Financial Statements as of and for the Year Ended 31 December 2021 and

Independent Auditor's Report



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Tel: +382 20 228 449 Fax: +382 20 228 449 www.bdo.co.me

This is an English translation of Independent Auditor's Report originally issued in the Montenegrin language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zapad banka AD, Podgorica

Opinion

We have audited the financial statements of "Zapad banka" a.d., Podgorica (hereinafter: the "Bank"), which comprise the balance sheet as of 31 December 2021 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in Montenegro and the regulations of the Central Bank of Montenegro governing the financial reporting of banks.

Basis for Opinion

We conducted our audit in accordance with the Law on Audit ("Official Gazette of Montenegro", no. 001/17) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Montenegro, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



To the Shareholders of Zapad banka AD, Podgorica (Continued)

Key Audit Matters (Continued)

Key audit matter

Audit procedures applied

1. Adequacy of the impairment of loans and off-balance sheet items Notes 3.7.9, 7, 15.2, 26 to the financial statements

The measurement of costs of the impairment of loans and provisions for off-balance sheet items is deemed to be a key audit matter since the determination of assumptions for expected credit losses requires a significant level of professional judgement by the Bank's management.

Receivables for loans and placements to debtors as of 31 December 2021 amounted to EUR 53,684 thousand (EUR 49,549 thousand as of 31 December 2020), while the total amount of the allowance for impairment of these receivables amounted to EUR 1,103 thousand as of 31 December 2021 (EUR 727 thousand as of 31 December 2020). These provisions for losses constitute the best management's estimate of expected credit losses for the credit portfolio as of the balance sheet date.

judgement include areas of interpretation of impairment requirements in accordance with International Financial Reporting Standard 9: Financial Instruments, which is reflected in the Bank's expected credit loss model, the identification of exposures where there has been a significant increase in credit risk (for which the expected credit loss is calculated over the life of the financial instrument), the parameters and assumptions used in the expected credit loss model, such as the counterparty's financial position and expected future cash flows, as disclosed in Notes 3.7.9, 7, 15.2, 26, as well as estimates and assumptions of expected outcomes in impairment scenarios for individually assessed placements.

Possible outcomes are based on cash flows discounted by the effective interest rate for individually assessed placements. The assessment includes relevant data, such as impairment indicators, probabilities of relevant scenarios for expected future cash flows and cash flow forecasts, including the foreclosure of collateral.

The Bank's management disclosed additional information in Notes 3.7.9, 7, 15.2, 26 to the financial statements.

Based on our risk assessment and knowledge of the banking sector operations, we examined the costs of impairment of loans and provisions for off-balance sheet items and we estimated the applied methodology, as well as the assumptions used, in accordance with the description of the key audit matter.

Our audit procedures included the following:

- An estimate of key controls related to the assumptions used in expected credit loss (ECL) models to assess credit risk associated with the exposure and expected future cash flows of the customer;
- Collection and detailed testing of evidence corroborating the assumptions used in ECL models applied in the allocation of credit quality levels. Testing assumptions applied to obtain twelve-month and multi-annual probability of default (PD and mPD) and determination of these probabilities, including a review of the application of the forward-looking component. A review of the method used to obtain the probability of loss given default (LGD);
- Collection and detailed testing of evidence corroborating the applied assumptions related to impairment costs of loans and provisions for offbalance sheet exposures, including a review of the applied CCF, the measurement of collaterals, used haircuts and expected collection periods and assumptions of future cash flows for individually assessed exposures on loan impairment;
- An estimate of key movements in a high-risk portfolio from the prior period in relation to industry standards and historical data;
- An estimate of adequacy of certain management's decisions in comparison to certain macro projections applied in ECL models:
- An evaluation of applied methodologies using our knowledge and experience of the industry;
- An assessment of accuracy and completeness of disclosure in the financial statements.

Based on the audit procedures applied, we did not identify any significant findings in terms of the adequacy of the impairment of loan placements and provisions for off-balance sheet exposures as of 31 December 2021.



To the Shareholders of Zapad banka AD, Podgorica (Continued)

Other Matters

The financial statements of the Bank as of and for the year ended 31 December 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements on 28 April 2021.

Other Information Contained in the Bank's Annual Management Report

Management is responsible for the other information. The other information comprises the Annual Management Report for the year ended 31 December 2021, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

In respect of the Annual Management Report, we conducted procedures in accordance with the Law on Accounting. These procedures include verification whether the Bank's Annual Management Report has been prepared in accordance with the applicable provisions of the Law on Accounting.

Solely based on the work we have performed during the audit of the financial statements, in our opinion:

- The information provided in the Annual Management Report for the year ended 31 December 2021, is consistent, in all material respects, with the financial statements of the Bank as of and for the year ended 31 December 2021;
- The Annual Management Report for the year ended 31 December 2021 has been prepared in accordance with the provisions of the Law on Accounting.

In addition, if based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting regulations prevailing in Montenegro, which are based on the Law on Accounting ("Official Gazette of Montenegro", no. 52/2016), and the regulations of the Central Bank of Montenegro governing the financial reporting of banks, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.



To the Shareholders of Zapad banka AD, Podgorica (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Audit and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law on Audit and ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



To the Shareholders of Zapad banka AD, Podgorica (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Milovan Popovic.

Podgorica, 15 April 2022

Certified Auditor

MANAGEMENT'S REPRESENTATION

The Bank's management confirms its responsibility for the preparation of the financial statements of Zapad banka AD Podgorica as of and for the year ended 31 December 2021, as well as the accompanying accounting policies and notes to the financial statements.

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Law of Montenegro and the regulations of the Central Bank of Montenegro governing financial reporting of banks, in order to give a true and fair view of Zapad banka AD Podgorica's assets and liabilities as at 31 December 2021, as well as the financial result for the year then ended.

Management confirms the consistent application of appropriate accounting policies and that the accounting estimates have been made in accordance with the principles of prudence and sound financial management. It also confirms that the financial statements have been prepared in accordance with the going concern principle.

Management of the Bank

Mladen Rabrenović

President of the Management Board

Dmytro Likhota

Member of the Management board

INCOME STATEMENT

72	Note	2021	2020
Interest income and similar income Interest income on impaired placements Interest expenses and similar expenses NET INTEREST INCOME	3.1. 6. 3.1. 6. 3.1. 6.	4,240 399 (873) 3,766	3,490 333 (873) 2,950
Fee and commission income Fee and commission expenses NET FEE AND COMMISSION INCOME	3.2. 8. 3.2. 8.	2,359 (854) 1,505	1,902 (1,297) 605
Net gains / losses from the derecognition of financial instruments not measured at fair value through profit or loss Net gains / losses from financial		219	932
instruments through profit or loss, not held for trading Net foreign exchange gains Net gains / (losses) from the derecognition	3.3.	774	24 821
of other assets Other income Employee costs Depreciation and amortisation charges General and administrative expenses	3.15. 9 10 11	(1) 73 (2,666) (670) (1,390)	73 (2,440) (692) (1,308)
Net gains / (losses) from impairment of financial instruments not measured at fair value through profit or loss Other expenses	3.7.9. 7	(861) (6)	(269) (10)
PROFIT BEFORE TAX		743_	686_
Income taxes	3.4. 12.	(13)	(123)
NET PROFIT		730	563

Notes on the following pages are an integral part of these financial statements.

Podgorica, 30 March 2022

Finance Director

Mladen Rabrenović President of the Management Board

Dmytte Likhota Member of the Management Board

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2021

, <u>-</u>	Note	2021	2020
Net profit		730	563
Positive effects of changes in the value of debt securities at fair value through other comprehensive income Negative effects of changes in the value of		-,	346
debt securities at fair value through other comprehensive income		(1,477)	<u></u>
Gain arising from taxes relating to other comprehensive income		133	
Loss arising from taxes relating to other comprehensive income			(31)
Total other comprehensive income for the year		(1,344)	315
TOTAL OTHER COMPREHENSIVE INCOME		(614)	878

Notes on the following pages are an integral part of these financial statements

Podgorica, 30 March 2022

Vesna Kovačević Finance Director Mladen Rabrenović

President of the Management Board

Drnytro Likhota

Member of the Management Board

Financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

BALANCE SHEET

DALARGE GILL!	Note	31 December 2021	31 December 2020
ASSETS	Note		2020
Cash and cash balances and deposit			
accounts with central banks	3.7 14	35,433	19,068
Financial assets at amortized cost		84,574	68,921
Loans and placements to banks	3.7 15.1	31,952	20,062
Loans and placements to customers	3.7. 15.2	52,581	48,822
Other financial assets		41	37
Financial assets at fair value through		ş 5 y	
other comprehensive income		98,508	46,322
Securities	3.7 16	98,508	46,322
Derivatives held for risk hedging	22	1	30
Investment property	3.10. 17	730	808
Property, plant and equipment	3.8,3.11 18	3,834	3,853
Intangible assets	3.9. 19	279	307
Current tax assets		7	69
Deferred tax assets	12	72	5 9
Other assets	20	85_	624
TOTAL ASSETS		223,523	140,002
LIABLITIES			
Financial liabilities at amortized cost		202,446	119,948
Deposits due to banks	21.1	4	9
Deposits due to customers	21.1	199,914	118,383
Borrowings from clients, other than banks	3.12. 21.2	2,528	1,556
Derivative financial liabilities as a hedging			
instrument	22	13	
Reserves	3.14.	316	171
Current tax liabilities	12	67	84
Deferred tax liabilities	12	9	119
Other liabilities	23	4,917	4,310
Subordinated debt	24	3,000	3,000
TOTAL LIABLITIES		210,767	127,632
EQUITY		24.424	
Share capital	3.13. 25	12,500	10,500
Retained earnings		252	689
Profit for the year		730	563
Other reserves		(726)	618
TOTAL EQUITY		12,756	12,370
TOTAL EQUITY AND LIABILITIES		223,523	140,002
OFF-BALANCE SHEET ITEMS	3.16. 26	181,984	153,567

Notes on the following pages are an integral part of these financial statements.

Podgorica, 30 March 2022

Finance Director

Mladen Rabrenović

President of the Management Board

Dmytro Likhota Member of the Management Board

Financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

STATEMENT OF CASH FLOWS

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES Interest and similar receipts Interest and similar outflows Fee and commission receipts Fees and commissions paid Payments to employees and suppliers Increase in borrowings and other assets Inflows/(outflows) from deposits and other liabilities Taxes paid Other inflows	5,444 (696) 2,539 (855) (4,470) (2,562) 82,127 (15) 73	4,347 (767) 2,024 (1,297) (4,126) (5,128) (26,358)
Net cash from/(used in) operating activities	81,585	(31,232)
CASH FLOWS FROM INVESTING ACTIVITIES Purchase of property and equipment Purchase of intangible assets Treasury bills and bonds	(190) (79) (54,555)	(4) (23) (99)
Net cash used in investing activities	(54,824)	(126)
CASH FLOWS FROM FINANCIAL ACTIVITIES Increase/(decrease) in borrowings Issue of ordinary shares	972 1,000	(773)
Net cash from financing activities	1,972	(773)_
Effects of FX gains and losses to cash and cash equivalents	774	821
Net increase/(decrease) in cash and cash equivalents	29,507	(31,310)
Cash and cash equivalents at the beginning of the year	37,685	68,996
Cash and cash equivalents at the end of the year	67,192	37,685

Notes on the following pages are an integral part of these financial statements.

Podgorica, 30 March 2022

Vesna Kovačević Finance Director Mladen Rabrenović

President of the Management Board

Draytro Likhota

Member of the Management Board

Financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

-	Share capital	Reserves	Retained earnings	TOTAL
Balance as of 1 January 2020 Share issue	10,500	303_	689	11,492
Effects of changes in securities values Profit for the year	E)	315	563	315 563
Balance as of 31 December 2020	10,500	618	1,252	12,370
Share issue	2,000	-	(1,000)	1,000
Effects of changes in securities values Profit for the year	-	(1,344)	730	(1,344) 730
Balance as of 31 December 2021	12,500	(726)	982	12,756

Notes on the following pages are an integral part of these financial statements.

Podgorica, 30 March 2022

Vesna Kovačević Finance Director Mladen Rabrenović

President of the Management Board

Dmytro Likhota

Member of the Management Board

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

1. BANK'S INCORPORATION AND ACTIVITY

Zapad banka AD Podgorica (hereinafter: the Bank) was established on 24 February 2015, and on 6 March 2015 it was registered as a joint stock company with the Central Register of Companies in Podgorica - registration number 4-0009448.

The Bank is registered with the Capital Market Commission in the Register of Securities Issuers under number 531 (Decision No. 02 / 3-1 / 2-15 of 25 March 2015).

The Bank conducts its financial operations through transaction account number 907-57001-31 with the Central Bank of Montenegro - Payment Operations.

In accordance with the Law on Banks, the Memorandum of Association, the Articles of Association and the Decision of the Central Bank of Montenegro number O.no. 0101-4014 / 67-3 dated 30 January 2015, the Bank can perform the following tasks in addition to banking:

- issuing guarantees and assuming other off-balance sheet liabilities;
- purchase, sale and collection of receivables (factoring, forfeiting, etc.);
- issuance, processing and recording of payment instruments;
- payment transactions in the country and abroad;
- financial leasing;
- securities transactions;
- trading on its own or client's behalf:
 - in foreign currency, inclusive of foreign exchange transactions
 - with financial derivatives;
- Repurchasing transactions;
- Analysis, information and advisory services relating to company or entrepreneur creditworthiness, and other operating issues;
- Safe deposit box rental services.

Pursuant to the Decision of the Capital Market Commission No. 03 / 9-1 / 2-19 of 16 May 2019. The Bank received a license to provide investment services and perform investment activities. Pursuant to the aforementioned decision, the Bank may provide the following investment services and perform investment services referred to in Article 206 paragraph 1 of the Law on Capital Market ("Official Gazette of Montenegro", No. 01/18):

- Receiving and transferring orders relating to one or more financial instruments;
- execution of orders on behalf of clients;
- trading for its own account:
- portfolio management;
- investment consulting,

The Bank may also provide the following ancillary investment services referred to in Article 206 paragraph 2 of the Law on Capital Market ("Official Gazette of Montenegro", No. 01/18):

- safekeeping and administration of financial instruments on behalf of clients, including custody services and related services, such as cash and collateral management
- granting loans to the investor to enable the conclusion of a transaction with one or more financial instruments, if the transaction involves a company that provides a loan or credit.

The Bank is registered in Podgorica, at no/2b/7th floor, Moskovska Street. The Bank has registered offices in Odessa, Ukraine and Vienna, Austria.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

1. BANK'S INCORPORATION AND ACTIVITY (Continued)

As of 31 December 2021, the Bank had 75 employees (31 December 2020: 61 employees).

The Bank is managed by its shareholders based on their share capital, in accordance with the Law and the Bank's Articles of Association. The Bank's managing bodies are the Shareholders' Assembly, comprising shareholders and the Board of Directors appointed by the Shareholders' Assembly. The Board of Directors has five members, the majority of which is not employed with the Bank. One member of the Board of Directors has the role of Executive Director.

The members of the Board of Directors as of 31 December 2021 are:

Vadym Morokhovskyy, President; Volodymyr Kostelman, Deputy President; Oleksandr Kuperman, member; Dejan Marinović, member; Valentyna Grechko, member;

The managing authorities and bodies are:

- The Audit Committee
- The Assets and Liabilities Committee (ALCO),
- Credit Risk Management Committee (The Credit Committee),
- Information Technologies Committee,
- Investing Committee.

The Bank has 3 executive directors of whom one is the CEO. CEO represents the Bank and is responsible to coordinate and supervise, on daily basis, the execution of operations in the Bank and the work of Executive Directors of the Bank.

As at 31 December 2021 the Executive Directors of the Bank are:

Mladen Rabrenović, CEO; Oleksandr Kuperman, Executive Director for sales; Dmytro Likhota, Executive Director for business support operations.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The principal accounting policies applied in the preparation of these determined financial statements are set out below.

2.1. Basis of preparation of the financial statements

The Bank prepares its financial statements (hereinafter "the financial statements") in conformity with the Law on Accounting of Montenegro ("Official Gazette of Montenegro", No. 52/16), Law on Banks ("("Official Gazette of Montenegro", No. 17/08, 44/10, 40/11 and 73/17), decisions of the Central Bank of Montenegro ("CBM") and other bylaws governing financial reporting of banks. The Bank's financial statements have been prepared in accordance with the Decision on the Content, Deadlines and Manner of Compiling and Submitting Financial Statements of Banks ("Official Gazette of Montenegro", No. 15/12, 18/13 and 24/18).

During the preparation of these financial statements, the Bank applied policies complying with the regulations of the Central Bank of Montenegro but deviating from the requirements of IFRS and IAS, applied as of 31 December 2021, with respect to the format of presentation of financial statements.

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

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

In accordance with the Law on Accounting of Montenegro, legal entities compile financial statements according to IAS, i.e. IFRS published by the International Accounting Standards Board and which must be adopted and published by the relevant competent authority of Montenegro which is the relevant body of the International Federation of Accountants. (IFAC) received the right to translation and publication. Therefore, only IFRS and IAS officially adopted and published by the relevant competent authority of Montenegro can be applied. The last IFRS and IAS officially translated are from 2009 (except IFRS 7), as well as IFRS 10, 11, 12 and 13 which have been applied since 2013. As of the date of preparation of the financial statements, not all applicable changes in standards have been translated, but the Bank has applied IFRS 9 in accordance with the CBM decision, as well as IFRS 16. IFRS 9 in effect since January 1, 2018 and covering only the basic text of standards and interpretations and do not include grounds for conclusions, illustrative examples, application instructions, comments, opinions and other explanatory material. In addition, the above translation does not contain a translation of the Basis for the Preparation and Presentation of Financial Statements. In accordance with the letter of the CBM, number 03-105-1 / 2019 dated 9 January 2019, the application of IFRS 16 - Leasing was postponed to 1 January 2020 and this standard was applied for the first time in 2020.

Taking into consideration the effects the departures of the accounting regulations of Montenegro from IFRSs and IASs may have to the presentation of the financial statements of the Bank, the accompanying financial statements differ in that part and depart from IFRSs and IASs and cannot be treated as financial statements in conformity with IFRS and IAS.

2.2. Rules of Estimates

The accompanying financial statements have been prepared in accordance with the historical cost convention, except for the following items measured at fair value:

- Financial instruments at fair value through profit or loss,
- Financial instruments at fair value through other comprehensive income,
- Financial liabilities at fair value through profit or loss.

2.3. Functional and Reporting Currency

The Bank's financial statements are stated in thousands of euros (EUR), which is the Bank's functional currency and the official reporting currency in Montenegro. All amounts are expressed in EUR thousand, unless otherwise stated.

2.4. 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 presented values of assets and liabilities, as well as the disclosure of contingent liabilities and receivables as at the date of the preparation of the financial statements, and the income and expenses arising during the reporting period. These assessments and assumptions are based on information available to us as at the financial statements preparation date. However, the actual results may differ from the values estimated in this manner.

The estimates, as well as the assumptions on which the estimates were made, are the result of regular reviews. If it is determined, during the control, that there were changes in the estimated value of the assets and liabilities, the determined effects are recognized in financial statements in the period when the change in the assessment occurred, if the change in the assessment affects only on that accounting period or in the period when it came to change in the assessment of following accounting period if the change in the assessment affects current and future accounting periods. The information about areas where the level of assessment is highest and where is the most significant effect to amounts recognized in financial statement of the Bank, are described in note 3.18.

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

2.5. Going concern concept

The Management of the Bank is not familiar with any material uncertainties that may cause doubts about Bank's ability to continue as a going concern. Presented financial statements are prepared in accordance with the going concern concept, where assumes that the Bank will continue to operate during unlimited period in the foreseeable future.

2.6. Reconciliation of Outstanding Balances with Counterparties

Pursuant to the applicable legislation, the Bank reconciled outstanding balances of receivables and payables with the Bank's creditors and debtors as of 31 December 2021.

2.7. Comparative Figures

Comparative figures in these financial statements include the comparative figures from the financial statements of the Bank for the year ended 31 December 2020.

2.8. The Impact of the Covid-19 Pandemic

After the pandemic Coronavirus - COVID-19 was declared by the World Health Organization in March 2020, which affected the whole world, not only a deep health crisis arose, but there were great changes in the global economy and the economy of individual countries. The ordered measures of isolation and social distancing have had the effect of reducing the scope and, in certain cases, the complete cessation of economic activity of certain activities. This has had an impact on accelerating the mass digitization of financial institutions and moving towards a new operational model with remote / network service delivery channels.

The Bank took all the necessary measures to protect its clients, employees and all interested parties, by enabling the undisturbed operation of its services in the best possible way.

During 2020 and 2021, the taken measures were supplemented and changed several times. On 31 December 2021. The Decision on Interim Measures for Mitigating the Negative Impacts of the COVID 19 Infectious Disease Epidemic on the Financial System (Official Gazette of Montenegro, No. 080/20 of 04.08.2020, 105/20 of 29 October 2020, 024/21 of 3 March 2021, 033/21 of 31 March 2021, 045/21 of 29 April 2021, 053/21 of 27 May 2021, 116/21 of 29 October 2021) (hereinafter: "CBM Decision").

Benefits from the CBM Decision used by the Bank as of 31 December 2021 relate to part IV, item 5 of the Decisions of the CBM defining the manner in which restructured loans may be treated as newly approved loans, as well as Part V, item 8b. Decisions of the CBM, which prescribe benefits when classifying exposures based on financial indicators from 2020.

The table provides an overview of active loans as of 31 December 2021 for which the option from the CBM Decision was used in the sense that the loan restructuring has the same treatment as the newly approved loan. As of 31 December 2021, the balance of these loans amounted to EUR 4,018 thousand and was entirely related to the portfolio of legal entities.

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

2.8. The Impact of the Covid-19 Pandemic (Continued)

CBM classification	Total debtors	Facilities number	Loan balance (in EUR 000)
B1	1	1	19
B2	3	3	3,998
Total	4	4	4,018

Note: Amendments to the CBM Decision of 29 October 2021. It was stated that this benefit could be granted to the borrower as of 30 October 2021.

The table shows an overview of active loans as of 31 December 2021 for which the Bank used the benefits prescribed in Part V, item 8b of the CBM Decision when classifying the debtor's exposure:

CBCG classification	Total debtors	Facilities number	Loan balance (in EUR 000)
B2	4	6	137

The Bank has taken into account the impact of COVID-19 in preparing its financial statements as of 31 December 2021. The Bank's management has assessed that in the long run COVID-19 cannot have a significant impact that would jeopardize the business, and therefore its future financial result.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expenses

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that accurately discounts future cash flows over the expected life of the financial instrument to:

- Gross carrying amount of a financial asset or
- Amortized cost of a financial liability.

When calculating the effective interest rate for financial instruments, except for purchased or approved impaired loans, the Bank considers all contractual terms and conditions, but not ECL, in estimating future cash flows. For purchased or approved impaired financial assets, the adjusted effective interest rate is calculated taking into account expected cash flows, including ECL.

When calculating the effective interest rate, transaction costs and any fees charged or paid, which are part of the effective interest rate, are taken into account. Transaction costs are incremental costs that can be directly attributed to the issue or disposal of a financial asset or financial liability.

The amortized cost of a financial asset or financial liability is the amount by which the financial asset or financial liability is measured at the time of initial recognition decreased by principal repayments and increased or decreased by the cumulative amortization, calculated using the effective interest rate, differences between the initial amount and the amount at maturity, and for financial assets, adjusted for the expected credit loss.

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

3.1. Interest Income and Expenses (Continued)

The gross carrying amount of a financial asset is the amortized cost of the financial asset before deducting the expected credit loss.

The effective interest rate for financial assets and liabilities is calculated at initial recognition of the financial asset or liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (if the asset is not impaired) or the amortized cost of the liability. For floating-rate-financial instruments, the effective interest rate changes due to periodic cash flow assessments to reflect market movements in interest rates.

For financial assets which became credit-impaired after initial recognition the Bank completely ceases to recognize the income interest in income statement, i.e. performs off-balance sheet records of the mentioned up to the moment of collection of the receivables, when the income is recognized at the amount of collected receivable. If the financial asset is no longer impaired, interest income is recalculated on a gross basis.

For financial assets that are impaired at the time of initial recognition, interest income is calculated by applying the adjusted interest rate to the amortized cost of the financial asset. Interest income calculation is not returned to the gross basis even after the credit risk improves.

3.2. Fee and commission income and expenses

Fee and commission income and expense that are an integral part of the effective interest rate of a financial asset or financial liability are included in the calculation of interest income and expense using the effective interest method.

Fee and commission income includes fees charged by the Bank for the performance of payment services in the country and abroad, letters of credit, collections, and other services. Fee and commission income is recognized when the service is rendered.

Fee and commission expense is mostly related to fees arising from domestic and international bank charges and fees for other services, which are recognized in the moment when the service is provided.

3.3. Foreign Currency Translation

Transactions denominated in foreign currencies are translated into EUR at the official exchange rate prevailing on the Interbank Market, at the date of each transaction.

Assets and liabilities denominated in a foreign currency are translated into EUR by applying the official exchange rate, as determined on the Interbank Market, prevailing at the statement of financial position date.

Net foreign exchange gains and losses arising from foreign currency transactions and from the translation of foreign currency balance sheet items are credited or charged to the income statement as foreign exchange gains or losses.

Commitments and contingent liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing on the Interbank Market prevailing as of that day.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Income taxes

Income tax is based on taxable profit for the year, and comprises current tax and deferred tax.

Current tax

Income tax is calculated and paid in accordance with the Law on Corporate Income Tax ("Official Gazette of the Republic of Montenegro", No. 65/01, 12/02, 80/04, "Official Gazette of Montenegro", No. 40 / 08, 86/09, 40/11, 14/12, 61/13, 55/16 and 130/21) The income tax rate is proportional and amounts to 9% of the tax base.

Taxable profit is determined on the basis of the Bank's profit reported in the income statement with adjustment of income and expenses in accordance with the provisions of the Law on Corporate Income Tax (Articles 8 and 9 for adjustment of income and Articles 10 to 20 for adjustment of expenses) and Decision of the CBM on the new chart of accounts for banks ("Official Gazette of Montenegro" No. 55/12 and 82/17). Income tax expense is calculated by applying a proportional rate of 9% to the amount of taxable profit (2020: 9%).

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 ensuing 5 years.

Montenegrin tax regulations do not envisage that any tax losses of the current period may 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 ensuing period of a maximum of five years.

Deferred Income Taxes

Deferred taxes are calculated on all temporary differences between tax base of assets and liabilities and their carrying amounts recorded in the Bank's financial statements.

Deferred tax liabilities are recognized for all taxable temporary differences arising between the tax base of assets and liabilities as at the balance sheet date and the amounts presented for reporting purposes, which will result in future period taxable amounts.

Deferred tax assets are calculated for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised. The deferred tax assets are calculated at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. The deferred tax is calculated by applying a 9% rate.

Taxes, contributions and other duties not related to operating results

Taxes, contributions and other duties that are not related to the bank's operating result, include property taxes and other various taxes and contributions paid pursuant to state and municipal regulations.

3.5. Earnings per share

The Bank calculates and discloses earning per share in accordance with IAS 33. Basic earnings per share is calculated by dividing profit attributable to the Bank's shareholders by the weighted average number of ordinary shares for the period.

The Bank has no dilutive potential ordinary shares such as convertible debt and share options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Cash and Cash Equivalents

Cash and cash equivalents relate to cash in hand (in EUR and foreign currencies), cash in the treasury (in EUR and foreign currencies)), deposits with the Central bank of Montenegro, including the required reserve and funds in the accounts held with other banks in the country and abroad, as well as other high liquid assets with a three-month maturity.

Cash and cash equivalents are measured at amortized cost in the balance sheet.

3.6.1. Statutory Reserve

The calculation, the allocation and the use of mandatory reserves with the Central Bank of Montenegro is prescribed by the Decision on the mandatory reserve with the Central Bank of Montenegro ("Official Gazette of Montenegro", no. 40/10, 46/10, 06/13, 70/17, 88/17 and 43/20) became effective, based on which the mandatory reserve is calculated by applying a 5.5% rate to the base comprising demand deposits and deposits with a maturity of up to one year, i.e. up to 365 days, 4.5% - to the base comprising deposits with maturities exceeding one year, i.e. over 365 days. A 5.5% rate is applied to deposits with over the 1-year, or 365 days maturity range with clauses allowing early deposit redemption i.e. redemption within the period shorter than 365 days.

The calculated mandatory reserve of the bank is allocated to the account of the obligatory reserve in the country and / or to the accounts of the Central Bank abroad and cannot be separated and held in another form. Banks can use up to 50% of allocated funds of the reserve requirement to maintain daily liquidity.

3.7. Financial instruments

3.7.1. Recognition

The purchase or sale of a financial asset or liability is recorded using accounting at the settlement date of the transaction.

Financial instruments are initially measured at fair value, which includes transaction costs for all financial assets or liabilities other than those measured at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to operating expenses in the income statement.

3.7.2. Classification

The Bank classifies all its financial assets based on the business model for asset management and the characteristics of expected cash flows.

3.7.2.1. Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank classifies financial assets into the following three categories:

- Financial assets whose aim is the collection of contracted cash flows,
- Financial assets whose aim is the collection of contracted cash flows and sales,
- Financial assets held for trading.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.2. Classification (Continued)

3.7.2.1. Business model assessment (Continued)

The Bank only measures placements of the Bank, loans and advances to customers and other financial investments at amortized cost, if both of the following conditions are met:

- Financial asset is held within a business model with the aim of holding the financial asset for the purpose of collecting contracted cash flow;
- The contractual terms of financial assets give the cash flows on specific dates which are exclusively principal and interest payment (SPPI) on the amount of outstanding principal.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

3.7.2.2. SPPI test

As the second criterion for the classification and measurement of financial instruments IFRS 9 standard defines the characteristics of expected cash flows. In order to classify the financial instruments into categories of measurement at amortized cost or at fair value through other comprehensive income, the expected cash flows must meet the criteria of SPPI test, which are clearly defined in IFRS 9 standard. Any violation of these criteria potentially leads to classification of financial instrument in the category measurement of such instrument at fair value through profit or loss.

In order for the expected cash flows to meet the SPPI criteria, they must be generated exclusively from:

- Collection of principal,
- Collection of interest for the corresponding principal.

In the event that one of the criteria is violated, the financial instrument must be measured at fair value through profit or loss.

Additional cash flows generated from interest to corresponding principal must reflect:

- Time value of the money,
- Credit risk,
- Other basic risks of borrowing funds.

The consequence of additional payments that are included in the interest rate and do not meet the above criteria is that the SPPI test criteria are not met and that such an instrument is measured at fair value through profit or loss.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.3. Financial assets whose purpose is the collection of contracted cash flows

The following types of assets are classified as financial assets aimed at collecting contracted cash flows:

- Loans and advances to banks (including funds with banks, interest and fees);
- Loans and advances to customers (including interest and fees, receivables from leasing, forfeiting and factoring);
- Securities from which the bank plans to collect contracted cash flows and which are indicated to be in this model;
- Guarantees issued:
- Credit obligations given (approved but unused loans);
- Avals and acceptance of bills of exchange;
- Other guarantees;
- Uncovered letters of credit;
- Exposures to financial institutions and the central bank;
- Other financial resources

In the balance sheet, these assets are stated at amortized cost, i.e. gross carrying amount less allowance for credit loss.

3.7.4. Financial assets whose purpose is the collection of contracted cash flows and sale

Debt securities are classified here. Debt financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flow characteristics are SPPI and if they are held within a business model aimed at collecting contractual cash flows and selling assets. They are initially recognized at cost plus transaction costs incurred in connection with the acquisition, while subsequent measurements are made at fair value through other comprehensive income.

Unrealized gains and losses are recorded within revaluation reserves until the securities are sold, collected or otherwise realized, or until such securities are permanently impaired. When securities are depreciated or impaired, cumulative fair values recognized in the equity are reclassified to the Income Statement.

Interest income is recognized using the effective interest rate in the income statement. Amortized value is calculated considering all issuing costs and all discounts or premiums during settlement. Impairment losses are recognized in the income statement.

Impairment is measured in accordance with the Methodology for the assessment of Impairment and expected loss (Note 3.7.9).

3.7.5. Financial assets held for sale

Financial assets held for sale include:

- Derivatives whose aim is protection from foreign exchange rates or holding for trade;
- Securities listed for trading;
- All financial assets, whose objective is not included in the first two models: holding for collection, and holding for collection and sale.

Financial assets held for trading are assets which are held for profit based on trading in short period. They are initially measured at cost, while subsequent measurements are at fair value. All realised and unrealised gains and losses based on sale i.e. change in the market value of these securities are recognized in the income statement.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.6. Reclassification of financial assets and liabilities

The Bank did not reclassify any of its financial assets or liabilities in 2021.

3.7.7. Derecognition of financial assets and liabilities

Financial assets (or, where applicable, part of a financial asset or part of a group of similar financial assets) are derecognised when:

- the contractual rights to receive cash flows from the funds have expired; or
- the Bank has transferred its rights to receive cash flows from the funds or has undertaken to pay the received cash flows in full without significant delay to a third party in accordance with the 'passthrough' arrangement;
- has transferred substantially all risks and rewards associated with ownership of the property, or
- substantially all risks and rewards associated with ownership of the property have not been transferred or retained, but control of the property has been transferred.

A financial liability is derecognised when the liability is settled, i.e. the debt is discharged or cancelled or expired.

3.7.8. Write-off

Financial assets are written off in full or in part only if the Bank waives collection or has exhausted all practical efforts to collect them and there are no reasonable expectations of a return on contractual cash flows. If the amount to be written off is greater than the accumulated provisions for credit losses, the difference is first calculated as an additional provision which is then faced with the gross carrying amount. Any subsequent collection reduces the cost of credit losses.

3.7.9. Impairment of financial assets and provision

IFRS 9 standard is based on the concept of expected credit losses which includes macroeconomic valuation assessment models i.e. macroeconomic scenarios.

The Bank has adopted the Methodology of impairment of financial instruments in accordance with IFRS 9. The scope of the Methodology applies to all accounts of the Bank of the following groups, i.e. subject to impairment in accordance with IFRS 9:

- balance sheet exposures: (all types of loans, activated guarantees and syndicated loans, factoring and forfeiting arrangements, interest due, fees and other balance sheet receivables, deposits with banks and other financial institutions, securities in the portfolio and other receivables) and
- off-balance sheet exposures: (issued guarantees, issued overdrafts, letters of credit, etc).

During the off-balance sheet exposures assessment, the Bank uses a credit conversion factor (CCF) in accordance with the Decision on Capital Adequacy in Banks of the Central Bank of Montenegro (CBM).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.9. Impairment of financial assets and provision (Continued)

The basic principle of the model of expected credit losses is to present a general model of deterioration or improvement of the credit rating of financial instruments. The amount of expected credit losses (ECL) that is recognized as the cost of the provision depends on the volume of credit impairment from initial recognition. There are two grounds for calculation:

- Expected loss for a period of 12 months (Stage 1), which applies to all assets (from initial recognition) until there is a significant deterioration in the credit rating,
- The expected loss over the entire duration of the loan (Stages 2 and 3), which is applied when there is a significant increase in credit risk on an individual or collective basis.

At each reporting date, an assessment is made of whether there has been a significant increase in the credit risk from initial recognition and whether the financial asset is impaired for each portfolio in order to determine the applicable provisioning (for 12 months or for the entire life of the asset).

The expected credit loss is estimated based on an individual or collective assessment. Financial assets are grouped into segments by category (loans to legal entities, loans to individuals), time category (bucket) and staging. Subsequently, the impairment calculation was carried out based on an individual or collective assessment. The combination of these four criteria (client type I bucket I stage I estimation method) determines the parameters and method of estimating the provision for credit losses. The Bank distinguishes between two types of clients: Legal entities (LE) and Individuals (I).

At the reporting date an assessment is made, if there was a significant increase in credit risk in relation to the date of initial recognition and if the financial asset has been impaired in order to determine the applicable calculation of the provision (for 12 month or for the entire life time of the asset).

The loan is assigned at Stage 1 if the terms for Stage 2 and Stage 3 are not met. The assessment of a significant deterioration of the credit rating comparing to initial recognition is made through assessment of the following parameters: the delay is longer that 30 days but less than 90 days; the client's internal rating is worse than initially determined; the client's internal rating has deteriorated in the last 12 months, deteriorating certain balance sheet items (capital, income), as well as other indicators from the Questionnaire on the existence of objective evidence of impairment (hereinafter the "Questionnaire"). If at least one of the above parameters is met, the asset is classified in Stage 2.

The Bank considers that a financial instrument has become impaired (Stage 3 classification) if one or more criteria have been adversely affected, which have a negative impact on the estimated future cash flows: receivables from the client are in default for over 90 days, with exposure amounts above a certain materiality threshold; adverse changes in operating conditions; financial reorganization of debtors; bankruptcy or insolvency of the client; restructuring of loans (significant changes in conditions, interest rate cuts, partial grace periods (freezing and payment of interest only) necessary due to credit (financial) worthiness, lack of cooperation by the client in case of repayment of debts and receivables from the parent company or related party.

The definition of the default status is applied at the account (loan) level for individuals, while the default for legal entities is applied at the client level. Therefore, in any other account (loan) of a legal entity is in default it is considered that all other accounts (loans) of the same legal entity is in default.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.9. Impairment of financial assets and provision (Continued)

For the purposes of documenting the impairment criteria, except for the criteria for the default, the Bank uses questionnaires on the existence of objective evidence of impairment, for individuals and legal entities separately.

The appraisal method applied by the Bank relates to an individual and collective assessment. The Bank has prescribed by the Methodology the criteria based on which fulfilment of whether the asset is subject to an individual or collective assessment is determined.

The Bank assesses the impairment of balance assets items and probable loss based on off-balance sheet items for each significant receivable on individual basis. An individually significant receivable is considered to be a receivable with the total gross exposure of the Bank towards one entity, i.e. group of entities which exceeds EUR 50,000.

For individually significant receivables for which there is an objective proof of impairment, the Bank calculates the impairment on individual basis.

The Bank calculates the provision for credit losses on collective basis for:

- All clients' exposures for which is estimated, at individual basis, that there is no objective proof of impairment;
- If the amount of impairment equals zero (not determined the amount of impairment), while
- assessing at individual basis, it is applied the impairment percent of theoretically at least risky placements (exposure towards the country of Montenegro) to gross exposure;
- All clients' exposures which do not represent significant receivables.

At the day of initial recognition of the financial asset, the Bank shall determine if the asset is impaired. This occurs in the case of purchases or restructured impaired financial assets. Namely if the Bank ceases to recognize impaired financial asset they should be treated as POCJ assets. At the day of initial recognition of the financial asset, it is determined if the if the asset is impaired. POCI asset is probably purchased with the significant discount that reflects the resulting credit losses. For these assets EIR is calculated considering initially expected credit losses of lifetime in the estimated cash flows (i.e. EIR adjusted with credit risk is used).

Until 30 June 2020, the Bank was not able to estimate PD of duration period, due to the lack of historical data. Until the moment the available quantity of data enables PD parameters calculation, as an alternative, the Bank uses the data about transition of matrices at banking sector level disclosed by CBM, in accordance with CBM guidelines. As the Bank gained the enough quantity of historical data based on 5 years' experience, since 30 June 2020, for PD calculation, the Bank has used the transition of matrices (specially developed for legal entities portfolio) based on internal available data.

For loans for which the expected amount of credit losses is estimated to be zero, the Bank uses the % of impairment that was obtained by accessing long-term exposures to the state of Montenegro. In the event that the maturity is up to 3 months, or the exposure is fully covered by cash collateral, the Bank applies a minimum percentage of impairment, arrived at by the assessment of short-term exposures to the state of Montenegro.

Due to the fact that the Bank does not have a sufficiently long history of data, the Bank uses the value of the LGD parameters prescribed by Basel II (for exposures before default, the Bank applies a LGD of 45%, LGD of 60% for loans in default for more than 180 days, LGD of 80% for loans in default for more than 270 days and LGD of 100% for loans in default for more than 270 days, since the collection of loans from other sources, other than collaterals, is no longer expected).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.9. Impairment of financial assets and provision (Continued)

The calculation of impairment on an individual basis for securities is based on the assessment of several scenarios weighted by the probability of outcome during the duration of the securities, with a probability of being taken as a PD in accordance with the international rating by the following priority: Standard & Poor's, Fitch, Moody's. If the maturity is up to 3 months, the annual PD is reduced by interpolation to the quarterly PD.

The impairment allowance for short-term exposures to the state of Montenegro is the minimum percentage of impairment that the Bank uses for all exposures, in cases where (individual or collective) consideration of impairment leads to the conclusion that the amount of expected credit losses is equal to zero.

The calculation of impairment on an individual basis for assets with banks is based on the assessment of several scenarios weighted by the probability of outcome during the duration of the exposure, with a probability of being taken as a PD in accordance with the international rating published by Standard & Poor's, Fitch and Moody's. If the maturity is up to 3 months, the annual PD is reduced by interpolation to the quarterly PD.

For the calculation of impairment for funds on the account with the CBM and the required reserve, the Bank applies the minimum % of impairment for short-term exposures to the state of Montenegro.

The Bank is obliged to perform at least monthly the classification of balance sheet and off/balance sheet items based on their risk exposure and calculates provisions for estimated losses.

In accordance with the Decision of minimum standards for credit risk management in banks (MNE Official Gazette No.22/12, 55/12, 57/13, 44/17, 82/17, 86/18 and 42/19), loans and other risk exposed assets are required to be classified in one of the following categories:

- Category A (good assets) -items for which it has been assessed that they will be fully collected in accordance with the agreement:
- Category B (assets with specific notification)- with subcategories B1 and B2, assets with a low probability of loss-making risk but requiring special attention, since inadequate attention paid to these assets could lead to lower prospects for their collection;
- Category C (substandard assets)- with subcategories C1 and C2 -assets with high loss-making risk potential, since weaknesses jeopardising their collection have been inadequately determined,
- Category D (doubtful assets) items unlikely to be collected, having in mind the creditworthiness of the borrower, the value of the asset and the possibility to have the collateral foreclosed; and
- Category E (loss) fully or partially non-collectable receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.9. Impairment of financial assets and provision (Continued)

Based on the classification of the balance sheet assets and off-balance sheet items the Bank calculates provision for potential losses at a monthly level, using the percentages prescribed by the Decision of the Central Bank of Montenegro on the Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" no. 22/12, 55/12, 57/13, 44/17, 82/17, 86/18 and 42/19). The basis for the calculation of provisions for potential losses is the carrying amount of receivables, excluding impairment for value adjustments.

The Bank is obliged to determine the difference between the provision for contingent losses, calculated in accordance with the above table and total provision for balance sheet and off-balance sheet items calculated in accordance with the Decision prescribing the manner of measuring assets under the International Accounting Standards.

The gain on calculated provisions for contingent losses and total provisions for balance sheet and off-balance sheet items represents the required reserve for estimated losses.

3.8. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the proportional method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Year
Buildings	33.3
Computers and computer equipment	5
Office furniture	9
Vehicles	6.7
Other equipment	6.7

The start date of depreciation for any fixed asset is the first day of the month following the month of the acquisition. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the Income statement.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Intangible assets

Licences

Acquired licences are presented at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives (5 years).

Computer software

The cost of computer software licences is capitalised based on costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

3.10. Investment property

Property is classified as investment property if it is not used directly for performing activities, but is owned for the purpose of operating lease, as well as property that has been leased and subleased. When within one property one part is used for business purposes and the other for rent, they are separated into investment property and property used for business purposes. Investment property is initially recognized at cost, which, in addition to the purchase price, consists of benefits and direct costs that can be directly attributed to acquisition. Leased and subleased properties are initially recognized in accordance with the requirements of IFRS 16.

3.11. Leases

Lease is a contractual relationship in which the lessor, in exchange for payment or a series of payments, transfers to the lessee the right to use the funds for the contracted period.

A lease is a contract or part of a contract that creates enforceable rights and obligations and transfers the right to control and use the identified property for a specified period of time in exchange for compensation. Therefore, IFRS 16 requires a determination of whether a contract meets the definition of a lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Leases (Continued)

The Bank, as the lessee, recognizes lease liabilities and the right-of-use assets over the lease term for all leases, with certain exceptions - leases of "low value" assets and short-term leases. Short-term leases are defined as leases that have a term of 12 months or less at the date of the beginning of the lease, without the possibility of purchasing fixed assets. Leases of assets with a value less than or equal to EUR 5 thousand at the date of the lease are defined as "low value" leases and are recognized as a lease expense over the lease term.

Right-of-use assets

At the date of lease inception, the Bank measures the right-of-use assets at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for each revaluation of the lease liabilities. The cost of the asset includes: the amount of the lease liability, adjusted for any payments made on or before the first day of the lease, less any lease incentives received and any initial direct costs incurred by the lessee, and an estimate of the costs to be incurred from the lease at the end of the lease term. After the commencement date, the Bank measures the right-of-use assets using the cost method and recognizes the depreciation of the right-of-use assets on a straight-line basis over the lease term, and (separately) interest on lease liabilities.

Lease liabilities

At the date of commencement of the contract, the Bank measures the lease liability at the net present value of leases outstanding as of that date. Leases consist of fixed payments, variable rent payments that depend on an index or rate, amounts expected to be paid under residual value guarantees, lease payments over an optional extension period, if there is a reasonable probability that the option will be exercised, and payments required by the lessee for early termination of the lease, if the lease agreement leaves the possibility of termination.

Subsequently (after the date of commencement of the lease agreement), the Bank measures the lease liability in the manner in which it is performed:

- increase in the carrying value, based on changes in interest on the lease liability;
- reduction in the carrying value on the basis of lease payments made; and
- remeasurement of the carrying amount to reflect any reassessment or change in the lease.

3.12. Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income statement over the period of the borrowings using the effective interest method.

3.13. Share capital

The Bank's paid in share capital relates to cash paid by shareholders for all ordinary shares. The Bank's share capital comprises ordinary shares, which are stated as a separate line item in the Balance Sheet.

Dividends from shares are recognized as liabilities in the period in which a decision on dividend distribution was made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when all the following conditions have been satisfied:

- The Bank has a present legal or constructive obligation resulting from past events;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- The amount of obligation has been reliably estimated.

Provisions are measured at the present value of the expected cash outflows required to settle the obligation using a discount rate that reflects current market assessments of the time value of money.

Provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed in the Income Statement.

3.15. Employee benefits

Short-term employee benefits include wages, salaries, taxes and contributions for social insurance. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to pay taxes and contributions to Montenegrin Pension and Disability Insurance Fund in accordance with defined contribution plans. The Bank is not obliged to pay reimbursements to employees which are the responsibility of the National Fund. Taxes and contributions on defined benefit obligations are expensed as incurred.

3.16. Off-balance sheet contingencies and commitments

As part of its regular business activities, the Bank has assumed contractual commitments and off-balance sheet contingencies such as guarantees, borrowings and letters of credit, and transactions with financial instruments. These financial instruments are recorded in the Balance Sheet if and when they are payable.

Provisions for potential losses arising from commitments and contingencies are created based on the estimates of potential losses, in accordance with the criteria defined in the Decision on Minimum Standards for Credit Risk Management in Banks and the methodology of the Bank (Note 3.7.9).

3.17. Related party transactions

The Bank's related parties are:

- Members of the (management) bodies of the Bank, shareholders, employees, and their immediate family (spouse and children);
- Legal entities in which the owner of a qualified share also has a qualified share in the Bank;
- Legal entities in which one of the persons referred to in lines 1 and 2 above has significant
 influence, or a person referred to in the above line 1 is a director or a member of the
 Board of Directors or other body of such legal entities;
- Persons holding at least 50% of the capital or voting rights of the legal entity which has a qualified share in the Bank;

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Critical accounting estimates and judgements

The Bank makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.18.1. Impairment losses arising from on and off balance sheet items

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. The Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the loan portfolio which can be identified with individual exposures and which can affect the Income Statement.

The methodology and assumptions used for estimating the impairment provision are disclosed in Note 3.7.8.

3.18.2. Fair value of financial instruments

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of financial instruments not traded on an active stock exchange is determined using the Fair Value Methodology. Using the methodology for determining fair value, the Bank has defined methods for determining the fair (fair) value of instruments that are or will be in the Bank's portfolio.

The fair value of a loan is determined by discounting future contractual cash flows at an appropriate discount rate. Such a rate includes a risk-free component (zero swap rate) and other components that reflect in particular the debtor's credit risk and other aspects, such as liquidity premium, financing costs, required profit margin, etc. The discount rate is updated on each valuation date to reflect the current state of all the above elements.

3.18.3 Litigations

The Bank's management assesses the amount of provisions for outflows based on litigations. The assessment is based on the estimated probability of future cash outflows, arising from past contractual or legal obligation.

3.18.4 Employee benefits

The cost of long-term employee benefits is determined based on actuarial calculation, using actuarial assumptions: discount rate, future wage growth in line with inflation and promotion rates, and past wage growth, as well as changes in the number of employees entitled to compensation. Considering the long-term nature of these plans, estimates are subject to significant uncertainty. Actuarial calculation is performed by an independent actuary.

3.18.5 Useful life of intangible assets, property, plant and equipment

Determining the useful lives of intangible assets, property, plant and equipment is based on previous experience with similar assets, as well as anticipated technical developments and changes affected by a number of economic or other factors. The adequacy of a certain useful life is reviewed annually or whenever there is an indication that there has been a significant change in the factors that formed the basis for determining the useful life.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT

4.1. Introduction

The Bank is exposed to various risks in its operations, of which the most significant are the following:

- liquidity risk;
- market risk;
- credit risk;
- operational risk

The risk management procedures are designed to identify and analyse risks, to define limits and controls required for risk management and to monitor the Bank's exposure to each individual risk. The risk management procedures are subject to regular review in order to allow adequate response to the changes in the market, products and services.

4.2. Liquidity risk

Adequate liquidity risk management is the basic requirement for safe and efficient operations of a bank. The quality of liquidity risk management depends on the Bank's balance sheet structure and cash flow (inflows and outflows) matching. Required liquidity is achieved through rational management of assets and liabilities in order to maintain an adequate proportion of liquid assets and unstable liabilities.

At the end of 2021, deposits comprise mainly deposit accounts of non-residents 88.77% (i.e. EUR 177,334 thousand), of which EUR 160,171 sand relates to deposits with maturity up to one year, whereas EUR 17,163 thousand relates to deposits over one year.

Based on the results of measurement and monitoring of basic liquidity ratios, both internally prescribed and those required by the Central Bank of Montenegro, all ratios were above the prescribed minimum, meaning that the Bank managed adequately both operating and structural liquidity.

The table below provides an overview of assets and liabilities maturity dates based on contractual payment terms.

The contractual maturities of assets and liabilities are determined based on the remaining period at the balance sheet date relative to the contractual maturity date.

Likewise, the liability items are distributed according to the remaining agreed maturity, i.e. the agreed payment deadline.

For the analysis of the maturity of assets and liabilities of the Bank in terms of expected maturities, asset positions are distributed according to the expected maturity, which can be equally agreed, but in most cases, it is different from the contracted. When reporting the inflow from the loan collection the Bank's real expectations regarding the collection are taken into account, based on historical data, in the way that each individual loan party with a delay in settling liabilities more than 30 days the correction of the repayment plan is made by the maturity receivables which are moving for the maximum number of delay within the previous 6 months and are placed into the corrected column.

it is considered that the maximum number of days in arrears in the period of 6 months is sufficient parameter especially considering that the calculation of the interest on total portfolio is made on the last day in the month and therefore the delay is the largest on that day. If the Bank has some other probable data that better indicate client's current situation can correct the repayment plan accordingly.

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.2. Liquidity risk (Continued)

In order to present the expected outflows in real terms, the stability of the deposit is examined and presented in the columns according to the expected outflows. The Bank has developed and applied the Methodology for determining the stable level of demand deposits. The stable level of demand deposits is determined as 70% of the minimum demand deposits (minus the sight deposits of all clients who make commissions) for the last 12 months. The stable amount of the deposit is allocated in the column 91-180 days.

For the purpose of scheduling term deposits by expected maturity, the Bank uses the date on which it expects the actual deposit outflow to occur, regardless of the agreed maturity.

For the purpose of the arrangement of debt securities, i.e. the Bank uses the expected maturity date of the bonds to be able to sell the securities, based on the history of past sales ("bond marketability"), as follows:

- Bonds that have a rating, which is treated as a credit quality level from 1 to 3 in accordance with the Capital Adequacy Decision, and are classified into a category from 1 to 7 days:
- Montenegrin international Eurobonds are classified in a category from 1 to 7 days;
- Montenegrin local bonds are categorized from 31 to 90 days;
- Bonds that have a rating, which is treated as a credit quality level 4 according to the
- Decision on Capital Adequacy, and are classified into a category from 91 to 180.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity risk (Continued)

The maturity structure of gross assets and liabilities according to remaining contractual maturity as at 31 December 2021 is presented as follows:

	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Over 5 years	Total
Assets							,		
I Cash and deposits with central banks and									
advances to banks	30,237						5,248		35,485
Il Financial assets at amortised cost	34,024	36	55	6,000	1,706	8,966	25,648	9,313	85,748
Loans and placements to banks	32,015	_	-	-	_	-	-	-	32,015
Loans and placements to customers	2,009	36	55	6,000	1,706	8,966	25,648	9,265	53,685
Other financial assets	-	-	-	-	-	-	-	48	48
III Financial assets at fair value through other									
comprehensive income			87	4,632	9,508	2,733	52,479	29,069	98,508
IV Financial assets at fair value through profit or									
loss, that are not held for trading							-		
Other assets	-13	-	5	9	8	7	2	-	18
	30,237						5,248		35,485
Total	64,248	36	147	10,641	11,222	11,706	83,377	38,382	219,758
Liabilities									
Deposits due to banks and central banks at									
amortised cost	5	_	_	_	_	_	_	_	5
Deposits due to customers at amortised cost	170,221	121	127	3,443	772	5,316	12,036	7,734	199,770
Borrowings from customers other than Banks	0		-	64	43	149	1,570	703	2,529
Interest and accruals at amortised cost	143	_	_	-	-	-	-	-	143
Subordinated debt	-	_	-	-	-	-	-	3,000	3,000
Derivative financial liabilities as hedging instrument	13	-	-	-	-	-	-	-	13
Other financial liabilities	927	-	66	88	60	210	1,508	2,058	4,917
Total	171,309	121	193	3,595	875	5,675	15,114	13,495	210,377
Maturity GAP (1)- (2)	-107,061	-85	-46	7,046	10,347	6,031	68,263	24,887	9,381
Cumulative GAP	-107,061	-107,147	-107,193	-100,147	-89,800	-83,769	•	-	2,001
	•	•	•	•	•	•	-15,506	9,381	
% of the total source of funds	-50.9%	-50.9%	-51.0%	-47.6%	-42.7%	-39.8%	-7.4%	4.5%	

4. RISK MANAGEMENT (Continued)

4.2. Liquidity risk (Continued)

The maturity structure of gross assets and liabilities according to expected maturity as at 31 December 2021 is presented as follows:

	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 vears	Over 5 years	Total
Assets									
I Cash and deposits with central banks and									
advances to banks	30,237	0	0	0	0	0	5,248	0	35,485
II Financial assets at amortised cost	32,757	36	55	6,873	1,899	8,774	26,040	9,314	85,747
Loans and placements to banks	32,015	0	0	0	0	0	0	0	32,015
Loans and placements to customers	742	36	55	6,873	1,899	8,774	26,040	9,265	53,684
Other financial assets	0	0	0	0	0	0	0	48	48
III Financial assets at fair value through other									
comprehensive income	87,064	0	87	10,555	752	50	<u> </u>	0	98,508
IV Financial assets at fair value through profit or									
loss, that are not held for trading	0	0	0	0	<u> </u>	0	0	0	0
Other assets	-13	0	5	9	8	7	2	0	18
	30,237	0	0	0	0	0	5,248	0	35,485
Total	150,045	36	147	17,437	2,659	8,831	31,290	9,314	219,758
Liabilities									
Deposits due to banks and central banks at amortised									
cost	5	0	0	0	0	0	0	0	5
Deposits due to customers at amortised cost	118,541	121	127	3,443	52,452	5,316	12,036	7,734	199,770
Borrowings from customers other than Banks	0	0	0	64	43	149	1,570	703	2,529
Interest and accruals at amortised cost	143	0	0	0	0	0	0	0	143
Subordinated debt	0	0	0	0	0	0	0	3,000	3,000
Derivative financial liabilities as hedging instrument	13	0	0	0	0	0	0	0,000	13
Other financial liabilities	927	0	66	88	60	210	1,508	2,058	4,917
Takal	440.000	404	400	0.505	50 555	F 075	45 444	40.405	040.077
Total	119,629	121	193	3,595	52,555	5,675	15,114	13,495	210,377
Maturity GAP (1)- (2)	30,416	-85	-46	13,842	-49,896	3,156	16,176	-4,182	9,381
Cumulative GAP	30,416	30,330	30,285	44,127	-5,769	-2,613	13,563	9,381	
% of the total source of funds	14.5%	14.4%	14.4%	21.0%	-2.7%	-1.2%	6.4%	4.5%	

4. RISK MANAGEMENT (Continued)

4.2. Liquidity risk (Continued)

The maturity structure of gross assets and liabilities according to remaining contractual maturity as at 31 December 2020 is presented as follows:

	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Over 5 years	Total
Assets									
I Cash and deposits with central banks and									
advances to banks	15,820						3,277	-	19,097
Il Financial assets at amortised cost	19,318	1,520	744	6,272	6,104	4,943	25,832	4,963	69,695
Loans and placements to banks	18,595	1,508						_	20,102
Loans and placements to customers	723	12	744	6,272	6,104	4,943	25,832	4,917	49,547
Other financial assets	-	-	-	-	_	-	-	46	46
III Financial assets at fair value through other									
comprehensive income	-	-	22	1,749	391	882	19,739	23,539	46,322
IV Financial assets at fair value through profit or									
loss, that are not held for trading	-	-	-	-	-	-	-	-	-
Other assets	560		5	10	11	9		22	617
Total	35,698	1,520	771	8,031	6,506	5,834	48,848	28,524	135,732
Liabilities									
Deposits due to banks and central banks at amortised									
cost	9								0
Deposits due to customers at amortised cost	99,206	-	60	322	397	1.018	- 14,183	3,149	118,335
Borrowings from customers other than Banks	99,200	-	00	67	44	1,010	1,127	3, 149 161	1,556
Interest and accruals at amortised cost	- 47	-	-	07	44	137	1,121	101	1,330
interest and accidats at amortised cost	47	-	-	-	-	-	-	-	41
Subordinated debt	-	-	_	_	_	-	_	3,000	3,000
Derivative financial liabilities as hedging instrument	_	-	_	_	_	_	_	, -	, -
Other financial liabilities	244		77	81	54	190	1,368	2,296	4,311
Total	99,506	_	137	470	495	1,365	16,678	8,606	127,258
		1 520	634	7,561	6,011	4,469	32,169	19,918	8,475
Maturity GAP (1)- (2)	(63,807)	1,520		-	,		•	-	0,475
Cumulative GAP	(63,807)	(62,288)	(61,653)	(54,092)	(48,081)	(43,612)	(11,443)	8,475	
% of the total source of funds	(50.1%)	(48.9%)	(48.4%)	(42.5%)	(37.8%)	(34.3%)	(9.0%)	6.7%	
		•	•	•	•	•			

4. RISK MANAGEMENT (Continued)

4.2. Liquidity risk (Continued)

The maturity structure of gross assets and liabilities according to expecting maturity as at 31 December 2020 is presented as follows:

	1-7 days	8-15 days	16-30 days	31-90 days	91-180 days	181-365 days	1-5 years	Over 5 years	Total
Assets	uays	uays	uays	uays	<u>uays</u>	uays	years	years	Total
I Cash and deposits with central banks and									
advances to banks	15,820	-	-	-	_	_	3,277	-	19,097
Il Financial assets at amortised cost	19,034	1,520	744	6,178	6,123	4,549	26,585	4,963	69,695
Loans and placements to banks	18,595	1,508	_					-	20,102
Loans and placements to customers	439	12	744	6,178	6,123	4,549	26,585	4,917	49,547
Other financial assets	_	-	-	-	-	-	-	46	46
III Financial assets at fair value through other									
comprehensive income	32,967		22	10,408	2,898	27	<u> </u>	<u> </u>	46,322
IV Financial assets at fair value through profit or									
loss, that are not held for trading	<u> </u>	-	-				<u> </u>	<u> </u>	-
Other assets	560	_	5	10	11	9		22	617
Total	68,381	1,520	771	16,596	9,032	4,585	29,862	4,985	135,732
		1,020				.,000		.,000	100,102
Liabilities									
Deposits due to banks and central banks at amortised									
cost	9	_	-	_	_	-	-	-	9
Deposits due to customers at amortised cost	47,831	-	60	322	51,772	1,018	14,183	3,149	118,335
Borrowings from customers other than Banks	_	-	-	67	44	157	1,127	161	1,556
Interest and accruals at amortised cost	47	-	-	-	-	-	-	-	47
Subordinated debt	-	-	-	-	-	-	-	3,000	3,000
Derivative financial liabilities as hedging instrument	-	-		-	-	-	-	-	-
Other financial liabilities	244		77	81	54	190	1,368	2,296	4,311
Total	48,131	-	137	470	51,870	1,365	16,678	8,606	127,258
Maturity GAP (1)- (2)	20,250	1,520	634	16,126	(42,838)	3,220	13,184	(3,621)	8,475
Cumulative GAP	20,250	21,770	22,404	38,530	(4,308)	(1,088)	12,096	8,475	·
	•	•	•	•	• • •		•	-	
% of the total source of funds	15.9%	17.1%	17.6%	30.3%	(3.4%)	(0.9%)	9.5%	6.7%	

4. RISK MANAGEMENT (Continued)

4.3. Market risk

4.3.1. Risk of interest rate changes

The sensitivity of assets, liabilities and off-balance sheet items to interest rate changes affects the amount of net interest income and the market value of certain financial instruments (interest rate sensitive funds and investments), which consequently affects the market value of the bank's capital.

The Bank's exposure to interest rate risk as at 31 December 2021 is presented in the table below. In 2021, the Bank did not grant loans with floating interest rates, therefore, the table includes assets and liabilities presented by maturity dates.

		31-90	91-180	181-365	over 1	
As of 31 December 2021	1-30 days	days	days	days	year	Total
Assets						
Interest-bearing deposits						
withother institutions	6,924	_	_	_	2,659	9,583
Interest-bearing securities	-	4,393	8,756	2,683	81,548	97,380
Loans and otherplacements	1,950	6,040	1,720	9,004	35,005	53,720
Other sensitive assets*	243	239	752	50		1,284
Total	9,116	10,672	11,228	11,737	119,213	161,967
0/ of total interest bearing						
% of total interest -bearing assets	5.63%	6.59%	6.93%	7.25%	73.60%	
a33013	3.03 /6	0.33 /6	0.93 /6	1.23/0	73.00 /6	
Liabilities						
Interest - bearing deposits	385	3,443	553	5,104	19,360	28,845
Interest - bearing borrowings	-	64	43	149	943	1,199
Subordinated debt	-	-	-	-	3,000	3,000
Other sensitive liabilities		88	60	210	3,567	3,925
Total	385	3,595	656	5,463	26,870	36,969
% of total interest -bearing						
assets	1.04%	9.73%	1.77%	14.78%	72.68%	_
465615			/0		1210070	
Gap	8,732	7,076	10,572	6,274	92,343	124,998
Cumulative Gap	8,732	15,808	26,381	32,654	124,998	
Cumulative Gap/						
Total assets %	3.91%	7.07%	11.80%	14.61%	55.92%	

^{*}Other interest-sensitive assets include accruals and interest receivables

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.3. Market risk (Continued)

4.3.1. Risk of interest rate changes (Continued)

As of 31 December 2020	1-30 days	31-90 days	91-180 days	181-365 days	over 1 year	Total
Assets						
Interest-bearing deposits with other institutions	5,034	_	_	_	1,671	6,705
Interest-bearing securities	-	1,652	_	855	43,278	45,785
Loans and other placements	1,217	6,309	6,117	4,970	30,815	49,428
Other sensitive assets*	292	97	391	27		807
Total	6,543	8,058	6,508	5,852	75,764	102,725
% of total interest -bearing						
assets	6.37%	7.84%	6.34%	5.70%	73.75%	
Liabilities						
Interest - bearing deposits	60	321	397	870	17.332	18.980
Interest - bearing borrowings	-	67	44	157	1.288	1.556
Subordinated debt	-	-	-	-	3.000	3.000
Other sensitive liabilities		81	54	190	3.665	3.990
Total	60	469	495	1.218	25.285	27.526
% of total interest -bearing						
assets	0.22%	1.70%	1.80%	4.42%	91.86%	
Gap	6,483	7,589	6,013	4,635	50,479	75,198
Cumulative Gap	6,483	14,072	20,085	24,720	75,198	
Cumulative Gap/	4.000	40.070/	4.4.000	4= 000;		
Total assets %	4.63%	10.05%	14.35%	17.66%	53.71%	-

^{*}Other interest-sensitive assets include accruals and interest receivables

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.3. Market risk (Continued)

4.3.1. Risk of interest rate changes (Continued)

Sensitivity analysis

Liquidity risk management is accompanied by monitoring the sensitivity of the Bank's Income Statement to different scenarios for interest rate changes. Income Statement sensitivity is the impact of assumed changes in interest rates on the annual net interest income

The Bank regularly performs stress testing of interest rate risk in the banking book. The impact on net interest income (Nil) for individual GAP is calculated using this formula:

Impact on annual Nil = (periodic GAP)*(gap time period (year/s))*(interest rate change in base points).

Considering the maturity matching between interest-bearing assets and liabilities, or mainly positive periodic GAPs of up to one year, the impact on the annual net interest income in the event of reduced interest rates will be negative.

A review of Income Statement sensitivity to changes in interest rates as at 31 December 2021 is presented in the table below:

Interest rate increase	Impact on income statement in 000 EUR	Interest rate decrease	Impact on income statement in EUR
+100 bp	224	-100 bp	(224)

The Income Statement sensitivity analysis to changes in interest rate at 31 December 2020 is presented in the table below:

Interest rate increase	Impact on income statement in 000 EUR	Interest rate decrease	Impact on income statement in EUR
+100 bp	175	-100 bp	(175)

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.3. Market risk (Continued)

4.3.2. Foreign exchange risk

Foreign exchange risk is the risk that the value of assets and liabilities will change as a result of changes in foreign exchange rates.

Assets and liabilities by currencies as at 31 December 2021 were as follows:

	USD	GBP	Other	Total
LONG POSITIONS				
FX assets TOTAL	77,079 77,079	194 194	1,741 1,741	79,014 79,014
SHORT POSITIONS				
FX liabilities TOTAL	77,067 77,067	204 204	1,735 1,735	79,006 79,006
NET POSITION				
NET LONG (SHORT) POSITIONS (1) - (2) % of basic capital % of own assets	0.12% 0.09%	-10 -0.10% -0.08%	0.06% 0.05%	
Foreign currencies - aggregate % of basic capital % of own assets	0.08% 0.06%			

4. RISK MANAGEMENT (Continued)

4.3. Market risk (Continued)

4.3.2. Foreign exchange risk (Continued)

Assets and liabilities by currencies as at 31 December 2020 were as follows:

	USD	GBP	Other	Total
LONG POSITIONS				
FX assets TOTAL	60,658 60,658	66 66	540 540	61,264 61,264
SHORT POSITIONS				
FX liabilities TOTAL	60,654 60,654	58 58	537 537	61,249 61,249
NET POSITION				
NET LONG (SHORT) POSITIONS (1) - (2) % of basic capital % of own assets	0.04% 0.03%	8 0.09% 0.07%	0.03% 0.02%	
Foreign currencies - aggregate % of basic capital % of own assets	15 0.16% 0.12%			

4.4 Credit risk

Credit risk is managed on an individual loan basis and for the whole portfolio.

In order to provide the assumptions for adequate credit risk management, risk exposure is considered (i) on an individual loan basis - the Bank determines the creditworthiness and upper debt limit of a client or a group of clients, and (ii) for the whole portfolio, on the basis of:

- Portfolio structure by category of loans (corporate loans, loans to state institutions, retail loans, off-balance sheet exposures);
- Portfolio structure by timely settlement of liabilities;
- Portfolio structure by industry;
- Concentration of clients with large exposures (clients or groups of related clients with exposure exceeding 10% of the venture capital),
- Concentration of loans to individuals by type of product;

The Bank performs on a quarterly basis an impairment assessment (balance sheet assets) and a contingent loss assessment (off-balance sheet items) based on which it is exposed to credit risk, under the policy disclosed in Note 3.7.8.

On a monthly basis, the Bank performs a classification of items of balance sheet assets and off-balance sheet items based on which it is exposed to credit risk and calculates provisions for estimated losses. Provisions for credit risk are calculated in accordance with the valid regulations of the Central Bank of Montenegro (see Note 3.7.8.)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

In order to effectively manage credit risk, the Bank prepares credit risk stress scenarios and monitors the impact of the weakening of the credit portfolio on the Bank's liquidity, profitability and capital adequacy.

A review of the credit risk exposure is presented below.

Maximum exposure to credit risk without taking into account any collateral:

TOTAL EXPOSURE TO CREDIT RISK

	31 December 2021		31 December 2020		
	Gross	Net	Gross	Net	
I Cash and deposit accounts					
with Central Bank	35,485	35,433	19,096	19,068	
II Financial assets at					
amortized cost	85,748	84,574	69,697	68,921	
Loans and placements to					
banks	32,015	31,952	20,102	20,062	
Loans and placements to					
customers	53,685	52,581	49,549	48,822	
Corporate loans	45,344	44,297	46,371	45,656	
Retail loans	8,192	8,139	2,968	2,960	
Loans to entrepreneurs	2	2	16	16	
Interest and other receivables	147	143	193	191	
Other financial assets	49	41	46	37	
III Financial assets at fair					
value through other					
comprehensive income	98,508	98,508	46,322	46,322	
Securities	98,508	98,508	46,322	46,322	
IV Financial assets at fair					
value through profit or loss,					
not held for trading	0	0	0	0	
Loans and placements to					
customers	0	0	0	0	
V Other assets for which					
reserves are allocated	94	26	80	43	
VI Off-balance items	15,337	15,038	9,091	8,936	
Guarantees	7,330	7,158	6,754	6,633	
Other contingent liabilities	8,007	7,880	2,337	2,303	
Total (I+II+III+IV+V+VI)	235,172	233,579	144,287	143,290	
i Olai (ITIITIIITIVTVTVI)	233,172	233,319	144,201	143,4	

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

LOANS AND RECEIVABLES FROM CUSTOMERS, BANKS AND OTHER FINANCIAL INSTITUTIONS BY RISK LEVEL

					Impairment allowance	Impairment allowance	Impairment allowance	Total impairment	
31 December 2021	S1	S2	S3	Total	S1	<u>S2</u>	S3	allowance	Net
Loans and receivables from banks	32,015	0	0	32,015	62	0	0	62	31,952
Loans and receivables from customers	17,906	25,329	10,450	53,685	147	630	326	1,103	52,581
Retail loans	7,578	613	1	8,192	44	8	0	53	8,139
Housing loans	894	112	0	1,006	5	1	0	6	1,000
Cash non-purpose loans	2,937	295	1	3,232	17	3	0	21	3,212
Purchase of cars	18	0	0	18	0	0	0	0	18
Other	3,729	206	0	3,935	22	4	0	26	3,909
Corporate loans	10,313	24,586	10,445	45,344	102	620	324	1,046	44,297
Privately-owned companies	8,202	19,417	9,951	37,570	85	470	255	810	36,760
Non-resident companies	1,599	5,048	494	7,141	9	141	69	219	6,923
Non-governmental and other non-profit		•		,					•
organisations	511	121	0	632	8	10	0	17	615
Loans to entrepreneurs	2	0	0	2	0	0	0	0	2
Interest and other receivables	12	130	4	147	0	2	2	4	143

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

LOANS AND RECEIVABLES FROM CUSTOMERS, BANKS AND OTHER FINANCIAL INSTITUTIONS BY RISK LEVEL (Continued)

31 December 2020	S 1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Not
31 December 2020	31	32		i Otai	31	32		allowalice	Net
Loans and receivables from banks	20,102	-	-	20,102	41	-	-	41	20,062
Loans and receivables from customers	15,091	27,621	6,838	49,549	86	435	205	727	48,822
Retail loans	2,736	232	<u> </u>	2,968	7	2	<u> </u>	9	2,960
Housing loans	1,003	49	_	1,052	4	-	-	4	1,048
Cash non-purpose loans	1,195	49	_	1,244	1	_	-	2	1,242
Purchase of cars	25	_	-	25	_	_	-	-	25
Other	513	133	<u> </u>	646	1	1		3	643
Corporate loans	12,330	27,263	6,778	46,371	80	432	204	716	45,656
Privately-owned companies	9,609	21,330	5,799	36,739	55	407	45	507	36,232
Non-resident companies	1,697	5,933	979	8,609	4	25	159	189	8,420
Non-governmental and other non-profit									
organisations	1,024			1,024	20			20_	1,004
Loans to entrepreneurs	16		<u> </u>	16	<u> </u>	<u>-</u>	<u> </u>		16
Interest and other receivables	7	126	60	193		1	1	2	191

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

RECEIVABLES FROM CUSTOMERS BY OVERDUE DAYS - STAGE 1

		Overdue up to 30	From 31-60	From 61-90	
31 December 2021	Undue	days	days	days	Total
Loans and receivables from banks	32,015	<u> </u>	<u> </u>	<u> </u>	32,015
Loans and receivables from customers	14,968	2,938	<u> </u>	<u> </u>	17,906
Retail loans	6,652	926	-	-	7,578
Housing loans	809	85	-	-	894
Cash non-purpose loans	2,601	336	-	-	2,937
Purchase of cars	18	-	-	-	18
Other	3,224	505	-	-	3,729
Corporate loans	8,313	2,000	-	-	10,313
Privately-owned companies	6,662	1,541	-	-	8,202
Non-resident companies	1,602	-3	-	-	1,599
Non-governmental and other non-	49	462			511
profit organisations	49	402	-	-	511
Loans to entrepreneurs	2	0	<u> </u>	<u> </u>	2
Total loans	14,968	2,926	<u> </u>	<u> </u>	17,894
Out of which: restructured		<u> </u>		<u> </u>	
Interest and other receivables		12			12
interest and other receivables		12	- -	- -	12
		Overdue	From	From	
04 D		up to 30	31-60	61-90	T .4.1
31 December 2020	Undue				Total
Loans and receivables from banks	Undue 20,102	up to 30	31-60	61-90	Total 20,102
Loans and receivables from banks Loans and receivables from	20,102	up to 30 days	31-60 days	61-90	20,102
Loans and receivables from banks		up to 30	31-60	61-90	
Loans and receivables from banks Loans and receivables from	20,102	up to 30 days	31-60 days	61-90	20,102
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans	20,102 11,505 2,567 950	up to 30 days 3,585 169 53	31-60 days	61-90	20,102 15,091 2,736 1,003
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans	20,102 11,505 2,567 950 1,105	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars	20,102 11,505 2,567 950 1,105 25	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans	20,102 11,505 2,567 950 1,105	up to 30 days 3,585 169 53	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars	20,102 11,505 2,567 950 1,105 25	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans	20,102 11,505 2,567 950 1,105 25 487 8,922	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25 513 12,330
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other	20,102 11,505 2,567 950 1,105 25 487	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25 513
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies	20,102 11,505 2,567 950 1,105 25 487 8,922 7,159	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25 513 12,330 9,609
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies	20,102 11,505 2,567 950 1,105 25 487 8,922 7,159	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25 513 12,330 9,609
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non-	20,102 11,505 2,567 950 1,105 25 487 8,922 7,159 1,697	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25 513 12,330 9,609 1,697
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations	20,102 11,505 2,567 950 1,105 25 487 8,922 7,159 1,697 66	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25 513 12,330 9,609 1,697 1,024
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations Loans to entrepreneurs	20,102 11,505 2,567 950 1,105 25 487 8,922 7,159 1,697 66 16	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25 513 12,330 9,609 1,697 1,024 16
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations Loans to entrepreneurs Total loans	20,102 11,505 2,567 950 1,105 25 487 8,922 7,159 1,697 66 16	up to 30 days	31-60 days	61-90	20,102 15,091 2,736 1,003 1,195 25 513 12,330 9,609 1,697 1,024 16

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

RECEIVABLES FROM CUSTOMERS BY OVERDUE DAYS - STAGE 2

31 December 2021	Undue	Overdue up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Loans and receivables from banks	_	_			_	
Loans and receivables from	<u>-</u>	<u>-</u>			<u>-</u>	<u>-</u>
customers	5,157	11,229	8,706	236	-	25,329
Retail Ioans	175	313	111	14	-	613
Housing loans	71	-	41	-	-	112
Cash non-purpose loans	105	123	65	2	-	295
Purchase of cars Other	-	400	- 5	- 11	-	-
Other	-	190	5	11	-	206
Corporate loans	4,982	10,880	8,505	218	-	24,586
Privately-owned companies	4,815	5,878	8,505	218	-	19,417
Non-resident companies	167	4,882	-	-	-	5,048
Non-governmental and other non-						
profit organisations	-	121	-	-	-	121
Loans to entrepreneurs						
Total loans	5,157	11,193	8,616	232		25,199
Out of which: restructured		2,417	447	0		2,864
Interest and other receivables		36	90	4		130
31 December 2020	Undue	Overdue up to 30 davs	From 31-60 davs	From 61-90 davs	Over 90 davs	Total
31 December 2020	Undue				Over 90 days	Total
Loans and receivables from banks	Undue -	up to 30	31-60	61-90		Total -
Loans and receivables from banks Loans and receivables from		up to 30 days	31-60 days -	61-90 days -		-
Loans and receivables from banks Loans and receivables from customers	11,310	up to 30 days	31-60	61-90 days - 8,600		27,621
Loans and receivables from banks Loans and receivables from customers Retail loans		up to 30 days	31-60 days -	61-90 days -		27,621 232
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans	11,310 78	up to 30 days	31-60 days -	61-90 days - - 8,600 18		27,621 232 49
Loans and receivables from banks Loans and receivables from customers Retail loans	11,310	up to 30 days	31-60 days -	61-90 days - 8,600		27,621 232
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans	11,310 78	up to 30 days	31-60 days -	61-90 days - - 8,600 18		27,621 232 49
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars	- 11,310 78 - 9	equation 49 and 40 and	31-60 days -	61-90 days - 8,600 18 - 15		27,621 232 49 49
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans	- 11,310 78 - 9 - 69 11,232	up to 30 days	31-60 days - 1,490 1,475	8,600 18 - 15 - 4		27,621 232 49 49 - 133 27,263
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies	11,310 78 - 9 - 69 11,232	up to 30 days	31-60 days - 1,490	61-90 days - 8,600 18 - 15 - 4		27,621 232 49 49 - 133 27,263
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non-	- 11,310 78 - 9 - 69 11,232	up to 30 days	31-60 days - 1,490 1,475	8,600 18 - 15 - 4		27,621 232 49 49 - 133 27,263
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations	11,310 78 - 9 - 69 11,232 6,949 4,283	up to 30 days	31-60 days - 1,490 1,475	8,600 18 - 15 - 4		27,621 232 49 49 - 133 27,263
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations Loans to entrepreneurs	11,310 78 - 9 - 69 11,232 6,949 4,283	up to 30 days	31-60 days - 1,490 1,475 1,475	8,600 18 - 15 - 4 8,491 - -		27,621 232 49 49 - 133 27,263 21,330 5,933
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations	11,310 78 - 9 - 69 11,232 6,949 4,283	up to 30 days	31-60 days - 1,490 1,475	8,600 18 - 15 - 4		27,621 232 49 49 - 133 27,263
Loans and receivables from banks Loans and receivables from customers Retail loans Housing loans Cash non-purpose loans Purchase of cars Other Corporate loans Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations Loans to entrepreneurs	11,310 78 - 9 - 69 11,232 6,949 4,283	up to 30 days	31-60 days - 1,490 1,475 1,475	8,600 18 - 15 - 4 8,491 - -		27,621 232 49 49 - 133 27,263 21,330 5,933

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

RECEIVABLES FROM CUSTOMERS BY OVERDUE DAYS - STAGE 3

31 December 2021	Undue	Overdu e up to 30 days	From 31- 60 days	From 61- 90 days	Over 90 days	Total
Loans and receivables from banks				_	<u>-</u>	
Loans and receivables from customers	6,635	3,684	50	79	2	10,450
Retail loans Housing loans	1	-	-	-	-	1
Cash non-purpose loans Purchase of cars Other	1 -	- - -	- - -	- - -	- - -	1 - -
Corporate loans	6,635	3,683	50	78		10,445
Privately-owned companies Non-resident companies Non-governmental and other non-profit organisations	6,199 436	3,625 58	50 - -	78 - -	- -	9,951 494 -
Loans to entrepreneurs						<u>-</u> _
Total loans	6,635	3,683	50	78	<u> </u>	10,445
Out of which: restructured	6,637	1,534	50			8,220
Interest and other receivables		1		1	2	4
31 December 2020	Undue	Overdu e up to 30 days	From 31- 60 days	From 61-90 days	Over 90 days	Total
				<u> </u>		
Loans and receivables from banks Loans and receivables from						-
customers Retail Ioans		927	62	5,796	52	6,838
Housing loans Cash non-purpose loans	-	-	-	-	-	-
Purchase of cars	- -	- -	- -	- -	- -	-
Other						-
Corporate loans		925	61	5,740	51	6,778
Privately-owned companies Non-resident companies Non-governmental and other non-profit organisations	- -	8 918 -	- 61 -	5,740 -	51 - -	5,799 979
J						
Loans to entrepreneurs	_	_	_	-	-	-
Loans to entrepreneurs Total loans		925				- 6,778
·	<u>.</u>	925	61 61	<u>-</u> <u>5,740</u> 5,660		6,778 5,722

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

SHARE OF NON-PERFORMING EXPOSURES-STAGE 3 IN TOTAL LOANS

31 December 2021	Gross exposure	Impairment allowance	S3 receivables	Impairment allowance S3	Restructured S3 receivables	Impairment allowance restructured S3 receivables	Share of S3 receivables in gross exposures
Loans and receivables from banks	32,015	62	-	-	_	_	0.00%
Loans and receivables from							
customers	53,685	1,103	10,450	326	8,221	285	19.46%
Retail loans	8,192	53	1				0.01%
Housing loans	1,006	6	-	-	-	-	0.00%
Cash non-purpose loans	3,232	21	1	-	-	-	0.02%
Purchase of cars	18	-	-	-	-	-	0.00%
Other	3,935	26					0.00%
Corporate loans	45,344	1,046	10,445	324	8,220	285	23.03%
Administrative and support service							
activities	503	13	=	-	-	-	0.00%
Construction	6,614	222	2,116	166	1,962	163	31.99%
Information and communication	2,102	162	-	-	-	-	0.00%
Other service activities	632	17	-	-	-	-	0.00%
Agriculture, forestry and fishing	185	3	-	-	-	-	0.00%
Real estate operations	4,578	60	-	-	-	-	0.00%
Processing industry	10,793	74	2,031	23	-	-	18.82%
Traffic and warehousing	2,670	82	-	-	-	-	0.00%
Water supply	200	5	-	-	-	-	0.00%
Professional, scientific and technical	500	0-	00	2.4		40	4.4.0.40/
activities	599	37	89	31	50	18	14.84%
Trade	9,324	310	494	69	494	69	5.29%
Accommodation and catering services	6,805	46	5,715	35	5,715	35	83.99%
Healthcare and social security	340	15_				-	0.00%
Loans to entrepreneurs	2						0.00%
Interest and other receivables	147	4	4	2	1		3.06%

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

SHARE OF NON-PERFORMING EXPOSURES-STAGE 3 IN TOTAL LOANS (Continued)

31 December 2020	Gross exposure	Impairment allowance	S3 receivables	Impairment allowance S3	Restructured S3 receivables	Impairment allowance restructured S3 receivables	Share of S3 receivables in gross exposures
Loans and receivables from banks	20,102	41_		<u></u> _	<u>-</u>	<u>-</u>	0.00%
Loans and receivables from customers	49,549	727	6,838	205	5,778	44	13.80%
Retail loans	2,968	9			<u> </u>		0.00%
Housing loans	1,052	4	-	-	-	-	0.00%
Cash non-purpose loans	1,244	2	-	-	-	-	0.00%
Purchase of cars	25	-	-	-	-	-	0.00%
Other	646	3_					0.00%
Corporate loans	46,371	716	6,778	204	5,722	44	14.62%
Administrative and support service							
activities	460	12	-	-	-	-	0.00%
Financial and insurance activities	3,573	11	-	-	=	-	0.00%
Construction	8,392	106	80	3	-	-	0.95%
Information and communication	2,052	108	-	-	-	-	0.00%
Other service activities	1,024	20	-	-	-	-	0.00%
Agriculture, forestry and fishing	222	9	-	-	-	-	0.00%
Real estate operations	5,048	58	=	=	-	-	0.00%
Processing industry	10,968	108	-	-	-	-	0.00%
Traffic and warehousing	4,372	54	-	-	-	-	0.00%
Water supply	110	1	-	-	-	-	0.00%
Professional, scientific and technical							
activities	401	6	-	-	-	-	0.00%
Trade	3,824	185	1,038	168	61	11	27.14%
Accommodation and catering services	5,724	34	5,660	33	5,660	33	98.88%
Healthcare and social security	202	4_					0.00%
Loans to entrepreneurs	16					- <u></u> _	0.00%
Interest and other receivables	193	2	60	1	56	0	30.95%

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CHANGES IN S3 RECEIVABLES

	Gross as of 31 December 2020	New S3 customers	Decrease in S3 customers	Rate impact	Other changes	Gross as of 31 December 2021	Net as of 31 December 2021
Loans and receivables from customers	6,838	4,735	1,122	_	0	10,450	10,124
Retail loans	0	1	0		0	1	0
Housing loans	0	0	0	-	0	0	0
Cash non-purpose loans	0	1	0	-	0	1	0
Purchase of cars	0	0	0	-	0	0	0
Other		0	0		0	0	0
Corporate loans	6,778	4,730	1,118		55_	10,445	10,121
Privately-owned companies	5,799	4,236	139	_	55	9,951	9,696
Non-resident companies	979	494	979	-	0	494	425
Non-governmental and other non- profit organisations	0	0	0		0	0	0
Loans to entrepreneurs	0	0	0		0	0	0
Interest and other receivables	60	4	5		-55	4	2

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CHANGES IN S3 RECEIVABLES (Continued)

	Gross as of 31 December 2019	New S3 customers	Decrease in S3 customers	Rate impact	Other changes	Gross as of 31 December 2020	Net as of 31 December 2020
Loans and receivables from customers	7,155	133	692	-	242	6,838	6,632
Retail loans		-				-	-
Housing loans	-	_	_	_	-	-	-
Cash non-purpose loans	-	-	-	-	-	-	-
Purchase of cars	-	-	-	-	-	-	-
Other	- -			-			
Corporate loans	7,132	131	692		207	6,778	6,574
Privately-owned companies	6,233	51	692	-	207	5,799	5,754
Non-resident companies	899	80	-	-	-	979	820
Non-governmental and other non-							
profit organisations		<u>-</u>				<u> </u>	<u> </u>
Loans to entrepreneurs		<u>-</u>					
Interest and other receivables	23	2	_	-	35	60	59

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

RESTRUCTURINGS OF RECEIVABLES

31 December 2021	Gross exposure	Restructured receivables- gross exposure	S1 restructured receivables	S2 restructured receivables	S3 restructured receivables	Impairment allowance of restructured receivables	Impairment allowance of S1 restructured receivables	Impairment allowance of S2 restructured receivables	Impairment allowance of S3 restructured receivables	Share of restructured receivables in gross exposures
Loans and receivables from										
customers	53,685	11,090		2,869	8,221	318		33	285	21%
Retail Ioans	8,192									0%
Housing loans	1,006	-	_	_	-	_	_	-	_	0%
Cash non-purpose loans	3,232	-	-	-	-	-	-	-	-	0%
Purchase of cars	18	-	-	-	-	-	-	-	-	0%
Other	3,935				_					0%
Corporate loans	45,344	11,084		2,864	8,220	318		33	285	24%
Administrative and support										
service activities	503	_	_	_	_	-	_	0	0	0%
Construction	6,614	4,379	-	2,417	1,962	177	-	14	163	66%
Information and communication	2,102	· -	-	0	, <u>-</u>	-	-	-	-	0%
Other service activities	632	-	-	0	-	-	-	-	-	0%
Agriculture, forestry and fishing	185	-	-	0	-	-	-	-	-	0%
Real estate operations	4,578	-	-	0	-	-	-	-	-	0%
Processing industry	10,793	447	-	447	-	19	-	19	-	4%
Traffic and warehousing	2,670	-	-	-	-	-	-	-	-	0%
Water supply	200	-	-	-	-	-	-	-	-	0%
Professional, scientific and										
technical activities	599	50	-	-	50	18	-	-	18	8%
Trade	9,324	494	-	-	494	69	-	-	69	5%
Accommodation and catering										
services	6,805	5,715	-	-	5,715	35	-	-	35	84%
Healthcare and social security	340	0	-		-	<u> </u>		-		0%_
Loans to entrepreneurs	2	0								0%
Interest and other receivables	147	6		5	1	-				4%

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

RESTRUCTURINGS OF RECEIVABLES (Continued)

31 December 2020	Gross exposure	Restructured receivables- gross exposure	S1 restructure dreceivable s	S2 restructuredr eceivables	S3 restructured receivables	Impairment allowance of restructured receivables	Impairment allowance of \$1 restructured receivables	Impairment allowance of S2 restructured receivables	Impairment allowance of S3 restructured receivables	Share of restructured receivables in gross exposures
Loans and receivables from					100011410100		100011410100	10001140000	10001143100	охросинос
customers	49,549	5,828	-	50	5,778	47	-	3	44	12%
Retail loans	2,968			-				_		0%
Housing loans	1,052	-	-	-	-	-	-	-	-	0
Cash non-purpose loans	1,244	-	-	-	-	-	-	-	-	0
Purchase of cars	25	-	-	-	-	-	-	-	-	0
Other	646									0
Composet loons	40.074	£ 770		50	F 700	47		•	4.4	400/
Corporate loans	46,371	5,772		50	5,722	47			44	12%
Administrative and support										
service activities	460	_	_	_	_	_	_	_	_	0%
Financial and insurance	400	_	_	_	_	_	_	_	_	0 70
activities	3,573	_	_	_	_	_	_	_	_	0%
Construction	8,392	_	_	_	_	_	_	_	_	0%
Information and communication	2,052	_	_	_	_	_	_	_	_	0%
Other service activities	1,024	_	_	_	_	_	_	_	_	0%
Agriculture, forestry and fishing	222	_	_	_	_	_	_	_	_	0%
Real estate operations	5,048	_	_	_	_	_	_	_	_	0%
Processing industry	10,968	_	_	_	_	_	_	_	_	0%
Traffic and warehousing	4,372	-	_	-	_	_	_	_	_	0%
Water supply	110	-	_	-	_	_	_	_	_	
Professional, scientific and										
technical activities	401	-	_	-	_	_	_	_	-	0%
Trade	3,824	111	-	50	61	14	-	3	11	3%
Accommodation and catering	•									
services	5,724	5,660	-	0	5,660	33	-	-	33	99%
Healthcare and social security	202	-	-	-	-		-		-	0%
										·
Loans to entrepreneurs	16									0%
Interest and other receivables	193	56			56					29%

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CHANGES IN RESTRUCTURED S1 RECEIVABLES

	Gross restructured S1 receivables as of 31 December 2020	New restructured S1 receivables	Decrease in restructured S1 receivables	Rate impact	Other changes (reduction based on the transfer of already restructured loans to S2)	Gross as of 31 December 2021	Net as of 31 December 2021
Loans and receivables from customers			<u>-</u> _				<u>-</u> _
Retail loans							
Corporate loans							
Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations	- - -	- -	- - -		<u>-</u>	- -	- - -
Loans to entrepreneurs	_	<u> </u>	_	<u>-</u> _	<u>-</u>		
Interest and other receivables	-			_	-		

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CHANGES IN RESTRUCTURED S1 RECEIVABLES (Continued)

	Gross restructured S1 receivables as of 31 December 2019	New restructured S1 receivables	Decrease in restructured S1 receivables	Rate impact	Other changes (reduction based on the transfer of already restructured loans to S2)	Gross as of 31 December 2020	Net as of 31 December 2020
Loans and receivables from customers							
Retail loans							
Corporate loans							
Privately-owned companies Non-resident companies Non-governmental and other non- profit organisations	- -	- - -	- - -	- - -	- -		<u> </u>
Loans to entrepreneurs							
Interest and other receivables	-	-	-	-	-	-	_

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CHANGES IN RESTRUCTURED S2 RECEIVABLES

	Gross restructured S2 receivables as of 31 December 2020	New restructured S2 receivables	Decrease in restructured S2 receivables	Rate impact	Other changes	Gross as of 31 December 2021	Net as of 31 December 2021
Loans and receivables from customers	50	2,869	50			2,869	2,836
Retail loans							
Corporate loans	50	2,864	50			2,864	2,831
Privately-owned companies Non-resident companies Non-governmental and other	50 -	2,864 -	50 -		- -	2,864	2,831 -
non-profit organisations	- _	_ _			-	<u>-</u>	
Loans to entrepreneurs	<u> </u>					<u> </u>	
Interest and other receivables		5				5	5

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CHANGES IN RESTRUCTURED S2 RECEIVABLES (Continued)

	Gross restructured S2 receivables as of 31 December 2019	New restructured S2 receivables	Decrease in restructured S2 receivables	Rate impact	- decrease (increase/decr ease based on the transfer of already restructured loans to S2/ the transfer of already restructured	Gross as of 31 December 2020	Net as of 31 December 2020
Loans and receivables from customers	5,190	50	5,190			50	47
Retail loans		<u> </u>			<u> </u>		
Corporate loans	5,173	50	5,173			50	47
Privately-owned companies Non-resident companies Non-governmental and other	5,173 -	50 -	5,173 -	- -		50 -	47 -
non-profit organisations							
Loans to entrepreneurs							
Interest and other receivables	17		17				

Other changes

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CHANGES IN RESTRUCTURED S3 RECEIVABLES

	Gross restructured S3 receivables as of 31 December 2020	New restructured S3 receivables	Decrease in restructured S3 receivables	Rate impact	Other changes (increase based on the transfer of already restructured loans to S3)	Gross as of 31 December 2021	Net as of 31 December 2021
Loans and receivables from customers	5,778	2,561	117			8,221	7,936
Retail loans	<u> </u>						
Corporate loans	5,722	2,560	61			8,220	7,935
Privately-owned companies Non-resident companies Non-governmental and other non-profit organisations	5,660 61 -	2,066 494 	- 61 -	- 		7,727 494 	7,510 425
Loans to entrepreneurs	<u> </u>						
Interest and other receivables	56	1	56			1	1

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CHANGES IN RESTRUCTURED S3 RECEIVABLES (Continued)

	Gross restructured S3 receivables as of 31 December 2019	New restructured S3 receivables	Decrease in restructured S3 receivables	Rate impact	Other changes (increase based on the transfer of already restructured loans to S3)	Gross as of 31 December 2020	Net as of 31 December 2020
Loans and receivables from customers	6,116	304	641			5,778	5,734
Retail loans			0				
Corporate loans	6,093	270	641			5,722	5,678
Privately-owned companies Non-resident companies Non-governmental and other non-profit organisations	6,093	208 61 	641	<u> </u>	<u>-</u>	5,660 61	5,627 51
Loans to entrepreneurs			<u> </u>				
Interest and other receivables	23_	34				56_	56

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CONCENTRTION RISK

LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS BY INDUSTRY AND GEOGRAPHICAL CONCENTRATION TO EXPOSURE

31 December 2021	Re	eceivables fro	m S1 and S2	customers			Receivab	les from S3 cı	ustomers	
				Bosnia and					Bosnia and	
	Montenegro	Turkey	Germany	Herzegovina	Other	Montenegro	Turkey	Germany	Herzegovina	Other
Loans and receivables from banks	1,665	5,904	5,476	5,544	13,364			-	-	
Loans and receivables from customers	35,930	-		<u>-</u>	6,527	9,698		384	-	42
Retail Ioans	8,139			<u>-</u>	<u>-</u>			<u>-</u>	-	
Housing loans	1,000	-	-	-	-	_	-	-	-	-
Cash non-purpose loans	3,211	-	-	-	-	-	-	-	-	-
Purchase of cars	18	-	-	-	-	-	-	-	-	-
Other	3,909	-	-	-	-	-	-	-	-	-
Corporate loans	27,676	-	-	-	6,500	9,696	-	384	-	41
Administrative and support service activities	490	-	-	-	0	0	-	-	_	_
Construction	4,276	_	-	_	166	1,950	_	_	-	-
Information and communication	1,940	_	-	_	_	, -	_	_	-	-
Other service activities	615	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	182	-	-	-	_	-	-	-	-	-
Real estate operations	4,518	-	-	-	-	-	-	-	-	-
Processing industry	8,712	-	-	-	-	2,007	-	-	-	-
Traffic and warehousing	2,588	-	-	-	-	-	-	-	-	-
Water supply	195	-	-	-	-	-	-	-	-	-
Professional, scientific and technical activities	504	-	-	-	-	58	-	-	-	-
Trade	2,255	-	-	-	6,334	-	-	384	-	41
Accommodation and catering services	1,078	-	-	-	-	5,680	-	-	-	-
Healthcare and social security	325	-	-	-	<u> </u>		-	-	-	
Loans to entrepreneurs	2	-	-	-	-	-	-	-	-	-
Interest and other receivables	113	-	-	-	27	2	-	-	-	-
Total	37,596	5,904	5,476	5,544	19,891	9,698	-	384	-	42

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

CONCENTRTION RISK (Continued)

LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS BY INDUSTRY AND GEOGRAPHICAL CONCENTRATION TO EXPOSURE (Continued)

31 December 2020	Ro	eceivables from S	1 and S2 cu	stomers			Receivables fro	m S3 custo	mers	
		Bosnia and					Bosnia and			
	Montenegro	Herzegovina	Russia	Cyprus	Other	Montenegro	Herzegovina	Russia	Cyprus	Other
Loans and receivables from banks	4,065	4,771	4,664	_	6,561	_	_	_	_	_
Loans and receivables from customers	34,581	-	-	3,562	4,047	5,810	-	-	69	753
Retail loans	2,960	-	-	-			-	-	-	
Housing loans	1,048	_	_	-	_	_	_	_	_	_
Cash non-purpose loans	1,242	_	_	_	_	_	_	_	_	_
Purchase of cars	25	_	_	_	_	_	_	_	_	_
Other	643	-	-	-	-	-	_	_	_	_
Corporate loans	31,482	-	-	3,562	4,039	5,754	-	-	68	752
Administrative and support service activities	448	_	_	_	_	_	_	_	_	_
Financial and insurance activities	0	_	_	3,562	_	_	_	_	_	_
Construction	7,503	_	_	-	706	77	_	_	_	_
Information and communication	1,944	_	_	_	-		_	_	_	_
Other service activities	1,004	_	_	_	_	_	_	_	_	_
Agriculture, forestry and fishing	213	-	-	-	-	-	_	_	_	_
Real estate operations	4,990	-	-	-	-	-	_	_	_	_
Processing industry	10,859	-	-	-	-	-	-	-	_	_
Traffic and warehousing	2,740	-	-	-	1,579	-	-	-	_	_
Water supply	109	-	-	-	´ -	-			_	-
Professional, scientific and technical activities	396	-	-	-	-	-	-	-	-	-
Trade	1,015	-	-	-	1,754	50	-	-	68	752
Accommodation and catering services	64	-	-	-	´ -	5,627	-	-	-	-
Healthcare and social security	198	-	-	-	-		-	-	-	-
Loans to entrepreneurs	16	-	_	-	_	_	-	_	-	_
Interest and other receivables	124	-	-	-	9	56	-	-	1	2
Total	38,646	4,771	4,664	3,562	10,609	5,810	-	-	69	753

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

COLLATERALISED LOANS AND RECEIVABLES FROM CUSTOMERS

31 December 2021		S1 customers				S2 customers				S3 customers			
	Other				Other						Other		
	Property	Deposits	collaterals	Total	Property	Deposits	collaterals	Total	Property	Deposits	collaterals	Total	
Retail Ioans	2,468	155		4,911	329			275					
Housing loans	691	29	_	169	111	_	_	_	_	_	_	_	
Cash non-purpose loans	530	113	-	2,277	161	-	-	130	-	-	-	_	
Purchase of cars	-	-	-	18	0	-	-	-	-	-	-	_	
Other	1,247	13		2,448	57	-	-	145		-	-		
Corporate loans	5,506	375	-	4,330	9,248	8,942	-	5,776	2,152	7,735	-	234	
Privately-owned													
companies	5,506	375	-	2,237	7,555	6,930	-	4,462	2,111	7,585	-	_	
Non-resident companies Non-governmental and	-	-	-	1,590	1,693	2,013	-	1,202	41	150	-	234	
other non-profit organisations		-	-	503		-	-	111		-	-	_	
Loans to entrepreneurs	2		-				-			-	-		
Total	7,976	530	-	9,241	9,577	8,942	-	6,051	2,152	7,735	-	234	

Notes to the financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand, unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.4. Credit risk (Continued)

COLLATERALISED LOANS AND RECEIVABLES FROM CUSTOMERS

31 December 2020		S1 customers				S2 customers				S3 customers			
			Other				Other				Other		
	Property	Deposits	collaterals	Total	Property	Deposits	collaterals	Total	Property	Deposits	collaterals	Total	
Retail Ioans	1,407	84	1,239	2,730	119		111	230				-	
Housing loans	923	34	42	999	49	_	_	49	_	_	_	_	
Cash non-purpose loans	234	50	910	1,193	13	-	36	49	-	-	-	_	
Purchase of cars	_	_	25	25	_	_	_	_	-	_	_	_	
Other	250	-	262	512	57		74	132		-	-		
Corporate loans	7,851	450	3,950	12,251	12,639	9,793	4,399	26,831	573	5,331	669	6,574	
Privately-owned													
companies	6,875	450	2,230	9,554	9,006	7,518	4,399	20,924	523	5,181	50	5,754	
Non-resident companies Non-governmental and other non-profit	976	-	717	1,693	3,633	2,275	-	5,907	50	150	619	819	
organisations		-	1,004	1,004		-	-	_		-	-	-	
Loans to entrepreneurs	16		-	16			-	<u>-</u>			-	<u>-</u>	
Total	9,275	534	5,189	14,997	12,758	9,793	4,510	27,061	573	5,331	669	6,574	

4. RISK MANAGEMENT (Continued)

4.5. Fair Value of Financial Assets and Liabilities

	Carrying	value	Fair val	ue
	2021	2020	2021	2020
Cash balances and deposits with central banks	35,433	19,068	35,433	19,068
Financial assets at amortised cost	84,574	68,921	84,574	68,921
Loans and receivables from banks	31,952	20,062	31,952	20,062
Loans and receivables from customers	52,581	48,822	52,581	48,822
Other financial assets	41	37	41	37
Financial assets at FVTOCI (securities) Financial assets at FVTPL (loans and	98,508	46,322	98,508	46,322
receivables from customers)	<u> </u>	<u>-</u>	-	
Financial liabilities at amortised cost				
Customers' deposits	199,914	118,383	199,914	118,383
Banks' deposits	4	9	4	9
Loans of customers other than banks	2,528	1,556	2,528	1,556
Other liabilities	4,917	4,310	4,917	4,310
Subordinated debt	3,000	3,000	3,000	3,000

Fair value is the amount that would be collected for sale of assets, i.e. paid for the settlement of the liabilities in a regular transaction between market participants at the measurement date under the given market conditions. However, there are no available market price for a certain part of the Bank's financial instruments. In conditions in which there is no available market price, fair value is estimated using discounted cash flow model or other models. Changes in assumptions underlying the estimates, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, determined estimates of fair market value cannot be realized in a current sale of the financial instrument.

4.5.1 Fair Value of Financial Instruments Measured at Fair value

Fair value hierarchy of financial instruments measured at fair value

IFRS 13 defines a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 Quoted prices (unadjusted) on active markets for identical assets or liabilities. This level includes listed equity securities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for an asset or a liability, either directly (that is, as prices) or indirectly (that is, as derived from prices).
- Level 3 Inputs for an asset or a liability that are not based on observable market data (unobservable inputs). This level includes equity investments with Bank's market assumption (no available market data).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

4. RISK MANAGEMENT (Continued)

4.5. Fair Value of Financial Assets and Liabilities (Continued)

4.5.1 Fair Value of Financial Instruments Measured at Fair value (Continued)

An estimated fair value of financial instruments based on a fair value hierarchy is presented as follows:

31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets -at fair value through other comprehensive income -at fair value through profit or loss	98,508	<u> </u>	<u>-</u>	98,508
Total	98,508			98,508
31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets -at fair value through other comprehensive income -at fair value through profit or loss	46,322 	<u>-</u>	<u>:</u>	46,322
Total	46,322			46,322

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. However, no readily available market prices exist for a certain portion of the Bank's financial instruments, and those were accordingly classified into Level 2 and Level 3 based on fair value hierarchy. In this circumstance where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affects the estimates. Therefore, the calculated fair market estimates cannot be realized in a current sale of the financial instrument.

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

5. CAPITAL MANAGEMENT

The Bank manages its capital, which is a broader concept than equity in the Balance Sheet, in order to:

- comply with capital requirements set by the Central Bank of Montenegro
- secure a capital adequacy ratio that will enable it to continue as a going concern and
- retain the capital adequacy ratio that will enable further development of operations.

The capital adequacy and the use of capital is monitored by the Bank's management on a quarterly basis. The Central Bank of Montenegro has defined the following capital requirement limits:

- Minimum capital cash portion of EUR 5 million and the
- Capital adequacy ratio of 10%.

The Bank's total capital, i.e. own funds, consists of Tier 1 (stake capital) and Tier 2 (additional) capital and deductibles:

Stake capital comprises: Paid-in share capital measured at nominal value, exclusive of cumulative preference shares; collected share premium, exclusive of share premium for preference cumulative shares, required reserve for estimated losses at regulatory request, set aside in accordance with the decision prescribing minimum standards for credit risk management in banks; reserves created and charged to profit after taxation (legal, statutory and other reserves); prior years retained earnings for which the Shareholders' Assembly has decided to include in basic capital, less income tax and other expected expenses; current year profit, provided the following conditions have been met: the Shareholders' Assembly, or the Board of Directors with the approval of the Shareholder's Assembly passed a Decision that current year profit in its full or less than full amount shall be allocated to reserves as an increase in share capital, so as to cover prior years' losses and/or to retained earnings, and presented in the form of a percentage (profit is reduced for related income tax and other expected expenses; profit is confirmed by an independent auditor; the Bank received approval from the Central Bank to incorporate profit in its stake capital).

Deductibles from Tier 1 capital comprise: Prior year's loss; current year loss; intangible assets such as goodwill, licenses, patents, trademarks and concessions; nominal value of acquired own shares, exclusive of cumulative preference shares; unrealised loss arising from fair value adjustments of financial assets available for sale; the gain on calculated provisions for contingent losses and total provisions for balance sheet and off-balance sheet items; the amount exceeding the limit for investments in immovable property and fixed assets determined by special regulations prescribed by the Central Bank.

Additional capital comprises: Nominal value of cumulative preference shares; collected share premium for preference cumulative shares; general reserves, not exceeding 1.25% of total risk weighted assets; subordinated debt and hybrid instruments, which meet the requirements of Article 6 and Article 7 of the Decision on Capital Adequacy for inclusion into additional capital. Deductibles from additional capital comprise: Acquired own cumulative preference shares; receivables and potential payables secured by hybrid instruments or the Bank's subordinated loan in the amount not exceeding the value of the instruments included in additional capital.

Capital requirements are determined on an individual basis for each type of risk - credit risk, operating risk - market risk and other risks in accordance with applicable regulations. Major capital requirements relate to capital used to cover credit risk and country risk. In this respect, credit risk weighted assets are calculated using ponders ranging between 0% do 150% depending on the type and the level of credit risk specific for each risk exposure. Another major capital requirement relates to country risk. Capital to cover country risk is calculated using ponders ranging between 0% and 300%.

5. CAPITAL MANAGEMENT (Continued)

The Bank's total capital structure as of 31 December 2021 and 31 December 2020 and the capital adequacy ratio are presented in the table below:

	2021	2020
Stake capital		
Paid-in share capital measured at nominal value, exclusive		
of cumulative preference shares	12,500	10,500
Collected share premiums	-	-
Retained earnings from prior years for which the		
Shareholders Assembly decided to be included in stake		
capital, less income tax and other expected costs	252	689
Amount for mitigating negative effects on Bank's own funds		
due to the transition to measuring asset items using IFRS _	86	120
Stake capital	12,837	11,309
Prior years' loss	-	-
Current year loss	-	-
Intangible assets	279	307
Unrealised loss arising from value adjustments of financial		
assets avaliable for sale, at fair value	726	-
Gains on the difference between calculated reserve for		
contingent losses and the provision made	1,709	1,853
Deductibles on the calculation of Tier 1 capital	2,714	2,160
Stake capital	10,123	9,149
Additional components of own funds included in		
additional capital	3,000	3,000
Bank's own funds	13,123	12,149
Weighted balance sheet assets	71,285	63,164
Weighted off-balance sheet assets	11,955	6,852
Amount for mitigating negative effects of the transition to		
measuring asset items using IFRS 9	86	120
Total credit risk weighted assets	83,326	70,136
Capital required to cover market risks	-	-
Capital required to cover operational risks	966	822
Capital required to cover country risk	5,916	4,184
Capital required to cover other risks	<u>-</u> -	
Solvency ratio	13.27%	14.72%

6. INTEREST INCOME AND EXPENSES AND SIMILAR INCOME AND EXPENSES

	2021	2020
Interest income and similar income Deposits held with foreign banks	37	88
Loans Privately-owned companies Retail customers Entrepreneurs Other	2,534 2,171 324 1 38	2,102 1,932 112 1 57
Securities	1,503	1,150
Loan approval fee	166	150
Total interest income and similar income	4,240	3,490
Interest income on impaired placements Privately-owned companies	399	333
Total interest income on impaired placements	399	333
Interest expenses and similar expenses Deposits Banks Government of Montenegro Privately-owned companies Non-governmental sector Retail customers	(642) (27) (6) (445) (1) (163)	(634) (14) (39) (491) (1) (89)
Borrowings Government of Montenegro	(15) (15)	(21) (21)
Lease interest expenses	(81)	(83)
Other	(135)	(135)
Total interest expenses	(873)	(873)
Net interest income	3,766	2,950

7. NET GAINS/LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

_	2021	2020
Costs of loan impairment Costs of impairment of interest receivables Costs of impairment of cash equivalents, deposits, loans	375 (3)	190 (4)
and other receivables with banks Costs of impairment of securities at FVTOCI Costs of impairment of other financial assets	45 258 (1)	(53) 95
Costs of impairment of other assets Provision costs for off-balance sheet liabilities	44 143	23 18
Total impairment and provision costs	861	269

7.1. Movements in impairment allowances and provisions in the Balance Sheet

Movements in impairment allowances and provisions were as follows:

	Loans (Note 15.2)	Interest (Note 15.2.)	Banks (Notes 14 and 15.1)	Other financial assets	Other assets (Note 20)	Off- balance sheet items	Total
Balance as of 31 December 2019	534	1	122	9	46	138	850
Increase in impairment allowances	794	5	57	-	33	203	1,092
Reversal of impairment Write-off Unwinding	(604)	(9) 5	(110)	-	(9) (32)	(185) - -	(918) (32) 5
Balance as of 31 December 2020	724	2	69	9	37	156	997
Increase in impairment							
allowances	1,903	20	152	-	51	585	2,711
Reversal of impairment	(1,528)	(23)	(107)	(1)	(7)	(442)	(2,108)
Write-off	· -	(9)	-	-	(12)	· -	(21)
Unwinding	-	14	-	-	· -	-	`14
Balance as of				·			
31 December 2021	1,099	4	114	8	69	299	1,593

8. FEE AND COMMISSION INCOME AND EXPENSES

	2021	2020
Fees and commission income		
Bank charges	1,252	907
Account maintenance	721	632
Off-balance sheet operation fees Card and ATM operations	173 84	214 52
Investment banking	55	35
Other fees	67	60
Loan fees	7	2
Total fees and commission income	2,359	1,902
Fee and commission expenses		
Bank charges	(391)	(375)
Deposit insurance	(176)	(707)
Card and ATM operations	(130)	(99)
Investment banking Off-balance sheet operations	(76)	(75)
Other	(6) (75)	(41)
Total fees and commission expenses	(854)	(1,297)
Net fees and commission income	1,505	605
Net rees and commission income	1,303	003
9. PERSONNEL EXPENSES		
	2021	2020
Net salaries	1,570	1,442
Payroll taxes, surtaxes and contributions	1,007	920
Remunerations to the members of the Board of Directors		
and the Audit Committee	24	24
Taxes, surtaxes and contributions on the remunerations to		
the members of the Board of Directors and the Audit Committee	8	8
Employee training	1	4
Travel costs and per diems	4	3
Other costs	52	39
Total	2,666	2,440
10. DEPRECIATION EXPENSES		
	2021	2020
Software depreciation	107	135
IT equipment depreciation	26	56
Office furniture depreciation	23	22
Plant and equipment depreciation	36	35
Depreciation of other tangible assets	90	81
Depreciation of vehicles Depreciation of right-of-use assets (leases – lease and sub-	9	8
lease)	379	355
Total	670	692

11. OVERHEADS AND ADMINISTRATIVE COSTS

	2021	2020
Control costs of the Central Bank of Montenegro	170	168
Software maintenance	145	143
Legal services	150	115
One-year licences	36	34
Hardware maintenance	10	11
Postal, telephone and communication network charges	91	86
Security costs	54	47
Translation services	12	9
SWIFT maintenance	28	30
Membership fee of the Association of Montenegrin Banks	16	16
Maintenance	50	34
Office supplies and consumables	13	8
Electricity and heating costs	30	26
Audit services	61	76
Insurance	8	8
Marketing and advertising	26	31
Representation costs	242	233
Consultancy services	59	46
Cards maintenance	66	51
Securities costs	10	2
Other operating costs	113	134
Total	1,390	1,308
12. INCOME TAXES		
	2021	2020
Current tax expense	62	84
Deferred tax expense/(income)	(49)	39
Total	13	123

Deferred tax expense in the amount of EUR 49 thousand was incurred based on a deferred tax liability for temporary differences between the accounting and the tax values of fixed assets and intangible assets. Deferred tax liabilities in that respect as of 31 December 2021 amounted to EUR 9 thousand (31 December 2020: EUR 58 thousand). Deferred tax assets as of 31 December 2021 in the amount of EUR 72 thousand resulted from the reconciliation of the fair value of bonds (31 December 2020: EUR 61 thousand and they were classified as deferred tax liabilities).

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

12. INCOME TAXES (Continued)

The Bank's income tax calculation is presented below:

	2021	2020
Current income tax		
Gain before tax recorded in the income statement	743	685
Capital gains	(220)	(932)
Depreciation costs in the income statement	670	693
Depreciation costs for tax purposes	(108)	(1,108)
Tax effect of non-deductible income and expenses, net	46	54
Taxable profit	1,131	(608)
Utilized tax losses up to the amount of taxable income	608	- -
Remaining portion of the taxable operating profit	523	(608)
Capital gains	220	932
Transferred capital gains	-	-
Remaining portion of taxable capital gains	220	932
Tax base	743	932
Tax expense for the period	67	84
Tax liability reduction due to a timely payment	(5)	-
Tax effect of temporary differences		
Tax effect of temporary differences concerning fixed assets	(40)	20
and intangible assets	(49)	39
Deferred tax expense	(49)	39
Total tax expense in the income statement	13	123

As of 31 December 2021, the Bank adjusted the calculation of deprection for tax purposes according to the adopted Rulebook on Amendments to the Rulebook on the Classification of Fixed Assets by Groups and Methods for Determining Depreceiation ("Official Gazette of Montenegro", no. 130/21 of 16 December 2021).

13. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit by weighted average number of ordinary shares issued during the year.

	2021	2020
Profit in EUR 000 Weighted average number of ordinary shares issued during	730	563
the year	107,500	105,000
Basic gain per share (in EUR per share)	6.79	5.36

14. CASH AND DEPOSITS WITH CENTRAL BANKS

-	2021	2020
Cash equivalents	884	291
Funds in the gyro account with the Central Bank of		
Montenegro	24,104	12,252
Mandatory reserve held with the Central Bank of		
Montenegro	10,497	6,553
Total cash equivalents and deposits with central banks	35,485	19,096
Impairment allowance of the funds in the gyro account	36	18
Impairment allowance of the mandatory reserve	16	10
Impairment allowance of cash equivalents and deposits		
with central banks (Note 7.1.)	52	28
Cash equivalents and deposits with central banks	_	
reduced by an allowance for impairment	35,433	19,068

The Bank sets aside a mandatory reserve in accordance with the CBMNE's Decision on Banks' Mandatory Reserve Held with the Central Bank of Montenegro (Official Gazette of Montenegro", no. 40/10, 46/10, 06/13, 70/17, 88/17 and 43/20). The mandatory reserve is calculated using a rate of 5.5% - on a part of the base comprising demand deposits and deposits with contracted maturities of up to one year, i.e. up to 365 days; and a rate of 4.5% - on a part of the base comprising deposits with contracted maturities exceeding one year, i.e. of over 365 days, without an option to cancel the deposit. A rate of 5.5% is applied to deposits that have a cancellation option of up to 365 days.

Cash and cash equivalents (for the purpose of preparing the Separate Statement of Cash Flows)

	2021	2020
Cash Funds in the gyro account with the Central Bank of	884	291
Montenegro Funds in sight accounts with foreign banks Sight deposits with local banks Mandatory reserve held with the Central Bank of	24,104 30,037 1,670	12,252 14,512 4,077
Montenegro	10,497	6,553
Total cash equivalents and deposits with central banks	67,192	37,685

15. FINANCIAL ASSETS AT AMORTISED COST

15.1. Loans and receivables from banks

<u>-</u>	2021	2020
Correspondent accounts with foreign banks Deposits held with domestic banks and other financial	30,037	14,512
institutions	1,670	4,077
Term deposits held with foreign banks and other financial		
institutions	303	1,508
Interest receivables for deposits with banks	4	5
Total loans and receivables from banks	32,014	20,102
Impairmaent allowance of funds in foreign accounts	57	25
Impairmaent allowance of deposits with resident banks	5	12
Impairmaent allowance of deposits with non-resident banks		3
Impairmaent allowance of cash equivalents with banks		
(Note 7.1.)	62	40
Loans and receivables from banks reduced for		
impairment allowance	31,952	20,062

As of 31 December 2021, the Bank had funds in foreign accounts held with the following banks:

	2021	2020
PJSC VOSTOK BANK, Dnepr, Ukraine	910	929
BANCA POPOLARE DI SONDRIO, Sondrio, Italy	2,798	937
AKTIF YATIRIM BANKASI A.S.Istanbul, Turkey	2,955	51
ALFA-BANK, Moscow, Russia	2,439	1,885
SBERBANK BH d.d., Sarajevo, Bosnia and Herzegovina	2,435	1,449
TRANSKAPITALBANK, Moscow, Russia	1,674	2,785
INTESA SANPAOLO BANKA, Sarajevo, Bosnia and		
Herzegovina	2,813	2,637
AIK BANKA, Belgrade, Serbia	2,694	2,778
KT BANK AG, Frankfurt, Germany	2,902	96
NUROL YATIRIM BANKASI, Istanbul, Turkey	2,967	479
ZHEJIANG CHOUZHOU COMMERCIAL BANK, Hangzhou,		
China	2,866	486
BAYERISCHE LANDESBANK, Munich, Germany	2,584	
Total	30,037	14,512

Movements in the allowance for impairment of loans and receivables from banks and cash equivalents and deposit accounts held with central banks (Note 14):

15. FINANCIAL ASSETS AT AMORTISED COST (Continued)

15.1. Loans and receivables from banks (Continued)

	Balance as of 31 December 2020	Increase/ decrease	Balance as of 31 December 2021
Allowance for impairment Allowance for impairment of the funds			
in the gyro account	18	18	36
Allowance for impairment of the mandatory reserve Allowance for impairment of the funds	10	6	16
in foreign accounts Impairmaent allowance of deposits	25	32	57
with resident banks Impairmaent allowance of deposits	12	(7)	5
with non-resident banks	4	(4)	
Total	69	45	114

15.2. Loans and receivables from customers

Short-term and long-term loans by client category were as follows:

		2021			2020	
	Short-term	Long-term	Total	Short-term	Long-term	Total
Privately-owned companies	5,651	32,029	37,680	8,553	28,223	36,776
Entrepreneurs	-	2	2	-	17	17
Non-resident companies	1,657	5,498	7,155	1,838	6,786	8,624
Non-governmental and other		634	634		1 020	1 020
non-profit organisations	40			10	1,028	1,028
Resident retail customers	48	8,200	8,248	10	2,973	2,983
Total gross loans at AV	7,356	46,363	53,719	10,401	39,027	49,428
Interest receivables	15	132	147	11	182	193
Accruals and deferrals	(24)	(158)	(182)	(27)	(45)	(72)
Allowance for impairment of						
principal '	(205)	(894)	(1,099)	(229)	(495)	(724)
Allowance for impairment of interest accruals and	()	()	(, = = = ,	(-,	(/	()
deferrals	(2)	(2)	(4)		(3)	(3)
Net loans at AV	7,140	45,441	52,581	10,156	38,666	48,822

Short-term loans were mainly granted to privately-owned companies for the period of one month to one year, at interest rates ranging between 4% and 9% p.a .

These loans were mostly granted for a period of 13 and 120 months, at fixed interest rates ranging between 4% and 7.5% p.a.

15. FINANCIAL ASSETS AT AMORTISED COST (Continued)

15.2. Loans and receivables from customers (Continued)

Gross loans

<u>-</u>	Level 1	Level 2	Level 3	Total
As of 1 January 2021	15,083	27,495	6,778	49,356
New receivables	10,564	8,727	4,498	23,789
Decrease in/repayment of	(-	(10 -0-)	(, , , , , ,)	()
receivables	(6,459)	(12,785)	(1,118)	(20,362)
Transfer to Level 1 Transfer to Level 2	71 (2,537)	(71) 2,537	-	-
Transfer to Level 3	(2,337)	(405)	405	- -
Other changes (utilised credit limits		(100)	.00	
and other)	1,172	(298)	(119)	755
As of 31 December 2021	17,894	25,199	10,445	53,538
Interest and other receivables	12	130	4	146
Loans and receivables from customers	17,906	25,329	10,450	53,685
Allowance for impairment				
			Level	
	Level 1	Level 2	3	Total
As of 1 January 2021	86	434	204	724
New receivables	96	426	273	795
Decrease in/repayment of receivables	(9)	(312)	(171)	(492)
Transfer to Level 1	(27)	(1)	-	-
Transfer to Level 2 Transfer to Level 3	(37)	37 (5)	- 5	-
Other changes (utilised credit limits and	_	(3)	3	_
other)	10	48	12	70
As of 31 December 2021	147	628	324	1,099
Impairment allowance of interest				
receivables	0	2	2	4

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

16.1. Securities

Balances of securities at fair value through other comprehensive income:

	2021	2020
Montenegro Government Banks, non-residents	52,855 2,474	21,173 5,980
Non-resident companies General government, non-residents Non-depreciated discount / premium	4,361 36,758 932	7,451 9,953 1,228
Interest accruals	1,128	537
Total	98,508	46,322

An allowance for impairment of securities at fair value through other comprehensive income (Note 7):

Balance as of 31 December 2019	151
Impairment increase	114
Reversal of impairment allowance	(19)
Reversal based on the sale of securities	(74)
Balance as of 31 December 2020	172
Impairment increase	275
Reversal of impairment allowance	(17)
Reversal based on the sale of securities	(34)
Balance as of 31 December 2021	396

Securities that are classified at fair value through other comprehensive income under the category of Montenegrin Government bonds as of 31 December 2021 in the amount of EUR 52,855 thousand refer to domestic government bonds (EUR 10,303 thousand) and Government Eurobonds (EUR 42,552 thousand). The maturities of securities under this category fall between 2024 and 2029 at interest rates ranging from 2.55% to 3.5%.

Securities that are classified at fair value through other comprehensive income under the category of non-resident banks in the amount of EUR 2,474 thousand are related to debt securities whose issuer is First Abu Dhabi Bank (UAE). The maturities of securities under this category are in 2022 at an interest rate of 3M Libor+0.95%.

Securities that are classified at fair value through other comprehensive income under the category of non-resident companies in the amount of EUR 4,361 thousand are related to debt securities whose issuers are the following companies: CEZ, a. s. (Czech Republic), State Grid Corp. of China (China), Shanghai International Port (China) and Perusahaan Listrik Negara (ndonesia). The maturities of securities under this category fall between 2022 and 2030 at interest rates ranging from 1.625% to 5.45%.

Securities that are classified at fair value through other comprehensive income under the category of general government, non-residents, in the amount of EUR 36,758 thousand are related to debt securities whose issuers are the ministries of finance of the following countries: Croatia, Slovenia, Hingary, Italy, Poland, Slovakia, Romania, Indonesia, Saudi Arabia, South Korea, China, Canada, Quatar, Chile, The maturities of securities under this category fall between 2022 and 2030 at interest rates ranging from 0.4% to 7.35%.

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

17. INVESTMENT PROPERTY

Right-of-use assets (lease) - sub-lease

Cost	
Balance as of 1 January 2020	886
Additions	-
Balance as of 31 December 2020	886
Additions	
Balance as of 31 December 2021	886
A commutated depressing	
Accumulated depreciation	
Balance as of 1 January 2020	(70)
Depreciation expense	(78)
Balance as of 31 December 2020	(78)
	(70)
Depreciation for the year	(78)
Balance as of 31 December 2021	(156)
0 1 1 104 5 1 0000	222
Carrying value as of 31 December 2020	808
Corming value on of 24 December 2024	720
Carrying value as of 31 December 2021	730

18. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use		Constructi	
	assets	Equipment	on in	Total
	(lease)	Equipment	progress	Total
Cost				
Balance as of 1 January 2020	3,422	1,460	-	4,882
Additions	-	19	3	22
Disposals and write-offs	<u> </u>	(18)		(18)
Balance as of 31 December 2020	3,422	1,461	3	4,886
Additions	277	193	(3)	467
Disposals and write-offs	-	(1)	-	(1)
Balance as of 31 December 2021	3,699	1,653		5,352
A compared to the control of the con				
Accumulated depreciation		(572)		(572)
Balance as of 1 January 2020 Depreciation expense (Note 10)	(277)	(573) (201)	-	(573) (478)
Disposals and write-offs	(211)	18	_	18
Balance as of 31 December 2020	(277)	(756)		(1,033)
Depreciation for the year (Note 10)	(301)	(184)	_	(485)
Disposals and write-offs	-	-	_	-
Balance as of 31 December 2021	(578)	(940)		(1,518)
Carrying value as of 31 December 2020	3,145	705	3	3,853
Carrying value as of 31 December 2021	3,121	713	<u> </u>	3,834

As of 31 December 2021, the Bank did not have pledged property for the purpose of securing the repayment of loans and other liabilities.

19. INTANGIBLE ASSETS

		Intangible assets under	
	Software	construction	Total
Cost			
Balance as of 1 January 2020	774	49	823
Additions	55	(33)	22
Balance as of 31 December 2020	829	16	845
Additions for the year	41	38	79
Disposals and write-offs	(13)	-	(13)
Balance as of 31 December 2021	857	54	911
Accumulated amortisation			
Balance as of 1 January 2020.	(403)	-	(403)
Amortisation charge (Note 10)	(135)	-	(135)
Balance as of 31 December 2020	(538)		(538)
Amortisation charge for the year (Note 10)	(107)	_	(107)
Disposals and write-offs	13		13
Balance as of 31 December 2021	(632)		(632)
Carrying value as of 31 December 2020	291	16	307
Carrying value as of 31 December 2021	225	54	279

20. OTHER ASSETS

	2021	2020
Fee and commission receivables	97	81
Prepaid costs	31	57
Temporary accounts	-	500
Trade receivables	7	7
Receivables from card operations	5	5
Advances paid	7	10
Other trade receivables	7	1
Allowance for impairment of other assets (Note 7.1.)	(69)	(37)
Total	<u>85</u>	624

21. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST

21.1. Deposits due to customers and banks

	2021	2020
Demand deposits Term deposits	170,089 29,686	99,215 19,130
Interest payables Accruals	143	47
Total	199,918	118,392

21. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST (Continued)

21.1. Deposits due to customers and banks (Continued)

Demand deposits	2021	2020
Resident state owned companies	3,821	9
Privately owned companies	3,740	6,625
Entrepreneurs	[′] 31	25
Non-resident companies	96,949	69,414
Montenegro Government	5,705	5,999
Resident non-governmental and other non-profit	-,	,,,,,,
organisations	149	225
Resident retail customers	966	429
Non-resident retail customers	58,717	16,477
Other resident depository institutions	2	2
Resident companies engaged in finance activities	_ -	1
Public services of local self-government units	5	
Banks	4	9
	- 	
Total demand deposits	170,089	99,215
Term deposits	2021	2020
Resident state owned companies	5	-
Privately owned companies	779	7,734
Non-resident companies	9,535	8,389
Montenegro Government	2,000	-
Resident non-governmental and other non-profit		
organisations	50	50
Resident retail customers	5,183	2,860
Non-resident retail customers	12,134	97
Total term deposits	29,686	19,130
Total deposits	199,775	118,345

No interest rate is applied on demand deposits of retail customers. Same applies for the legal entities, public and other organizations, unless otherwise agreed with the client.

The Bank calculates interest on term deposits at rates ranging from 0.5% to 3.6%.

21.2. Borrowings from clients other than banks

	2021	2020
Borrowings Interest payable on borrowings	2,528	1,556 -
Total	2,528	1,556

21. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST (Continued)

21.2. Borrowings from clients other than banks (Continued)

	2021_	2020
Payable within 12 months from the balance sheet date	-	-
Payable within 1-5 years	1,119	114
Payable within a period exceeding 5 years	1,409	1,442
Total	2,528	1,556

Loans used by the Bank are long-term credit facilities granted by the Investment and Development Fund of Montenegro and a loan from the Montenegro Government based on a cooperation agreement for implementing the support measures to the economy and citizens due to the circumstances caused by the Covid-19 pandemic. Krajnji rok dospijeća je 2030. godina. Kamatna stopa koju Banka plaća kreće se u rasponu od 0% do 1,5%.

22. DERIVATIVES HELD FOR HEDGING PURPOSES

Swap operations are recorded in the balance sheet under derivatives held for hedging purposes. Contractual swap operations are posted under off-balance sheet items, whereas the effect of reducing the contracted exchange rate against the reporting date is recognised under derivatives in the Balance Sheet and under net foreign exchange gains in the Income Statement. As of 31 December 2021, derivatives held for hedging purposes amount to EUR 12 thousand.

23. OTHER LIABILITIES

	2021	2020
Advances received Liabilities from custody operations Lease liabilities	515 380 3,924	116 109 3,990
Temporary account	4	4
Trade payables	65	76
Liabilities from card operations	5	4
Other liabilities	1	1
Other tax liabilities	2	1
Fee and commission payables	21_	9_
Total	4,917	4,310

A breakdown of liabilities and maturities by years is provided below:

	2021	2020
Short-term liabilities	1,351	645
Long-term liabilities	3,567	3,665
Total	4,917	4,310

23. OTHER LIABILITIES (Continued)

	2021	2020
Maturities of lease liabilities:		_
- up to one year	358	325
- from one to two years	366	332
 from two to three years 	373	339
 from three to four years 	381	345
- from four to five years	388	352
- over five years	358	325
	3.924	3.990
24. SUBORDINATED DEBT		
Stanje subordinisanog duga:		
	2021	2020
Privately-owned company – non-resident Invoiced interest on subordinated debt	3.000	3.000

As of 31 December 2021, the Bank had three concluded subordinated debt agreements with a non-resident corporate customer in the total amount of EUR 3,000 thousand. The contracted maturity periods of the subordinated debt fall due in 2027.

3.000

3.000

The subordinated debt was included in Bank's additional capital after obtaining the approval from the Central Bank of Montenegro.

25. EQUITY

Total

	2021	2020
locused above comital andinomy aboves	40 500	40 500
Issued share capital -ordinary shares	12.500	10.500
Accumulated loss	423	860
Effect of IFRS 9 application	(171)	(171)
Other reserves	(726)	618
Profit for the year	730	563
Total	12.756	12.370

Share capital comprises ordinary shares issued in kind and paid in owners' accounts with the Central Securities Depository and Clearing Company (CSDC). Shareholders have the right to participate in the management of the Bank, the right to a percentage of profit (dividend), and the right to an appropriate portion of assets in the event of liquidation or bankruptcy, in accordance with law.

The Bank's share capital as at 31 December 2021 amounted to EUR 12,500 thousand and comprised 125,000 ordinary shares of a par value of EUR 100.00 per share.

25. EQUITY (Continued)

Apart from other necessary decisions, a Decision on a Close Offer of a Shares Issuance to Existing Shareholders on the basis of the Pre-emption Right (the Decision of 24 September 2021) was adopted at the second extraordinary session of the Bank's Shareholders Meeting held on 24 September 2021, based on which the issaunce volume in the amount of EUR 1,000 thousand was determined.

On 11 October 2021 the Cpital Market Committee (hereinafter "the Committee") adopted a Decision on Recording a Closed Prospectus for a Closed Offer of Shares Issued according to the Pre-emption Right, no. 02/2e-18/4-21, which, among other things, specifies the recording of the Bank's closed prospectus as an issuer and that it is required to sell the shares over-the-counter within the deadline set by the Decision of 24 September 2021. After the Bank's procedure, on 12 November 2021 the Committee passed a Decision on Establishing the Efficiency of the Issuance of Shares Issued In Order To Be Sold to the Existing Shareholder based on the Pre-emption Right, no. 02/2e-18/6-21, which determined the issuance efficiency, according to which the Bank sold within the set deadline the shares issued in order to be sold to the existing shareholders on the basis of the pre-emption right in the total amount of EUR 1,000 thousand, i.e. 10,000 ordinary, series D shares of a nominal value of EUR 100.00, which accounts for 100.00% of the approved volume of the said share issuance.

The information on the new issuance of shares were registered with the CSDC on 15 November 2021, whereas an increase in Bank's share capital was registered with the Central Register of Business Entities (CRBE) on 22 November 2021.

Apart from other necessary decisions, a Decision on a Shares Issuance based on the Conversion of Retained Earnings into Share Capital (the Decision of 23 November 2021) was adopted at the third extraordinary session of the Shareholders Meeting held on 23 November 2021, based on which the issaunce volume in the amount of EUR 1,000 thousand was determined.

On 8 December 2021 the Committee adopted a Decision on Recording a Shares Issuance based on the Conversion of Retained Earnings into Share Capital, no. 02/4e-22/4-21, which, among other things, specifies that the shares issuance of the Bank, as an issuer, is recorded based on the Decision of 23 November 2021 in the amount of EUR 1,000 thousand, according to which 10,000 ordinary, series E shares of a nominal value of EUR 100.00 were issued.

The information on the new issuance of shares was registered with the CSDC on 9 December 2021, whereas an increase in Bank's share capital was registered with the Central Register of Business Entities on 20 December 2021.

The Law on Banks ("Official Gazette of Montenegro", no. 17/08, 44/10, 40/11, 73/17), which was effective until 31 December 2021, stipulates that the monetary amount of the initial capital cannot be less than EUR 5,000 thousand, while the Law on Credit Institutions ("Official Gazette of Montenegro", no. 72/19, 82/20, 8/21), which has been in force since 1 January 2022, specifies that the initial capital of a credit institution cannot be less than EUR 7,500 thousand.

The ownership structure of the Bank's share capital as of 31 December 2021 and 31 December 2020 was as follows:

	2021	% of share	2020	% of share
Volodymyr Kostelman	5,952	47.62%	5,000	47.62%
Liya Morokhovska	5,893	47.14%	4,950	47.14%
Vadym Morokhovskyy	655	5.24%	550	5.24%
Total	12,500	100%	10,500	100%

25. EQUITY (Continued)

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

In accordance with the regulations of the Central Bank of Montenegro, the Bank is required to maintain a minimum capital adequacy ratio of 10%. The Bank is required to comply its operations within the prescribed parameters, i.e. to comply the volume and structure of risky assets with the Law on Banks and the regulations of the Central Bank of Montenegro.

	Achieve	ed business indicator
(In EUR thousand)	2021	2020
Stake capital for the calculation of Bank's own funds (Note 5)		
(minimum amount of EUR 5 million)	10,123	9,149
Bank's own funds (minimum amount of EUR 5 million)	13,123	12,149
Solvency ratio (minimum amount of 10%)	13.27%	14.72%
Daily liquidity ratio as of 31 December		
(minimum ratio of 0.9)	1.78	1.71
Decade liquidity ratio for the decade ending as of 31		
December (minimum ratio of 1)	1.86	1.83
Bank's exposure to a single party or a group of related parties		
(the limit of 25% of Bank's own funds)	22.50%	27.09%
A sum of large exposures (the limit of 800% of Bank's own		
funds)	714.20%	469.04%
Total exposure to Bank's related parties (the limit of 200% of		,
Bank's own funds)	22.62%	23.49%
Total exposure to a Bank's employee (the limit 1% of Bank's	0.070/	0.700/
own funds)	0.67%	0.79%
Total exposure to a member of the Board of Directors, the		
Audit Committee or the CEO (the limit of 2% of Bank's own	4.040/	4.220/
funds)	1.21%	1.33%
Total exposure to shareholders who have a qualified share in the Bank, including the exposure to legal entities that are		
under control of these shareholders (the limit 20% of Bank's		
own funds)	7.17%	7.91%
Total exposure to a shareholder who does not have a qualified	7.17 70	7.5170
share in the Bank including the exposure to legal entities that		
are under control of the said shareholder (the limit of 10% of		
Bank's own funds)	0%	0%
,		

Bank's operations as of 31 December 2021 were in accordance with the prescribed exposure limits. As of 31 December 2020, the Bank's individual exposure to a single party or a group of related parties was 27.09% for one Bank's exposure and it was permitted in line with the temporary measures that banks could undertake in order to mitigate negative effects of the coronavirus on the financial system. The Bank reduced this exposure within the deadlines approved in accordance with legal possibilities.

26. OFF-BALANCE SHEET ITEMS

	2021_	2020
Irrevocable commitments for granted loans Issued guarantees (a) - Issued payable guarantees - Issued performance bonds - Other guarantees	8,007 7,330 2,734 3,837 759	2,337 6,754 3,140 3,125 489
Current contracts for foreign currency transactions Collateral for receivables (b) Castody operations (c)	(12) 150,876 15,783	30 140,257 4,189
Total off-balance sheet items	181,984	153,567

- a) Guarantees provided to companies, both resident and non-resident, comprise payable guarantees, tender guarantees and performance bonds. The Bank created provision for off-balance sheet losses amounting to EUR 299 thousand for guarantees and other commitments.
- b) Collateral for accounts receivable relates to assets received as collateral amounting to EUR 150,876 thousand.

A structure of the received collaterals is presented in the table below:

	2021	2020
Property	117,266	114,776
Cash collateral	19,097	16,188
Pledged movable property	14,513	9,293
Total	450.070	440.057
Total	<u> 150,876</u>	140,257

- c) The Bank provides investment services to customers, primarily trading services on behalf and for the account of customers, and safeguards financial instruments of clients. Financial instruments are safeguarded with custodian banks that the Bank co-operates with. Financial instruments with custodian banks are held on behalf of Zapad banka, while in the Bank's records they are stated on behalf of the client and do not constitute a part of bankruptcy or liquidation estate. The value of financial instruments on clients' investment accounts as of 31 December 2021 amounted to EUR 15,783 thousand, i.e. EUR 4,189 thousand as of 31 December 2020.
- d) One of the segments of off-balance sheet transactions is commission transactions, in which the Bank concludes a Commission Agreement with a client/customer (natural or legal person), based on which the customer deposits monetary funds with the Bank commission agent and instructs the Bank/commision agent to place such deposited funds on behalf of the client/customer, according to a writtent comission order, to a third party a debtor or a financial institution. The Bank does not assume any risk with regard to guaranteeing the refund of monetary resources to the client/customer by the debtor/financial institution and it is not required to calculate interest, but it only charges a fee for executing the comission order by the client/customer. Since this transaction is risk-free for the bank, the records are kept in memorandum accounts as they are not included in the Bank's exposure. As of 31 December 2021 and 31 December 2020, the Bank did not have any deposited (comission) monetary funds placed on the basis of a comission order.

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

27. RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. Under the Law on Banks, the Bank's related parties include:

- Members of the (management) bodies of the Bank, shareholders, employees, and their immediate family (spouse and children),
- Legal entities in which the owner of a qualified share also has a qualified share in the Bank,
- Legal entities in which members of the (management) bodies of the Bank, shareholders, employees, and their immediate family have significant influence, or any of the above persons is a director or a member of the Board of Directors or other body of such legal entities,
- Persons holding at least 50% of the capital or voting rights of the legal entity which has a qualified share in the Bank.

Related party transactions are carried out under market conditions and prices.

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

The volume of related party transactions, the balances of assets and liabilities as of 31 December 2021 and related income and expenses in the income statement are presented in the table below:

	Volodymyr Kostelman	Liya Morokhovska	Calyptra Invest	Vostok banka	Gama Montenegro	Graal doo	OU Agro White company	Other related parties	Related individuals	Total
	Shareholder	Shareholder					Jointly contro	lled entities		
Receivables	-	-	-							
Foreign currency accounts	-	-	-	910	-		-	-	-	910
Term deposits with banks	-	-	-	35	-		-	-	.	35
Loans granted	-	-	-	-	706	11	-	-	1,543	2,260
Other receivables		-	-	1			-	-	73	74
Total receivables				946	706	11		0	1,616	3,279
Liabilities										
Demand deposits	-	5	1,597	-	_	3	3	328	243	2,179
Term deposits	-	-	8,185	-	-	-	-	-	446	8,631
Subordinated debt	-	-	3,000	-	-	-	-	-	-	3,000
Other liabilities		-	-	-	-	-	-	-	-	
Total liabilities		5	12,782	-		3	3	328	689	13,810
Net receivables/(payables)		(5)	(12,782)	945	706	(9)	(3)	(328)	927	(10,531)
First-class collateral					-	-	-	-	101	101
Net receivables/ (payables) reduction by the first-class collateral)		(5)	(12,782)	945	706	(9)	(3)	(328)	826	(10,632)

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

	Volodymyr Kostelman	Liya Morokhovska	Calyptra Invest	Vostok bank	Gama Montenegro	Graal doo	OU Agro White company	Other related parties	Related individuals	Total
	Shareholder	Shareholder					Jointly controll	ed entities		
Income Interest income Fee and commission	-	-	-	24	26	1	-	-	71	122
income	-	-	13	1		1	4	21	8	48
Total income		-	13	25	26	2	4	21	79	170
Expenses Interest expense Fee and commission	-	-	394	-	-	-	-	-	6	400
expenses	-	-	-	41	-	-	-	-	-	41
Rental costs	-	-	-	-	-	-	-	-	139	139
Total expenses	-	-	394	41	-	-	-	-	145	580
Net income/(expenses)		-	(381)	(16)	26	2	4	21	(66)	(410)

Calculated employee benefits to related individuals by an employee benefit type in 2021 were as follows:

	Bank management	Key management	Board members	Total
Salaries and other short-term benefits Board membership fees	381	1,023	30	1,404 30
Total	381	1,023	30	1,434

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

The volume of related party transactions, the balances of assets and liabilities as of 31 December 2020 and related income and expenses in the income statement are presented in the table below:

	Volodymyr Kostelman	Liya Morokhovska	Calyptra Invest	Vostok banka	Gama Montenegro	Graal doo	OU Agro White company	Other related parties	Related individuals	Total
	Shareholder	Shareholder					Jointly controll	ed entities		
Receivables Foreign currency accounts	_	_	_	929	_	_	_	_	_	929
Term deposits with banks	_	<u>-</u>	-	33	_	_	- -	_	_	33
Loans granted	_	-	_	-	754	34	_	_	1,319	2,107
Other receivables	-	-	_	5	-	-	-	26	78	109
Total receivables	-	-	-	967	754	34	-	26	1,397	3,178
Liabilities Demand deposits Term deposits Subordinated debt Other liabilities	- - - -	2 - - -	430 8,363 3,000	- - - -	- - - -	46 - - -	424 - - -	122 26 - -	156 147 - -	1,180 8,536 3,000
Total liabilities		2	11,793		-	46	424	148	303	12,716
Net receivables/(payables)		(2)	(11,793)	967	754	(12)	(424)	(122)	1,094	(9,538)
First-class collateral			-	-	-	-	-	26	34	60
Net receivables/ (payables) reduction by the first-class collateral)		(2)	(11,793)	967	754	(12)	(424)	(148)	1,060	(9,598)

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

27. RELATED PARTY TRANSACTIONS (Continued)

	Volodymyr Kostelman	Liya Morokhovska	Calyptra Invest	Vostok bank	Gama Montenegro	Graal doo	OU Agro White company	Other related parties	Related individuals	Total
	Shareholder	Shareholder					Jointly controll	ed entities		
Income Interest income Fee and commission	-	-	-	79	27	3	-	-	56	165
income	-	1	19	2		1	7	20	8	58
Total income		1	19	81	27	4	7	20	64	223
Expenses Interest expense Fee and commission	-	21	395	-	-	-	-	-	2	418
expenses	-	-	_	42	_	_	_	_	_	42
Rental costs	_	-	_	-	_	_	_	_	139	139
Total expenses		21	395	42	-	-	•	-	141	599
Net income/(expenses)		(20)	(376)	39	27	4	7	20	(77)	(376)

Calculated employee benefits to related individuals by an employee benefit type in 2020 were as follows:

	Bank management	Key management	Board members	Total
Salaries and other short-term benefits Board membership fees	353	944	30	1.297 30
Total	353	944	30	1.327

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

28. LITIGATIONS

As of 31 December 2021, no dispute was instituted against the Bank and therefore, the Bank did not form any provisions for litigations.

As of 31 December 2021, the Bank participated as a plaintiff in 2 (two) lawsuits.

29. EXCHANGE RATES

The official exchange rates used in the translation of the statement of financial position components denominated in foreign currencies into EUR as of 31 December 2021 and 2020 were as follows:

	31 December	31 December	
	2021	2020	
USD	1.13340	1.22810	
GBP	0.83930	0.90307	
RUB	84.88878	91.88510	
AED	4.149718	4.515554	

30. EVENTS AFTER THE BALANCE SHEET DATE

On the day of issuing these financial statements the effects of the COVID-19 pandemic still remain. The pandemic duration and the extent of its economic impact are uncertain. The Bank is monitoring the developments and estimating the impact on business operations, financial results, financial position and cash flows.

At the beginning of March 2022, there was an increased instability in the global financial and commodity markets due to the escalation of the conflict in Ukraine, which was accompanied by the introduction of sanctions against certain Russian companies and individuals. Given the Ukrainan capital, the Bank performs a significiant portion of its operations with Ukrainian citizens and legal entities that are either registered in Ukraine or their business is closely related to this country.

As of 31 December 2021, 29% of funds deposited with the Bank belonged to Ukrainian citizens and companies. The level of deposits in 2022 remained stable and there were no considerable outflows of deposits from the accounts of Ukrainian citizens and companies. The deposits of Ukrainian clients were increased in the absolute amount in 2022 in comparison to 31 December 2021.

As of 31 December 2021, a share of loans granted to Ukrainian companies, as well as to the companies whose collaterals are located in the territory of Ukraine, amounted to 12% of the total loans and receivables from customers. In 2022 the Bank did not have any problems with collecting its receivables in this respect and the exposure has been considerably reduced. According to the Bank, all collaterals located in Ukraine are in a good condition and well preserved.

On the day of adopting the financial statements, the Bank did not have exposures to Russian banks, whereas the exposure to Ukrainian banks amounted to EUR 3,196 thousand.

The Bank has a registered representative office in Odessa, which still operates, and the Bank's plan for it is to continue with its operations.

Accordingly, there were no consequences for the Bank's operations until the date of issuing these financial statements. However, it is impossible to predict future effects with reasonable certainty. The Bank's management is constantly monitoring and assessing potential effects of these new circumstances and is undertaking all necessary measures in order to ensure the stability of the bank's business operations.

New banking legislation, namely the Law on Credit Institutions and the accompanying by-laws, have been in force since 1 January 2022. They entail the application of new banking standards aimed at improving banks' capital requirements, establishing a framework for new regulatory liquidity requirements and additional capital requirements for financial institutions that have a systemic importance.

Notes to financial statements for the year ended 31 December 2021

(All amounts are expressed in EUR thousand unless otherwise stated)

GENERAL INFORMATION ABOUT THE BANK

In accordance with the Decision on the Content, Deadlines and Manner of Preparation and Submission of Financial Statements of Banks ("Official Gazette of Montenegro" no. 15/2012, 18/2013 and 24/2018) general information on the Bank is presented below:

Bank's name: Zapad banka AD Podgorica

Address: Moskovska 2b/VII Company number: 03032531 Telephone: +382 (0) 20 690 000 Web page: www.zapadbanka.me E-mail: info@zapadbanka.me

As of 31 December 2021, the Bank had a head office, 2 branches and 2 representative offices

As of 31 December 2021, the Bank had 75 employees (31 December 2020: 61 employees).

Gyro account: 907-57001-31

Zapad banka AD Podgorica is registered with the Central Registry of Business Entities under number 4-0009448.

On 30 January 2015 the Central Bank of Montenegro issued an operating license to the Bank.

The members of the Bank's Board of Directors as of 31 December 2021:

Vadym Morokhovskyy, Chairman; Volodymyr Kostelman, Deputy Chairman; Oleksandr Kuperman, member; Dejan Marinovic, member; Valentyna Grechko, member;

An audit company that performed an audit of the financial statements for the year ended 31 December 2021 was BDO d.o.o, Bulevar Svetog Petra Cetinjskog 149, 81000 Podgorica, Montenegro.

There were no dividend payments in 2021.

In Podgorica,

30 March 2022

Vesna Kovačević Finance Director Mladen Rabrenović

President of the Management Board

Dmytre Likhota

Member of the Management Board

BDO d.o.o. Podgorica

Bulevar Svetog Petra Cetinjskog 149 81000 Podgorica Montenegro

Tel: +382 20 228 449 Fax: +382 20 228 449

www.bdo.co.me

BDO d.o.o. Podgorica, privredno društvo osnovano u Crnoj Gori, je članica BDO International Limited, kompanije sa ograničenom odgovornošću sa sjedištem u Velikoj Britaniji i dio je međunarodne BDO mreže firmi članica.

BDO je brend ime za BDO mrežu i za svaku BDO firmu članicu.

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