TRANSLATION

INVEST BANKA MONTENEGRO AD, PODGORICA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 WITH INDEPENDENT AUDITORS' REPORT

Podgorica, May 2013

C O N T E N T S: *Page*

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TRANSLATION

TO THE SHAREHOLDERS

INVEST BANKA MONTENEGRO AD, PODGORICA

Independent Auditors' Report

We have audited the accompanying financial statements of INVEST BANKA MONTENEGRO AD, Podgorica ("the Bank"), which comprise the balance sheet as at 31 December 2012, income statement, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and objective presentation of these financial statements in accordance with Law on Accounting and Audit applicable in Montenegro and regulations of the Central Bank of Montenegro that regulate 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 qualified opinion.

Hipotekarna banka a.d. Podgorica, račun 520-1370100-53
Erste Bank a.d. Podgorica, račun 540-1000032318221-33
PIB 02626837 PDV 30/31-05509-0

Basis for Qualified Opinion

In our opinion losses on items of assets for 2012 are understated in the amount of EUR 657 thousand, while loans and leases receivables are overstated for the same amount as at 31 December 2012. As a result, current year's profit and equity as at 31 December 2012 are overstated for the same amount.

Qualified Opinion

In our opinion, except for the effects of the matter described in *the Basis for Qualified Opinion* paragraph, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with Law on Accounting and Audit applicable in Montenegro and regulations of the Central Bank of Montenegro that regulate financial reporting of banks.

Other matters

The financial statements as at and for the year ended 31 December 2011 were audited by another auditor who expressed an unqualified opinion on these financial statements as at 30 May 2012.

Podgorica, 23 May 2013 KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

Podgorica, 23 May 2013 KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. PODGORICA KPMG

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of EUR	Note	2012	2011
Interest income	3.3, 4	2,180	1,540
Interest expense	3.3, 4	(767)	(463)
Net interest income		**1,413**	**1,077**
Impairment losses	3.5, 5	(399)	(98)
NET INCOME		**1,014**	**979**
Fee and commission income	3.4, 6	162	163
Fee and commission expenses	3.4, 6	(172)	(155)
Net fee and commission income		**(10)**	**8**
Net income from interest and fees and commissions		**1,004**	**987**
Other income, net	3.6,7	394	708
General expenses	3.7,8	(1,306)	(1,705)
Extraordinary income		-	58
PROFIT BEFORE TAX		**92**	**48**
Income tax expense	3.16,9	(17)	(18)
PROFIT AFTER TAX		**75**	**30**

These financial statements were approved by the Board of directors, based on the Invest Bank AD, Podgorica, Decision No. 04-292/13 dated 31 January 2013

On behalf of INVEST BANKA MONTENEGRO, AD Podgorica

Person responsible for preparing financial statements	*Chief Executive Director*	*Executive Director*
Milanka Radunović	Zoran Nikolić	Predrag Dašić

The notes on pages 7 to 27 form an integral part of these Financial Statements.

BALANCE SHEET AS AT 31 DECEMBER 2012

In thousands of EUR	Note	2012	2011
ASSETS			
Cash and deposit accounts with depository	10	2,760	3,186
Assets for the trade and assets available for sale, except shares and derivative financial assets		9	97
Loans and leases	3.8, 11	25,035	23,531
Securities held to maturity	3.9	442	327
Business premises and other fixed assets	3.10, 12	1,492	1,589
Acquired assets	3.11, 13	1,246	1,223
Investments in equity of other entities	3.12, 14	4,195	3,856
Other assets	15	3,821	3,140
Less: Provision for other assets	3.8, 11	(1)	(8)
TOTAL ASSETS		**38,999**	**36,941**
LIABILITIES AND EQUITY			
Deposits	3.13, 16	17,743	15,446
Borrowings	3.14, 17	5,778	6,018
Liabilities towards Government of Montenegro	3.14, 18	42	142
Other liabilities	19	401	364
Provisions for off balance sheet exposures	20	2	13
TOTAL LIABILITIES		**23,966**	**21,983**
Share capital	3.15, 21	13,844	13,844
Share premium		2	2
General reserves		73	73
Revaluation reserves		1,000	1,000
Accumulated profit		114	39
Total equity		**15,033**	**14,958**
TOTAL LIABILITIES AND EQUITY		**38,999**	**36,941**
OFF- BALANCE SHEET ITEMS	23	**78,310**	**56,151**

These financial statements were approved by the Board of directors, based on the Invest Bank AD, Podgorica, Decision No. 04-292/13 dated 31 January 2013

On behalf of Invest Bank Montenegro AD, Podgorica

Person responsible for preparing financial statements	*Chief Executive Director*	*Executive Director*
Milanka Radunović	Zoran Nikolić	Predrag Dašić

The notes on pages 7 to 27 form an integral part of these Financial Statements

STATEMENT OF CHANGES IN EQUITY

In thousands of EUR	Share capital	Share premium	General reserves	Reserves	Accumulated Profit	Total
Balance as at 1 January 2011	13,844	2	73	1,000	9	14,928
Profit for the year	-	-	-	-	30	30
Balance as at 31 December 2011	**13,844**	**2**	**73**	**1,000**	**39**	**14,958**
Balance as at 1 January 2012	13,844	2	73	1,000	39	14,958
Profit for the year	-	-	-	-	75	75
Balance as at 31 December 2012	**13,844**	**2**	**73**	**1,000**	**114**	**15,033**

The notes on pages 7 to 27 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of EUR	2012	2011
Interest, fees and commissions received	1,461	1,589
Other inflows	1,321	30
Interest, fees and commission paid	(766)	(618)
Payments to employees and suppliers	(1,906)	(1,586)
Cash generated from/(used in) operating activities before changes in operating assets and liabilities	*110*	(585)
Changes in operating assets and liabilities		
Loans to customers	(1,716)	(7,941)
Other assets	(602)	(1,658)
Deposits from customers	2,297	8,331
Decrease in other liabilities	-	(15)
Net cash inflow/(outflow) from operating activities	89	(1,868)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and intangible assets	(75)	(109)
Inflows from purchase and sale securities available for sale- shares	-	646
Received dividends	9	-
Outflows from purchase and sale securities available for sale- except shares	(120)	(330)
Equity investments in other entities	-	-
Net cash outflow/(inflow) from investing activities	(186)	207
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflow from loans and borrowings	(340)	1,836
Share capital payment	-	-
Net outflows /(inflows)from financing activities	(340)	1,836
Foreign exchange gains	11	5
Net decrease/(increase) in cash and cash equivalents	**(437)**	**175**
Cash and cash equivalents as at 1 January	**3,186**	**3,006**
Cash and cash equivalents as at 31 December	**2,760**	**3,186**

The notes on pages 7 to 27 form an integral part of these Financial Statements.

1 Basic information about the Bank

Invest Bank of Montenegro AD, Podgorica (hereinafter:"the Bank'') is the legal successor of Pljevaljska banka AD, Pljevlja. As at 20 November 2006, the shareholders assembly of Pljevaljska Banka AD, Pljevlja adopted the Decision to change the Bank's name and headquarters. In accordance with the Decision on changing the Bank's name, No. 03-3437/3, the Bank's name changed into Invest Bank of Montenegro, AD Podgorica. According to the Decision on changing the headquarters and address, No. 03-3437/4, the Bank's headquarters are located in Bulevar Svetog Petra Cetinjskog 115, Podgorica.

According to the Law on Banks, the Memorandum of Association and the Statute of the Bank, the Bank receives deposits and other assets from retail and corporate customers and approves loans and other investments from these funds, entirely or partly, for its own account. The Bank also performs activities such as investment banking i.e. broker-dealer operations, custody services and depository services for which it has obtained the necessary approvals from the Central Bank and the Securities Commission.

In addition to these activities, the Bank also performs the following activities:

- issues guarantees and undertakes other liabilities
- purchases and collects receivables
- issues, processes and records payment instruments
- foreign payment transactions
- financial leasing
- trades in its own name and for its own account or for the account of a client with foreign payment instruments
- collects data, prepares analyses and provides information and advice on creditworthiness of companies and entrepreneurs
- depository activities
- safekeeping services
- other additional activities in the area of banking

The Bank's governing bodies are: Shareholders Assembly and Board of Directors. Shareholders Assembly is the main body of the bank. Shareholders exercise their managing rights directly or through their legal representatives. Shareholders have a number of votes in the Shareholders Assembly based on number of shares held. The Board of Directors is the Bank's managing body. The Shareholders Assembly elects and dismisses the Bank's Board of Directors. The Board of Directors consists of 5 members and most of them are independent of the Bank. The Chief Executive Director is a member of the Board of Directors, but cannot be the Chairman of the Board of Directors. Standing bodies of the Board of Directors are the Audit Committee, the Information System Change Committee and the Asset and Liability Committee (ALCO).The Information System Change Committee and the Asset and Liability Committee (ALCO) management have 6 members whose chairman is the Chief Executive Director of the Bank, and members are managers or directors of the organizational units of the Bank. The audit Committee consists of 3 members and most of them are not associated with the Bank.

The Chief Executive Director of the Bank is the executive manager of the Bank. For his work, the Chief Executive Director is responsible to the Assembly and the Board of Directors of the Bank.

As at 31 December 2012, the Bank had 30 employees (as at 31 December 2011: 29 employees). The Bank is headquartered in Bulevar Svetog Petra Cetinjskog 115, Podgorica.

2. Basis of presentation of the financial statements

2.1 Statement of compliance

The Bank is required to maintain its accounting records and prepares its financial statements in accordance with the Law on accounting and auditing of Montenegro (''Official Gazette of Montenegro, no 69/2005, no 80/2008 and no 32/ 2011), and in accordance with the Decision of immediate application of International Accounting Standards (IAS) in Montenegro (''Official Gazette of Montenegro, no 69/2002). Pursuant to this, International Financial Reporting Standards (IFRS) are applied to the financial statements for the period starting from 1 January 2003.

The financial statements are presented in a format prescribed by the Decision on reports submitted to the Central Bank of Montenegro that in some parts differ from the presentation of certain balance sheet items as required by IAS 1-"Presentation of Financial Statements".

The accounting policies applied during preparation of these financial statements are largely different from the requirements of IFRS applicable as at 31 December 2012 in the calculation of the depreciation of financial instruments and disclosure of financial instruments in accordance with the requirements of IFRS 7 -,, Financial Instruments: disclosures ". The Bank calculates the amount of impairment of financial instruments in accordance with relevant regulations of the Central Bank of Montenegro. The above accounting policy may result in significant differences from the assessment of the impairment and provisions for the assessment of default of financial instruments based on discounting of expected future cash flows using the original effective interest rate at the moment of approval, in accordance with the requirements of IAS 39 – "Financial Instruments: "Recognition and Measurement". In addition, the Bank suspends the accrual of interest on loans classified in categories C, D and E ("non-performing assets" in accordance with the Decision of the Central Bank on Minimum Standards for Credit Risk Management in Banks, "Off. Gazette of Montenegro" no 60 / 08 and 41/09), where the decision also provides that risk assets classified in the category E should be subtracted from the balance sheet and recorded in off-balance sheet as "written-off loans".

For potentially significant effects that the above mentioned issues can have on fairness and objectivity of financial statements of the Bank, the accompanying financial statements cannot be considered as financial statements prepared in accordance with International Financial Reporting Standards.

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

2.2 Rules of estimates and judgments

The financial statements have been prepared on the basis of the principles of historical values.

2.3 Functional and presentation currency

All amounts in the financial statements in Montenegro are presented in thousands of Euro (EUR), which is the Bank's functional and presentation currency. Unless otherwise indicated, all amounts are presented in thousands of EUR.

2.4 Use of estimates and judgments

Presentation of financial statements requires of management to make best estimates and reasonable assumptions that affect the presented amounts of assets and liabilities, and disclosures of contingent receivables and liabilities as at the date of financial statement preparation, and of income and expenses during the reporting period. Such estimates and assumptions are based on information available on the date of preparation of financial statements, where actual future results may differ from estimated amounts. These estimates are mainly related to: estimate the amount of provisions for loans and interest, provisions for deposits with other banks, the provision for permanent placements and off-balance sheet items.

3. Summary of significant accounting policies

The following accounting policies are applied consistently by the Bank in order of preparation of these financial statements.

3.1 Going concern

The financial statements are prepared in accordance with the going concern concept, which assumes that the Bank will continue to operate into the foreseeable future.

3.2 Foreign currency transactions

(a) *Transaction and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(b) *Functional and presentation currency*

Items included in the financial statements of Bank are measured using the currency of the primary economic environment in which the Bank operates (‘the functional currency’). The financial statements are presented in EUR, which is the functional and presentation currency of Bank.

3.3 Interest income and expense

Interest income and expense, including penalty interest and other expenses related to interest baring assets and interest bearing liabilities are accrued on income and expenses and in accordance with the terms specified in the contract between the Bank and the client.

Interest income and expenses are recognized using the effective interest method for the period when occurred, and interest calculated ahead of time is allocated over the duration of the contractual obligation.

Interest income is calculated on loans and advances to customers, deposits with other financial organizations, while interest expense is calculated on financial liabilities for deposits and borrowings.

Accrued interest income of the current period for low quality loans and advances (C1, C2, C3, C4, D and E) which are overdue for more than 90 days, and receivables that have been filed with a court for collection, are treated as suspended interest and are not include in current year income. The Bank records suspended interest receivables in its off-balance sheet records until the date of collection, and after collection it is treated as other income.

3.4 Fee and commission income and expense

Fee and commission income and expenses are recognized on the principle of causality of income and expenses. Income from loan approval fees is posted to deferred income and is recognized in the current period income in proportion to the elapsed loan period.

3.5 Impairment losses

The Bank forms allowances for loan and other impairments of asset items classified into categories A, B1, B2, C1, C2, C3, C4, D and E, according to the criteria set forth in the Decision on Minimum Standards on Credit Risk Management in the Bank ("Official Gazette of Montenegro", no. 60/08 to 41/09) and the Decision on Temporary Measures for Credit Risk Management in Banks ("Official Gazette of Montenegro", no. 64/09 to 02/12).

The following percentages apply to assets classified according to the level of risk.

Category	%
A	0
B	3
C1	15
C2	30
C3	50
D	75
E	100

3.6 Other income

Within other income the Bank included income from actual collection of receivables on assets that in previous years was classified under category E or as a loss recorded under off-balance sheet records, income from accrued interest of the current period on low quality loans and advances (C1, C2, C3, C4 and D) that are overdue over 90 days, as well as income and expenses from foreign currency operations. Foreign exchange gains/losses are netted off as the difference between the foreign exchange gains and losses.

3.7 General expenses

General expenses include gross salaries and other personnel costs, expenses for business premises and fixed assets and other operating expenses. Contributions for health, pension and unemployment at the Bank are considered general and administrative expenses and are recognized in the income statement when they are incurred.

3.8 Loans and interest

The Bank is under obligation to maintain the volume, amount and structure of its loans and advances within limits prescribed by the Central Bank of Montenegro (in accordance with the Law on Banks, Official Gazette of Montenegro no 17/08, 44/10 and 40/11) and the Decision on Minimum Standards on Credit Risk Management in the Bank (Official Gazette of Montenegro no 41/09) and the Decision on Temporary Measures for Credit Risk Management in Banks ("Official Gazette of Montenegro", No 64/09 to 02/12).

The Bank approved short-term and long-term loans in accordance with its business policy and statutory requirements.

Loans are disclosed in the balance sheet in the amount of principle receivable.

In accordance with the Bank's credit policy, Decisions on granting loans are made by Chief Executive Director and Executive Manager in accordance with their authorizations, that are up to the amount of EUR 600 thousand total exposure to a legal entity or group of related entities, while large loans above the limit being decided upon by the Chief Executive Director and Executive Director, are under authorization of the Board of Directors.

Security instruments for debt collection are determined by a specific decree of the contract between the Bank and the borrower. As an instrument to provide debt collection the Bank accepts contracts on fiduciary transfer of ownership, authority to collect the debt from the client account – guarantor as carrier of the payments, bills of exchange, commodities, mortgages and movable property, guarantees from other banks and other.

The minimum amount of the allowance for loan losses is calculated using the receivables carrying amount multiplied by the percentage of reserves of certain classification categories, but the Bank may previously deduct value of the collateral – cash collateral.

3.9 Securities held to maturity

The securities held to maturity are securities for which management has the positive intent and ability to hold to maturity. Securities held to maturity represent the investment in Government of Montenegro bills. Securities are initially recorded at cost. As at the balance sheet date securities held to maturity are stated at amortized value.

3.10 Business premises and other fixed assets

Business premises and other fixed assets include buildings, equipment and other fixed assets used in the Bank's operation.

Business premises and other fixed assets are recognized at historic cost which is the purchase cost plus related acquisition costs less trade discounts and rebates.

Depreciation is provided on a straight-line basis, at the rates designed on the basis of estimated useful lives of the assets.

Depreciation rates per annum in use are as follows:

	%
Buildings	10
Computers and IT equipment	33
Furniture and equipment	10-12,5
Software	20

3.11 Acquired assets

Acquired assets consist of real-estate and other assets which the Bank has acquired from debtors for unsettled debts. Acquired assets are measured in the amount of unsettled debts.

3.12 Equity investments in other legal entities

The Bank has investments in other legal entities. These investments are maintained at the level of the investment cost.

3.13 Deposits

Deposits are stated at the amount of principal outstanding, which can increase by accrued interest, depending on contractual relations between a customer and the Bank.

Deposits denominated in foreign currency are translated into Euros (EUR) at the average official exchange rate effective as at 31 December 2012.

3.14 Borrowings

Borrowings represent the Bank's liabilities for long-term loans towards European Investment Bank, the Development Fund and the Directorate for Development of Small and Medium Sized Companies.

3.15 The Bank's capital

In accordance with provisions of the Law on Banks ("Official Gazette of Montenegro" no. 17/08 to 40/11) and Decision on Capital Adequacy ("Official Gazette of Montenegro" no. 38/11 to 55/12) the Bank is obliged to determine capital adequacy based on its own funds as the coefficient of absolute and relative indicators of the solvency capital adequacy of the bank.

3.16 Taxation

Taxation is carried out in conformity with the laws of Montenegro. The Bank pays tax on profit, property tax, taxes and contributions on salaries and other taxes. Tax on profit is paid on a monthly basis as per tax return for the previous year. The income tax base represents the taxpayer's taxable profit. Taxable profit is determined through reconciliation of profit in the income statement. The income tax rate is 9% on taxable profit.

The Law on Profit Tax does not allow tax losses of the current period to be used to recover tax paid within a specific carry back period. However, current year losses may be used to decrease taxable profit for future periods up to a maximum of five years (except for capital losses or gains).

Deferred tax reflects the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying financial statements.

3.17 Fair value

There is no sufficient market experience in Montenegro, and there is no stability and liquidity for the purchase and sale of receivables and other financial assets and liabilities, because the published market information is not readily available. Therefore, fair value cannot be reliably measured in the absence of an active market, as it is required by IAS and IFRS. The Bank's management believes that the amounts in the accompanying financial statements reflect the value that is in these circumstances, the most credible and most useful for the reporting purposes. The Bank's management assesses risks and in cases where it is estimated that the book value of assets will not be realized, the provisions are made.

3.18. Employee benefits

Contributions for social security of employees

In accordance with regulations prevailing in Montenegro, the Bank has an obligation to pay contributions to state funds which provide social security of employees. These obligations involve the payment of contributions on behalf of employer according to prescribed rates. In addition, the Bank has an obligation to pay contributions on behalf of employees as withheld amounts from gross salaries and in employee benefit pay it to those funds. These contributions are payable on behalf of employee and employer are charged to expenses in the period in which they occur.

Post employment benefits

In accordance with the Collective Agreement, the Bank is obliged to pay a severance the employee upon retirement, in the amount of 6 average salaries of employees of the Bank applicable to the month in which payment is made.

Long-term liabilities based on provisions for retirement benefits represent the present value of expected future payments to employees, determined by actuarial valuation, using the following assumptions: discount rate of 8%, earnings growth rate of 5%, the turnover rate of 5%.

According to the Bank's management amounts disclosed in the accompanying financial statements reflect the real value which is under the present circumstances the most valid and most useful for the reporting purposes in accordance with accounting regulations of Montenegro and the regulations of the Central Bank governing the financial reporting of banks.

INCOME STATEMENT

4 Interest income and expenses

4.1 Interest income relates to:

In thousands of EUR	2012	2011
Corporate loans	1,548	932
Retail loans	283	303
Loans and advances to banks	11	11
Other financial institutions	47	46
Municipalities	96	89
Schools and institutions in the field of culture	195	154
Other	-	5
Total	**2,180**	**1,540**

4.2 Interest expenses relate to:

In thousands of EUR	2012	2011
Retail deposits	192	104
Corporate deposits	136	82
Liabilities towards Montenegrin Government	3	9
Liabilities to banks and other financial organizations	428	268
Other	8	-
Total	**767**	**463**

5 Loan impairment expenses

In thousands of EUR	2012	2011
Net provisions for:		
Loans	332	64
Interest	81	37
Off-balance sheet items	(9)	(5)
Other assets	(5)	2
Total	**399**	**98**

6 Fee and commission income and expense

6.1 Fee and commission income relates to:

In thousands of EUR	2012	2011
Loans	67	89
Off-balance sheet transactions	5	7
Fees and commissions for services	58	46
Other fees and commissions	29	18
Fees and commission income from foreign exchange trading	-	1
Fees and commission income from custody operations	3	2
Total	**162**	**163**

6.2 Fee and commission expenses relate to:

In thousands of EUR	2012	2011
Fee and commission paid to Central Bank	76	72
Fee and commission paid to other financial institutions	26	44
Fees and commission for premiums to the Deposit Protection	68	37
Other fees and commissions	2	2
Total	**172**	**155**

7 Other income/(expenses)

Other income includes:

In thousands of EUR	2012	2011
Net losses from foreign currency transactions differences	(8)	(10)
Net losses/gains on foreign currency transactions differences	(3)	1
Dividend income	9	10
Net losses/gains based on adjustment in fair value of securities held for trading	6	(10)
Net gains on sales of securities	337	393
Other income	53	324
Total	**394**	**708**

8 General expenses

General expenses consist of:

In thousands of EUR	2012	2011
Net salaries	255	338
Taxes and contributions on salaries	264	290
Other personal expenses	13	189
Board of Directors compensation expenses	51	52
Travel	3	5
Rent	6	6
Building and equipment maintenance	174	154
Security of business premises	27	24
Fuel and energy	8	8
Insurance	5	5
Depreciation	248	285
Phone and telecommunications	46	56
Cost of nonproductive services	7	15
Advertising and marketing	88	136
Professional commission and expense	16	74
Professional education of employees	-	1
Entertainment expense	12	13
Memberships, subscriptions and donations expenses	24	19
Office material	20	12
Other expenses	39	23
Total	**1,306**	**1,705**

9 Income tax expense

In thousands of EUR	2012	2011
Income tax of current period	16	20
Deferred tax	1	(2)
Total	**17**	**18**

Reconciliation of income tax in income statement and result before tax at applicable tax rate:

Tax of current period	2012	2011
Profit before tax	92	48
Income tax at 9% rate	8	4
Tax effects of expenses that cannot be recognized for taxation purposes	7	8
Other	2	6
Tax effect in income statement	**17**	**18**
Effective tax rate	**18.47%**	**37.50%**

BALANCE SHEET

10 Cash and deposits account with depository

10.1 Cash and deposits account comprise:

In thousands of EUR	2012	2011
Gyro account	586	197
Cash	300	248
Deposits with Central Bank of Montenegro	1,146	1,142
Correspondent accounts with foreign banks	566	962
Deposit accounts held with international finance institutions	162	637
Total	**2,760**	**3,186**

10.2 Mandatory reserve as at 31 December 2012 is in accordance with the Decision on Mandatory Reserve of Banks with Central Bank of Montenegro ("Official Gazette of Montenegro no. 35/11, 22/12, 61/12). Mandatory reserve is calculated at a rate of 9.5% on the basis consisting of demand deposits and deposits with agreed maturity up to one year, or up to 365 days and 8.5% on the base consisting of deposits with agreed maturity over one year, or over 365 days. The rate of 9.5% is applied on deposits with agreed maturity over one year with a clause on the possibility of termination of the deposit within less than 365 days.

Calculated mandatory reserve is kept on domestic account for mandatory reserve and/or on foreign account of the Central Bank of Montenegro. The Bank can up to 25% of mandatory reserves extract and hold in the form of treasury bills issued by Montenegro. On 25% of mandatory reserve Central Bank pays the Bank a monthly fee calculated at the rate of 1% per annum, until the eight of the month for the previous month. Mandatory reserve is held in EUR.

11. Loans and leases

In thousands of EUR	Short-term loans	Long-terms loans	Total 2012	Total 2011
Municipalities (Public organizations)	1,444	2,231	3,675	3,273
Privately-owned companies	14,282	4,393	18,675	18,207
Entrepreneurs	12	12	24	40
Citizens	2,343	681	3,024	2,161
Provision for loan losses			(363)	(150)
Total			**25,035**	**23,531**

Changes in loans during 2012 were as follows:

In thousands of EUR	2012
Balance as at 1 January	23,681
Increase	**5,487**
Loan disbursement during the year	5,127
Interest	360
Decrease	**3,770**
Repayments	3,643
Written-off loans (E category)	127
Balance as at 31 December	**25,398**

Provisions for loan losses and losses for other assets were as follows:

In thousands of EUR	2012	2011
Loans	363	150
Other assets	1	8
Total	**364**	**158**

Changes in provisions for loan losses and losses for other assets during 2012 were as follows:

In thousands of EUR	Balance as at 1 Jan 2012	Provisions during the year, net	Transfer to off-balance sheet items	Balance as at 31 Dec 2012
Loans	150	340	(127)	363
Interest	-	81	(81)	-
Other assets	8	(7)	-	1
Total	**158**	**414**	**(208)**	**364**

12. Business premises and other fixed assets

Changes for year 2012 and 2011 are presented in following tables:

	Computers	Leasehold improve-ments	Other assets	Investments under construction	Total
Cost					
Balance as at 1 January 2011	385	454	223	1,149	2,211
Additions	55	9	3	99	166
Transfer to intangible assets	-	-	-	(109)	(109)
Disposals	(75)	-	(36)	-	(111)
Balance as at 31 December 2011	365	463	190	1,139	2,157
Balance as at 1 January 2012	365	463	190	1,139	2,157
Additions	2	2	1	82	87
Transfers	-	-	-	(75)	(75)
Disposals	(2)	-	-	-	(2)
Balance as at 31 December 2012	365	465	191	1,146	2,167
Accumulated depreciation					
Balance as at 1 January 2011	302	116	126	-	544
Depreciation	54	45	36	-	135
Disposals	(75)	-	(36)	-	(111)
Balance as at 31 December 2011	281	161	126	0	568
Balance as at 1 January 2012	281	161	126	-	568
Depreciation	49	46	14	-	109
Disposals	(2)	-	-	-	(2)
Balance as at 31 December 2012	328	207	140	0	675
Net book value as at 31 December 2012	**37**	**258**	**51**	**1,146**	**1,492**
Net book value as at 31 December 2011	**84**	**302**	**64**	**1,139**	**1,589**

As at 31 December 2012 the Bank has no collateralized assets used to secure repayment of loans and other liabilities.

13. Acquired assets

Acquired assets in the amount of EUR 1,246 thousand as at 31 December 2012 (31 December 2011: EUR 1,223 thousand) relate to acquired assets on the basis of activation of loan collateral. The negative difference between the carrying value of acquired assets and the market value at the balance sheet date is recognized in the income statement in accordance with IAS 2 “Inventories“.

14. Investments in equity of other entities

	%	2012	2011
Investment in related parties			
Global Carbon DOO, Podgorica	100.00	2,000	2,000
Atlas banka AD, Podgorica - ordinary shares	1.93	1,262	1,261
Atlas banka AD, Podgorica - preference shares	1.75	87	87
Centar vojnomedicinskih ustanova "Meljine"	0.50	125	125
		3,474	**3,473**
Securities held for trade			
ZIF Atlas Mont	0.87	196	202
Crnogorski Telekom	0.02	24	20
Other		42	38
		262	**260**
Securities available for sale			
OIF Atlas Mont u postupku transformacije	0.05	337	-
Montenegroberza AD	6.69	122	123
		459	**123**
Total		**4,195**	**3,856**

The Bank has established Global Carbon Ltd, Podgorica in the total amount of EUR 2 million of founding capital. As at31 December 2012 the Bank was 100% owner of the company Global Carbon Ltd, Podgorica. As at 31 December 2008 EUR 1,500 thousand of the founding capital amount was paid, while the remainder of EUR 500 thousand was paid as at 9 January 2009.

The Bank has a share in the capital of Atlas Bank AD, Podgorica in the amount of EUR 1,262 thousand (1.93%), in the form of 706 shares with a market value of EUR 1.8 thousand. The Bank has a share in the capital of Atlas Bank AD, Podgorica in the amount of EUR 87 thousand (1.75%) in the form of 175 preference shares with a market value of EUR 0.49 thousand.

As at 31 December 2012, the Bank owns 3,278,388 investment units in an open fund Atlas Mont Fund at the market value of EUR 377 thousand and 3,278,388 of investment units in closed fund Atlas Mont Fund at the market value of EUR 197 thousand.

15. Other assets

15.1 Other assets comprise:

In thousands of EUR	2012	2011
Interest and commissions	358	100
Accrued fees	746	350
Intangible assets	211	280
Accruals	64	46
Receivables of Atlas Capital ltd. Podgorica	2,333	2,333
Receivables for fees from custody activities	1	1
Other receivables	108	30
Total	**3,821**	**3,140**

Receivables from Atlas Capital Ltd. refer to the receivables from Atlas Capital Ltd. based on the purchase of CVMU Meljine, Herceg Novi. During this purchase, the Bank paid a part of the purchase price on behalf and for the account of Atlas Capital Ltd. Maturity date of these receivables from Atlas Capital Ltd. is 31 December 2013.

15.2 Provisions for losses on other assets as at 31 December 2012 were as follows:

In thousands of EUR	2012	2011
Provisions for other assets	(1)	(8)
Total	**(1)**	**(8)**

15.3 Changes in intangible assets as at 31 December 2012 were as follows:

In thousands of EUR	2012	2011
Cost or valuation		
Balance as at 1 January 2012	872	831
Transfer from investments in progress	69	36
Balance as at 31 December 2012	941	867
Accumulated depreciation		
Balance as at 1 January 2011	592	443
Depreciation for the period	138	144
Balance as at 31 December 2012	730	587
Net book value as at 31 December 2012	**211**	**280**

15.4 Intangible assets primarily relate to investments in software for payment operations, accounting and banking operations.

16. Deposits

16.1 Bank deposits comprise:

In thousands of EUR			2012	2011
	Interest bearing	Non-interest bearing	Total	Total
Demand deposits	263	1,198	1,461	1,082
Term deposits	13,771	2,511	16,282	14,364
Total	**14,034**	**3,709**	**17,743**	**15,446**

16.2 Bank deposits are made by the following entities:

In thousands of EUR	2012	2011
Municipalities (public organizations)	3	3
State-owned companies	550	650
Privately owned enterprises	5,325	5,872
Entrepreneurs	3	9
Banks	5,400	5,400
Financial institutions	1,674	1,165
Non-profit organizations	18	15
Citizens	4,768	2,332
Other	2	-
Total	**17,743**	**15,446**

17. Borrowings

As at 31 December 2012 borrowings amount to EUR 5,778 thousand (2011: EUR 6,000 thousand) and relate to liabilities for loans towards the European Investment Bank for financing investment projects, with 2 years grace period.

Creditor	Amount of loan in thousands of EUR	Date of loan disbursement	Due date	Interest rate p.a.	Balance as at 31 December 2012
European Investment Bank	2,000	07.12.2009	07.12.2020	3.00%	1,778
European Investment Bank	1,005	07.06.2010	07.02.2021	3.33%	1,005
European Investment Bank	995	22.07.2010	22.10.2021	3.16%	995
European Investment Bank	2,000	05.05.2011	15.09.2022	4.04%	2,000
Total	**6,000**				**5,778**

Maturity for borrowings is as follows:

Period	2012	2011
Up to 1 year	340	231
From 1 to 5 years	2,654	2,310
Over 5 years	2,784	3,477
Total	**5,778**	**6,018**

18. Liabilities towards Government of Montenegro

A at 31 December 2012 liabilities towards Government of Montenegro in the amount of EUR 42 thousand (2011: EUR 142 thousand) relate to liabilities for long-term loans from the Development Fund of Montenegro, with a grace period of 4 years and the Directorate for Development of Small and Medium Sized Companies with a grace period to 24 months.

19. Other liabilities

In thousands of EUR	2012	2011
Advance interests	144	90
Advance fees for granting loans	83	104
Trade payables	61	82
Income tax	17	20
Deferred tax	7	6
Liabilities for other allowances	23	22
Liabilities for redundancy of employees	-	6
Other liabilities	66	34
Total	**401**	**364**

20. Provision for off-balance-sheet exposures

In thousands of EUR	2012	2011
Provisions for loan losses - off-balance sheet exposures	2	13
Total	**2**	**13**

Changes in provisions for off-balance sheet exposures in 2012 were as follows:

In thousands of EUR	Balance as at 1 Jan 2012	Increase in provision	Decrease/reversals in provision	Balance as at 31 Dec 2012
Guarantees	11	4	13	2
Total	**11**	**4**	**13**	**2**

21. Share capital

According to the CDA extract as at 31 December 2012, the participation of shareholders in the share capital is as follows:

	31 December 2012			31 December 2011		
Shareholders	Number of shares	In thousands of EUR	% of shares capital	Number of shares	In thousands of EUR	% of shares capital
FZU Atlas Mont AD, Podgorica	136,301	6,969	50.34	136,301	6,969	50.34
Atlas Grupa	43,249	2,211	15.97	43,244	2,211	15.97
Atlas Invest DOO	37,432	1,914	13.83	37,432	1,914	13.83
Kuzman Mladen	12,618	645	4.66	12,618	645	4.66
Podravska banka	7,303	373	2.69	7,303	373	2.69
IK Zbirni Kastodi Račun	6,000	307	2.22	6,000	307	2.22
Prenos AD	4,140	212	1.53	4,140	212	1.53
Elektroprivreda RCG	4,140	212	1.53	4,140	212	1.53
Uprava za sume Pljevlja	3,138	160	1.16	3,138	161	1.16
IBM zbirni depozitarni racun	2,269	116	0.84	-	-	-
HA – Zbirni custody račun	378	19	0.14	2,282	117	0.85
Sekretarijat za urbanizam, građevinarstvo i stambeno – komunalne poslove	848	43	0.31	848	43	0.31
Lovćen osiguranje AD, Podgorica	784	40	0.29	784	40	0.29
GP Građevinar DD, Pljevlja	527	27	0.20	527	27	0.19
Other shareholders	11,645	596	4.29	12,015	613	4.43
TOTAL	**270,772**	**13,844**	**100.00**	**270,772**	**13,844**	**100.00**

The Bank's share capital as at 31 December 2012 amounts to EUR 13,844 thousand and it is consisted of 270,772 ordinary shares of nominal value of EUR 51.1292. As of 31 December 2011, share equity of the Bank amounted to EUR 13,844 thousand.

Law on Banks ("Official Gazette of Montenegro", No. 17/08 and 44/10) defined the minimum amount of cash capital in the amount of EUR 5,000 thousand. As of 31 December 2012, cash capital of the Bank was complied with cash minimum.

22. Related party transactions

The Bank performs a number of transactions with related parties in the regular course of its business. Related parties are entities that are members of the Atlas Group and key management personnel of the Bank. Transactions include loans, deposits, foreign currency transactions and remuneration of members of the Board and persons with signed individual contracts with the Bank.

Transactions range with related parties, balance of assets and obligations as at 31 December 2012 and 2011 and related expenses and income in the income statement are presented in the following tables:

RECEIVABLES

	2012	2011
Special purpose deposits		
Atlascapital Financial Services Limited, Nikozija	162	643
	162	**643**
Loans		
Fin invest DOO, Podgorica	3,050	3,050
Univerzitet Mediteran, Podgorica	2,241	1,900
RTV Atlas	130	110
Atlas CAP DOO, Podgorica	25	-
Rekreaturs	115	100
Atlas grupa DOO, Podgorica	450	450
RT Mimoza	210	-
	6,221	**5,610**
Interest		
Fin invest DOO, Podgorica	115	-
Univerzitet Mediteran, Podgorica	5	7
RTV Atlas	2	2
Atlascapital Financial Services Limited, Nikozija	-	39
Atlas grupa DOO, Podgorica	7	-
RT Mimoza	26	-
	155	**48**
Other receivables		
Atlas CAP DOO, Podgorica	2,333	2,333
Trojica DOO, Pljevlja	432	269
Obnova AD, Pljevlja	465	465
	3,230	**3,067**
Total	**9,768**	**9,368**

In thousands of EUR	2012	2011
Demand deposits		
Atlas Invest	-	15
DZU Atlasmont AD, Podgorica	59	72
FZU Atlasmont AD, Podgorica	96	9
Atlas Capital Financial services	165	290
Atlas Group Limited	64	64
Atlas Life AD,Podgorica	1	4
	385	**454**
Term deposits		
Fin Invest DOO, Podgorica	-	150
Global Carbon DOO, Podgorica	540	540
Atlas Grupa DOO, Podgorica	1,050	1.050
DZU Atlasmont AD, Podgorica	100	100

FZU Atlasmont AD, Podgorica	-	350
Atlas Group Limited	100	100
Atlas Life AD, Podgorica	497	387
Atlas banka AD, Podgorica	5,400	5,400
Društvo za upravljanje penzionim fondom Atlas Penzija AD,Podgorica	55	60
	7,742	**8,137**
Total	**8,127**	**8,591**

The Bank's receivables in the form of loans to related parties are secured with a cash deposit as collateral in the amount of 60.23% of receivables (2011: 69.46%), or cash deposits for these loans are in the amount of EUR 3,840 thousand (2011: 3,500 thousand).

Income	2012	2011
Interest income:		
- loans	495	394
Total	495	394
Fee imcome:		
- loans	6	22
- custody	1	0
- depository	15	0
- broker-dealer operations	-	5
Total	22	27
Total	**517**	**421**

Expenses		
Interest expenses:		
- deposits	226	65
Total	226	65

Off-balance sheet items		
Commission principal receivables:	-	-
Interest commission receivables:	-	-
Total	**226**	**65**

As at 31 December 2012 receivables for loans approved to employees amount to EUR144 thousand (in 2011: EUR 168 thousand) and refer to loans.

During 2012 the Bank paid key management, including the Chief Executive Director and Heads of Departments, remuneration in the amount of EUR 87 thousand (in 2011: EUR 87 thousand). Furthermore, the Bank paid remuneration in the amount of EUR 36 thousand (in 2011: EUR 36 thousand) to the Members of the Board of Directors.

23 Off-balance sheet items

In thousands of EUR	2012	2011
Guaranties to companies:		
Payable guarantees	409	969
Performance guarantees	288	172
Irrevocable unused loan commitments and collection of incasso loro checks	118	266
Other loans and off-balance sheet assets	1,422	1,273
Other off-balance sheet items:		
Collaterals	45,738	40,990
Other items	30,335	12,481
Total	**78,310**	**56,151**

As at 31 December 2012 the Bank estimated provisions for potential losses on off-balance sheet items in the amount of EUR 2 thousand (2011: EUR 13 thousand). This provision is presented as a liability in the balance sheet.

The Bank had no liabilities according to foreign currency term activities as at 31 December 2012.

23.1 Litigation

The Bank is involved as defendant in 7 litigations in the total amount of EUR 556 thousand (in 2011 the Bank had several litigations in the amount of EUR 541 thousand). The Bank's Management and Legal Department do not expect negative outcomes that might have materially significant effects on the Bank's financial statements.

23.2 Other contingent liabilities

During the year the Bank made taxable transactions according to Montenegrin tax laws. Although, these transactions are carefully considered, possible risks remain of additional tax liabilities after control by relevant tax authorities, which is not materially significant for the Bank, given that all taxes and contributions on salaries and contributions to members of the Board of Directors, profit, property, service contracts, rent and other, have been paid in full at rates that are in effect.

24 Events after the balance sheet date

As at 31 December 2012 there were no events after the balance sheet that could affect the financial position and performance of the Bank.

KPMG

FOR INTERNAL PURPOSES
OF CENTRAL BANK OF MONTENEGRO

INVEST BANKA MONTENEGRO AD, PODGORICA

Analysis of the financial statements for the year ended 31 December 2012

A Analysis of the Financial Statements

I. Introduction

Financial statements of Invest Banka Montenegro AD, Podgorica (hereinafter "the Bank"), which were the subject of the audit, are prepared in accordance with accounting standards and Montenegrin regulations and regulations of Central Bank of Montenegro that regulate financial reporting of banks. Regulatory forms of the financial statements are delivered to Central Bank of Montenegro within the statutory deadline.

II. Analysis of the income statement and balance sheet

The structure of the balance sheet is as follows:

In thousands of EUR	2012	% share in total assets	2011	% increase 2011/2012
ASSETS				
Cash and deposit accounts with depository	2,760	7.08	3,186	(13.37)
Assets for the trade and assets available for sale, except shares and derivative financial assets	9	0.02	97	(90.72)
Loans and leases	25,398	65.12	23,681	7.24
Less: Provisions for loan loses	(363)	(0.93)	(150)	142
Securities held to maturity	442	1.13	327	35
Business premises and other fixed assets	1,492	3.83	1,589	(6.1)
Acquired assets	1,246	3.19	1,223	1.88
Investments in equity of other entities	4,195	10.76	3,856	8.79
Other assets	3,821	9.8	3,140	21.68
Less: Provision for other potential losses on other assets	(1)	(0.002)	(8)	87.5
Total assets	**38,999**	**100.00**	**36,941**	**193.10**
LIABILITIES AND EQUITY				
Deposits	17,743	45.50	15,446	14.87
Borrowings	5,778	14.82	6,018	(3.99)
Liabilities towards the Government of Montenegro	42	0.11	142	(70.42)
Other liabilities	401	1.03	364	10.16
Provisions for off-balance sheet exposures	2	0.05	13	(84.61)
Equity	15,033	38.49	14,958	0.50
Total liabilities and equity	**38,999**	**100.00**	**36,941**	**133.49**

Income statement

In its financial statements for 2012 the Bank reported income in the amount of EUR 2,736 thousand and expenses in the amount of EUR 2,644 thousand. The difference between income and expenses in the amount of EUR 92 thousand represents the Bank's operating profit. Income tax amounts to EUR 17 thousand, while profit after tax amounts to EUR 75 thousand.

Interest and commission income comprises the largest portion of overall income, with 85.60% thereof. Out of other income the largest portion refers to gains from securities sale comprising the remaining 12.31% of income. Compared to 2011 significant decrease in other income occurred in the amount of EUR 323 thousand, or 44.36%.

The largest portion of 49.39% of total expenses relates to general expenses, expenses of loan losses of 15.09% and interest and commission expenses of 35.51 %.

Indicators of profitability can be seen from the following relationship indicators:

	2012 (%)	2011 (%)
Profit and assets	0.23	0.13
Income from interest and commissions and assets	6.00	4.61
Expenses of interest and commissions and liabilities	2.40	1.67

Detailed analysis of the balance sheet and income statement is given in Notes 7-28 to the financial statements.

B. Review and evaluation of the activity quality and financial position of the Bank and the asset quality of the Bank

I. Risk management

The Bank is obliged to continually manage risks it is exposed to during its activity, in accordance with the Law on Banks, Central Bank regulations and good practice for risk management in banks.

The main objective of risk management is to minimize potential losses to a level acceptable for the Bank.

In order to achieve better risk monitoring, the Bank's obligation is to establish an adequate system for risk management that includes:

- risk management strategy,
- written policies and procedures for individual risk management,
- defined authorizations and responsibilities in the process of risk management,
- information system in terms of supporting the process of risk management,
- adequate structure of employees for risk management,
- a plan for risk management in crisis situations,
- procedures for regular reporting and
- control for consistent application of policies and procedures of risk management.

Risk management strategy is in line with statutory regulation of the Central Bank of Montenegro, as well as risk management procedures prescribed by the Bank that are reconsidered by the managing bodies reviewed at least annually or even more frequently, when there is a need for changes and adaptation to market and other conditions.

Risk management systems must be in accordance with undertaken level of risk and complexity of products and services that banks use in their operations.

The Risk management system is implemented through the following phases:

1. Identification of risks, existing sources of risk and potential sources of risk which could occur in future operations;
2. Measuring risk - accurate and timely assessment of risks;
3. Control of risk by maintaining the risk on the level which is acceptable to the bank, risk reduction or elimination;
4. Monitoring risks - analyzing the situation, changes and trends in risk exposure;
5. Control of risk – limiting and minimizing risk.

According to its organizational chart, the Bank established a division which monitors risk management.

Implementation of risk management procedures is the responsibility of the Bank's authorized bodies and organizational units which implement them and participate in the process of managing the risks to which the Bank is exposed. Responsibilities of individual organizational units for the implementation of risk management are defined by organizational and systematization procedures of the Bank.

The scope of authorization of the Bank's risk management is defined by the legal provisions and regulations of the Central Bank, the Board of Directors of the Bank and other internal acts of the Bank.

The Board of Directors is responsible for implementing a unique system of risk management and supervision of such systems. The Board of Directors determines the objectives and strategy of the Bank and ensures their implementation, and also establishes policies and procedures for managing the risks the bank is exposed to in its operations.

Executive directors manage key areas of the bank on a daily basis. Key areas of the bank are considered areas of the Bank from which derive most significant risks to which the bank is exposed to in its operations.

The Risk Management Division carries out the procedure for measuring and assessing risk exposure and participates in the process of mitigating and managing risk exposures to which the Bank is exposed to in its operations.

In its operations, the Bank is exposed to financial risks, operational risks, business risks and risk of events. Certain risks are directly controlled by the Bank while the second group of risks arises from the Bank's external environment and directly impacts the Bank's operations and potential losses.

II Asset quality

Determining the asset quality is conducted in accordance with the Decision of the Central Bank of Montenegro on Minimal Standards for Managing loan losses ("Official Gazette of Montenegro" no. 60/2008 and 41/2009) and the Decision on changes and amendments of Decision on Temporary Measures For Managing Credit Risk ("Official Gazette of Montenegro no. 64/2009, 87/2009, 66/2010, 70/2010 and 2/2012). The Bank's intangible assets that are exposed to risk, concerning this Decision are: loans, borrowings, interests, fees, deposits, advances and all other balance sheet items where the Bank is exposed to the risk of the debtor failure to meet the obligations as well as issued guarantees, other debts, opened letters of credit and approved unused loans and other off-balance sheet items which represent the Bank's potential obligations.

According to the Bank's calculation as at 31 December 2012 its balance and off-balance sheet risk-weighted assets consist of the following:

Assets balance items	**Collateral ***	**A**	**B**	**C**	**D**	**TOTAL**
Loans	4,968	18,191	299	402	25	23,885
Matured receivables	1	1,284	13	50	164	1,512
Interest	-	296	14	-	-	310
Assets for which provisions for potential losses are made	**4,969**	**19,771**	**326**	**452**	**189**	**25,707**
Assets for which provisions for potential losses are not made	-	13,654	-	-	-	13,654
Total balance sheet assets items	**4,969**	**33,425**	**326**	**452**	**189**	**39,361**
Formed provisions	-	-	-	212	142	363
Coverage	**0.00%**	**0.00%**	**2.76%**	**46.9%**	**75.13%**	**1.41%**

Off-balance assets items	**Collateral ***	**A**	**B**	**C**	**D**	**TOTAL**
Guarantees	-	631	66	-	-	697
Off-balance sheet items for which provisions are made	**-**	**631**	**66**	**-**	**-**	**697**
Off-balance sheet items for Which provisions are not made	-	76,191	-	-	-	76,191
Total off-balance sheet items	**-**	**66**	**66**	**-**	**-**	**76,888**
Formed provisions	-	-	2	-	-	2
Coverage	**-**	**0.00%**	**3.03%**	**-**	**-**	**0.29%**

The minimum amount of provisions for loan losses is calculated using the book value of receivables, which is multiplied by the percentage of provisions for particular classification category, with the possibility that the Bank can subtract the value of collateral. Security relates to the amount of collateral in the form of cash deposits and the amount of claims covered by irrevocable guarantees issued by the Government of Montenegro, countries or central banks of OECD countries, banks with a minimum rating of BBB + defined by an external agency Standard & Poor's or equivalent rating of other recognized rating agencies and legal entities whose operations are controlled by the Central Bank of Montenegro.

When calculating the minimum amount of provisions for loan losses the Bank uses the carrying value of receivables less the value of collateral - deposits pledged with the Bank as the base for the calculation.

The largest debtors of the Bank as at 31 December 2012 were:

Debtor	Loans and other receivables due	Interest and fees	Contingent liabilities	The total risk exposure	Category
ATLAS INVEST DOO PODGORICA	3,050		0	3,050	A
UNIVERZITET MEDITERAN PODGORICA	2,241	115	0	2,356	A
OPSTINA BUDVA	1,153	5	0	1,158	A
CIJEVNA KOMERC DOO PODGORICA	667	118	153	938	A
MIROSLAV JELICIC PURKO	804	1	0	805	A
ATTIKA LAND DOO PODGORICA	660	0	0	660	A
VOLMONT MD DOO PODGORICA	511	0	0	511	A
GORAN VULETIC	460	1	0	461	A
ATLAS GRUPA DOO PODGORICA	450	1	0	451	A
WAS -IMPEX DOO PODGORICA	440	7	10	457	A
JUGOBICIKL-PROMET DOO PODGORICA	429	3	0	432	A
HIDROMOL DOO PODGORICA	401	0	0	401	A
STARA VAROS COMPANY DOO DANILOVGRAD	350	7	0	357	C4
OTPADAS DOO PODGORICA	322	0	0	322	A
TRANS TRADE LAZOVIC CO OD PODGORICA	258	0	60	318	A
OPSTA BOLNICA MELJINE	220	0	66	286	B2
PRIMO DESIGN DOO PODGORICA	294	11	8	313	A
FEEL TRAVEL DOO CETINJE	266	0	14	280	A
PIROS DOO PODGORICA	274	0	1	275	A
RT MIMOZA DOO HERCEG NOVI	210	0	0	210	A
INVICTA DOO PODGORICA	234	26	0	260	A
VAPOR DOO PODGORICA	195	0	7	202	A
TELEVEX DOO PODGORICA	195	0	0	195	A
MIODRAG RAKIC	164	0	0	164	A
BIANCA DOO KOTOR	160	0	0	160	A
KOALA DOO PODGORICA	103	0	50	153	A
NEXEN DOO PODGORICA	0	1	150	151	A
METROPOLIS CO DOO PODGORICA	66	0	80	146	A
MONDIAL DOO CETINJE	140	0	0	140	A
DRAZEN RADOSEVIC	132	0	0	132	D
RIDLEY PARK DOO PODGORICA	130	0	0	130	A
RADIO TELEVIZIJA ATLAS DOO PODGORICA	130	2	0	132	A
VAGAR DOO PODGORICA	117	2	0	119	A
WINSOL CO DOO PODGORICA	116	0	0	116	A
REKREATURS DOO BUDVA	115	1	0	116	A
Total	**15,457**	**301**	**599**	**16,357**	

In terms of exposure to credit risk at 31 December 2012 the Bank has:

- total exposure to an individual client or a group of related parties which does not exceed the limit of 25% of the Bank's own resources;
- the sum of all large exposures is in the amount of EUR 9,036 thousand and does not exceed the limit of 800% of its own resources;
- exposure to the related parties amounting to EUR 2,667 thousand that does not exceed the limit of 200% of its own resources.

III Capital and capital adequacy

According to the Law on Banks ("Official Gazette of Montenegro" no. 17/08 to 40/11) the equity cannot be less than EUR 5 million. As prescribed by Decision on the Capital Adequacy ("Official Gazette of MNE" no. 60/08 to 55/12) the Bank is required to maintain capital adequacy based on its own funds as an absolute indicator and solvency ratio as a relative indicator. Bank's own funds are the sum of paid-in share capital, and other basic elements and additional own funds, net of deductibles.

The equity amount must always be at least at the level of (or more):

a. the minimum amount of the cash portion of initial capital;
b. total amount of capital required for all risks.

Total amount of capital required is a sum of:

1. capital required for credit risk, market risk and operational risk, calculated by using adequate methodology;
2. capital required for country risk, calculated in accordance with Central bank of Montenegro's methodology for calculating the amount of required capital for country risk;
3. capital required for other risks, calculated by using adopted methodologies.

The Bank' own funds as at 31 December 2012 comprise:

In thousands of EUR	2012
Basic elements of own funds	
Paid-in share capital	13,844
Collected issue premium	2
Retained earnings from previous years	39
Profit from current year	73
Total basic elements of own funds	13,958
Deductible items from core capital of the Bank	
Intangible assets	(212)
Total deductible items from core capital of the Bank	(212)
Core capital	13,746
Deductible items from own funds	
Direct or indirect investments in other banks or other credit or financial institution in amount of more than 10% of their capital investment	2,000
Total deductible items from own funds	2,000
Basic capital decreased by 50% of deductible items from own funds	12,746
Total additional capital decreased by 50% of deductible items from own funds	(1,000)
Total own funds	11,746

In accordance with the provisions of the Decision on Capital Adequacy of Banks (Official Gazette Montenegro, no. 60/08 to 38/11) the Bank calculated capital requirements for risks it is exposed to in its operations, as well as the solvency ratio. The solvency ratio cannot be below 10% in accordance to Law on Banks (Official Gazette Montenegro, no. 17/08 to 40/11).

The solvency ratio is the percentage ratio of the Bank's own funds compared to the sum of:
1. the total amount of risk weighted assets for credit risk;
2. amount of risk weighted assets for market risks;
3. amount of risk weighted assets for operational risk;
4. amount of risk weighted assets for other risks.

As at 31 December 2012 the solvency ratio was:

In thousands of EUR	2012
Core capital	11,746
Supplementary capital	(1,000)
Weighted balance sheet assets	24,156
Weighted off-balance sheet assets	719
Total risk weighted assets	24,875
Capital requirement for market risk	2
Capital requirement for operational risk	383
Capital requirement for country risk	1,148
Capital requirement for other risks	6
Bank solvency ratio	39.31%

IV Credit risk

Credit risk management is performed in accordance with the Central Bank of Montenegro on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro", No.60/2008 and 41/2009) and the Decision on amendments to the Decision on Temporary Measures for Credit Risk Management in Banks ("Official Gazette of Montenegro", No.64/2009, 87/2009, 66/2010, 70/2010 and 2/2012). In accordance with these decisions the following items have been identified: elements of credit risk, the minimum criteria and method of classification of balance sheet assets and off-balance sheet items the Bank is exposed to in relation to credit risk, the method of calculation and suspension of unpaid interest and the method of determining the minimum provisions for potential losses arising from exposure to credit risk.

Credit risk represents impossibility that the client will not fulfill duties in accordance with contractual conditions. Credit risk management is a critical component of a comprehensive risk management system and is essential for long-term business success of the Bank. Credit risk is constant and must be viewed and measured on a continuous basis.

The Bank's policy for credit risk management consists of:
- Area for identification and methods for identification of credit risks,
- Methods, parameters and time frame for measuring credit risks,
- Limits and procedures for controlling credit risks,

- Method and dynamics of reporting and informing the Board of Directors, its bodies and Bank's management about credit risks,
- Additional quality control of credit risk management,
- Obligation to annually check its adequacy.

In accordance with article 57 of the Law on Banks (Official Gazette of Montenegro, no.17/08 to 40/11): "Credit risk represents probability of losses in bank's activity due to debtor's failure in fulfilling their obligations to a bank".

The general principles on which the credit risk management of the Bank is based are:

- Placement of funds on the basis of which it can be expected regular repayment thereof, whereby the bank will protect its income from credit losses and other costs of maintenance non-performing loans.
- Investment of Bank's resources in a profitable way into quality assets in order to protect depositors and ensure return on shareholders' funds.
- Meeting the legitimate credit needs of the local market and the environment in which the Bank operates.
- Rationality in lending standards.
- Careful and continuous monitoring of credit risk exposures with the worsening trend.

The Bank aims to establish a system of effective management of credit risk by maintaining its loan portfolio in the framework of the strategy for managing the risks banks and credit policy.

The Bank adopts minimal limits of exposure assigned by Law on Banks ("Official Gazette of Montenegro, no. 17/08 to 40/11):

- Total exposure of the Bank to one individual or a group of related individuals must not be higher than 25% of the Bank's own resources.
- Large exposure to one individual or a group of related individuals is considered as the Bank's exposure which is equal or higher than 10% of the Bank's own resources.
- The sum of all large exposures of the Bank must not be higher than 800% of the Bank's own funds.

Authorization for the placement of funds up to the amount of EUR 600 thousand is assigned to the Chief Executive Director and Executive director in accordance with Art. 38 of the Banking Act ("Off. MNE br.17/08 to 40/11), and the authorization for the amounts over EUR 600 thousand is assigned to the Board of Directors unless this right is transferred by the Board to another body. Chief Executive Director and Executive Director may approve the loans covered by the 100% cash deposit, regardless of the amount, except in cases where the investments to the related parties.

V Liquidity risk

Liquidity risk management is regulated by the Decision on Minimum Standards for Liquidity Risk Management ("Off. Gazette of Montenegro", no. 60/2008). The Bank's liquidity is the ability of the Bank to finance increases in assets and settle its liabilities at maturity without making expenses higher than usual. The Bank is exposed to daily withdrawal of funds by customers affecting the funds available from current accounts, deposits and withdrawals of loans. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank.

The Bank monitors current liquidity, prepares liquidity plans (daily, on a ten days basis, monthly and quarterly) and monitors their achievement for which the Bank's liquidity is at a high level.

Daily liquidity is monitored through liquidity ratios and their limits:

- Liquid assets / matured liabilities – minimum 90%;
- Liquid assets / total assets – maximum 40%;
- Liquid assets / deposits and borrowings – minimum 5%;
- Gross loans / deposits and borrowings – as high as possible;
- Borrowings / total equity and liabilities – maximum 25%.

In accordance with articles 7, 8 and 9 of the Decision on Minimum Standards for Managing Liquidity Risk, the Bank's liquidity indicator is presented as the ratio between liquid assets/matured liabilities with a minimum of 0.9 or 1 when a ten days average is considered.

Maturity gap of assets and sources of assets

Establishing and maintaining adequate matching of maturities between assets and sources of assets represents a continuing obligation of the management. The general rule is that matching between assets and liabilities is maintained so that short-term placements, including cash and cash equivalents, should be greater or equal to short-term sources of funds, while long-term placements should not exceed long-term sources of funds.

The Bank has set the following limits in accordance with article 6 of the Decision on Minimum Standards for Liquidity Risk Management:

- Short-term sources of funds with maturity up to 30 days can be invested only in assets instruments that mature within 30 days,
- Short-term sources of funds with maturity from 30 to 90 days can be invested only in assets instruments that mature within 90 days,
- Up to 10% of short-term sources of assets with maturity from 90 to 180 days can be invested in assets instruments with maturity over 180 days.

The Bank prepares a monthly liquidity gap analysis by recording cash inflows and outflows by maturity intervals, based on the liquidity gap table provided in the Liquidity Risk Management Procedure.

Measurement and monitoring of concentration and variability of deposits and other sources of assets by maturity and by client (diversification of liabilities)

Measurement and monitoring of concentration of deposits and other sources of funding by maturity and by client is performed daily. The risk manager monitors deposits balances, term deposits, demand deposits, including their distribution by corporate and retail clients, the level of concentration of sources of financing with the objective of risk diversification, i.e. avoiding over reliance on any single depositor or any product or market financing, and proposes appropriate measures. Also, the risk manager and payments and assets management department manager devote special attention in their work to monitoring and analyzing movements on the inter banking market.

Analysis of maturity structure of other currencies

Monitoring the maturity structure of assets and sources of assets in other currencies is performed daily in the form of daily reports.

Maturity and concentration of bank deposits – deposits with other banks are not contracted for periods longer than 2 weeks. In this respect, limits are set on deposits with banks and other financial organizations.

Securities – in order to minimize liquidity risk prior to investing in securities (shares or bonds), the Bank considers the average amount of trading in particular securities for the previous 6 months, so that the Bank only trades in liquid securities and securities that can be easily converted into cash.

Maturity matching between financial assets and financial liabilities of the Bank as at 31 December 2012 was as follows:

Financial assets in the balance sheet	**1 - 7 days**	**8 - 15 days**	**16 - 30 days**	**31 - 90 days**	**91 - 180 days**	**181 - 365 days**	**1 - 5 years**	**Over 5 years**	**Total**
Cash and deposit accounts with depository institutions	2,760	-	-	-	-	-	-	-	**2,760**
Securities held for trading and available for sale, excluding shares	9	-	-	-	-	-	-	-	**9**
Securities purchased per resale agreement	-	-	-	-	-	-	-	-	**-**
Loans and other receivables	1,555	18	93	1,007	6,905	8,504	5,313	2,002	**25,397**
Securities held to maturity	-	-	-	-	442	-	-	-	**442**
Other financial assets, including investments in shares	2,086	-	-	-	-	2,333		3,597	**8,016**
Total:	**6,410**	**18**	**93**	**1,007**	**7,347**	**10,837**	**5,313**	**5,599**	**36,624**
Financial liabilities in the balance sheet	**1 - 7 days**	**8 - 15 days**	**16 - 30 days**	**31 - 90 days**	**91 – 180 days**	**181 - 365 days**	**1 - 5 years**	**Over 5 years**	**Total**
Deposits	1,468	48	138	3,700	4,369	6,372	1,648		**17,743**
Securities sold per repurchase agreement	-	-	-	-	-	-	-	-	**-**
Liabilities for loans taken and other borrowings	-	-	-	-	111	229	2,654	2,784	**5,778**
Liabilities toward the government	20	-	-	11	-	11	-	-	**42**
Other borrowings – matured liabilities	-	-	-	-	-	-	-	-	**-**
Subordinated debt	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	401	-	-	-	-	-	-	-	**401**
Total :	**1,889**	**48**	**138**	**3,711**	**4,480**	**6,612**	**4,302**	**2,784**	**23,964**
G A P:	**1 - 7 days**	**8 - 15 days**	**16 - 30 days**	**31 - 90 days**	**91 - 180 days**	**181 - 365 days**	**1 - 5 years**	**Over 5 years**	**Total**
Maturity GAP (1) - (2)	**4,521**	**(30)**	**(45)**	**(2,704)**	**2,867**	**4,225**	**1,011**	**2,815**	**12,660**
Cumulative GAP	**4,521**	**4,491**	**4,446**	**1,742**	**4,609**	**8,834**	**9,845**	**12,660**	**51,148**
% of total sources of assets	**18.90%**	**18.7%**	**18.6%**	**7.3%**	**19.2%**	**36.9%**	**41.1%**	**52.8%**	

VI Market risk

The regulatory framework for market risk management is a Decision on minimum standards for market risks in the bank (“Official Gazette of Montenegro” no. 60/08)

Market risk represents the likelihood of losses in the Bank’s operations arising from fluctuations in interest rates, foreign exchange rates, prices, indices and/or market factors that affect the value of financial instruments.

Market risks include:
- Interest rate risk,
- Foreign currency exchange risk,
- Price risk and
- Risk of other contractual party, issuer and investments.

In accordance with the Decision on the capital adequacy of banks ("Official Gazette of MNE no. 60/08 to 38/11) the Bank calculates the amount of required capital for market risks. The required capital for market risk as at 31 December 2012 amounted to EUR 2 thousand.

The risk of changes in interest rates

The Bank is exposed to various risks associated with the effects of changes in market interest rates on its financial position and cash flows. Interest rate risk in terms of fluctuating interest rates and the irregular supply and demand of capital requires special attention of the Bank.

Interest rate risk is the unfavorable change in a price of the loan in relation to the level of deposit rates, on the one hand, and the possibility of reducing the optimal difference between the average lending and deposit rates, on the other hand. The Bank maintains a standardized interest rate shock below 20% of its own funds in accordance with the Decision on Minimum Standards for the management of interest rate risk, which does not arise from trading activities of the bank. In accordance with this decision the measurement of risk is made. Interest rate risk is measured by the size and duration of GAP is calculated by coefficients of interest rate risk.

Measurement of interest rate risk with GAP analysis is done by reviewing mismatch of interest rate sensitive positions of assets, liabilities and off-balance sheet items per period of re-establishing the interest rate and maturity. GAP analysis is used to measure the impact of changes in interest rates on net interest income of the Bank. GAP analysis included measurement of interest rate risk for all currencies in total, as well as separately for each significant currency in which the Bank conducts business, depending on the technical capabilities.

Based on the analysis of GAP the Bank’s management determines the strategy for increase or decrease in interest rates in order to achieve higher profits.

The exposure to the interest rate risk as at 31 December 2012 is presented in the following table:

SENSITIVE ASSETS	**1-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**Over 1 year**	**TOTAL**
Interest bearing deposits with other institutions	348	-	-	-	-	**348**
Interest bearing securities	-	-	442	-	-	**442**
Loans and other receivables	1,665	1,007	6,905	8,504	7,316	**25,397**
Other sensitive assets	-	-	-	2,333	-	**2,333**
TOTAL	**2,013**	**1,007**	**7,347**	**10,837**	**7,316**	**28,520**
% from total interest assets	**7.06%**	**3.53%**	**25.76%**	**38.00%**	**25.65%**	**100.00%**

SENSITIVE LIABILITIES	**1-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**Over 1 year**	**TOTAL**
Interest bearing deposits	455	3,681	3,999	4,252	1,648	**14,035**
Interest bearing borrowings	20	11	111	240	5,438	**5,820**
TOTAL	**475**	**3,692**	**4,110**	**4,492**	**7,086**	**19,855**
% from total interest liabilities	**2.39%**	**18.59%**	**20.70%**	**22.62%**	**35.69%**	**100.00%**

GAP	**1-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**Over 1 year**	**TOTAL**
GAP amount Positive/Negative	**1,538**	**(2,685)**	**3,237**	**6,345**	**230**	**8,665**
Cumulative Gap – Positive/Negative	**1,538**	**(1,147)**	**2,090**	**8,435**	**8,665**	
Cumulative Gap / Total assets	**3.94%**	**(2.94%)**	**5.36%**	**21.63%**	**22.22%**	

Foreign currency exchange risk

The Bank measures the capital requirement for foreign exchange risk if the open foreign exchange position of Bank, including net position in gold, is over 2% of own funds.

The following table summarizes the net foreign currency position of the Bank as at 31 December 2012. The Bank is exposed to effects of fluctuations in foreign currency exchange rates that affect its financial position and cash flows. Management sets limits on the level of exposure by currency, which are regularly monitored.

LONG POSITIONS	RSD	USD	GBP	CHF	OTHER	TOTAL
Foreign currency assets	-	301	-	29	1	**331**
Liabilities in foreign currency	-	-	-	-	-	-
TOTAL	-	**301**	-	**29**	**1**	**331**

SHORT POSITION	RSD	USD	GBP	CHF	OTHER	TOTAL
Foreign currency liabilities	-	251	-	19	-	**270**
Agreements on sale of foreign currencies and other off-balance sheet items for foreign currency trading	-	-	-	-	-	-
TOTAL	-	**251**	-	**19**	-	**270**

NET POSITION	RSD	USD	GBP	CHF	OTHER
NET LONG (SHORT) POSITION	-	**50**	-	**10**	**1**
% of capital	**0%**	**1%**	**0%**	**0%**	**0%**

AGGREGATE BALANCE IN ALL FOREIGN CURRENCIES	**61**
% of Tier 1 capital	**0%**

Official exchange rates of currencies used in the translation of foreign currency positions in statement of financial position in EUR as at 31 December 2012 and 2011 were as follows:

	2012	2011
USD	0.7586	0.7729
CHF	0.8278	0.8226
GBP	1.2241	1.1972

VII Country risk

Country risk is the possible loss of to the Bank because of the inability to collect receivables from entities based outside of Montenegro for reasons related to the political, social and economic environment of the country in which the registered office or place of residence of the debtor and includes political - economic risk and transfer risk. The basic reference for measuring the county's rating risk is determined by international recognized rating agencies (Standard&Poor's, Moody's, Fitch).

Based on the rating of the country established by internationally recognized rating agency, risk manager measures and classifies the exposure of the country to one of the following four categories: risk-free countries, the low-risk countries, medium-risk countries and high-risk countries. In accordance with Article 5 and 6 of the Decision on the methodology for measuring country risk the Bank performs the measurement and calculation of capital requirements for the country risk by assigning them the following risk weights:

- risk-free country: 0%;
- low risk countries; 50-100%;
- the medium risk: 150-250%;

- high-risk country minimum: 300%.

The Bank ranks countries in a particular category based on following:

• Long-term credit rating, determined by an internationally recognized rating agency (Standard & Poor's, Moody's, Fitch);
• Information on the national or international level that can be obtained on the country;
• Information on the foreign debt (size, character, maturity, service, etc.) and an inflation rate of the country of the debtor;
• Information on current conditions in the debtor's country (economic and political situation, the estimated socio-political stability).

VIII Operational risk

Operating risk represents the probability of occurrence of losses in the Bank's operations due to inadequate internal systems, processes and controls, including inadequate information technology, due to the engagement of persons outside the bank to perform certain tasks, weaknesses and failures in carrying out activities, illegal actions and external events that may expose the Bank to loss including legal risk.

Through an efficiently implemented operating risk management system the Bank sets limits for maximum acceptable loss resulting from the effects of operating risk.

The Bank calculates operating risk capital requirements in compliance with the Decision on Capital Adequacy of Banks (Official Gazette Montenegro, no. 60/08 to 38/11).

As at 31 December 2012 the amount of capital required for operational risks amounts to EUR 383 thousand.

IX Risk of regulatory compliance

The Bank is obliged to operate in accordance with the Law on Banks and by-laws adopted under the Act (see Note 2.1 Basis of presentation of financial statements in the Notes to the Financial Statements).

All employees of the Bank are responsible for the compliance of the Bank with the obligatory regulations within the scope of their work and have the obligation to respect regulations and acts that are directly related to the job requirements.

X The system of internal control and internal audit

The system of internal control and internal audit in banks, regulated by the Decision on the basis of the system of internal control in banks ("Off. Gazette of Montenegro" no. 60/2008) and the Decision on Internal Audit in banks ("Off. Gazette of Montenegro" no. 60/2008), which defines and prescribes the basis for the establishment and functioning of the internal control systems in banks and the basic principles of organizing the internal audit.

The system of internal control refers to the comprehensiveness of the organization, policies and procedures for the efficient and effective execution of business activities at all levels, which provides a solid and stable operations.

The Bank has appointed an internal auditor. The performance of the internal audit activity is carried out in accordance with the Rulebook on Internal Audit.

In accordance with these internal procedures the internal audit activities include but are not limited to:

• Compliance with relevant regulations, guidelines, instructions and standards;
• Evaluation of the reliability rules and segregation of duties within the banking operations;
• Review and assessment of the effectiveness and benefits of financial and administrative controls;
• Monitoring the adequacy, reliability, security 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;
• Testing and evaluation of the adequacy and effectiveness of internal controls;
• Review of applications and effectiveness of risk management procedures and risk assessment methodologies;
• Assessment of the information system with particular 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 transactions and functioning of specific internal control procedures;
• Adherence to legal and statutory regulations, codes of ethics, implementation of policies and procedures;
• Conducting special investigations.

When reporting to the Bank's management, internal audit operates independently in order to establish and report on the adequacy, reliability and effectiveness of the controls used by the Bank's risk management, which has a preventive effect on the achievement of the objectives of banking, and reporting whether the banking resources are used efficiently and effectively in achieving the objectives of banking.

Next year internal audit plan is adopted at the beginning of the current year. Internal audit plan defines business areas that will be subject to audit, the extent of coverage of internal audit in various areas of business, the procedures that will be done per planned audit activities, the deadlines for the implementation of planned activities and timelines for submission of the report.

The internal auditor submits quarterly and annual audit reports to the Bank's management. Audit reports include a description of all of the audits, the audit findings with suggestions and recommendations to remedy the irregularities, suggestions for improving the functioning of the internal control system and review of corrected irregularities identified in previous audits and evaluations of proposals to eliminate irregularities.

C Personnel, technical and organizational capacity

The Bank operates in the Head Office in Podgorica.
The Bank operates through the following organizational units (departments):

1. Executive management
1.1 Chief Executive Director
1.2 Executive Director
1.3 Deputy Chief Executive Director
1.4 Advisor of Chief Executive Director
2. Internal audit
3. The Prevention of Money laundering and terrorist financing
4. Compliance with regulations
5. Risk management
6. Information system security
7. Investment banking
7.1.1 Department for sales, trading and managing securities
7.1.2 Department for custody operations
8. Department for Information technology
9. Department for Commercial banking
10. Support sector
10.1.1 Department for finance and accounting
10.1.2 Department for legal and general affairs
10.1.3 Department for payment and management

The Bank had 30 employees as at 31 December 2012 (as at 31 December 2011: 29 employees).

The structure of the professional staff and support staff is as follows:

	Number of employees	%
Master degree	7	24
University degree	19	63
College	1	3
High school	3	10
otal	**30**	**100**

Members of the Board of Directors of the Bank as at 31 December 2012 were as follows:

Name:	Function:
Sonja Burzan	Chairman
Predrag Dašić	Vice chairman
Dr. Rajko Bujković	Member
Igor Martinović	Member
Basil Petrides	Member

Members of the Audit Committee as at 31 December 2012 were as follows:

Name:	Function:
Jelena Žugić	Chairman
Slobodan Manojlović	Vice chairman
Sonja Burzan	Member

Members of the ALCO Committee as at 31 December 2012 were as follows:

Name:	Function:
Zoran Nikolić	Chairman
Milanka Radunović	Member
Ana Brailo	Member
Jelena Laban	Member
Enes Kurpejović	Member
Mileva Marojević	Member

The Chief Executive Director as at 31 December 2012 is Zoran Nikolić.

The Head of Internal audit as at 31 December 2012 is Marina Dedić.

Organizational structure of the Bank established levels and lines of authority and responsibility with a clear delimitation of between management functions and functions of command. The management bodies are the Chief Executive Director and the Board of Directors. Bank is managed by the Chief Executive Director.

D Summary Report Form

In accordance with the Decision on the reports submitted by banks to the Central Bank of Montenegro, a report in abbreviated form consists of audit opinion on the financial statements, income statement, balance sheet, composition of the Board of Directors, the Audit Committee and the Asset and Liability Management Committee, the Chief Executive Director and Internal auditor of the Bank and data on performance indicators.

TRANSLATION

FOR INTERNAL PURPOSES
OF CENTRAL BANK OF MONTENEGRO

REPORT SUMMARY

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Bulevar Svetog Petra Cetinjskog 1A
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Montenegro

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TO THE SHAREHOLDERS

INVEST BANKA MONTENEGRO AD, PODGORICA

Independent Auditors' Report

We have audited the accompanying financial statements of INVEST BANKA MONTENEGRO AD, Podgorica ("the Bank"), which comprise the balance sheet as at 31 December 2012, income statement, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and objective presentation of these financial statements in accordance with Law on Accounting and Audit applicable in Montenegro and regulations of the Central Bank of Montenegro that regulate 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 qualified opinion.

Basis for Qualified Opinion

In our opinion losses on items of assets for 2012 are understated in the amount of EUR 657 thousand, while loans and leases receivables are overstated for the same amount as at 31 December 2012. As a result, current year's profit and equity as at 31 December 2012 are overstated for the same amount.

Qualified Opinion

In our opinion, except for the effects of the matter described in *the Basis for Qualified Opinion* paragraph, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with Law on Accounting and Audit applicable in Montenegro and regulations of the Central Bank of Montenegro that regulate financial reporting of banks.

Other matters

The financial statements as at and for the year ended 31 December 2011 were audited by another auditor who expressed an unqualified opinion on these financial statements as at 30 May 2012.

Podgorica, 23 May 2013

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

Podgorica, 23 May 2013

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of EUR	Note	2012	2011
Interest income	3.3, 4	2,180	1,540
Interest expense	3.3, 4	(767)	(463)
Net interest income		**1,413**	**1,077**
Impairment losses	3.5, 5	(399)	(98)
NET INCOME		**1,014**	**979**
Fee and commission income	3.4, 6	162	163
Fee and commission expenses	3.4, 6	(172)	(155)
Net fee and commission income		**(10)**	**8**
Net income from interest and fees and commissions		**1,004**	**987**
Other income, net	3.6,7	394	708
General expenses	3.7,8	(1,306)	(1,705)
Extraordinary income		-	58
PROFIT BEFORE TAX		**92**	**48**
Income tax expense	3.16,9	(17)	(18)
PROFIT AFTER TAX		**75**	**30**

These financial statements were approved by the Board of directors, based on the Invest Bank AD, Podgorica, Decision No. 04-292/13 dated 31 January 2013

On behalf of INVEST BANKA MONTENEGRO, AD Podgorica

Person responsible for preparing financial statements	*Chief Executive Director*	*Executive Director*
Milanka Radunović	Zoran Nikolić	Predrag Dašić

BALANCE SHEET AS AT 31 DECEMBER 2012

In thousands of EUR	Note	2012	2011
ASSETS			
Cash and deposit accounts with depository	10	2,760	3,186
Assets for the trade and assets available for sale, except shares and derivative financial assets		9	97
Loans and leases	3.8, 11	25,035	23,531
Securities held to maturity	3.9	442	327
Business premises and other fixed assets	3.10, 12	1,492	1,589
Acquired assets	3.11, 13	1,246	1,223
Investments in equity of other entities	3.12, 14	4,195	3,856
Other assets	15	3,821	3,140
Less: Provision for other assets	3.8, 11	(1)	(8)
TOTAL ASSETS		**38,999**	**36,941**
LIABILITIES AND EQUITY			
Deposits	3.13, 16	17,743	15,446
Borrowings	3.14, 17	5,778	6,018
Liabilities towards Government of Montenegro	3.14, 18	42	142
Other liabilities	19	401	364
Provisions for off- balance sheet exposures	20	2	13
TOTAL LIABILITIES		**23,966**	**21,983**
Share capital	3.15, 21	13,844	13,844
Share premium		2	2
General reserves		73	73
Revaluation reserves		1,000	1,000
Accumulated profit		114	39
Total equity		**15,033**	**14,958**
TOTAL LIABILITIES AND EQUITY		**38,999**	**36,941**
OFF- BALANCE SHEET ITEMS	23	**78,310**	**56,151**

These financial statements were approved by the Board of directors, based on the Invest Bank AD, Podgorica, Decision No. 04-292/13 dated 31 January 2013

On behalf of Invest Bank Montenegro AD, Podgorica

Person responsible for preparing financial statements	*Chief Executive Director*	*Executive Director*
Milanka Radunović	Zoran Nikolić	Predrag Dašić

DATA ON COMPOSITION OF BOARD OF DIRECTORS, AUDIT COMMITTEE, CREDIT COMMITTEE, THE COMMITTEE ON ASSET AND LIABILITY MANAGEMENT, CHIEF EXECUTIVE DIRECTOR AND INTERNAL AUDITOR

Members of the Board of Directors of the Bank as at 31 December 2012 are as follows:

Name:	Function:
Sonja Burzan	Chairman
Predrag Dašić	Vice chairman
Dr. Rajko Bujković	Member
Igor Martinović	Member
Basil Petrides	Member

Members of the Audit Committee as at 31 December 2012 are as follows:

Name:	Function:
Jelena Žugić	Chairman
Slobodan Manojlović	Vice chairman
Sonja Burzan	Member

Members of the ALCO Committee as at 31 December 2012 are as follows:

Name:	Function:
Zoran Nikolić	Chairman
Milanka Radunović	Member
Ana Brailo	Member
Jelena Laban	Member
Enes Kurpejović	Member
Mileva Marojević	Member

As at 31 December 2012 The Executive Director is Zoran Nikolić.

As at 31 December 2012 Head of Internal Audit is Marina Dedić.

BANK'S PERFORMANCE INDICATORS AS AT 31 DECEMBER 2012

Bank's performance indicators as at 31 December 2012 are as follows:

Indicators	Performance indicators according to the Bank's calculation
Issued capital	EUR 11,746 thousand
Additional capital	EUR (1,000) thousand
Bank's own funds	EUR 11,746 thousand
Weighted balance sheet assets	EUR 24,156 thousand
Weighted off-balance sheet items	EUR 719 thousand
Solvency ratio	39.31%
Return on average assets	0.19%
Return on average equity	0.5%