INVEST BANKA MONTENEGRO A.D., PODGORICA

Financial Statements
For the Year Ended 31 December 2011 and
Independent Auditors' Report

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

ERNST & YOUNG

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This is an English translation of the Report
originally issued in Montenegrin language
(For management purposes only)

INDEPENDENT AUDITORS' REPORT
TO THE OWNERS OF INVEST BANKA MONTENEGRO A.D., PODGORICA

Report on Financial Statements

We have audited the accompanying financial statements of Invest Banka Montenegro A.D., Podgorica (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2011, and the 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 Law on Accounting and Auditing and regulations of the Central Bank of Montenegro governing the financial reporting of banks, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

PIB: 02759080 • Matični broj: 02759080 • Upisan i unet osnovni kapital: 5.000,00 EUR
Registarski broj: 5-0537154/001 kod Centralnog registra Privrednog suda u Podgorici
Poslovni račun: 2325011-02759080 kod Crnogorske Komercijalne Banke AD Podgorica

ERNST & YOUNG

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December, 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing and regulations of the Central Bank of Montenegro governing the financial reporting of banks.

Report on Other Legal and Regulatory Requirements

In accordance with the Law on Accounting and Auditing and the regulations of the Central Bank of Montenegro governing the financial reporting of banks, the Bank's management has prepared analyses to the financial statements which are presented on pages 39 to 52. Information presented in the analyses to the financial statements does not form an integral part of the financial statements of the Bank. This information is the responsibility of the Bank's management. This information has been properly derived from the primary financial statements which were prepared in accordance with the Law on Accounting and Auditing and regulations of the Central Bank of Montenegro governing the financial reporting of banks as presented on pages 3-6, and is based on the underlying accounting records of the Bank.

Podgorica, 30 May 2012

Ernst & Young Montenegro d.o.o.
Podgorica, Crna Gora

Stephen Fish
Partner

ERNST & YOUNG MONTENEGRO

Draško Popović
Authorized auditor

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	(in thousands of EUR) 2011	2010
Interest income	3.1, 4a	1,540	1,190
Interest expenses	3.1, 4b	(463)	(222)
Net interest income		**1,077**	**968**
Expenses for losses	3.7, 5	(98)	(24)
Net income		**979**	**944**
Fee and commission income	3.1, 6a	163	137
Fee and commission expenses	3.1, 6b	(155)	(122)
Net fee and commission income		**8**	**15**
NET FEE AND COMMISSION INCOME		**987**	**959**
Other income, net	7	708	1,103
General expenses	8	(1,705)	(1,356)
NET (EXPENSES)/INCOME BEFORE EXTRAORDINARY ITEMS		**(10)**	**706**
Extraordinary income		58	-
PROFIT BEFORE TAXATION		**48**	**706**
Income taxes	3.3, 9	(18)	(64)
NET PROFIT FOR THE YEAR		**30**	**642**

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

These financial statements are approved by Management Board of Invest Banka Montenegro A.D., Podgorica, based on a Decision number 04-256/13 dated 31 January 2012.

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

The person responsible for the preparation of financial statements	Chief Executive Officer	Executive Director
Radunović M.		PDaši
Milanka Radunović	Zoran Nikolić	Predrag Dašić

Invest banka Montenegro A.D. • PODGORICA

BALANCE SHEET AS OF 31 DECEMBER 2011

(in thousands of EUR)

	Notes	2011	2010
ASSETS			
Cash and deposit accounts held with depository institutions	10	3,186	3,006
Securities available for sale, excluding shares	11	97	50
Loans and leases	12	23,531	13,931
Securities held to maturity	13	327	139
Business premises and other fixed assets	14	1,589	1,667
Repossessed assets	15	1,223	1,343
Equity investments in other legal entities	16	3,856	5,144
Other assets	17	3,140	3,207
Less: Provisions for potential losses on other assets	17	(8)	(410)
Total assets		**36,941**	**28,077**
LIABILITIES AND EQUITY			
Liabilities			
Deposits	18	15,446	7,461
Borrowings	19	6,018	4,037
Liabilities to Government	20	142	288
Other liabilities	21	364	342
Provisions for losses contingent on off-balance sheet items	22	13	17
Total liabilities		**21,983**	**12,145**
Equity			
Share capital	23	13,844	12,494
Share premium		2	2
General reserves		73	73
Revaluation reserves		1,000	2,002
Retained earnings		39	1,361
Total equity		**14,958**	**15,932**
Total liabilities and equity		**36,941**	**28,077**
OFF-BALANCE-SHEET ITEMS	25	**56,144**	**28,058**

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

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Radunović M.		
Milanka Radunović	Zoran Nikolić	Predrag Dašić

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STATAMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of EUR)

	Share capital and Share premium	General Reserves	Revaluation Reserves	Retained earnings	Total
Balance as at 1 January 2010	12,496	73	2,205	719	15,493
Fair value adjustment of securities available for sale	-	-	(203)	-	(203)
Profit for the year	-	-	-	642	642
Balance as at 31 December 2010	**12,496**	**73**	**2,002**	**1,361**	**15,932**
Dividend payment through share issue	1,350	-	-	(1,350)	-
Payment of dividends to preferred shareholders - prior year liability	-	-	-	(2)	(2)
Effects from selling of shares Available for Sale	-	-	(466)	-	(466)
Fair value adjustments of securities available for sale	-	-	(536)	-	(536)
Profit for the year	-	-	-	30	30
Balance, December 31, 2011	**13,846**	**73**	**1,000**	**39**	**14,958**

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

These financial statements are approved by Management Board of Invest Banka Montenegro A.D., Podgorica, based on a Decision number 04-256/13 dated 31 January 2012.

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

The person responsible for the preparation of financial statements	**Chief Executive Officer**	**Executive Director**
Milanka Radunović	Zoran Nikolić	Predrag Dašić

CASH FLOWS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of EUR)

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest, fees and commissions received		1,589	1,326
Other cash receipts		30	58
Interest and commission paid		(618)	(345)
Cash paid to employees and suppliers		(1,586)	(1,052)
Net cash inflow before changes in operating assets and liabilities		(585)	(13)
Changes in operating assets and liabilities			
Increase in placements to customers, net		(7,941)	(3,406)
Increase/(decrease) in other assets, net		(1,658)	(2,368)
Increase in deposits from customers		8,331	1,704
Decrease in other liabilities, net		(15)	(8)
Net cash inflow / (outflow) used in operating activities		**(1,868)**	**(4,091)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment and intangible assets		(109)	83
Proceeds from the purchase and sale of securities available for sale - shares		646	-
Dividend received		-	12
Cash from the purchase and sale of AFS securities, excluding shares, net		(330)	1,327
Equity investments in other legal entities, net		-	(125)
Net cash generated from financing activities		**207**	**1,132**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans and borrowings received, net		1,836	1,607
Payment of share capital		-	-
Net cash provided by financing activities		**1,836**	**1,607**
Effects of foreign exchange		5	1
Net increase/(decrease) in cash and cash equivalents		**175**	**(1,352)**
Cash and cash equivalents, beginning of year		**3,006**	**4,358**
Cash and cash equivalents, end of year		**3,186**	**3,006**
Components of cash and cash equivalents:			
Cash and deposit accounts held with depositary institutions	3.4	3,186	3,006
		3,186	3,006

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

These financial statements are approved by Management Board of Invest Banka Montenegro A.D., Podgorica, based on a Decision number 04-256/13 dated 31 January 2012.

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

The person responsible for the preparation of financial statements	**Chief Executive Officer**	**Executive Director**
Milanka Radunović	Zoran Nikolić	Predrag Dašić

Invest banka Montenegro A.D. PODGORICA

NOTES TO FINANCIAL STATEMENTS

1. THE BANK'S ESTABLISHMENT AND OPERATING POLICY

Invest Banka Montenegro A.D., Podgorica (hereinafter: the "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 has a headquartered in Bulevar Svetog Petra Cetinjskog 115 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;
- clearing and settlement;
- 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. Shareholders Assembly appoints and relieves of duties the members of the Bank's Board of Directors. It consists of 5 members, the majority of which are non-executive directors. The Bank's Executive Directors can be members of the Board of Directors but cannot be President and/or Chairman of the Board of Directors. The standing bodies within the Board of Directors are the Audit Committee, 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 executive managers of the Bank and members are heads of the Bank's organizational units. The Audit Board counts three members majority of which are non-executives.

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 responsible to the Bank's Assembly and the Board of Directors.

As at 31 December 2011 the Bank had 29 employees (December 31, 2010: 36 employees). The Bank's headquarter is located at Svetog Petra Cetinjskog street no. 115 in Podgorica.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIALSTATEMENTS

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, no. 80/2008 and no. 32/2011), 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 specified by the Central Bank of Montenegro, which in some parts differ from the presentation in certain parts as provided in MRS1 "Presentation of Financial Statements."

The accounting policies adopted in the preparation and presentation of the financial statements for the year ended 31 December 2011 differ from the IFRS requirements in number of areas, including but not limited to the 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." In addition, the Bank suspends calculation of interest on loans classified in categories C, D and E ("impaired assets" in accordance with the Decision of the Central Bank on minimum standards for risk management in banks) ("Official Gazette of Republic of Montenegro" no. 60/08 and 41/09), while the decision also provides the risk asset classified in category E to be written off from the balance sheet assets and to be recorded in off balance sheet as "written-off loans."

Due to the potentially significant effects of the above-described matters, these stand alone 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 the Montenegro.

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

NOTES TO FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND PRESENTATION OF THE STAND ALONE FINANCIALSTATEMENTS (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 assets and liabilities 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 actual results may vary from the estimated values. The most significant estimates and assumptions are made on the following balance positions:

- Provisions on loans and interest
- Provisions for deposits with other banks
- Provisions for permanent investments
- Provisions for off balance sheet items
- Provisions for severance payments
- Provisions for litigations
- The fair value of securities available for sale
- Valuation of repossessed assets
- The useful life of intangible assets, property and equipment

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest 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. Income from fees and commissions are generally recognized on accrual basis in the period when the services are performed.

The Bank suspends interest accrual on loans classified into the categories C, D and E ("non-performing assets," in accordance with the Decision of the Central Bank of Montenegro regarding the minimum standards for credit risk management within 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, as gains or losses due foreign exchange translation.

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 Article 28. Of Montenegro Tax Law ("Official Gazette of Montenegro," no. 80/2004, 40/2008, 86/2009, 73/2010 and no. 40/2011) 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 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 carry forward in the following 5 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Taxes and Contributions (continued)

Income Taxes (continued)

Current Income Taxes (continued)

Montenegro tax regulations do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back 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 a following 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.

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.

3.5. Securities available-for-sale, except shares

Available-for-sale securities are securities not classified as financial assets held-for-trading or financial assets held-to-maturity and comprise investments in restitution bonds and frozen foreign currency bonds (FFCD) issued by the Government of Montenegro. Following initial recognition, available-for-sale securities are stated at fair value. Fair value of securities quoted on the stock exchange is based on the current market price. Unrealized gains or losses from available-for-sale securities are recorded as revaluation reserves until the sale, collection, realization by other means, or permanent impairment. At disposal or impairment of available-for-sale securities, cumulative corrections of fair value recognized as revaluation reserves are recorded in the income statement. Dividend from available-for-sale securities is recognized in the income statement when the entity is entitled for payment.

Held-for-trading securities not quoted on the stock exchange are valued at cost less impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Loans

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

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 and any risks historically 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 such risks (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 for credit risk management in banks (Official Gazette of Montenegro, number 60/2008 and number 87/2009) and the Decision on interim measures for managing credit risk in banks ("Official Gazette of Montenegro", no. 64/2009, 87/2009, 66/2010 and 70/2010) 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 credit 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. 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 collectible in full pursuant to the agreement;
- B category ("Special Mention") – including items for which there is low probability of loss, but which, still the same, require special attention, as the potential risk, if not adequately monitored, could lead to diminish their collectability;
- C category ("Substandard assets") – with C1, C2 and C3 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 amount of provisions for potential losses is not provided for the Bank's placements included in the category A. The estimated amount of provision for potential losses is computed by applying the following applicable percentages to the corresponding categories: 3% to the placements classified into category B, from 15% to 50% to the placements classified into category C, 75% to the placements of category D, and 100% to the placements under category E.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In accordance with amendments to the above decisions on minimum standards for credit risk management in banks, the Bank has applied the following percentages and days of delay by categories of risk as of 31 December 2011 and 2010:

Risk category	% reserves	Days of delay
A	0%	<30
B1	3%	31-90
C1	15%	91-150
C2	30%	151-210
C3	50%	211-270
D	75%	271-365
E	100%	>365

In accordance with the Decision of the Central Bank of Montenegro, the Bank is to suspend any accrued, uncollected interest and should terminate any further accruals of interest on its nonperforming assets, with the exception of the non-performing assets that are secured by quality collateral that 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 thereof in its off-balance sheet records and upon classification, it should designate the accrued interest receivables 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,
- Irrevocable guarantees of the Government of Montenegro and
- Irrevocable guarantees of the countries or central banks of the OESD member countries, the banks with credit rating better than BBB+ 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 Central Bank of Montenegro.

3.8. Securities held for trading

Held for trading comprise securities which are held for the purpose of selling in the short term and realizing a gains on that basis. Held for trading are comprised of shares held for trading and bonds issued by the Government of Montenegro, initially recorded at cost. As of the balance sheet date, these securities are recorded at market value. All realized and unrealized gains and losses arising on sale, and any changes in their fair values are included in the income statement.

Investments in financial instruments that do not have a quoted market price in an active market and fair value cannot be reliably measured are recognized at cost, less any impairment loss reflecting reduction in value due to losses incurred in a business entity.

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.

After initial recognition, securities held to maturity are recorded at amortized cost using the effective interest method less any allowance or loss on impairment. Amortized value is calculated by taking into account any discount or premium on acquisition, over the period of maturity.

Interest income on these instruments is calculated using the effective interest rate and showing within interest income.

3.10. 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.

3.11. Business Premises, Other Fixed Assets and Intangible Assets

Business premises and other fixed assets are those assets whose useful life is more than one year. Business premises, other property, equipment and intangible assets at December 31, 2011 are stated at cost less accumulated depreciation and/or amortization. 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.

Additional costs: costs of replacing equipment parts (installation of new spare parts), the cost of repairs and general repair of business premises are recognized as increasing the present value of business premises i.e. equipment, if it is likely that it will result in future economic benefits and if those costs could be reliably measured.

The costs arising from maintenance of equipment: replacement and installation of small spare parts and supplies, as well as the costs of everyday repairs are considered expense when incurred.

Losses or gains incurred in the disposal or write off of business premises and equipment are determined as the difference between the sales and the current value at which the business premises and equipment are carried, and recognized in the income statement for the period when disposal or write off occurred.

Intangible assets consist of software and licenses. Intangible assets acquired are capitalized at cost of the transaction. After initial recognition, intangible assets are carried at cost less accumulated depreciation and any impairment losses.

Costs that could be directly linked with certain software and will generate economic benefits for a period longer than one year are recorded as intangible assets. Maintenance and development of computer software are recorded as an expense as incurred.

Depreciation and amortization are 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Business Premises, Other Fixed Assets and Intangible Assets (continued)

Depreciation is calculated using the following annual rates:

Items	Depreciation rate (%)	Rate recognized in taxable income (%)
Leasehold improvements	10.00	5.00
Motor vehicles	15.5	15.00
Furniture and equipment	12.5	20.00
Computers and computer equipment	33.33	30.00
Intangible assets	20	30.00

In accordance with Article 13 of the Income Tax Law ("Official Gazette of Montenegro" no. 65/01, 12/02 and 80/04, "Official Gazette of Montenegro", no. 40/08, 86/09 , 73/10 and 40/11) the method of calculating depreciation for tax purposes is different from the method of calculating depreciation for accounting purposes. The depreciation of buildings for tax purposes is calculated using the proportional method, while all other items, amortization of other fixed assets worth more than EUR 300, including the applications software, is calculated using digressive method for the entire year, regardless of the activation date.

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

3.12. Employee Benefits

Employee taxes and contributions for social security

In accordance with the regulations prevailing 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 the 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 behalf of the employees, to transfer the withheld portions directly to the 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 Labour Law and the Collective Bargaining Agreement, the Bank is obliged to pay retirement benefits in an amount equal to six average monthly salaries in the Bank. 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: a discount rate of 8%, salary growth of 5% and fluctuation rate of 5%.

3.13. Fair Value

In accordance with International Accounting Standards 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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Fair Value (continued)

In Montenegro, sufficient market experience, stability and liquidity do not exist for the purchase and sale of financial assets and liabilities, as well as other financial instruments, 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. If it is estimated that certain carrying amounts could not be realized at that value, impairment is made based on the Banks' management decision. 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.

4. INTEREST INCOME AND EXPENSE

a) Interest Income

(in thousands of EUR)

	2011	2010
Banks	11	3
Corporate customers	932	573
Retail customers	303	326
The Government of Montenegro	-	2
Other financial institutions	46	42
Municipalities	89	89
Schools and institutions of culture	154	147
Other	5	8
	1,540	1,190

b) Interest expenses

(in thousands of EUR)

	2011	2010
Banks	218	115
Other financial institutions	50	18
The Government of Montenegro	9	14
Corporate customers	82	29
Retail customers	104	46
	463	222

5. EXPENSES FOR LOSSES

a) Structure of the revenues and expenses related to loan losses

(in thousands of EUR)

	2011	2010
Net, provisions with respect to:		
- loans (corporate and retail customers)	64	(34)
- interest	37	33
- repossessed assets	-	20
- off-balance sheet items	(5)	(3)
- other assets	2	8
	98	24

b) Movements on the accounts of allowances for impairment and provisions

	Loans and Lease Operations (Note 12)	Interest (Note 17)	Off-Balance Sheet Items (Note 22)	Other asset (Note 17)	Repossessed asset (Note 15 and 17)	Total
Balance, beginning of year	135	4	17	6	400	565
Current year impairment, net	64	37	-	2	-	103
Reversal of impairment	-	-	(5)	-	-	(5)
Transfer to off-balance sheet items	(49)	(41)	-	-	-	(90)
Balance, end of year	**150**	**-**	**13**	**8**	**400**	**571**

6. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	(in thousands of EUR) 2011	2010
Loan origination fees	89	63
Fee and commission income from off-balance-sheet operations	7	11
Fee and commission income from payment transfers	46	29
Fee and commission income from trading in foreign currency	1	-
Fee and commission income from custody activities	2	3
Other fee and commission income	18	31
	163	137

b) Fee and Commission Expense

	(in thousands of EUR) 2011	2010
Fees and commission payable to the Central Bank	72	75
Fees and commission payable to other financial institutions	44	34
Fees and commission expense arising from deposit insurance Premium	37	11
Other fee and commission expense	2	2
	155	**122**

7. OTHER INCOME/(EXPENSES), net

	(in thousands of EUR) 2011	2010
Collected receivables previously written off	-	1
Net losses on the foreign exchange operations	(10)	(19)
Net foreign exchange gains	1	20
Dividend income	10	12
Net (losses)/gains on the revaluation of trading securities to their fair value	(10)	5
Net gains on the sale of securities	393	509
Other income	324	575
	708	**1,103**

Net gains on the sale of securities of EUR 393 thousand relate to the sale of shares in Atlas Banka A.D., Podgorica (ATBA) in December 2011 to Atlas Grupa d.o.o. Podgorica. The Bank sold 362 ordinary shares at the price of EUR 1,787 per share which amounts to EUR 647 thousand and realized a gain on this transaction of EUR 466 thousand.

8. GENERAL EXPENSES

	2011	2010
	(in thousands of EUR)	
Net salaries	338	330
Taxes and contributions on salaries	290	242
Other staff costs (redundancies, winter allowance)	189	39
Remunerations to the members of the Board of Directors	52	45
Business trip expenses	5	8
Rentals	6	3
Maintenance of property and equipment	154	149
Securing business premises	24	23
Energy expenses	8	8
Insurance premiums	5	4
Depreciation and amortization charges:		
- equipment	141	149
- intangible assets	144	155
Costs of telephone and communication network	56	52
Production expenses	-	1
Non-production expenses	15	12
Marketing and advertising	136	75
Professional services	74	1
Professional education of employees	1	5
Entertainment	13	11
Memberships, subscriptions and donations	19	18
Office material	12	11
Other costs	23	15
	1,705	**1,356**

9. INCOME TAXES

a) Components of Income Taxes

	2011	2010
	(in thousands of EUR)	
Current income taxes	20	64
Deferred income tax	(2)	-
	18	64

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

	2011	2010
	(in thousands of EUR)	
Profit/(Loss) before tax	48	706
Income tax at the statutory tax rate of 9%	8	64
Effects of expenses not recognized for tax purposes	4	-
Other	6	-
Tax effect on the income statement	18	64
Effective interest rate	37.50%	9.07%

c) Deferred Tax Liabilities

Deferred tax liabilities stated as of 31 December 2011 in the amount of EUR 6 thousand (31December 2010: EUR 8 thousand) (Note 21) 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

(in thousands of EUR)

	31 December 2011	31 December 2010
Cash on hand:		
- in EUR	179	153
- in foreign currency	69	16
Gyro account	197	386
Correspondent account with foreign banks	962	708
Obligatory reserves with the Central Bank of Montenegro	1,142	586
Special purpose deposits with financial institutions abroad	637	1,157
	3,186	**3,006**

Obligatory reserves were allocated in accordance with the Decision of the Central Bank of Montenegro on Banks' Required Reserves with the Central Bank of Montenegro (Official Gazette no. 35/2011 of 1 July 2011).

The obligatory reserve requirement is calculated by applying a rate of 9.5% of the base which consists of demand deposits and deposits with agreed maturity up to one year, or up to 365 days, and the rate of 8.5% of the base comprised of deposits with agreed maturity over one year, or over 365 days. On deposits with agreed maturity over one year with an early withdrawal option within one year, or within less than 365 days, the rate of 9.5% is applied.

The calculated required reserves are allocated to the reserve requirement account in the country and the accounts of the Central Bank of Montenegro abroad. In accordance with this decision, the Bank may hold up to 25% of the calculated reserve requirement in the form of treasury bills issued by Montenegro. The Central Bank of Montenegro pays interest at a rate of 1% per annum on 25% of the total allocated funds to required reserves. The interest is payable until the eighth of every month for the previous month. Required reserves are held in euro.

Special purpose deposits held with banks abroad as of 31 December 2011 in the amount EUR 637 thousand (31 December 2010: EUR 1,157 thousand) relate to assets entrusted to investment managers. The Bank concluded agreements for financial services with Atlas Capital Financial Services Limited, Limassol – Cyprus and has funds deposited with the institution to be used for financing purposes and brokering operations.

11. SECURITIES AVAILABLE-FOR-SALE, EXCLUDING SHARES

(in thousands of EUR)

	31 December 2011	31 December 2010
Assets available for sale:		
- Restitution bonds of the Government of Montenegro	3	8
- Old foreign savings bonds	79	34
	82	42
Trading assets	15	8
	97	**50**

12. LOANS AND LEASES

	(in thousands of EUR) 31 December 2011	31 December 2010
Matured loans:		
- privately-owned corporate entities	58	21
- retail customers	160	102
Short-term loans:		
- privately-owned corporate entities	4,648	4,268
- retail customers	288	67
Long-term loans, including current portions:		
- privately-owned corporate entities	13,501	4,313
- entrepreneurs	40	-
- municipalities	1,153	1,000
- retail customers	1,712	2,245
- other (educational and cultural facilities)	2,121	2,050
	23,681	14,066
Less: Provisions for credit losses	(150)	(135)
	23,531	13,931

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 nondepositors 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 on 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 capital mature within 5 years and accrue 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 and increased by 4.5% 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.

12. LOANS AND LEASES (continued)

As at 31 December 2011, all loans were approved to customers domiciled on the territory of Montenegro, Cyprus, Austria and United Arab Emirates.

(in thousands of EUR)

Country	Loans	off-balance sheet	Bank deposits (placements)	Other	The total exposure
Cyprus	6,627	-	637	-	7,264
Austria	-	-	-	959	959
Germany	-	-	-	3	3
UAE	104	-	-	-	104
Serbia	161	335	-	-	496

The concentration of total gross loans to customers per industry as of 31 December 2010 is as follows:

(in thousands of EUR)

	31. December 2011.	31. December 2010.
Agriculture, hunting and fishing	115	130
Civil engineering	847	885
Energy supply and mining	752	664
Trade	2,318	1,797
Trade in real estate	2,477	-
Services, tourism, accommodation industry	740	569
Transport, storage, postal services and telecommunication	721	487
Administration and other public services	3,592	3,218
Banks and other financial institutions	-	-
Retail customers	2,161	2,416
Other	9,958	3,900
	23,681	14,066

13. SECURITIES HELD TO MATURITY

Securities held to maturity as at 31 December 2011 in the amount of EUR 327 thousand (31 December 2010: EUR 139 thousand) relate to treasury bills of the Government of Montenegro. The Bank has 3,300 bills with a total nominal value of EUR 330.

14. BUSINESS PREMISES AND OTHER FIXED ASSETS

The movements for the year 2011 and 2010 are presented in the table below:

(in thousands of EUR)

	Computers	Leasehold Improvements	Other fixed assets	Construction in Progress	Total
Cost of goods sold					
Balance, 1 January 2010	364	452	223	1,201	2,240
Additions	-	-	-	83	83
Transfer from assets acquired	31	2	3	(36)	-
Transfer to intangible assets	-	-	-	(99)	(99)
Sale and disposal	(10)	-	(2)	-	(12)
Balance, 31 December 2010	**385**	**454**	**224**	**1,149**	**2,212**
Balance, 1 January 2011	385	454	224	1,149	2,212
Additions	-	-	-	99	99
Transfer	55	9	3	(67)	-
Transfer to intangible assets	-	-	-	(36)	(36)
Sale and disposal	(75)	-	(43)	-	(118)
Balance, 31 December 2011	365	463	184	1,145	2,157
Accumulated Depreciation					
Balance, 1 January 2010	236	70	102	-	408
Amortization	76	46	27	-	149
Sale and disposal	(10)	-	(2)	-	(12)
Balance, 31 December 2010	**302**	**116**	**127**	**-**	**545**
Balance, 1 January 2011	302	116	127	-	545
Amortization	54	45	42	-	141
Sale and disposal	(75)	-	(43)	-	(118)
Balance, 31 December 2011	**281**	**161**	**126**	**-**	**568**
Net Book Value:					
31 December 2011	**84**	**302**	**58**	**1,145**	**1,589**
31 December 2010	**83**	**338**	**97**	**1,149**	**1,667**

At 31 December 2011 there are no encumbrances over the Bank's assets to serve as collateral for the timely and regular repayment of loans and other liabilities.

15. REPOSSESSED ASSETS

Repossessed asset in the amount EUR 1,223 thousand as of 31 December 2011 (31 December 2010: EUR 1,343 thousand), subsequent to the impairment of EUR 400 thousand (31 December 2010: EUR 400 thousand) are associated with assets acquired based on the foreclosure of collateral against loans. Loss incurred as the difference between the book value and market value of repossessed assets is recognized in the income statement, as in accordance with IAS 2 "Inventories".

16. EQUITY INVESTMENTS IN OTHER LEGAL ENTITIES

	% of interest	31 December 2011	31 December 2010
		(in thousands of EUR)	
Equity investments in subsidiaries and related parties:			
- Global Carbon d.o.o., Podgorica	100.00%	2,000	2,000
- Atlas banka a.d., Podgorica – common shares	1.93%	1,261	2,451
- Atlas banka a.d., Podgorica – priority shares	1.75%	87	100
- Military medical centre "Meljine"	0.50%	125	125
		3,473	4,676
Securities held for trading:			
- Fond Atlas Mont	1.54%	202	255
- Montenegrin Telekom	0.02%	20	26
- Other		38	42
		260	323
Securities available for sale:			
- Montenegroberza AD	6.69%	123	103
-Other		-	42
		123	145
		3,856	5,144

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, 2011, the Bank owns 100% shares 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 has equity investments in Atlas banka a.d., Podgorica of EUR 1,261 thousand (1.93%) in the form of 706 common shares whose market value amounted to EUR 1.8 thousand. The Bank has equity investments in Atlas banka a.d., Podgorica amounted EUR 87 thousand (1.75%) in the form of 175 priority shares the market value of which amounted EUR 0.49 thousand.

As at 31 December 2011, the Bank holds 3,278,388 investment units of the Fund Atlas Mont, the market value of EUR 0.06 per share, the Bank has participation in net assets value of the Fund of 1.56%.

17. OTHER ASSETS

	(in thousands of EUR) 31 December 2011	31 December 2010
Interest, fee and commission receivables	100	218
Accrued interest	350	193
Accruals	46	20
Receivables from Atlas Cap d.o.o. Podgorica	2,333	2,333
Receivables on fees from custody activities	1	1
Other receivables	30	54
	2,860	2,819
Intangible assets	280	388
	3,140	**3,207**

Other receivables from Atlas Cap doo Podgorica relate to acquisition of CVMU Meljine Herceg Novi, when the Bank partially paid the purchase consideration on behalf of Atlas Capital doo. Maturity of the receivables from Atlas Capital doo is December 31, 2012.

	(in thousands of EUR) 31 December 2011	31 December 2010
Provisions for potential losses contingent on other assets		
- interest	-	(4)
- other assets	(8)	(6)
- repossessed assets	-	(400)
	(8)	**(410)**

As at December 31, 2011 impairment of repossessed assets is reclassified from other assets to repossessed assets in the balance sheet.

The movements on intangible assets in 2011 and 2010 are as follows:

	(in thousands of EUR) 2011.	2010.
Cost of goods sold		
Balance, beginning of year	831	733
Transfers from construction in progress	36	98
Balance, end of year	**867**	**831**
Accumulated Depreciation		
Balance, beginning of year	443	288
Amortization	144	155
Balance, end of year	**587**	**443**
Net Book Value:		
- 31 December	280	388
- 1 January	**388**	**445**

18. DEPOSITS

	(in thousands of EUR) 31 December 2011	31 December 2010
Sight deposits:		
- government agencies	4	3
- municipalities (public organizations)	3	3
- corporate entities with majority state - ownership	-	1
- privately-owned corporate entities	893	970
- retail customers	166	204
- other	16	11
	1,082	1,192
Short-term deposits:		
- privately-owned corporate entities	3,985	2,900
- organizations in the public ownership	650	400
- privatization funds	350	8
- financial institutions	190	685
- retail customers	1,566	795
	6,741	4,788
Long-term deposits:		
- privatization funds	-	80
- financial institutions	622	307
- privately-owned corporate entities	1,001	1,001
- banks	5,400	-
- retail customers	600	93
	7,623	1,481
	15,446	7,461

Long term deposits in the amount of EUR 5,400 thousand are deposited by Atlas Bank A.D., Podgorica in 2011. Deposits of EUR 3,000 thousand and EUR 2,400 thousand are held at a 3% interest rate and maturity dates March and June 2012, respectively.

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 maturing within:

- 3 months were deposited at an interest rate of 4% annually
- 6 months were deposited at an interest rate of 5.5% annually
- 12 months were deposited at an interest rate of 7.5% annually
- 24 months were deposited at an interest rate of 8% annually
- 36 months 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 were deposited at an interest rate of 5% annually
- 6 months were deposited at an interest rate of 6% annually
- 12 months were deposited at an interest rate of 6.5% annually

Long-term deposits of corporate customers in EUR maturing within:

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

As of 31 December 2011 the Bank had EUR 4,377 thousand (2010: EUR 2,755 thousand) purpose deposits that are collateral to loans approved.

19. BORROWINGS

In thousands of EUR	Period/ Year	Anally interest rate	31 December 2011	31December 2010
Domestic creditors:				
Central Bank of Montenegro	15	1%	18	37
Foreign creditors:				
European Investment Bank	12	3.847%	6,000	4,000
			6,018	**4,037**

Borrowings stated as of 31 December 2011 in the amount of EUR 6,018 thousand (2010: EUR 4,037 thousand) are associated with the amounts owed to the European Investment Bank with respect to a long-term loan for financing projects of small and medium sized entities and infrastructural projects with a 3-year grace period.

19. BORROWINGS (continued)

Maturities of loans and borrowings are presented in the following table:

Period	(in thousands of EUR) 31 December 2011
Less than one year	231
From 1 to 5 years	2,310
over 5 years	3,477
	6,018

20. LIABILITIES TO GOVERNMENT

Amounts owed to the Government as of 31 December 2011 amounted to EUR 142 thousand (31 December 2010: EUR 288 thousand) relate to long-term loans obtained from 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.

21. OTHER LIABILITIES

	(in thousands of EUR) 31 December 2011	31 December 2010
Interest payables	-	1
Prepaid interest	90	21
Prepaid loan origination fees	104	97
Accounts payable	82	60
Income taxes payable	20	68
Deferred tax liability	6	8
Winter food allowance	22	26
Payables to employees – housing fund	-	35
Retirement benefits payable to employees	6	3
Other liabilities	34	23
	364	**342**

22. PROVISIONS FOR CREDIT LOSSES ON OFF-BALANCE SHEET ITEMS

	(in thousands of EUR) 31 December 2011	31 December 2010
Reserves for losses on:		
- off-balance sheet exposures	13	17
	13	**17**

23. SHARE CAPITAL

Bank's share capital as at 31 December 2011 is EUR 13,844 thousand and consists of 270,772 common shares with a nominal value of EUR 51.1292. As of 31 December 2010 share capital of the Bank consisted of ordinary shares of EUR 6.217 thousand (121,602 ordinary shares with nominal value of EUR 51,1292 each) and priority shares of EUR 6.277 thousand (95,792 priority shares with EUR 51.1292 nominal value per share and 16.221 priority shares with EUR 85 nominal value per share).

The Law on Banks ("Official Gazette of Montenegro," no. 17/2008 and 44/2010) defines that the minimum cash amount of initial capital may not be less that EUR 5,000 thousand. At 31 December 2011, the Bank's capital complied with the prescribed minimum capital requirements.

Pursuant to Decision of Shareholders assembly on issuance of securities based on split dated June 27, 2011 and Decision of the Securities Commission on recording share issuance and their split dated July 12, 2011 (No. 02/3e-16/2-11), 26,967 cumulative priority shares series "J" were issued at nominal value EUR 51.1292 revoking and superseding cumulative priority shares series "I" in the amount of EUR 1,378,785 comprised by 16,221 shares at nominal value of EUR 85. Share capital increase due to share dilution is EUR 16.

Pursuant to Decision of Shareholders assembly on distribution of retained earnings dated June 27, 2011 and Decision of the Securities Commission on recording share issuance and conversion of retained earnings to share capital dated August 17, 2011 (No. 02/4e-19/2-11), 25,063 cumulative priority shares series "K" were issued at nominal value EUR 51.1292 due to dividend payment through share issue EUR 1,281,451.14 and 1,348 cumulative priority shares series "L" were issued at nominal value EUR 51,1292 due to dividend payment through share issue EUR 68.922,16. Total share capital increase due to profit distribution through share issue is EUR 1.350.373,30.

Pursuant to Decision of Shareholders Assembly on securities issuance of shares based on exchange of shares dated June 27, 2011 and Decision of the Securities Commission on recording issuance of shares, based on exchange of shares dated September 9, 2011 (No. 02/3e-22/2-11), EUR 7,626,942.76 are issued, i.e. 149,170 common shares series "Lj" at nominal value EUR 51.1292. Issuance supersedes and revokes 149,170 of cumulative priority shares.

Decision by Commercial Court in Podgorica on September 19, 2011 registered an increase in equity of the Bank in the Central register in the amount of EUR 1,350,389.44, increasing equity to EUR 13,844,355.74

23. SHARE CAPITAL (continued)

The list of common shareholders of the Bank as of 31 December 2011 and 2010 is as follows:

	31 December 2011			31 December 2010		
Shareholder	Number of shares	EUR 000	% share	Number of shares	EUR 000	% share
Atlas banka a.d., Podgorica	-	-	-	32,392	1,656	26.64
FZU Atlas Mont a.d., Podgorica	136,301	6,969	50.34	32,288	1,651	26.55
Atlas grupa	43,244	2,211	15.97	-	-	-
Atlas invest doo	37,432	1,914	13.83	-	-	-
Kuzman Mladen	12,618	645	4.66	-	-	-
Podravska banka	7,303	373	2.69	-	-	-
Fin Invest d.o.o., Podgorica	-	-	-	29,166	1,491	23.99
IK collective custody account	6,000	307	2.22	6,000	307	4.93
Prenos a.d.	4,140	212	1.53	4,140	212	3.40
Elektroprivreda RCG	4,140	212	1.53	4,140	212	3.40
Uprava za šume Pljevlja	3,138	161	1.16	3,138	160	2.58
HA – collective custody account	2,282	117	0.85	2,282	117	1.88
Sekretarijat za urbanizam, građevi-narstvo i stambeno-komunalne poslove	848	43	0.31	848	43	0.70
Lovćen osiguranje a.d., Podgorica	784	40	0.29	2,200	112	1.81
GP Građevinar d.d., Pljevlja	527	27	0.20	527	27	0.43
Other	12,015	613	4.74	4,481	229	3.63
	270,772	**13,844**	**100.00**	**121,602**	**6,217**	**100.00**

The list of priority shareholders of the Bank as of 31 December 2011 and 2010 is as follows:

	31 December 2011			31 December 2010		
Shareholder	Number of shares	EUR 000	% share	Number of shares	EUR 000	% share
FZU Atlas Mont a.d., Podgorica	-	-	-	80,417	4,289	68.34
Atlas banka a.d., Podgorica	-	-	-	6,217	528	8.42
Fin Invest d.o.o., Podgorica	-	-	-	4,735	402	6.41
Kuzman Mladen	-	-	-	10,000	511	8.15
Podravska banka d.d., Koprivica	-	-	-	5,788	296	4.71
HA – collective custody account	-	-	-	300	15	0.24
Vujadinović Radivoje	-	-	-	500	26	0.41
Popović Ivan	-	-	-	500	26	0.41
DOO Institut za transport Podgorica	-	-	-	300	15	0.24
Hrvatska poštanska banka, Zagreb	-	-	-	-	-	-
Sofico d.o.o.	-	-	-	293	15	0.24
Raguz Mario	-	-	-	290	15	0.24
Other	-	-	-	2,673	139	2.19
	-	**-**	**-**	**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 13,677 thousand. The Bank's core capital as of 31 December 2011 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 1,000 thousand as of 31 December 2011 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 31 December 2011 amounted to EUR 12,677 thousand and represented the sum of the Bank's core capital, supplementary capital and deductions based on the direct investments in another bank or another credit or financial institution in the amount exceeding 10% of capital of these institutions amounting to EUR 2,000 thousand.

Risk-weighted balance sheet and off-balance sheet assets formed in accordance with the Decision on Capital Adequacy amounted to EUR 22,721 thousand at 31 December 2011.

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

In accordance with the Decision on Capital Adequacy in Banks in effect as of 31 December 2011, the Bank is to maintain minimum capital adequacy of 10%.

The capital adequacy ratio computed by the Bank as of 31 December 2011 amounted to 38.36% (2010: 56.96%) and it is above the prescribed minimum.

The major exposure towards a single entity and a group of related entities as of 31 December 2011 amounted to 17.47% and is within the prescribed maximum of 25% of the Bank's own assets. As at 31 December 2011, the Bank had no sum of all large exposures exceeding 800% of own assets that would be considered excessive.

25. OFF-BALANCE SHEET ITEMS

(in thousands of EUR)

In thousands of EUR	31 December 2011	31December 2010
Guarantees to corporate entities:		
- payment guarantees	969	1,013
- performance bonds	172	212
- Irrevocable commitments for approved unused loans and loro checks	251	108
loans written off and other assets	1,272	1,352
Other off-balance sheet items:		
- loans managed on behalf of third parties	201	203
- custody activities	12,289	2,301
- collateral	40,990	22,869
	56,144	**28,058**

As at 31 December 2011 the Bank assessed the provisions for potential losses for off-balance sheet items in the amount of EUR 11 thousand (31 December 2010: EUR 20 thousand). This reserve is recorded as a liability in the balance sheet.

There were no liabilities arising on forward operations as of 31 December 2011.

26. RELATED PARTY TRANSACTIONS

The Bank performs numerous related party transactions in the course of its regular operations. Related parties of the Bank are legal entities that are members of Atlas group, as well as key management of the Bank. The transactions include placements, deposits and foreign currency transactions as well as key management compensations.

The following table summarizes the scope of related party transactions, balance of assets and liabilities on 31 December 2011 and 2010, and related income and expense through the income statement:

	(in thousands of EUR) 31 December 2011	31 December 2010
Receivables		
Special purpose Deposits:		
- Atlas Capital Financial Services Limited, Nicosia	643	1,155
	643	1,155
Loans:		
- Fin Invest d.o.o., Podgorica	3,050	3,000
- Univerzitet Mediteran, Podgorica	1,900	1,830
- RTV Atlas	110	-
- Rekreaturs	100	-
- Atlas Grupa d.o.o., Podgorica	450	450
- Hotel Pljevlja a.d., Pljevlja	-	8
	5,610	5,288
Interest:		
- Fin Invest d.o.o., Podgorica	-	54
- Univerzitet Mediteran, Podgorica	7	4
- RTV Atlas	2	-
- Atlas CAP	39	42
- Atlas Grupa d.o.o., Podgorica	-	14
	48	114
Other receivables:		
- Atlas CAP doo Podgorica	2,333	2,333
- Trojica d.o.o., Pljevlja	269	538
- Obnova a.d. Pljevlja	465	574
	3,067	3,445
Total receivables	**9,368**	**10,002**

26. RELATED PARTY TRANSACTIONS (continued)

(in thousands of EUR)

	31. December 2011.	31. December 2010.
Payables		
A vista Deposits:		
- Atlas Invest	15	-
- Global Carbon d.o.o., Podgorica	-	2
- DZU Atlasmont a.d., Podgorica	72	73
- FZU Atlasmont a.d., Podgorica	9	15
- Atlas Capital Financial services	290	162
- Atlas Group Limited	64	61
- Atlas Life a.d. Podgorica	4	1
- University Mediteran, Podgorica	-	-
	454	314
Term Deposits:		
- Fin Invest d.o.o., Podgorica	150	-
- Global Carbon d.o.o., Podgorica	540	750
- Atlas Grupa d.o.o., Beograd	1,050	1,050
- DZU Atlasmont a.d., Podgorica	100	100
- FZU Atlasmont a.d., Podgorica	350	600
- Atlas Group Limited	100	100
- Atlas Life a.d., Podgorica	387	377
- Atlas banka a.d. Podgorica	5,400	-
- Pension fund management company Atlas Penzija a.d., Podgorica	60	43
	8,137	3,020
Interest expenses:		
- Atlas Grupa d.o.o., Podgorica	-	4
- DZU Atlasmont a.d., Podgorica	-	9
- Atlas Life a.d., Podgorica	-	6
	-	19
Total payables	**8,591**	**3,353**
Receivables / (payables), net	**777**	**6,649**

26. RELATED PARTY TRANSACTIONS (continued)

The Bank's receivables arising from loans approved to related parties were collateralized by a cash deposit in the amount of 69.46% of receivable (2010: 66.75%), i.e. the cash deposit for these loans amounts to EUR 3,500 thousand (2010: EUR 2,530 thousand).

Income earned in related party transactions in 2011 amounted to EUR 232 thousand (2010: EUR 243 thousand) and related to: income from brokerage operations (EUR 5 thousand), interest and fee and commission income charged on approved loans (EUR 416 thousand). Expenses incurred in related party transactions in 2011 amounted to EUR 65 thousand (2010: EUR 19 thousand) and related to interest on deposits. In addition, as disclosed in Note 7, net gains on the sale of securities of EUR 393 thousand relate to the sale of shares in Atlas Banka A.D., Podgorica (ATBA) in December 2011 to Atlas Group. The Bank sold 362 ordinary shares at the price of EUR 1,787 per share which amounts to EUR 647 thousand and realized a gain on this transaction of EUR 466 thousand.

As at 31 December 2011 receivables from employees amounted to EUR 168 thousand (2010: EUR 123 thousand), and pertain to loans approved.

During 2011, The Bank paid to key management, including the General Director and heads of departments, an amount of EUR 87 thousand as remunerations (2010: EUR 101 thousand). The remunerations paid to the members of the Board of Directors amounted to EUR 36 thousand (2010: EUR 32 thousand).

In 2011 the Banka has approved loans to the following companies: V.B. Holding Limited, Attica 26 Limited and Polarisco. Mix Limited. All three entities are registered in Cyprus. The total outstanding amount of exposure toward these three companies as of 31 December 2011 is 6,627 thousand (2010: nil). Collateral for those loans are shares of Atlas bank a.d. Podgorica and Meljine Kompleks Herceg Novi that are owned by Atlas Cap Financial Services Cyprus and Atlas Cap doo Podgorica respectively. The entities to which the Bank approved the loans are not related parties to the Bank and the entities that are collateral owners for the loans mentioned above are related parties to the Bank.

27. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

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 OF FINANCIAL ASSETS AND LIABILITIES (continued)

The contractual maturities of the Bank's assets and liabilities components as of 31 December 2011 is as follows:

(in thousands of EUR)

	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	3,186	-	-	-	-	-	3,186
Trading and available-for-sale securities excluding shares	97	-	-	-	-	-	97
Loans and other receivables	299	670	1,314	6,904	12,031	2,463	23,681
Securities held to maturity	-	-	330	-	-	-	330
Other financial assets including investment in shares	3,098	-	-	-	-	3,597	6,695
Total	**6,680**	**670**	**1,644**	**6,904**	**12,031**	**6,060**	**33,989**
Financial liabilities							
Deposits	1,508	4,000	1,467	3,959	4,512	-	15,446
Loans and borrowings	-	-	111	120	2,310	3,477	6,018
Liabilities towards Government of MNE	35	17	28	29	33	-	142
Other financial liabilities	323	-	-	-	-	-	323
Total	**1,866**	**4,017**	**1,606**	**4,108**	**6,855**	**3,477**	**21,929**
Maturity GAP							
-31 December 2011	**4,814**	**-3,347**	**38**	**2,796**	**5,176**	**2,583**	**12,060**
-31 December 2010	**4,697**	**-1,274**	**942**	**2,129**	**2,275**	**4,421**	**13,190**
Cumulative GAP:							
-31 December 2011	**4,814**	**1,467**	**1,505**	**4,301**	**9,477**	**12,060**	**-**
-31 December 2010	**4,697**	**3,423**	**4,365**	**6,494**	**8,769**	**13,190**	**-**
% of total liquidity bearing assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-31 December 2011	**22%**	**6,7%**	**6,8%**	**19,6%**	**43,2%**	**55%**	**-**
-31 December 2010	**39%**	**28,4%**	**36,3%**	**53,9%**	**72,8%**	**109,6%**	**-**

27. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

The contractual maturities of the Bank's assets and liabilities components as of 31 December 2010 is as follows:

(in thousands of EUR)

	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	3,006	-	-	-	-	-	3,006
Trading and available-for-sale securities excluding shares	50	-	-		-	-	50
Loans and other receivables	182	506	1,992	4,797	4,428	2,162	14,067
Securities held to maturity	-	139	-	-	-	-	139
Other financial assets including investment in shares	3,185	-	-	-	-	4,782	7,967
Total	**6,423**	**645**	**1,992**	**4,797**	**4,428**	**6,944**	**25,229**
Financial liabilities							
Deposits	1,438	1,888	1,025	2,561	550	-	7,462
Loans and borrowings	-	-	-	18	1,496	2,523	4,037
Liabilities towards Government of MNE	35	31	25	89	107	-	287
Other financial liabilities	253	-	-	-	-	-	253
Total	**1,726**	**1,919**	**1,050**	**2,668**	**2,153**	**2,523**	**12,039**
Maturity GAP							
-31 December 2010	**4,697**	**(1,274)**	**942**	**2,129**	**2,275**	**4,421**	**13,190**
-31 December 2009	**4,357**	**432**	**850**	**964**	**1,721**	**4,931**	**13,255**
Cumulative GAP:							
-31 December 2010	**4,697**	**3,423**	**4,365**	**6,494**	**8,769**	**13,190**	**-**
-31 December 2009	**4,357**	**4,789**	**5,639**	**6,603**	**8,324**	**13,255**	**-**
% of total liquidity bearing assets							
-31 December 2010	**39%**	**28.4%**	**36.3%**	**53.9%**	**72.8%**	**109.6%**	**-**
-31 December 2009	**49.9%**	**54.8%**	**64.5%**	**75.6%**	**95.3%**	**151.7%**	**-**

27. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

The Bank's liquidity, 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 31 December 2011 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 30% comprise of special purpose deposits and securitize loans approved.

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 unfavourable 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.

28. INTEREST RATE RISK (continued)

The table below shows the Bank's exposure to interest rate risk as of 31 December 2011:

(in thousands of EUR)

	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	856	-	-	-	-	**856**
Interest bearing securities	-	-	327	-	-	**327**
Loans and other receivables	310	669	1,312	6,901	14,489	**23,681**
Other sensitive assets	2,333	-	-	-	-	**2,333**
Total	**3,499**	**669**	**1,639**	**6,901**	**14,489**	**27,197**
%of total interest bearing assets	12.87%	2.46%	6.03%	25.37%	53.27%	100.00%
Interest rate sensitive liabilities						
Interest bearing deposits	482	6,615	1,094	2,711	968	11,870
Interest bearing borrowings	35	17	139	149	5,820	6,160
Total	**517**	**6,632**	**1,233**	**2,860**	**6,788**	**18,030**
% of total interest bearing liabilities	2.87%	36.78%	6.84%	15.86%	37.65%	100.00%
Interest rate exposure						
- 31 December 2011	2,982	(5,963)	406	4,041	7,701	9,167
- 31 December 2010	**1,083**	**429**	**1,058**	**3,514**	**1,733**	**7,817**
Cumulative GAP:						
- 31 December 2011	**2,982**	**(2,981)**	**(2,575)**	**1,466**	**9,167**	**-**
- 31 December 2010	**1,083**	**1,512**	**2,570**	**6,084**	**7,817**	**-**

28. INTEREST RATE RISK (continued)

The table below shows the Bank's exposure to interest rate risk as of 31 December 2010:

In thousands of EUR

	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
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	13.61%	6.06%	16.65%	5.97%	58.16%	100.00%
Interest rate exposure						
- 31 December 2010	1,083	429	1,058	3,514	1,733	7,817
- 31 December 2009	**2,800**	**807**	**2,007**	**1,361**	**2,472**	**9,447**
Cumulative GAP:						
- 31 December 2010	**1,083**	**1,512**	**2,570**	**6,084**	**7,817**	
- 31 December 2009	**2,800**	**3,607**	**5,614**	**6,975**	**9,447**	

NOTES TO FINANCIAL STATEMENTS

29. CURRENCY RISK

The following table summarizes the net foreign currency position of the Bank's monetary assets and liabilities as of 31 December 2011 and 2010. 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.

(in thousands of EUR)

	RSD	USD	GBP	CHF	Other	Total
Assets in foreign currencies	-	91		10	4	105
Liabilities in foreign currencies	-	234	-	5	-	239
Net foreign exchange position:						
- 31 December 2011	**-**	**(143)**	**-**	**5**	**4**	
- 31 December 2010	**-**	**4**	**-**	**1**	**3**	
% of first-tier capital:						
- 31 December 2011	**0%**	**1%**	**0%**	**0%**	**0%**	
- 31 December 2010	**-**	**0%**	**0%**	**0%**	**0%**	
Aggregate open position:						
- 31 December 2011	**(134)**					
- 31 December 2010	**8**					
% of core capital:						
- 31 December 2011	**-1%**					
- 31 December 2010	**0%**					

29. CURRENCY RISK (continued)

(in thousands of EUR)

	RSD	USD	GBP	CHF	Other	Total
Assets in foreign currencies	-	14		1	3	18
Liabilities in foreign currencies	-	10	-	-	-	10
Net foreign exchange position:						
- 31 December 2011		**4**	**-**	**1**	**3**	
- 31 December 2010	-	**1**	**-**	**-**	**2**	
% of first-tier capital:						
- 31 December 2011	**-**	**0%**	**0%**	**0%**	**0%**	
- 31 December 2010	**-**	**0.02%**	**-**	**-**	**0.03%**	
Aggregate open position:						
- 31 December 2011	**8**					
- 31 December 2010	3					
% of core capital:						
- 31 December 2011	**0%**					
- 31 December 2010	**0.05%**					

30. LITIGATIONS

As at 31 December 2011, there were several legal suits filed against the Bank in the amount of EUR 541 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 of litigations on the financial statements of the Bank. Therefore, no provision has been included in the financial statements.

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.

33. SUBSEQUENT EVENTS

The Bank did not have any significant after balance sheet events that would have materially significant influence on the financial statements for 2011.

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 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
USD	0.7729	0.7530
CHF	0.8226	0.8016
GBP	1.1972	1.1625

Signed on behalf of Invest Banke Montenegro A.D., Pogorica:

The person responsible for the preparation of financial statements	Chief Executive Officer	Executive Director
Milanka Radunović	Zoran Nikolić	Predrag Dašić

Invest banka Montenegro A.D. PODGORICA

FOR INTERNAL USE BY THE
CENTRAL BANK OF MONTENEGRO

ANALYSES OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

ANALYSES OF THE FINANCIAL STATEMENTS

A ANALYSES OF THE INDIVIDUAL FINANCIAL STATEMENTS

I INTRODUCTION

Financial statements of Invest Banka Montenegro A.D., Podgorica (hereinafter "the Bank"), which were subject of audit, have been prepared in accordance with accounting standards and regulations of Montenegro and regulations of Central Bank of Montenegro governing financial reporting of banks. The prescribed forms of financial statements were submitted within the legal deadline of the Central Bank of Montenegro.

II STATEMENT OF INCOME AND STATEMENT OF FINANCIAL POSITION ANALYSIS

Detailed analysis of the balance sheet and income statement are provided in the notes to financial statements (from 4 to 25).

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK

I BANK ASSET QUALITY

Classification of assets and the relevant off balance sheet items, in the terms of determining asset quality, was performed in accordance with the Decision of the Central Bank of Montenegro on the Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro", no. 60/08 and 41/09). Based on classification performed and in accordance with the internal politics, the Bank has made reserves for potential losses on the day of 31 December 2011 in the amount of EUR 150 thousand.

Performance Indicators of Bank debtors are taken in consideration when determining the classification of assets and the required provisions for potential losses of the Bank as well as the quality of debt service, renewal of loans to debtors in the same year, the quality of collateral instruments and confirmation of credit and interest collection during the 2011 year, until the audit conclusion.

Summarizing the results of a quality of the Banks' balance sheet and off-balance sheet assets from the point of collectability and the need for creating reserves for providing the Bank against potential losses, provided the following relations and parameters: (based on the Bank's calculation):

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

I BANK ASSET QUALITY (continued)

The structure of risk weighted assets and off balance sheet items as at 31 December 2011 and 2010 is shown in the following table:

(in thousands of EUR)

	2011.			2010.		
	Amount	%	Formed reserves	Amount	%	Formed reserves
Loans	23,680		150	14,066		135
Less: Loans collateralized	(4,507)		-	(3,897)		
	19,173	93	150	10,169	79	135
Accrued interest	51	-	8	155	1	
Other risk balance sheet assets	-	-	-	1,312	10	6
Contingent liabilities	1,141	7	11	1,224	10	17
Total risk exposure	**20,365**	**100**	**169**	**12,860**	**100**	**158**

Asset structure by categories of risk, after allowing for cash deposits, as at 31 December 2011, is shown in the following table:

(in thousands of EUR)

Category	Loans	Accrued interest	Other asset	Off-balance evidence	Total	%
A	15,453	32	-	791	16,276	79
B	3,557	19	-	350	3,926	19
C	157	-	-	-	157	8
D	6	-	-	-	6	
	19,173	**51**	**-**	**1,141**	**20,365**	**100**

Risk-weighted balance sheet and off-balance sheet assets comprising the total sum of assets classified from the point of collection, as at December 31, 2011 represented 64% of total assets (before impairment for loan loss provisions and impairment losses on other assets).

Policy and procedures for credit risk management, adopted in March 2009 is in compliance with the Decision of the Central Bank on minimum standards for loan concentration risk management.

As at 31 December 2011 the Bank did not have exposure exceeding the prescribed maximum of 25% of its own funds. Likewise, total sum of high exposures did not exceed 800% of the Bank’s own funds as at 31 December 2011.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

II EQUITY AND CAPITAL ADEQUACY

As at 31 December 2011 share capital of the Bank in the amount of EUR 13,844 thousand comprise 270,772 ordinary shares, with nominal value of EUR 51.1292.

The Law on Banks ("Official Gazette of Montenegro," no. 17/2008 and 44/2010) defines that the minimum cash amount of initial capital may not be less that EUR 5,000 thousand. As at 31 December 2011 the cash capital amount is in the prescribed minimum.

Pursuant to Decision of Shareholders assembly on issuance of securities based on split dated June 27, 2011 and Decision of the Securities Commission on recording share issuance and their split dated July 12, 2011 (No. 02/3e-16/2-11), 26,967 cumulative priority shares series "J" were issued at nominal value EUR 51.1292 revoking and superseding cumulative priority shares series "I" in the amount of EUR 1,378,785 comprised by 16,221 shares at nominal value of EUR 85. Share capital increase due to share dilution is EUR 16.

Pursuant to Decision of Shareholders assembly on distribution of retained earnings dated June 27, 2011 and Decision of the Securities Commission on recording share issuance and conversion of retained earnings to share capital dated August 17, 2011 (No. 02/4e-19/2-11), 25,063 cumulative priority shares series "K" were issued at nominal value EUR 51.1292 due to dividend payment through share issue EUR 1,281,451.14 and 1,348 cumulative priority shares series "L" were issued at nominal value EUR 51,1292 due to dividend payment through share issue EUR 68.922,16. Total share capital increase due to profit distribution through share issue is EUR 1.350.373,30.

Pursuant to Decision of Shareholders Assembly on securities issuance of shares based on exchange of shares dated June 27, 2011 and Decision of the Securities Commission on recording issuance of shares, based on exchange of shares dated September 9, 2011 (No. 02/3e-22/2-11), EUR 7,626,942.76 are issued, i.e. 149,170 common shares series "Lj" at nominal value EUR 51.1292. Issuance supersedes and revokes 149,170 of cumulative priority shares.

Decision by Commercial Court in Podgorica on September 19, 2011 registered an increase in equity of the Bank in the Central register in the amount of EUR 1,350,389.44, increasing equity to EUR 13,844,355.74

As at 31 December 2011 retained profit amounts to EUR 39 thousand, of which retained profit for the current year is EUR 30 thousand.

The Bank is obliged to obtain the extent of its operations within the prescribed parameters, i.e. that the scope and structure of risk assets is in compliance with the Law on Banks and the regulations of the Central Bank of Montenegro.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

II EQUITY AND CAPITAL ADEQUACY (continued)

The Bank's core capital formed in accordance with the Decision on Capital Adequacy amounted to EUR 13,767 thousand. The Bank's core capital as of 31 December 2011 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 1,000 thousand as of 31 December 2011 and was comprised of the 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 31 December 2011 in the amount of EUR 12,677 thousand and represented the sum of the Bank's core capital, supplementary capital and deductions based on the direct investments in another bank or another credit or financial institution in the amount exceeding 10% of capital of these institutions amounting to EUR 2,000 thousand.

Risk-weighted balance sheet and off-balance sheet assets formed in accordance with the Decision on Capital Adequacy amounted to EUR 22,721 thousand at 31 December 2011.

In accordance with the Decision on Capital Adequacy in Banks in effect as of 31 December 2011, the Bank is to maintain minimum capital adequacy of 10%. The capital adequacy computed by the Bank as of 31 December 2011 amounted to 38.36% (2010: 52.02%) and it is above the prescribed minimum

The major exposure towards a single entity and a group of related entities as of 31 December 2011 amounted to 17.47% and is within the prescribed maximum of 25% of the Bank's own assets. At 31 December 2011, the Bank had no sum of large exposures exceeding 800% of own assets that would be considered excessive.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

III LIQUIDITY OF THE BANK

Liquidity risk management is defined by Policies and procedures for managing liquidity risk, adopted in March 2009, which defines the responsibilities of the Bank's liquidity management, through the following organs:

- the Management of the Bank,
- Risk Manager,
- The Committee on Asset and Liability Management (ALCO).

The liquidity of the Bank is defined as its ability to settle its overdue obligations. The Bank is exposed to daily obligations for withdrawal of funds by customers, affecting the funds available from current accounts, deposits, withdrawals of loans. The Bank does not have to maintain the level of funds in order to meet all potential requirements, estimating that the minimum level of reinvestment of maturing funds can be predicted with certainty. Compliance and controlled inconsistency of interest rates and maturities of assets and liabilities are fundamental for Bank's management. It is unusual for banks to completely harmonize investments and sources, since the different types of business transactions perform for an indefinite period.

Bank's liquidity risk management implies that the liquidity is based on a regular and stable collection of receivables on their maturity dates, and accordingly the Bank monitors the funds disbursed from the point of probability of collection in agreed period. The primary sources of Banks funds are deposits of domestic legal entities and retail clients as well as short-term credit lines granted by Banks.

The Bank maintains liquidity by constantly monitoring the alignment of resources and placements in order to be able to settle on mature date all its commitments and commitments of its depositors, while at the same time, the Bank is trying to meet the needs of the founder and business customers in approving the loans, i.e. to adjust maturities of loans with borrower needs.

The policy for managing liquidity risk management defines the critical circumstances and situations, critical description of all circumstances and situations, activities and measures and responsibilities for the same, measures and opportunities to secure additional sources of funds and adjust the current structure of resources in emergency situations and plans for communication with regulatory authorities, public and the largest customers in case of emergencies.

Procedures for measurement, control and monitoring of liquidity risk prescribe the following: The minimum of funds the Bank shall maintain in cash and cash equivalents in relation to current liabilities, in order to maintain adequate liquidity, that comply with the Decision on Minimum Standards for Liquidity Risk Management in Banks ("Official Gazette of RM" no. 60/08); Activities undertaken by the Bank in case of unexpected situations, where there is the possibility of threat to liquidity; Reports on exposures and liquidity ratios.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

III LIQUIDITY OF THE BANK (continued)

As at 31 December 2011 and 31 December 2010 liquidity of the Bank can be closer consider from the following indicators:

				2011	2010
Loans / Deposits	=	23,531 / 15,446	x 100 =	152.34%	188.53%
Liquid assets / Deposits	=	3,281 / 15,446	x 100 =	21.24%	40.29%
Liquid assets / Total assets	=	3,281 / 36,941	x 100 =	8.88%	10.71%
Liquid assets / Current liabilities	=	3,281 / 11,598	x 100 =	28.29%	40.83%

The ratio of loans and deposits decreased compared to the indicator in 2010 as a result of faster growth of deposits (107%) compared to loan growth by (68%) in 2011.

The ratio of liquid assets and deposits, on the one side and the ratio of total assets and current liabilities, on the other side, are declining in relation to comparable indicators, as an indicator of slower growth of liquid assets compared to growth of deposits, total assets and current liabilities. The liquid assets comprise cash and cash equivalents, in which structure there was a significant increase in obligatory reserve with the Central Bank of Montenegro , which is allocated in accordance with the Decision on obligatory reserve ("Official Gazette of Montenegro" no. 35/2011 from July 1, 2011). On the other hand, the increase in total assets is mostly due to growth of loans and placements.

Maturity gap of financial assets and liabilities as at 31 December 2010 is shown in Note 27.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

IV INTEREST RATE RISK

Existing interest rate determined by the Decision on interest rates and fees by the commercial banking sector. This decision defines the basic goals and guidelines for interest rate policy, principles and method of determining the interest rates agreed by contract, calculate and charge interest on loans and other receivables, or pays on deposits and other received funds.

The Bank accepts a certain exposure to the effects of changes in levels of market interest rates on its financial position and cash flows. As a result of such changes the Bank's interest margin may increase, but it may also occur in the reduction or loss occurring in case of unexpected movements in interest rates..

In accordance with the Policies and procedures for managing interest rate risk, adopted in March 2009, the Bank manages the risk of interest rate risk and should provide:

- identification of existing interest rate risk and the risk that may arise from new business product or activity;
- measure of interest rate through the establishment of mechanism and procedures for accurate and timely assessment of interest rate risk;
- monitoring of interest rate risk by analyzing the situations, changes and trends;
- controlling of interest rate risk, risk management on level acceptable to the Bank's risk profile.

The system of interest-rate risk management must be appropriate to the level of risk taken and the complexity of products and services used by the Bank in its operation activities.

By defining the limits for the level of exposure to interest rate risk in the following manner, and in accordance with the policy of interest rate risk management:

The Bank measures interest rate risk through the preparation of GAP reports for all items of assets, liabilities and off balance sheet items.

GAP analysis calculates the coefficient of interest rate risk by the following formula:

$$\text{Coefficient of interest rate risk} = \frac{\text{Interest bearing assets (RSA)}}{\text{Interest bearing liabilities (RSL)}}$$

The value of the coefficient may be greater than one, less than or equal to one. GAP is positive if the coefficient of risk is greater than one, which means the greater influence of interest rates on assets in the balance than on the liabilities, meaning a high risk in case of falling interest rates.

If the coefficient is less than one GAP is negative. This entails a greater impact of interest rate on liabilities than on assets, which means a big risk if interest rates increase.

If the GAP is zero there is no exposure to interest rate risk to the Bank.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

IV INTEREST RATE RISK (continued)

In case that a variable interest rate has not been contracted, for the purpose of interest rate risk analysis, the Bank will use interest rate sensitivity ratio = interest rate GAP / total assets; where the GAP is = interest bearing assets – interest bearing liabilities. This ratio can be equal or lower than 80%.

Active interest rates on loans approved to corporate clients during 2011 are as follows:

Type of Loan	Interest rate
Short term loan	10% - 16%
Long term loan	10% - 16%
Loans secured by deposit	Passive interest rate + 4.5% - 6.5%
Loans from the earmarked funds	Interest margin is defined in the grant Agreement and is at least 2% p.a.
Active interest on interbank loans	4.5% do 6.5% annually

Active interest rates on loans approved to retail clients during 2011 are as follows:

Type of Loan	Interest rate
Cash loans, loans for refinancing of obligations with other banks, cash loans for start up business and cash earmarked loans for the purchase of consumer goods (non-clients)	14% - 20%
Cash loans, loans for refinancing of obligations with other banks, cash loans for start up business and cash earmarked loans for the purchase of consumer goods (clients)	12%
Cash loans for special clients of the Bank	10%
Overdraft for special clients of the Bank	10%

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

IV INTEREST RATE RISK (continued)

The passive interest rates on deposits of corporate clients during 2011 are as follows:

Type of deposit	Interest rate
Deposits in EUR:	
A-Vista	0%-1.5%
Up to 3 months	5%
Up to 6 months	6%
Up to 12 months	6.5%
Up to 24 months	7.0%
Over 24 months	7.5%
Deposits in foreign currencies:	
- A-Vista	Without interest
- Term	Under contract

The passive interest rates on deposits of retail clients during 2011 are as follows

Type of deposit	Interest rate
Deposits in EUR:	
A-Vista	1.5%
3 months	4%
6 months	5,5%
12 months	7.5%
24 months	8%
36 months	8.5%
Deposits in foreign currencies:	
- A-Vista	Without interest
- Term	Under contract

V FOREIGN EXCHANGE RISK

According to the Decision of the Central Banks minimum standards for market risk management in banks ("Official Gazette of Montenegro", no. 60/08), the following limits related to open foreign exchange position are established:

- Individual open position at the end of the day for the currencies from exchange rate list of Europe Central Bank – max. 15% of share capital;
- Aggregate open position at the end of the day for the currencies from referral exchange rate list of Europe Central Bank – max. 20% of share capital;
- Net open position at the end of the day for currencies that do not meet the above conditions cannot exceed over:

- 5% of share capital, separately by currency;
- 10% of share capital, for total Bank currencies.

As at 31 December 2011 the Bank has not differed from the prescribed exposure. Net foreign exchange position as at 31 December 2011 is shown in Note 29.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

V FOREIGN EXCHANGE RISK (continued)

The Bank manages foreign exchange risk on the basis of policies for market risk management, adopted in March, 2009. In accordance with this policy, the Bank manages foreign exchange risk by monitoring the rate of currency in world markets, maintaining foreign currency receivables at least in the volume of foreign currency payables, as well as maintaining maturity harmonization of foreign currency assets and liabilities.

Risk manager, financial management sector and ALCO are responsible for the monitoring and management of foreign exchange risk.

The Bank had no irrevocable stand-by arrangements as at 31 December 2011.

VI COUNTRY RISK

In accordance with the Decision from Central Bank of Montenegro on methodology for country risk measurement ("Official Gazette of Montenegro", no. 60/2008) which is brought on the Meeting of Council of Central Bank of Montenegro, held on September 17and September 18, 2008. In March 2009, the Bank adopted Policy and procedures of country risk management. The Policy prescribes methods and procedures of identification, measurement, control and monitoring of country risk.

The country risk is probability of incurring losses for the Bank, due to the inability to collect receivables from entities outside of Montenegro for political, social and economic reasons of the debtor's country of origin.

Country risk at 31 December 2011 was calculated using the current methodology rating of debtors countries. The following percentages of reserves are defined by the Policy of country risk management, in accordance with the rating of the country to which the bank has exposure (Standard & Poor's):

Risk categories	**Ponder of risk**
Non-risk countries	0%
Low-risk countries	50-100%
The medium risk countries	150-250%
High risk countries	Minimal 300%

Responsible for monitoring of country risk are: Department of International Affairs, Manager of Risk Management and ALCO. The manager has an obligation to take care of identifying, measuring and monitoring the Bank's exposure to country risk. Risk manager reports ALCO which reports to the Board of Directors once a month.

As at 31 December 2011 and also 31 December 2010, the Bank did not have reserves on the country risk basis.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

VII OPERATIONAL RISK

In accordance with the Decision of the Central Bank of minimum standards for operational risk management in banks ("Official Gazette of RM" no. 24/2009), which was adopted at the session of the Central Bank of Montenegro, held on 23 and 24 February 2009, the Bank adopted in March 2009 a policy and procedures for managing operational risk. This policy prescribes the methods and procedures to identify and measure risks, precautions, responsibilities and reporting system.

Operational risk is defined as the risk of loss due to improper or inappropriate conduct and actions of employees, inadequate and / or errors in processes and organization, inadequate and/or error in systems and infrastructure or due to external factors and influences.

In accordance with the Decision of the Central Bank, the Bank is obliged that for operational risk exceeding 1% of venture capital and for the losses arising from, to inform the Central Bank of Montenegro, at the latest within eight working days from the date of loss occurred.

VIII SYSTEM OF INTERNAL CONTROL AND INTERNAL AUDIT

Organizational structure of the Bank established levels and lines of authority and responsibility with a clear delimitation between the functions of management and functions of governance. The management bodies are: the Assembly of the Bank and the Board of Directors of the Bank.

The Bank is managed by the Chief Executive Officer.

The Bank has nominated internal auditor. Internal audit activities are performed in accordance with the Rulebook of internal audit.

In accordance with the above internal Rulebook, scope of internal audit includes, but is not limited to:

- Compliance with relevant rules, guidelines, instructions and standards;
- Evaluation of the reliability of rules and division of duties within the banking operations;
- Review and assess the effectiveness and benefits of financial and administrative controls;
- Monitoring the adequacy, reliability, security and inviolability of accounting and other management information systems;
- Review of effectiveness and efficiency of banking operations;
- Testing the validity of measures used to achieve banking operations;
- Test and evaluation of the adequacy and effectiveness of internal controls;
- Review of application and effectiveness of risk management procedures and assessment methodologies of risk assessment;
- Evaluation of information systems, with special emphasis on electronic information systems and banking applications;
- Assessment of the accuracy and reliability of accounting financial statements;
- Assessment of the banking system in the determination of capital in relation to the estimated risk;
- Testing of transactions and functioning of specific internal control procedures;
- Adherence to legal and statutory regulations, code of ethics, implementation of policies and procedures;
- Conducting special investigations.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

B REVIEW AND EVALUATION OF OPERATION QUALITY AND FINANCIAL POSITION OF THE BANK (continued)

VIII SYSTEM OF INTERNAL CONTROL AND INTERNAL AUDIT (continued)

At reporting of Bank's management, internal auditing acts independently to establish and report on adequacy, reliability and effectiveness of controls used by banks management to manage risks, preventively achieving banking objectives, including reporting on effective and efficient use of banking resources in achieving banking objectives.

Internal audit plan is passed at the beginning of the year for the next year. Internal audit plan determines areas of business that will be audited, the extent of coverage of internal audits in various areas of operations, procedures and activities that will be implemented in the audit process of the planned business areas, the deadlines for implementation of planned activities and for reporting.

Internal auditor presents quarter and annual reports to Bank's management on audits performed. Reports contains overview of all audits performed, findings with recommendations for correcting irregularities, improvement of the system of internal control functions, a summary of corrected irregularities determined in previous audits and recommendations and assessment of corrections made.

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

C REVIEW OF ORGANIZATIONAL STRUCTURE

The Bank carries on business in the Headquarters in Podgorica.

The bank carries on business through the following organizational units - the Department or independent of the Department, as follows:

1. Executive management
1.1 Chief executive management
1.2 Executive director
1.3 Deputy of Chief executive director
1.4 Adviser of Chief executive director
2. Internal audit
3. Anti money laundering and financing of terrorism
4. Compliance
5. Risk management
6. IT system security
7. Investment banking department
7.1.1 Treasury department
7.1.2 Custody
8. Department for IT system
9. Commercial banking department
10. Support department
10.1.1 Accounting and finance department
10.1.2 Department for legal and general issues
10.1.3 Clearing and settlement department

As at 31 December 2011, the Bank has 29 employees (31 December 2010: 36 employees).

Qualification structure as at 31 December 2011 is as follows:

	Number of employees	%
University degree	27	79
Secondary education	2	21
	29	100

Members of the Board of Directors on 31 December 2011 are:

Name	Role
Rajko Bujković (Jadranski sajam a.d., Budva)	President
Igor Martinović (Law office)	Member
Sonja Burzan (Atlas Mont banka A.D., Podgorica)	Member
Predrag Dašić (Bank)	Member
Basil Petrides	member

ANALYSES OF THE FINANCIAL STATEMENTS (continued)

C REVIEW OF ORGANIZATIONAL STRUCTURE (continued)

Members of Audit Committee as at 31 December 2011 are:

Name	Role
Sonja Burzan	President
Danijela Laketić	Member
Slobodan Manojlović	Member

Members of ALCO Committee as at 31 December are:

Name	Role
Zoran Nikolić	President
Milanka Radunović	Member
Ana Brailo	Member
Jelena Laban	Member
Enes Kurpejović	member
Mileva Marojević	Member

As at 31 December 2011, General Executive Manager of the Bank is mr. Zoran Nikolić.

As at 31 December 2011, Internal Auditor is Mrs. Marina Dedić.

D REPORT IN SUMMARY FORM

In accordance with the Decision on Reports that banks submit to the Central Bank of Montenegro, the report in a short form consists of audit opinions on financial statements, income statement and balance sheet, data on members of the Board of Directors, the Audit Committee, data on ALCO Committee, data on Chief Executive Officer and internal auditor of the Bank and data on performance indicators.

REPORT IN SUMMARY FORM

ERNST & YOUNG

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This is an English translation of the Report originally issued in Montenegrin language (For management purposes only)

INDEPENDENT AUDITORS' REPORT
TO THE OWNERS OF INVEST BANKA MONTENEGRO A.D., PODGORICA

Report on Financial Statements

The accompanying summary financial statements, which comprise the summary balance sheet as at 31 December 2011, the summary income statement, and related notes, are derived from the audited financial statements of Invest Banka Montenegro A.D., Podgorica (hereafter: "the Bank") for the year ended 31 December 2011.

We expressed an unmodified audit opinion on those financial statements in our report dated 30 May 2012. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by the Law on Accounting and Auditing and regulations of the Central Bank of Montenegro governing financial reporting of banks. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Bank.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with the Law on Accounting and Auditing and regulations of the Central Bank of Montenegro governing financial reporting of banks.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Invest Banka Montenegro a.d. Podgorica for the year ended 31 December 2011 are consistent, in all material respects, with those financial statements which are prepared in accordance with the Law on Accounting and Auditing and regulations of the Central Bank of Montenegro governing financial reporting of banks.

Podgorica, 30 May 2012

Ernst & Young Montenegro d.o.o.
Podgorica, Montenegro

Stephen Fish
Partner

Draško Popović
Authorized auditor

THE SUMMARY INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011	2010
		(in thousands of EUR)	
Interest income	3.1, 4a	1,540	1,190
Interest expense	3.1, 4b	(463)	(222)
Net interest income		**1,077**	**968**
Expenses for losses	3.7, 5	(98)	(24)
Net income		**979**	**944**
Fee and commission income	3.1, 6a	163	137
Fee and commission expense	3.1, 6b	(155)	(122)
Net fee and commission income		**8**	**15**
NET FEE AND COMMISSION INCOME		**987**	**959**
Other income, net	7	708	1,103
General expenses	8	(1,705)	(1,356)
NET INCOME/(EXPENSES) BEFORE EXTRAORDINARY ITEMS		**(10)**	**706**
Extraordinary income		58	-
PROFIT BEFORE TAXATION		**48**	**706**
Income taxes	3.3, 9	(18)	(64)
NET PROFIT FOR THE YEAR		**30**	**642**

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

These financial statements are approved by Management Board of Invest Bank Montenegro A.D., Podgorica, based on a Decision number 04-256/13 dated 31 January 2012.

Signed on behalf of Invest Banke Montenegro A.D., Pogorica:

The person responsible for the preparation of financial statements	Chief Executive Officer	Executive Director
Milanka Radunović	Zoran Nikolić	Predrag Dašić

Invest banka Montenegro A.D. PODGORICA

THE SUMMARY BALANCE SHEET AS AT 31 DECEMBER 2011

(in thousands of EUR)

	Notes	2011	2010
ASSETS			
Cash and deposit accounts held with depository institutions	10	3,186	3,006
Securities available for sale, excluding shares	11	97	50
Loans and leases	12	23,531	13,931
Securities held to maturity	13	327	139
Business premises and other fixed assets	14	1,589	1,667
Repossessed assets	15	1,223	1,343
Equity investments in other legal entities	16	3,856	5,144
Other assets	17	3,140	3,207
Less: Provisions for potential losses on other assets	17	(8)	(410)
Total assets		36,941	28,077
LIABILITIES			
Deposits	18	15,446	7,461
Borrowings	19	6,018	4,037
Liabilities to Government	20	142	288
Other liabilities	21	364	342
Provisions for losses contingent on off-balance sheet items	22	13	17
Total liabilities		21,983	12,145
EQUITY			
Share capital	23	13,844	12,494
Share premium		2	2
General reserves		73	73
Revaluation reserves		1,000	2,002
Retained earnings		39	1,361
TOTAL EQUITY		14,958	15,932
Total liabilities		36,941	28,077
OFF-BALANCE SHEET ITEMS	25	56,144	28,058

These financial statements are approved by Management Board of Invest Bank Montenegro A.D., Podgorica, based on a Decision number 04-256/13 dated 31 January 2012.

Signed on behalf of Invest Banke Montenegro A.D., Pogorica:

The person responsible for the preparation of financial statements	Chief Executive Officer	Executive Director
Milanka Radunović	Zoran Nikolić	Predrag Dašić

Invest banka Montenegro A.D. PODGORICA

INFORMATION ON THE BOARD OF DIRECTORS, AUDIT COMMITTEE, CHIEF EXECUTIVE OFFICER AND INTERNAL AUDITOR

Members of the Board of Directors on 31 December 2011 are:

Name	Role
Rajko Bujković (Jadranski sajam a.d., Budva)	President
Igor Martinović (law office)	Member
Sonja Burzan (Atlas banka ad, Podgorica)	Member
Predrag Dašić (Banka)	Member
Basil Petrides	Member

Members of Audit Committee as at 31 December 2011 are:

Name	Role
Sonja Burzan	President
Danijela Laketić	Member
Slobodan Manojlović	Member

Members of ALCO committee as of 31 December 2011 are the following:

Name	Role
Zoran Nikolić	President
Milanka Radunović	Member
Ana Brailo	Member
Jelena Laban	Member
Enes Kurpejović	member
Mileva Marojević	Member

As at 31 December 2011, General Executive Manager of the Bank is mr. Zoran Nikolić.

As at 31 December 2011, Internal Auditor is Mrs. Marina Dedić.

PERFORMANCE INDCATORS OF THE BANK AS AT 31 DECEMBER 2011

The performance indicators as at 31 December 2011 are as follows:

Indicators	Achieved indicators 2011	Achieved indicators 2010
Shareholders equity	EUR 13,677 thousand	EUR 7,267 thousand
Additional paid capital	EUR 1,000 thousand	EUR 7,267 thousand
Net asset	EUR 12,677 thousand	EUR 9,880 thousand
Weighted balance and off-balance asset	EUR 22,721 thousand	EUR 14,033 thousand
Capital adequacy	38.36%	52.02%
ROA	0.14%	2.51%
ROE	0.31%	4.03%