 31 December 2011	1,146	226	206	1,578
Additions	8	-	-	8
As at 31 December 2012	**1,154**	**226**	**206**	**1,586**
Accumulated amortization				
As at 1 January 2011	693	90	206	989
Charge for the year	165	11	-	176
As at 31 December 2011	858	101	206	1,165
Charge for the year	180	-		180
As at 31 December 2012	1,038	101	206	1345
Net Book Value as at				
31 December 2012	**116**	**125**	**-**	**241**
Net Book Value as at				
31 December 2011	**288**	**125**	**-**	**413**

19. OTHER ASSETS

In thousands of EUR	2012	2011
Accrued commissions	142	184
Prepaid expenses	173	275
Other receivable	436	442
Positive fair value of call option	-	6
Advances	406	-
Other	484	318
	1,641	1,225
Less: Allowance for impairment	(134)	(143)
Balance as at 31 December	**1,507**	**1,082**

20. DEPOSITS FROM CUSTOMERS

In thousands of EUR	**2012**	**2011**
Demand deposits	71,895	58,761
Term deposits	137,232	104,059
Interest accrued	2,717	1,752
Balance as at 31 December	**211,844**	**164,572**

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

21. OTHER BORROWED FUNDS

In thousands of EUR	2012	2011
Current (due within one year)	11,846	14,664
Non-current (due after one year)	71,615	73,917
Accrued interest	594	797
Deferred origination fees	(171)	(226)
Balance as at 31 December	**83,884**	**89,152**

Borrowings include loans from EFSE Luxembourg in the amount of EUR 5,685 thousand (2011: EUR 7,895 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.

Current borrowings include possible early repayment of KFW loan in amount of EUR 8,273 thousand.

22. DEBIT SECURITIES

Debt securities issued as of 31 December 2012 in the amount of EUR 15,007 (2011: 15,015) 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	2012	2011
Accrued expenses	525	484
Accrued employee benefits	648	899
Provision for long term employee benefits	211	131
Provision for contingent liabilities	895	427
Provision for legal claims	89	99
Provision for operating risk	166	118
Items in course of collection and other liabilities	590	515
Balance as at 31 December	**3,124**	**2,673**

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 7.25% (2011: 7,875%) and expected increase in salaries of 5% (2011:5%) and personnel turnover rate of 2.87% (2011: 2.91%).

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

In thousands of EUR	2012	2011
Balance as at 1 January	131	110
Additions:		
- service costs	81	21
- interest costs	12	7
- actuarial gains jubilee provisions	(3)	-
- use	(6)	-
Actuarial gains	(4)	(7)
Balance as at 31 December	**211**	**131**

Provision for contingent liabilities relates to the following:

In thousands of EUR	2012	2011
Issued guarantees	654	213
Credit commitments:		
- overdrafts	169	93
- credit cards	50	56
- project financing	22	65
Balance as at 31 December	**895**	**427**

A reconciliation of provision for contingent liabilities is as follows:

In thousands of EUR	2012	2011
Balance as at 1 January	427	136
Reversals/(additions)	468	291
Balance as at 31 December	**895**	**427**

24. SHAREHOLDER'S EQUITY

In thousands of EUR	2012	2011
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	350	(1,188)
Revaluation reserves	656	677
Retained earnings	25,586	20,789
Balance as at 31 December	**33,984**	**27,670**

Share capital

As at 31 December 2012, 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 (2011: 0.1% of total assets). These reserves are recognized in income statement and reported as liabilities in the financial statements prepared under regulations of the Central Bank of Montenegro.

Other capital reserves

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

Fair value reserves

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

Revaluation reserves

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

Retained earnings

Retained earnings represent accumulated net profits, 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 2012.

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	**2012**	**2011**
Guarantees	24,603	10,333
Unused overdraft limit on loans	7,344	7,952
Unused project financing limit on loans	548	3,424
Credit cards	3,145	3,333
Provisions for impairment of contingent liabilities	(895)	(427)
Balance as at 31 December	**34,745**	**24,615**

Legal claims

On the statement of financial position date, the Bank is involved in 100 court cases as defendant. The Bank made a provision for the value of possible compensation on legal claims estimated at EUR 89 thousands (2011: EUR 99 thousand).

Operating lease commitments

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

In thousands of EUR	**2012**	**2011**
Commitments due within one year	598	507
Commitments due in period from 1 to 5 years	1,510	1,170
Commitments due after 5 years	32	21
Balance as at 31 December total	**2,140**	**1,698**

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	2012	2011
Assets		
Current accounts with foreign banks	14,294	2,015
Other assets	325	11
	14,619	**2,026**
Liabilities		
Demand deposits	1,008	494
Term deposits	-	2,534
Borrowings	71,394	71,555
Other liabilities	-	15
	72,402	**74,598**
Income		
Interest and similar income	-	6
Fee and commission income	229	243
Other operating income	-	-
Expenses		
Interest and similar expenses	2,941	2,660
Fee and commission expenes	34	37
Other administrative expenses	49	3
	3,024	**2,700**

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

In thousands of EUR	**2012**	**2011**
Assets		
Current accounts with foreign banks	8,447	1,891
Other assets	263	11
	8,710	**1,902**
Liabilities		
Borrowings	14,971	14,962
Accrued interest	35	35
Other liabilities	-	15
	15,006	**15,030**
Income		
Interest and similar income	-	5
Fee and commission income	101	57
Other operating income	-	-
	101	**62**
Expenses		
Interest and similar expenses	568	703
Fee and commission expenses	-	1
Other administrative expenses	49	3
	617	**707**

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

In 2012 the Bank paid to top management personnel gross salaries and other compensations in the amount of EUR 650 thousand (2011: EUR 798 thousand) which include bonuses in the amount of 259 thousand (2011: EUR 313 thousand).

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

In thousands of EUR	**2012**	**2011**
Assets		
Loans	-	1
Liabilities		
Demand deposits	-	28
Indexed deposits	49	39
	49	**67**

The Bank did not grant new loans to the members of the Board of Directors during 2012 (2011: nil). The outstanding balance as at 31 December 2012 for previously granted loans to the Board of Directors amounted to EUR 0 thousand (2011: EUR 1 thousand).

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 2012 for granted loans amounted to EUR 35 thousand (2011: EUR 38 thousand). Interest income on granted loans to management personnel in 2012 amounted to EUR 2 thousand (2011: EUR 3 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 2012, the Bank has not made any provisions for doubtful debts relating to amounts owned by related parties (2011: nil).

NOTES TO THE FINANCIAL STATEMENTS

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	Fair value
As at 31 December 2011				
Cash and balances with banks and Central bank	23,327	-	23,327	23,327
Loans and advances to Banks, net	3,626	-	3,626	3,626
Loans and advances to customers, net	242,683	-	242,683	242,683
Financial assets available for sale	16,268	16,268	-	16,268
Financial assets held to maturity	6,346	-	6,346	6,346
	292,250	**16,268**	**275,982**	**292,250**
Deposits from banks	54	-	54	54
Deposits from customers	164,572	-	164,572	164,572
Debt securities	15,015	-	15,015	15,015
Other borrowed funds	89,152	-	89,152	89,152
	268,793	**-**	**268,793**	**268,793**
As at 31 December 2012				
Cash and balances with banks and Central bank	39,574	-	39,574	39,574
Loans and advances to Banks, net	30,406	-	30,406	30,406
Loans and advances to customers, net	246,435	-	246,435	246,435
Financial assets available for sale	17,980	17,980	-	17,980
Financial assets held to maturity	6,974	-	6,974	6,974
	341,369	**17,980**	**323,389**	**341,369**
Deposits from banks	61	-	61	61
Deposits from customers	211,844	-	211,844	211,844
Debt securities	15,007	-	15,007	15,007
Other borrowed funds	83,884	-	83,884	83,884
	310,796	**-**	**310,796**	**310,796**

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

Assets recorded at fair value

Financial assets available for sale as at 31 December 2012 in the amount of EUR 17,944 thousand (2011: EUR 16,232 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) and in the amount of EUR 36 thousand (2011: 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).

Assets not recorded at fair value

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than one year) it is assumed that the carrying amount 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. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

28. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

The Bank's risk management model depends on:

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

Traditionally, the Bank is mainly exposed to credit risk and consequently the largest focus is given to the management and continuous development and improvement of credit risk management, but not neglecting in any instance 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 Bank risk management policies in their specified areas. The Board of Directors consists of executive director's representatives, shareholders representatives and other members.

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

Board of Directors adopted following policies:

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

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

The Bank's Internal Audit monitors compliance with the Bank's risks management policies and procedures and undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

According to the Law on Banks, the Bank complied with all requirements relating to corporate governance. Requirements relate to election of the members of the Board of Directors, election of executive directors and formation of audit committee.

The Bank's Audit Committee is responsible for analyzing 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 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.

Credit risk (continued)

31 December 2012

	Neither past due nor impaired					
		Management		Past due but	Individually	
	Low Risk	Attention	Substandard	not impaired	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

31 December 2011

	Neither past due nor impaired					
		Management		Past due but	Individually	
	Low Risk	Attention	Substandard	not impaired	impaired	Total
	2011	2011	2011	2011	2011	2011
Loans and advances to banks, gross	3,628	-	-	-	-	**3,628**
Loan and advances to customers, gross	173,883	31,550	3,365	26,899	23,179	**258,876**
Public sector	44,122	12,596	-	7	-	**56,725**
Commercial customers	29,093	17,290	3,152	9,189	9,401	**68,125**
Other financial institutions	-	1,227	-	-	-	**1,277**
Private customers	100,359	377	213	17,696	13,778	**132,423**
Other	309	10	-	7	-	**326**
Investment securities AfS and HtM	22,614	-	-	-	-	**22,614**
Financial assets available for sale	16,268	-	-	-	-	**16,228**
Financial assets held to maturity	6,346	-	-	-	-	**6,346**

Credit risk (continued)

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans by age is provided in the following tables.

31 December 2012	Less than 30 days 2012	31 to 60 days 2012	61 to 90 days 2012	61 to 90 days 2012	Total 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

31 December 2011	Less than 30 days 2011	31 to 60 days 2011	61 to 90 days 2011	61 to 90 days 2011	Total 2011
Loan and advances to customers, gross	**13,663**	**5,456**	**7,780**	**-**	**26,899**
public sector	-	7	-	-	7
commercial customers	2,097	1,280	5,812	-	9,189
other financial institutions	-	-	-	-	-
private customers	11,559	4,169	1,968	-	17,696
other	7	-	-	-	7

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

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 into various categories in groups A, B (performing assets) and C, D and E (non-performing assets). The Bank grades credit risk exposures to companies into various categories in groups 1-8 (performing assets), where 1 is extremely high creditworthiness and 8 is below standard, and R1-R5 (non-performing assets), where R1 is uncertain collection, R2 is past due over 90 days, R3 are restructured assets, R4 is write off and R5 - bankruptcy. The Bank estimates recoverable amounts by discounting future cash flows on individual level for all individually significant exposures classified in the non performing categories. Collective provisions for performing categories are based on estimations of probabilities of default and losses given default for corporate and retail exposures using its own historical data.

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

Category A - good assets; includes items which are expected to be fully collected in accordance with the agreed terms;

Category B - assets with the special remark include items that have low probability of loss. These items require special remark of the Bank as a result of potential risk that would arise in case it is not adequately monitored and therefore has weaker prospects in terms of full collection;

Category C - substandard assets include items that have high probability of loss as a result of obvious loss indicators that influence collection of payments;

Category D - Doubtful assets include items for which collection is unlikely, considering creditworthiness of the borrower, collateral value and possibility of collateral foreclosure;

Category E – Loss include items that are entirely uncollectable or will be collected in insignificant amount.

Credit risk (continued)

Individually impaired loans and securities

Individually impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and securities agreement. These loans are graded C to E for individuals or R for companies in the Bank's internal credit risk grading system.
Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

In thousands of EUR	Loan and advances to customers Gross	Net
Category C	5,375	3,579
Category D	8,996	4,770
Category E	13,195	2,761
Total as at 31 December 2012	**27,566**	**11,110**
Category C	5,088	3,317
Category D	8,581	5,362
Category E	8,647	2,207
Total as at 31 December 2011	**22,316**	**10,886**

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 10,966 thousand as at 31 December 2012 (2011: EUR 6,289 thousand).

Credit risk (continued)

Write-off policy

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

Unrecoverable borrowings E, R4 are those where it is considered that the total receivables will not be recovered by primary or secondary cash flow. Concerning unrecoverable placements E, R4, by default the present value of these receivables equals zero, except when there is a very good collateralization of approved loan.

Written off loans that are considered irrecoverable and which are registered in the off balance sheet records of the Bank amount to EUR 5,699 thousand as of 31 December 2012 (2011: EUR 4,676 thousand).

Collateral

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

The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, pledge, guarantors and bill of exchange. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities and no such collateral was held at 31 December 2012 or 2011.

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	
	2012	**2011**
Against individually impaired - property	17,323	9,788
Against collectively impaired:		
Property	115,924	114,016
Other pledges	9,275	12,566
Montenegro Government guarantees	9,747	52,967
Guarantee of banks with rating A or more	-	-
Against past due but not impaired – ca deposits	99	98
Against neither past due nor impaired – cash deposits	2,033	2,214
Total	**154,401**	**191,649**

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 353 thousand (2011: EUR 354 thousand) at the statement of financial position date, which the Bank is in process of selling.

Credit risk concentrations

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

In thousands of EUR	**Loan and advances to customers**		**Debt securities (HTM and AFS)**	
	2012	**2011**	**2011**	**2011**
Retail customers	130,773	121,492	-	-
Corporate customers	69,873	63,173	-	-
Other financial institution	455	1,236	-	-
Government	44,912	56,461	24,919	22,578
Other	422	321	35	36
	246,435	**242,683**	**24,954**	**22,614**

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 2012 was EUR 5,529 thousand (2011: EUR 5,052 thousand).

Country risk

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

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

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

Risk management department submits to the Board monthly reports about country risk exposure.

The Board of Directors reviews the adequacy of the system used to manage country risk and approve any policy changes if needed.

Liquidity risk

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

The Bank has access to a diverse funding base. Funds are raised using:
- deposits with wide ranges of maturity;
- long term borrowings;
- share capital.

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

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

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

Liquidity risk (continued)

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

In thousands of EUR	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total undiscounted financial assets/ liabilities
Non derivative assets					
Cash and cash equivalents	32,741	-	6,833	-	39,574
Loans and advances to banks	30,183	-	238	-	30,421
Loans and advances to customers	35,683	75,516	209,050	130,785	451,034
Financial assets available for sale	-	-	17,035	-	17,035
Financial assets held to maturity	-	5,533	1,500	-	7,033
Total as at 31 December 2012	**98,607**	**81,049**	**234,656**	**130,785**	**545,097**
Non derivative liabilities					
Deposits from banks	61	-	-	-	61
Deposits from customers	140,362	26,990	28,307	21,929	217,588
Other borrowed funds	2,421	11,694	61,823	36,583	111,521
Debt securities	-	622	16,386	-	17,008
Total as at 31 December 2012	**142,844**	**39,306**	**106,516**	**58,512**	**347,178**

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 years	More than 1 years	Total
Assets			
Cash and cash equivalents	32,741	6,833	39,574
Loans and advances to Banks	30,183	238	30,421
Loans and advances to customers	100,103	167,140	267,243
Financial assets available for sale	17,945	35	17,980
Financial assets held to maturity	5,472	1,50	6,974
Total as at 31 December 2012	**186,444**	**175,748**	**362,192**
Liabilities			
Deposits from banks	61	-	61
Deposits from customers	105,184	106,660	211,844
Other borrowed funds	11,891	71,993	83,844
Debt securities	-	15,007	15,007
Total as at 31 December 2012	**117,136**	**193,660**	**310,796**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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
As at 31 December 2012				
Assets				
Cash and balances with banks	2,880	2,880	-	-
Loans and advanced to banks	7,717	7,717	-	-
Loans and advances to customers	208,830	37,564	88,016	83,250
Financial assets available for sale	17,980	-	-	17,980
Financial assets held to maturity	6,974	-	5,443	1,531
Total	**244,381**	**48,161**	**93,459**	**102,761**
Liabilities				
Deposits from banks	61	61	-	-
Deposits from customers	190,427	140,101	25,087	25,239
Other borrowed funds	60,563	2,277	9,629	48,657
Debt securities	15,007	-	15,007	-
Total	**266,058**	**142,439**	**49,723**	**73,896**
Interest rate gap	**(21,677)**	**(94,278)**	**43,736**	**28,865**
As at 31 December 2011				
Assets				
Cash and balances with banks	2,837	2,837	-	-
Loans and advanced to banks	-	-	-	-
Loans and advances to customers	207,997	39,911	82,319	85,767
Financial assets available for sale	16,268	-	-	16,268
Financial assets held to maturity	6,346	2,525	3,821	-
Total	**233,448**	**45,273**	**86,140**	**102,035**
Liabilities				
Deposits from Banks	30,406	30,406	-	-
Deposits from customers	118,284	51,501	58,067	8,716
Other borrowed funds	80,401	46,948	24,369	9,084
Debt securities	15,015	-	15,015	-
Total	**244,106**	**128,855**	**97,451**	**17,800**
Interest rate gap	**(10,658)**	**(83,582)**	**(11,311)**	**84,235**

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:

Interest rate risk (continued)

In thousands of EUR	100 bp parallel increase	100 bp parallel decrease
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**
Average for the period	(423)	423
Maximum for the period	(525)	525
Minimum for the period	(295)	295
As at 31 December2011	**(525)**	**525**

The sensitivity of equity calculated by revaluing fixed rate available–for–sale financial assets at 31 December 2012, for the effects of the assumed changes in interest rates of 100 bp increase/decrease is EUR 547 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 105 thousand, EUR 55 thousand and EUR 13 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.

Operation risk (continued)

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

Risk Management priorities are identified through a combination of:

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

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

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

Capital management

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

The regulatory capital (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 consist 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.

ERSTE BANK A.D. PODGORICA

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

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

In thousands of EUR	2012	2011
Basic Capital		
Share capital	5,339	5,339
Share premium	1,571	1,571
Retained earnings from the previous year	19,807	15,708
Reserves allocated from retained earnings	300	300
Deductible items on basic capital	(241)	(413)
Supplementary capital I	**26,776**	**22,505**
Subordinated debt	1,200	2,000
Revaluation reserves	655	677
Profit in current year	-	-
General reserves for losses on assets	-	-
Supplementary capital II	**1,855**	**2,677**
Deducted items on capital	-	-
Total regulatory capital	**28,631**	**25,182**
Risk weighted assets:		
- balance sheet	139,042	129,076
- off balance sheet	14,526	11,341
Capital charge for:		
- market risks	24	132
- operational risk	3,710	3,417
- country risk	486	95
- other risks	774	755
Total risk weighted assets and capital charges for risks	**158,562**	**144,816**
Capital Adequacy	14%	14%

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

Podgorica, 1 March 2013

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