HIPOTEKARNA BANKA, PODGORICA

Financial Statements
For the Year Ended December 31, 2009 and
Independent Auditors' Report

Translation of the financial statements issued in Montenegrin language

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Hipotekarna banka A.D., Podgorica

We have audited the accompanying financial statements of Hipotekarna banka A.D., Podgorica (the "Bank"), which comprise the balance sheet as of December 31, 2009 and the related income statement, 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 of the Bank is responsible for preparation and fair presentation of these financial statements in accordance with the accounting regulations of Montenegro and the regulations of the Central Bank of Montenegro governing financial reporting of banks. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As disclosed in Note 3.1 to the financial statements, as of January 1, 2009, the Bank has changed its accounting policies relating to the recognition of origination fees for loans, guarantees and other forms of sureties as well as fees charged to the Bank for borrowings incurred. Therefore, as of January 1, 2009, the Bank applies an accounting policy which requires that such fees be considered an integral part of continued engagement of the underlying financial instrument and should be deferred and recognized as an adjustment to the effective interest rate in accordance with requirements of IAS 18 "Revenues" and IAS 39 "Financial Instruments: Recognition and Measurement." Given that the Bank did not perform the calculation the effects of applying the new accounting policy to prior periods in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," which requires that the change in accounting policy be retrospectively applied to the earliest prior period presented, as if the new accounting policy had always been applied, we were unable to satisfy ourselves as to the potential effects which the application of the aforecited standards would have on the Bank's financial statements for the year 2009.

(Continues)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Hipotekarna banka A.D., Podgorica (Continued)

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to satisfy ourselves as to the matter referred to in the preceding paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of Hipotekarna banka A.D., Podgorica as of December 31, 2009, and its financial performance and cash flows for the year then ended, in accordance with the accounting regulations prevailing in Montenegro and regulations of the Central Bank of Montenegro governing financial reporting of banks.

Deloitte d.o.o., Podgorica
Podgorica, Montenegro
April 26, 2010

Danijela Dimovski, Certified Auditor
(License no. 030 issued on August 7, 2006)

INCOME STATEMENT
For the Year Ended December 31, 2009
(thousands of EUR)

	Notes	2009	2008
Interest income	3.1, 4a	6,827	6,411
Interest expense	3.1, 4b	(2,523)	(2,324)
Net interest income		4,304	4,087
Provisions for potential losses	3.6, 5	(404)	(378)
Net income		3,900	3,709
Fee and commission income	3.1, 6a	2,087	1,627
Fee and commission expense	3.1, 6b	(346)	(299)
Net fee and commission income		1,741	1,328
NET INTEREST, FEE AND COMMISSION INCOME		5,641	5,037
Other income, net	7	987	391
General expenses	8	(5,591)	(4,915)
NET INCOME BEFORE EXTRAORDINARY ITEMS		1,037	513
Extraordinary income		37	722
Extraordinary expenses		(19)	(72)
		18	650
PROFIT BEFORE TAXATION		1,055	1,163
Differed taxes, net	3.3, 9	-	(10)
NET PROFIT FOR THE YEAR		1,055	1,153

The accompanying notes on pages 7 to 35 form
an integral part of these financial statements.

These financial statements were approved by the Management of Hipotekarna banka A.D., Podgorica on April 22, 2010.

Signed on behalf of Hipotekarna banka A.D., Podgorica by:

Esad Zaimović	Aleksandar Mitrović
General Director	Executive Officer for Financial and IT Department

Translation of the financial statements issued in Montenegrin language

BALANCE SHEET
As of December 31, 2009
(thousands of EUR)

	Notes	2009	2008
ASSETS			
Cash and deposit accounts held with depository institutions	10	19,917	13,539
Securities available for sale, excluding shares		292	41
Loans and leases	11	74,698	58,118
Securities held to maturity	12	1,086	-
Receivables from custody operations		19	-
Business premises and other fixed assets	13	1,473	1,402
Acquired assets		11	-
Equity investments in other legal entities	14	7	182
Other assets	15	2,347	1,503
Less: Provisions for potential losses on other assets	15	(263)	(26)
Total assets		99,587	74,759
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	16	69,735	43,006
Custody operations		387	-
Loans and borrowings	17	4,000	8,700
Amounts owed to the Government	18	2,248	1,349
Other liabilities	19	2,392	1,823
Provisions for potential losses on off-balance sheet exposures	20	495	606
Total liabilities		79,257	55,484
Equity			
Share capital	21	16,006	16,006
Share premium		7,444	7,444
General reserves		-	1,849
Accumulated losses		(3,120)	(6,024)
Total equity		20,330	19,275
Total liabilities and equity		99,587	74,759
OFF-BALANCE-SHEET ITEMS	23	198,891	122,047

The accompanying notes on pages 7 to 35 form
an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2009
(thousands of EUR)

	Share Capital	Share Premium	General Reserves	Accumulated Losses	Total
Balance, January 1, 2008	16,006	7,444	1,849	(7,177)	18,122
Profit for the year	-	-	-	1,153	1,153
Balance, December 31, 2008	16,006	7,444	1,849	(6,024)	19,275
Transfer (Note 21)	-	-	(1,849)	1,849	-
Profit for the year	-	-	-	1,055	1,055
Balance, December 31, 2009	16,006	7,444	-	(3,120)	20,330

The accompanying notes on pages 7 to 35 form
an integral part of these financial statements.

CASH FLOW STATEMENT
For the Year Ended December 31, 2009
(thousands of EUR)

		2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest, fees and commissions received		8,709	8,120
Other receipts		2	356
Interest, fees and commissions paid		(2,907)	(1,054)
Payments to employees and suppliers		(4,974)	(5,513)
Cash generated from operating activities before changes in operating assets and liabilities		830	1,909
Increase/decrease in operating assets and liabilities			
Increase in placements to customers, net		(16,174)	(2,831)
Increase/(decrease) in other assets		52	(1,032)
Increase in customer deposits		26,729	2,889
Income from custody operations		368	-
Decrease in other liabilities		(10)	(173)
Net cashprovided by/(used in) operating activities		10,965	(1,147)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment and intangible assets		(332)	(599)
Net cash used in investing activities		(332)	(599)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Outflow)/Inflow from loans and borrowings		(3,801)	2,047
(Outflow)/Inflow from share purchase/sale, net		(5)	(47)
Inflow from equity investments in other legal entities, net		177	
Outflow from securities held to maturity, net		(1,086)	-
Net cash generated from financing activities		(4,715)	2,000
Foreign exchange (losses), net		(370)	(3)
Net increase in cash and cash equivalents		6,378	2,160
Cash and cash equivalents, beginning of year		13,539	11,379
Cash and cash equivalents, end of year		19,917	13,539
Component of cash and cash equivalents:			
Cash and deposit accounts held with depository institutions	3.4	19,917	13,539
		19,917	13,539

The accompanying notes on pages 7 to 35 form
an integral part of these financial statements.

1. BANK'S ESTABLISHMENT AND ACTIVITY

Hipotekarna banka A.D. Podgorica (hereinafter: the "Bank") was registered in 1995 as a shareholding company. The registration number of the Bank as recorded in the Central Registry of the Commercial Court is 4-0004632/027. The Bank is included in the Register of Security Issuers maintained by the Securities Commission under the number 3 (Decision number 02/3-1/2-01). The Bank received an operating license from the Central Bank of Montenegro, pursuant to the Decision number 26 dated November 21, 2001.

In accordance with Law on Banks, Founding Agreement, Statute and Decision of the Central Bank of Montenegro, the Bank performs depositary and crediting operations for its own account. In addition to the above, the Bank performs the following activities:

- issuance of guarantees and undertaking other off-balance sheet liabilities,
- purchase, sale and recording of receivables (factoring, forfeiting etc.),
- issuance, processing and recording of payment instruments
- operations of payment transactions performed aboard and in the country, in accordance with regulations regulating payment transfers,
- finance leases,
- operations involving securities, in accordance with the relevant regulations,
- trading in its own account and for the customer's account:
    a) with payments in foreign exchange, including exchange operations,
    b) financial derivates,
- depo transactions,
- preparation of analysis and provision of credit rating information and advice on legal entities and entrepreneurs and other issues related to business operations,
- rental of safety deposit boxes,
- activities which are the part of bank activities, activities accompanying banking activities and activities directly connected with Bank's activities, in accordance with Statute.

The Bank's management bodies include: the Shareholders Assembly and the Board of Directors. The Board of Directors has two permanent bodies: Audit Board and Credit Risk Management Board. The members of the Board of Directors are elected by the Bank's Shareholders Assembly. The Board of Directors has 5 (five) members the majority of which are not the Bank's employees.

The Bank is domiciled in the city of Podgorica, at 67 Josipa Broza Tita Street. At December 31, 2009, the Bank had 139 employees (December 31, 2008: 128 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Bank maintains its accounting records and prepares its statutory financial statements in conformity with the Accounting and Auditing Law of Montenegro ("Official Gazette of Montenegro," no. 69/2005 and no. 80/2008) and specifically, in accordance with the relevant decision pertaining to the application of International Accounting Standards ("IAS") in Montenegro ("Official Gazette of Montenegro," numbered 69/2002). Pursuant to these provisions, International Financial Reporting Standards ("IFRS") were applied for the first time as the Bank's primary basis of accounting for the reporting period commencing on January 1, 2003.

The financial statements are presented in the format required under Articles 17 and 18 of the Accounting and Auditing Law of Montenegro and the European Union Directive numbered 86/635/EEC of December 8, 1986 which relates to the annual reports of banks and other financial institutions. Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements."

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

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

The accounting policies adopted in the preparation and presentation of the financial statements for the year ended December 31, 2009 differ from the IFRS requirements in respect to the calculation of allowances for the impairment of financial instruments and in respect of disclosures of financial instruments in accordance with IFRS 7 "Financial Instruments: Disclosures." The Bank calculates the amount of allowance for impairment of financial instruments in accordance with the applicable Regulations of the Central Bank of Montenegro (Note 3.7). Such a policy might result in significant departures from the amounts which would be determined, had the allowances for impairment of financial instruments been estimated based on discounted expected future cash flows by applying the original effective interest rate, as required by IAS 39, "Financial Instruments: Recognition and Measurement."

Due to the potentially significant effects of the above-described matters, these financial statements cannot be described as having been prepared in accordance with International Financial Reporting Standards.

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3, which are in conformity with the accounting, banking and tax regulations prevailing in Montenegro.

The official currency in Montenegro and the Bank's functional currency is the Euro (EUR).

2.2. Use of Estimates

The presentation of financial statements requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the value of assets and liabilities, as well as the disclosure of contingent liabilities and receivables as of the date of the preparation of the financial statements, and the income and expenses arising during the accounting period. Estimates and judgments relate to historical experience and other factors, including the expectations in respect to future events believed to be reasonable in the given circumstances, where the results provide goods grounds for the estimated carrying value of assets and liabilities that cannot be clearly derived from other sources. These estimations and assumptions are based on information available as of the financial statements' preparation date. However the Bank's operating results may vary from the estimated values.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest, Fee and Commission Income and Expense Recognition

Interest income and interest expense, including penalty interest and other income and expenses related to interest bearing assets and liabilities are accounted for on an accrual basis. Fee and commission income and expenses from banking services are determined when due for settlement and/or collection.

Until January 1, 2009, origination fees for loans, guarantees and other sureties, as well as fee expenses charged to the Bank based of its borrowings had been included within income and expenses in the moment of service rendering or when such fees were due for settlement. As of the aforementioned date, origination fees for loans, guarantees and other sureties, as well as fee expenses charged to the Bank based of its borrowings are recognized in accordance with IAS 18, "Revenues" and IAS 39, "Financial Instruments: Recognition and Measurement," loan origination fees are considered to be an integral part of an ongoing involvement with the resultant financial instrument, which is deferred and recognized as an adjustment to the effective interest rate by applying the pro rata method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into euros at the official exchange rates prevailing on the Interbank Market, at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into euros by applying the official exchange rates, as determined on the Interbank Market that are prevailing at the balance sheet date.

Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the Income statement.

Commitments and contingent liabilities denominated in foreign currencies are translated into euros by applying the official exchange rates prevailing on the Interbank Market, at the balance sheet date.

3.3. Taxes and Contributions

Income Taxes

Current Income Taxes

Income taxes are calculated and paid in conformity with the income tax regulations defined under the Montenegro Tax Law (“Official Gazette of Montenegro,” nos. 80/2004 and 40/0228) as per the effective proportional tax rate of 9% on taxable income.

A taxpaying entity’s taxable income is determined based upon the income stated in its statutory statements of income following certain adjustments to its income and expenses performed in accordance with Montenegro Tax Law (Articles 8 and 9, regarding the adjustment of income and Articles 10 to 20 pertaining to the adjustment of expenses).

Capital gains are 50% included in the tax base in the year in which they are earned.

Capital losses may be set off against capital gains earned in the same year. In case there are outstanding capital losses even after the set-off of capital losses against capital gains earned in the same year, these outstanding losses are available for carryforward in the ensuing 5 years.

Montenegro tax regulations do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses reported in the annual corporate income tax returns may be carried forward and used to reduce or eliminate taxes to be paid in future accounting periods, but only for an ensuing period of a maximum of five years.

Deferred Income Taxes

Deferred income tax is determined using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities, and their carrying values in the financial statements. The currently-enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for the deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Taxes and Contributions (Continued)

Taxes, Contributions and Other Duties Not Related to Operating Results

Taxes, contributions and other duties that are not related to the Company's operating results, include property taxes, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations.

3.4. Cash and Cash Equivalents

For purposes of the cash flow statement, "Cash and cash equivalents" include cash and balances on the current accounts held with the Central Bank of Montenegro, including the obligatory reserve, and balances held on the accounts of other banks in the country and abroad.

3.5. Available-for-Sale Securities

Securities available for sale comprise securities that cannot be classified as trading securities or as securities held to maturity and comprise equity investments in other legal entities. Subsequent to initial recognition, securities available for sale are stated at fair value. The fair value of securities quoted on the stock exchange is based on their asking prices. Unrealized gains and losses from securities available for sale are recorded within revaluation reserves, until such security is sold, collected or realized in any other way or until such security has suffered permanent impairment. Upon the disposal of securities available for sale are disposed of or when their value has suffered an impairment, the accumulated fair value adjustments are recognized within equity and recorded in the income statement.

Dividends from securities available for sale are recognized in the income statement when the right to such receivable has been established.

3.6. Loans

Loans originated by the Bank are recorded in the books of account at the moment of the transfer of funds to the loan beneficiary.

Loans originated by the Bank are stated in the balance sheet in the amount of placement originally approved less net of principal repaid and an allowance for impairment which is based on an evaluation of the specifically-identified exposures which serves to cover any losses inherent in the Bank's loan portfolio. The Bank's management applies the methodology prescribed by the Central Bank of Montenegro in its evaluation of the risks and resulting estimations of such allowances (Note 3.7).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Allowances for Impairment and Provisions for Potential Losses

The Decision issued by the Central Bank of Montenegro regarding to the classification of bank assets, provisions and reserves for credit losses per separate items of assets ("Official Gazette of Montenegro," number 60/2008 and number 87/2009) set forth the following: minimum criteria and manner of classifying assets and off-balance sheet items which render the Bank susceptible to interest rate risk, manner of calculation and suspension of unpaid interest, manner of determining the minimum provisions for potential losses contingent on the Bank's exposure to credit risk and the criterion and way of determining the provisions for general credit losses. The Bank's risk-weighted assets, within the meaning of this Decision, are comprised of loans, interest, fees and commission, lease receivables, deposits with banks, advances and all other items included in the balance sheet exposing the Bank to default risk, as well as guarantees issued, other sureties, effectuated letters of credit and approved, but undrawn loan facilities, as well as all other off-balance sheet items comprising the Bank's contingent liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Allowances for Impairment and Provisions for Potential Losses (Continued)

Pursuant to the aforementioned Decision, loans and other risk-weighted assets are classified into the following categories:

- A category (“Pass”) – including assets assessed as collectible in full and as agreed;
- B category (“Special Mention”) – with B1 and B2 subcategories including items for which there is low probability of loss, but which, still the same, require special attention, as potential risk, if not adequately monitored, could diminish collectability;
- C category (“Substandard assets”) – with C1, C2, C3 and C4 subcategories for which there is high probability of loss, due to the clearly identified collectability issues;
- D category (“Doubtful assets”) – including items the collection of which is, given the creditworthiness of loan beneficiaries, quality of collaterals, highly unlikely;
- E category (“Loss”) – including the items which are uncollectible in full, or will be collectible in an insignificant amount.

The estimated amount of provision for potential losses is not computed for the Bank’s placements classified in the category A. The estimated reserve for potential losses is calculated as 3% of the placements classified in category B, from 20% to 50% to the placements classified into category C, 75% to the placements of category D, and 100% of the placements under category E.

Moreover, as in accordance with the provisions of the aforecited regulation, the Bank is to suspend any accrued, uncollected interest and should terminate any further accruals of interest on its non-performing assets, with the exception of the non-performing assets that are secured by quality collateral and are in the process of collection, to the extent that such asset recoveries are anticipated within a reasonable period of time (generally defined as not exceeding three months). Following the suspension of interest accruals on non-performing assets, the Bank remains under an obligation to record the subsequent, matured interest on the same basis, on its off-balance sheet records and upon classification, designates the accrued income into E category. The Decision further prescribes that the risk-weighted assets be classified into E category be written off from the off-balance sheet records under the heading of “Loans written off.”

Pursuant to the Decision, provision for potential losses contingent on assets is calculated based on the carrying value net of any deductible items of collaterals based on:

- Monetary deposits and
- Irrevocable guarantees of the countries or central banks of the OESD member countries, the banks with credit rating better than A+ pursuant to the ratings of the agency Standard & Poor’s, i.e., any equivalent rating of other internationally acclaimed rating agencies and legal entities whose business operations are under the control of the Central Bank of Montenegro.

3.8. Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. In case the Bank sells a significant amount of held to maturity investments, the entire category is reclassified as available for sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Equity Investments in Other Legal Entities

Equity Investments in other legal entities are carried at cost which is believed by the management to approximate the fair value of these instruments.

3.10. Business Premises, Other Fixed Assets and Intangible Assets

Business premises and other fixed assets at December 31, 2009 are stated at cost less accumulated depreciation and impairment loss, if any. Cost represents the prices billed by suppliers together with all costs incurred in bringing the respective asset to the location and condition necessary for its intended use.

Depreciation is provided for on a straight-line basis to the cost of business premises and other fixed assets in order to write them off over their expected useful lives. Depreciation is calculated using the following prescribed annual rates:

Item	Rate in %
Buildings	2
Computers and computer equipment	33.3
Software	20
Furniture and equipment	15
Motor vehicles	15

The calculation of depreciation of business premises and other fixed assets commences when an asset is placed into use.

3.11. Equity

The Bank's equity includes share capital, share premium, the Bank’s reserves, as well as retained earnings (accumulated loss).

The share capital of the Bank is formed from the assets invested by the founders and shareholders of the Bank in the pecuniary or non-pecuniary form. The Law on Securities sets forth that securities are dematerialized and exist in an electronic form in the system of the Central Depositary Agency. The excerpt obtained from the Registry of the Central Depositary Agency is the only and exclusive proof of ownership over securities.

Once all reserves available have been exhausted, the Bank uses capital for performing its banking operations, for equity investment in other legal entities, as well as to cover risks.

As in accordance with the Decision on Capital Adequacy in Banks (“Official Gazette of Montenegro,“ nos. 60/2008 and 41/2009), the Bank's own assets represent the sum of the Bank's core capital, its supplementary capital I and supplementary capital II, net of deductibles.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Equity (Continued)

The Bank's core capital is comprised of basic elements of the Bank's own funds: paid in share capital at nominal values including cumulative preferred shares; collected share premiums; reserves allocated profit before taxation (legal, statutory and other disclosed reserves); prior year retained earnings; profit for the year for which the Shareholding Assembly enacted a Decision to be included within the Bank's core capital and capital gains realized in the purchase and sale of the Bank's own shares. Deductibles applied in the calculation of the Bank's core capital include prior period losses; loss for the year; capital losses incurred based on the acquisition and sale of own shares; intangible assets in the form of goodwill, licenses, patents, trademarks and concessions; nominal amounts of own shares acquired, exclusive of cumulative preferred shares and outstanding portion of provisions for potential losses determined in the process control.

Supplementary capital I is comprised of nominal value of preferred cumulative shares; general reserves up to 1.25% of the Bank's total risk-weighted assets; revaluation reserves; and subordinated debt, if any; hybrid instruments; and revaluation reserves. Deductibles applied in calculating supplementary capital involve the acquired own preferred cumulative shares and receivables and contingent liabilities secured by hybrid instruments or subordinated debts up to the amount in which these instruments are included in supplementary capital I.

Supplementary capital of a bank includes subordinated debts, meeting the following conditions: debt has been repaid in full; the bank does not guarantee debt repayment in any way; in case of the bank's bankruptcy or liquidation, such debt is settled after all other amounts owed to creditors; the relevant agreement includes a clause banning the payment of interest and principal, even upon debt maturity, if the settlement of such debt would reduce the bank's assets below the prescribed level; debt maturity is determined in advance, is longer than two years and cannot be repaid in advance of the agreed maturity date; the written agreement governing subordinated debt contains clause stipulating that subordinated debt is not to be considered as a deposit.

In order to cover risk inherent in operations, the Bank's provisions are formed. Provisions are formed based on the Decision issued by the Board of Directors of the Bank from the portion of profit earned by the Bank in its operations.

3.12. Employee Benefits

Employee Taxes and Contributions for Social Security

Pursuant to the regulations effective in Montenegro, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of an employee, by the employer, in an amount calculated by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Employee Benefits (Continued)

Retirement Benefits or Other Long-Term Employee Benefits

In accordance with the Collective Bargaining Agreement, the Bank is under obligation to pay retirement benefits to an employee upon his/her regular retirement in the amount of 6 net average salaries earned by the Bank's employees in the month in which payment is made. Concurrently, employees are entitled to jubilee awards for each 10, 20 and 30 consecutive years of service within the Bank. The Bank's financial statements as of and for the year ended December 31, 2009 include provisions calculated by an independent certified actuary, based on the estimated present value of assets to be used for retirement benefits and jubilee awards payable to vesting employees.

3.13. Fair Value

In accordance with International Financial Reporting Standards, the fair value of financial assets and liabilities should be disclosed in the Notes to the Financial Statements. For these purposes, the fair value is defined as an amount at which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. The Bank should disclose the fair value information of those components of assets and liabilities for which published market information is readily available, and for which their fair value is materially different from their recorded amounts.

In Montenegro, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables, investments and other financial assets or liabilities, for which published market information is presently not readily available. Fair value cannot readily be determined in the absence of active capital and financial markets, as generally required under the provisions of IFRS/IAS. In the opinion of the Bank's management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions in accordance with the accounting regulations of Montenegro and regulations of the Central Bank of Montenegro governing the financial reporting in banks.

NOTES TO THE STAND ALONE FINANCIAL STATEMENTS
For the Year Ended December 31, 2009

4. INTEREST INCOME AND EXPENSE

a) Interest Income

	(thousands of €) Year Ended December 31, 2009	2008
Deposits with:		
- foreign banks	22	71
- Central Bank	18	30
	40	101
Loans to:		
- corporate customers	4,129	3,553
- retail customers	6,787	6,310
	4,129	3,553
	6,827	6,411

b) Interest Expense

	(thousands of €) Year Ended December 31, 2009	2008
Deposits with:		
- financial institutions	303	675
- state institutions	88	59
- corporate customers	1,127	853
- retail customers	595	707
- other	21	-
	2,134	2,294
Payables arising from loans and other borrowings	389	30
	2,523	2,324

5. PROVISIONS FOR POTENTIAL LOSSES

a) Charge for the year

	(thousands of €) Year Ended December 31, 2009	2008
Net provisions/(reversal of provisions):		
- loans	257	370
- equity investments in other legal entities	(2)	1
- interest	17	9
- country risk	(3)	(4)
- off-balance sheet items	(111)	(53)
- employee benefits	-	54
- other claims of the debtor who has started a process of personal administration and reorganization (Note 15)	247	1
- other	(1)	-
	404	378

5. PROVISIONS FOR POTENTIAL LOSSES (Continued)

b) Movements on the accounts of allowance for impairment of bad debts and provisions

(thousands of €)

	Equity Investment in Other Legal Entities	Loans and Leases	Interest	Country Risk	Other Receivables	Other	Off-Balance Sheet Items	Total
	(Note 15)	(Note 11)	(Note 15)	(Note 15)	(Note 15)	(Note 15)	(Note 15)	
Balance, beginning of year	2	2,879	10	12	-	2	306	3,211
Charge for the year, net	-	257	17	-	247	-	-	521
Reversal of write-offs and provisions	(2)	-	-	(3)	-	(1)	(111)	(117)
Transfer to off-balance sheet items	-	(1,051)	(21)	-	-	-	-	(1,072
Balance, end of year	-	2,085	6	9	247	1	195	2,543

6. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	(thousands of €) Year Ended December 31, 2009	2008
Loan origination fees	531	594
Fee and commission income from off-balance-sheet operations	151	78
Fee and commission income from payment transfers	830	885
Fee and commission income from brokerage services	125	-
Fee and commission income from custody services	180	-
Other fee and commission income	270	70
	2,087	1,627

b) Fee and Commission Expense

	(thousands of €) Year Ended December 31, 2009	2008
Fees and commissions payable to the Central Bank	141	133
Fee and commission expense from other banks	46	38
Fee and commission for deposit insurance	119	111
Other fee and commission expense	40	17
	346	299

7. OTHER INCOME, net

	(thousands of €) Year Ended December 31, 2009	2008
Expenses from exchange operations, net	(370)	(3)
Net (gains)/ losses on unrealized and realized foreign exchange fluctuations	366	(219)
Dividend income	-	83
Collected receivables previously written off	741	498
Income from trading securities	248	-
Other income	2	32
	987	391

8. OTHER EXPENSES

	(thousands of €) Year Ended December 31, 2009	2008
Net salaries	1,369	1,290
Taxes and contributions on salaries	876	1,073
Meals and transport	68	-
Remunerations to the members of the Board of Directors and Audit Board	98	41
Severance pays	42	-
Costs for processing center services	35	-
Business trip expenses	79	96
Entertainment	51	50
Rentals	878	686
Maintenance of property and equipment	194	60
Depreciation and amortization charge:		
- property, plant and equipment	293	273
- intangible assets	185	155
Cost of security	142	99
Insurance premiums	58	41
Taxes payable	32	238
Advertizing	248	243
Professional services	217	214
CDA costs and brokerage services	228	-
Telecommunication and postage	136	116
Electricity, fuel and water charges	67	73
Office material	68	42
Cost of acquiring credit cards	-	21
Other costs	227	104
	5,591	4,915

9. INCOME TAXES AND CONTRIBUTIONS

a) Components of Income Taxes

	(thousands of €) Year Ended December 31, 2009	2008
Current income taxes	-	-
Deferred tax expenses	-	10
	-	10

9. INCOME TAXES AND CONTRIBUTIONS (Continued)

b) Numerical Reconciliation between Tax Expense and the Product of Accounting Results Multiplied by the Applicable Tax Rate

(thousands of €)

	2009	Year Ended December 31, 2008
Profit before tax	1,055	1,163
Income tax at the statutory tax rate of 9%	95	105
Unrecognized tax assets arising from tax loss carryforwards	(131)	(98)
Deductions based on dividends received	-	(7)
Other	36	-
Tax effects on the income statement	-'	(10)
Effective interest rate	*0.00%*	*0.00%*

c) Tax Loss Carryforwards

The review of tax losses which the Bank failed to recognize as deferred tax assets as of December 31, 2009 due to the uncertainty over the availability of taxable profit in future periods against which these tax losses could be utilized, amount EUR 2,007 thousand. These tax losses occurred in 2005 and expire in 2010. Unrecognized deferred tax assets amount to EUR 181 thousand.

d) Deferred Tax Liabilities

Deferred tax liabilities as at December 31, 2009 in the amount of EUR 10 thousand (Note 19) are associated with the taxable temporary differences arising between the tax base at which business premises and other fixed assets are recognized in the tax balance and the carrying value of such assets.

10. CASH AND DEPOSIT ACCOUNTS HELD WITH DEPOSITORY INSTITUTIONS

(thousands of €)

	December 31, 2009	December 31, 2008
Cash on hand:		
- in EUR	1,683	1,589
- in foreign currency	135	150
Gyro account	8,462	3,480
Correspondent account with foreign banks	4,328	2,722
Obligatory reserves with the Central Bank of Montenegro	3,443	5,595
Time deposits with foreign banks	1,744	-
Special purpose deposits - VISA Card	47	3
Coverage of letters of credit provided by foreign banks	75	-
	19,917	13,539

10. CASH AND DEPOSIT ACCOUNTS HELD WITH DEPOSITORY INSTITUTIONS (Continued)

The Bank's obligatory reserve at December 31, 2009 is set aside in accordance with the Central Bank of Montenegro Regulation with respect to the "Reserve Requirements for Banks to Be Held with the Central Bank of Montenegro," ("Official Gazette of Montenegro," no. 5/2008, 15/2009 and 41/2009). Pursuant to the aforecited, the obligatory reserve is to be calculated by applying the reserve of 10%

The obligatory reserve is to be calculated by applying the aforementioned ratios on a weekly basis, two days prior to the expiration of the maintenance period. The Bank allocates the obligatory reserve to the account opened specially for these purposes in the country or abroad and/or to the accounts of the Central Bank held abroad, where an amount of up to 25% of obligatory reserve may be allocated by blocking the treasury bills of Montenegro. For the amount of 25% of the obligatory reserve requirement deposited by banks, the Central Bank pays interest at the annual rate of 1% up to the eighth day of the month for the preceding month.

Time deposits with banks abroad as at December 31, 2009 in amount of EUR 1,744 thousand are related to dollar deposits with Probanka d.d, Slovenia placed for a period from one to six months, with monthly interest rate of 1.8% per annum.

11. LOANS AND LEASES

(thousands of €)

	December 31, 2009	December 31, 2008
Matured loans:		
- state-owned corporate entities	251	-
- privately-owned corporate entities	802	2,135
- non-profit organizations	615	3
- retail customers	609	274
Short-term loans:		
- financial institutions	-	90
- privately-owned corporate entities	20,517	15,117
- banks	-	900
- non-profit organizations	60	355
- corporate entities with majority state-ownership	2,007	-
- retail customers	4,299	3,388
- other	70	-
Long-term loans, including current portions:		
- privately-owned corporate entities	27,523	17,018
- corporate entities with majority state-ownership	719	609
- financial institutions	-	1,600
- non-profit organizations	75	60
- retail customers	19,236	19,448
	76,783	60,997
Minus: Provisions for credit losses	(2,085)	(2,879)
	74,698	58,118

11. LOANS AND LEASES (Continued)

Short-term loans to corporate entities with majority state-ownership are approved for current assets and mature over the period from 3 to 12 months, while long-term loans are approved for the period from 12 to 180 months and are mostly originated to corporate entities involved in trade, transport, warehousing, postal services and telecommunications and civil engineering. Short-term loans to corporate entities are mostly approved at an interest rate ranging between 6% and 18% annually and the same interest rate is applied to long-term loans.

Short-term loans to retail customers are approved on a monthly basis, from one to twelve month maturities. Long-term loans to retail customers encompass loans for the renovation of housing and business premises, loans for the purchase of consumables and other purposes, approved for the period from 13 months to 20 years. Loans to retail customers are approved at an interest rate ranging between 1% to 2% on monthly basis.

The geographic risk concentration within the customer loan portfolio mainly includes customers domiciled in Montenegro.

The concentration of total gross loans to customers per separate fields of industry as of December 31, 2009 and 2008 was as follows:

		(thousands of €)
	December 31, 2009	December 31, 2008
Agriculture, hunting and fishing	-	30
Civil engineering	2,705	2,978
Energy and mining	2,087	79
Trade	24,620	16,177
Services, tourism, accommodation industry	891	1,507
Transport, warehousing, postal services and communication	9,289	6,385
Administration and other public services	949	577
Real estate trade	477	387
Banks and other financial institutions	1,141	2,590
Retail customers	24,142	23,110
Other	10,482	7,177
	76,783	60,997

12. SECURITIES HELD-TO-MATURITY

Securities held to maturity as on December 31, 2009 in the amount of EUR 1,086 thousand relate to treasury bills of the Government of Montenegro, whose expiry term is March 2, 2010. The Bank holds 11,000 bills, with a total nominal value amounts to EUR 1,100 thousand.

13. BUSINESS PREMISES AND OTHER FIXED ASSETS

The movements for 2009 are shown in the following table:

(thousands of €)

	Buildings	Equipment and Other Assets	Construction in Progress	Total
Cost				
Balance, beginning of year	377	1,801	161	2,339
Additions	-	43	231	274
Transfers	-	254	(254)	-
Sale and disposal	-	(64)	-	(64)
Balance, end of year	377	2,034	138	2,549
Accumulated Depreciation				
Balance, beginning of year	38	899	-	937
Charge for the year	7	196	-	203
Sale and Disposal	-	(64)	-	(64)
Balance, end of year	45	1,031	-	1,076
Net Book Value:				
- December 31, 2009	332	1,003	138	1,473
- December 31, 2008	339	902	161	1,402

At December 31, 2009, there were no encumbrances over the Bank's assets to serve as collateral for timely and regular repayment of loans and other liabilities.

The movements for 2008 are shown in the following table:

(thousands of €)

	Buildings	Equipment and Other Assets	Construction in Progress	Total
Cost				
Balance, beginning of year	371	1,531	-	1,902
Additions	6	286	161	453
Sale and disposal	-	(15)	-	(15)
Balance, end of year	377	1,802	161	2,340
Accumulated Depreciation				
Balance, beginning of year	30	650	-	680
Charge for the year	8	261	-	269
Sale and disposal	-	(11)	-	(11)
Balance, end of year	38	900	-	938
Net Book Value:				
- December 31, 2008	339	902	161	1,402
- December 31, 2007	341	881	-	1,222

14. EQUITY INVESTMENTS IN OTHER LEGAL ENTITIES

(thousands of €)

	December 31, 2009	December 31, 2008
- Montenegro berza A.D., Podgorica	-	180
- Tržište novca A.D., Beograd	2	2
- S.W.I.F.T. SRL	5	-
	7	182

15. OTHER ASSETS

(thousands of €)

	December 31, 2008	December 31, 2007
Interest receivables	550	438
Fee and commission receivables	124	59
Intangible assets	555	682
Prepayments	141	279
Advances paid	13	-
Other receivables from the debtor in the process of personal administration and reorganization	846	-
Receivables for reimbursements of costs	62	27
Receivables from employees	36	15
Other receivables	20	3
	2,347	1,503
Provisions for potential losses contingent on other assets		
- investments in other legal entities	-	2
- interest	6	10
- country risk	9	12
- other receivables claims of the debtor the debtor in the process of personal administration and reorganization (Note 5)	247	-
Other	1	2
	263	26
	2,084	1,477

15. OTHER ASSETS (Continued)

The movements on intangible assets in the course of 2009 and 2008 were as follows:

		(thousands of €)
	2009	**2008**
Cost		
Balance, beginning of year	910	706
Additions	58	237
Other	-	(33)
Balance, end of year	968	910
Accumulated Amortization		
Balance, beginning of year	228	60
Charge for the year	185	155
Other	-	13
Balance, end of year	413	228
Net Book Value:		
- December 31	555	682

At December 31, 2009, intangible assets of EUR 555 thousand mainly related to investment in software totaling EUR 205 thousand, the license in the amount of EUR 107 thousand and leasehold improvements in the amount of EUR 243 thousand.

16. DEPOSITS

(thousands of €)

	December 31, 2009	December 31, 2008
Demand deposits:		
- government agencies	1,447	5
- funds	250	66
- municipalities (public organizations)	105	148
- corporate entities with majority state - ownership	900	108
- privately-owned corporate entities	19,749	11,357
- banks	435	205
- financial institutions	366	410
- non-profit organizations	1,747	1,010
- retail customers	5,348	3,608
- other	670	460
Short-term deposits:		
- government agencies	508	-
- funds	100	-
- corporate entities with majority state - ownership	2,332	1,785
- privately-owned corporate entities	5,492	3,434
- banks	6,078	2,500
- financial institutions	3,551	699
- non-profit organizations	711	261
- retail customers	13,677	7,839
- other		64
Long-term deposits:		
- privately-owned corporate entities	457	1,871
- non-profit organizations	21	-
- retail customers	5,791	7,176
	69,735	43,006

Demand deposits placed by retail customers and denominated in EUR accrue interest at the rate ranging from 0.75% to 1.0% annually. Retail demand deposits in foreign currency are deposited at an interest rate ranging from 0.40% to 1.1% annually, depending on the currency.

Short-term and long-term deposits of retail customers denominated in EUR are placed at an interest rate ranging from 1.8% to 9% annually, depending on the chosen savings arrangement.

Short-term deposits of corporate entities denominated in EUR are placed at interest rates ranging from 1% to 8.5% annually, depending on the depositing period and the amount of deposit being placed (up to EUR 50,000 thousand, from 50,000 thousand to 100,000 thousand and over 100,000 thousand). Short-term deposits in other currencies accrue interest at rates ranging from 1% to 3.2%. Long-term deposits of corporate entities were placed at an interest rate ranging from 1% to 8% annually, depending on the depositing period and currency.

Demand deposits of corporate entities, public and other organizations bear interest at the rate ranging from 0.4% to 1.2% annually.

17. LOANS AND BORROWINGS

(thousands of €)

	Period / Year	Annual Interest Rate	December 31, 2009	December 31, 2008
Amounts owed to domestic creditors:				
Invest Banka Montenegro A.D., Podgorica	1	6%	-	900
			-	900
Amounts owed to foreign creditors:				
European investment bank	12	4.032%	2,600	-
European investment bank	12	3.923%	1,400	-
Banca Monte dei Paschi di Siena S.p.a	2	6.12%	-	5,000
Abanka Vipa d.d., Ljubljana	1	EURIBOR + 2.60%	-	800
LHB Internationale Handelsbank, Austria	1	3M EURIBOR +2.80%	-	500
Nova Ljubljanska banka d.d Filiale di Trieste	1.5	3M EURIBOR +2.65%	-	1,500
			4,000	7,800
			4,000	8,700

As at December 31, 2009, the Bank had liabilities towards the European Investment Bank based on long-term loans totaling EUR 4,000 thousand. Loans are granted to promote the development of small and medium enterprises in Montenegro, for a period of 12 years. Loans are repaid in semi-annual annuities. As collateral against these commitments, the Bank provided the guarantee of the Government of Montenegro.

The maturities of liabilities thereof were as follows:

(thousands of €)

Period	December 31, 2009.
Up to 1 year	333
from 1 to 2 years	333
from 2 to 3 years	333
from 3 to 4 years	333
from 4 to 5 years	333
over 5 years	2,335
	4,000

18. AMOUNTS OWED TO THE GOVERNMENT

(thousands of €)

	Period/ Year	Annual interest rate	December 31, 2009	December 31, 2008
Development Fund of Montenegro	4-10	2%-6%	1,757	1,249
Directorate for development of small and medium-sized enterprises	5-8	1%	491	100
			2,248	1,349

At December 31, 2009, the amount of EUR 2,248 thousand owed to the Government of Montenegro is associated with payables arising from long-term borrowings from the Montenegro Development Fund for financing small and medium enterprises with a grace period from 1 to 2 years, and payables arising from long-term borrowings from the Directorate for development of small and medium-sized enterprises with a grace period from 12 to 18 months.

The maturities of liabilities thereof were as follows:

(thousands of €)

Period	December 31, 2009
Up to 1 year	391
from 1 to 2 years	419
from 2 to 3 years	335
from 3 to 4 years	334
from 4 to 5 years	324
over 5 years	445
	2,248

19. OTHER LIABILITIES

(thousands of €)

	December 31, 2009	December 31, 2008
Liabilities for accrued interest	768	806
Deferred loan origination fees	432	-
Accounts payable (suppliers)	133	73
Tax payables	10	91
Deferred tax liabilities (Note 9)	10	10
Liabilities for advance collection of receivables from loans	849	744
Provisions for employee benefits	54	54
Other liabilities	136	45
	2,392	1,823

20. PROVISIONS FOR LOSSES CONTINGENT ON OFF-BALANCE SHEET ITEMS

(thousands of €)

	December 31, 2008	December 31, 2007
Provisions for losses contingent on:		
- off-balance sheet items	195	306
- operational risk	300	300
	495	606

21. SHARE CAPITAL

At December 31, 2009, the Bank's share capital was comprised of 31,305 ordinary shares with the par value of EUR 511.29. The Law on Banks ("Official Gazette of Montenegro," no. 17/2008) defines that the minimum cash amount of initial capital may not be less that EUR 5,000 thousand. At December 31, 2009, the Bank's capital complied with the prescribed minimum capital requirements.

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" no. 60/2008), during 2009 the Bank reversed the provisions for general credit risk of EUR 1,849 thousand, which were formed in prior years, in accordance with the then Decision on the Classification of Assets in Banks, Provisions and Reserves for Credit Losses ("Official Gazette of Montenegro" no. 59/2007).

The ownership structure of the Bank's share capital as of December 31, 2009 and 2008 was as follows:

	2009			2008		
Shareholder	Number of Shares	Thousands of EUR	% Share	Number of Shares	Thousands of EUR	% Share
Flandria Participations Financieres	5,000	2,556	15.97%	5,000	2,556	15.97%
Cerere s.r.l	4,360	2,229	13.93%	4,360	2,229	13.93%
Gorgoni Antonia	3,131	1,601	10.00%	2,631	1,345	8.40%
Gorgoni Lorenzo	2,591	1,325	8.28%	1,840	941	5.88%
Todorović Miljan	2,316	1,184	7.40%	2,315	1,184	7.40%
Other	13,907	7,111	44.42%	15,159	7,751	48.43%
	31,305	16,006	100%	31,305	16,006	100%

22. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO

The Bank is required to maintain certain ratios pertaining to the volume of its activities and composition of risk assets in compliance with the Law on Banks and regulations of the Central Bank of Montenegro.

In accordance with the Decision on Capital Adequacy in Banks ("Official Gazette of Montenegro," nos. 60/2008 and 41/2009), the Bank's capital comprised of the Bank's core capital and supplementary capital, minus deductions. The Bank's capital as of December 31, 2009 amounted to EUR 19,776 thousand.

The Bank's core capital formed in accordance with the Decision on Capital Adequacy in Banks ("Official Gazette of Montenegro," nos. 60/2008 and 41/2009) as of December 31, 2009 amounted to EUR 19,776 thousand. The Bank's capital as of December 31, 2009 is comprised of the following components: paid-in share capital at nominal value, collected share premiums and current year retained earnings as decreased by the amount of prior period losses and amount of intangible assets.

As of December 31, 2009, the Bank had no supplementary capital.

Risk-weighted balance sheet assets and off-balance sheet items formed pursuant to the Decision on Capital Adequacy in Banks, as of December 31, 2009 amounted to EUR 70,197 thousand. In accordance with the Decision on Capital Adequacy in Banks of the Central Bank of Montenegro, the Bank is under obligation to maintain the minimum capital adequacy ratio of 10%. The solvency ratio calculated by the Bank as of December 31, 2009 amounted to 21.58% (2008: 41.31%) and was above the prescribed maximum.

The major exposure towards a single entity as of December 31, 2009 amounted to 19.71% and it was within the prescribed limit of 25% of the Bank's capital. At December 31, 2009, the Bank did not have any exposures that exceeded 800% of its capital.

At December 31, 2009, none of the Bank's ratios departed from the minimum legal requirements set forth by the Central Bank of Montenegro.

23. OFF-BALANCE SHEET ITEMS

(thousands of €)

	December 31, 2009	December 31, 2008
Guarantees, sureties and irrevocable commitments:		
Guarantees to corporate entities:		
- payment guarantees	6,654	4,411
- performance bonds	356	170
- other types of guarantees	3,458	959
Commitments arising from undrawn loans	2,266	862
Letters of credit	120	-
Other off-balance sheet items:		
- commission banking	131	131
- custody services	7,243	-
- collaterals	176,949	114,212
- written-off receivables	1,714	1,302
	198,891	122,047

24. RELATED PARTY TRANSACTIONS

The Law on Banks ("Official Gazette of Montenegro," no. 17/2008) defines that significant influence on the Bank's operations is exercised by those persons appointing at least one representative in the Board of Directors or some similar body, either though shareholding, through agreement with the owners or otherwise. In accordance with the Law on Banks, related party transactions are presented in the following tables:

(thousands of €)

	December 31, 2009	**December 31, 2008**
Payables		
Demand deposits :		
- Montenegro berza A.D., Podgorica	-	1
- Miljan Todorović	6	20
	6	21
Time deposits:		
- Montenegro berza A.D., Podgorica	-	40
- Miljan Todorovic	3,700	3,700
	3,700	3,740
Interest payables:		
- Montenegro berza A.D., Podgorica	-	2
- Miljan Todorović	3	239
	3	241
Total payables	3,709	4,002

Expenses from transactions with related parties during 2009 amounted to EUR 363 thousand.

As at December 31, 2009, receivables from employees amounted to EUR 909 thousand (at December 31, 2008: EUR 654 thousand), which refer to the approved loans and credit cards.

During 2009, total gross remunerations paid to persons with special authorities and responsibilities amounted to EUR 530 thousand.

25. LIQUIDITY GAP BETWEEN FINANCIAL ASSETS AND LIABILITIES

The matching between the maturities of financial assets and liabilities as of December 31, 2009 is presented in the following table:

(thousands of €)

	Less than One Month	From 1 to 3 Months	From 3 to 6 Months	From 6 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
Financial assets							
Cash and deposit accounts with depository institutions	19,917	-	-	-	-	-	19,917
Assets for trade and available for trade, no shares	292	-	-	-	-	-	292
Loans and other receivables	11,778	9,933	6,624	17,401	25,712	5,335	76,783
Securities held to maturity	-	1,086	-	-	-	-	1,086
Other financial assets including investments in shares	1,671	-	-	-	18	-	1,689
Total	33,658	11,019	6,624	17,401	25,730	5,335	99,767
Financial liabilities							
Deposits	24,639	18,520	5,908	17,592	2,414	662	69,735
Loans and other borrowings	-	-	-	39	1,113	2,887	4,039
Liabilities towards the Government	74	36	54	106	1,057	882	2,209
Other financial liabilities	779	127	196	450	275	103	1,930
Total	25,492	18,683	6,158	18,187	4,859	4,534	77,913
Liquidity gap:							
- December 31, 2009	8,166	(7,664)	466	(786)	20,871	801	21,854
- December 31, 2008	618	2,639	2,108	4,944	5,725	5,132	21,166
Cumulative GAP:							
- December 31, 2009	8,166	502	968	182	21,053	21,854	
- December 31, 2008	618	3,257	5,365	10,309	16,034	21,166	
% of total liquidity-bearing assets:							
- December 31, 2009	10.5%	0.6%	1.2%	0.2%	27.0%	28.0%	
- December 31, 2008	1.1%	6.0%	9.9%	19.0%	29.6%	39.1%	

The Bank’s liquidity, as its ability to settle its liabilities when due, principally depends upon the Bank’s balance sheet structure, as well as the matching between inflows and outflows of assets.

26. INTEREST RATE RISK

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk requires special treatment under the existing local circumstances of frequent interest rate movements, and irregular capital supply and demand. Interest rate risk is unfavorable when there is fluctuation in the price of a loan in relation to the level of the effective interest rates on deposits, and the potential of a reduction in the optimal difference between the average interest rates applied to loans on one side, and to deposits on the other.

The table below shows the Bank's exposure to interest rate risk as of December 31, 2009.

	Less than One Month	From 1 to 3 Months	From 3 to 6 Months	From 6 to 12 Months	From 1 to 5 Years	Over 5 Years
Interest rate sensitive assets						
Interest-bearing deposits in other institutions	3,122	-	-	-	-	3,122
Interest bearing securities	-	1,086	-	-	-	1,086
Loans and other receivables	11,778	9,933	6,624	17,401	31,047	76,783
Other interest-bearing assets	544	-	-	-	-	544
Total	15,444	11,019	6,624	17,401	31,047	81,535
% of the total interest-bearing assets	18.94%	13.51%	8.12%	21.34%	38.08%	100.00%
Interest rate sensitive liabilities						
Interest-bearing deposits	9,234	8,226	8,109	20,709	10,777	57,055
Interest-bearing borrowings	74	36	54	144	5,940	6,248
Total	9,308	8,262	8,163	20,853	16,717	63,303
% of the total interest-bearing liabilities	14.70%	13.05%	12.90%	32.94%	26.41%	100.00%
Interest rate exposure:						
- December 31, 2009	6,136	2,757	(1,539)	(3,452)	14,330	18,232
- December 31, 2008	(7,604)	2,721	2,275	(2,431)	18,616	13,577
Cumulative GAP:						
- December 31, 2009	6,136	8,893	7,354	3,902	18,232	
- December 31, 2008	(7,604)	(4,883)	(2,608)	(5,039)	13,577	

26. CURRENCY RISK

The following table summarizes the net foreign currency position of the Bank as of December 31, 2009. The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management establishes limitations on the exposure levels per currencies and aggregately, and monitors such exposure on regular basis.

(thousands of €)

	RSD	USD	GBP	CHF	Other	Total
Assets in foreign currencies	-	2,704	17	44	14	2,779
Liabilities in foreign currencies	-	2,699	18	44	6	2,767
Net foreign exchange position:						
- December 31, 2009	-	5	(1)	-	8	
- December 31, 2008	-	(558)	7	7	26	
% of first- tier capital:						
- December 31, 2009	-	0.02%	0.00%	0.00%	0.03%	
- December 31, 2008	-	(2,21)%	0.03%	0.03%	0.10%	
Aggregate open position:						
- December 31, 2009	12					
- December 31, 2008	(518)					
% of first-tier capital:						
- December 31, 2009	0.05%					
- December 31, 2008	(2.05)%					

28. LITIGATIONS

At December 31, 2009, there are several litigations filed by legal and natural persons against the Bank. In the assessment of the legal sector of the Bank, the aggregate value of litigations amounted to EUR 139 thousand. The aforementioned amount does not include penalties that may be assessed upon conclusion of these legal suits, given that the management was unable to determine potential effects of penalties contingent on the resolution of these legal suits until the issuance of these financial statements. The total amount of litigations filed by the Bank amounted to EUR 1,307 thousand. The outcome of litigations has so far been impossible to assess. However, in the management’s opinion and in the opinion of the legal advisor, the Bank does not anticipate adverse effects thereof that could have materially significant effects of the financial statements issued by the Bank.

29. OPERATING LEASE

Operating lease agreements, along with the contractually-agreed lease term refer to business and residential premises. The Bank does not have the option to purchase leased business premises upon lease term expiry.

During 2009, lease expense amounted to EUR 878 thousand (2008: EUR 686 thousand).

The lease of business and residential premises represent commitments undertaken for the average period from five to six years in the case of legal entities, i.e. from four to ten years in the case of agreements concluded with private individuals.

29. OPERATING LEASE (Continued)

Commitments arising from the agreements on operating lease of business and residential premises for the period ended as of balance sheet date which were not disclosed in the financial statements are as follows:

(In €)

	December 31, 2009.	December 31, 2008.
Up to 1 year	837	826
from 1 to 2 years	550	810
from 2 to 3 years	298	523
from 3 to 4 years	62	271
from 4 to 5 years	10	40
over 5 years	25	35
	1,782	2,505

30. TAXATION RISKS

Montenegrin tax legislation is subjected to varying interpretations, and legislative changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not concur with the views of the Bank's management. Consequently, transactions may be challenged by the relevant tax authorities and the Company could be assessed additional taxes, penalties and interest, which can be significant. The fiscal periods remain open for review by the tax and customs' authorities with regard to the tax-paying entity's tax liabilities for a period of five years.

31. CURRENT FINANCIAL CRISIS AND ITS IMPACT ON THE BANK

As expected, the Bank has been impacted by the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its effects on the local market in Montenegro, the Bank will probably operate in a more difficult and uncertain economic environment in 2010, and possibly beyond. The impact of this crisis on the Bank's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Bank, mainly due to the internal risk management policies and regulatory restrictions imposed by the Central Bank of Montenegro

The Bank regularly monitors risks associated with credit, liquidity, interest rates and foreign currencies. It is expected that the capital adequacy of the Bank will remain at the existing level, which is significantly above the prescribed capital adequacy. Given the conservative credit policy of the Bank, liquidity is satisfactory and it is expected to remain at a satisfactory level throughout 2010.

The deteriorating economic situation in the country will probably impact the position of certain industries (such as tourism, constructions, real estate and retail), and the ability of some clients to meet their loan obligations which may impact the amount of necessary provisions against credit losses arising from impairment in 2010, as well as other fields which require significant Management estimates, including the valuation of collaterals and securities. The 2009 financial statements contain significant estimates with respect to impairment charges, collateral valuation and the fair value of assets. Actual results may differ from these estimates. The key priorities of the Bank in 2010 will be the management of the financial portfolio adjusting to the changing economic environment and maintaining the Bank's position on the market.

32. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of balance sheet items denominated in foreign currencies, into euros as at December 31, 2009 and 2008 were as follows:

	December 31, 2009	December 31, 2008
USD	0.6974	0.7093
CHF	0.6721	0.6683
GBP	1.1062	1.0265