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INTRODUCTION

The Deposit Protection Fund, in line with the European directives, was working on the preparation of the new deposit protection law in 2009, according to which valid regulations will be compliant with the European directives.

The trend of withdrawal of deposits, despite the adoption of the Law on Measures for the Protection of the banking system continued in 2009. However, total deposits declined by 9% in the first quarter of 2009. In the coming months there has been a calm state, and even in one period (third quarter 2009) and an increase in deposits in the banking system.

Although protected deposits have been following movement of total deposits and showed equal trend (decreased by 11%) in 2009, it has been a characteristic that protected deposits of natural entities increased by 1%, while at the same time protected deposits of legal entities decreased by 25%.

Also in 2009, the number of depositors of protected deposits significantly increased, both natural as well as legal entities. The number of depositors of protected deposits increased by 5% (legal entities increased by 5%, personal entities increased 9%).

Guaranteed deposits have reversed trend of movement compared to movement of total and protected deposits. At end-2009 guaranteed deposits increased by 11% compared to end-2008. Guaranteed deposits same as protected deposits have similar characteristics of movement. Guaranteed deposits of natural entities increased by 17%, while guaranteed deposits of legal entities decreased by 13%. At end-2009 guaranteed deposits of natural entities participate with 85% of the total guaranteed deposits at the banking system (at end-2008 participated with 81%).

In addition to that, due to sudden deposit withdrawal, banks had certain problems in their liquidity maintenance, at end-2008 the banking sector in Montenegro was maintained, showing high level of security.

1. MAIN INFORMATION ABOUT THE DEPOSIT PROTECTION FUND

1.1 The Deposit Protection Fund

The Fund is the legal person established by the Deposit Protection Law („Official Gazette of RM”, no 40/03 and 65/05). In performing its main activity, the Fund is exempt from paying taxes and fees.

The main activity of the Fund is:

- Collection of premiums that member banks shall pay for deposit protection;
- Payment of guaranteed deposits in case of opening the bankruptcy in the bank.

The Fund is managed by the Managing Board which consists of five members. The term of office of the member of the Managing Board lasts 4 years.

The members of the Managing Board are:

Predrag Markovic, president
Ljiljana Sekulic, member
Idriz Cetkovic, member
Marko Backovic, member
Predrag Stanojevic, member

The President of the Managing Board, is employed in the Fund, represents and acts for the Fund, manages its operations and is responsible for the legality of the operations of the Fund.

The head-office of the Fund is in Podgorica, Miljana Vukova Street.

1.1. Members of the Deposit Protection Fund

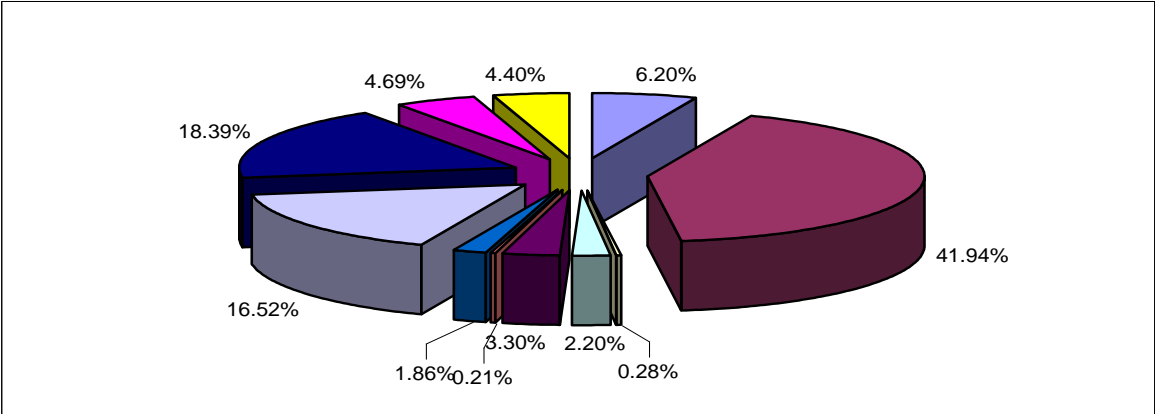
In 2009, 11 banks operated in the banking sector of Montenegro and all of them are members of the Deposit Protection Fund (the list of banks is annexed).

At the whole banking system, the total deposit portfolio amounted to EUR 2,099,372 as at 31 December 2007, it was reduced by 7% and amounted to EUR 1,951,883,000 as at 31 December 2008, while deposit portfolio of all banks in system amounted to EUR 1,830,361,0000 as at 31 December 2009, which is for 6.3% less than at the end- 2008.

Of 11 banks, at the end of 2008 the two banks for more than half (58%) deposit portfolio of the banking sector, while five banks have only around 8% of the deposit portfolio of the banking sector.

The participation of individual banks in the total deposit portfolio at end-2008 is shown in Graph 1st.

Graph 1-Share of banks in total deposits (EUR 1.951.823.000) as at 31 December 2008

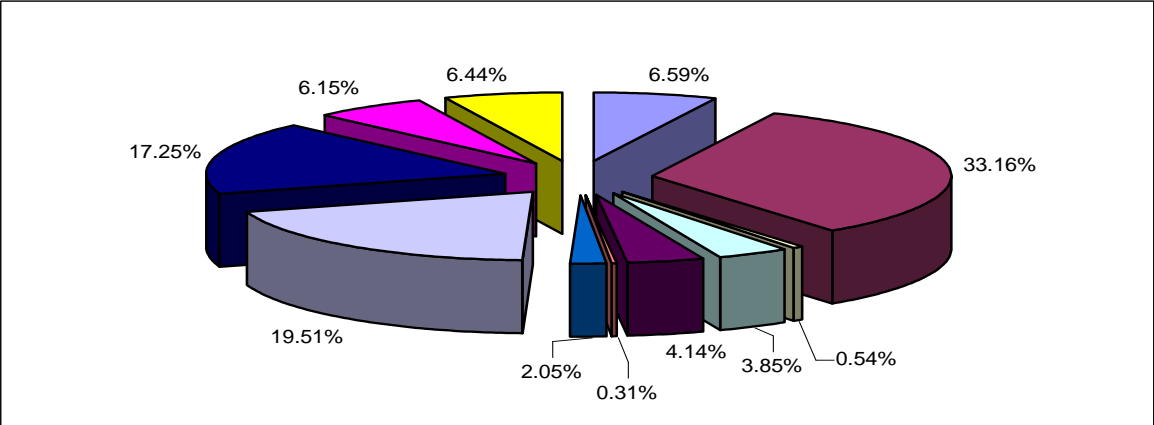


**Source: data from monthly reports submitted to the Fund by the banks

In addition to that, the amount of total deposits was reduced on the level of the banking sector; during the reporting period there was a mild change in percentages of participation of banks in total deposits: at end-2009 three largest banks reduced their total shares in total deposits from 78% to 70%. The largest bank reduced its share from 43% to 33%, and the difference in percentages of share between the second and the third bank was also changed: at the beginning of the reporting period the second bank had 18.39% of total deposits and the third one 16.52, so that at the year-end the second bank had 17.25% and the third 19.51% of share in total deposits.

The participation of individual banks in the total deposit portfolio at end-2009 is shown in Graph 2.

Graph 2 share of banks in total deposits (EUR 1.830.361000) as at 31 December 2009



***Source: data from monthly reports submitted to the Fund by the banks

2. MOVEMENT AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES

2.1. Movement of total deposits

During 2009, total deposits oscillated. At the first quarter-end they were 9.7% lower compared to end- 2008, at the second quarter-end they were not changed compared to the first quarter-end. At the third quarter-end total deposits increased by 8.2% in relation to the end of the second quarter, so that in the fourth quarter they declined 3.9% compared to the third quarter-end.

At the beginning of 2009 total deposits in the banking sector amounted about EUR 1,952 million, so at the year-end total deposits were EUR 1,830 million.

Table 1 (000 EUR)

MOVEMENT OF TOTAL DEPOSITS IN 2008 (EUR 000)					
	31.12.08	31.03.2009	30.06.2009	30.09.2009	31.12.2009
TOTAL	1,951,823	1,762,311	1,759,607	1,903,780	1,830,361

*Source: data from monthly reports submitted to the Fund by the banks

By comparing the data on the amount of total deposits as at 31 December 2008 with data as at 31 December 2009, total deposits at end- 2009 were 6.3% less.

2.2 Movement of excluded deposits

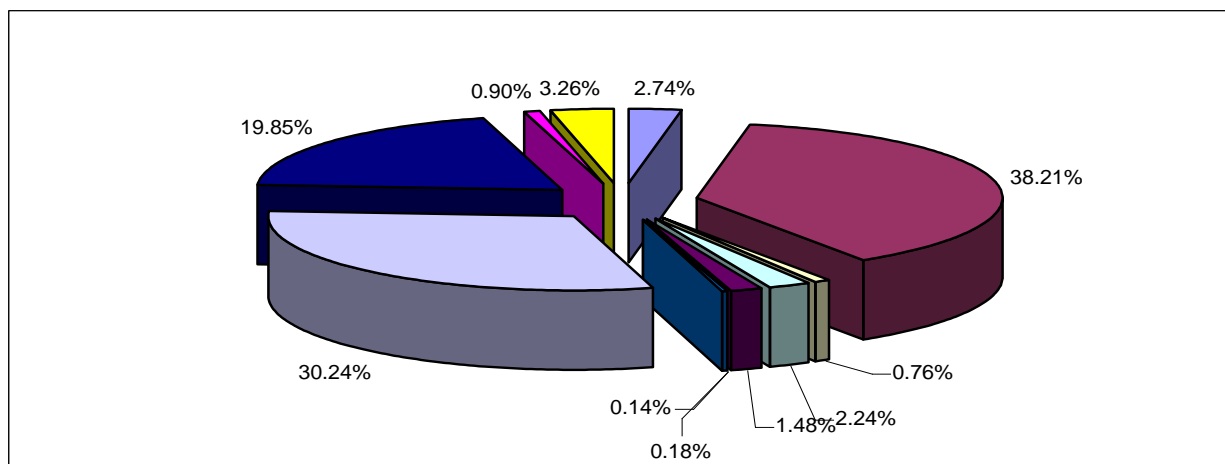
Table 2 (000 EUR)

MOVEMENT OF EXCLUDED DEPOSITS IN 2009 (in EUR 000)					
	31.12.08	31.03.2009	30.06.2009	30.09.2009	31.12.2009
TOTAL	379,476	400,822	413,013	481,111	435,642

* Source: data from monthly reports submitted to the Fund by the banks

Data on excluded deposits on the last day of each quarter in 2009 are given in Table 2. It is interesting that excluded deposits grew constantly and at-end 2009 they were 14.8% higher compared to 31 December 2008.

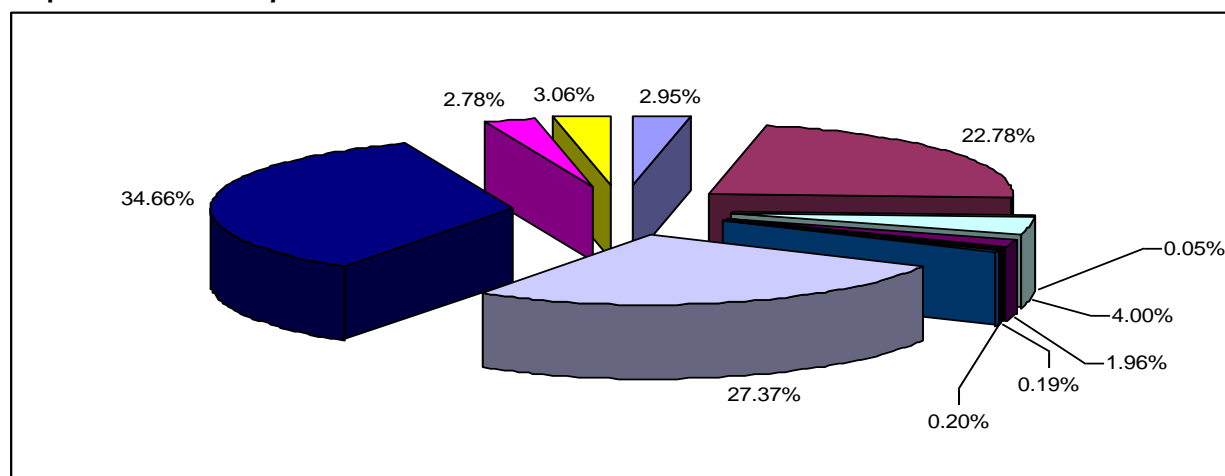
Graph 3. excluded deposits as at 31 December 2009



*Source: data from monthly reports submitted to the Fund by the banks

The three banks have 82% of share in excluded deposits at the beginning of the period, while their share at the end of the period was 89%.

Graph 4. excluded deposits as at 31 December 2009



* Source: data from monthly reports submitted to the Fund by the banks

The participation of excluded deposits in total deposits increased from 19.44 % at end-2008, to 23.80 % at-end 2009. On one side, there was the increase in the share of excluded deposits due to their absolute growth, and, on the other hand, the decline of total deposits by 6.3% conditioned that excluded deposits had higher share in total deposits.

2.3. Movement of protected deposits

Table 4 (000 EUR)

	PROTECTED DEPOSITS IN 2009				
	31.12.08	31.03.2009	30.06.2009	30.09.2009	31.12.2009
TOTAL	1,572,347	1,361,489	1,346,593	1,422,669	1,394,719

** Source: data from monthly reports submitted to the Fund by the banks

Protected deposits mainly followed movements in total deposits and showed almost the same trend. They fell in the first (13%) and second (1%) quarter compared to the previous quarters-end, while they grew in the third quarter (6%) compared to the second quarter-end, but also in the fourth quarter there was the decline of 2% compared to the third quarter-end. At end- 2009, protected deposits were 11% less than their condition at the end of the 2008 year.

Table 4.1. Protected deposits of natural and legal entities

	TOTAL	Natural entities	Legal entities	2 / 1	3 / 1
	1	2	3		
31.12.2008	1.572.346	821.907	750.439	0,52	0,48
31.03.2009	1.361.489	767.621	593.868	0,56	0,44
30.06.2009	1.346.593	739.041	607.552	0,55	0,45
30.09.2009	1.422.669	760.168	662.501	0,53	0,47
31.12.2009	1.394.718	833.551	561.167	0,60	0,40
31.12.08 / 31.12.09	0,89	1,01	0,75		
31.12.09 - 31.12.08	-177.628	11.644	-189.272		

*Source: data from monthly reports submitted to the Fund by the banks

In addition to the protected deposits as at 31 December 2009 was reduced for 11% compared to 31 December 2008 it was changed the ownership structure of protected deposits. The participation of protected deposits of natural entities was 52% at end-2008, while it was 60 at end-2009. In addition, protected deposits of natural persons grew 1% in the mentioned period, while protected deposits of leagal entities reduced by 25%. This shows that flux of deposits was mainly in legal entities.

Table 4.2. Number of depositors of the protected deposits of natural and legal entities

	Nb.DEPOSITORS OF PROTECTED DEPOSITS				
	TOTAL	Natural entities	Legal entities		
	1	2	3	2 / 1	3 / 1
31.12.2008	768.132	716.242	51.890	0,93	0,07
31.03.2009	745.146	692.394	52.752	0,93	0,07
30.06.2009	759.421	703.090	56.331	0,93	0,07
30.09.2009	760.271	704.121	56.150	0,93	0,07
31.12.2009	808.702	752.061	56.641	0,93	0,07
31.12.08 / 31.12.09	1,05282	1,05001	1,0916		
31.12.09 - 31.12.08	40.570	35.819	4.751		

* Source: data from monthly reports submitted to the Fund by the banks

The total number of depositors protected deposits increased by 5.28%, while the number of depositors of natural entities increased by 5% and the number of depositors of legal entities for 9.16%. This indicates, that despite the financial crisis, there is a great depositor's confidence into banking system, although depositors open accounts with more banks with purpose to reduce risk. That is the reason for higher number depositors and therefore the greater the amount of liabilities under the guaranteed deposits at the banking system.

2.4. Movement of guaranteed deposits

At the third quarter-end guaranteed deposits reached the highest level up to this time (EUR 225.9 million) since the Fund overlook movement of deposits (2004). Under the influence of the Global financial crisis and the withdrawal of deposits from banks in the system, there was the significant decline of guaranteed deposits in the last quarter 2008 (21.7%).

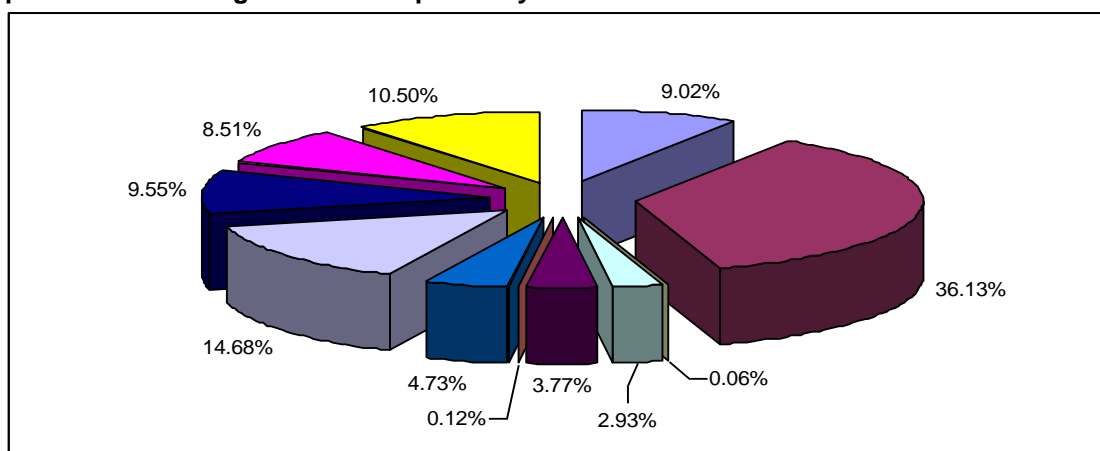
Table 5. (u 000 EUR)

	31.12.2008	31.03.2009	30.06.2009	30.09.2009	30.12.2009
GUARANTEED DEPOSITS	176,890	166,274	165,388	177,546	196,232
TOTAL DEPOSITS	1,951,823	1,762,311	1,759,607	1,903,780	1,830,361
SHARE OF GD/TD	9.06%	9.43%	9.40%	9.33%	10.72%

* Source: data from reports submitted to the Fund by the banks

At end- 2009 guaranteed deposits were by EUR 20 million or 10.93% higher than their amount at end-2008. Beside the significant decline of total and protected deposits, in the observe period guaranteed deposits did not have such falling movement. The share of guaranteed in total deposits at end-2009 was insignificantly higher than their share at the end-2008. (9.06% at end-2008 and 10.72% at end-2009).

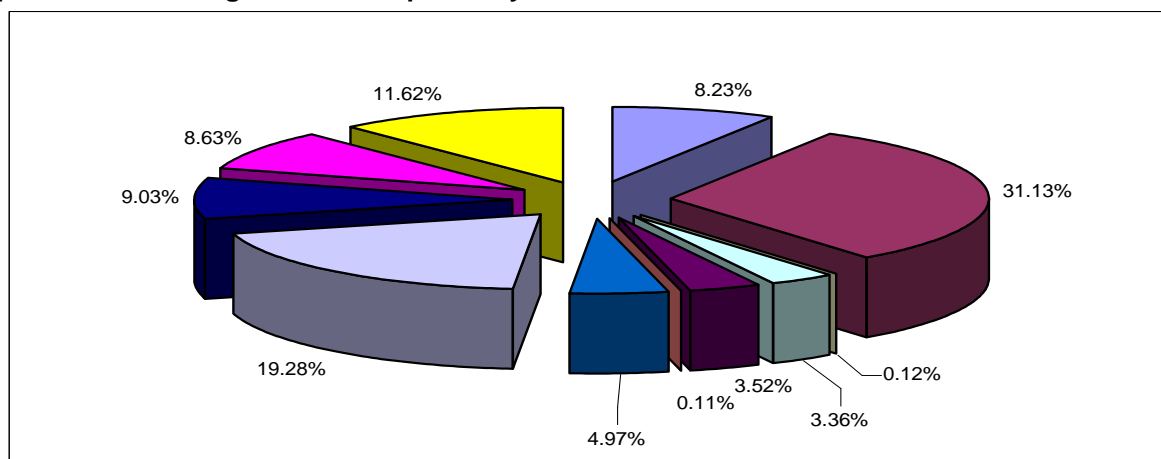
Graph 3. Structure of guaranteed deposits by banks as at 31 December 2008



* Source: data from reports submitted to the Fund by the banks

At the beginning of the reporting period guaranteed deposits with three banks in the system make 60.36%, and, at the end of the period 59.64% of all guaranteed deposits, it shows that the structure of guaranteed deposits by banks is insignificantly changed in the observe period.

Graph 4. Structure of guaranteed deposits by banks as at 31 December 2009



- Source: data from reports submitted to the Fund by the banks

Comparing the data from Figure 4 with data from Figure 3 shows that the two larger banks in the system has been a change in the percentage share of total guaranteed deposits, such as at a reduced percentage from 36% to 31%, and at other banks is that percentage increased from 14% to 19% of the total guaranteed deposits, but collectively the three major banks in the system's percentage remained the same.

The ratio of total and guaranteed by the deposit is significantly different from bank to bank (for the three banks that have 70% of total deposits is 59% of guaranteed deposits). This is primarily because the major banks at present a number of depositors with deposits above the guaranteed amount and the percentage of deposits larger amount excluded

Table 5.1. structure of guaranteed deposits (natural entities, legal entities)

	GUARANTEED DEPOSITS				
	TOTAL	Natural entities	Legal entities		
	1	2	3	2 / 1	3 / 1
31.12.2008	176.890	143.503	33.387	0,81	0,19
31.03.2009	166.274	137.475	28.799	0,83	0,17
30.06.2009	165.388	137.716	27.672	0,83	0,17
30.09.2009	177.546	147.072	30.474	0,83	0,17
31.12.2009	196.232	167.257	28.975	0,85	0,15
31.12.08 / 31.12.09	1,11	1,17	0,87		
31.12.09 - 31.12.08	19.342	23.754	-4.412		

Source: data from reports submitted to the Fund by the banks

Total amount of guaranteed deposits at end-2009 is higher for 10.93% than guaranteed deposits at end-2008. While guaranteed deposits of natural entities grew 16.55%, at same time guaranteed deposits of legal entities reduced 3.21%.

Table 5.2 Number of depositors of guaranteed deposits (natural and legal entities)

	Number of DEPOSITORS OF GUARANTEED DEPOSITS			2 / 1	3 / 1
	TOTAL	Natural entities	Legal entities		
	1	2	3		
31.12.2008	488.870	450.306	38.564	0,92	0,08
31.03.2009	440.451	401.521	38.930	0,91	0,09
30.06.2009	460.321	420.362	39.959	0,91	0,09
30.09.2009	464.250	423.459	40.791	0,91	0,09
31.12.2009	544.366	500.096	44.270	0,92	0,08
31.12.09 / 31.12.08	1,1135	1,1106	1,1480		
31.12.09 - 31.12.08	55.496	49.790	5.706		*

Source: data from reports submitted to the Fund by the banks

Total number of depositors of guaranteed deposits increased by 11.35%. At the mentioned period number of depositors of guaranteed deposits of natural persons grew 11.06%, while the number of depositors of legal entities grew 14.80%.

At the whole banking system, number of depositors as owner of deposit lower or equal to EUR 5,000 amounted 522,522 at end-2009, present 95.99% of total number depositors of guaranteed deposits (natural entities 96.32% and legal entities 92.28%).

Table 5.3 Number of depositors of guaranteed deposits up to 5.000€ (natural and legal entities)

Total number of depositors of guaranteed deposits			Number of depositors of guaranteed deposits up to 5000 €					
TOTAL	Natural entities	Legal entities	TOTAL	Natural entities	Legal entities	% u bgd		
1	2	3	4	5	6	7	8	9
						=4 / 1	=5 / 2	=6 / 3
488.870	450.306	38.564	467.356	432.950	34.406	95,60%	96,15%	89,22%
440.451	401.521	38.930	420.987	385.484	35.503	95,58%	96,01%	91,20%
460.321	420.362	39.959	441.101	404.449	36.652	95,82%	96,21%	91,72%
464.250	423.459	40.791	443.673	406.594	37.079	95,57%	96,02%	90,90%
544.366	500.096	44.270	522.522	481.668	40.854	95,99%	96,32%	92,28%

* Source: data from reports submitted to the Fund by the banks

3. ACTIVITIES OF THE FUND IN 2009

3.1. Work tasks implemented in 2009

The main goals in 2009 are determined in by the Working plan for 2009. In order to meet some of determined goals, the Fund has the assistance from the consultancy firm – assigned GBDS Global Banking Development Solutions GbR (hereinafter: GBDS) in September 2007 with Accompanying Measures inconsulting services for the DPF.

Analising all the completed activities, on a workshop, organized by GBDS in Berlin in May, 2009, it was decided to prepare a new DPL in order to harmonize it with the newly adopted amendments of the European Directive and other relevant international standards. The DPF, together with the Central bank, was working on a drafting of new DPL. This work was assisted by GBDS and other experts from WB, IMF, EBRD who contributed significantly to the final content of the DPL draft.

The work with the international experts lasted until the end of 2009, when DPF, together with the MoF and the Secretary of Legislation, started the process of the draft's harmonization with whol Montenegrin lagal system.

During 2009, the DPF was working on a drafting of missing internal regulation, with the significant assistance of the GBDS.

The DPF's resources have been invested in accordance with the Investment policy and Asset management contract. (attachment: Asser manager report for 2009).

The analysing of the deposits development is a permanent task of the DPF. The collected data from the banks were being exchanged between Central bank, MoF and WB, in order to set the most important goals that will be met by the provisions of new DPL. The DPL, Central bank and Association of the banks of Montenegro (hereinafter: ABM) organized the panel discussion with the topic: „ The deposit protection – current status and challenges“. Beside representatives of these three institutions, Minister of Finance, Governor of the Central bank, CEO's of the banks and GBDS consultants participated at the panel discussion. The current status in a banking sector was discussed between the participants and the EU Directive draft amendments were presented by GBDS. As a result of this panel discussions, three parties (MoF, Central bank and DPF) signed the **Agreement of cooperation for maintenance of the Financial Stability**. The signing of the Agreement was recorded by all media and the press conference was performed.

The Coordination body, formed by this document, during 2009, permanently followed the status in a banking sector in accordance with the Agreement.

3.2. Accounting operations and investment activities in 2009

Performing of the part of accounting operations was prepared by Fund instead of the specialized agency that was employed in previous years.

On the basis of the accounting data information and overviews with a view to following-up the implementation of the Financial Plan of the Fund were prepared, about which the Managing Board was regularly informed.

The Fund invested the part of free assets in time and overnight deposits, and the part of them, in accordance with the investment policy, was invested in government securities.

In accordance with the Deposit Protection Law the audit house „Deloitte“ performed the audit of the annual account and financial statements of the Fund for 2009.

3.3 Normative and legal affairs

In 2009, the DPL continued the activities on drafting and adopting the missing internal regulation. In order to complete the package of regulation that regulates the payout procedure, during 2009, the Managing Board adopted the following acts:

- **The Guidelines for the selection of the payout bank**
- **Technical instructions for payout bank**
- **the draft of Memorandum of cooperation with the Bankruptcy Administrator.**

In addition, the Managing Board adopted the **Decision on Monthly Reports that Banks Submit to the Fund**. This new decision prescribes a new form of banks' reports, which is more detailed and to be submitted on a monthly basis, in a purpose of better monitoring of deposits by the DPF.

The Managing Board of the Fund determined the rate of the annual premium to the amount of 0.25% by the **Decision on the Amount of the Annual Premium for 2009**. Prior to passing of this decision, the Managing Board considered analysis of deposit movements and the condition in the banking system and assessed the rate; the calculation of the annual premium should be maintained at the same level as in the previous year.

In addition, the DPF prepared the following draft regulation:

- the Ethical Code of Conduct for the MB and the employees of the DPF
- the Rules of the Informing of banks' clients regarding the deposit protection
- the Payout Technical Instructions for employees of the DPF

3.4. Reports for 2008

In accordance with the Article 19 of the Deposit Protection Law, the MB President proposed and the Managing Board of the Fund considered and adopted three reports:

- **Operational Report for 2008** was prepared with the active participation of all members of the Managing Board of the Fund and suggestions of the GBDS consultants.
- **Financial reports of the Fund for 2008** were prepared in accordance with the IAS, adopted by the Managing Board and submitted to the Central Bank and the Government of Montenegro.
- **Report of an Independent External Auditor for 2008** was considered and adopted by the Managing Board of the Fund. The report was prepared by the audit house „Deloitte“. The opinion of an independent internationally recognized external auditor is that : «financial reports reflect real condition of the operations of the Fund and they are prepared according to the laws of RM and IAS».

3.5. Marketing activities

In a purpose of better understanding and promotion of the deposit protection in Montenegro, the DPF and GBDS organized a workshop with PR managers of the member banks in February, 2009. PR managers of the CBM and MoF participated at the workshop, too.

There were exchanged important information and experiences between participants about the relations with clients of the banks and their informing about the deposit protection in Montenegro.

As a result of the workshop, the joint PR campaign was agreed. The banks received from the DPF and MoF the promotional material that provides the information regarding the protection of deposits during the duration of the Law on Measures for the Protection of the Banking System. The DPF collected the information and experiences from the banks, that will be taken into account during the drafting of the Rules of the Informing of banks' clients regarding the deposit protection.

In December 2009, the DPF organized the printing and distribution of the promotional material with the logo of DPF (pens, calendars, files, notebooks...).

In addition, the new info-flyer is prepared and it will be printed and distributed after the enacting of the new DPL.

3.6. Operational report of the Managing Board

To performing affairs related to the managing of the Fund and participation in its sessions, the members of the Managing Board actively assisted employees in performing the most complex tasks, including work with consultants when needed.

Individual reports of the members of the Managing Board are attached to this Report.

3.7. International cooperation

From October 2004 the DPF is a member of the European Forum of Deposit Insurers – EFDI, which represents the association of the European funds on a voluntary basis, and enables the exchange of ideas and experiences about the deposit insurance in Europe.

The DPF participated in the regular annual assembly of the EFDI which was organized in June in Paris, France. At the same time, there was organized the second joint conference of the IADI (International Association of Deposit Insurers) and the deposit insurance scheme of the United States (FDIC) with the topic: „Deposit Insurance During and After a Systemic Crisis.” Beside the participants from various deposit insurance institutions, there were presented different opinions by experts from important international financial institutions (WB,IMF,OECD).

The president of the Managing board of the DPF and one member of the board attended the conference of the IADI, Financial Stability Institute and Basel Committee on Banking Supervision, organized in September in Basel, Switzerland. There were presented the core principles for effective deposit insurance systems.

In addition, the DPF attended an EU Committee Meeting and a Conference on “Financing Deposit Insurance” in October in Athens, Greece. There were presented different models of the financing of the deposit insurance and particular experiences of Italian ex-post system and ex-ante system of Luxemburg. A “risk basis” premium model was explained in details, from the participant who had a long experience in applying of this premium model. It was mentioned first time, an idea of establishment of the European deposit insurance institution.

In addition, the DPF was permanently following the EFDI and IADI activities and contributed in public opinion surveys.

In accordance with the Project plan, from the Agreement with the KfW, there was organized a workshop in May in Berlin. The GBDS invited representatives of the DPF, CBM and MoF in order to prepare the plan how the meet the goals from Amendments of the European directive on deposit insurance. There were set a list of topics (in a „transposition table“ form) to be harmonized in Montenegrin DPL and it was decided to prepare the new draft law, that should have come into force after the expiry of the Law on Measures for the Protection of the Banking System – 1st of January, 2009.

4. MAIN GOALS AND TASKS OF THE FUND IN 2010

The permanent goal of the Fund is the provision of banks, collection of premiums and investing of collected funds.

The adopting of the new DPL is expected in a first half of 2010. That means the harmonization of all internal regulation of the DPF with the new DPL. All the revised documents will be amended or replaced by new, and proposed to the Managing board for the adoption within six months after the coming into force of new DPL.

In addition, the new DPL requires a strong PR campaign organized by the DPF. After the finalizing of the campaign, the second public opinion survey will be done together with the GBDS, as prescribed by the Project plan.

The improvement of institutional capacities of the Fund with a view to timely intervening at the moment of arising the „protected event“ is permanent task of the Fund. In the communication with the banks, the Fund shall teste the softwer and continue to improve the employment for eventually using.

The DPL will continue to negotiate with the EBRD about the prospect stand-by loan in order to secure full coverage of the guaranteed deposits if some of member banks fai