INVEST BANKA MONTENEGRO A.D., PODGORICA

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

English Translation of the Financial Statements Issued in Montenegrin Language

CONTENTS

English Translation of the Auditors' Report Issued in Montenegrin Language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Invest Banka Montenegro A.D., Podgorica

We have audited the accompanying financial statements (page 3 to 38) of Invest Banka Montenegro 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 is responsible for the 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.

Auditors' 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 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.

(Continues)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Invest Banka Montenegro A.D., Podgorica (Continued)

Basis for Qualified Opinion

As disclosed in Note 3.1 to the financial statements, starting from June 19, 2009, the Bank changed its accounting policy which relates to the recognition of origination fees for loans, guarantees and other forms of sureties, as well as fees charged to the Bank for its borrowings, and accordingly, as of the aforementioned date, the Bank has applied the accounting policy delineating that all these fees are an integral part of generating an involvement with the resulting financial instrument and are deferred and recognized as an adjustment to the effective interest rate as in accordance with International Accounting Standard ("IAS") 18 "Revenues" and IAS 39 "Financial Instruments: Recognition and Measurement." Given that the Bank did not calculate the effects of applying the new accounting policy on the prior periods according to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" which requires that the change in accounting policy be applied retrospectively to the earliest period presented as if the new accounting policy had always been applied, we could not satisfy ourselves as to the potential effects which the application of the aforementioned standard could have on the Bank's financial statements prepared as of and for the year ended December 31, 2009.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matter referred to the previous paragraph, the financial statements present fairly, in all material respects the financial position of Invest Banka Montenegro as of December 31, 2009, and its financial performance and cash flows for the year then ended in accordance with the accounting regulations of Montenegro and regulations of the Central Bank of Montenegro governing financial reporting of banks.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the fact that certain legal requirements of Montenegro depart from those of IAS and IFRS. As disclosed in Note 23, pursuant to the Decisions enacted by the Shareholder Assembly in 2008 and 2007, the Bank issued priority cumulative shares vesting its holders in the rights to dividend of no less than 2% or 7% of the share par value. The Bank did not recognize its liabilities for dividends to be distributed to priority shareholders for the aforementioned periods, since the amounts of profit earned was insufficient to cover the amount of guaranteed dividends, i.e. if such amounts had been allocated, some of the Bank's financial ratios, whose minimum values are prescribed in the decisions enacted by the Central Bank of Montenegro, would have been impaired, which would be a departure from the Law on Banks of Montenegro. During 2010, the Bank's management will propose at the Shareholder Assembly meeting that the amount of debt comprised of guaranteed dividends payable to the holders of priority cumulative shares be converted to shares if the consent of the Central Bank of Montenegro has previously been obtained.

Deloitte d.o.o., Podgorica
Montenegro
May 28, 2010

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

INCOME STATEMENT
Year Ended December 31, 2009
(thousands of €)

	Notes	2009	2008
Interest income	3.1, 4a	1,045	930
Interest expense	3.1, 4b	(92)	(104)
Net interest income		953	826
Provisions for potential losses	3.7, 5	(422)	(281)
Net income		531	545
Fee and commission income	3.1, 6a	347	708
Fee and commission expense	3.1, 6b	(224)	(275)
Net fee and commission income		123	433
NET INTEREST, FEE AND COMMISSION INCOME		654	978
Other income/(expenses), net	7	1,112	(222)
General expenses	8	(1,433)	(1,631)
NET INCOME/(EXPENSES), BEFORE EXTRAORDINARY ITEMS		333	(875)
Extraordinary expenses		-	(3)
PROFIT/(LOSS)BEFORE TAXATION		333	(878)
Income taxes	3.3, 9	(30)	(6)
PROFIT/(LOSS) FOR THE YEAR		303	(884)

The accompanying notes on pages 7 to 38 form
an integral part of these financial statements.

These financial statements were adopted by the Board of Directors of Invest Banka Montenegro A.D., Podgorica, pursuant to Decision number 04-480/4, on March 1, 2010.

Signed on behalf of Invest Banka Montenegro A.D., Podgorica by:

Preparer of Financial Statements	Chief Executive Officer
(Milanka Radunović)	(Predrag Dašić)

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

	Notes	2009	2008
ASSETS			
Cash and deposit accounts held with depository institutions	10	4,358	2,484
Securities available for sale, excluding shares	3.5, 11	1,377	1,891
Loans and leases	3.6, 12	10,334	9,626
Securities held-to-maturity	13	178	-
Business premises and other fixed assets	3.11, 14	1,831	685
Assets received in lieu of debt settlement	15	581	646
Equity investments in other legal entities	3.10, 16	5,296	5,256
Other assets	17	567	497
Less: Reserves for potential losses on other assets	17	(272)	(162)
Total assets		24,250	20,923
LIABILITIES AND EQUITY			
Liabilities			
Deposits	18	5,757	4,157
Borrowings	19	2,055	74
Amounts owed to the Government	20	663	760
Other liabilities	21	262	161
Reserves for losses contingent on off balance sheet items	22	20	145
Total liabilities		8,757	5,297
Equity			
Share capital	23	12,494	12,494
Share premium		2	2
General reserves		73	154
Revaluation reserves		2,205	2,641
Retained earnings		719	335
Total equity		15,493	15,626
Total liabilities and equity		24,250	20,923
OFF-BALANCE-SHEET ITEMS	25	20,965	13,162

The accompanying notes on pages 7 to 38 form
an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2009
(thousands of €)

	Share Capital and Share Premium	General Reserves	Revaluation Reserves	Retained Earnings	Total
Balance, January 1, 2008	11,117	73	2,696	1,300	15,186
Priority share issuance	1,379	-	-	-	1,379
Transfer	-	81	-	(81)	-
Effects of remeasuring AFS securities to their fair value	-	-	(55)	-	(55)
Loss for the year	-	-	-	(884)	(884)
Balance at December 31, 2008	12,496	154	2,641	335	15,626
Transfer	-	(81)	-	81	--
Effects of remeasuring AFS securities to their fair value	-	-	(436)	-	(436)
Profit for the year	-	-	-	303	303
Balance at December 31, 2009	12,496	73	2,205	719	15,493

The accompanying notes on pages 7 to 38 form an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2009
(thousands of €)

	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest, fee and commission received		1,463	1,638
Other cash receipts		60	-
Interest, fee and commission paid		(317)	(379)
Cash paid to employees and suppliers		(1,098)	(2,040)
Net cash provided by/(used in) operating activities before changes in operating assets and liabilities		108	(781)
Changes in operating assets and liabilities			
Loans and advances to customers, net		(749)	(3,040)
Other assets, net		(3)	(152)
Customer deposits, net		1,600	1,180
Other liabilities		-	(638)
Net cash provided by/(used in) operating activities		848	(2,650)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment and intangible assets		(1,476)	(84)
Dividends received		12	-
Cash from the purchase and sale of AFS securities, excluding shares, net		1,028	-
Equity investments in other legal entities, net		(500)	(1,969)
Net cash used in investing activities		(936)	(2,053)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans and borrowings (inflows)		1,884	(324)
Payment of share capital		-	1,379
Net cash provided by financing activities		1,884	1,055
Foreign exchange (losses)/gains		(30)	136
Net increase/(decrease) in cash and cash equivalents		1,874	(4,293)
Cash and cash equivalents, beginning of year		2,484	6,777
Cash and cash equivalents, end of year		4,358	2,484
Components of cash and cash equivalents			
Cash and deposit accounts held with depository institutions	3.4	4,358	2,484
		4,358	2,484

The accompanying notes on pages 7 to 38 form
an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

1. ESTABLISHMENT AND ACTIVITY

Invest banka Montenegro A.D., Podgorica (hereinafter: the “Bank”) is the legal successor of Pljevaljska banka A.D., Pljevlja. On November 20, 2006, the Shareholder Assembly of Pljevaljska banka A.D., Pljevlja enacted a Decision on the Change of the Bank’s Registered Name, number 03-3437/3 into Invest banka Montenegro, a Shareholding Company, Podgorica. As in accordance with the Decision on the Change of Registered Office and Address, number 03-3437/4, the Bank is headquartered at number 115 Bulevar Svetog Petra Cetinjskog street in Podgorica.

In accordance with the Law on Banks and the Bank’s Articles of Incorporation and Association, the Bank in engaged in the business of keeping deposits and other assets of private individuals and legal entities and it approves loans and makes other advances from these funds entirely or in part for its own account.

In addition to these operations, the Bank is also registered to perform the following activities:

- to issue guarantees and undertake other commitments;
- to purchase and collect receivables;
- to issue, process and record payment instruments;
- to perform payment transactions performed abroad;
- to perform finance lease operations;
- to trade in its own name for its own account or for the account of a customer with foreign payment instruments;
- to collect data, prepare analysis and provide information and advice on the company and entrepreneur creditworthiness;
- depositary operations;
- safekeeping of assets and securities and
- to perform other activities accompanying the Bank’s business operations.

The Bank’s bodies are: the Shareholder Assembly and the Board of Directors. The Shareholder Assembly is the supreme body in the Bank. The shareholders have voting rights commensurate with the number of shares in their possession. The Board of Directors is the managing body of the Bank. It appoints and relieves of duties the members of the Bank’s Board of Directors. It consists of 5 members, the majority of which are not the Bank’s employees. The General Director is the member of the Board of Directors, but not its President and/or Chairman. The standing bodies within the Board of Directors are the Audit Board, Information System Change Management Board and Asset and Liability Committee (ALCO). The Information System Change Management Board and Asset and Liability Committee have six members each and their presidents are managers and heads of the Bank’s organizational units. The Audit Board counts three members majority of which are not the Bank’s employees.

The General Director of the Bank is at the same time the Executive Manager of the Bank. For its results, the General Director is directly answerable to the Bank’s Assembly and the Board of Directors.

At December 31, 2009, the Bank had 34 employees (December 31, 2008: 37 employees). The Bank’s Central Office is located at number 115 Svetog Petra Cetinjskog Street in Podgorica and one counter in Pljevlja, number 10 Skerlićeva Street.

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 Law on Accounting and Auditing 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 the Decision on Reports Submitted to the Central Bank of Montenegro pursuant to the Law on Banks and European Union Directive numbered 86/635/EEC as 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."

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 number of areas, including, but not limited to, impairment of financial instruments and in respect of disclosures of financial instruments made in accordance with IFRS 7 "Financial Instruments: Disclosures." The Bank calculates the amount 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, if the allowances for impairment of financial instruments was 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." In addition, the Bank suspends interest accrual on the loans classified into C, D and E categories (non-performing assets in accordance with the Decision of the Central Bank of Montenegro on Minimum Standards for Credit Risk Management in Banks), and the Decision also stipulates that risk-weighted assets classified into E category be written off from the balance sheet assets and recorded within off-balance sheet items as "loans written off."

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 Euro (EUR).

As in accordance with the Law on Accounting and Auditing of Montenegro ("Official Gazette of Montenegro" numbers 69/2005 and 80/2008), legal entities with controlling influence (parent companies) over one or more legal entities (subsidiaries) are under obligation to prepare, submit and issue its consolidated financial statements in accordance with IAS. The consolidated financial statements are economic wholes consisting of the parent company and all subsidiaries. The consolidated financial statements accompanied by the auditors' report are submitted no later than June 30 for the balance as of and for the year ended December 31 of the previous year.

These financial statements represent the stand-alone financial statements of the Bank. The Bank separately prepares and presents consolidated financial statements as in accordance with the Decision on the Methods for the Preparation of Consolidated Financial Statements of a Banking Group ("Official Gazette of MNE," no. 24/2009).

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

2.2. Use of Estimates

The presentation of financial statements requires from the Bank's management to make best estimates and reasonable assumptions that affect the assets and liabilities' amounts, 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. These estimations and assumptions are based on information available as of the financial statements' preparation date, and mostly relate to: assessments of provisions against loans and interest, provisions against deposits placed with other banks, provisions against permanent investments and off-balance sheet items. However the Bank's future operating results may vary from the estimated values.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expense Recognition

Interest income and interest expense, including penalty interest and operating income and expenses related to interest bearing assets and liabilities are accounted for on an accrual basis. Fee and commission income earned for banking services and expenses for fees and commissions paid are determined when due for collection i.e. payment.

Until June 19, 2009, income from origination fees for loans, guarantees and other forms of sureties, as well as fees charged to the Bank for its borrowings were included in the Bank's income and expenses when the respective services were rendered i.e. when fees and commission were due for settlement.

From June 19, 2009, income derived from origination fees for loans, guarantees and other forms of sureties, as well as expenses from fees charged to the Bank for its borrowings are considered to be an integral part of generating an involvement with the resulting financial instrument and are deferred and recognized as an adjustment to the effective interest rate as in accordance with International Accounting Standard ("IAS") 18 "Revenues" and IAS 39 "Financial Instruments: Recognition and Measurement."

The Bank suspends interest accrual on loans classified into categories C, D and E ("non-performing assets,") in accordance with the Decision of the Central Bank of Montenegro regarding the Minimum Standards of Credit Risk Management in Banks).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Montenegro Tax Law (Official Gazette of Montenegro 80/2004 and no. 40/2008) 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 consolidated 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.

Taxes, Contributions and Other Duties Not Related to Operating Results

Taxes, contributions and other duties that are not related to the Bank'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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Securities Available-for-Sale, Excluding shares

Securities available-for-sale comprise securities that cannot be classified as financial assets held for trading or as securities held-to-maturity and are comprised of investments in restitution bonds and old foreign currency savings bonds issued by the Government of Montenegro. Following the initial recognition, securities available-for-sale are stated at fair value. The fair value of securities quoted on the market is based on the currently offered prices. Unrealized gains and losses on securities available-for-sale are recorded within revaluation reserves, until such security is sold, collected or otherwise realized or until it is permanently impaired. When securities available for sale are sold, disposed of or when their value is impaired, cumulative fair value adjustments are recorded within equity (revaluation reserves) in the profit and loss account. Dividends arising from securities available for sale are recognized in the income statement when the right to such payments is established.

Securities available for sale that are not listed on the market are carried at cost net of impairment.

3.6. Loans

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

Loans originated by the Bank are stated at the amount of principal outstanding, less 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 forgoing risks, as disclosed in Note 3.7.

3.7. Allowances for Impairment and Provisions for Potential Losses

The Decision issued by the Central Bank of Montenegro regarding the Minimum Standards of Risk Classification in Banks (Official Gazette of the Montenegro, numbers 60/2008 and 87/2009) sets forth the following: elements of credit risk management, minimum criteria and manner of classifying assets and off-balance sheet items which render the Bank susceptible to interest rate risk, manner of calculating and suspending unpaid interest and manner of determining the minimum provisions for potential losses contingent on the Bank's exposure to credit risk. The Bank's risk-weighted assets, within the meaning of this Decision, are comprised of loans, interest, fees and commissions, 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 being the Bank's contingent liabilities.

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 pursuant to the agreement;
- B category (“Special Mention”) – with B1 and B2 subcategories including items for which there is low probability of loss, but which, just as well, require special attention, since the potential risk, if not adequately monitored, could diminish their collectability;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- 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 highly unlikely, given the creditworthiness of loan beneficiaries and quality of collaterals;
- E category ("Loss") – including the items which are uncollectible in full, or will be collectible in an insignificant amount.

Provisioning is not performed for the Bank's placements classified into A category. The estimated amount of provision for potential losses is computed by applying the following percentages to the corresponding categories: from 3% to the placements classified into category B, from 20% to 50% to the placements classified into category C, from 50% to 75% to the placements of category D, and 100% to the placements under category E.

As in accordance with the provisions of the aforecited regulation, the Bank is to suspend any accrued, uncollected interest and should terminate any further accrual of interest on its non-performing assets, with the exception of the non-performing assets that are secured by quality collateral and that are in the process of collection, to the extent that the recovery of such asset is 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 items and, upon classification, designate the accrued income into E category The Decision further prescribes that the risk-weighted assets 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 OECD 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. Trading Securities

Investments in equity instruments without a quoted market price whose fair value cannot be reliably assessed are recognized at cost of investment net of impairment, if any, which reflects the decrease in value incurred due to losses in operations of a legal entity.

Trading securities comprise securities which are held for the purpose of selling it in the near term. Trading securities are comprised of structural bills and trading shares, and are initially recorded at cost. As of the balance sheet date these securities are recorded at market value. All realized gains and losses arising on sale, and any changes in their fair values are included in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Securities Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity. If the Bank sells more than an insignificant amount of held-to-maturity investment, the entire category of investments is designated and reclassified as available-for-sale.

3.10. Equity Investments in Other Legal Entities

Equity investments in other legal entities are carried at historic cost which, in the management's opinion, approximates their fair value.

3.11. Business Premises, Other Fixed Assets and Intangible Assets

Business premises, other fixed assets and intangible assets at December 31, 2009 are stated at cost less accumulated depreciation/amortization 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 and/or amortization are provided for on a straight-line basis to the cost of business premises, other fixed assets and intangible assets in order to write them off over their expected useful lives.

Depreciation and/or amortization are calculated on a straight line basis using the following prescribed annual rates:

Computers	20.0 %
Furniture and equipment	12.5 %
Motor vehicles	15.5 %

The calculation of depreciation and/or amortization of business premises, other fixed assets and intangible assets commences when an asset is placed into use.

3.12. Employee Benefits

Contributions for Employee 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.

Retirement Benefits

Pursuant to the Collective Bargaining Agreement, the Bank is bound to pay retirement benefits in the amount of 6 average salaries earned in the Bank in the month preceding the month in which the payment is made. Long-term liabilities related to provisions for retirement benefits, payable once the legally prescribed conditions for retirement have been met, represent the present value of expected future payments to employees as determined pursuant to the actuarial valuation, based on the following assumptions: discount rate of 10%, salary growth of 3% and fluctuation rate of 5%.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Fair Value

In accordance with IAS 32, “Financial Instruments: Disclosures and Presentation,” 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 management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions. In the amount of the identified estimated risk that the carrying value will not be realized, a provision is recognized based on a relevant decision of the Bank’s management.

4. INTEREST INCOME AND EXPENSE

a) Interest Income

	(thousands of €) Year Ended December 31, 2009	2008
Banks:		
- deposits	43	135
- loans	22	8
	65	143
Corporate customers	478	284
Retail customers	415	441
MNE Government	11	32
Other financial institutions	-	9
Municipalities	4	-
Other	72	21
	1,045	930

b) Interest Expense

	(thousands of €) Year Ended December 31, 2009	2008
Banks	7	-
Other financial institutions	28	25
MNE Government	26	54
Corporate customers	6	15
Retail customers	25	10
	92	104

5. PROVISIONS FOR POTENTIAL LOSSES

a) Structure of income and expenses arising from the impairment of bad debts and provisions

	(thousands of €) Year Ended December 31, 2009	2008
Net provisions against:		
- loans (corporate and retail customers)	312	87
- loans (banks)	-	25
- interest	39	4
- acquired assets	183	141
- deposits with banks	(6)	6
- off-balance sheet items	(49)	3
- operational risk	(76)	12
- retirement benefits	1	1
- other assets	18	2
	422	281

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

5. PROVISIONS FOR POTENTIAL LOSSES (Continued)

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

	Loans and Lease Operations (Note 12)	Interest (Note 17)	Off-Balance Sheet Items (Note 22)	Operational Risk (Note 22)	Retirement Benefit (Note 21)	Other Assets (Note 17)	Deposits with Banks (Note 17)	Assets Received in Lieu of Debt Settlement (Note 15)	Total
Balance, beginning of year	285	1	69	76	1	3	6	152	593
Charge for the year, net	312	39	-	-	1	18	-	183	553
Reversal of impairment	-	-	(49)	(76)	-	-	(6)	-	(131)
Transfer to off-balance sheet items	(271)	(40)	-	-	-	(19)	-	(65)	(395)
Balance, end of year	326	-	20	-	2	2	-	270	620

6. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	(thousands of €) Year Ended December 31, 2009	2008
Loan origination fees	98	108
Fee and commission income from off-balance-sheet operations	12	17
Fee and commission income from payment transfers	107	161
Fee and commission income from trading in currency	1	327
Other fee and commission income	129	95
	347	708

b) Fee and Commission Expense

	(thousands of €) Year Ended December 31, 2009	2008
Fees and commission payable to the Central Bank	65	66
Fees and commission payable to other financial institutions	138	97
Fees and commission expense arising from trading in currency	-	96
Fees and commission expense arising from deposit insurance premium	20	10
Other fee and commission expense	1	6
	224	275

7. OTHER INCOME/(EXPENSES), net

	(thousands of €) Year Ended December 31, 2009	2008
Collected receivables previously written off	-	443
(Losses)/gains on the foreign exchange operations	(42)	4
Foreign exchange gains/(losses), net	12	(6)
Dividend income	12	95
Net gains/(losses) on the remeasurement of trading securities to their fair value	88	(724)
Net gains/(losses) on the sale of securities	982	(98)
Other income	60	64
	1,112	(222)

8. OTHER EXPENSES

	(thousands of €) Year Ended December 31, 2009	2008
Net salaries	367	482
Taxes and contributions on salaries	234	322
Other staff costs (redundancies, annual leave allowance)	30	31
Remunerations to the members of the Board of Directors	40	16
Business trip expenses	19	42
Rentals	5	26
Maintenance of property and equipment	130	121
Securing business premises	24	-
Energy expenses	34	11
Insurance premiums	5	-
Depreciation and amortization charges:		
- equipment	146	125
- intangible assets	123	90
Costs of telephone and communication network	53	65
Non-production expenses	9	43
Marketing and advertizing	101	137
Professional services	46	38
Professional education of employees	2	13
Entertainment	18	28
Memberships, subscriptions and donations	18	13
Office material	10	11
Other costs	19	17
	1,433	1,631

9. INCOME TAXES

a) Components of Income Taxes

	(thousands of €) Year Ended December 31, 2009	2008
Current income taxes	28	-
Deferred income tax	2	6
	30	6

9. INCOME TAXES (Continued)

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

	(thousands of €) Year Ended December 31, 2009	2008
Profit/(Loss) before tax	333	(878)
Income tax at the statutory tax rate of 9%	30	(79)
Effects of expenses not recognized for tax purposes	1	3
Income not recognize for tax purposes	(1)	(9)
Unrecognized tax losses	-	92
Other	-	(1)
Tax effect on the income statements	30	6
Effective interest rate	*9.01%*	*-0.68%*

c) Deferred Tax Liabilities

Deferred tax liabilities stated as of December 31, 2009 in the amount of EUR 13 thousand (Note 20) relate to taxable temporary differences between the tax base of business premises and other fixed assets as presented in the tax balance and the carrying values of these assets as included in the financial statements.

10. CASH AND DEPOSIT ACCOUNTS HELD WITH DEPOSITORY INSTITUTIONS

	December 31, 2009	(thousands of €) December 31, 2008
Cash on hand:		
- in EUR	98	98
- in foreign currency	9	23
Gyro account	725	316
Correspondent account with:		
- foreign banks	1,844	230
- domestic banks	-	306
Obligatory reserves with the Central Bank of Montenegro	550	500
Time deposits with:		
- foreign banks	-	300
- domestic banks	-	600
Special purpose deposits with financial institutions abroad	1,132	111
	4,358	2,484

At December 31, 2009, the amount of obligatory reserve was calculated and allocated pursuant to the Decision on Reserve Requirements for Banks to Be Held with the Central Bank of Montenegro ("Official Gazette of Montenegro," nos. 5/2008, 15/2009 and 41/2009) requiring that banks set aside obligatory reserve by applying the 10% rate.

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

The obligatory reserve is to be calculated by applying the aforementioned rate to the amount of average deposits on a weekly basis, two days prior to the expiration of the maintenance period. The Bank allocates calculated obligatory reserve on the account of obligatory reserves held in the country and/or on the accounts the Central Bank held abroad, where up to 25% of obligatory reserve may be allocated by blocking Montenegro treasury bills. To the amount of 25% of allocated funds, the Central Bank pays interest at the rate of 1% annually by the eighth day of the month for the month before.

Special purpose deposits held with banks abroad as of December 31, 2009 totaling EUR 1,132 thousand relate to assets entrusted to investment managers. The Bank closed agreements for financial services with Atlas Capital Financial Services Limited, Limassol – Cyprus, MF Global UK Limited, London and ODL Securities Ltd., London. Based on these agreements, the Bank has funds deposited with these institutions to be used for financing purposes and brokering operations. The funds held with ODL Securities Ltd. are non-interest bearing whereas the funds with Atlas Capital Financial Services Limited and MF Global UK Limited carry interest equaling 3-month LIBOR.

11. SECURITIES AVAILABLE-FOR-SALE, EXCLUDING SHARES

(thousands of €)

	December 31, 2009	**December 31, 2008**
Assets available for sale:		
- Restitution bonds of the Government of MNE	1,343	1,346
- Old foreign savings bonds	22	106
	1,365	1,452
Trading assets:		
- Structural bank bills	-	439
- Other financial assets	12	-
	12	439
	1,377	1,891

As of December 31, 2009, the Bank had 3,962,401 restitution bonds of the Government of Montenegro.

12. LOANS AND LEASES

	December 31, 2009	December 31, 2008
		(thousands of €)
Matured loans:		
- privately-owned corporate entities	77	37
- entrepreneurs	-	1
- retail customers	133	67
Short-term loans:		
- privately-owned corporate entities	3,842	2,962
- banks	-	900
- retail customers	43	1,306
Long-term loans, including current portions:		
- privately-owned corporate entities	1,386	1,825
- entrepreneurs	-	5
- municipalities	1,000	-
- retail customers	2,349	2,808
- other (educational and cultural facilities)	1,830	-
	10,660	9,911
Less: Provisions for credit losses	(326)	(285)
	10,334	9,626

The Bank extends to retail customers different types of special purpose and general purpose loans:

- General purpose cash loans, loans for refinancing liabilities towards other banks, cash loans for start-ups and special purpose loans in cash (for the purchase of consumables) for non-depositors at nominal interest rates from 14% to 20% annually;
- General purpose cash loans, loans for refinancing liabilities towards other banks, cash loans for start-ups and special purpose loans in cash (for the purchase of consumables) approved to depositors at nominal interest rate of 12% annually;
- General purpose cash loans to the Bank's VIP customers at nominal interest rate of 10% annually;
- Overdrafts against current accounts of VIP customers at a nominal interest rate of 10% annually.

Short-term loans are approved to legal entities at nominal interest rates from 10% to 16% annually. Long-term loans approved to legal entities for the purpose of financing working assets mature within 5 years accruing interest at nominal interest rates ranging from 10% to 16% annually.

Short-term loans collateralized by a cash deposit are approved to customers at interest rates charged to cash deposits placed as collateral as increased by 4% to 6.5% annually.

From the assets of the Development Fund of Montenegro received in prior years, long-term loans were approved as a support to small and medium enterprises for the term of 4 to 6 years, with up to 4-year grace period and an interest rate of 7% annually, out of which the Bank retains up to 2% to cover expenses.

As of December 31, 2009, all loans were approved to customers domiciled on the territory of Montenegro.

12. LOANS AND LEASES (Continued)

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

(thousands of €)

	December 31, 2009	December 31, 2008
Agriculture, hunting and fishing	152	4
Civil engineering	350	2,500
Energy supply and mining	711	270
Trade	1,081	833
Services, tourism, accommodation industry	228	240
Transport, storage, postal services and telecommunication	276	203
Administration and other public services	2,830	-
Banks and other financial institutions	-	900
Retail customers	2,524	4,181
Other	2,508	780
	10,660	9,911

13. SECURITIES HELD TO MATURITY

Securities held to maturity amounted to EUR 178 thousand as of December 31, 2009 and related to treasury bills issued by the Government of Montenegro maturing on March 16, 2010. The Bank has 1,800 treasury bills with the total par value of EUR 180,000 thousand.

14. BUSINESS PREMISES AND OTHER FIXED ASSETS

The movements for the year 2009 are presented in the table below:

(thousands of €)

	Computers	Leasehold Improvements	Other Assets Used in Operations	Construction in Progress	Total
Cost					
Balance, beginning of year	303	421	224	10	958
Additions	-	-	-	1,293	1,293
Transfers during the year	70	31	1	(102)	-
Sale and disposal	(10)	-	(2)	-	(12)
Balance, end of year	363	452	223	1,201	2,239
Accumulated Depreciation					
Balance, beginning of year	172	26	75	-	273
Charge for the year	74	44	29	-	147
Sale and disposal	(10)	-	(2)	-	(12)
Balance, end of year	236	70	102	-	408
Net Book Value:					
- December 31, 2009	127	382	121	1,201	1,831
- December 31, 2008	131	395	149	10	685

As of December 31, 2009, the Bank had no property under pledge liens which should collateralize the repayment of loans and other liabilities.

14. BUSINESS PREMISES AND OTHER FIXED ASSETS (Continued)

The movements for the year 2009 are presented in the table below:

(thousands of €)

	Buildings	Leasehold Improvements	Other Assets Used in Operations	Construction in Progress	Total
Cost					
Balance, beginning of year	294	-	141	360	795
Additions	-	-	-	432	432
Transfer	47	421	94	(782)	(220)
Sale and disposal	(38)	-	(11)	-	(49)
Balance, end of year	303	421	224	10	958
Accumulated Depreciation					
Balance, beginning of year	132	-	62	-	194
Charge for the year	76	26	23	-	125
Sale and disposal	(36)	-	(10)	-	(46)
Balance, end of year	172	26	75	-	273
Net Book Value:					
- December 31, 2008	131	395	149	10	685
- December 31, 2007	162	-	79	360	601

15. ASSETS RECEIVED IN LIEU OF DEBT SETTLEMENT

Assets received in lieu of debt settlement totaling EUR 311 thousand as of December 31, 2009 (December 31, 2008: EUR 494 thousand), subsequent to the impairment of EUR 270 thousand (December 31, 2008: EUR 152 thousand) are associated with assets acquired based on the foreclosure of collaterals against loans. These assets are measured in the amount of placements outstanding.

16. EQUITY INVESTMENTS IN OTHER LEGAL ENTITIES

(thousands of €)

	% interest	December 31, 2009	December 31, 2008
Equity investments in other legal entities:			
- Global Carbon d.o.o., Podgorica	100.00%	2,000	1,500
- Atlasmont banka a.d., Podgorica – common shares	2.92%	2,723	3,324
- Atlasmont banka a.d., Podgorica – priority shares	1.40%	91	51
		4,814	4,875
Trading securities:			
- Atlas capital financial	n/a	8	19
- Other		23	12
		31	31
Securities available for sale:			
- Fond Atlas Mont	1.54%	277	267
- Crnogorski Telekom	0.02%	20	18
- Montenegroberza AD	16.56%	103	19
- Other		51	46
		451	350
		5,296	5,256

16. EQUITY INVESTMENTS IN OTHER LEGAL ENTITIES (Continued)

The Bank established a company Global Carbon d.o.o., Podgorica with the aggregate amount of founding capital of EUR 2 million. At December 31, 2009, the Bank is the sole owner of Global Carbon d.o.o., Podgorica. As of December 31, 2008, an amount of EUR 1,500 thousand of founding capital was paid in, and until January 9, 2009, the balance of EUR 500 thousand was also paid in.

The Bank holds an equity stake in Atlasmont banka a.d., Podgorica of EUR 2,723 thousand (2.92%) in the form of 1,068 common shares whose market value amounted to EUR 2.5 thousand. The Bank holds equity stake in Atlasmont banka a.d., Podgorica totaling EUR 91 thousand (1.40%) in the form of 140 priority shares the market value of which amounts to EUR 0.65.

At December 31, 2009, the Bank owned 3,228,388 common shares of Atlas Mont Fund, the market value of which amounted to EUR 0.0858 per share. Based on common shares (1,402,388 shares), the Bank's equity stake in the Fund totaled 0.6694%. Based on priority shares (1,826,000 shares), the Bank held equity interest in the Fund's capital of 0.8716%.

17. OTHER ASSETS

		(thousands of €)
	December 31, 2009	**December 31, 2008**
Interest, fee and commission receivables	47	53
Prepayments	57	28
Income taxes – advance payment	-	16
Other receivables	18	14
	122	111
Intangible assets	445	386
	567	497

		(thousands of €)
	December 31, 2009	**December 31, 2008**
Provisions for potential losses contingent on other assets:		
- interest	-	(1)
- other assets	(2)	(3)
- reserves for interbank deposits	-	(6)
- country risk and market risks	-	-
- assets acquired in lieu of debt settlement	(270)	(152)
	(272)	(162)

17. OTHER ASSETS (Continued)

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

	2009	2008
	(thousands of €)	
Cost		
Balance, beginning of year	550	330
Transfers from construction in progress	183	220
Balance, end of year	733	550
Accumulated Amortization		
Balance, beginning of year	164	74
Charge for the year	124	90
Balance, end of year	288	164
Net Book Value:		
- December 31	445	386
- January 1	386	256

18. DEPOSITS

	December 31, 2009	December 31, 2008
	(thousands of €)	
Demand deposits:		
- government agencies	4	2
- municipalities (public organizations)	4	9
- companies with majority state-ownership	19	1
- privately-owned corporate entities	1,018	703
- financial institutions	1	1
- retail customers	214	14
- other	33	237
	1,293	967
Short-term deposits:		
- privately-owned corporate entities	1,900	1,528
- financial institutions	737	500
- retail customers	575	130
- other	1	25
	3,213	2,183
Long-term deposits		
- Montenegro Government	-	12
- privately-owned corporate entities	1,251	995
	1,251	1,007
	5,757	4,157

Demand deposits placed by retail customers in EUR were deposited at an interest rate of 1.5% annually.

18. DEPOSITS (Continued)

Short-term deposits of retail customers in EUR fall due within:

- 3 months and were deposited at an interest rate of 4% annually
- 6 months and were deposited at an interest rate of 5.5% annually
- 12 months and were deposited at an interest rate of 7.5% annually
- 24 months and were deposited at an interest rate of 8% annually
- 36 months and were deposited at an interest rate of 8.5% annually.

Demand deposits of corporate customers in EUR were deposited at an interest rate ranging from 0% to 1.5% annually.

Short-term deposits placed by corporate customers in EUR maturing within:

- 3 months and were deposited at an interest rate of 5% annually
- 6 months and were deposited at an interest rate of 6% annually
- 12 months and were deposited at an interest rate of 6.5% annually.

Long-term deposits of corporate customers in EUR fall due within:

- 24 months and were deposited at an interest rate of 7% annually
- 36 months and were deposited at an interest rate of 7.5% annually.

At December 31, 2009, the Bank had EUR 2,755 thousand (December 31, 2008: EUR 2,540 thousand) of special purpose deposits placed as collaterals against lendings and placements.

19. BORROWINGS

(thousands of €)

	Period/ Year	Annual Interest Rate	December 31, 2009	December 31, 2008
Domestic creditors				
Central Bank of Montenegro	15	1%	55	74
Foreign creditors:				
European Investment Bank	12	3.847%	2,000	-
			2,055	74

Borrowings stated as of December 31, 2009 in the amount of EUR 2,055 thousand (2008: EUR 74 thousand) are associated with the amounts owed to the European Investment Bank arising from a long-term loan for financing projects of small and medium sized entities and infrastructural projects with a 3-year grace period and payables based on securities converted into long-term debts as in accordance with the Law on Converting Loans and Other Receivables of the National Bank of Yugoslavia into long-term borrowings with a 5-year grace period.

19. BORROWINGS (Continued)

The maturities of liabilities arising from borrowings are presented in the table below:

Period	(thousands of €) December 31, 2009
Up to 1 year	18
From 1 to 2 years	18
From 2 to 3 years	19
From 3 to 4 years	167
From 4 to 5 years	167
Over 5 years	1,666
	2,055

20. AMOUNTS OWED TO THE GOVERNMENT

(thousands of €)

	Period/ Year	Annual Interest Rate	December 31, 2009	December 31, 2008
Montenegro Development Fund	4 - 6	2.5% to 5% + 2% for absorption of the Bank’s expenses	428	725
Directorate for Development of Small and Medium Sized Enterprises	5.5 - 10	3%	235	35
			663	760

Amounts owed to the Government as of December 31, 2009 amounted to EUR 663 thousand (December 31, 2008: EUR 760 thousand) are associated with long-term loans obtained from the Republic of Montenegro Development Fund with a 4-year grace period, as well as with the liabilities towards the Directorate for Development of Small and Medium Sized Enterprises in Montenegro arising from long-term loans with a grace period of 24 months.

The maturities from borrowings are presented in the table below:

Period	(thousands of €) December 31, 2009
Matured liabilities	97
Up to 1 year	197
From 1 to 2 years	145
From 2 to 3 years	24
From 3 to 4 years	-
From 4 to 5 years	-
Over 5 years	-
	463

21. OTHER LIABILITIES

(thousands of €)

	December 31, 2009	December 31, 2008
Interest payables	1	2
Prepaid interest	20	3
Prepaid loan origination fees	59	-
Accounts payable	112	46
Income taxes payable	12	-
Deferred tax expenses	13	10
Winter food allowance	-	43
Payables to employees – housing fund	33	34
Retirement benefits payable to employees (Note 5)	2	1
Other liabilities	10	22
	262	161

22. RESERVE FOR LOSSES CONTINGENT ON OFF-BALANCE SHEET ITEMS

(thousands of €)

	December 31, 2009	December 31, 2008
Reserves for losses contingent on:		
- off-balance sheet exposures	20	69
- operational risk	-	76
	20	145

23. SHARE CAPITAL

(thousands of €)

Share Symbol	Type of Shares	Par Value	Share Count	December 31, 2009
PLJB	common	51.1292	121,602	6,217
INBA	priority	51.1292	95,792	4,898
INVE	priority	85.0000	16,221	1,379
				12,494

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.

Based on the Decision enacted by the Shareholder Assembly regarding VIII share issue via public offering as of February 6, 2007, the Bank’s core capital increased through the issuance of 95,792 priority cumulative shares, with the par value of EUR 51.1292. Shares issued on this occasion carry rights to cumulative dividend of no more than EUR 1.70 per share, i.e. no more than 2% annually from the share par value before the payment of dividends to common shareholders.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

23. SHARE CAPITAL (Continued)

Based on the Decision of the Shareholder Assembly on the Closed Offer of Shares to Existing Shareholders based on preemption rights number 03-137, as of January 23, 2008, the Bank's core capital was increased through the issuance of 16,221 priority cumulative shares with the par value of EUR 85.0000. Shares from this issue vest their holders in rights to cumulative dividend of no less than EUR 3.5790 per share i.e. at least 7% annually of the par value of share issue before the payment of dividend to the common shareholders.

Both share issues vest their shareholders in the following rights: right of convert their shares into common shares or the second class priority shares; priority right in bankruptcy or liquidation estate distribution; right to attend Shareholder Assembly meetings; these shares are non-voting ones, they do not allow insight into general acts, other documents, information and reports on the Bank's operations; they do not carry preemption rights to purchasing shares in case of capital increase in the Bank and other rights determined by the Law and the Bank's Articles of Association.

At December 31, 2009, the Bank had commitments of EUR 985 thousand arising from undistributed dividends from priority cumulative shares for 2007, 2008 and 2009. The Bank's management did not recognize its liabilities towards holders of priority cumulative shares as in accordance with Article 83 of the Law on Banks prescribing that a bank may pay out dividends in cash if such payment exceeds net profit realized in the year for which dividend is to be paid only if it has previously obtained a written consent of the Central Bank of Montenegro.

The Bank did not obtain the consent from the Central Bank of Montenegro which is necessary to recognize liabilities towards holders of priority cumulative shares for preceding periods, since certain operating ratios in the Bank, whose minimum values are prescribed in the Decisions enacted by the Central Bank of Montenegro, would be impaired (due to a decrease in the Bank's own assets for the aforementioned periods from the aspect of already created exposures towards major debtors). During 2010, the Bank's management will propose at the meeting that the amount of debt comprised of guaranteed dividends payable to the holders of priority cumulative shares be converted to shares with previously obtained consent of the Central Bank of Montenegro.

As in accordance with the Decision on Minimum Standards for Credit Risk Management in Banks (Official Gazette of MNE number 60/2008), in 2009, the Bank reversed reserves for general credit risks of EUR 81 thousand formed in 2008 pursuant to the Decision on the Classification of Assets, Provisions and Reserves for Credit Losses in Banks (Official Gazette of MNE no. 59/2007) in effect at the time.

The list of common shareholders of the Bank as of December 31, 2009 and 2008 was as follows:

	December 31, 2009			December 31, 2008		
Shareholder	**Number of Shares**	**Thousands of EUR**	**% Share**	**Number of Shares**	**Thousands of EUR**	**% Share**
Atlasmont banka a.d., Podgorica	38,292	1,958	31.49	38,292	1,958	31.49
FZU Atlas Mont a.d., Podgorica	32,284	1,651	26.56	32,284	1,651	26.56
Fin Invest d.o.o., Podgorica	29,166	1,491	23.98	29,166	1,491	23.98
Prenos a.d.	4,170	213	3.43	-	-	-
Electric Power Utility of MNE	4,110	210	3.38	8,280	423	6.80
Forest Administration, Pljevlja	3,138	160	2.57	3,138	160	2.57
HA – Collective custody account	2,282	117	1.88	13	1	0.02
Lovćen osiguranje a.d., Podgorica	2,200	112	1.80	2,200	112	1.80
Secretariat for Zoning, Civil Engineering and Housing and Utility Issues	848	43	0.69	848	43	0.69
GP Građevinar d.d., Pljevlja	527	27	0.43	527	27	0.43
Other	4,585	235	3.78	6,854	351	5.65
	121,602	6,217	100.00	121,602	6,217	100.00

23. SHARE CAPITAL (Continued)

The list of priority shareholders of the Bank as of December 31, 2009 and 2008 was as follows:

	December 31, 2009			December 31, 2008		
Shareholder	Number of Shares	Thousands of EUR	% Share	Number of Shares	Thousands of EUR	% Share
FZU Atlas Mont a.d., Podgorica	80,408	4,287	68.30	40,478	2,247	35.80
Atlasmont banka a.d., Podgorica	6,217	528	8.41	6,217	528	8.41
Fin Invest d.o.o., Podgorica	4,735	402	6.40	4,735	402	6.40
Kuzman Mladen	10,000	511	8.14	10,000	511	8.14
Podravska banka d.d., Koprivica	5,788	296	4.72	5,788	296	4.72
HA – Collective custody account	400	20	0.32	1,000	51	0.81
Vujadinović Radivoje	500	26	0.41	-	-	-
Popović Ivan	500	26	0.41	858	44	0.70
Hrvatska poštanska banka, Zagreb	74	12	0.19	8,520	436	6.95
Sofico d.o.o.	293	15	0.24	-	-	-
Other	3,098	154	2.45	34,417	1,762	28.07
	112,013	6,277	100.00	112,013	6,277	100.00

24. COMPLIANCE WITH REGULATORY REQUIREMENTS 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.

The Bank’s core capital formed in accordance with the Decision on Capital Adequacy amounted to EUR 6,567 thousand. The Bank’s core capital as of December 31, 2009 comprised of the basic elements of the Bank’s own assets: paid-in share capital at par value, share premium collected, legal reserves, prior year retained earnings and current year retained earnings net of amount of intangible assets.

Supplementary capital amounted to EUR 6,567 thousand as of December 31, 2009 and was comprised of the sum of par values of priority cumulative shares and revaluation reserves created through the fair value adjustment of equity investments in other legal entities up to the amount of the Bank’s core capital.

The Bank’s own assets as of December 31, 2009 totaled EUR 8,129 thousand and represented the sum of the Bank’s core capital, supplementary capital and deductions based on the following:

- Direct investments in another bank or another credit or financial institution in the amount exceeding 10% of capital of these institutions amounting to EUR 2,103 thousand
- Direct investments in another bank or credit institution up to 10% of capital that particular institution that exceed 10% of the Bank’s own assets before deductions of EUR 2,814 thousand and
- Investments in immovable property and fixes assets in excess of 25% of the Bank’s own assets amounting to EUR 88 thousand.

Risk-weighted balance sheet and off-balance sheet assets formed in accordance with the Decision on Capital Adequacy amounted to EUR 9,088 thousand at December 31, 2009.

24. COMPLIANCE WITH REGULATORY REQUIREMENTS OF THE CENTRAL BANK F MONTENEGRO (Continued)

In accordance with the Decision on Capital Adequacy in Banks in effect as of December 31, 2009, the Bank is to maintain minimum solvency ratio of 10%.

The solvency ratio computed by the Bank as of December 31, 2009 amounted to 56.96% (2008: 78.90%) and it is above the prescribed minimum.

The major exposure towards a single entity and a group of related entities as of December 31, 2009 amounted to 12.30% and is within the prescribed maximum of 25% of the Bank's own assets. At December 31, 2009, the Bank had no exposures exceeding 800% of own assets that would be considered excessive

25. OFF-BALANCE SHEET ITEMS

(thousands of €)

	December 31, 2009	December 31, 2008
Guarantees to corporate entities:		
- payment guarantees	643	53
- performance bonds	111	1,123
- other forms of guarantees	113	-
Irrevocable commitments for undrawn approved loans and Inkaso loro cheques	1,503	158
Written-off loans and balance sheet assets	2,465	2,135
Other off-balance sheet items:		
- consignment operations	-	1
- custody operations	1,385	8,156
- accepted collaterals	14,745	1,536
	20,965	13,162

At December 31, 2009, the Bank assessed the provisions for potential losses for off-balance sheet items in the amount of EUR 20 thousand (December 31, 2008: EUR 69 thousand). The provisions are stated within liabilities in the balance sheet.

There were no liabilities arising on forward operations as of December 31, 2009.

26. RELATED PARTY TRANSACTIONS

The review of receivables and payables arising from transactions with related parties as of December 31, 2009 and 2008 is presented in the following table:

		(thousands of €)
	December 31, 2009	**December 31, 2008**
Receivables		
Special purpose deposits:		
- Atlascapital Financial Services Limited, Nicosia	1,018	73
Loans approved:		
- Fin Invest d.o.o., Podgorica	2,000	1,430
- Univerzitet Mediteran, Podgorica	1,830	-
- Global Carbon d.o.o., Podgorica	-	500
- Atlas grupa d.o.o., Podgorica	450	-
- Hotel Pljevlja a.d., Pljevlja	18	-
	4,298	1,930
Interest:		
- Fin Invest d.o.o., Podgorica	7	-
Other receivables:		
- Trojica d.o.o., Pljevlja	538	538
- Pljevlja Municipality	2	1
- Fin Invest d.o.o., Podgorica	-	3
- Global Carbon d.o.o., Podgorica	-	4
	540	546
Total receivables	5,863	2,549

26. RELATED PARTY TRANSACTIONS (Continued)

(thousands of €)

	December 31, 2009	December 31, 2008
Payables		
Demand deposits:		
- Fin Invest d.o.o., Podgorica	2	-
- Global Carbon d.o.o., Podgorica	14	-
- Atlas Centar d.o.o., Podgorica	416	80
- DZU Atlasmont a.d., Podgorica	60	12
- FZU Atlasmont a.d., Podgorica	4	2
- Atlas Grupa d.o.o., Beograd	3	-
- Atlas Group Limited	61	-
- Univerzitet Mediteran, Podgorica	1	-
	561	94
Time deposits:		
- Fin Invest d.o.o., Podgorica	60	160
- Global Carbon d.o.o., Podgorica	750	500
- Atlas Grupa d.o.o., Beograd	50	50
- DZU Atlasmont a.d., Podgorica	350	-
- FZU Atlasmont a.d., Podgorica	600	-
- Atlas Group Limited	100	-
- Atlas Life a.d., Podgorica	110	500
- Voluntary Pension Fund Management Company Atlas Penzija a.d., Podgorica	27	-
	2,047	1,210
Interest:		
- DZU Atlasmont a.d., Podgorica	4	-
- FZU Atlasmont a.d., Podgorica	10	-
- Atlas Life a.d., Podgorica	20	25
	34	25
Total payables	2,642	1,329
Receivables/(payables), net	3,221	1,220
Off-balance sheet liabilities		
Guarantees paid:		
- Municipality of Pljevlja	113	-
	113	-

The Bank's receivables arising from loans approved to related parties were collateralized by a cash deposit in the amount of 57.38% of receivable (2008: 100%), i.e. the cash deposit for these loans amounts to EUR 2,530 thousand (2008: EUR 1,930 thousand).

Income earned in related party transactions in 2009 totaled EUR 232 thousand (2008: EUR 72 thousand) and was associated with: income from brokerage (EUR 5 thousand), interest, fee and commission income charged on loans approved (EUR 228 thousand). Expenses incurred in related party transactions in the course of 2009 amounted to EUR 54 thousand (2008: EUR 1 thousand) and were associated with deposit expenses.

26. RELATED PARTY TRANSACTIONS (Continued)

At December 31, 2009, receivables from employees amounted to EUR 123 thousand (2008: EUR 184 thousand), and pertain to loans approved.

In 2009, the Bank paid to key management, including the General Director and heads of departments, an amount of EUR 136 thousand as remunerations (2008: EUR 104 thousand). The remunerations paid to the members of the Board of Directors amounted to EUR 40 thousand (2008: EUR 16 thousand).

27. MATURITY ANALYSIS

The Bank is exposed to daily calls on its available cash resources which influence the available cash resources held on the current accounts or from deposits. The Bank does not maintain cash resources to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

27. MATURITY ANALYSIS (Continued)

The maturities of the Bank's assets and liabilities components, based on the remaining period from the balance sheet date to the contractual maturity date, as of December 31, 2009 are as follows:

(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	4,358	-	-	-	-	-	4,358
Trading assets and available for sale assets, excluding shares	1,377	-	-	-	-	-	1,377
Loans and other receivables	352	515	1,777	3,775	2,893	1,347	10,659
Securities held to maturity	-	178	-	-	-	-	178
Other financial assets including investments in shares	503	-	-	-	-	4,917	5,420
Total	6,590	693	1,777	3,775	2,893	6,264	21,992
inancial liabilities							
Deposits	1,736	213	893	2,665	250	-	5,757
Loans received and other borrowings	-	-	-	18	704	1,333	2,055
Liabilities towards the MNE Government	35	48	34	128	218	-	463
Other financial liabilities	462	-	-	-	-	-	462
Total	2,233	261	927	2,811	1,172	1,333	8,737
Maturity gap:							
- December 31, 2009	4,357	432	850	964	1,721	4,931	13,255
- December 31, 2008	5,475	307	1,847	551	6,271	50	14,501
Cumulative GAP:							
- December 31, 2009	4,357	4,789	5,639	6,603	8,324	13,255	
- December 31, 2008	5,475	5,782	7,629	8,180	14,451	14,501	
% from the total source of financing:							
December 31, 2009	49.9%	54.8%	64.5%	75.6%	95.3%	151.7%	
December 31, 2008	106.3%	112.2%	148.1%	158.8%	280.5%	281.4%	

27. MATURITY ANALYSIS (Continued)

The Bank's liquidity, as well as its ability to settle its liabilities when due, principally depends upon the Bank's balance sheet structure, i.e., matching or balanced mismatching between inflows and outflows of assets. The structure of financial assets and liabilities as of December 31, 2009 is indicative of a constant net long position in the Bank within all its segments of maturities of financial receivables and payables. The main reason for the aforementioned is the fact that financial assets greatly exceed financial liabilities, which mostly comprise of special purpose deposits and securitize the Bank's payables arising from borrowings.

28. 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 the irregular relationship between 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 on loans on one side, and deposits on the other.

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

(thousands of €)

	Less than One Month	From 1 to 3 Months	From 3 to 6 Months	From 6 to 12 Months	Over 1 Year	Total
Interest rate sensitive assets						
Interest-bearing deposits in other institutions	1,288	-	-	-	-	1,288
Interest bearing securities	-	177	-	-	-	177
Loans and other receivables	362	513	1,775	3,771	4,238	10,659
Other interest sensitive assets	-	-	-	-	-	-
Total	1,650	690	1,775	3,771	4,238	12,124
% of total interest-bearing assets	13.61%	5.69%	14.64%	31.10%	34.96%	100.00%
Interest rate sensitive liabilities						
Interest bearing deposits	532	213	683	111	250	1,789
Interest-bearing borrowings	35	48	34	146	2,255	2,518
Total	567	261	717	257	2,505	4,307
% of total interest-bearing liabilities	13.16%	6.06%	16.65%	5.97%	58.16%	100.00%
Interest rate exposure:						
- December 31, 2009	1,083	429	1,058	3,514	1,733	7,817
- December 31, 2008	2,800	807	2,007	1,361	2,472	9,447
Cumulative GAP:						
- December 31, 2009	1,083	1,512	2,570	6,084	7,817	
- December 31, 2008	2,800	3,607	5,614	6,975	9,447	

29. CURRENCY RISK

The following table summarizes the net foreign currency position of the Bank's monetary assets and liabilities as of December 31, 2009. The Bank takes on exposure resulting from fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The management sets limits on exposures per individual currencies and monitors such exposure on regular basis.

(thousands of €)

	RSD	**USD**	**GBP**	**CHF**	**Other**	**Total**
Assets in foreign currencies	-	2	-	-	2	4
Liabilities in foreign currencies	-	1	-	-	-	1
Net open foreign exchange position:						
- December 31, 2009	-	1	-	-	2	
- December 31, 2008	-	11	-	-	1	
% of core capital:						
- December 31, 2009	-	0.02%	-	-	0.03%	
- December 31, 2008	-	0.14%	-	-	0.01%	
Aggregate open position:						
- December 31, 2009	3					
- December 31, 2008	12					
% of core capital:						
- December 31, 2009	0.05%					
- December 31, 2008	0.16%					

30. LITIGATIONS

As of December 31, 2009, there were several legal suits filed against the Bank in the amount of EUR 216 thousand. The aforementioned amount does not include penalties which may be assessed upon the resolution of litigations. Management of the Bank and the Legal Department do not anticipate materially significant negative effects thereof on the financial statements of the Bank.

31. TAXATION RISKS

Montenegro tax legislation is subject 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 Bank may not concur with the views of the Bank's management. Consequently, transactions may be challenged by the relevant tax authorities and the Bank 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. The Bank's management holds that tax liabilities recorded in the financial statements are fairly stated.

32. FINANCIAL CRISIS

As expected, the Bank's operations are under the influence of the recent financial crisis and deterioration of economic conditions. Due to the current global crisis in the market and its weakening effects on domestic economic activities on the local market in Montenegro, the Bank will probably operate in a more difficult and uncertain economic environment throughout 2010 and 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 owing to the internal acts of the Bank and limits imposed by the Central Bank of Montenegro.

The Bank regularly monitors credit risk, liquidity risk, interest rate risk and currency risk. It is expected that the adequacy of the Bank's capital will continue to be significantly above the prescribed capital adequacy minimum. Given the Bank's conservative policy, the Bank's liquidity is satisfactory and will 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 trade), and the abilities of some clients to meet their loan obligations which may impact the Bank's amount of necessary provisions against credit losses arising from impairment in 2010, as well as other fields which require significant estimates from the management, including the valuation of collaterals and securities. The 2009 financial statements contain significant estimates with respect to impairment losses, collateral valuation and the fair value of securities. Actual results may differ from these estimates. In 2010, the Bank will focus on the management of the financial portfolio as in accordance with the changing economic environment and a goal to maintain the Bank's position on the market.

33. POST BALANCE SHEET EVENTS

On March 19, 2010, the Bank closed a Long-Term Loan Agreement with the European Investment Bank for the amount of EUR 2,000 thousand. The loan is intended to finance small and medium-sized enterprises and infrastructural projects in Montenegro. It was approved for a period of 15 years at an annual interest rate of 3.847%. By the end of audit's field work, funds from the aforementioned loan had not been drawn.

34. 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