ANNUAL REPORT

HIPOTEKARNA BANKA

2012

ANNUAL REPORT 2012

Report of the Chairman of the Board of Directors
and Chief Executive Officer Report

Report of the Chairman of the Board of Directors

Dear clients, partners and shareholders,

On behalf of the Board of directors, I have the honor to present you the Annual report of Hipotekarna banka AD Podgorica for year 2012.

Challenging market and economic environment, rising from the long-term financial and economic crisis, has marked the 2012th year. Real economic sector in Montenegro fought with the extensive problem of illiquidity, which were frequently passed through to the other participants of Montenegrin economic system. Public finance crisis in the Southern Europe continued to deepen in 2012, which has been felt by all the banks in this geographic area. Moreover, Cyprus crisis has shown that even the banks which passed the stress testing are not immune.

In such an impeding business environment, Hipotekarna banka AD Podgorica managed to improve its performance and business results, which makes this achievement even more valuable. The success of our Bank is reflected in the increase in assets of 12%, which further strengthened the market share of Hipotekarna banka AD Podgorica in banking sector. Net profit increased from 1.52 to 1.62 million, while the maintaining the return on equity of 6.77%. Success is even greater given that the multi-year capital gain reinvestment policy of the Bank is resulting in constantly increasing profits.

On 31.12.2012. the solvency ratio was high above the statutory limit (10%), and amounted to 15.05%. The solvency ratio is the most important indicator of confidence in the Bank, and the protector of the depositors, creditors and business partners of the Bank. By obtaining the high solvency ratio, we have demonstrated high quality asset management and risk management, which is another indication that the Bank is sticking to its strategic goal of sustainable long-term successful business.

Investment in human resources is necessary for the sustainable business . Hipotekarna banka AD Podgorica is continuously training and educating its employees, because professional staff and commitment to customer are the priorities of the Bank. We work hard to achieve a strong and deep relationship with our clients.

I would like to thank all the customers, partners, employees and shareholders for their loyalty and trust that you have shown in Hipotekarna banka AD Podgorica.

The Annual report in front of you and the results presented within will, hopefully, confirm that you have made the right choice.

Sigilfredo Montinari
Chairman of the Board of Directors

Report of the Chief Executive Officer

Dear clients, partners and shareholders,

It is my honor to present you the Annual report of Hipotekarna banka AD Podgorica for year 2012.

In 2012, as in previous years, we had been operating in a difficult business enviroment. Montenegrin banking sector, despite the growing illiquidity of the real sector, managed to maintain the overall liquidity and quality of functioning, thus keeping the Montenegrin economy stable.

Temptations of Montenegrin bankers remained the same as in the previous years. These are, above all, a high level of non performing loans, lack of high-quality base structure of deposits, the lack of high-quality projects for funding and inefficient judicial system from the perspective of NPL collection. Aforementioned circumstances affected the quality of the offer of banking products. Competition in the banking market becomes more intense, because small and medium-sized banks significantly increased their business share in the the banking sector. Implementation of international standards in conducting business, and steady progress in the Euro-Atlantic integrations send positive signals and create expectations that the business environment quality will go upward.

Hipotekarna banka AD Podgorica continued to consistently conduct its internal procedures in 2012. A conservative approach to the process of loan approval and risk diversification policy resulted in Bank's continued stable and profitable business performances as in previous years. Beginning in 2006, when ownership and management structure of the Bank has been changed, all parameters of business performance are marked by constant growth. Throughout the crisis period Hipootekarna banka AD Podgorica has not recorded any situation of illiquidity or significant outflow of deposits.

Profit of Hipotekarna banka AD Podgorica has increased in 2012 comparing to year 2011. We have become one of the few profitable banks in the last seven years, which is a rarity not only in the Montenegrin market. Sustainable development of the Bank is also reflected in the fact that all the business segments are constantly improving. Assets increased by 12% to 173.77 million compared to 2011. Deposits increased by 21% to 118.2 million euros, which indicates a growing confidence in our Bank. The increase in equity and deposits accompanied by an increase in net profit for the year 2012, which amounted to 1.62 million EUR..

Commitment to customers, along with sustainable development will continue to be a strategy for Hipotekarna banka AD Podgorica in the following years, since it has proved to be a winning strategic commitment. In order to better meet customer needs we are committed to the further development of new banking products, as well as investment in new technologies, by which we have become known in the market.

Dear friends, I hope you will review the Annual Report and once again confirm that you made the right move giving your confidence to Hipotekarna banka AD Podgorica.

Esad Zaimović
Chief Executive Officer

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1.] Montenegro Economy Survey

Macroeconomy

Last year was characterized by a lower level of economic activity in the first two quarters, particularly in industrial manufacturing and construction, while the generator of development was still tourism, where have been recorded a rise in the number of overnight stays, contributing to the increase in retail sales.

At the same time, it is evident a slight recovery in the labor market, where there is a drop in unemployment and employment growth. Inflation was on the rise. There was an evident increase in foreign direct investment, so this year is expected to record relatively high inflow of FDI.

A slight recovery of the Montenegrin economy started in the third quarter and continued in the fourth.

Montenegro's GDP (EUR million)

Year	GDP	Real growth rate
2000	1,065.70	
2001	1,295.10	1.10%
2002	1,360.40	1.90%
2003	1,510.10	2.50%
2004	1,669.80	4.40%
2005	1,815.00	4.20%
2006	2,149.00	8.60%
2007	2,680.50	10.70%
2008	3,085.60	6.90%
2009	2,981.00	-5.70%
2010	3,104.00	2.50%

2011	3,234.00	3.20%
2012*	3,324.00	0.50%

Source: MONSTAT
**Source: Estimates Ministry of finance*

GDP

Montenegro's economy recorded GDP decline of 0.9% in the first half of the 2012th. Causes of the fall were extreme weather conditions in the first quarter of 2012, the negative impact of the crisis in the region, repair of power plant Plevlja as well as internal structural weaknesses. The downturn was more pronounced in the first quarter and stood at -2.4% annually. The decline was recorded in agriculture (5%), electricity (-35%), traffic (-3.5%), and taxes on products (-7%). In the second quarter there was a slight repair and real economic growth of +0.3%, fueled by growth in agriculture and manufacturing. Decline in aluminum prices on the world market and the reduction of subsidies for electricity, led to problems in the production of aluminum in Montenegro. The decline in exports of aluminum, accounting for 40% of total exports, has significantly influenced the decline in GDP in the 2012th. Problems in the functioning of KAP had a negative impact on related activities (electricity production) and the fiscal sector.

A slight recovery of the Montenegrin economy started in the second quarter and continued in the third. The growth in tourism and agriculture, will affect the alignment of negative growth.

Inflation

Inflation was on a declining trend in December, but it recorded an uptrend in relation to the previous year. Annual CPI inflation in December 2012 amounted to 5.1% and the average inflation amounted to 4.1%. Prices of manufacturing products recorded annual increase of 5.7%, mostly due to the growth of prices in electricity, gas and steam supply of and those of manufacturing industry of 18.7% and 1.8%, respectively.

Industrial output

The period-on-period comparison shows that total industrial output decreased 7.1%

in the first twelve months of 2012. Decline was recorded in mining and quarrying sector (21%) and manufacturing industry sector (10.1%), while electricity, gas and steam supply sector recorded production growth of 6.4%.

In the reporting period, the following three sectors of manufacturing industry recorded increase: production of tobacco (276.7%), production of basic pharmaceutical products and medications (37.7%), production of products of rubber and plastic (6.3%) and production of machines and equipment otherwise unmentioned (10.8%). The most significant decline of 38.6% was recorded in the production of furniture, while production of food products recorded the lowest decline of 0.9%.

Tourism

According to Monstat (Statistical office of Montenegro) records, some 1,439.5 thousand of tourists visited Montenegro in the first twelve months of 2012, which is a 4.8% y-o-y increase. Tourist nights amounted to 9,151.2 thousand, which is a y-o-y increase of 4.3%. Foreign tourists accounted for 89% of total tourist nights.

Foreign exchange

According to preliminary report of Monstat, volume of foreign trade of Montenegro for the period January-December 2012th decreased, compared to same period last year.

Exports of goods declined by 17%, while import rose by 1.5%. The share of exports in total merchandise trade amounted to 16.6%, which is a drop of 3 percentage points compared to the same period last year (19.6%). Considerable decrease in exports was mainly influenced by the reduction of production in the manufacturing industry, as well as reducing export prices.

Foreign Direct Investments (FDI)

In 2012, positive trend in FDI inflow was recorded. Preliminary data for 2012 show that net FDI inflow amounted to EUR 453.6 million, or 16.6% more than in 2011. In 2012, there was an evident uptrend of the FDI inflow in the form of increased investments into real estates (22.7%), intercompany debt (22.2%), and investments into companies and banks (34.9%), compared to 2011. Total FDI inflow in the observed period amounted to EUR 633.3 million, while the outflow of EUR 179.6 million was recorded in the same period.

2.] Bank Business Survey

Organisation And Staff

By the 31.12.2012., the Bank had 166 employees who have the necessary skills and information-technological basis to perform banking operations. Working with customers ("front office"), engages 52% of total employees. Number of employees has increased for 3 (three), as compared to 31.12.2011. The average age of employees in the Bank is 36,2 and average tenure of employees is 10,5 years.

An appropriate organizational structure had to be adapted to business development, therefore the Bank has introduced some organizational changes in order to achieve greater efficiency and optimum utilization of technical and human resources (Custody Department has been extended and re-named in Custody and Depositary Department in which are placed Custody operations and Depositary operations as separate units). During the 2012 the Bank opened a branch in Podgorica, Donja Gorica, Cetinjski put bb, and branch in Danilovgrad, Baja Sekulića No.8.

Continuity in educating and training employees are the primary objectives of the Bank. During the year 2012, a large number of employees participated at numerous internal and external trainings from various areas relevant to the Bank. At the same time, the Bank employs young, professional people who will bring their commitment to improve the quality of the development of the Bank.

Educational structure of employees is: 6 (six) employees are Masters of Science (MSc), 77 (seventy-seven) employees with high education (university degree), 17 (seventeen) employees have a bachelor degree, 16 (sixteen) with a college degree and 50 (fifty) with secondary education.

Governing Bodies

Governing bodies of the Bank are: Assembly of Shareholders and the Board of Directors. General Assembly consists of all shareholders. Members of the Board od Directors, the Bank's management authorities, are elected and appointed by the Assembly of Shareholders.

The structure of the largest shareholders as at 31.12.2012. is:

HB - Custody Account 4	16,8695%
Cerere S.p.a.. Italy	13,9275%
Gorgoni Antonia, Italy	10,0016%
Gorgoni Lorenzo, Italy	8,2766%
Todorović Miljan, Italy	7,3982%
Podravska banka D.D. Koprivnica, Croatia	6,5389%
Nereo finance S.A., Luxembourg	4,8682%
Jugopetrol A.D. Kotor, Montenegro	4,7021%
Montinari Dario, Italy	4,6159%
Montinari Sigilfredo, Italy	4,6159%
Montinari Andrea, Italy	4,6127%
Montinari Piero, Italy	4,6127%

The Board of Directors of the Bank has 7 (seven) members and the majority is not employed in the Bank. Standing Bodies of the Board of Directors of the Bank are: Audit Committee and the Credit Risk Management Committee.

List of the Boards, its members and executive directors of the Bank

1.1.The Board of Directors of Hipotekarna Banka AD Podgorica to 25.10.2012.

- Sigilfredo Montinari, President
- Božana Kovačević, Deputy President
- Snježana Pobi, Member

- Renata Vinković, Member
- Esad Zaimović, Member

1.2. The Board of Directors of Hipotekarna Banka AD Podgorica from 25.10.2012.

- Sigilfredo Montinari, President
- Božana Kovačević, Deputy President
- Dolly Predović, Member
- Miljan Todorović, Member
- Snježana Pobi, Member
- Renata Vinković, Member
- Esad Zaimović, Member

2.1. Audit Committee of Hipotekarna Banka AD Podgorica to 25.10.2012.

- Marko Žigmund, Chairman
- Božana Kovačević, Member
- Jovan Papić, Member

2.2. Audit Committee of Hipotekarna Banka AD Podgorica from 25.10.2012.

- Marko Žigmund, Chairman
- Božana Kovačević, Member
- Jovan Papić, Member

3.1. Credit Risk Management Committee of Hipotekarna Banka AD Podgorica to 25.10.2012..

- Renata Vinković, Chairman
- Snježana Pobi, Member
- Esad Zaimović, Member

3.2. Credit Risk Management Committee of Hipotekarna Banka AD Podgorica from 25.10.2012.

- Renata Vinković, Chairman
- Sigilfredo Montinari, Member
- Esad Zaimović, Member

4. Executive Directors of Hipotekarna Banka AD

- Esad Zaimović, Chief Executive Officer
- Jelena Vuletić, Risk Management Executive Director
- Ana Golubović, Executive Director of Commercial Affairs
- Aleksandar Mitrović, Executive Director of Finance and Informatics

Shareholders Assembly

Assembly of Shareholders held two sessions in 2012. which, considering materials that were subject to assessments and decisions had the character of regular (annual) and extraordinary meeting.

At the 14. regular meeting (held on 28.06.2012.) Shareholders' Assembly has reviewed the annual report of Hipotekarna Bank AD Podgorica for 2011. with the report of external auditors and adopted the Decision on profit distribution for 2011 which is used to cover losses from previous accounting periods.Also and Decision on amendment of Statute of Hipotekarna bank AD Podgorica has been in consistent with the prescribed qualifications(„Official Gazzette of Montenegro" No.18/11).

Board of Directors and Governing bodies

Board of Directors of the Bank, in accordance with the Law on Banks ("Official Gazette of Montenegro no. 17/08, 44/10, 40/11), held in 2012 a total of 10 regular sessions (legal obligation is to maintain the session at least once a month),in the new session that is from 25.10.2012. a total of three sessions of which the first constitutional session and two regulal sessions.

The work of the Board of Directors of the Bank was primarily focused on activities that were representing realization of the tasks and objectives set with the strategic and annual planning documents.

The Board of Directors of the Bank (the old and the new session in 2012) was regularly discussed issues relevant to the Bank (monthly business and financial statements, reports on liquidity, reports on the risks and specifically analyzed the reports related to lending activity and the activity of billing claims, and any other reports which covered the entire business activity of the Bank.

Also, if necessary, carried out the alignment of interest, rentals and other fees with market conditions in the area of loan activities and other banking services, and discussed other issues of the current operations of the Bank and carried the appropriate decisions and conclusions about them.

As a permanent body of the Board of Directors, Audit Committee and Credit Risk Menagment Committee on risk management have regularly reported the Board of Directors within its jurisdiction.

In addition to permanent body, the Committee on Asset and Liability Management (ALCO) and the Committee on Development and management of information system of the Bank at least once a month set and discussed issues within the scope of its work and reported on the Board of Directors of the Bank.

Relationship between the members of the Board of Directors of the Bank in 2012 (the old and the new session) according to obligations and duties stemming from laws and regulations of the Bank exercised through the necessary cooperation, as well as through attendance and active participation in the sessions of the Board. It was not disputed cases of harmonization of policies and decisions and implementation of business policy of the Bank and the quorum for holding the meeting was not contested.

It follows that the Board of Directors in 2012 (the old and the new session) with clearly defined goals, examined the timeliness and reliability of financial reports, reports on risk management which the Bank is exposed in its operations and oversee compliance with the Bank's business laws and regulations and internal plans, policies and procedures. In considering all the issues that are decided at the meetings, members of the Board of Directors of the Bank acted conscientiously, with care, respecting the rules of profession and using the powers of authority exclusively for the benefit of the bank.

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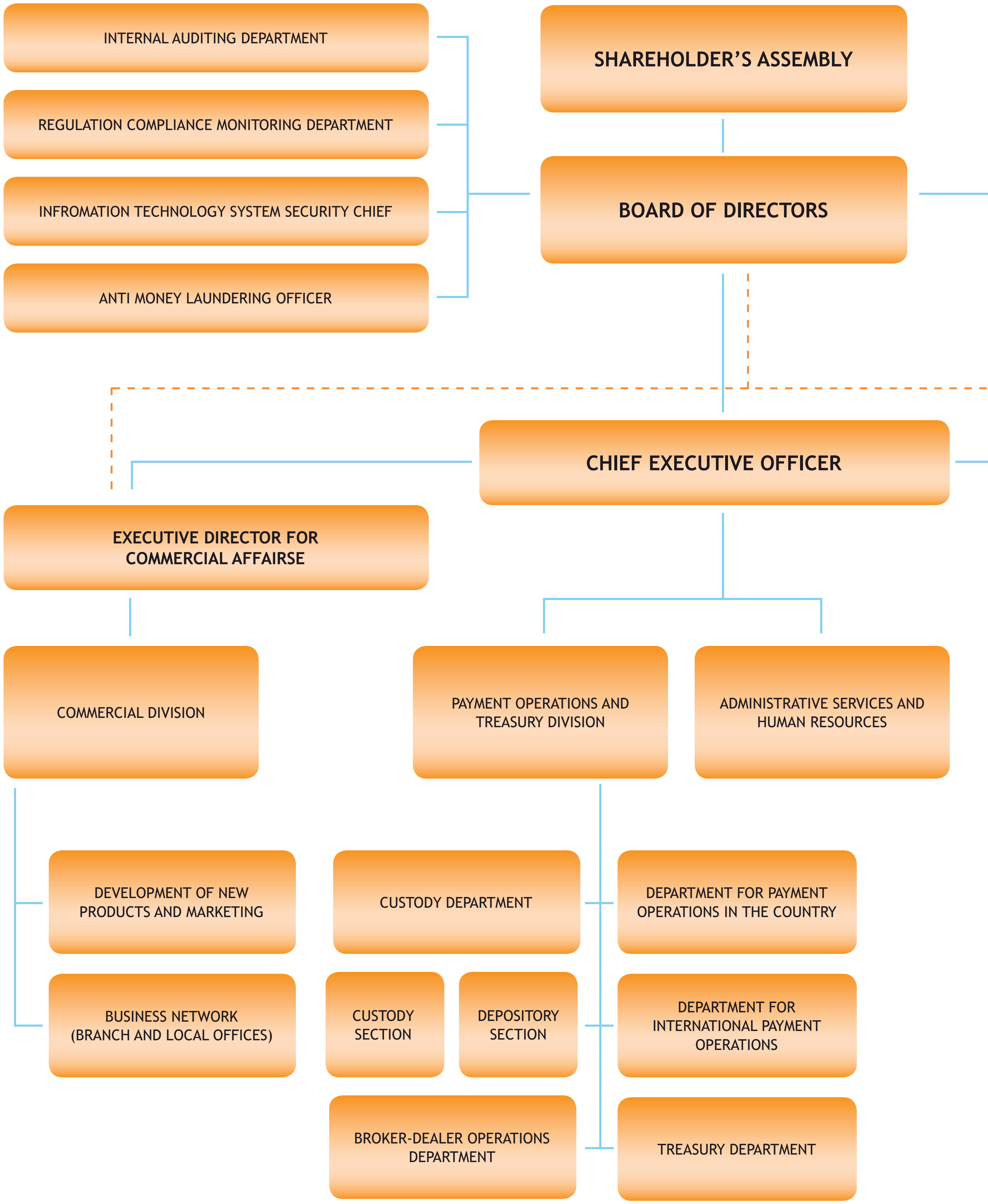
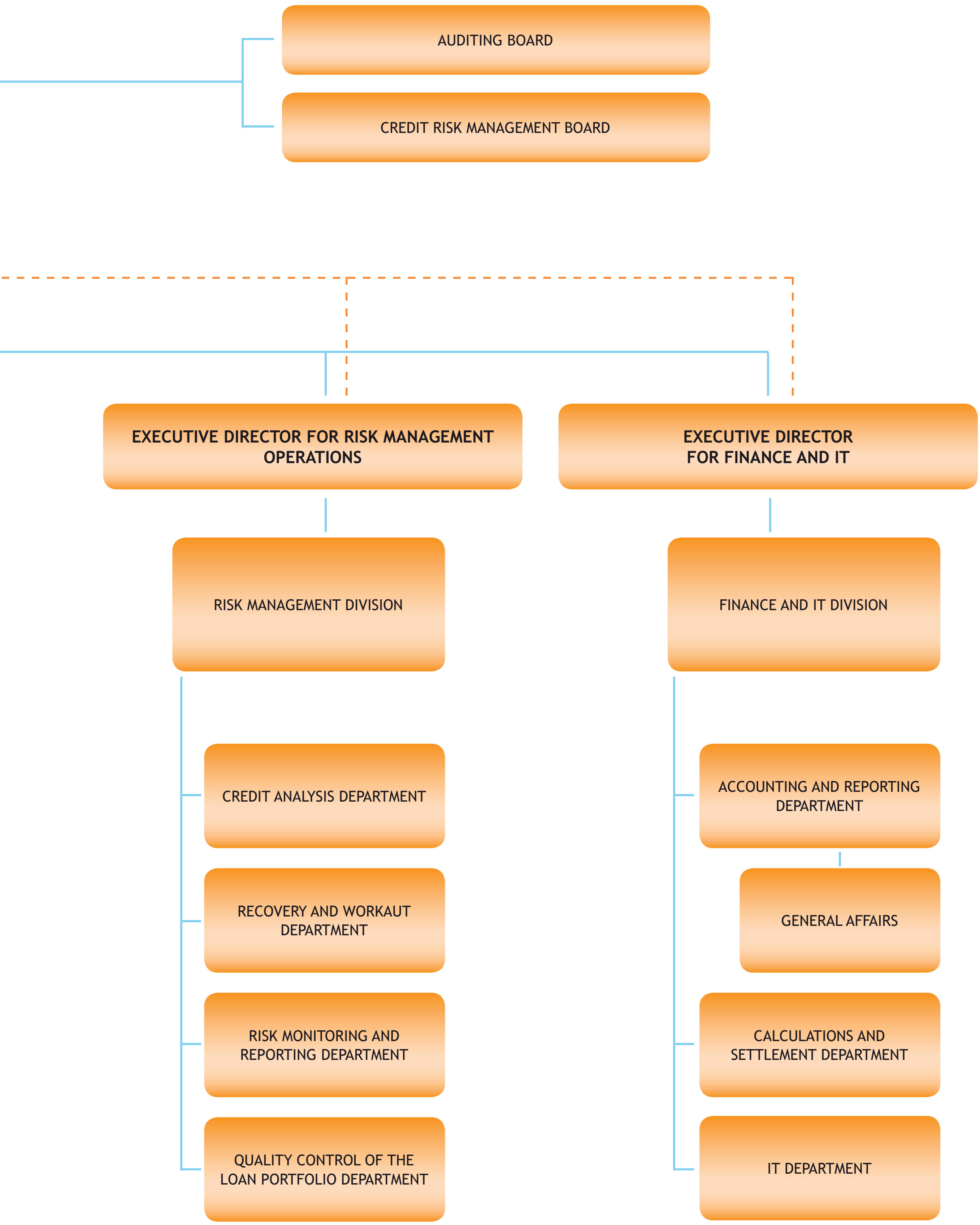
ORGANIZATIONAL CHART OF HIPOTEKARNA BANKA AD PODGORICA




AUDITING BOARD
CREDIT RISK MANAGEMENT BOARD
EXECUTIVE DIRECTOR FOR RISK MANAGEMENT OPERATIONS
EXECUTIVE DIRECTOR FOR FINANCE AND IT
RISK MANAGEMENT DIVISION
FINANCE AND IT DIVISION
CREDIT ANALYSIS DEPARTMENT
RECOVERY AND WORKAUT DEPARTMENT
RISK MONITORING AND REPORTING DEPARTMENT
QUALITY CONTROL OF THE LOAN PORTFOLIO DEPARTMENT
ACCOUNTING AND REPORTING DEPARTMENT
GENERAL AFFAIRS
CALCULATIONS AND SETTLEMENT DEPARTMENT
IT DEPARTMENT

Business operations

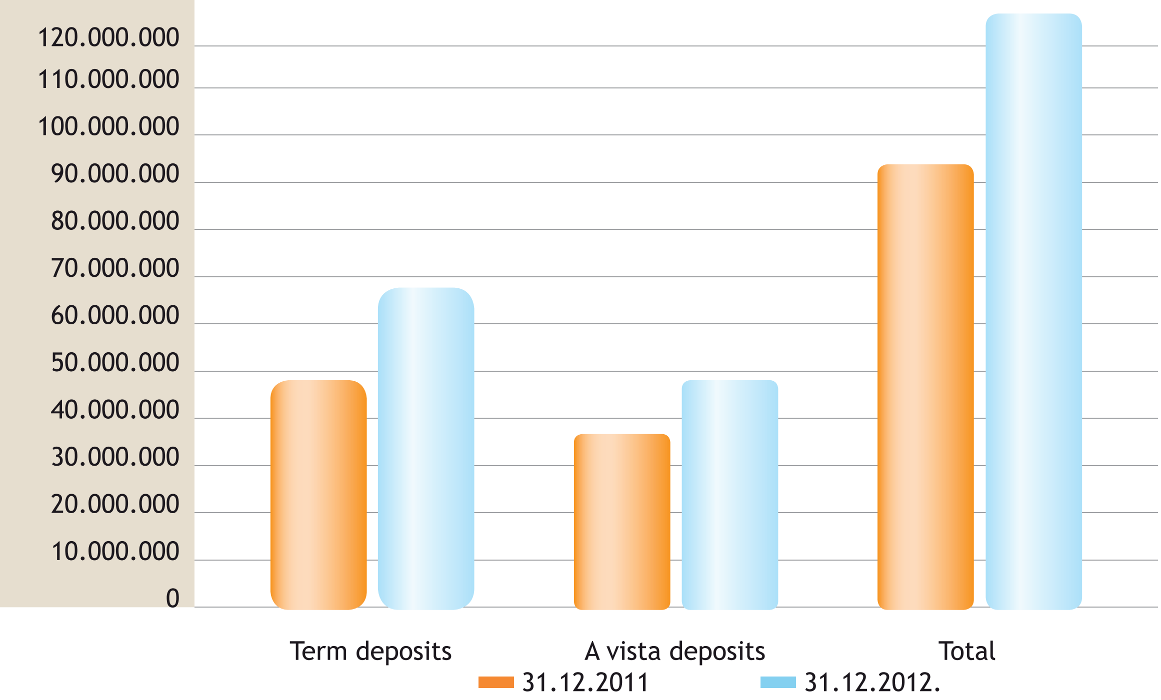
Deposits

In 2012, Hipotekarna bank achieved deposit growth of over 20% compared to 2011, which shows that the confidence of citizens and corporate grew. Total deposit increase was 23.34%, while the growth of time deposits was 19.05%.

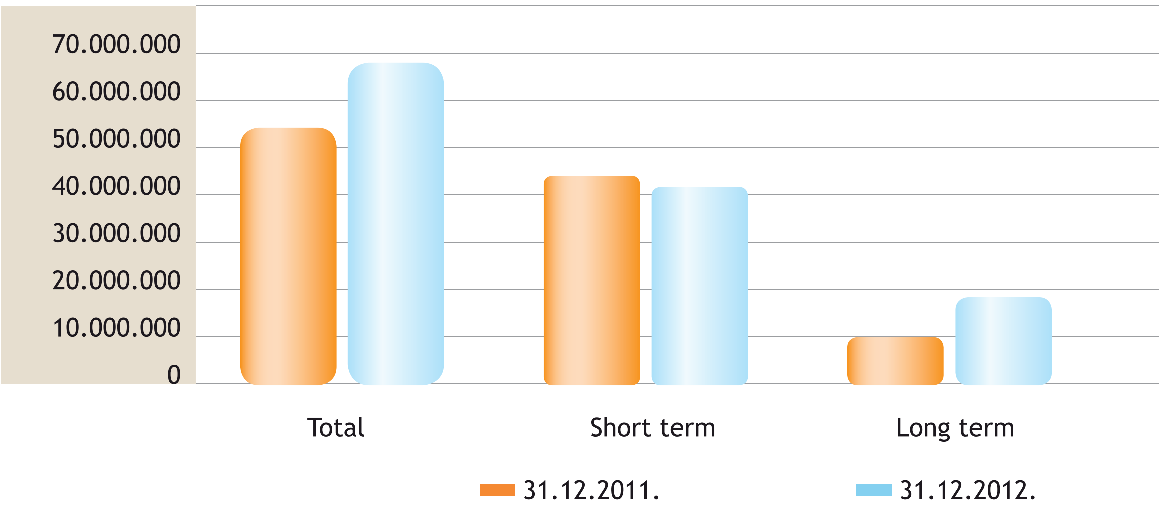
Also, the bank has put an accent on increasing savings and improving the structure of deposits as well as increasing of term deposits in total deposits

Balance of total deposits:

Date	Total deposit balance	Term deposits	A vista deposits
31.12.2011.	97.852.745 €	58.102.862 €	39.749.882 €
31.12.2012.	118.200.336 €	69.171.766 €	49.028.570 €

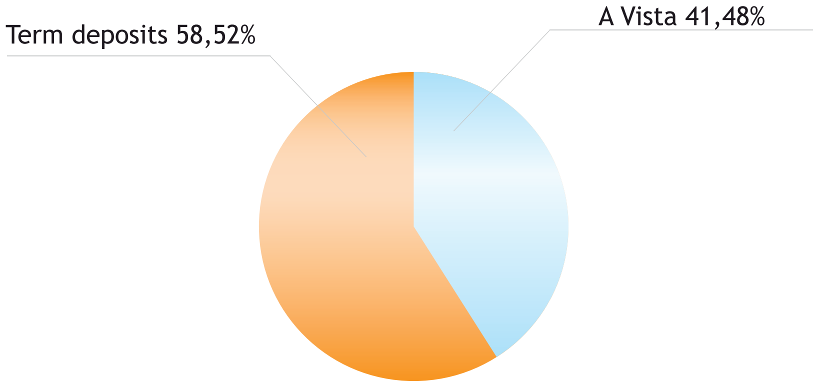


As a special emphasis was on the structure of time deposits, in 2012 long-term deposits achieved increase of 104.55%.



The share of term deposits in total deposits was 58.52% while a vista deposits represented with 41.48%.

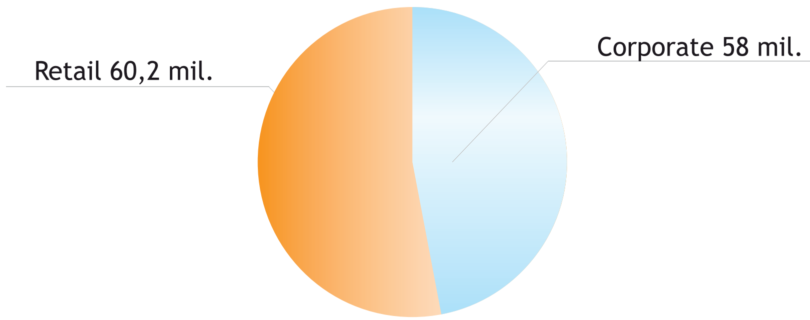
Deposit structure by type



This increase, both total deposits and term deposits in total deposits, shows that the Bank due to high quality offer an active approach to the sale, confirmed the great confidence of its clients and succeed to win the trust of new ones.

In total deposits, the share of retail deposits amounted to 50.94%, while the share of corporate deposits was 49.06%.

Deposits structure - clients

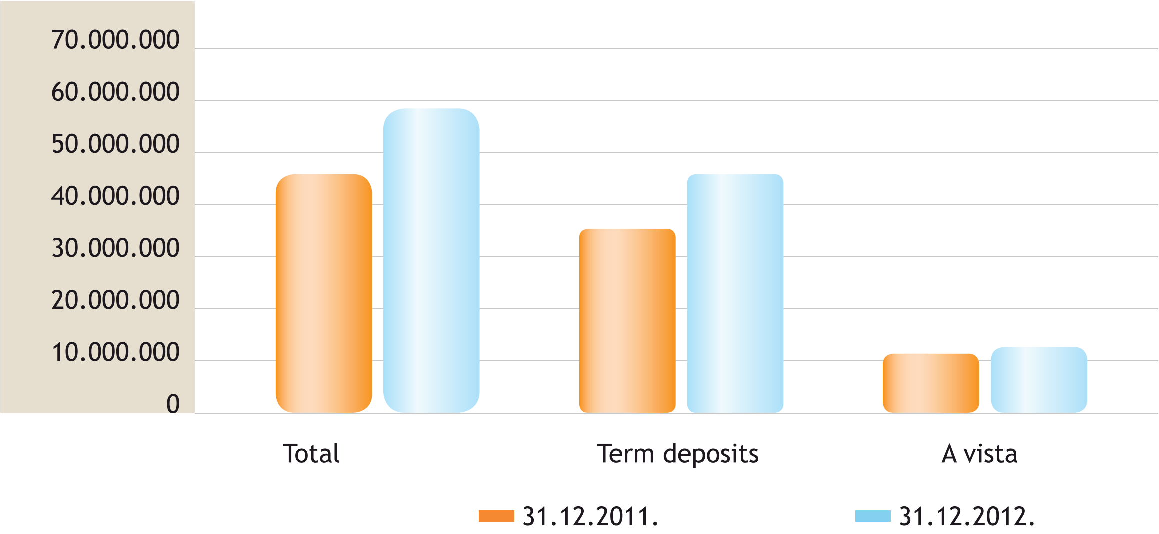


Retail deposits

Total retail deposits at end of 2012. recorded growth of 26.47% compared to the 2011.. The growth was achieved in both a vista deposits and term deposits.

Date	Total	Term deposits	A vista
31.12.2011.	47.603.495 €	35.057.021 €	12.546.475 €
31.12.2012.	60.205.983 €	45.772.514 €	14.433.469 €

Retail deposits



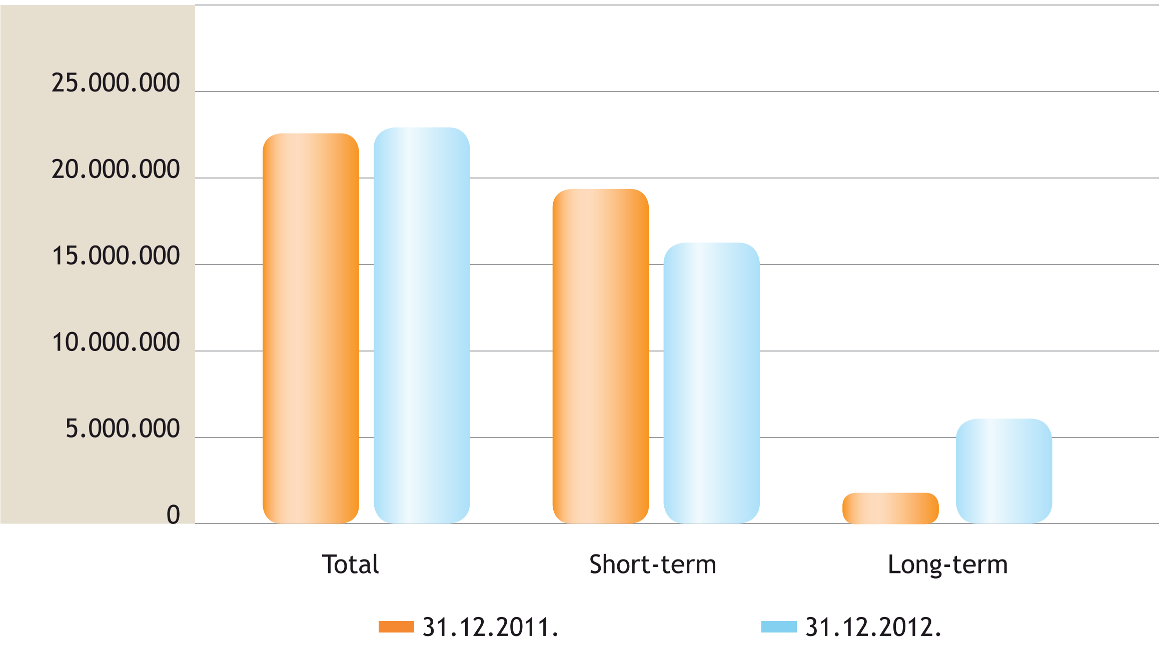
Retail term deposits increased by 30.57%, while the growth of a vista deposits was 15.04%.

Corporate deposits

Date	Total	Term deposits	A vista
31.12.2011.	50.249.249 €	23.045.842 €	27.203.408 €
31.12.2012.	57.994.353 €	23.399.252 €	34.595.101 €

Total deposits of legal entities increased by 15.41% , a vista deposits by 27.17% and time deposits by 1.53%, with a significantly improved structure of time deposits, given that in long-term deposits of legal entities made an increase of 113.78%.

Corporate terms deposits



Loans

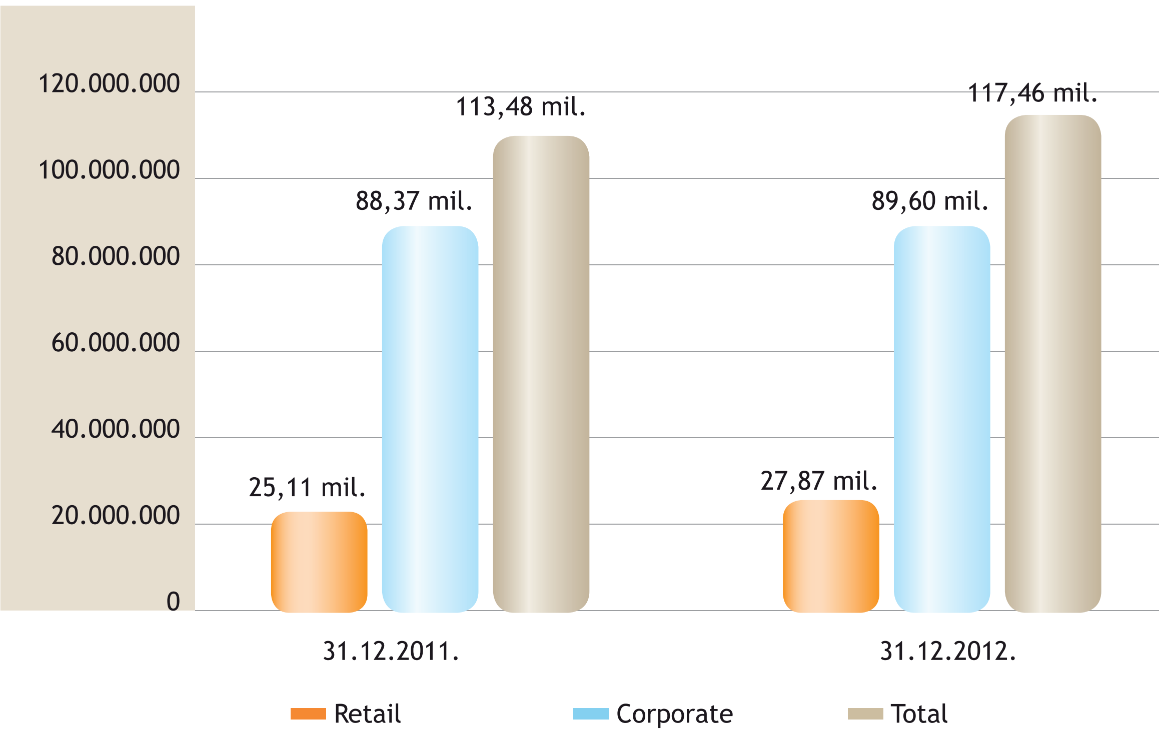
In 2012. except provided continuous credit support to existing customers, Hipotekarna bank approved a number of loans to new creditworthy clients.

One of the distinguishing features of the Bank is providing consulting services, along with financial support for its clients, all in order to improve business operations and achieve better business results for both the Bank and its clients.

Despite the conservative policies of the Bank traditionally maintained by the granting of loans, the total amount of credit portfolio in the previous year increased by 3.51%(compared with 2011).

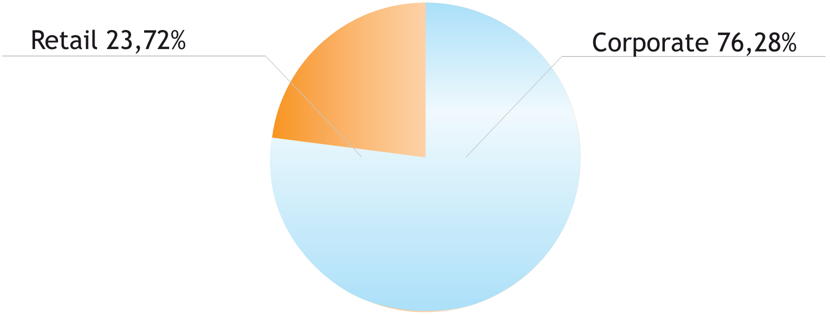
The growth retail loans was 10.98%, while growth in the loan portfolio of legal entities amounted to 1.39%

Loans



In the structure of total loans, retail loans constitute 23,72%, while the share of corporate loans is 76,28%.

Structure clients



And in 2012 in cooperation with the European Investment Bank (EIB), Hipotekarna Bank AD Podgorica has continued to provide loans and enabled that small and medium sized enterprises achieve credits under very favorable conditions in the part of the interest rate and repayment period.

With EIB loan funds, the Bank is financing projects for small and medium enterprises in the area of:

- Industry,
- Services,
- Tourism,
- environmental protection and energy saving,
- infrastructure, etc ...

Also, the Bank has continued excellent cooperation with the European Fund for Southeastern Europe and the Investment Development Fund in the field of placing loans under better terms.

In 2012 the Bank recorded an expansion of guarantees issued. Compared to the result from 2011, the amount of guarantees issued increased for 30.71%

Date	Issued guarantee amount	Balance
31.12.2011.	34.965.936	28.081.562
31.12.2012.	45.703.602	36.357.624

Given that the Hipotekarna bank is recognized for its stability, continuous improvement of product and service, modern banking standards, individual approach to each client, the educational training of the employees, it is understandable that the Bank gained status of reliable business partner to its clients.

The Bank continually works on improving relationships with its clients , to whom it provides complete banking and financial services as well as short and long term loans, with paying special attention to the safety of funds.

In the offer for legal entities, the bank has cash loans, revolving loans, loans for paying obligations to suppliers, for the car purchasing, refinancing obligations with other banks, for financing export receivables, for the equipment purchasing, for the renovation of business premises, tourist season preparation, overdraft loans, factoring, as well as all types of guarantees.

Regarding retail loans , the Bank also offers a wide range of loans: cash, consumer, student, car loans, for renovation and construction, seafarers loans, for tourism development, agricultural loans, overdraft loans, limits for delay purchase etc, as well as all types of guarantees.

Business network and distribution channels

Since one of the goals of Hipotekarna Bank is strengthening and consolidation of branch network , the bank branch in in Danilovgrad began with the work the 2012th.

This branch in Danilovgrad focused it business policy on entities engaged in providing services, wholesale and retail trade, and less to companies providing construction and production activities. However, the focus of this new Bank's Branch is given to retail sector and to the financing of small and medium enterprises. Bank premises by its location provides excellent access to the citizens, and is equipped to provide comprehensive banking services to existing and potential clients of the Bank.

Also, another branch in Podgorica started to work and is located in the area of Donja Gorica - Auto Center Alliance.

Business network, which now consists of the Bank now consists of 9 subsidiaries and 8 branches, provides a good basis for achieving results in the following year Except the widespread branch network, the Bank is available to its clients through other distribution channels - ATMs, EFTPOS terminals, internet banking through Hbklik service

Special attention is devoted to managing our business network, continuous education of employees, as well as decoration and equipping branches in order to provide more quality services to clients.

Hipotekarna Bank AD Podgorica will continue to care and be more accessible to its clients either through the branches, ATMs, Internet or telephone.

New products and services

Focused on the client needs, the Bank has continually worked on improvement of existing and development of new products and services, trying to achieve and maintain quality and competitiveness.

Hipotekarna bank enabled to its clients possibility of payments realization through the eUprava portal.

By launching savings product AKTIVIRAJ SITNIS, unique in the market, the Bank has enabled additional benefit for its clients , by using debit cards, and it recognizes in unique and free option, which collects spare change in savings account and refines it with interest. In fact, with every transaction by Visa Electron card on the EFTPOS terminal, from citizens accounts to which card is attached, small change made from difference between the payment amount, and the next larger amounts rounded to 0.5 € either 1 € or 2 € or the first 5 € is transferred to client’s savings account.

Also, the bank has launched Prepaid Visa Gift credit cards that can be used to pay for goods and services via POS and cash withdrawal in the country and abroad.

One of the actions is Week of saving, that Hipotekarna bank provides, now traditionally, a collaboration with CBCG.

Treasury

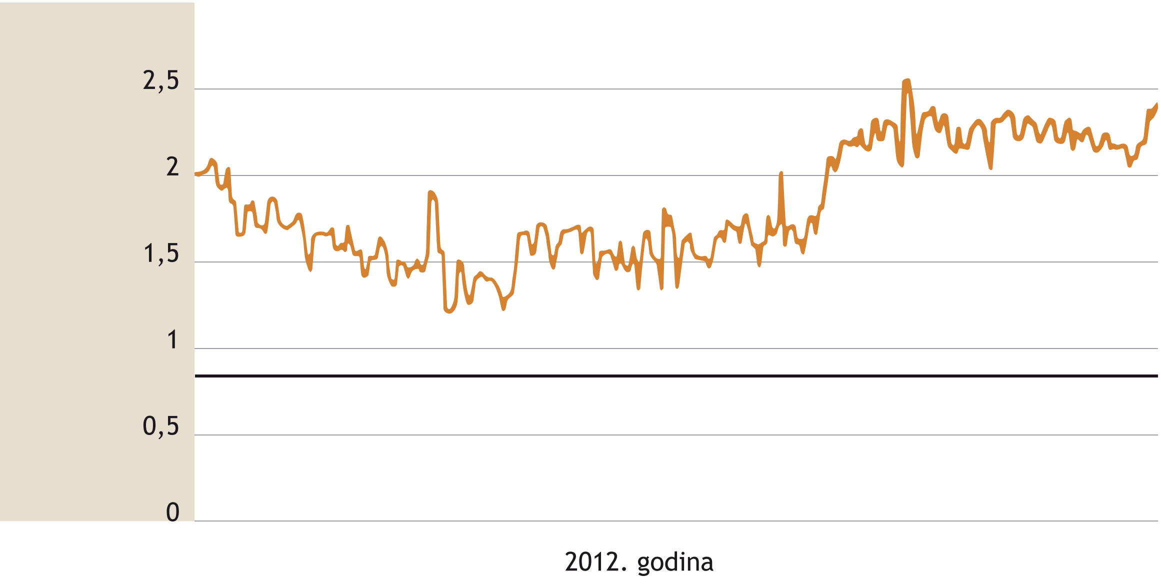
Providing optimal liquidity is a basic requirement for safe and efficient operations of each bank. Bank has to achieve necessary liquidity by rational management of assets and liabilities in order to maintain an appropriate ratio between liquid assets and total liabilities.

In 2012. Hipotekarna banka also has put emphasis on stabilizing domestic sources of funding, expansion of clients base, reducing short-term in favor of long-term sources of funding and withdrawal of new credit lines from foreign banks and international finacial institutions.

In 2012., Payment operation and Treasury Division, e.i. Treasury Department has succeeded to maintain liquid assets and overall liquid position of the Bank at a satisfactory level. In addition to that, Treasury Department has performed reconciliation of sources of funds with placements by daily, weekly, decadal and monthly scheduling of available liquid assets. Adequate allocation of funds was performed through effective cooperation with other divisions and departments in bank, especially with Commercial Division and Risk management Division. All that has provided to Bank that regularly fulfill its obligations toward creditors, as well as fulfillment of every customer requirement in the shortest terms.

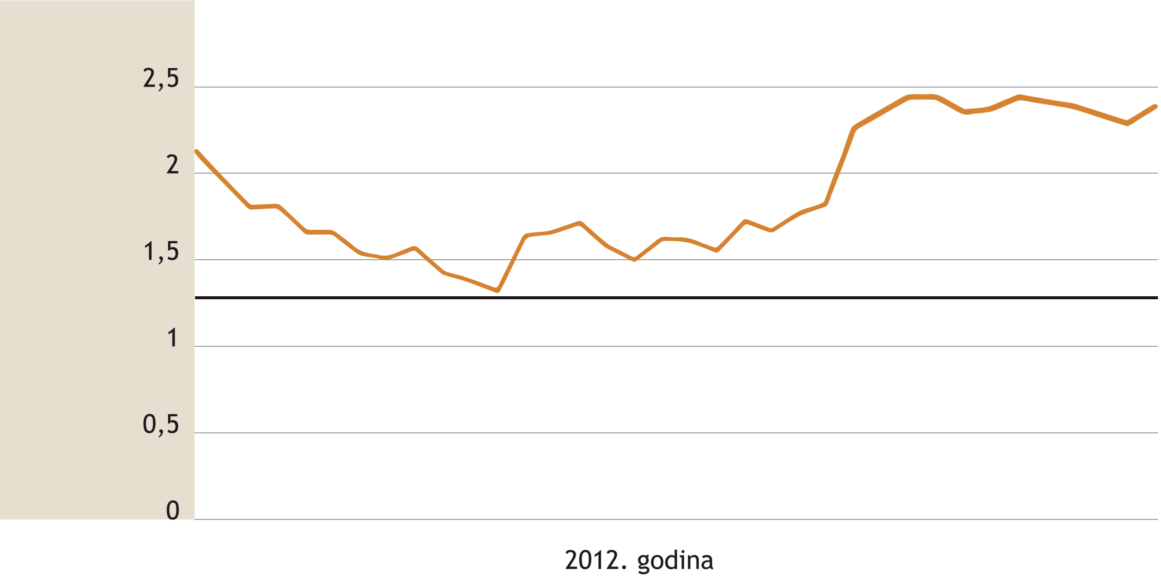
The daily liquidity ratio, which is calculated by the methodology regulated by the Central Bank of Montenegro, throughout 2012. was above the legally required minimum of 0,90.

Daily liquidity



Also, the ten-day liquidity ratio was abow legally required minimum of 1,00.

Ten-Day liquidity



In order to manage tenor liquidity and maintain the same in satisfactory levels, Bank has regularly monitored indicators of structural liquidity through tenor adjustment of financial assets and liabilities, review of maturity dates of larger deposits as well as with establishing a stable part of a-vista deposits by an internally developed model.

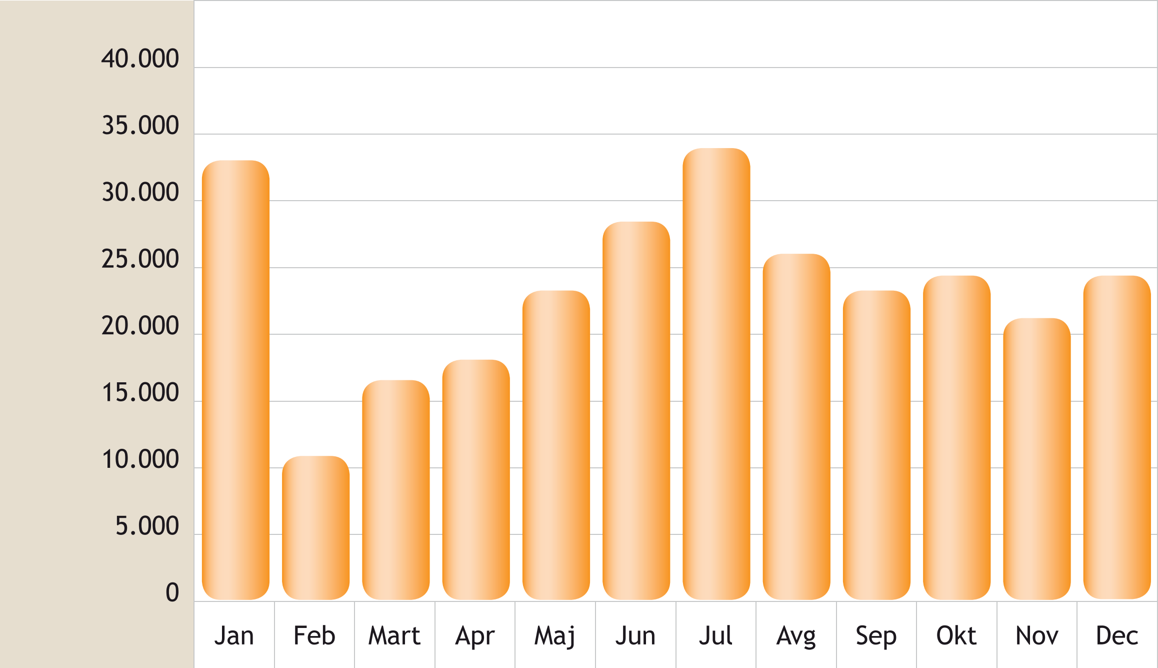
Considering that effects of global economic crisis significantly felt also throughout 2012. and taking into account the customers' cautiousness when it comes to the disposal of their own funds, it can be concluded that in these circumstances Hipotekarna banka has been recognized as one of the most reliable and the most liquid bank in banking system of Montenegro. In addition to this claim, data show that at the end of 2011. total deposits of the Bank were 97,8 million EUR and at the end of 2012. total deposits of the Bank were 118,2 million EUR, what is representing annual growth of 20,86%. Liquidity surpluses, except through credit activity, were also placed in marketable securities.

In 2012. Hipotekarna banka has participated in auctions of governament securities, and in accordance with the decision of the Central bank of Montenegro, has used them for coverage of up to 35% of obligatory reserve. Also, through activities of Brokerage-Dealer Department and Custody Department, Hipotekarna banka has invested assets in other securities that are traded on stock exchange in Montenegro as well as on stock exchanges in region.

In 2012. there were large fluctuations in exchange rates, in particular in currency pair EUR/USD, which has the greatest impact on the Bank's exposure to the exchange rate risk.

EUR/USD 2012. godina

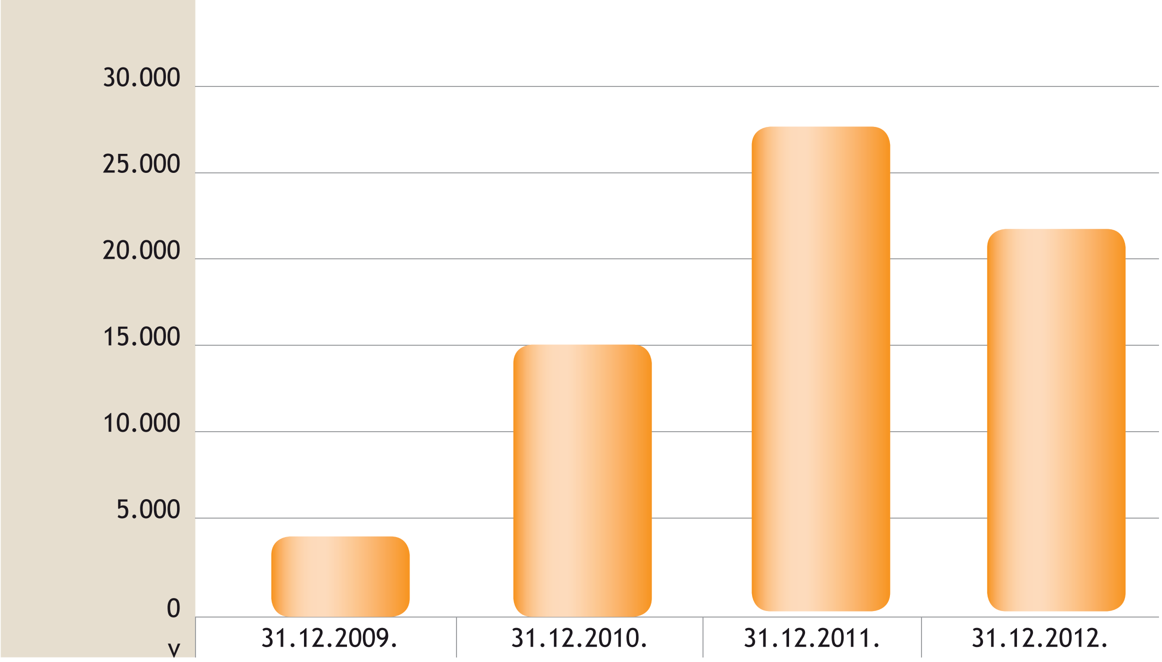
In these circumstances Treasury Department has managed to achieve remarkable results regarding income from realized exchange rate differences as a result of adequate exchange rate risk management. At the end of 2012. total revenue from foreign exchange differences amounted to 281 thousand EUR which had significant impact on final financial result of the Bank.



Income from realized exchange rate differences in 2012

At the beginning of 2012., necessary corrections and amendments to existing internal regulations were made as well as adoption of new documents that define jurisdiction and responsibilities of Treasury Department, all in accordance to valid legislation in Montenegro and modern banking practice.

Payment operations and Treasury Division has expanded cooperation with foreign banks as well as with international financial institutions. In the course of 2012., Hipotekarna banka has concluded arrangement with European Investment Bank (EIB) for the project of financing small and medium enterprises, based on arrangement between the Government of Montenegro and European Investment Bank. Hipotekarna banka AD Podgorica has established cooperation with European Bank for Reconstruction and Development (EBRD) and as a result long term credit line was agreed. Credit line will be implemented during 2013. Considering these arrangements, Hipotekarna banka provided credits to the economy with lower interest rates and with longer terms, which is recognized by our customers as the Bank's willingness to adapt to changing business conditions in a period of global economic crisis.



Loans and Borrowings

Payment operations

The Bank overall payment operations in 2012 were characterized by the growth of all parameters which defines business operations of this segment of the Bank. All business plans which has been previously set up were completely achieved which clearly shows Bank's efficiency and progress over the previous year.

Domestic payments

The main characteristic of domestic payment operations in 2012. was the raise of the internal payment operations as well as the raise of the electronic payment transactions in the total number of payment transactions. This shows that year in year out the number of clients, both legal entities and private individuals, which effect their payment transactions by using the e-banking service, increases.

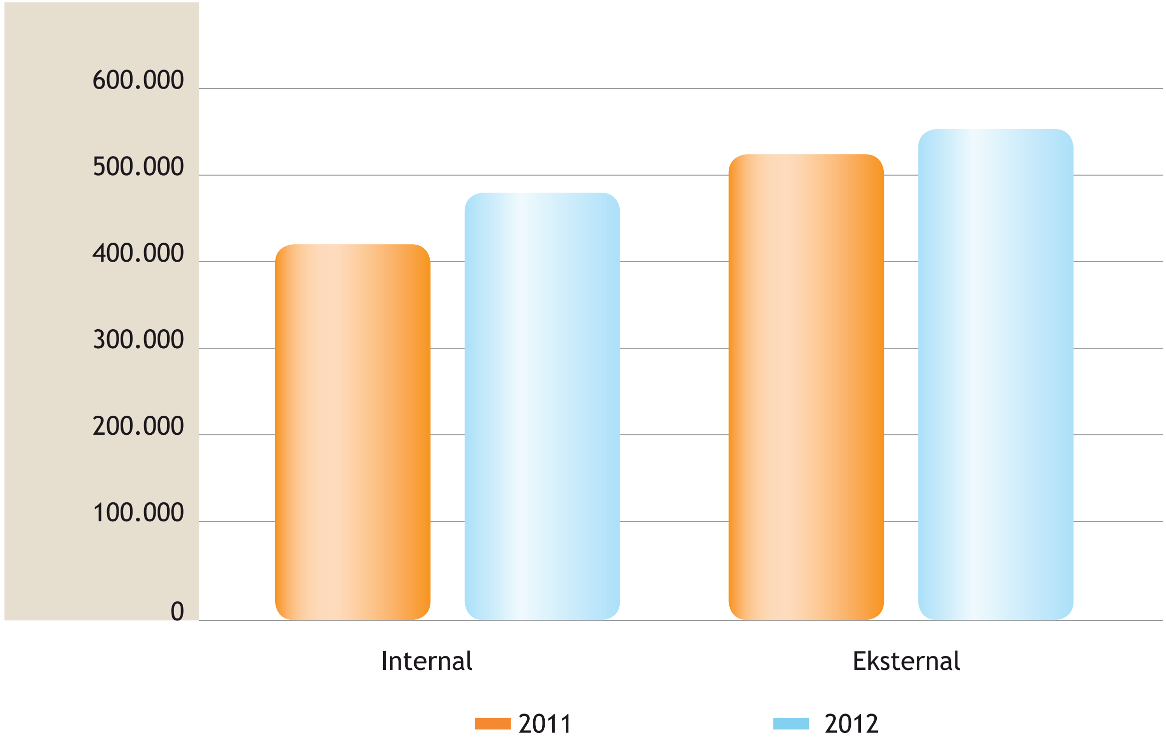
The total number of payment transactions rose by 8% in comparison to the 2011. of which the highest increase was achieved in the number of internal payment transactions between bank's clients. This increase was 14% in comparison to the previous year which clearly shows the raise in the number of the bank's clients which execute their payments within payment system of the Bank i.e. internally.

The number of external outgoing payment transactions in favor of other domestic bank's rose by 3%. As to the structure of the external outgoing payments the participation of 'low value' payments (< EUR 1.000) rose by 7%.

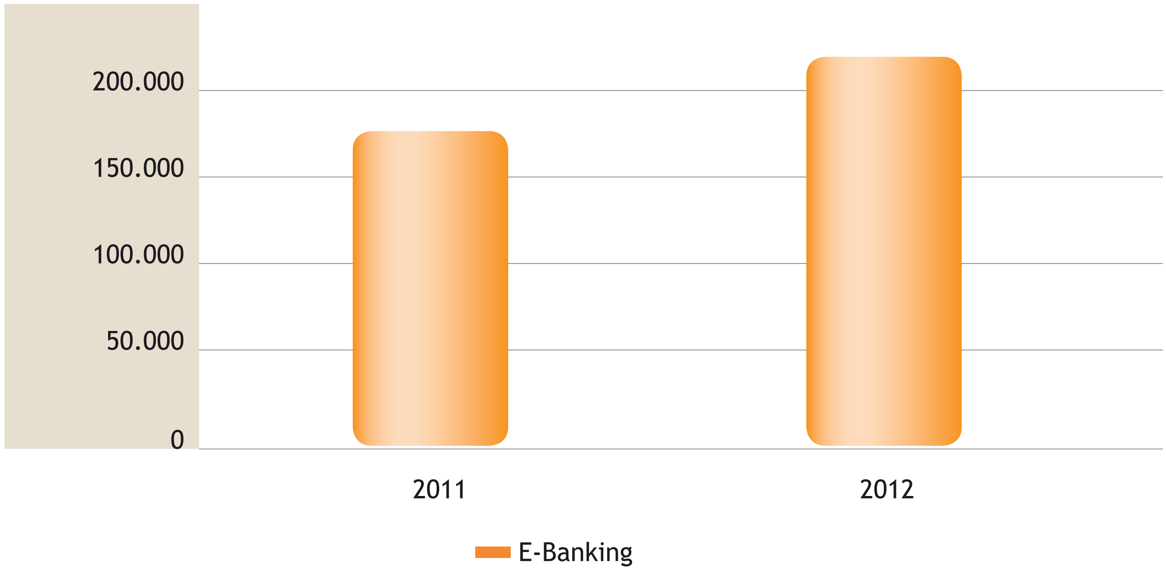
The increase of incoming payments from the clients of other domestic remained at the same level as it was last year i.e. 7% in comparison to the previous year

The significant increase was achieved in the number of electronic outgoing payment transactions (e-bank) which means that clients more often used electronic payments orders. This represents the raise of 30% of electronic outgoing payment transactions in comparison to the previous year.

Domestic payment transactions



Domestic outgoing e-payment transactions



International payments

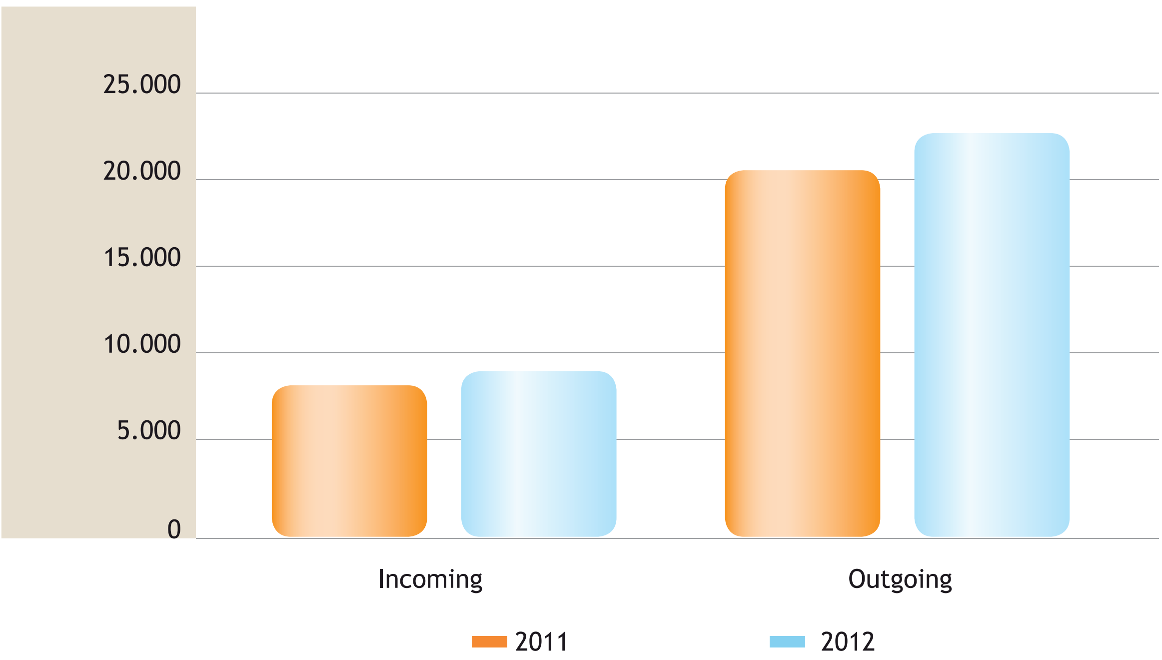
International payments in 2012 were featured by the growth in all type of payment transactions, incoming and outgoing, documentary operations - letters of credit and guarantees and other international services and transactions

All type of transactions increased in comparison to the previous year. The Bank has already been recognized as efficient and reliable partner by the other foreign banks.

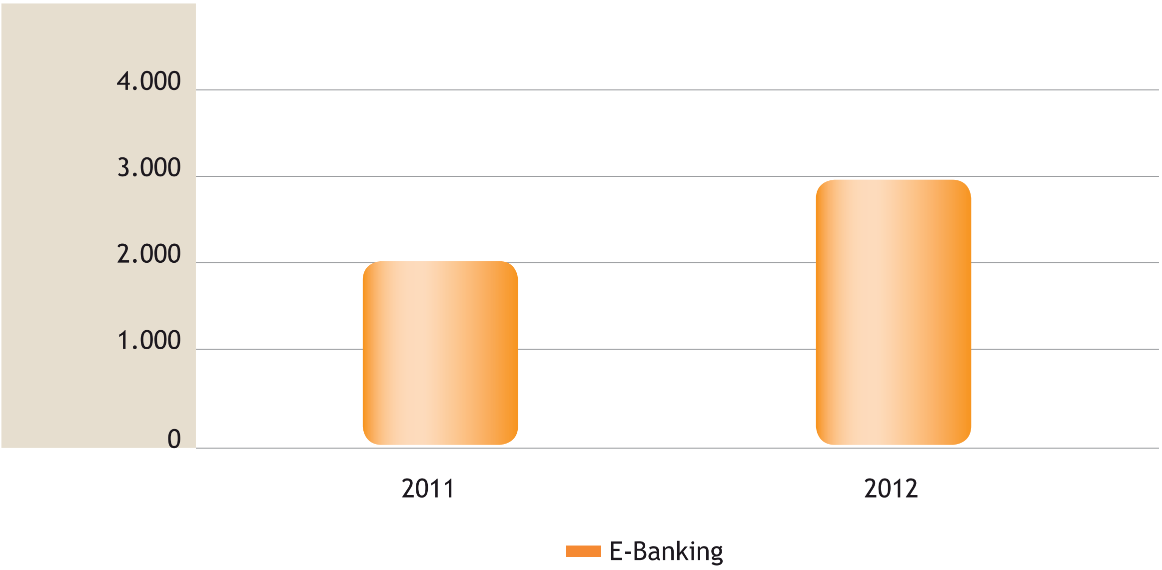
The number of outgoing payment transactions rose by 8%. The highest growth was achieved in the number of electronic outgoing payment transactions by using e-bank application in comparison to the 2011. which rose by 47%.

The number of incoming payment transactions rose by 7% in comparison to the previous year.

International payment transactions



International outgoing e-payment transactions



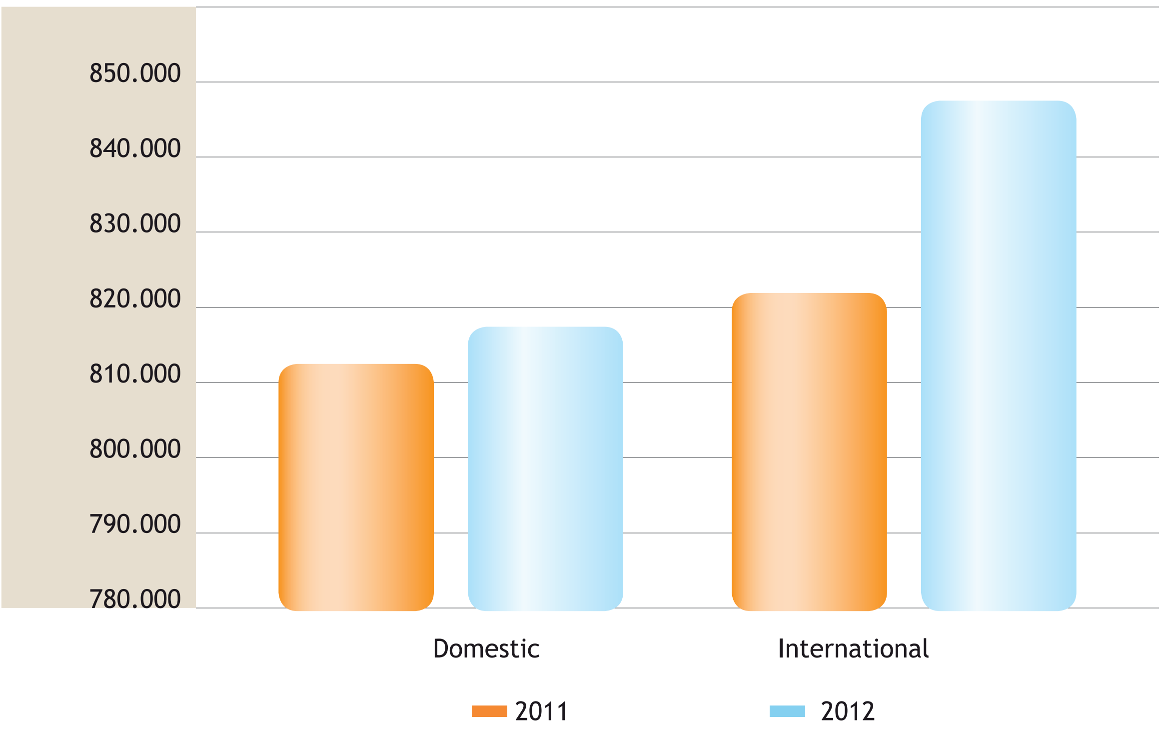
Considering the fact that Montenegro is import-oriented country and the fact that Montenegrin companies has been established the long-term business relations with their foreign partners which gave them opportunity for deffered payment of goods, this increased the number of opened letters of credit and issued guarantees. The inrease in the number of the opened letters of credit was 150% , while the number of issued guarantees rose by 18% in comparison to the 2011.

The overall payment operations increased in comparison to the previous year. The efforts made by all employees to raise their working efficiency with the use of efficient technical and software solutions and supports created the growth of all payment operations parameters .

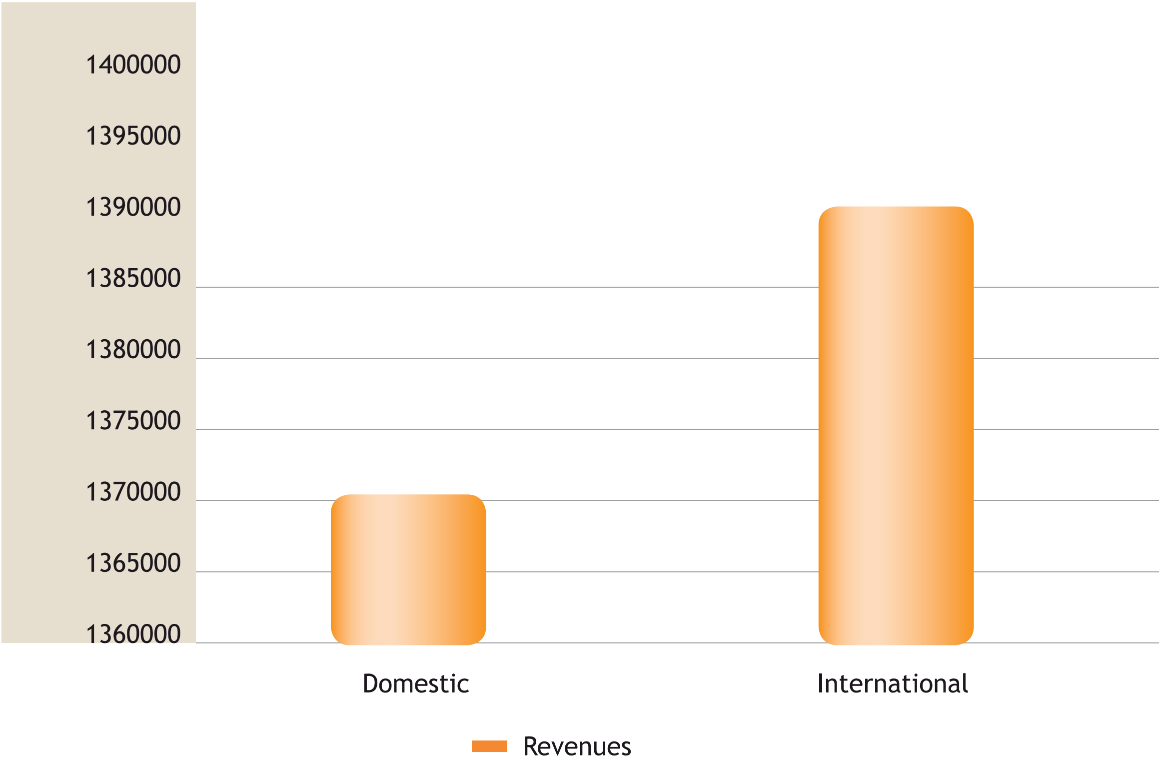
The total revenues of the payment operation services commissions rose by 2% in comparison to the 2011. The increase of the revenues of the domestic payment operations commissions rose by 1% and of the international payment services commissions rose by 4% in comparison to the previous year.

Net income of the total payment operation services rose by 2% in comparison to the previous year.

Domestic and international payment operations total revenues



Payment operations net revenues

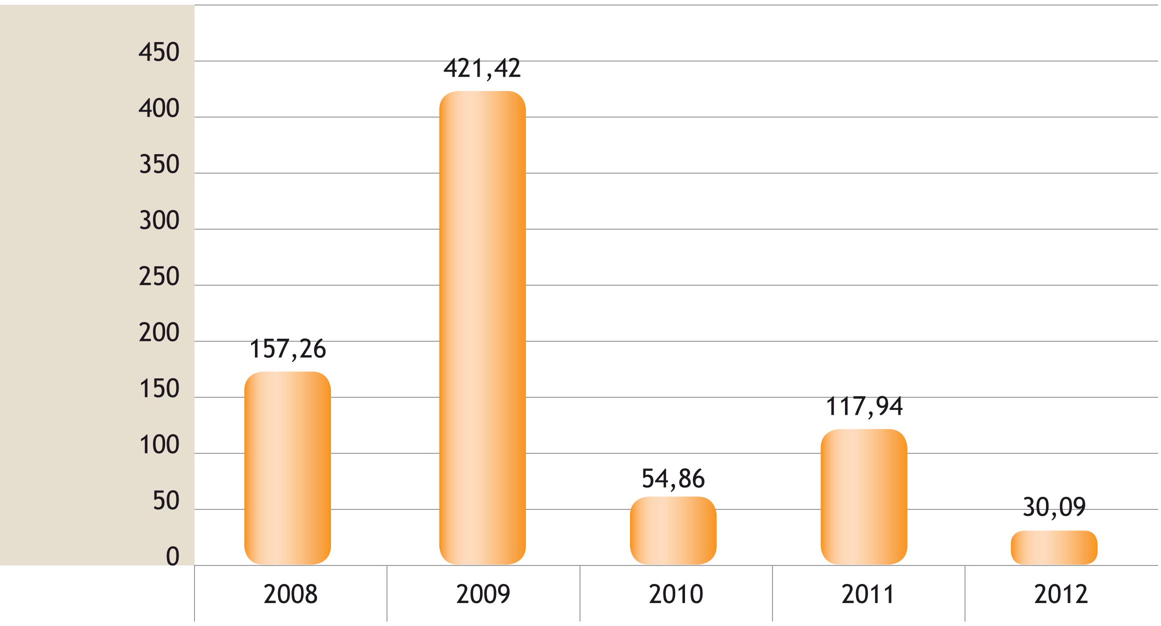


Investment banking

In the year 2012, Montenegro Stock Exchange recorded a turnover of 30.09 million €, which is almost four times less than in 2011. This turnover is the lowest in the last eight years and it is almost half of the turnover from 2010, which was the worst in this regard and recorded turnover of 54.86 million €.

The Company index MONEX 20, despite the market illiquidity, rose slightly during 2012, starting with a value of 9324 and ending with 9849 index points. On the other hand, index of funds MONEX PIF, fell from 4265 to 3441 index points during the year. The most important part of this decline can be attributed to the transformation of the funds, with a significant portion of their assets being transferred to an open-end investment funds, resulting with a decrease of total assets in the funds included in the index.

Turnover at the Montenegro Stock Exchange for the last five years



In 2012, Investment Banking of Hipotekarna banka AD Podgorica have been reinforced by the formation of Depositary Unit as a part of the Custody Department, which formed the Custody and Depositary Department. Hipotekarna banka AD Podgorica thus provided formal requirements to perform operations of the depositary bank for investment funds and received the approval of regulators shortly after the adoption of the new Law on Investment Funds. Despite the effects of the crisis on the Montenegrin capital market, 2012 was successful for Custody and Depository Department as well as Brokerage-Dealer Department.

As a broker, Hipotekarna banka has achieved a turnover of 6.8 million € at the Montenegro Stock Exchange, therefore it remains dominant among brokers at the Montenegro Stock Exchange, with a significant market share. The turnover was achieved through 672 transactions.

When it comes to dealer operations, Hipotekarna banka, by investing primarily in the bonds of the Labour Fund, increased its position in Montenegro . Abroad, Hipotekarna banka had invested in the shares of the Oil Industry of Serbia, at the end of 2012 . Thus, dealer operations have provided capital gains and dividend income at the same time.

Risk management

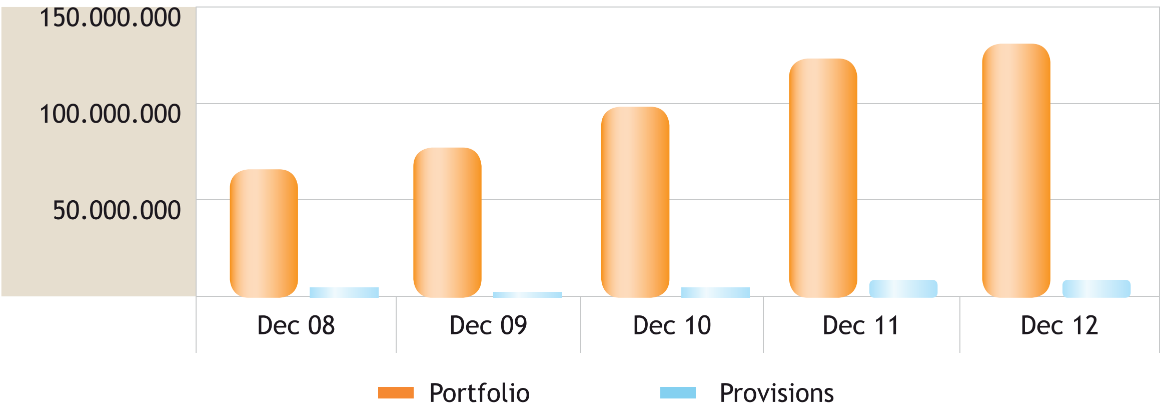
Risk management focuses primarily on the identification, measurement, monitoring and controlling the risks, in order to minimize their negative effects on the financial result and equity. With active approach to those issues risk department implemented the techniques and procedures in order to create a modern system for managing risks in accordance with legislation of the Central Bank of Montenegro. Aim of this project generates adequate information for making quality business decisions, which implies consideration of risk of return ratio of every action taken and product. According to this Risk Department systematically and continuously monitors the following types of risk: credit risk, market risk, liquidity risk, country risk and operational risk.

Credit risk

Bank is managing the credit risk at the individual level and on the portfolio level.

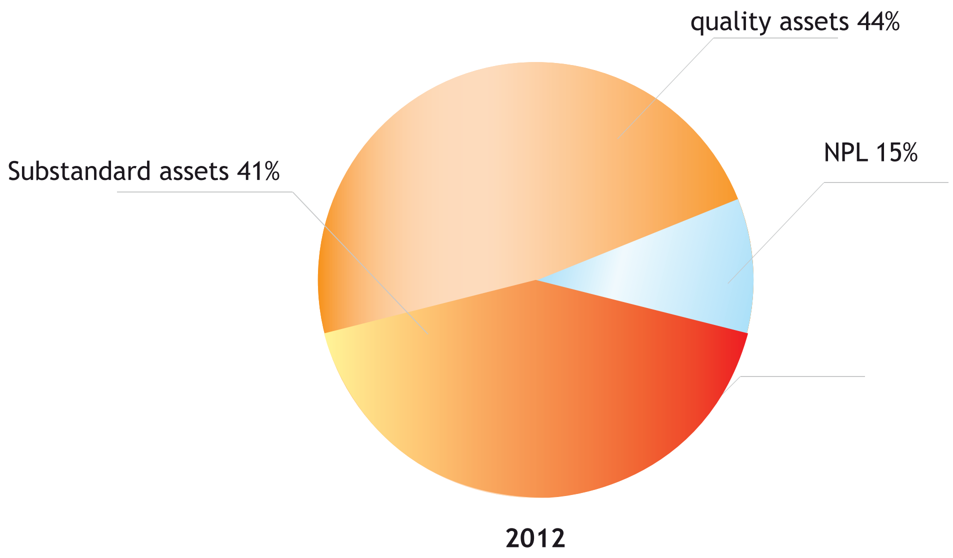
Portfolio of the Hipotekarna Bank JSC on 31.12.2012. amounted to 117.465.449€. This is increase of 3.984.631€, or 3,51% comparing to the 31.12.2011. Provisions for loan losses on 31.12.2012. were 3.953.045€, or 3,37% of the loan portfolio. Compared to the end of 2011., provisions increased 55.104€, or 1,37%.

Portfolio/provisions 2008-2012

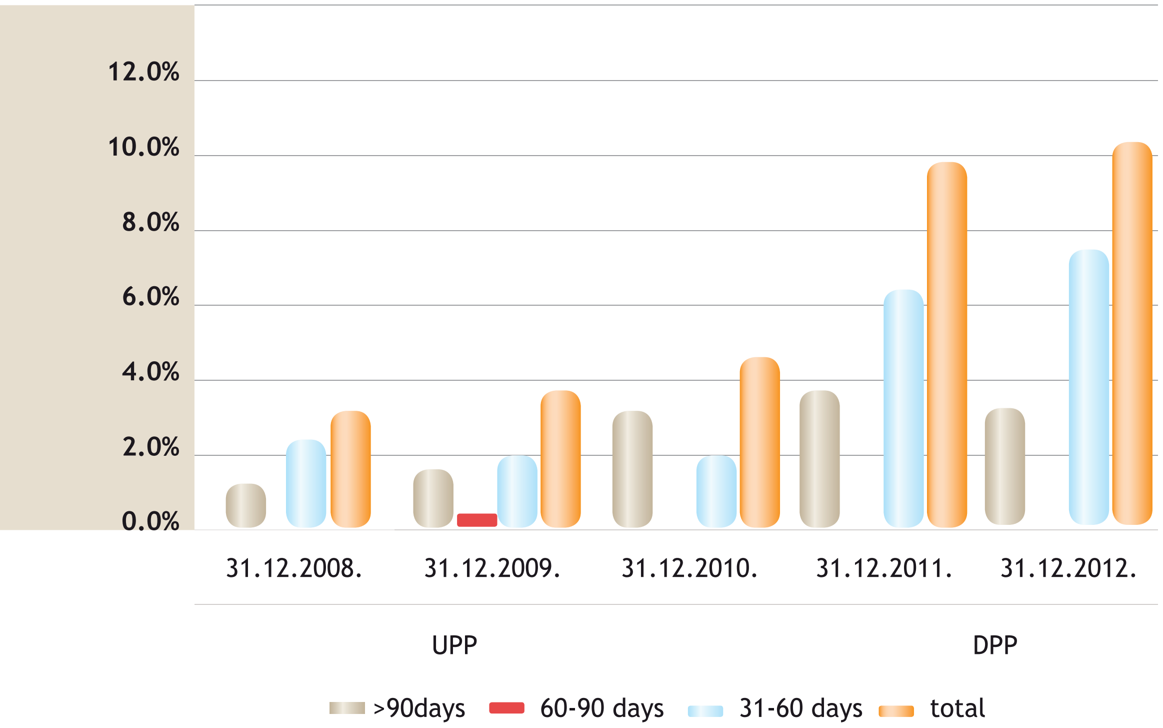


From the total loan portfolio of the bank 44% is in highly quality assets (A and B1 rating grade), 41% substandard assets (B2 rating grade) and 15% on the NPL (C, D and E rating grade).

Structure of Equity to cover all risks



The amount of loans with delinquency in repayments over 30 days at 31.12.2012. amounted to 12.018.889€, or 10,2% from total loan portfolio of the bank.



Equity

The total equity in 2012 amounted 24,740 million EUR. Compared to the previous year, equity increased by 7,15%. At 31 December 2012 the nominal value of shareholder's equity amounted to 16,006 million. Shareholder's equity consists of 31,305 shares, each with a nominal value of 511.29 Euros. By ownership structure, foreigners own 71% of equity, while the remaining equity is owned by domestic entities and individuals.

Income statement

In 2012 Bank achieved profit amounting to 1,617 million EUR. Interest income in the previous year increased by 4,47% to 11.915 million EUR as a result of increased lending activity. Fee revenues in the previous year increased by 5,98% to 4,045 million EUR. Net fee and commission income creates 35,63% of all Bank's incomes from current operations. Other income in the previous year increased by 33,86% to 684 thousand EUR. Operating expenses, including depreciation, amounted to 8,201 million EUR and increased to 11,14% over the previous year.

Increase in costs is the result of expansion of branch network, employment of new staff and increase in other expenses that accompany growth and development of the Bank. Assessment of credit risk and making provisions for risky loans and the potential liabilities for the Bank, are based on application of the principles of conservative policy and implementation of applicable laws. Total allocated reserves for assets and liabilities amounted to 5.415 million EUR as at 31 December 2012.

Distribution of profit

The Bank's management suggests to the Board of Directors to jointly propose the Shareholders' Meeting that the total profit in 2012 be used to increase the total equity.

3.] Financial Statements For The Year Ended 31 December 2012

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

Report on Financial Statements

We have audited the accompanying financial statements of Hipotekarna banka A.D., Podgorica (hereinafter: the Bank), which comprise the balance sheet as at December 31, 2012 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing and the regulations of the Central Bank of Montenegro governing financial reporting of banks, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing and the regulations of the Central Bank of Montenegro governing financial reporting of banks.

Ernst & Young

Podgorica, April 23, 2013

Ernst & Young Montenegro d.o.o.

Podqorica, Crna Gora

DRUŠTVO ZA REVIZIJU ERNST & YOUNG MONTENEGRO DOO PODGORICA

Stephen Fish
Partner

Danijela Dimovski
Ovlašćeni revizor

Statement of income
for the year ended december 31. 2012

In thousands of EUR

	Notes	2012	2011
Interest income	3.1, 4a	11.915	11,405
Interest expenses	3.1, 4b	(4.312)	(3,873)
Net interest income		7.603	7,532
Provisions for losses	3.6, 5	(1.651)	(2,160)
Net income		5.952	5,372
Fee and commission income	3.1, 6a	4.045	3,817
Fee and commission expenses	3.1, 6b	(751)	(645)
Net fee and commission income		3.294	3,172
NET INTEREST, FEE AND COMMISSION INCOME		9.246	8,544
Other income, net	7	684	511
General expenses	8	(8.201)	(7,379)
NET INCOME BEFORE EXTRAORDINARY ITEMS		1.729	1,676
Extraordinary income		81	27
Extraordinary expenses		(17)	(13)
Net extraordinary income		64	14
PROFIT BEFORE TAXATION	9b	1.793	1,690
Income taxes	3.3, 9a	(176)	(168)
NET PROFIT FOR THE YEAR		1.617	1,522

These financial statements are approved by management of Hipotekarna banka A.D., Podgorica, on April 19th 2013 in Podgorica.

Statement of financial position as of 31 december 2012

In thousands of EUR

	Notes	2012	2011
ASSETS			
Cash and deposit accounts held with depository institutions	3.4, 10	45.516	38,500
Securities available for sale, other than shares		-	26
Loans and leases	11	117.465	109,470
Minus: Loan loss allowances	5	(3.953)	(4.011)
Securities held to maturity	12	6.505	2,569
Factoring and forfeiting		113	9
Receivables in respect of custody operations		36	39
Business premises and other fixed assets	13	1.740	1,950
Acquired assets	14	575	478
Equity investments in other legal entities	15	248	230
Other assets	16	6.040	2,641
Less: Provision for potential losses on other assets	16	(508)	(319)
Total assets		173.777	155,593
LIABILITIES			
Deposits	17	118.200	97,853
Liabilities in respect of custody operations		932	247
Loans and borrowings	18	21.157	26,887
Liabilities to the Government	19	3.062	2,889
Other liabilities	20	4.731	3,952
Provisions for potential losses on off-balance sheet exposures	21	954	675
Total liabilities		149.036	132,503
EQUITY			
Share capital	22	16.006	16,006
Share premium		7.444	7,444
Revaluation reserves		(20)	(54)
Accumulated loss		1.311	(306)
Total equity		24.741	23,090
Total liabilities		173.777	155,593
OFF-BALANCE-SHEET ITEMS	24	489.411	388,819

These financial statements are approved by management of Hipotekarna banka A.D., Podgorica, on April 19th 2013 in Podgorica.

Statement of changes in eqity for the year ended 31 december 2012

In thousands of EUR

	Share Capital	Share premium	Revaluation reserves	Retained earnings/ Uncovered loss	Total
Balance, January 1, 2011	16,006	7,444	1	(1.828)	21.623
The effect of reducing the market value of securities available for sale	-	-	(55)	-	(55)
Profit for the year	-	-	-	1.522	1.522
Balance, December 31, 2011	16.006	7,444	(54)	(306)	23.090
Balance January 1, 2012	16,006	7,444	(54)	(306)	23.090
Revaluation reserves – fair value adjustments of available for sale financial instruments	-	-	34	-	34
Profit for the year	-	-	-	1.617	1.617
Balance, December 31, 2012	16,006	7,444	(20)	1.311	24.741

These financial statements are approved by management of Hipotekarna banka A.D., Podgorica, on April 19th 2013 in Podgorica.

Cash flow statement for the year ended 31 december 2012

In thousands of EUR

	Notes	2012.	2011.
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest, fees and commissions received		15.956	16,406
Other proceeds		4	22
Interest and commission paid		(4.776)	(4,610)
Cash paid to employees and suppliers		(8.060)	(8,676)
Net cash inflow before changes in operating assets and liabilities		3,142	3,142
Changes in operating assets and liabilities			
Increase in placements to customers, net		(2.853)	(12,112)
Increase/(decrease) in other assets, net		(2.777)	230
Inflow from custody operations		685	139
Increase in deposits from customers		20.347	12,720
(Decrease)/ increase in other liabilities		(1.816)	306
Net cash inflow / (outflow) used in operating activities		16.710	4,425
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment and intangible assets		(660)	(918)
Net cash outflow used in operating activities		(660)	(918)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Outflow)/ inflow from loans and borrowings		(5.571)	12,060
(Outflow)/ inflow from purchase and sale of securities, net		21	(163)
Outflow from securities held to maturity, net		(3.778)	(1,437)
Net cash generated from financing activities		(9.314)	10,460
Effects of foreign exchange gains and losses		280	286
Net increase in cash and cash equivalents		**7.016**	**14,253**
Cash and cash equivalents, beginning of year		**38.500**	**24,247**
Cash and cash equivalents, end of year		**45.516**	**38,500**
Components of cash and cash equivalents:			
Cash and deposit accounts held with depositary institutions	3.4, 10	45.516	38,500
		45.516	38,500

These financial statements are approved by management of Hipotekarna banka A.D., Podgorica, on April 19th 2013 in Podgorica.

Notes to the financial statements

1. FOUNDATION AND BUSINESS ACTIVITY

Hipotekarna banka A.D. Podgorica (hereinafter: the "Bank") was registered in 1995 as a shareholding company. The Bank is registered at the Central Registry of the Commercial Court under number 4-0004632. The Bank is included in the Register of Security Issuers maintained by the Securities Commission under the number 3 (Decision number 02/3-1/2-01). The Bank received an operating license from the Central Bank of Montenegro; pursuant to the Decision number 0101-75/1-2002 dated December 18, 2002.

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

- issuance of guarantees and undertaking other off-balance sheet liabilities,
- purchase, sale and collection of receivables (factoring, forfeiting etc.),
- issuance, processing and recording of payment instruments,
- payment transactions, and clearing and settlement transactions services abroad, in accordance with legal requirements regulating payment transfers,
- finance leases,
- operations involving securities, in accordance with the relevant regulations,
- trading on its own behalf and for its own account or for the account of a third party:

a) foreign currency trade, including exchange operations,

b) financial derivates,

- depo transactions,
- performing of analysis and advising on creditworthiness of legal entities and entrepreneurs and other issues related to business operations,
- rental of safety deposit boxes,
- other banking activities, additional banking activities and activities directly related to the Bank's operations, in accordance with the Statute.

The Bank's management bodies include: the Shareholders Assembly and the Board of Directors. The Board of Directors has two permanent bodies: Audit Committee and Credit Risk Management Committee. The members of the Board of Directors are elected by the Bank's Shareholders Assembly. The Board of Directors has 7 (seven) members the majority of which are not the Bank's employees.

The Bank is domiciled in the city of Podgorica, at 67 Josipa Broza Tita Street. At December 31, 2012, the Bank had 166 employees (December 31, 2011: 163 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Bank maintains its accounting records and prepares its statutory financial statements in conformity with Accounting and Auditing Law of Montenegro ("Official Gazette of Montenegro," no. 69/2005; 80/2008 and 32/2011) and in accordance with the Decision pertaining to the direct application of International Accounting Standards ("IAS") in Montenegro ("Official Gazette of Montenegro," numbered 69/2002). Consequently, the International Financial Reporting Standards (IFRS) are effective at the date of preparation or the financial statements for the period commencing on January 1, 2003.

The financial statements are presented in the format specified by the Central Bank of Montenegro, which in some parts differ from the presentation of certain amounts as provided in MRS1 "Presentation of Financial Statements."

The accounting policies adopted in the preparation and presentation of the financial statements for the year ended December 31, 2012 differ from the IFRS requirements in respect to the calculation of allowances for the impairment of financial instruments and in respect of disclosures of financial instruments in accordance with IFRS 7 "Financial Instruments: Disclosures." The Bank calculates the amount of allowance for impairment of financial instruments in accordance with the applicable Regulations of the Central Bank of Montenegro (Note 3.7.). Such a policy might result in significant departures from the amounts which would be determined, had the allowances for impairment of financial instruments been estimated based on discounted expected future cash flows by applying the original effective interest rate, as required by IAS 39, "Financial Instruments: Recognition and Measurement." In addition, the Bank suspends the calculation of interest on loans classified in category C, D and E ("non-performing assets" in accordance with the Decision of the Central Bank of minimum standards for credit risk management in banks; "Official Gazette of Montenegro," no. 60/2008 and no. 41/2009), where the decision also regulates the risk assets classified in category E to be written off from the balance sheet and be recorded in off balance sheet as "written off loans".

In addition, in accordance with the Law on Accounting and Auditing of Montenegro, IAS and IFRS published by the international Accounting Standards Board should be translated by the appropriate competent authorities of Montenegro who has the right of translation and publication is approved by the International Federation of Accountants (IFAC). So, just IFRS and IAS officially translated, approved and published by the Institute of Certified Accountants of Montenegro can be applied. The last official translation was published on December 31, 2009 and includes only basic text and interpretations and does not include the basis for conclusions, illustrative examples, instructions for use, comments, opinions and other material explanations. Also, the above translation does not contain a translation of Basis of preparation and presentation of financial statements.

Accordingly, and in view of the potentially material effects of the above discrepancies in accounting regulations of Montenegro from IAS and IFRS may have on the fairness of the financial statements, enclosed financial statements may not be treated as financial statements prepared in accordance with IFRS and IAS.

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

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

2.2. Use of Estimates

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest, Fee and Commission Income and Expense Recognition

Interest income and interest expense are recognized in the income statement for all instruments at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the present value of financial assets or financial liabilities. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of financial instrument (e.g. prepayment options) but does not consider future credit losses arising from credit risk. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee income for loans, guarantees and other forms of collaterals, as well as fees and expenses charged to the Bank in respect of loans received, in accordance with IAS 18 - “Revenue” and IAS 39 - “Financial Instruments: Recognition and Measurement” are considered an integral part of an ongoing involvement with the resulting financial instruments, which is deferred and recognized as an adjustment of income based on a straight line basis. Fees for unused lines of credit are deferred (together with related direct cost) and recognized as an adjustment to the effective interest rate for the loan.

Income from fees and commissions for other banking services (payment transactions, custody services, card transactions) are generally recognized on accrual basis in the period when the services are performed.

3.2. Foreign Exchange Translation

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

Net foreign exchange gains or losses arising upon the translation of transactions denominated in foreign currencies, and the assets and liabilities denominated in foreign currencies are credited or charged to the Income statement, as gains or losses due foreign exchange differences. Commitments and contingent liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing on the Interbank Market, at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Taxes and Contributions

Income Taxes

Current Income Taxes

Income taxes are calculated and paid in conformity with the income tax regulations defined by Article 28 of Montenegro Tax Law ("Official Gazette of Montenegro," no. 80/2004, 40/2008, 86/2009, 73/2010 and 40/2011) as per the effective proportional tax rate of 9% on taxable income.

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

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

3.3. Taxes and Contributions (continued)

Income Taxes (continued)

Current Income Taxes (continued)

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

Deferred Income Taxes

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

Taxes, Contributions and Other Duties Not Related to Operating Results

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

3.4. Cash and Cash Equivalents

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

When not able to determine market value, equity investments are recognized at cost that management considers closest to fair value.

3.5. Available-for-Sale Securities

Securities available for sale include equity instruments of other entities and debt securities.

When not able to determine market value, equity investments are recognized at cost that management considers closest to fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent to initial recognition, securities available for sale are stated at fair value. The fair value of securities quoted on the stock exchange is based on their asking prices. Unrealized gains and losses from securities available for sale are recorded within revaluation reserves, until such security is sold, collected or realized in any other way or until such security has been impaired. Upon the disposal of securities available for sale or when their value has been impaired, the accumulated fair value adjustments recognized within equity and recorded in the income statement.

Interest income on debt securities is calculated and recognized on a monthly basis.

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

3.6. Loans

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

Loans originated by the Bank are stated in the balance sheet in the amount of placement originally approved less net of principal repaid and an allowance for impairment which is based on an evaluation using the methodology specified by the Central Bank of Montenegro (Note 3.7).

3.7. Allowances for Impairment and Provisions for Potential Losses

The Decision issued by Central Bank of Montenegro regarding to minimal standards for managing credit risk in banks (“Official Gazette of Montenegro,” number 60/2008 and 41/2009) i.e. in accordance with Decision on temporary measures for managing credit risk in banks (“Official Gazette of Montenegro,” number 64/2009, 87/2009, 66/2010 and 70/2010) set forth the following: elements of credit risk management, minimum criteria and manner of classifying assets and off-balance sheet items which render the Bank susceptible to credit risk, manner of calculation and suspension of unpaid interest, manner of determining the minimum provisions for potential losses contingent on the Bank’s exposure to credit risk. The Bank’s risk-weighted assets, within the meaning of this Decision, are comprised of loans, interest, fees and commission, lease receivables, deposits with banks, advances and all other items included in the balance sheet exposing the Bank to default risk, as well as guarantees issued, other sureties, effectuated letters of credit and approved, but undrawn loan facilities, as well as all other off-balance sheet items comprising the Bank's contingent liabilities.

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

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

The estimated amount of provision for potential losses is not computed for the Bank's placements classified in the category A. The estimated reserve for potential losses is calculated as 3% of the placements classified in category B, from 15% to 50% to the placements classified into category C, 75% to the placements of category D, and 100% of the placements under category E.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

	As at December 31, 2012		As at December 31, 2011	
Risk category	% reserves	Days of delay	% reserves	Days of delay
A	-	<30	-	<30
B	3	31-90	3	31-90
C1	15	91-150	15	91-150
C2	30	151-210	30	151-210
C3	50	211-270	50	211-270
D	75	271-365	75	271-365
E	100	>365	100	>365

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Held-to-maturity investments

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

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

Income from interest expense on these instruments is calculated using the effective interest rate and showing within interest income.

3.9. Business premises, other fixed assets and intangible assets

Business premises and other fixed assets are those assets whose useful life is more than one year. Business premises, other property, equipment and intangible assets at December 31, 2012 are stated at cost less accumulated depreciation and/or amortization. Cost represents the invoiced prices by suppliers together with all costs incurred in bringing the respective asset to the location and condition necessary for its intended use.

Additional costs: costs of replacing equipment parts (installation of new spare parts), the cost of repairs and general repair of business premises are recognized as increase of present value of business premises i.e. equipment, if inflow of future economic benefits is probable and if the costs could be reliably estimated.

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

Losses or gains incurred on sale or disposal of business premises and equipment are determined as the difference between the sale price and current value of business premises and equipment, and recognized in income statement over the period in which the sale or disposal occurred.

Intangible assets consist of software and licenses. Intangible assets acquired are capitalized at cost. Subsequent measurement of intangible assets is at cost, less accumulated depreciation and eventual impairment.

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

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

Items	Depreciation rate (%)	Rate recognized in taxable income (%)
Buildings	2,00	5,00
Motor vehicles	15,00	15,00
Furniture and equipment	15,00 - 20,00	20,00
Computers and computer equipment	33,33	30,00
Intangible assets	20	30,00

In accordance with Article 13 of the Income Tax Law ("Official Gazette of Montenegro" nos. 65/2001, 12/2002 and 80/2004, "Official Gazette of Montenegro", no. 40/2008, 86/2009, 73/2010 and 40/2011) the method of calculating depreciation for tax purposes is different from the method of calculating depreciation for accounting purposes. The depreciation of buildings for tax purposes is calculated using the proportional method, while all other items, amortization of other fixed assets worth more than EUR 300, including the applications software, is calculated using digressive method for the entire year, regardless of the activation date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3.10. Equity

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

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

Bank's own funds, in accordance with the Decision on capital adequacy ratio (Official Gazette of Montenegro no. 38/11) are:

1) the basic elements of its own funds, which are included in the calculation of capital;
2) additional elements of its own funds, which are included in the calculation of supplementary capital I, and
3) an additional element of its own funds, which are included in supplementary capital II.

The basic elements of own funds of a bank are:

1) paid up share capital at nominal value, excluding cumulative preferred shares;
2) share premium paid;
3) reserves that are formed at the expense of its profit after tax (legal, statutory and other reserves);
4) Retained earnings from previous years;
5) profit in the current year for which the meeting of shareholders decided to be included in the capital;

6) capital gain on the sale and purchase of own shares.

Additional elements of the bank's own funds which are included in supplementary capital I have:

1) the nominal amount of cumulative preferred stock;
2) the amount of general reserves, up to 1.25% of total risk weighted assets;
3) subordinated debt, for which the conditions provided for are in this Decision;
4) hybrid instruments for which the conditions provided for are in this Decision;
5) the revaluation surplus.

Subordinated debt for which the conditions provided for by this Decision may be treated as an additional element of its own funds to be included in bank's supplementary capital II, if:

1) the debt is fully paid;
2) Bank does not guarantee the repayment of debt in any form;
3) in the event of bankruptcy or liquidation, subordinated debt and other obligations shall be paid only after payment obligations to other creditors;
4) the contract contains a clause prohibiting the payment of principal and interest, even after the maturity of debt, if the payment of the amount of own funds falls below the prescribed level;
5) the maturities of long term pre-determined, is longer than two years and may not be repayable before the agreed maturity date;
6) subordinated debt is a written agreement signed by the conditions in points. 2-5 of this article contains a note that subordinated debt cannot be considered a deposit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Employee benefits

Employee taxes and contributions for social security

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

Retirement benefits or other long-term employee benefits

In accordance with the Industry related Collective Agreement, the Bank is under obligation to pay retirement benefits to an employee upon his/her regular retirement in the amount of 6 net average salaries earned by the Bank's employees in the month in which payment is made. The Bank's financial statements as of and for the year ended December 31, 2012 include provisions calculated by an independent certified actuary, based on the estimated present value of assets to be used for retirement benefits payable to employees after vesting period.

3.12. Fair Value

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

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

4. INTEREST INCOME AND EXPENSE

a) Interest Income

In thousands of EUR

	2012	**2011**
Deposits with:		
- foreign banks	83	86
- Central bank	16	13
	99	99
Loans to:		
- corporate customers	8.632	8,109
- retail customers	3.182	3,195
	11.814	11,304
Repurchase operations	2	2
	11.915	11,405

b) Interest Expenses

In thousands of EUR

	2012.	**2011.**
Deposits with:		
- financial institutions	264	565
- state organisation	31	40
- corporate customers	828	777
- retail customers	2.087	1,451
- other	72	132
	3.282	2,965
Loans and other borrowings		
- financial institutions	967	840
- state organisation	63	68
	1.030	908
	4.312	3.873

5. PROVISIONS FOR LOSSES

a) Charge for the year

In thousands of EUR

	2012	**2011**
Net, provisions / (reversal of provisions):		
- loans and leases	1.074	1,846
- interest receivables	198	232
- country risk	(11)	(40)
- other receivables of the debtor who has started a process of reorganization	19	(126)
- other receivables receivables and bank overdraft accounts of legal entities, deposits with ino banks	79	(4)
- employee benefits (note 20)	13	9
- off-balance sheet items	279	160
- operating risk	-	83
	1.651	2,160

5. PROVISIONS FOR LOSSES (continued)

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

In thousands of EUR

	Loans and leases (note 11)	Interest (note 16)	Country risk (note 16)	Other receivables from the debtor who has started a process of reorganization (note 16)	Repossessed assets (note 16)	Other receivables (note 16)	Operating risk (note 21)	Off-balance sheet items (note 21)	Total
Balance, January 1, 2011	2.657	10	54	135	268	18	279	215	3.636
Charge for the year	1.846	232	-	-	-	5	83	160	2.326
Reversal of provisions	-	-	(40)	(126)	(8)	-	-	-	(174)
Provisions used	-	-	-	-	-	-	(62)	-	(62)
Transfer to off-balance sheet items	(492)	(229)	-	-	-	-	-	-	(721)
Balance, December 31, 2011	4.011	13	14	9	260	23	300	375	5.005
Charge for the year	1.074	198	-	19	92	86	-	279	1.747
Reversal of provisions	-	-	(11)	-	-	(7)	-	-	(18)
Provisions used	-	-	-	-	-	-	-	-	-
Transfer to/from off-balance sheet items	(1.132)	(188)	-	-	-	-	-	-	(1.320)
Balance, December 31, 2012	3.953	23	3	28	352	102	300	654	5.415

6. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

In thousands of EUR

	2012	2011
Loan origination fees	778	838
Fee and commission income from off-balance-sheet operations	554	511
Fee and commission income from payment transfers	1.711	1,669
Fee and commission income from custody services	28	22
Fee and commission income from credit cards	472	235
Other fee and commission income	502	538
	4.045	3,817

In thousands of EUR

b) Fee and Commission Expenses

	2012.	2011.
Fees and commissions payable to the Central Bank	199	179
Fee and commission expense from other banks	85	73
Fee and commission for deposit insurance	368	313
Other fee and commission expense	99	80
	751	645

7. OTHER INCOME, NET

In thousands of EUR

	2012.	2011.
Net gains on unrealized and realized foreign exchange fluctuations	281	286
Collected receivables previously written off	233	132
Income from trading securities	136	71
Gains on acquired assets sold, net	-	8
Miscellaneous income	34	14
	684	511

8. GENERAL EXPENSES

In thousands of EUR

	2012.	2011.
Net salaries	2.007	1.861
Non-monetary employee benefits	149	-
Taxes and contributions on salaries	1.438	1.320
Meals and transport	32	31
Remunerations to the members of the Board of Directors and Audit Board	96	78
Severance payments for voluntary leave	7	18
Costs for processing center services	111	62
Business trip expenses	102	74
Entertainment	129	106
Rentals	810	850
Maintenance of property and equipment	427	336
Depreciation and amortization charge:		
- property, plant and equipment (note 13)	568	483
- intangible assets (note 16)	236	287
Security services costs	345	287
Insurance premiums	56	47
Taxes	18	29
Advertising	336	204
Professional services costs	305	267
CDA and brokerage services costs	6	19
Telecommunication and postage	221	207
Electricity, fuel and water charges	61	62
Office material	127	127
Temporary engagement compensations	21	25
Sponsorship	80	148
Migration expenses	8	41
Write off bad debt receivables	30	31
Cost reduction - adjustments to fair value	61	6
Bills and checks expenses	31	16
Miscellaneous expenses	**383**	**357**
	8.201	**7,379**

9. INCOME TAXES

a) Components of Income Taxes

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	2012.	**2011.**
Current income tax expenses	203	177
Deferred income tax expenses	(27)	(9)
	176	**168**

9. INCOME TAXES (continued)

b) Reconciliation of total amount of income tax stated in the income statement with the amount of profit before tax multiplied by prescribed tax rate is as follows.

In thousands of EUR

	2012.	**2011.**
Net profit before tax	1.793	1,690
Income tax at the statutory tax rate of 9%	164	152
Tax effect of expenditures not recognized for tax purposes	39	21
Other	(27)	(5)
Tax effects on the income statement	176	168
Effective income tax rate	9,67%	9.94%

c) Deferred Tax Liabilities

Deferred tax assets as at December 31, 2012 in the amount of EUR 10 thousand (Note 16) (December 31, 2011: deferred tax liabilities EUR 21 thousand (Note 20) and deferred tax assets EUR 5 thousand (Note 16)) are associated with the taxable temporary differences arising between the tax base at which business premises and other fixed assets are recognized for tax purposes and the carrying value of such assets in Bank's financial statements.**In thousands of EUR**

10. CASH AND DEPOSIT ACCOUNTS HELD WITH DEPOSITORY INSTITUTIONS

	31.12.2012.	31.12.2011.
Cash on hand:		
- in EUR	3.360	1,824
- in foreign currency	305	297
Gyro account	9.644	7,145
Correspondent account with foreign banks	23.928	13,817
Obligatory reserves with the Central Bank of Montenegro	7.057	6,684
Time deposits with foreign banks	584	8,378
Deposit for guarantees	380	36
Deposits with domestic banks	258	319
	45.516	38,500

An obligatory reserve with the Central Bank of Montenegro as of 31 December 2012 was allocated in accordance with the Decision of the Central Bank of Montenegro on Banks' Required Reserves with the Central Bank of Montenegro (Official Gazette no. 35/2011, 22/2012 and 61/2012).

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

A calculated required reserve is allocated at the reserve requirement account in the country and/or at the Central Bank of the Montenegro accounts abroad. In accordance with this decision, the Bank may allocate and hold up to 35% of its reserve requirement in Treasury bills issued by Montenegro. The Central Bank pays interest on 15% of reserve requirement allocates at the reserve requirement account in the country and/or at the Central Bank of the Montenegro accounts abroad, with payment due 8 days in the current month for the previous month. Interest is calculated based on EONIA rate (Euro Over Night Index Average) rate minus 10 basis points on annual basis. Required reserves are held in euro.

Correspondent accounts and deposits with foreign banks as of December 31 December 2012 amount to EUR 24,512 thousand (31 December 2011: EUR 22,195 thousand).

As of 31 December 2012, term deposits with foreign banks were EUR 584 thousand and refer to deposits with Master card Europe (USD 400 thousand) and Visa International (USD 370 thousand).

11. LOANS AND LEASES

	In thousands of EUR	
	31.12.2012.	31.12.2011.
Matured loans:		
- state-owned corporate entities	120	206
- privately-owned corporate entities	3.230	1,318
- non-profit organizations	4	11
- retail customers	703	833
- other	356	13
Short-term loans:		
- privately-owned corporate entities	27.994	29,351
- non-profit organizations	956	833
- municipalities (public organisations)	13	34
- corporate entities with majority state-ownership	1.385	1,464
- retail customers	3.705	3,394
- other	-	-
Long-term loans, including current portions:		
- privately-owned corporate entities	49.017	49,520
- corporate entities with majority state-ownership	5.379	5,111
- non-profit organizations	8	5
- retail customers	23.461	20,883
- municipalities (public organisations)	1.134	505
	117.465	113,481
Minus: Allowance for impairment (note 5)	(3.953)	(4,011)
	113.512	109,470

Short-term loans to corporate entities with majority state-ownership are approved for working capital purposes and with the maturity from 3 to 12 months, while long-term loans are approved for the period from 12 to 180 months and predominately relate to corporate entities involved in trade, transport, warehousing, postal service, other services, tourism, catering, telecommunications and civil engineering. Short-term loans to corporate entities are mostly approved at an interest rate between 3% and 14% annually (for credit cards rate is up to 20.98%) and the same interest rate is applied to long-term loans. If the customer takes a loan based on 100% deposit collateral, interest rate on deposited amount ranges from 2% - 4%. The interest rate on loans approved to customers whose guarantees are realized is 21% per annum.

11. LOANS AND LEASES (continued)

Short-term loans to retail customers are approved with maturities from one to twelve months. Long-term loans to retail customers encompass loans for the renovation of housing and business premises, loans for the purchase of consumables and other purposes, approved for the period from 13 months to 20 years, at an interest rate ranging from 0.9% to 1.8% on monthly basis. For loans with 100% deposit collateral interest rate on deposited amount is 2.5%.

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

The concentration of total gross loans to customers per industry sector is as follows:

In thousands of EUR

	31.12.2012.	**31.12.2011.**
Agriculture, hunting and fishing	1.311	1,300
Civil engineering	3.262	4,897
Energy and mining	3.550	3,514
Trade	35.495	32,603
Services, tourism, accommodation industry	6.989	5,368
Transport, warehousing, postal services and communication	13.236	14,591
Administration and other public services	1.200	795
Real estate trade	3.460	2,694
Banks and other financial institutions	1.303	1,377
Retail customers	27.868	25,185
Other	19.791	21,157
	117.465	113,481

12. SECURITIES HELD-TO-MATURITY

Securities held to maturity as at 31 December 2012 in the amount of EUR 6,505 thousand (31 December 2011: EUR 2,569 thousand) relate to treasury bills of the Government of Montenegro, with maturity of six months from the date of acquisition and with interest rates from 3,35% to 4,75% per annum in the nominal amount of EUR 6,090 thousand and Montenegro employment fund bonds of EUR 482 thousand with maturity 27 July 2017 and interest rate 7% per annum with annually repayments.

13. BUSINESS PREMISES AND OTHER FIXED ASSETS

	Buildings	Computer equipment	Other equipment	Construction in progress	Total
Cost					
Balance, January 1, 2011	378	956	1.813	27	3.174
Additions	-	-	-	719	719
Transfers	-	98	682	-	780
Sales and disposals	-	(29)	(248)	(726)	(1.003)
Balance, December 31, 2011	378	1.025	2.247	20	3.670
Additions	-	-	-	522	522
Transfer from Construction in progress and purchases	-	77	309	-	386
Transfer to equipment and intangible assets	-	-	-	(387)	(387)
Disposals	(181)	(39)	(39)	-	(387)
Balance, December 31, 2012	197	1.063	2.517	2.517	3.932
Accumulated depreciation					
Balance, January 1, 2011	53	685	694	-	1.432
Charge for the year (note 8)	8	140	335	-	483
Sales and disposals	-	(29)	(166)	-	(195)
Balance, December 31, 2011	61	796	863	0	1.720
Charge for the year (note 8)	30	151	387	-	568
Sales	(43)	-	(3)	-	(46)
Disposals	-	(39)	(11)	-	(50)
Balance, December 31, 2012	48	908	1.236	0	2.192
Net book value:					
- December 31, 2012	149	155	1.281	155	1.740
- December 31, 2011	317	229	1.384	20	1.950

At December 31, 2012 the Bank has no assets pledged as collateral for repayment of loans and other liabilities.

At 31 December 2012 the Bank has Construction in progress I the amount of EUR 155 thousand. Construction in progress is mainly related to the MasteCard license in the amount of EUR 71 thousand and Visa license in the amount of Eur 36 thousand.

14. ACQUIRED ASSETS

Repossessed assets as at December 31, 2012 amounted to EUR 575 thousand (December 31, 2011: EUR 478 thousand) and totally relate to repossessed assets that are booked in the amount of total outstanding receivables less impairment recognized. As of 31 December 2012 the Bank has recognized impairment of repossessed assets in the amount of EUR 352 thousand (Notes 5 and 16).

15. EQUITY INVESTMENTS IN OTHER LEGAL ENTITIES

In thousands of EUR

	2012	2011
Investment in banks and other financial institutions:		
- Tržište novca A.D., Beograd	2	2
- S.W.I.F.T. SRL	7	6
	9	8
Investments in companies abroad:		
- Imlek A.D., Beograd	-	34
- Naftna industrija Srbije („NIS“) A.D., Novi Sad - Republic of Serbia	31	28
	31	62
Investments in domestic companies:		
- Bridgemont D.O.O., Podgorica	-	2
- Jugopetrol A.D. Kotor	15	14
- Crnogorski Telekom A.D, Podgorica	169	121
- Zetatrans A.D , Podgorica	2	3
- Prenos A.D., Podgorica	11	7
- Kontejnerski terminal i generalni tereti A.D., Bar	4	4
- Barska plovidba A.D., Bar	1	2
- Fond zajednickih ulaganja Moneta A.D.	-	1

-	Autoremont A.D.	6	6
		208	160
		248	230

16. OTHER ASSETS

	In thousands of EUR	
	2012.	2011.
Interest receivables	1.163	803
Fee and commission receivables	163	129
Intangible assets	462	550
Accruals	367	475
Advances paid	86	11
Other receivables from the debtor in the process of reorganization	28	28
Receivables for reimbursements of costs	197	138
Receivables from exceeding limits on current accounts	3.357	141
Deferred tax assets (note 9)	10	366
Other receivables	207	2,641
	6.040	2.641
Allowance for potential losses contingent on other assets		
- interest (note 5)	23	13
- country risk (note 5)	3	14
- other receivables from the debtor in the process of reorganization (note 5)	28	9
- acquired assets (note 5)	352	260

16. OTHER ASSETS (continued)

-overdraft for corporate clients (note 5)	92	23
- other receivables	10	11
	508	319
	5.532	2,322

The movements on intangible assets for 2012 and 2011 were as follows:

	In thousands of EUR	
	2012.	2011.
Cost of goods sold		
Balance, January 1,	1.408	1,345
Additions	148	139
Disposals	(1)	(76)
Balance, December 31,	1.555	1,408
Accumulated depreciation		
Balance, January 1,	858	640
Charge for the year (note 8)	236	287
Disposals	(1)	(69)
Balance, December 31,	1.093	858
Net book value		
- December 31,	462	550

As at 31 December 2012 intangible assets in the amount of EUR 462 thousand mainly related to investment in software totaling EUR 224 thousand, the license in the amount of EUR 68 thousand and leasehold improvements in the amount of

EUR 169 thousand.

17. DEPOSITS

In thousands of EUR

	2012.	2011.
Sight deposits:		
- government agencies	2.661	1,136
- funds	248	35
- municipalities (public organizations)	90	85
- corporate entities with majority state - ownership	2.912	1,572
- privately-owned companies	25.226	22,528
- banks	268	198
- other financial institutions	363	294
- non-profit organizations	2.741	1,305
- retail customers	14.433	12,547
- other	86	50
Short-term deposits:		
- government agencies	600	700
- funds	500	2,000
- corporate entities with majority state - ownership	866	797
- privately-owned companies	6.339	10,762
- banks	465	-
- other financial institutions	3.569	5,205
- non-profit organizations	70	194
- retail customers	24.101	25,430
Long-term deposits:		
- government-owned corporate entities	1.356	700
- privately-owned companies	8.817	2,390
- non-profit organizations	73	23
- other financial institutions	745	275
- retail customers	21.671	9,627
	118.200	**97,853**

A vista deposits of retail customers denominated in EUR are deposited at the interest rate ranging from 0.1% to 1.0% annually. Retail a vista deposits in foreign currency are deposited at an interest rate from 0.1% to 1.0% annually, depending on the currency.

Short-term and long-term deposits of retail customers denominated in EUR are placed at an interest rate from 0.2% to 6.7% annually, depending on the amount of deposit being placed and chosen savings arrangement (up to EUR 5 thousand, from EUR 5 thousand to EUR 50 thousand and over EUR 50 thousand). Short-term and long-term deposits of retail customers in foreign currencies are placed at an interest rate from 1.5% to 3% annually, depending on the currency.

Short-term and long-term deposits of corporate entities denominated in EUR are placed at interest rates from 0.4% to 7% annually, depending on the depositing period and the deposited amount (up to EUR 50 thousand, from EUR 50 thousand to EUR 100 thousand and over EUR 100 thousand). Short-term and long-term deposits of corporate entities in foreign currencies are deposited at interest rates ranging from 0.2% to 3.9%.

A vista deposits of corporate entities, public and other organizations are deposited at interest rate from 0.1% to 1% annually.

18. LOANS AND BORROWINGS

In thousands of EUR

	Period (Year/ Month)	Anally interest rate	December 31, 2012	December 31, 2011
Obligations to foreign creditors				
The European Fund for Southeast Europe ("EFSE") Montenegro B.V.	5y	5.43%	5,000	5,000
European Investment Bank ("EIB")	12y	4,032%	2.292	2,499
EIB	12y	3,923%	1.283	1,400
EIB	12y	3,604%	3.832	4,000
EIB	12y	3,168%	2.010	2,010
EIB	12y	3,019%	1.990	1,990
EIB	12y	3,841%	3.101	3,101
EIB	12y	3,181%	899	899
EIB	12y	2,398%	2.000	-
EIB			**17.407**	**15.899**
Podravska Banka D.D. Koprivnica	6m	4,25%	-	2.000
Probanka D.D. Maribor	3m	3,72%	-	2.988
Banca Monte Dei Paschi Di Siena Sp	10m	4,529%	-	1.000
Total			**21.157**	**26,887**

During year 2010 and 2011, EFSE approved to the Bank a loan in the amount of EUR 5,000 thousand with an interest rate of 5.43% for the period of five years, with a grace period of 12 months i.e. till March 22, 2012. The loan is repaid in equal semi-annual installments. In accordance with the provisions of the agreement concluded with EFSE, the Bank is obliged to keep its business results within certain financial indicators – debt covenants. As at 31 December 2012, the Bank's financial ratios are in line with the terms delineated in the relevant agreements. As at 31 December 2012, the Bank's exposure amounted to EUR 3,750. The loan approved to the Bank is for the purpose of financing sub loans for development of small and medium enterprises (SME), on condition that an individual sub loan does not exceed EUR 100 thousand, or total amount of approved sub loans to the group of related party entities does not exceed EUR 300 thousand.

As at December 31, 2012, the Bank had liabilities towards the EIB based on long-term loans in the amount of EUR 17,407 thousand (December 31, 2011: EUR 15,899 thousand). EIB approved in previous period the Bank a loan in the amount of EUR 16,000 thousand. Also, as of 10 September 2012 the Bank withdraw new loan in the amount of EUR 2,000 thousand from EIB with maturity of 12 years. Loans are granted to promote the development of SME in Montenegro, with a grace period of maximum 2 years. Loans are repaid in semi-annual annuities. As collateral, the Bank provided the guarantee of the Government of Montenegro.

19. LIABILITIES TO THE GOVERNMENT

In thousands of EUR

	Period (Year/ Month)	Anally interest rate	December 31. 2012.	December 31. 2011.
Investment and Development Fund of Montenegro	5-10	1.75%-7.5%	2.541	2,368
Directorate for development of small and medium-sized enterprises	4-8	0-1%	521	521
			3.062	**2,889**

As of 31 December 2012, the amount of EUR 3,062 thousand owed to the Government of Montenegro is associated with payables in the amount of EUR 2,541 thousand arising from long-term borrowings from the Investment and Development Fund of Montenegro for financing small and medium enterprises with a grace period from 1 to 2 years, and payables arising from long-term borrowings in the amount of EUR 521 from the Directorate for development of small and medium-sized enterprises with a grace period from 12 to 18 months.

20. OTHER LIABILITIES

In thousands of EUR

	2012.	2011.
Liabilities for accrued interest	1.606	1,193
Liabilities for commission	256	97
Deferred loan origination fees	923	823
Accounts payable (suppliers)	232	247
Tax payables	216	206
Deferred tax liabilities (Note 9)	-	21
Liabilities for advance collection of loans	1.009	1,065
Provisions for employee benefits	78	65
Other liabilities	411	334
	4.731	3,952

As of December 31, 2012, provisions for employee benefits in the amount of EUR 78 thousand are calculated as present value of future expected retirement benefits to employees after they fulfill conditions.

The present value of expected future cash payments towards the employees qualified to receive retirement benefits is determined in accordance with actuarial estimation principles of an independent certified actuary as at December 31, 2012. Technical bases applied in calculating the present value of expected future retirement benefits include implementation of the following:

a. cumulative figures, prepared in accordance with the calculated possible age of the population of the Republic of Montenegro included in the population census dating from 1980 to 1982, and

b. annual interest rates of 12% used to discount future retirement payments to employees.

The movements on provisions for employee benefits are as shown in the following table:

In thousands of EUR

	2012.	**2011.**
Beginning of the year	65	56
Provisions for the period (Note 5)	13	9
End of the year	78	65

21. PROVISIONS FOR POTENTIAL LOSSES CONTINGENT ON OFF-BALANCE SHEET CREDIT EXPOSURES

In thousands of EUR

	2012.	2011.
Provisions for losses contingent on:		
- off-balance sheet items (Note 5)	654	375
- operational risk	300	300
	954	675

22. SHARE CAPITAL

As of 31 December 2012 and 2011, the Bank's share capital was comprised of 31,305 ordinary shares with the par value of EUR 511.29. The Law on Banks ("Official Gazette of Montenegro," no. 17/2008, 44/2010, and no. 40/2011) defines that the minimum cash amount of initial capital may not be less that EUR 5,000 thousand. At December 31, 2012, the Bank's capital complied with the prescribed minimum capital requirements.

The ownership structure of the Bank's share capital as of December 31, 2012 and 2011 was as follows:

	2012			2011		
Shareholder	Number of shares	In thousands of EUR	% share	Number of shares	In thousands of EUR	% share
HB-custody account 4	5.281	2.700	16,87	5.281	2.700	16,87
Cerere s.p.a	4.360	2.229	13,93	4.360	2.229	13,93
Gorgoni Antonia	3.131	1.601	10,00	3.131	1.601	10,00
Gorgoni Lorenzo	2.591	1.325	8,28	2.591	1.325	8,28
Todorović Miljan	2.316	1.184	7,40	2.316	1.184	7,40

Others	13,626	6,967	43.53%	13,626	6,967	43.53%
	31,305	**16,006**	**100%**	**31,305**	**16,006**	**100%**

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

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

In accordance with the Decision on Capital Adequacy in Banks ("Official Gazette of Montenegro," no. 38/2011, 55/2012), the Bank's capital is comprised of the Bank's core capital and supplementary capital, minus deductions. The Bank's capital as of December 31, 2012 amounted to EUR 22,661 thousand (December 31, 2011: EUR 22,540 thousand).

The Bank's core capital formed in accordance with the Decision on Capital Adequacy in Banks, as of December 31, 2012 amounted to EUR 22,661 thousand (December 31, 2011: EUR 22,540 thousand). The Bank's capital as of December 31, 2012 is comprised of the following components: paid-in share capital at nominal value, collected share premiums decreased by the amount of prior period losses and amount of intangible assets and unrealized loss on fair value adjustment of financial assets available for sale, at fair value.

Risk-weighted balance sheet assets and off-balance sheet items formed pursuant to the Decision on Capital Adequacy in Banks, as of December 31, 2012 amounted to EUR 121,048 thousand (December 31, 2011: EUR 106,740 thousand). In accordance with the Decision on Capital Adequacy in Banks of the Central Bank of Montenegro, the Bank is under obligation to maintain the minimum solvency ratio of 10%. The solvency ratio calculated by the Bank as of December 31, 2012 amounted to 15.05% (December 31, 2011: 16.98%) and it is greater than statutory minimum.

As of 31 December 2012 the Bank was in compliance with all regulatory requirements defined by the Central Bank of Montenegro.

24. OFF-BALANCE SHEET ITEMS

In thousands of EUR

	31.12. 2012.	31.12. 2011.
Guarantees, sureties and irrevocable commitments::		
Guarantees to corporate entities:		
- payment guarantees	25.246	16,327
- performance bonds	5.509	3,721
- other types of guarantees	5.604	8,034
Commitments arising from undrawn loans	4.972	4,342
Letters of credit	631	-
Other off-balance sheet items:		
- commission banking services	131	131
- custody services	78.000	83,584
- collaterals	365.242	269,274
- written-off loans receivables	3.467	2,576
- current contract for foreign currency transactions / prompt sale of foreign currencies	609	830
	489.411	**388,819**

25. RELATED PARTY TRANSACTIONS

The Law on Banks ("Official Gazette of Montenegro," no. 17/2008, 44/2010 and no. 40/2011) defines that significant influence on the Bank's operations is by those persons appointing at least one representative in the Board of Directors or some similar board, either through shareholding, through agreement with the owners or otherwise. In accordance with the Law on Banks, related party transactions are presented in the following tables:

In thousands of EUR

	31.12. 2012.	31.12. 2011.
Receivables		
- Miljan Todorovic	-	1
	-	1
Payables		
A vista deposits:		
- Miljan Todorović	24	5
- Sigilfredo Montinari	-	1
- Gorgoni Lorenzo	20	15
- Cerere s.p.a.	6	-
	50	21
Term deposits		
- Miljan Todorovic	346	360
	346	360
Total payables	**950**	**565**

Expenses from transactions with related parties during 2012 amounted to EUR 83 thousands (2011: EUR 67 thousands), while income amounted to EUR 19 thousand (2011: EUR 19 thousands).

As at December 31, 2012, receivables from employees amounted to EUR 1,718 thousand (at December 31, 2011: EUR 1,595 thousand), which refer to the approved loans, claims for overdraft on bank accounts and credit cards.

During 2012, total gross remunerations paid to persons with special authorities and responsibilities amounted to EUR 806 thousand (2011: EUR 594 thousand).

26. LIQUIDITY GAP BETWEEN FINANCIAL ASSETS AND LIABILITIES

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

The Bank's liquidity, as it's ability to settle it's outstanding liabilities is depending of the balance sheet structures on the one side and of compatibility of assets inflows and outflows on the other side.

The contractual maturities of the Bank's asset and liability components as of December 31, 2012 were as follows:

In thousands of EUR

	Up to one month	From 1 to 3 month	From 3 to 6 month	From 6 to 12 month	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash and deposit accounts with depository institutions	34.986	3.478	-	36	-	-	38.500
Assets for trade and available for trade, no shares	26	-	-	-	-	-	26
Loans and other receivables	7.892	12.313	13.304	24.249	43.053	12.670	113.481
Securities held to maturity	-	1.094	1.475	-	-	-	2.569
Other financial assets including investments in shares	1.813	-	-	11	483	-	2.307
Total	44.717	16.885	14.779	24.296	43.536	12.670	156.883
Financial liabilities							
Deposits	21.351	31.818	11.224	22.346	9.668	1.446	97.853
Obligations based on loans and other borrowings	1.000	5.613	161	957	9.316	9.840	26.887
Obligations to the Government	145	50	76	183	1.869	566	2.889
Other financial liabilities	981	228	361	401	879	286	3.136
Total	23.477	37.709	11.822	23.887	21.732	12.138	130.765

26. LIQUIDITY GAP BETWEEN FINANCIAL ASSETS AND LIABILITIES (continued)

Maturity gap:							
- December 31, 2011	21.240	(20.824)	2.957	409	21.804	532	26.118
- December 31, 2010	11,240	(10,189)	(595)	1,556	21,140	526	23,678
Cumulative GAP:							
- December 31, 2011	21.240	416	3.373	3.782	25.586	26.118	
- December 31, 2010	11,240	1,051	456	2,012	23,152	23,678	
% of total source of funds:							
- December 31, 2011	16,2%	0,3%	2,6%	2,9%	19,6%	20,0%	
- December 31, 2010	10.7%	1.0%	0.4%	1.9%	22.0%	22.5%	

The contractual maturities of the Bank's asset and liability components as of December 31, 2012 were as follows:

In thousands of EUR

	Up to one month	From 1 to 3 month	From 3 to 6 month	From 6 to 12 month	From 1 to 5 years	Over 5 years	Total
Financial assets							
Cash and deposit accounts with depository institutions	45.136	380	-	-	-	-	45.516
Assets for trade and available for trade, no shares	-	-	-	-	-	-	26
Loans and other receivables	7.528	9.236	12.933	26.709	49.317	11,742	117.465
Securities held to maturity	-	1.047	4.962	98	398	-	6.505
Other financial assets including investments in shares	2.223	209	702	2.389	528	-	6.051
Total	54.887	10.872	18.597	29.196	50.243	11.742	175.537
Financial liabilities							
Deposits	18.693	42.536	10.273	22.502	23.615	581	118.200
Obligations based on loans and other borrowings	-	625	510	1.309	9.047	9.666	21.157
Obligations to the Government	-	115	73	347	2.394	133	3.062
Other financial liabilities	1.831	279	394	528	1.424	196	4.652
Total	20.524	43.555	11.250	24.686	36.480	10.576	147.071
Maturity gap:							
- December 31, 2012	34.363	(32.686)	7.347	4.510	13.763	1.166	28.466
- December 31, 2011	21.240	(20.824)	2.957	409	21.804	532	26.118
Cumulative GAP:							

- December 31, 2012	34.363	1.680	9.027	13.537	27.300	28.466
- December 31, 2011	21.240	(20.824)	2.957	409	21.804	532
% Od ukupnog izvora sredstva						
- December 31, 2012	23.4%	1.1%	6.1%	9.2%	18.6%	19.4%
- December 31, 2011	16.2%	0.3%	2.6%	2.9%	19.6%	20.0%

27. INTEREST RATE RISK

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

The table below shows the Bank's exposure to interest rate risk as of December 31, 2012:

In thousands of EUR

	Up to one month	From 1 to 3 month	From 3 to 6 month	From 6 to 12 month	From 1 to 5 years	Total
Interest rate sensitive assets						
Interest-bearing deposits in other institutions	2.349	-	-	-	-	2.349
Interest bearing securities	-	1.047	4.962	98	398	6.505
Loans and other receivables	7.529	9.236	12.933	26.709	61.059	117.466
Other interest-bearing assets	1.163	10	16	3	-	1.192
Total	11.041	10.293	17.911	26.810	61.457	127.512
% of the total interest-bearing assets	8,66%	8,07%	14,05%	21,02%	48,20%	100,00%
Interest rate sensitive liabilities						
Interest-bearing deposits	9.588	13.825	14.912	28.609	40.432	107.366

27. INTEREST RATE RISK (continued)

Interest-bearing borrowings	-	740	583	1.656	21.240	24.219
Total	9.588	14.565	15.495	30.265	61.672	131.585
% of the total interest-bearing liabilities	7,29%	11,07%	11,78%	23,00%	46,86%	100,00%
Interest rate exposure:						
- December 31, 2012	1.453	(4.272)	2.416	(3.455)	(215)	(4.073)
- December 31, 2011	2,774	(144)	(527)	(4,684)	9,557	6,976
Cumulative GAP:						
- December 31, 2012	1.453	(2.819)	(403)	(3.858)	(4.073)	
- December 31, 2011	2,774	2,630	2,103	(2,581)	6,976	

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

In thousands of EUR

	Up to one month	From 1 to 3 month	From 3 to 6 month	From 6 to 12 month	From 1 to 5 years	Total
Interest rate sensitive assets						
Interest-bearing deposits in other institutions	6.571	3.478	-	-	-	10.049
Interest bearing securities	-	1.094	1.475	-	-	2.569
Loans and other receivables	7.892	12.313	13.304	24.249	55.723	113.481
Other interest-bearing assets	803	-	-	-	-	803
Total	15.266	16.885	14.779	24.249	55.723	126.902
% of the total interest-bearing assets	12,03%	13,31%	11,65%	19,11%	43,91%	100.00%
Interest rate sensitive liabilities						
Interest-bearing deposits	11.346	11.366	15.070	27.794	24.574	90.150
Interest-bearing borrowings	1.146	5.663	236	1.139	21.592	29.776
Total	12.492	17.029	15.306	28.933	46.166	119.926
% of the total interest-bearing liabilities	10,42%	14,20%	12,76%	24,13%	38,50%	100.00%

Interest rate exposure:						
- December 31, 2012	2,774	(144)	(527)	(4,684)	9,557	6,976
- December 31, 2011	2,527	7,434	(3,481)	(3,013)	9,674	13,141
Cumulative GAP:						
- December 31, 2012	2,774	2,630	2,103	(2,581)	6,976	
- December 31, 2011	2,527	9,961	6,480	3,467	13,141	

28. CURRENCY RISK

The following table summarizes the net foreign currency position of the Bank as of December 31, 2012. The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management establishes limitations on the exposure levels per currencies and aggregately, and monitors such exposure on regular basis.

In thousands of EUR

	RSD	USD	GBP	CHF	Other	Total
Assets in foreign currencies	-	6.680	57	135	6	6.878
Liabilities in foreign currencies	-	7.468	49	135	4	7.656
Net foreign exchange position:						
- December 31, 2012	-	(788)	8	-	2	
- December 31, 2011	-	(194)	2	1	16	
% of first- tier capital:						
- December 31, 2012	-	(3,36%)	0,03%	0.00%	0.01%	
- December 31, 2011	-	(0.83%)	0.01%	0.00%	0.07%	
Aggregate open position:						
- December 31, 2012	(778)					

- December 31, 2011	(175)
% of first-tier capital:	
- December 31, 2012	(3,32%)
- December 31, 2011	(0.75%)

29. LEGAL PROCEEDINGS

As of December 31, 2012, the Bank is defendant in a certain number of legal proceedings, initiated by retail and corporate clients. Total amount of litigation is EUR 39 thousand. The final outcome of the ongoing legal proceedings is uncertain. However, the Bank's management as well as legal consultant does not expect negative outcome of such litigations as well as material affects on financial statements as of December 31, 2012.

Total amount of litigations in which the Bank acts as prosecutor as of December 31, 2012 is EUR 2,601 thousand.

30. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the annual net gain that is attributable to holders of ordinary shares, divided by the weighted average number of ordinary shares that were outstanding during the period. The Bank is registered as a limited company whose share capital is consisting of 31,305 ordinary shares. Earnings per ordinary share as at December 31, 2012 was equal to EUR 51.69 thousand (December 31, 2011: EUR 51.69 thousand).

31. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of balance sheet items denominated in foreign currencies, into EUR as at December 31, 2012 and 2011 were as follows:

	31. decembar 2012.	31. decembar 2011.
USD	0,7586	0,7586
CHF	0,8278	0,8278
GBP	1,2241	1,2241

32. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after balance sheet date which would require disclosure in the notes to the Bank's Financial Statements for 2012.

ANALYSIS TO THE
FINANCIAL STATEMENTS FOR THE YEAR 2012

A. ANALYSIS TO FINANCIAL STATEMENTS

I
Introduction

Financial Statements of Hipotekarna banka A.D., Podgorica (hereinafter the „Bank“), which were subject of audit have been prepared in accordance with Accounting standards and regulations of Montenegro and regulations of Central Bank of Montenegro governing financial reporting of banks. The prescribed forms of financial statements were submitted in due time to the Central Bank of Montenegro.

II
Income statement and balance sheet analysis

Detailed analysis of the balance sheet and income statement is provided within Notes from 4 to 32 to the financial statements.

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

I
Quality of the bank's asset

Classification of asset and off-balance sheet items, in terms of determining asset quality, was carried out in accordance with the Decision issued by Central Bank of Montenegro regarding to minimal standards for managing credit risk in banks (,,Official Gazette of Montenegro", no. 60/2008 and 41/2009) and the Decision of the Central Bank of Montenegro on temporary measures for managing credit risk in banks ("Official Gazette of Montenegro" no. 64/2009, 87/2009, 66/2010 and 70/2010). On the basis of classification performed and in accordance with internal policies, the Bank has made provisions for potential losses as at December 31, 2012 in amount of EUR 5,415 thousand (December 31, 2011: EUR 5,005 thousand).

Based on audit procedures performed on a sample basis and related to risk classification, the auditor has not found any differences related to the risk classification of the clients that is performed in accordance with the relevant Decisions of the Central Bank of Montenegro.

Classification of the Bank is verified by auditors on a sample covering 54.8 % of the total credit risk exposure at December 31, 2012 (excluding loans granted to retail customers).

Available information on indicators of business of the debtor are taken into account when determining the classification of assets and the required reserves for potential losses of the Bank, as well as the quality of debt service, renewal of loans to the same debtors during the year, the quality of the collection instruments and evidence of credit and interest charges in 2012 and up to day of preparation of financial statements for 2012.

Summing up the results of a quality of balance sheet and off-balance sheet assets of the Bank from the point of payment collection and the need to create reserves for the provision of the Bank from potential losses in accordance with the stated approach, the following relations and parameters were provided:

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

I Quality of the bank's asset (continued)

- Risk-weighted balance sheet and off-balance sheet assets of the Bank as of December 31, 2012 and 2011 consists of the following:

In thousand of EUR

	2012			2011		
	Amount	In %	Formed reserve	Amount	In %	Formed reserve
Loans	117.465		4.461	113,481		4,330
Less: Loans secured by cash deposit	(11.824)			(9,652)		
	105.641	71,28%	4.461	103,829	72.44	4,330
Accrued interest	1.016	0,69%		803	0.56	
Other asset items	4.462	3,01%		9,118	6.36	
Taken over and potential obligations	37.089	25,02%	954	29,576	20.64	675
Total exposure to risk	148.208	100.00%	5.415	143,326	100.00	5,005

- • As at December 31, 2012, the structure of the Bank's investments made by risk categories after decreased for cash deposits is as follows:

In thousand of EUR

Category	Loans	Accrued interest	off-balance sheet records	Total	In %
A	28.118	251	17.172	45.541	31,68%
B	61.967	683	18.870	81.520	56,71%
C	14.934	82	951	15.967	11,11%
D	622	-	96	718	0,50%
	105.641	1.016	37.089	143.746	100.00%

- • As at December 31, 2011, the structure of the Bank's investments made by risk categories after decreased for cash deposits is as follows:

U hiljadama EUR

Category	Loans	Accrued interest	off-balance sheet records	Total	In %
A	35.995	234	17.145	53.374	39,80
B	57.942	475	11.735	70.152	52,31
C	8.981	-	543	9.524	7,10
D	911	-	153	1.064	0,79
	103.829	709	29.576	134.114	100.00

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

Risk bearing balance sheet assets comprising the sum of total risk-weighted balance sheet assets and capital required for market risk, operating risk, country risk and other risks multiplied by reciprocal value of minimum capital adequacy ratio required by the Decision on capital adequacy, as at December 31, 2012, represented 69% total assets, before impairment for loan loss provisions and impairment losses on other assets (December 31, 2011: 70.21%).

The loan policy of the Bank is in compliance with the Decision of the Central Bank of Montenegro on minimum standards for the management of loans concentration and doing business with related entities.

II
Equity and adequacy of equity

As of December 31, 2012 and 2011 the share capital of the Bank comprises of 31,305 common shares with nominal value of EUR 511.29.

As of December 31, 2012, retained earnings amounted to EUR 1,311 thousand (December 31, 2011: accumulated loss 306 thousand).

Bank's own funds as at December 31, 2012 amounted to EUR 22,661 thousand (December 31, 2011: EUR 22,540 thousand).

The core equity of the Bank established in accordance with the Decision on Capital Adequacy of the Bank ("Official Gazette of Montenegro" no. 38/2011, 55/2012) as at December 31, 2012 amounted to EUR 22,661 thousand. The core equity of the Bank as at December 31, 2012 consists of core elements of its own funds: share capital paid at nominal value, collected share premium, less accumulated loss from the previous periods, less the amount of intangible assets and less unrealized loss from fair value adjustments of financial assets available for sale recognized at fair value.

As at December 31, 2012, the Bank has supplementary capital in the amount of EUR (20) thousand which refers to revalorization reserves from fair value adjustments of available for sale financial instruments.

Risk-weighted balance sheet and off-balance sheet assets, formed in accordance with the Decision on Adequacy of equity of the Bank at December 31, 2012 amounted to EUR 121,048 thousand (as at December 31, 2011: EUR 106,740 thousand).

Capital required for market risk at 31 December 2012 amounts to EUR 144 thousand, for operational risk EUR 1,718 thousand, for country risk EUR 599 thousand and other risks EUR 495 thousand.

In accordance with the Decision on Adequacy of equity of the banks, the Bank is in obligation to maintain a minimal level of solvency ratio of 10%. The solvency ratio of the Bank, as at December 31, 2012 amounted to 15.05% (as at December 31, 2011: 16.98%) and is higher than prescribed minimum.

As at 31 December 2012 the Bank was in compliance with all prescribed regulatory requirements of the Central bank of Montenegro.

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

III Liquidity of the bank

Liquidity risk management is defined by the Procedure for managing liquidity risk which defines that the responsibilities in managing the Bank's liquidity bear the following authorities of the Bank:

- Management of the Bank
- Asset and liability Committee (ALCO)
- Payments and funds management department, other Bank's departments and services

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

Liquidity of the Bank as at December 31, 2012 and 2011 can be closely looked from the following indicators:

				2011	2010
Loans / Deposits	=	117.465 / 118.200	x100	99,38%	115.97%
Cash and deposit accounts held with depository institutions / Deposits	=	45.516 / 118.200	x100	38,51%	39.35%
Cash and deposit accounts held with depository institutions / Total assets	=	45.516 / 173.777	x100	26,19%	24.74%
Cash and deposit accounts held with depository institutions / Short-term liabilities	=	45.516 / 34.877	x100	130,50%	41.48%

Maturity alignment of financial assets and Bank's liabilities as at December 31, 2012 has been shown in note 26 to the financial statements.

IV Interest rate risk

Existing interest rates are determined by a Decision on the interest rate. This decision defines the basic goals and guidelines for interest rate policy, principles and methods of determining the interest rates, by which the Bank arranges agreements, calculate and charge interest on loans and other receivables, i.e. pays on deposits and other funds received.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. As a result of such changes, an interest margin of the Bank could be increased, but also decreased and loss can occur in a case of unexpected interest rate fluctuation.

Interest rate risk as at December 31, 2012 is shown in note 27 to the financial statements.

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

IV Interest rate risk (continued)

In accordance with the policy for managing market risks, the Bank controls the risk of interest rate fluctuations by establishing internal limitations for the ratio of total bank exposure to interest rate changes.

Defining the limits, boundaries are established for the level of exposure to interest rate risk in the following manner, and in accordance with the Policy of managing market risks in Hipotekarna Banka A.D., Podgorica:

- The average interest margin must not fall below 40% of the average lending interest rates.
- The Bank follows and establishes the average lending and deposit interest rates, by putting the ratio of earned interest income for the reference period with an average interest bearing assets for the reference period to determine the average lending interest rates, as well as by putting in relation actual interest expense for the observed period with an average interest bearing liabilities for the reference period in order to establish the average deposit interest rate. The difference got by subtracting the average deposit interest rate from the average lending interest rate, represents the interest margin, which must not fall below 40% of the average lending interest rate, calculated in the aforecited manner.
- The aforecited calculation is done for a particular month, as well as cumulatively for the period from the beginning of the year until the reference period, according to provided data, movement of average lending and deposit interest rates and movement of the interest margin for the reference month and period can be followed.

In a case that an average interest margins fall under 40% of the average lending interest rates, Risk management department, i.e. Risk monitoring and reporting department will inform the ALCO Committee, which is obliged to recommend measures for maintaining operations within the defined limits:

- The total annual cumulative difference for the position in EUR must not exceed 45% of total assets, i.e. 45% of total liabilities,

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

- The total semi-annual cumulative difference for the position in EUR must not exceed 36% of total assets, i.e. 36% of total liabilities,
- The total annual and semi-annual cumulative difference for the position for particular currencies must not exceed 9% of total assets, i.e. 9% of total liabilities,
- Observed aggregation for the position in all currencies, the total annual cumulative difference must not exceed 54% of total assets, i.e. 54% of total liabilities,
- Observed aggregation for the position in all currencies, the total semi-annual cumulative difference must not exceed 45% of total assets, i.e. 45% of total liabilities.

IV Interest rate risk (continued)

Lending interest rates applied to loans granted to corporate entities during 2012 are as follows:

Type of a loan	Interest rate per a year
Overdraft	7,95 - 14,00
Cash loans	3,00 - 14,00
Revolving loans	3,00 - 14,00
Loans for payment obligations to the suppliers	10,50 - 14,00
Factoring loans	11,50 - 15,00
Car loans	11,00 - 14,00
Refinancing loans to other bank liabilities	10,50 - 14,00
Loans based on 100% time deposit	deposit interest rate + 2,00 - 4,00
Loans for financing export receivables	10,00 - 13,50
Loans to financing the purchase of equipment	10,00 - 13,50
Loans to financing and adoption of business premises	10,00 - 13,50
Loans to financing the purchase of fixed assets	10,00 - 13,50
Loans for the preparation of tourist season	13,00
Mortgage loans	**12,50 - 15,00**

Lending interest rates applied to loans granted to retail customers during 2012 are as follows:

Type of a loan	Interest rate
Cash loans	0,90 - 1,80 p.m.
Mortgage loans	0,95 - 1,50 p.m.
Loans for sailors	1,00 - 1,20 p.m.
Loans for students	1,00 - 1,20 p.m.
Loans for retired people	0,95 - 1,20 p.m.
Customer loans	0,90 - 1,40 p.m.
Overdraft	10,00 - 14,60 p.a.
Agricultural loans	1,10 p.m.
Loans for the purchase of goods	0,90 - 1,40 p.m.
Lombard loans based on collateral of term deposits of 100%	+2,50 p.m. to deposit interest rate

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

IV Interest rate risk (continued)

Deposit interest rates which were applicable on corporate entities during 2012 are as follows:

Deposit type	Interest rate per a year
Demand deposits to corporate entities	0,10 - 1,00
Time deposits in dollars - USD	0,40 - 3,90
Time deposits in euros - €	0,40 - 7,00
Time deposits in foreign currencies (AUD,CAD,CHF,GBP)	0,20 - 2,00

Deposit interest rates which were applicable on retail customers during 2012 are as follows:

Deposit type	Interest rate per a year
Children's savings Mravac - term cumulative savings	3,00 – 6,70
Term cumulative savings	3,00 – 6,70
Term savings in $, Term cumulative savings in $, Children's savings Mravac - term cumulative savings in $, Rent savings in $	1,50 – 3,00
Term savings in €	0,20 – 6,70
Term savings, Term cumulative savings, Children's savings Mravac - term cumulative savings, Rent savings – in foreign currencies (AUD, CAD, CHF, GBP)	1,50 – 2,00
Rent savings	3,00 – 6,70
Demand deposits	0,10 – 1,00

V
Currency risk

The Decision issued by the Central Bank of Montenegro on minimal standards for market risk management in banks establishes the following limits regarding the open foreign currency position:

- • Individual open position at the end of the day for the currencies of daily exchange rate on the reference list of the European Central Bank - max 15% of the core capital.
- • The aggregate open position at the end of the day for the currencies of daily exchange rate on the reference list of the European Central Bank - max 20% of the core capital
- • The net open positions at the end of the day for other currencies, may amount to no more than 5% of the core capital on an individual basis (currencies which are not at the reference exchange rate list of the European Central Bank)
- The net open positions at the end of the day for other currencies, may amount to no more than 10% of the core capital on an aggregate basis.

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

V Currency risk (continued)

As at December 31, 2012, foreign currency exposure of the Bank was as follows:

In thousands of EUR

	RSD	USD	GBP	CHF	Other	Total
Assets in foreign currencies	-	6.680	57	135	6	6.878
Liabilities in foreign currencies	-	7.468	49	135	4	7.656
Net foreign exchange exposure:						
- December 31, 2012	-	(788)	8	-	2	
- December 31, 2011.	-	(194)	2	1	16	
% of first-tier capital:						
- December 31, 2012	-	(3,36%)	0,03%	0.00%	0,01%	
- December 31, 2011.	-	(0.83%)	0.01%	0.00%	0.07%	
Aggregate open position:						
- December 31, 2012	(778)					
- December 31, 2011.	(175)					
% of first-tier capital:						
- December 31, 2012	(3,32%)					
- December 31, 2011.	(0.75%)					

VI
Country risk

In accordance with the Decision of the Central Bank of Montenegro on methodology for measuring country risk in the banks ("Official Gazette of Montenegro" no. 60/2008), the Bank has adopted a Policy and Procedures of country risk management. Country risk presents a probability of incurring losses to the Bank, due to the inability to collect receivables from entities outside Montenegro because of political, social and economic reasons of the country where the seat of the debtor is.

Country risk as at December 31, 2012 was calculated using the current methodology Rating of debtor countries. Country risk management policy defines the following percentages of reserves in line with the "rating" of country the Bank has exposure to (Standard & Poors):

Risk categories	Risk weight
Non-risk countries	0%
Low-risk countries	50-100%
Medium-risk countries	150-250%
High-risk countries	minimum 300%

As at December 31, 2012, the Bank has presented expense from additional reserves for the Bank's exposure to country risk in the amount of EUR 3 thousand (December 31, 2011: EUR 14 thousand).

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

VII Operational risk

In accordance with the Decision of the Central Bank of Montenegro on minimum standards for operational risk management in banks ("Official Gazette of Montenegro" no. 24/2009), which was adopted at the Council meeting of the Central Bank of Montenegro, held on February 23 and 24, 2009 the Bank has adopted a Policy for managing operational risk.

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

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

As at December 31, 2012, the provisions for operational risk amount to EUR 300 thousand (December 31, 2011: EUR 300 thousand).

VIII Internal control and intenal audit system

Organizational structure of the Bank establishes levels and lines of authority and responsibility with a clear segregation of function of management and leadership function. The management bodies are: the Assembly of the Bank and the Board of Directors of the Bank.

Bank is managed by the General Executive Director of the Bank.

The Bank, as a separate organizational unit, organized Internal Audit department. Internal audit department performs its activities in accordance with the internal audit procedures and annual plan of activities.

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

- Compliance with relevant rules, guidelines, instructions and standards;
- Evaluation of the reliability of rules and division of duties within the banking operations;
- Review and estimation of effectiveness and benefits of financial and administrative controls;
- Monitoring the adequacy, reliability, safety integrity of accounting and other management information systems;
- Review of effectiveness and efficiency of banking operations;
- Testing the validity of measures used to achieve banking operations;
- Test and evaluation of the adequacy and effectiveness of internal control system;
- Review of application and effectiveness of risk management procedures and assessment of the methodology of risk assessment;
- Assessment of information systems, with special emphasis on electronic information systems and banking application;

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

VIII Internal control and intenal audit system (continued)

- Assessment of the accuracy and reliability of accounting financial statements;
- Assessment of the banking system in the determination of capital in relation to the estimated risk;
- Testing of transactions and functioning of specific internal control procedures;
- Adherence to legal and statutory regulations, code of ethics, implementation of policies and procedures;
- Conducting special investigations.

When reporting to the Bank's management, internal audit operates independently in order to establish and report on the adequacy, reliability and effectiveness of controls used by the Bank's risk management, which has a preventive effect on achievement of the objectives of banking, and reporting whether the banking The Bank performs its activity in central office in Podgorica and branch offices in

C. REVIEW OF BANK'S ORGANIZATIONAL STRUCTURE

Podgorica, Bijelo Polje, Budva, Nikšić, Bar, Herceg Novi, Berane, Kotor, Ulcinj and Danilovgrad, as well as in branches in Podgorica, Tivat, Tuzi and Cetinje.

The Bank carries on business activities through the following bodies and organizational components:

1. Assembly of Shareholders

2. The Board of Directors

2.1 The Audit Committee

2.2 Credit Risk Management Committee

2.3 Asset and Liabilities Committee (ALCO)

2.4 Committee for IT system development and change management

2.5 Internal Audit Department

2.6 Compliance department

2.7 The authorized person for the prevention of money laundering and terrorist financing.

2.8 Head of Information Systems Security

3. Chief Executive Officer

3.1 Administrative and HR Service

3.2 Payments and fund management

3.2.1 Domestic payments

3.2.2 International Payments

3.2.3 Fund management service

3.2.4 Custody and deposits service

3.2.4.1 Custody department

3.2.4.2 Deposits department

3.2.5 Brokerage service sector

4 Executive Director of Commercial Affairs

4.1 Commercial Sector

4.1.1 New products development Service and Marketing

4.1.2 Business Network

5. **Risk Management Executive Director**

5.1 Risk Management Sector

5.1.1 Loan Analysis Sector

C. REVIEW OF BANK'S ORGANIZATIONAL STRUCTURE (continued)

5.1.2 Sector for managing risk assets

5.1.3 Risk monitoring and reporting sector

5.1.4 Loan portfolio control department

6. Executive Director of Finance and Informatics

6.1 Division of Finance and Informatics

6.1.2 Accounting and Reporting

6.1.3 Department of General Affairs

6.1.4 Billing Department

6.1.5 IT Department

As of December 31, 2012, the Bank had 166 employees (December 31, 2011: 163 employees).

Qualification structure of the Bank, as at December 31, 2012 and 2011 were as follows:

	No. of employees	In %	No. of employees	In %
Masters	6	4	6	4
University degree (four years)	77	46	78	48
College degree (two years)	16	10	17	10
Bachelor	17	10	12	7
High school degree	50	30	50	31
Qualified	-	-		
	166	100	163	100

C. REVIEW OF BANK'S ORGANIZATIONAL STRUCTURE

The members of Board of Directors as at December 31, 2012 were:

Name	Function
Sigilfredo Montinari	President
Božana Kovačević	Vice president
Dolly Predović	Member
Miljan Todorović	Member
Snježana Pobi	Member
Renata Vinković	Member
Esad Zaimović	Member

The members of Credit Risk Management Committee, as at December 31, 2012 were:

Name	Function
Renata Vinković	President
Sigilfredo Montinari	Member
Esad Zaimović	Member

The members of the Audit Board, as at December 31, 2012, were:

Name	Function
Marko Žigmund	President
Božana Kovačević	Member
Jovan Papić	Member

As at December 31, 2012 the Chief Executive Officer was Mr. Esad Zaimović.

As at December 31, 2012 Chief Internal Auditor was Mr. Veselin Ivanović.

D. REPORT IN SHORT FORM

In accordance with the Decision on Reports which banks submit to the Central Bank of Montenegro, the report in a short form consists of Auditor's opinion on financial statements of the bank, Income Statement and Balance Sheet, data on the composition of the Board of Directors, the Committee on Credit Risk Management and Supervisory Committee, information about the Chief Executive Officer and the Chief Internal Auditor of the Bank and data on performance indicators.

ERNST & YOUNG

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

Report on Financial Statements

We have audited the accompanying financial statements of Hipotekarna banka A.D., Podgorica (hereinafter: the Bank), which comprise the balance sheet as at December 31, 2012 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing and the regulations of the Central Bank of Montenegro governing financial reporting of banks, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing and the regulations of the Central Bank of Montenegro governing financial reporting of banks.

Podgorica, April 23, 2013
Ernst & Young Montenegro d.o.o.
Podqorica, Crna Gora

DRUŠTVO ZA REVIZIJU ERNST & YOUNG MONTENEGRO DOO PODGORICA

Stephen Fish
Partner

Danijela Dimovski
Ovlašćeni revizor

Statement of income
for the year ended december 31, 2012

In thousands of EUR

	Notes	2012	2011
Interest income	3.1, 4a	11.915	11,405
Interest expenses	3.1, 4b	(4.312)	(3,873)
Net interest income		7.603	7,532
Provisions for losses	3.6, 5	(1.651)	(2,160)
Net income		5.952	5,372
Fee and commission income	3.1, 6a	4.045	3,817
Fee and commission expenses	3.1, 6b	(751)	(645)
Net fee and commission income		3.294	3,172
NET INTEREST, FEE AND COMMISSION INCOME		9.246	8,544
Other income, net	7	684	511
General expenses	8	(8.201)	(7,379)
NET INCOME BEFORE EXTRAORDINARY ITEMS		1.729	1,676
Extraordinary income		81	27
Extraordinary expenses		(17)	(13)
Net extraordinary income		64	14
PROFIT BEFORE TAXATION	9b	1.793	1,690
Income taxes	3.3, 9a	(176)	(168)
NET PROFIT FOR THE YEAR		1.617	1,522

The Financial Statements are approved by the Management of Hipotekarna banka A.D., Podgorica, as of April 19, 2013.

Statement of financial position as of 31 december 2012

In thousands of EUR

	Notes	2012	2011
ASSETS			
Cash and deposit accounts held with depository institutions	3.4, 10	45.516	38,500
Securities available for sale, other than shares		-	26
Loans and leases	11	117.465	109,470
Minus: Loan loss allowances	5	(3.953)	(4.011)
Securities held to maturity	12	6.505	2,569
Factoring and forfeiting		113	9
Receivables in respect of custody operations		36	39
Business premises and other fixed assets	13	1.740	1,950
Acquired assets	14	575	478
Equity investments in other legal entities	15	248	230
Other assets	16	6.040	2,641
Less: Provision for potential losses on other assets	16	(508)	(319)
Total assets		173.777	155,593
LIABILITIES			
Deposits	17	118.200	97,853
Liabilities in respect of custody operations		932	247
Loans and borrowings	18	21.157	26,887
Liabilities to the Government	19	3.062	2,889
Other liabilities	20	4.731	3,952
Provisions for potential losses on off-balance sheet exposures	21	954	675
Total liabilities		149.036	132,503
EQUITY			
Share capital	22	16.006	16,006
Share premium		7.444	7,444
Revaluation reserves		(20)	(54)
Accumulated loss		1.311	(306)
Total equity		24.741	23,090
Total liabilities		173.777	155,593
OFF-BALANCE-SHEET ITEMS	24	489.411	388,819

The Financial Statements are approved by the Management of Hipotekarna banka A.D., Podgorica, as of April 19, 2013.

DATA ON COMPOSITION OF BOARD OF DIRECTORS, CREDIT RISK MANAGEMENT COMMITTEE, SUPERVISORY COMMITTEE, CHIEF EXECUTIVE OFFICER AND CHIEF INTERNAL AUDITOR OF THE BANK

The members of Board of Directors as at December 31, 2012 were:

Name	Function
Sigilfredo Montinari	President
Božana Kovačević	Vice president
Dolly Predović	Member
Miljan Todorović	Member
Snježana Pobi	Member
Renata Vinković	Member
Esad Zaimović	Member

The members of Credit Risk Management Committee, as at December 31, 2012 were:

Name	Function
Renata Vinković	President
Sigilfredo Montinari	Member
Esad Zaimović	Member

The members of the Audit Board, as at December 31, 2012, were:

Name	Function
Marko Žigmund	President
Božana Kovačević	Member
Jovan Papić	Member

As at December 31, 2012 the Chief Executive Officer was Mr. Esad Zaimović.

As at December 31, 2012 Chief Internal Auditor was Mr. Veselin Ivanović.

BANK'S PERFORMANCE INDICATORS AS AT DECEMBER 31. 2012.

Bank's performance indicators as at December 31, 2011 and 2010 were as follows:

Indicators	2011	2010
Core equity	EUR 22.661 thousand	EUR 22,594 thousand
Additional equity	-	(54)
Bank's funds	EUR 22.661 thousand	EUR 22,540 thousand
Weighted balance sheet assets	EUR 121.048 thousand	EUR 106,740 thousand
Solvency ratio	15,05%	16.98%
Return on average assets	0,98%	1.07%
Return on average equity	6,77%	6.81%

4.] About the Bank

Bank’s Management and Organizational Structure

Board of directors
Sigilfredo Montinari, Chairman
Božana Kovačević, Deputy Chairman
Dolly Predović, Member
Miljan Todorović, Member
Snježana Pobi, Member
Renata Vinković, Member
Esad Zaimović, Member

Audit Board
Marko Žigmund, Chairman
Božana Kovačević, Member
Jovan Papić, Member

Credit Risk Board
Renata Vinković, Chairman
Sigilfredo Montinari, Member
Esad Zaimović, Member

Bank’s Executives
Esad Zaimović, CEO
Jelena Vuletić,
Ana Golubović,
Aleksandar Mitrović,

Chief Internal Auditor
Veselin Ivanović

AML officer
Mirjana Jovanović

Administrative service and Human Resources
Boban Ličina

Compliance
Slavko Rakočević

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