ZAPAD BANKA A.D. PODGORICA

Financial Statements as of and for the Year Ended 31 December 2022

and

Independent Auditor's Report

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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

Report on the Audit of Financial Statements

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 2022 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 2022, and its financial performance and its cash flows for the year then ended in accordance with in accordance with International Financial Reporting Standards.

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.

BDO d.o.o. Podgorica; Registarski broj 5-0600769 u Centralnom registru Privrednog suda u Podgorici; Matični broj 02828235
PIB 02828235; PDV 30/31-10388-5; Poslovni račun: 540-0000000004377-12 kod Erste banke a.d. Podgorica
Upisani i uplaćeni osnivački kapital Društva 10.000,00 EUR
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements (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 2022 amounted to EUR 70,148 thousand (EUR 53,684 thousand as of 31 December 2021), while the total amount of the allowance for impairment of these receivables amounted to EUR 1,423 thousand as of 31 December 2022 (EUR 1,103 thousand as of 31 December 2021 (EUR). These provisions for losses constitute the best management's estimate of expected credit losses for the credit portfolio as of the balance sheet date. Key areas of judgement include the 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 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 and include estimates and other complex areas, 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 on sample basis of evidence corroborating the applied assumptions related to impairment costs of loans and provisions for off-balance 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 analysis 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 2022.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements (Continued)

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 2022, 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 2022, is consistent, in all material respects, with the financial statements of the Bank as of and for the year ended 31 December 2022;
- The Annual Management Report for the year ended 31 December 2022 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 International Financial Reporting Standards, 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)

Report on the Audit of Financial Statements (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 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 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.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements (Continued)

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

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.

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, 13 April 2023

Društvo za reviziju BDO d.o.o. Podgorica

Milovan Popovic
Certified Auditor

Vesko Knezevic
Executive Director/Certified Auditor

Goran Knezevic
Certified Auditor

Djordje Radonjic
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 2022, 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 2022, 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 od the Management Board

Belkisa Zoronjić
Member of the Management Board

INCOME STATEMENT

	Note	2022	2021
Interest income and similar income	3.1. 6.	5,786	4,240
Interest income on impaired placements	3.1. 6.	436	399
Interest expenses and similar expenses	3.1. 6.	(1,060)	(873)
NET INTEREST INCOME		**5,162**	**3,766**
Fee and commission income	3.2. 8.	2,701	2,359
Fee and commission expenses	3.2. 8.	(1,256)	(854)
NET FEE AND COMMISSION INCOME		**1,445**	**1,505**
Net gains / losses from the derecognition of financial instruments not measured at fair value through profit or loss		(114)	219
Net gains / losses from financial instruments through profit or loss, not held for trading		-	-
Net foreign exchange gains	3.3.	602	774
Net gains / (losses) from the derecognition of other assets		-	(1)
Other income		73	73
Employee costs	3.15. 9	(3,417)	(2,666)
Depreciation and amortisation charges	10	(744)	(670)
General and administrative expenses	11	(1,675)	(1,390)
Net gains / (losses) from impairment of financial instruments not measured at fair value through profit or loss	3.7.9. 7	(531)	(861)
Other expenses		(20)	(6)
PROFIT BEFORE TAX		**781**	**743**
Income taxes	3.4. 12.	**(121)**	**(13)**
NET PROFIT		**660**	**730**

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

Podgorica, 29 March 2023

Vesna Kovačević
Finance Director

Mladen Rabrenović
President of the Management Board

Zapad Banka AD Podgorica

Belkisa Zoronjić
Member of the Management Board

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022	2021
Net profit		**660**	**730**
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 debt securities at fair value through other comprehensive income		(7,462)	(1,477)
Gain arising from taxes relating to other comprehensive income		896	133
Loss arising from taxes relating to other comprehensive income		-	-
Total other comprehensive income for the year		**(6,566)**	**(1,344)**
TOTAL OTHER COMPREHENSIVE INCOME		**(5,906)**	**(614)**

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

Podgorica, 29 March 2023

Vesna Kovačević
Finance Director

Mladen Rabrenović
President of the Management Board

Belkisa Zoronjić
Member of the Management Board

Zapad Banka AD Podgorica

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

BALANCE SHEET

	Note	31 December 2022	31 December 2021	1 January 2021
ASSETS				
Cash and cash balances and deposit accounts with central banks	3.7 14	106,172	35,433	19,068
Financial assets at amortized cost		**127,926**	**84,574**	**68,921**
Loans and placements to banks	3.7 15.1	36,881	31,952	20,062
Loans and placements to customers	3.7. 15.2	68,725	52,581	48,822
Securities		22,281	0	0
Other financial assets		39	41	37
Financial assets at fair value through other comprehensive income		**104,994**	**98,508**	**46,322**
Securities	3.7 16	104,994	98,508	46,322
Derivatives held for risk hedging	22	0	1	30
Investment property	3.10. 17	652	730	808
Property, plant and equipment	3.8,3.11 18	3,935	3,834	3,853
Intangible assets	3.9. 19	191	279	307
Current tax assets		24	7	69
Deferred tax assets	12	968	72	-
Other assets	20	227	85	624
TOTAL ASSETS		**345,089**	**223,523**	**140,002**
LIABILITIES				
Financial liabilities at amortized cost		**328,308**	**202,446**	**119,948**
Deposits due to banks	21.1	6	4	9
Deposits due to customers	21.1	324,827	199,914	118,383
Borrowings from clients, other than banks	3.12. 21.2	3,475	2,528	1,556
Derivative financial liabilities as a hedging instrument	22	21	13	-
Reserves	3.14.	179	316	171
Current tax liabilities	12	128	67	84
Deferred tax liabilities	12	2	9	119
Other liabilities	23	6,601	4,917	4,310
Subordinated debt	24	-	3,000	3,000
TOTAL LIABLITIES		**335,239**	**210,767**	**127,632**
EQUITY				
Share capital	3.13. 25	15,500	12,500	10,500
Retained earnings		982	252	689
Profit for the year		660	730	563
Other reserves		(7,292)	(726)	618
TOTAL EQUITY		**9,850**	**12,756**	**12,370**
TOTAL EQUITY AND LIABILITIES		**345,089**	**223,523**	**140,002**
OFF-BALANCE SHEET ITEMS	**3.16. 26**	**235,313**	**181,984**	**153,567**

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

Podgorica, 29 March 2023

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Finance Director

Mladen Rabrenović
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Member of the Management Board

Zapad Banka AD Podgorica

STATEMENT OF CASH FLOWS

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and similar receipts	7,304	5,444
Interest and similar outflows	(906)	(696)
Fee and commission receipts	2,959	2,539
Fees and commissions paid	(1,256)	(855)
Payments to employees and suppliers	(5,606)	(4,470)
Increase in borrowings and other assets	(17,941)	(2,562)
Inflows/(outflows) from deposits and other liabilities	123,413	82,127
Taxes paid	(62)	(15)
Other inflows	73	73
Net cash from/(used in) operating activities	**107,978**	**81,585**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(152)	(190)
Purchase of intangible assets	(12)	(79)
Treasury bills and bonds	(37,793)	(54,555)
Net cash used in investing activities	**(37,957)**	**(54,824)**
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Increase/(decrease) in borrowings	947	972
Issue of ordinary shares	3,000	1,000
Net cash from financing activities	**3,947**	**1,972**
Effects of FX gains and losses to cash and cash equivalents	602	774
Net increase/(decrease) in cash and cash equivalents	**74,570**	**29,507**
Cash and cash equivalents at the beginning of the year	67,192	37,685
Cash and cash equivalents at the end of the year (Note 14)	**141,762**	**67,192**

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

Podgorica, 29 March 2023

Vesna Kovačević
Finance Director

Mladen Rabrenović
President of the Management Board

Belkisa Zoronjić
Member of the Management Board

Zapad Banka AD Podgorica

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	TOTAL
Balance as of 1 January 2021	**10,500**	**618**	**1,252**	**12,370**
Share issue	2,000	-	(1,000)	1,000
Effects of changes in securities values	-	(1,344)	-	(1,344)
Profit for the year	-	-	730	730
Balance as of 31 December 2021	**12,500**	**(726)**	**982**	**12,756**
Share issue	3,000	-	-	3,000
Effects of changes in securities values	-	(6,566)	-	(6,566)
Profit for the year	-	-	660	660
Balance as of 31 December 2022	**15,500**	**(7,292)**	**1,642**	**9,850**

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

Podgorica, 29 March 2023

Vesna Kovačević
Finance Director

Mladen Rabrenović
President of the Management Board

Belkisa Zoronjić
Member of the Management Board

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, on the basis of the License issued by the Central Bank of Montenegro, Decision No. 01.01-4014/67-3 dated 30 January 2015.

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. According to the aforementioned decision, the Bank can provide the following investment services and perform investment services from Article 206 paragraph 1 of the Law on the 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.

In accordance with the Law on Credit Institutions, effective from 1 January 2022, as well as the valid Articles of Association of the Bank, it performs banking services of receiving deposits or other refundable funds from the public and grants loans from these funds, for its own account and other basic and ancillary financial services in Montenegro, as follows:

1. BANK'S INCORPORATION AND ACTIVITY (Continued)

a) Basic financial services:

1. receiving deposits or other refunds;
2. approval of loans, including consumer loans, mortgage loans and loans for financing commercial affairs, purchase of receivables with or without recourse (factoring), including export financing based on the purchase with a discount and without recourse of long-term overdue receivables secured by financial instruments (forfeiting);
3. finance lease;
4. provision of payment services in accordance with a special law;
5. issuance of guarantees or other warranties;
6. trading for your own account or for a client's account:
   a. money market instruments (cheques, bills of exchange, certificates of deposit),
   b. transferable securities,
   c. foreign means of payment, including exchange transactions,
   d. financial futures and options,
   e. currency and interest instruments;
7. services directly related to lending, such as: collecting data, making analyses and providing information on the creditworthiness of legal entities and entrepreneurs;
8. issuance of other payment instruments and management of those instruments, if the provision of these services is not considered the provision of services from point 6 of this paragraph, and in accordance with the law;
9. rental of safes;
10. Mediation in the conclusion of transactions on the money market;
11. participation in the issuance of financial instruments and provision of services related to the issuance of financial instruments, in accordance with the regulations governing the capital market;
12. management of clients' assets and consulting in connection with the management of these assets;
13. custody service, in accordance with the regulations governing the capital market;
14. advising legal entities regarding capital structure, business strategy and similar issues

a. and providing services related to status changes, acquisition of shares and shares in other companies;

15. issuance of electronic money, and
16. investment and auxiliary services and activities in accordance with the law governing the capital market, which do not represent services from point 1. to 15. of this paragraph under a) with the prior approval of the Capital Market Commission.

b) Additional financial services in accordance with the Law on Credit Institutions with the prior approval of the CBM, the Capital Market Commission or the Insurance Supervision Agency.

The Bank received the necessary approvals for the operation and performance of the following investment services and activities:

- receipt and transmission of orders related to the sale and purchase of financial instruments;
- execution of orders for the client's account;
- trading for own account;
- portfolio management;
- investment consulting;
- custody and administration of financial instruments for clients' accounts and related services
- administration of clients' funds;
- granting credits or loans to investors so that they can carry out transactions with one or more financial instruments when the Bank is involved in the transaction.

1. BANK'S INCORPORATION AND ACTIVITY (Continued)

The provision of investment services and the performance of investment activities relate to financial instruments from the Capital Market Law, i.e. to transferable securities. The Bank is authorized to hold money and/or financial instruments of the client to whom it provides investment services and activities.

The Bank carried out its business activities at the head office in its headquarters in Podgorica, Moskovska street number 2b/VII floor, as well as in the Bank's branches in Podgorica at the address: Podgorica, Moskovska street 2a, in Nikšić at the address: Nikšić, Novice Cerovića street bb, Tržni centar Nikšić, 2nd floor, Kotor, at the address Put prvoboraca 201, Škaljari, Kotor and in Budva at the address Mediteranska 53 TQ Plaza I floor, Budva.

The Bank has registered representative offices in the city of Odesa in Ukraine and the city of Vienna in Austria.
As of 31 December 2022, the Bank had 100 employees (as of 31 December 2021, the Bank had 76 employees).

The Bank's management bodies are: the Shareholders' Assembly, the Supervisory Board and the Management Board.

STRUCTURE OF THE SUPERVISORY BOARD AND ITS BODIES AS OF 31 December 2022

I The Supervisory Board of Zapad banka AD Podgorica consists of 5 members:
- Vadim Morokhovski - Chairman of the Supervisory Board
- Volodimir Kostelman- Deputy Chairman of the Supervisory Board
- Dejan Marinović- member of the Supervisory Board
- Vitali Migaško- member of the Supervisory Board
- Natalia Njančuk- member of the Supervisory Board

Working bodies of the Supervisory Board
- Appointments Committee;
- Board of Remuneration;
- Risk Committee; and
- Audit Committee.

STRUCTURE OF THE MANAGEMENT BOARD AND ITS BODIES AS OF 31 December 2022

II The Management Board of Zapad banka AD Podgorica consists of 3 members:
- Mladen Rabrenović- Management Board member
- Belkisa Zoronjić- Management Board member
- Lesia Vykhodsteva- Management Board member

Working bodies of the Management Board
- Credit Committee;
- Information System Committee;
- Asset and Liability Management Committee (ALCO).

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 in Note 3.

2.1. Basis of Preparation of the Fnancial Statements

The accompanying financial statements for the year ended 31 December 2022 have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Board, and regulations of the Central Bank of Montenegro governing the financial reporting of banks.

The Bank is required to keep books of account, prepare accounting records, measure assets and liabilities and prepare and publish financial statements in accordance with the Law on Credit Institutions ("Official Gazette of Montenegro", no. 72/19, 82/20 8/21), regulations adopted based on the aforesaid law and the International Accounting Standards and International Financial Reporting Standards (IASs/IFRSs). Additionally, the Bank is required to apply the International Accounting Standards and International Financial Reporting Standards from the date set by the International Accounting Standards Board (IASB) as the date of their application, unless the Central Bank of Montenegro does not set another date for certain IASs/IFRSs as the commencement date of their application.

The Bank's financial statements have been prepared in accordance with the Decision on the Contents, Deadlines and Manner of Preparing and Submitting Financial Statements of Banks ("Official Gazette of Montenegro", no. 128/20).

The financial statements prepared as of and for the year ended 31 December 2022 are the first financial statements that the Bank prepared in accordance with the International Financial Reporting Standards. The effects of the first-time adoption of the International Financial Reporting Standards are disclosed in Note 2.9.

2.2. Application of New Standards and Amendments to Existing Standards in Effect in the Current Period

The following amendments to the existing standards, which have been issued by the IASB, are effective for the first time for the financial year beginning on or after 1 January 2022 and as such are applicable to the Bank's accompanying statements:

- Amendments to IFRS 3 "Business Combinations" updating a Reference to the Conceptual Framework in IFRS. The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
- Amendments to IAS 16 "Property, Plant and Equipment" - Proceeds before Intended Use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such samples, together with the costs of producing them, in profit or loss.
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts — Cost of Fulfilling a Contract. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and material) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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

2.2. Application of New Standards and Amendments to Existing Standards in Effect in the Current Period (Continued)

- Annual Improvements to IFRSs, 2018–2020 Cycle, make amendments to the following standards:
  - IFRS 1 "First-time Adoption of International Financial Reporting Standards" – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
  - IFRS 9 "Financial Instruments" – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
  - IFRS 16 "Leases", Illustrative Example 13 – The amendment removes the illustration of payments from the lessor relating to leasehold improvements in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. As currently drafted, this example is not clear as to why such payments are not a lease incentive.
  - IAS 41 "Agriculture" – This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 "Fair Value Measurement".

The application of the above-mentioned amendments to the existing standards did not result in substantial changes to the accounting policies and did not have an impact on the Bank's accompanying financial statements.

2.3. New Standards and Amendments to Existing Standards That Have Been Published but Are Not Yet Effective

There are a number of standards, amendments to standards, and interpretations that have been issued by the IASB that are effective in future accounting periods. They have not been early adopted by the Bank and the Bank intends to adopt them when they become effective.

- IFRS 17 "Insurance Contracts" (effective for annual reporting periods beginning on or after 1 January 2023) and subsequent amendments to IFRS 17 which address concerns and implementation challenges that were identified after IFRS 17 was published in 2017 (effective for annual reporting periods beginning on or after 1 January 2023). IFRS 17 supersedes IFRS 4 "Insurance Contracts" as of 1 January 2023.
- Amendments to IFRS 4 – Extension of the Temporary Exemption from Applying IFRS 9 (effective for annual reporting periods beginning on or after 1 January 2023).
- Amendment to IFRS 17 "Insurance Contracts" - Initial Application of IFRS 17 and IFRS 9 - Comparative Information. An entity that elects to apply the amendment applies it when it first applies IFRS 17.
- Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 - Disclosure of Accounting Policies (effective for annual reporting periods beginning on or after 1 January 2023).
- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Accounting Estimates (effective for annual reporting periods beginning on or after 1 January 2023). The amendments clarify the difference between the changes in accounting estimates and changes in accounting policies and correction of errors.

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

2.3. New Standards and Amendments to Existing Standards That Have Been Published but Are Not Yet Effective (Continued)

- Amendments to IAS 12 “Deferred Taxes” – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023).
- Amendments to IFRS 16 “Leases” - Lease Liability in a Sale and Leaseback (effective for annual reporting periods beginning on or after 1 January 2024).
- Amendments to IAS 1 “Presentation of Financial Statements” - Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2024).
- Amendments to IAS 1 “Presentation of Financial Statements” - Non-current Liabilities with Covenants (effective for annual reporting periods beginning on or after 1 January 2024).

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.

2.4. 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.

2.5. 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.

2.6. 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 3.19.

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

2.7. 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.

Credit institutions ensure compliance with the going concern principle through compliance with the principles of liquidity and solvency in operations in accordance with Article 103 of the Law on Credit Institutions.

2.8. 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 2022.

The Board of Directors adopted the Report of the Central Inventory Commission on the annual inventory of cash, cash equivalents of assets and liabilities as of 31 December 2022 pursuant to Decision No. 01-03-4/87-2023 dated 10 February 2023.

2.9. Comparative Figures and First-Time Adoption of IFRS

The Law on Credit Institutions, which came into force on 1 January 2022, stipulates that the Bank is required to keep books of account, prepare accounting records, measure assets and liabilities and prepare and publish financial statements in accordance with this law, regulations adopted based on the aforesaid law and the International Accounting Standards and International Financial Reporting Standards (IASs/IFRSs). Additionally, the Bank is required to apply the International Accounting Standards and International Financial Reporting Standards from the date set by the International Accounting Standards Board (IASB) as the date of their application, unless the Central Bank of Montenegro does not set another date for certain IASs/IFRSs as the commencement date of their application.

Taking into consideration that the Bank used to prepare financial statements in previous periods based on the Law on Accounting and the regulations of the Central Bank of Montenegro governing financial reporting of banks, which rely upon the International Accounting Standards and International Financial Reporting Standards, the first-time adoption of the International Financial Reporting Standards did not result in the implementation of new standards that would have a material effect on the Bank's financial statements.

Accordingly, the estimates and policies applied in the current period are consistent with the estimates and policies applied in accordance with the previous regulations. In order to comply with the provisions of the new Law on Credit Institutions and regulations of the Central Bank of Montenegro and prepare financial statements in accordance with IFRSs:

- The Bank presented the opening balance sheet as of 1 January 2021. Given that the first-time adoption of IFRSs did not result in the implementation of new standards and changes in accounting policies and estimates, there were no adjustments and changes to the comparative figures presented in previous periods.
- The Bank acknowledged that there were no changes in the disclosed capital amounts as of 1 January 2021 and 31 December 2021, as well as in the net result for the year ended 31 December 2021, in order to be adjusted to IFRSs, since the estimates used as of 1 January 2021 and 31 December 2021 are consistent with those applied as of the same dates in line with previously used regulations.
- The Bank estimated that the presentation of the Balance Sheet, Income Statement, Statement of Other Comprehensive Income and Statement of Cash Flows, which is defined by the Decision on Statements submitted to the Central Bank of Montenegro ("Official Gazette of Montenegro", no. 128/20), complies with IFRS requirements and accordingly, it did not change the presentation of comparative figures as of 1 January 2021 and as of and for the year ended 31 December 2021.

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

2.10. Impact of the Covid-19 Pandemic and the Situation in Ukraine

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 2022, the Bank used the benefits of the Decision on Temporary Measures to Mitigate the Negative Impact of the Epidemic of the Infectious Disease COVID 19 and the Situation in Ukraine on the Financial System ("Official Gazette of Montenegro", No. 138/21 of 29/12/2021, 054/22 dated 24/05/2022, 062/22 dated 10/06/2022).As of 31 December 2022 the valid decision is the Decision on Temporary Measures to Mitigate the Negative Impact of the Epidemic of the Infectious Disease COVID 19 and the Situation in Ukraine on the Financial System ("Official Gazette of Montenegro Above" No. 135/22 dated 08 December 2022), hereinafter "Decision of the CBCG".

Benefits from the CBM Decision that the Bank was using as of 31 December 2022 related to part II, item 3 of the CBM Decision, which defined that until 30 June 2023, the Bank can exclude from the calculation of the items of regular core capital 100% of the amount of unrealized losses, determined after the entry into force of this decision, when measuring debt financial instruments available for sale in accordance with IFRS 9, which are included in the total other comprehensive income. The basis for calculating the amount to be excluded is the difference between the market value of debt financial instruments on 24 February 2022 and the market value of those instruments on the date of calculation of that capital. Debt financial instruments to which the measure from paragraph 1 of this item is applied are debt financial instruments issued by the central government from Article 131 of the Decision on Capital Adequacy of Credit Institutions ("Official Gazette of Montenegro", no. 128/20 and 140/21) and units of regional and local governments from Article 132 of the Decision on Capital Adequacy of Credit Institutions.

In part IV Transitional and final provisions define that the Bank is obliged to report to the CBM on loans that have been restructured in accordance with the Decision on Temporary Measures to Mitigate the Negative Impact of the Epidemic of the Infectious Disease COVID 19 and the Situation in Ukraine on the Financial System ("Official Gazette of Montenegro", No. 80/20, 105 /20, 24/21, 33/21, 45/21, 53/21 and 116/21) and the Decision on Temporary Measures to Mitigate the Negative Impact of the Epidemic of the Infectious Disease COVID 19 and the Situation in Ukraine on the Financial System ("Official Gazette of Montenegro" , No. 138/21, 54/22 and 62/22), hereinafter referred to as "CBM Decision 1" in electronic form, on the COV-RM form attached to this decision and forming an integral part of it, no later than the 15th in the month for the previous month.

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 2022, the balance of these loans amounted to EUR 2,605 thousand and was entirely related to the portfolio of legal entities.

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

2.10. Impact of the Covid-19 Pandemic and the Situation in Ukraine (Continued)

CBM classification	Total debtors	Facilities number	Loan balance (in EUR 000)
A	2	2	92
B2	1	1	2,514
Total	3	3	2,605

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.

The conflict between Russia and Ukraine that broke out in February 2022 had huge negative effects on the world economy, primarily in terms of rising prices of raw materials, agricultural products and energy, additional disruptions in global supply chains, as well as heightened geopolitical tensions at the world level. The conflict slowed down the economic recovery after the crisis caused by the COVID 19 pandemic and further increased the existing inflationary pressures.

The armed conflict on the territory of Ukraine and the global macroeconomic situation negatively affected the Bank's operations for several reasons:

a) in the part related to international payments due to limited business or termination of business with 5 (five) credit institutions from Ukraine and Russia:
   - With the adoption of restrictive measures by the National Bank of Ukraine of 24 February 2022 regarding the suspension of international payments, business with 2 (two) Ukrainian banks was temporarily disabled;
   - As a precaution, the Bank had to immediately withdraw funds from the accounts it had with 2 (two) correspondent banks from Russia, which turned out to be the right decision due to the introduction of sanctions against Russia in April 2022;
   - The Bank was forced to limit its business with Sberbank from Bosnia and Herzegovina (subsidiary of Sberbank from Russia)

b) in terms of restricting lending operations with Ukrainian companies, companies that are registered in other countries, and whose business or collaterals are related to Ukraine or citizens of Ukraine or natural persons whose source of repayment is from Ukraine ("Ukrainian Clients“):
   - As of 31 December 2022, exposure to them amounts to EUR 2,835 thousand. In the first quarter of 2023, this exposure was further reduced by EUR 1,011 thousand. The Bank continuously worked to reduce exposure to these companies. During 2022, the Bank acted cautiously and did not take collateral collection into account when calculating impairment for assets and off-balance sheet items.

c) in the part that refers to the restriction of doing business with Russian citizens:
   - the Bank has reduced the provision of banking services to Russian citizens to a minimum. International restrictive measures, which the Bank fully implements in accordance with the decisions of the Government of Montenegro, contributed the most to this. It is prohibited to accept all deposits from Russian citizens or natural persons with residence in Russia or from legal persons, entities or bodies with business headquarters in Russia if the total value of deposits of a natural or legal person, entity or body per credit institution exceeds EUR 100,000. The ban does not apply to citizens of Montenegro, citizens of European Union member states and natural persons who have a temporary or permanent residence permit in a member state or in Montenegro.

d) in the part related to the decline in the market value of debt financial instruments measured at FVOCI, the negative impact on capital is reduced:
   - In accordance with the benefits allowed by the CBM decision (described in detail previously and Note 5 Capital Management), the Bank excluded from the items of regular core capital as of 31 December 2022 100% of the amount of unrealized losses.

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

2.10. Impact of the Covid-19 Pandemic and the Situation in Ukraine (Continued)

Bearing in mind all external and internal factors, in 2022 the Bank changed its business strategy for the next period and transformed its business model in order to enable the continuation of sustainable operations in a significantly changed environment. In accordance with the amended business model, as of 1 January 2023, the Bank carried out the reclassification of the portfolio of financial assets whose goal was the collection of contracted cash flows and sales (the so-called "hold to collect and sell" business model) into a business model whose goal is to hold debt securities until maturity and generate cash flows exclusively through the collection of contracted cash flows (the so-called "hold to collect" business model).

During 2022, the Bank opened 2 correspondent accounts and one until 31 March 2023, which solved the issues of international payments due to limited business with Ukrainian and Russian banks.

The Bank's credit exposure to clients from Ukraine is decreasing and no losses are expected on this basis.

The Bank is the only one in the region with capital originating from Ukraine, but the support of the shareholders for the Bank's operations in 2022 was strongly present, which is supported by the recapitalization in the form of converting subordinated debt into the Bank's share capital in the amount of EUR 3,000,000.

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 expected credit losses (hereinafter: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.

Interest income is recognized based on the calculation of the effective interest rate method in the period in which it was earned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 on a daily basis.

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). Tax rates on the amount of taxable profit:

- a tax rate of 9% is calculated for a tax base of up to 100,000.00 EUR;
- a tax rate of 12% is calculated for a tax base from 100,000.01 EUR to 1,500,000.00 EUR;
- a tax rate of 15% is calculated for a tax base over 1,500,000.01 EUR.

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 calculation system stated in accordance with the Law on Corporate Income Tax ("Official Gazette of the Republic of Montenegro", No. 065/01 dated. 31 December 2001, 012/02 dated 15 March 2002, 080/04 dated 29 December 2004, "Official Gazette of Montenegro", no. 040/08 dated 27 June 2008, 086/09 dated 25 December 2009, 040/11 dated 8 August 2011, 014/12 dated 7 March 2012, 061/13 dated 30 December 2013, 055/16 dated 17 August 2016, 146/21 dated 31 December 2021), Article 28 and as stated in paragraph 1.

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 an 11.72% 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Income Taxes (Continued)

Transfer Pricing
Montenegro introduced more detailed rules on transfer pricing based on amendments to the Corporate Income Tax Law ("Official Gazette of Montenegro", no. 65/2001, 12/2002, 80/2004, 40/2008, 86/2009, 40/2011, 14/2012, 61/2013, 55/2016, 146/2021, 152/2022) from January 2022.

On 2 November 2022, the Ministry of Finance of Montenegro published a *Guidance on a More Specific Transfer Pricing Method for Transactions* ("Official Gazette of Montenegro", no. 121/22 of 2 November 2022, hereinafter "the Guidance"). The Guidance stipulates a transfer pricing method of transactions and the content of transfer pricing documentation.

The Corporate Income Tax Law (Article 38c) prescribes the preparation of summarised transfer pricing documentation if a taxpayer conducted transactions with a related party that do not exceed EUR 75,000 in the year for which the tax return is submitted.

As regards intercompany loans, the Law prescribes the application of arm's length interest rates, stipulated by the Ministry of Finance, or general rules on transaction pricing using the arm's length principle (by applying one of the prescribed methods).

Transfer pricing documentation should be submitted by large taxpayers along with a tax return (other taxpayers are required to have transfer pricing documentation when submitting a tax return). The deadline for submitting the tax return is three months from the expiration of the period for which tax is calculated. Until 2007 the deadline for submitting (i.e. having) transfer pricing documentation was 30 June of the current year for the previous year (30 June 2023 for FY 2022).

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.

3.6. 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 on-demand 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, 43/20 and 19/22) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.2. Classification (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

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.

3.7.6. Reclassification of Financial Assets and Liabilities

The Bank did not reclassify any of its financial assets or liabilities in 2022. In the course of 2022, the process of reclassification of securities carried at fair value through the total comprehensive income into securities carried at amortized cost was initiated.

The process was completed at the beginning of 2023.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

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 Provisions

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 of Credit Institutions of the Central Bank of Montenegro (CBM).

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 / bucket / stage / 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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.9. Impairment of Financial Assets and Provisions (Continued)

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.

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 300 thousand.

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, i.e. probable loss;
- 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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.9. Impairment of Financial Assets and Provisions (Continued)

The Bank uses transition matrices (specially developed for the portfolio of legal entities, especially for the portfolio of natural persons) based on internally 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).

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.9. Impairment of Financial Assets and Provisions (Continued)

In accordance with the Decision on Criteria and Method of Asset Classification and Calculation of Provisions for Potential Credit Losses of Credit Institutions ("Official Gazette of Montenegro" no. 127/20, 140/21), loans and other assets, as well as off-balance sheet items exposed to risk are classified in the following categories:

- Category A (good assets) - in which assets and off-balance sheet items are classified, where there is firmly documented evidence that they will be fully collected in accordance with the contract. A 0.5% provision is allocated to assets and off-balance sheet items classified in the A category;
- Category B (assets with specific notification) - with subgroups B1 and B2, in which assets and off-balance sheet items are classified, for which there is a low probability of loss, but which require special attention, because the potential risk, if not adequately monitored, could lead to collection difficulties. Assets and off-balance sheet items classified in the B1 category are allocated a 2% reserve, and asset and off-balance sheet items classified in the B2 category are allocated a 7% reserve.
- Category C (substandard assets) - with subgroups C1 and C2, in which are classified assets and off-balance sheet items for which there is a high probability of loss, due to clearly established weaknesses that threaten collection. 20% of provisions are allocated to assets and off-balance sheet items classified in the C1 category, and 40% of provisions are allocated to assets and off-balance sheet items classified in the C2 category.
- Category D (non-performing assets) - in which items for which collection in full, taking into account the creditworthiness of the borrower, the value and the possibility of realization of the collateral, is unlikely are classified. 70% of provisions are allocated to assets and off-balance sheet items classified in the D category; and Category E (loss) - in which items that will be completely uncollectible, or will be collectable in an insignificant amount are classified. A 100% provision is allocated to assets and off-balance sheet items classified in the E category.

The Bank classifies loans that do not belong to the category of individually significant receivables into the appropriate classification group based on data on the debtor's regularity in fulfilling obligations, namely:

- category A - the debtor repays the loan within 30 days;
- subcategory B1 - the debtor is in default under that loan for more than 30 days;
- subcategory B2 - the debtor is in default under that loan for more than 60 days;
- subcategory C1- the debtor is in default under that loan for more than 90 days;
- subcategory C2- the debtor is in default under that loan for more than 150 days;
- category D - the debtor is in default under that loan for more than 270 days;
- category E - the debtor is in default under that loan for more than 365 days.

The basis for calculating provisions for an individual item of balance sheet assets, i.e. an off-balance sheet item, is the gross carrying value of that item, less the amount secured by a cash deposit deposited with the Bank, if it is agreed to serve as collateral for certain receivables of the Bank, that its maturity date is not shorter than the due date of the receivable and that only the Bank can dispose of it, as a pledge of gold, debt securities, guarantee, counter-guarantee, other form of guarantee or other similar instrument of intangible credit protection, whose issuers are: central governments and central banks, international development banks and international organizations, which, in accordance with the Decision on the Capital Adequacy of Credit Institutions, are assigned a 0% risk rating, as well as credit institutions that, in accordance with the Decision on the Capital Adequacy of Credit Institutions, belong to at least stage 2 of credit quality.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial instruments (Continued)

3.7.9. Impairment of Financial Assets and Provisions (Continued)

The Bank determines the difference between the amount of provisions for potential losses, calculated in the manner described above, and the sum of the amount of the value adjustment for balance sheet assets and provisions for off-balance sheet items, calculated in accordance with the Methodology for impairment of financial instruments in accordance with IFRS 9.

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 and potential 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.

Repossessed Assets

In certain circumstances, the Bank, based on non-fulfilment of the contractual obligation to repay the debt, takes possession of the collaterals that were the means of security for the given placement. The Bank records the funds received at the lower of the net book value of the receivables or the market value of the collateral less sales costs and, depending on the purpose, classifies it in the appropriate category of assets. After initial recognition, assumed assets are measured and reported in accordance with the policies of those asset categories.

As of 31 December 2022, the Bank has no repossessed assets.

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Leases (Continued)

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

Within the Bank's capital, shareholders' capital, issue premium, unallocated profit, other reserves and profit/loss of the current year are shown.

The Bank's share capital is formed from the invested funds of the Bank's founders and shareholders in monetary and non-monetary form. The Law on Securities defines that securities are dematerialized and exist in the form of an electronic record in the computer system of the Central Clearing Depository Company. An extract from the register of the Central Clearing Depository Company is the only and exclusive proof of ownership of securities.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

1) Shareholders of a credit institution that have a 5% or more of interest in the credit institution's equity or shares and a voting right;
2) Members of the Supervisory Board or the Board of Directors and procurators of credit institutions;
3) Persons responsible for the operation of control functions, an authorised person for anti-money laundering, a person responsible for business transactions with corporate customers, a person responsible for business transactions with retail customers:
4) Other persons that have signed an employment contract with a credit institution, whose provisions indicate a notable influence of those persons on the operations of the credit institution, i.e. provisions that prescribe a reward for the performance of such persons under specific criteria that differ from the terms and conditions for persons that have concluded standard employment contracts, but who are not persons referred to under previous items;
5) A legal entity in which a credit institution, a member of the Supervisory Board or the Board of Directors or a procurator of the credit institution have a significant influence;
6) A legal entity whose member of its governing body is also a member of the Supervisory Board or the Board of Directors or a procurator of a credit institution;
7) A legal entity whose member of its governing body has a 10% or more of shares of a credit institution and a voting right;
8) A member of a governing body of a company which is, directly or indirectly, the parent company or a subsidiary of a credit institution;
9) A person who acts on behalf of the persons referred to under items 1 to 7 of this paragraph in connection with transactions that would result in or increase the credit institution's exposure;
10) A person that is a related party to the persons referred to under items 1 to 8;
11) A member of the immediate family of natural persons referred to under items 1 to 8.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Related Party Transactions (Continued)

A member of the immediate family of a person is considered:

1) A spouse or a person with whom the aforesaid person lives in a union that is equal to marriage according to the law;
2) Children and adopted children of that person and the person referred to under the previous item;
3) A person who does not have full business capacity and who is under guardianship of the aforesaid person.

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

3.18. Outsourcing

Outsourcing is an arrangement of any kind with a service provider under which the service provider performs a process, service or activity for the Bank that, if the outsourcing had not been carried out, the Bank would have performed independently.

With the outsourcing management policy, the Bank defined the procedure for making a decision on outsourcing, tasks/services that cannot be the subject of outsourcing, entrusting services that are not considered outsourcing, as well as activities that can be entrusted to third parties. The Bank regularly reviews the quality of outsourced services in order to manage the risks arising from the outsourcing of certain activities. The Bank pays special attention to assessing the criticality and significance of the business, especially when the outsourcing is connected to the basic lines of business (and critical functions). The Bank regularly informs the CBM about its intention to outsource critical and significant operations in accordance with the provisions of the Outsourcing Management Policy and the Decision on Risk Management Related to Outsourcing.

3.19. 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.

3.19.1. 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.

3.19.2. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19. Critical Accounting estimates and Judgements (Continued)

3.19.2. Fair Value of Financial Instruments (Continued)

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.

3.19.3. 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.

3.19.4. 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.

3.19.5. 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.

4. RISK MANAGEMENT

4.1. Introduction

In this part, an overview of the risk management system in the Bank is presented, with an emphasis on:

- the organizational structure of risk management;
- exposure of the Bank to the most significant types of risks; and
- established methods and processes used to control each type of risk.

Organizational Structure of Risk Management

An integrated risk management system has been established at the Bank level. In the organizational sense, risk management, i.e., responsibility for managing the risk management system, is entrusted to:

- Supervisory Board;
- Risk Committee (as a working body of the Supervisory Board);
- Management Board;
- Liabilities and Assets Committee (ALCO); and
- Risk control function.

4. RISK MANAGEMENT (Continued)

4.1. Introduction (Continued)

The Supervisory Board performs the function of supervising the operations of the Bank. The Supervisory Board gives approval to the Management Board on the objectives and general strategy and business policy of the Bank, strategies and procedures for assessing the adequacy of the Bank's internal capital, on individual risk management policies and supervises the implementation process and the efficiency and effectiveness of the Bank's management system, the implementation of the Bank's business policy, strategic objectives and risk management strategies and individual risk management policies.

The Risk Committee, as a working body of the Supervisory Board, advises the Supervisory Board on the Bank's overall current and future inclination towards risk-taking and risk management strategy, and assists in the monitoring of the strategy by senior management, reviews whether the pricing of receivables and liabilities to clients have been taken into account taking into account the Bank's business model and risk management strategy, and if that price does not reflect the risk assumed in relation to the business model and risk management strategy, it proposes to the Board of Directors a plan to eliminate the shortcomings.

The Management Board is responsible for establishing risk management principles, adopting risk management strategies and individual policies, procedures and risk management methodologies, as well as regularly reviewing strategic goals, risk management strategies and individual risk management policies. The working bodies of the Management Board are: ALCO, the IT Committee and the Credit Committee. In accordance with the Decision of the Management Board on the authorizations when performing credit-guarantee activities, the authorizations are defined when approving loans and other placements and issuing guarantees and other off-balance sheet exposures, in the part that relates to the authorizations of the Management Board, the Credit Committee and the authorizations for the decision-making level – Retail and Entrepreneurs Sector the Resident Legal Persons Sector. Decision-making on restructured loans and non-performing exposures is the responsibility of the Management Board.

The Asset and Liability Management Committee (ALCO), as a working body of the Management Board, is responsible for making decisions in risk management segments, except for operational risk, within the framework of policies, procedures and methodologies approved by the Management Board. Based on detailed analyses of the Bank's risk position, ALCO gives guidelines and recommendations for risk management.

The IT Committee is responsible for reviewing and monitoring the established functional and secure information system of the Bank, as well as further development of the information system and implementation of new projects, monitoring of all security incidents and action plans to eliminate identified risks, as well as the established system of reporting, measuring and monitoring operational risks in the Bank.

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

- credit risk;
- counterparty risk;
- residual risk;
- concentration risk;
- market risk;
- interest rate risk arising from non-trading positions;
- operational risk;
- liquidity risk; and
- risk of excessive financial leverage.

The Bank is not exposed to the risk of securitization.

4. RISK MANAGEMENT (Continued)

4.1. Introduction (Continued)

Organizational units: Risk control sector, Credit analysis and credit risk assessment sector and Non-performing loan management sector are under the responsibility of the member of the Management Board in charge of risk management. The responsibility of each organizational part and board in the Bank is based on the principle of clear delimitation of responsibilities up to the level of the Management Board and the greatest possible transparency.

The Risk management strategy includes the objectives and basic principles of taking and managing risks and the tendency to take risks. The basic principle of the Risk Management Strategy is the optimization of the Bank's risk profile, through a continuous focus based on:

- clear internal organization and complete division of duties within the risk management system with clearly defined, transparent and consistent lines of responsibility;
- the comprehensive integration of the risk management system in all the Bank's business activities, whereby this implies that the Bank (to the greatest extent possible and taking into account the current level of development of risk management tools) makes all business decisions in which risks are assumed, respecting the standards prescribed by the policies, procedures and methodologies related to risk management, which define in detail the measurement, monitoring, analysis, control and risk mitigation mechanisms to which the Bank is exposed in its operations.

The strategy and individual risk management policies are adopted (and reviewed) by the Management Board, while the Supervisory Board gives approval to the Management Board and supervises their implementation. Individual risk management procedures and methodologies are adopted by the Management Board.

4.2. Liquidity Risk

Liquidity risk arises from the regular financing of the Bank's operations and management of positions. The main goal of liquidity risk management is to ensure an adequate level of liquidity, in order to fulfil all payment obligations in a timely manner, both in regular business and in stress conditions.

The main categories of liquidity risk to which the Bank is exposed are:

• liquidity risk of financing sources - the risk of negative effects on the Bank's financial result and capital due to the Bank's inability to settle its liabilities due to the withdrawal of existing financing sources, i.e. the inability to obtain new financing sources.

• market liquidity risk - risk arising from the inability of the Bank to convert certain forms of assets into liquid assets (cash) on the financial market quickly, easily and with minimal losses in value. Difficulty in converting assets into cash can be a consequence of both external (systemic) risk factors such as, for example, insufficient depth i.e. market liquidity, as well as internal factors related to the Bank itself (e.g. illiquid assets in the Bank's portfolio).

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

The Bank manages liquidity risk in accordance with legal provisions and internal acts. Liquidity risk management includes defining a strategy for managing this type of risk as part of a comprehensive risk management strategy at the Bank level, and enables effective monitoring of the level of liquidity risk for the Management Board and senior management, as well as the implementation of an adequate process for measuring, monitoring and controlling liquidity risk. In addition to the Risk Management Strategy, liquidity risk management is prescribed by the following internal acts:

- Strategy of financing sources;
- Policy for assessing liquidity adequacy (ILAAP policy);
- Liquidity risk management policy;
- Liquidity risk management procedure;
- Methodology for the assessment of liquidity adequacy (ILAAP methodology);
- Action plan in unforeseen circumstances - liquidity crisis;
- Methodology for determining the stable level of demand deposits;
- Methodology for calculation of liquid coverage ratios (LCR).

The Bank has access to various sources of financing. Funds are collected through a large number of instruments, including various types of deposits of citizens and legal entities both residents and non-residents, received loans and founding capital.

The Bank strives to maintain a balance between funding continuity and flexibility through the use of liabilities with different maturities. The Bank continuously assesses liquidity risk by identifying and monitoring changes in financing that are necessary to achieve the business goals set in accordance with the Bank's business strategy.

The Bank adjusts its operations with regard to liquidity risk in accordance with legal provisions and internal liquidity risk management policy, harmonizing assets and liabilities as well as determining limits and targeted liquidity indicators. The Bank manages liquidity reserves on a daily basis, ensuring that all client needs are met.

The Bank manages liquidity risk using the following tools and indicators:

- Projection of cash flows (operational tool);
- Daily regulatory liquidity indicator;
- Decadal regulatory indicator of liquidity;
- Liquidity gap analysis for long-term liquidity;
- Liquidity coverage ratio – LCR;
- Concentration of financing sources; and
- Stress testing of liquidity risk.

The Bank has adopted a contingency plan (liquidity crisis) in which early indicators of crisis situations, methods (procedures) for obtaining missing funds, as well as responsibilities and activities to be undertaken in such cases are identified in detail. The asset management department monitors daily liquidity indicators and warns the Risk Control Department and the Member of the Management Board responsible for risk management about the possibility of a liquidity crisis (early warning signs). Early warning signs do not necessarily mean that a liquidity crisis will occur, but it is a signal to the Bank's Management Board to pay extra attention to the asset structure and take all actions in a timely manner in order to prevent a liquidity crisis.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

The first stage of a liquidity crisis (early warning signs of a liquidity crisis) - a potential problem with liquidity occurs when, due to the occurrence of one of the aforementioned factors (warning indicators), the Bank identifies the following:

- The daily liquidity indicator is less than 1.1 for 7 (seven) days in a row;
- the decadal liquidity indicator is less than 1.2 during 2 (two) decades;
- the liquid coverage ratio is less than 150% at the end of the month, as well as the occurrence of 3 to 5 factors: Drop of demand deposits by over 10%; outflow of more than 40% of avista deposits of one of the top 10 customers/group of related parties in one month; the decline of the largest guarantee at the expense of the Bank; the presence of a significant concentration of deposits, i.e. the circumstance that the 10 largest depositors (while all deposits of one client are considered as one) exceed 50% of total client deposits; asset quality deterioration - credit exposures are in arrears for more than 30 days at the end of the month for more than 10% of the credit portfolio; any other indicator determined by the ALCO Committee of the Bank.

The second stage (a liquidity crisis has occurred) occurs when, due to the occurrence of one of the aforementioned factors (warning indicators), the Bank identifies the following:

- The daily liquidity indicator is less than 1 for 7 (seven) consecutive days;
- the decadal liquidity indicator is less than 1.1 during 2 (two) decades;
- the liquid coverage ratio at the end of the month is less than 120%, as well as the following factors occurred at the same time: Drop of demand deposits by over 10%; outflow of more than 70% of avista deposits of one of the top 10 customers/group of related parties in one month; the decline of the largest guarantee at the expense of the Bank; the presence of a significant concentration of deposits, i.e. the circumstance that the 10 largest depositors (whereby all deposits of one client are considered as one) exceed 60% of total client deposits; asset quality deterioration - credit exposures are in arrears for more than 30 days at the end of the month for more than 10% of the credit portfolio; any other indicator determined by the ALCO Committee of the Bank.

Some of the measures that the Bank can take are: obtaining new credit and deposit lines from domestic and foreign banks, using the agreed framework on repo transactions that it has concluded with another credit institution, suspending or reducing new credit placements, increasing the base of demand and term deposits by attracting new depositors by offering a higher interest rate on those deposits, using a credit line, selling part of the loan portfolio, etc.

By using cash flow projections, the Bank manages liquidity in different time periods in a way to eliminate potential weaknesses caused by various events, while taking into account changes in intraday needs for funds and methods of financing, short-term, medium-term and long-term needs for funds and methods of financing, with the aim of maintenance of an adequate buffer level for liquidity is ensured.

The Bank monitors and measures liquidity risk exposure from the aspect of deposit concentration based on the analysis of data on: structure of deposits by maturity; by type of depositors (deposits of legal and natural persons); structures of large depositors, inflows and outflows of total assets for a certain period; as well as realized and projected inflows and outflows of funds on the accounts of significant depositors of the Bank.

The Bank examines the results of liquidity risk stress tests in order to assess the planning and maintenance of an adequate level of liquidity reserves, as well as available, potential and additional sources of financing that can be activated in the event of a potential liquidity crisis, but also to assess additional financing costs that may arise as a result of increased liquidity needs in crisis situations. Liquidity risk stress testing is carried out within the ILAAP process, while the determination of the internal capital requirement is carried out within the ICAAP process.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

Regulatory and Internal Liquidity Metrics

Based on the monitoring and measurement of basic liquidity indicators, both internally prescribed and those required by the CBM, all coefficients are above the prescribed minimums during 2022, which means that the Bank adequately managed both operational and structural liquidity.

Daily and Decadal Liquidity Indicators

The daily regulatory liquidity indicator is calculated on a daily basis and shows the ratio of the sum of liquid assets and the sum of overdue liabilities. The regulatory limit is prescribed at the level of at least 0.9%, while the internal limit is prescribed at the level of 1%.

The decadal regulatory liquidity indicator is calculated as the average of the daily liquidity indicator for all working days in one decade. The regulatory limit is prescribed at the level of at least 1%, while the internal limit is prescribed at the level of 1.1%.

During 2022, the Bank operated in accordance with regulatory and internally prescribed limits.

Liquidity Coverage Ratio - LCR

The Bank reports monthly on the fulfilment of requirements for liquid coverage. Liquidity Coverage Ratio (LCR) is a regulatory quantitative indicator of liquid coverage that is calculated for a period of 30 calendar days and represents a quotient of high-quality liquid assets, i.e. liquidity buffer and net cash outflow in the next 30 days.

LCR is a short-term liquidity indicator that ensures that the Bank has an adequate supply of highly liquid, easily marketable assets, which, in case of need, can be converted into cash quickly and without major losses, and finance all planned and unplanned cash flows within a period of 30 days.

An asset is considered high-quality and highly liquid if it is readily convertible into cash, easily and without unacceptable losses in value.

Net liquidity outflows represent the difference between the outflow of liquid assets (by retail deposits, deposits and loans taken from financial clients, deposits of other clients, credit and liquidity lines) and the inflow of liquid assets (by placements) in the next 30 calendar days under stress conditions. Inflows are limited and a maximum of 75% of total reported outflows are recognized. The regulatory prescribed limit for LCR is at least 100%, the internally prescribed limit is at least at the level of 120%, while the early warning limit (RAS) is prescribed at least at the level of 150%.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

During 2022, the Bank complied with the regulatory and internally prescribed limit.

As of 31 December 2022	Amount/market value	Weighted amount
Total unadjusted liquid assets	228,804	217,221
Outflows	323,386	99,871
Inflows	36,296	36,296
Net liquidity outflows	**287,090**	**63,575**
Liquid coverage ratio		**342%**

Liquidity gap analysis

The liquidity gap is the basic method for measuring and analysing long-term i.e. structural liquidity. It is a regulatory (gap) analysis.

The Bank uses liquidity gap analysis, where assets and liabilities based on which cash inflows or outflows may occur are shown, distributed according to their remaining maturity (contracted or expected). This enables the assessment and comparison of all future cash inflows and outflows, as well as the identification of potential shortages of liquid assets and the period in which these shortages will manifest themselves.

The tables below present an analysis of the maturity dates of the Bank's assets and liabilities based on the remaining contracted maturity dates and expected maturity dates.

The agreed maturity dates of assets and liabilities are determined based on the remaining period as of the balance sheet date in relation to the agreed maturity date. In the same way, liability items are distributed according to the remaining contractual maturity period, i.e., the contractual payment period. Financial liabilities without an agreed maturity are considered financial liabilities on demand. Although there was a significant negative maturity mismatch in the analysed periods, according to historical experience and knowledge of clients, the Bank does not expect an outflow of deposits within the contractual terms, so that is shown in the analysis of the maturity dates of the Bank's assets and liabilities according to the expected maturity dates.

For the analysis of the maturity dates of the Bank's assets and liabilities according to expected maturities, items of assets are allocated according to expected maturities, which may be equal to the contracted, but in most cases are different from them.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

Namely, when allocating inflows from credit collection, days in arrears, realistic expectations of collection based on information received from clients and actual collection of loans are taken into account, so that the expected inflows based on loan collection are as realistic as possible. The assessment of the reality of the collection of overdue receivables on loans is based on the collection of data on the settlement of liabilities in the period of 6 months preceding the month for which the collection assessment is carried out taking into account (historical data). A correction of the repayment plan is made for the client (for all individual loan instalments) who is in arrears in settlement of liabilities for more than 30 days. Due receivables are shifted by the maximum number of days of delay during the previous 6 months and classified in the corrected column. In addition, the due dates for all remaining annuities from the repayment plan of that client for a specific loan account are moved by the same maximum number of days in arrears.

In order to realistically display expected outflows, the stability of demand deposits is analysed and displayed in columns according to expected outflows. The stability of demand deposits is assessed according to the criteria prescribed by the Methodology for determining the stable level of demand deposits. The methodology is based on the application of the selected Value at Risk - VaR statistical method to historical data on demand deposits. Bearing in mind that VaR is a number that expresses the maximum expected loss for a given time period and for a given level of confidence: demand deposit balance - represents the population and unit in which VaR is expressed, the time periods for which the maximum expected outflows of demand deposits are calculated are : from 1 to 7 days, from 8 to 15 days, from 16 to 30 days, from 31 to 60 days, from 61 to 90 days, from 91 to 180 days, from 180 to 365 days and over 365 days, selected confidence level , that is, the amount of standard deviation for the confidence interval is: 95%; confidence level measure factor 1.645 and time series for which the standard deviation is calculated: last year.

For the purposes of scheduling time deposits according to expected maturity, the Bank uses the date for which it expects the actual outflow of deposits to occur, regardless of the agreed maturity.

For the purposes of the distribution of debt securities, i.e. bonds according to the expected maturity, the Bank uses the period in which it is certain that it could sell securities, and based on the history of sales so far ("bond marketability "), namely: bonds that have a rating, which, according to the Decision on Capital Adequacy, is treated as a degree of credit qualities from 1 to 3 are assigned to the category from 1 to 7 days; Montenegrin international Eurobonds are divided into categories from 1 to 7 days; Montenegrin local bonds are divided into categories from 31 to 90 days; bonds that have a rating, which according to the Decision on Capital Adequacy is treated as credit quality level 4, are classified in the category of 91 to 180 days.

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	**97,608**	**-**	**-**	**-**	**-**	**-**	**8,720**	**0**	**106,328**
II Financial assets at amortised cost	**37,073**	**938**	**175**	**8,192**	**22,738**	**16,346**	**34,141**	**9,956**	**129,559**
Loans and placements to banks	36,097	938	-	-	-	-	-	-	37,035
Loans and placements to customers	976	-	175	8,192	5,690	11,067	34,141	9,908	70,148
Securities	-	-	-	-	17,048	5,279	-	-	22,327
Other financial assets	-	-	-	-	-	-	-	49	49
III Financial assets at fair value through other comprehensive income	**-**	**1,619**	**74**	**13,875**	**10,057**	**16,538**	**54,966**	**7,865**	**104,994**
IV Financial assets at fair value through profit or loss, that are not held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other assets	**80**	**-**	**9**	**15**	**13**	**14**	**19**	**-**	**150**
Total	**134,761**	**2,557**	**258**	**22,082**	**32,808**	**32,899**	**97,846**	**17,821**	**341,032**
Liabilities									
Deposits due to banks and central banks at amortised cost	6	-	-	-	-	-	-	-	6
Deposits due to customers at amortised cost	296,060	227	605	3,775	808	2,707	14,347	6,085	324,614
Borrowings from customers other than Banks	-	-	-	64	43	151	2,122	1,095	3,475
Interest and accruals at amortised cost	213	-	-	-	-	-	-	-	213
Subordinated debt	-	-	-	-	-	-	-	-	-
Derivative financial liabilities as hedging instrument	21	-	-	-	-	-	-	-	21
Other financial liabilities	2,379	-	220	97	76	269	1,870	1,695	6,606
Total	**298,679**	**227**	**825**	**3,936**	**927**	**3,127**	**18,339**	**8,875**	**334,934**
Maturity GAP (1)- (2)	**-163,918**	**2,330**	**-567**	**18,146**	**31,881**	**29,772**	**79,507**	**8,946**	**6,097**
Cumulative GAP	**-163,918**	**-161,588**	**-162,155**	**-144,009**	**-112,128**	**-82,356**	**-2,849**	**6,097**	
% of the total source of funds	**-48.9%**	**-48.2%**	**-48.4%**	**-43.0%**	**-33.5%**	**-24.6%**	**-0.9%**	**1.8%**	

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 2022 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	**97,608**	**-**	**-**	**-**	**-**	**-**	**8,720**	**-**	**106,328**
II Financial assets at amortised cost	**36,409**	**938**	**175**	**8,159**	**22,825**	**16,837**	**34,257**	**9,958**	**129,559**
Loans and placements to banks	36,097	938	-	-	-	-	-	-	37,035
Loans and placements to customers	312	-	175	8,159	5,778	11,558	34,257	9,910	70,148
Securities	-	-	-	-	17,048	5,279	-	-	22,327
Other financial assets	-	-	-	-	-	-	-	49	49
III Financial assets at fair value through other comprehensive income	**93,410**	**27**	**74**	**10,547**	**886**	**50**	**-**	**-**	**104,994**
IV Financial assets at fair value through profit or loss, that are not held for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other assets	**80**	**-**	**9**	**15**	**13**	**14**	**19**	**-**	**150**
Total	**227,507**	**965**	**258**	**18,721**	**23,724**	**16,902**	**42,996**	**9,958**	**341,032**
Liabilities									
Deposits due to banks and central banks at amortised cost	6	-	-	-	-	-	-	-	6
Deposits due to customers at amortised cost	30,164	14,209	18,882	49,457	45,578	67,372	92,866	6,085	324,614
Borrowings from customers other than Banks	-	-	-	64	43	151	2,122	1,095	3,475
Interest and accruals at amortised cost	213	-	-	-	-	-	-	-	213
Subordinated debt	-	-	-	-	-	-	-	-	-
Derivative financial liabilities as hedging instrument	21	-	-	-	-	-	-	-	21
Other financial liabilities	2,379	-	220	97	76	269	1,870	1,695	6,606
Total	**32,784**	**14,209**	**19,102**	**49,618**	**45,697**	**67,792**	**96,858**	**8,875**	**334,935**
Maturity GAP (1)- (2)	**194,724**	**-13,244**	**-18,844**	**-30,896**	**-21,973**	**-50,890**	**-53,861**	**1,083**	**6,097**
Cumulative GAP	**194,724**	**181,479**	**162,635**	**131,739**	**109,765**	**58,875**	**5,014**	**6,097**	
% of the total source of funds	**58.1%**	**54.2%**	**48.6%**	**39.3%**	**32.8%**	**17.6%**	**1.5%**	**1.8%**	

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 years	Over 5 years	Total
Assets									
I Cash and deposits with central banks and advances to banks	**30,237**	**-**	**-**	**-**	**-**	**-**	**5,248**	**-**	**35,485**
II 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**	**-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 expecting maturity as at 31 December 2021 is presented as follows i:

	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**	**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
Securities	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**	**0**	**0**	**98,508**
IV Financial assets at fair value through profit or loss, that are not held for trading	**0**	**0**	**0**	**0**	**0**	**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	13
Other financial liabilities	927	0	66	88	60	210	1,508	2,058	4,917
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)

4.3. Market Risk

Foreign Currency Risk

Foreign exchange, position and commodity risk belong to the group of market risks, which are defined as the risks of losses on financial instruments recorded in the Bank's balance sheet and off-balance sheet, caused by negative movements in market prices. The Bank is not exposed to position and commodity risk**.**

Foreign currency risk means the risk of loss arising from a change in the currency exchange rate and/or a change in the price of gold. Foreign currency risk is measured based on the Bank's open foreign exchange position. The Bank internally determines the total limits for the open foreign exchange position. Exchange rate changes can directly affect the Bank's income statement if it has significant foreign exchange positions. Closing foreign exchange positions reduces the risk of losses due to changes in the exchange rate. In principle, the Bank does not carry out trading activities for its own account with the aim of entering into speculative positions on foreign exchange markets, in order to achieve additional potential income. Therefore, the Bank is strictly a "non-trading book" credit institution in the sense of the Law on Credit Institutions.

The Bank has ensured a clear operational and organizational separation of transaction contracting from risk control and business support. This separation has been carried out and relates to and including the level of the Bank's Management Board. The organizational part of the Bank that deals with contracting transactions is the Asset Management Sector. The Asset Management Sector continuously monitors the foreign exchange position during the day and is responsible for keeping the positions within the established limits. The organizational part of the Bank that deals with risk management is the Risk Control Sector. The Risk Control Department reports monthly to ALCO on the Bank's exposure to foreign currency risk, as well as operations within the established limits, while quarterly it calculates the capital requirement for foreign currency risk and stress tests the Bank's exposure to foreign currency risk. The banking operations support department is responsible for the settlement of approved foreign exchange transactions.

Foreign currency risk is measured and limited daily, both individually by currency and on an aggregate basis, whereby the measurement of foreign currency risk includes all balance and off-balance sheet items that contain foreign currency risk, as well as all currencies that the Bank owns and with which it performs foreign exchange activity.

The measurement and monitoring of the foreign currency risk is carried out through the daily determination of the net open foreign exchange position in the absolute amount individually and aggregated for all currencies, as well as in percentage in relation to the basic capital.

The Bank has established the following limits:

- The Bank's net open foreign currency position at the end of the day, for an individual currency that is on the daily reference exchange rate list of the European Central Bank (ECB), as well as for currencies that are not on the reference exchange rate list of the ECB, cannot amount to more than 5% of the Bank's basic capital;
- The Bank's net open foreign exchange position at the end of the day, for an individual currency that is on the daily reference exchange rate list of the European Central Bank (ECB), as well as for currencies that are not on the reference exchange rate list of the ECB, cannot amount to more than 5% of the Bank's basic capital.

4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

Foreign Currency Risk (Continued)

The Bank defines internal early warning triggers (reporting triggers). If the Bank exceeds one of these triggers, it will be considered that a "watch" situation has occurred:

- The Bank's net open foreign exchange position at the end of the day, for individual currencies that are on the daily reference exchange rate list of the European Central Bank (ECB), as well as for currencies that are not on the reference exchange rate list of the ECB, reached 3.5% of the Bank's basic capital.
- The sum of net open foreign exchange positions at the end of the day for all currencies (total net long position and/or total net short position) that are daily on the reference exchange rate list of the European Central Bank (ECB) reached 10% of the Bank's basic capital, while for currencies that are not on the reference exchange rate list of the ECB reached 7.5% of the Bank's basic capital

During 2022, the Bank operated in accordance with the internal limits for 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 2022 were as follows:

	USD	GBP	Other	Total
LONG POSITIONS				
FX assets	98,949	123	0	99,072
TOTAL	**98,949**	**123**	**0**	**99,072**
SHORT POSITIONS				
FX liabilities	98,894	140	22	99,056
TOTAL	**98,894**	**140**	**22**	**99,056**
NET POSITION				
NET LONG (SHORT) POSITIONS (1) - (2)	**55**	**-17**	**-22**	**16**
% of basic capital	**0.42%**	**-0.13%**	**-0.17%**	
% of own assets	**0.42%**	**-0.13%**	**-0.17%**	
Foreign currencies - aggregate	**16**			
% of basic capital	**0.12%**			
% of regulatory capital	**0.12%**			

4. RISK MANAGEMENT (Continued)

4.3. Market Risk (Continued)

Foreign Currency Risk (Continued)

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

	USD	GBP	Other	Total
LONG POSITIONS				
FX assets	77,079	194	1,742	79,015
TOTAL	**77,079**	**194**	**1,742**	**79,015**
SHORT POSITIONS				
FX liabilities	77,067	204	1,735	79,006
TOTAL	**77,067**	**204**	**1,735**	**79,006**
NET POSITION				
NET LONG (SHORT) POSITIONS (1) - (2)	**12**	**-10**	**7**	**9**
% of basic capital	**0.12%**	**-0.10%**	**0.06%**	**-**
% of own assets	**0.09%**	**-0.08%**	**0.05%**	
Foreign currencies - aggregate	**8**			
% of basic capital	**0.08%**			
% of own assets	**0.06%**			

4. RISK MANAGEMENT (Continued)

4.4. Interest Rate Risk

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 2022 is presented in the table below. In 2022, the Bank did not grant loans with floating interest rates, therefore, the table includes assets and liabilities presented by maturity dates.

As of 31 December 2022	1-30 days	31-90 days	91-180 days	181-365 days	over 1 year	Total
Assets						
Interest-bearing deposits with other institutions	15,760	-	-	-	4,397	20,157
Interest-bearing securities	1,592	13,564	26,202	21,765	62,831	125,954
Loans and other placements	1,046	8,247	5,713	11,117	44,194	70,318
Other sensitive assets*	210	311	903	53	-	1,477
Total	**18,609**	**22,122**	**32,818**	**32,935**	**111,422**	**217,906**
% of total interest -bearing assets	8,54%	10,15%	15,06%	15,11%	51,13%	-
Liabilities						
Interest-bearing deposits	853	3,198	808	2,589	19,892	27,340
Interest-bearing borrowings	-	64	43	151	685	943
Subordinated debt	-	-	-	-	-	-
Other sensitive liabilities	-	97	76	269	3,565	4,007
Total	**853**	**3,359**	**927**	**3,009**	**24,142**	**32,290**
% of total interest -bearing assets	**2,64%**	**10,40%**	**2,87%**	**9,32%**	**74,77%**	**-**
Gap	**17,755**	**18,764**	**31,891**	**29,926**	**87,280**	**185,616**
Cumulative Gap	**17,755**	**36,519**	**68,410**	**98,336**	**185,616**	
Cumulative Gap/ Total assets %	**5.15%**	**10.58%**	**19.82%**	**28.50%**	**53.79%**	

* Other interest-sensitive assets include accruals and interest receivables.

4. RISK MANAGEMENT (Continued)

4.4. Interest Rate Risk (Continued)

As of 31 December 2021	1-30 days	31-90 days	91-180 days	181-365 days	over 1 year	Total
Assets						
Interest-bearing deposits with other institutions	6,924	-	-	-	2,659	9,583
Interest-bearing securities	-	4,393	8,756	2,683	81,548	97,380
Loans and other placements	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**
% of total interest -bearing assets	**5,63%**	**6,59%**	**6,93%**	**7,25%**	**73,60%**	**-**
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%**	**-**
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.

4. RISK MANAGEMENT (Continued)

4.5 Credit Risk

Credit risk is the risk that the Bank will be exposed to a loss that could arise as a consequence of the debtor's failure to fulfil contractual obligations. The Bank is exposed to credit risk through lending and investment activities, as well as through the activities of guaranteed documentary transactions. Credit risk and risks related to credit risk to which the Bank is exposed or may be exposed are considered to be: credit risk in the narrower sense, dilution risk, credit risk of the other contractual party and credit valuation adjustment risk (CVA risk), currency induced credit risk, interest rate induced credit risk, concentration risk, residual risk, securitization risk and country risk.

The Bank is exposed to the risk of the other contracting party based on its exposure to: correspondent banks and commercial credit institutions and the issuer of debt securities, which can be: governments, central banks, international and multilateral organizations, financial institutions, companies, etc.

The Bank tries to approve placements (indexed) in another currency to those clients whose dominant income corresponds to the currency in which the placement is approved, and in this way does not expose itself to currency-induced credit risk.

The Bank is not exposed to interest-induced credit risk arising from exposures related to variable interest rates, but it is expected that it will be in the following period.

The Bank is exposed to residual risk because it uses credit risk mitigation techniques in its credit processes.

The Bank assumes country risk, bearing in mind that a significant part of business activities relate to clients outside of Montenegro. Exposure to country risk will mainly result from transactions with correspondent banks and other financial organizations. To some extent, country risk will result from financing and business operations in the name and on behalf of non-residents, in accordance with the Bank's internal limits.

The Bank strives not to undertake activities that would lead to exposure to dilution risk, securitisation risk, credit valuation adjustment risk and settlement/delivery risk.

Credit Risk Management

Credit risk is managed in accordance with the Bank's policies, as well as the regulatory requirements of the CBM. Credit exposure by portfolio and by individual clients/groups of related persons is regularly monitored taking into account the set limits. ALCO and the Management Board are regularly informed of any significant changes in the amount and quality of the portfolio, including value adjustments and the impact on capital. Credit risk is regularly monitored and reported, thus enabling timely identification of impairment in the credit portfolio.

The Bank follows the following limits in relation to credit activities:

- Limit of large exposures;
- Exposure limit for products and services that will be dominant in the Bank's business (exposure limit by industry, exposure limit for the total credit portfolio, investment limit in debt securities);
- Exposure limit in other currencies;
- NPL limit.

A significant part of credit risk exposure is secured by credit protection instruments in the form of cash deposits, real estate and other collateral instruments.

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

Operational and organizational separation of duties

The Bank has ensured a clear operational and organisational separation of transaction contracting from risk control and business support. This separation has been carried out and relates to and including the level of the Bank's Management Board. Organizational parts of the Bank that deal with managing business relations with clients, i.e. for sale are: Corporate Sector, Retail Sector, Non-resident Sector, Investment Banking Sector and Asset Management Sector.

The organisational parts of the Bank that deal with risk management are: Credit Analysis and Credit Risk Assessment Sector and Risk Control Sector. The Credit Analysis and Credit Risk Assessment Sector analyses the proposal for placement approval (loan, guarantee) and submits an opinion, determines the initial internal rating and proposes the initial classification, as well as performs regular annual monitoring. The Risk Control Sector analyses credit risk at the portfolio level, monitors and reports on legal and internally defined limits of exposure to credit risk, calculates the impairment of balance sheet receivables and allocates provisions according to CBM regulations.

The organisational part that deals with the implementation of the decisions of the competent decision-making bodies, the creation of legal instruments on standardized templates, bookkeeping and collateral work is the Banking Operations Support Sector.

Decision-making on Placement Approval and Decision-making Matrix

The Bank has established a clear and well-documented framework for the decision-making process on placement approval. Responsibilities and responsibilities are aligned and integrated into the risk-taking propensity and reflect the Bank's business model. The decision on placement approval is made by the competent decision-making levels: the Management Board, the Credit Committee and the Sector level.

The Supervisory Board gives consent to the Management Board on decisions on the exposures of persons connected with the Bank.

The Management Board makes decisions on: total client exposures in the amount of more than 10% of the Bank's basic capital and on the basis of the proposal submitted by the Credit Committee, for all proposals related to exposure to persons connected with the Bank, for all restructured exposures and exposures that fall into poor quality assets, as well as for proposals escalated by the Credit Committee. The Board of Directors makes all decisions for investing in debt securities.

The Credit Committee makes decisions on requests for client placements if the following conditions are met:

- the total exposure of residents for whose placements security instruments (collaterals) are offered, whose legal perfection is carried out in accordance with the legislation of Montenegro, amounts from EUR 50,000.01 to the amount of 10%,
- the total exposure of residents for whose placements security instruments (collaterals) are offered, whose legal perfection is carried out in accordance with the legislation of Montenegro, amounts to 10% of the Bank's share capital;
- total exposure of non-residents up to the amount of 10% (ten percent) of the basic capital of the Bank;
- the total exposure of natural persons and entrepreneurs is from EUR 50,000.01 to the amount of 10% (ten percent) of the basic capital;
- total exposure up to the amount of EUR 50,000.00 for which the Sector level is not authorized;

with the condition that it is not a person related to the Bank, the subject of the request is not the restructuring of the exposure and the exposure is not classified as non-performing assets.

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

Decision-making on Placement Approval and Decision-making Matrix (Continued)

The Credit Committee considers and proposes to the Management Board the adoption of decisions for total exposures that exceed 10% (ten percent) of the Bank's basic capital, except for exposures to persons related to the Bank, restructuring exposures and exposures that fall into non-performing assets.

The Sector level makes decisions on the total exposure of clients of resident legal entities (for which security instruments are offered - collateral whose legal perfection is carried out in accordance with the legislation of Montenegro), natural persons and entrepreneurs up to EUR 50 thousand, with the condition that there are no deviations from individual catalogs products (individuals, legal entities, entrepreneurs), Methodology for determining the creditworthiness of natural persons, Methodology for determining the creditworthiness of legal entities, Collateral Policy, i.e. that if there are deviations, a positive opinion of the Credit Analysis and Credit Risk Assessment Sector has previously been obtained, with the exception of persons associated with the Bank, restructured exposures and non-performing assets.

Decisions are made in accordance with the matrices of possible outcomes in decision-making, which are prescribed by the Decision of the Management Board on authorizations when performing credit-guarantee activities. At the Sector level, the decision is made unanimously, and in case of escalation, the decision is made by the Credit Committee. The Credit Committee makes decisions by majority vote of the members present. The Management Board makes decisions in accordance with the Rules of Procedure of the Management Board.

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 3.7.9.

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 3.7.9.).

As part of the process of managing non-performing exposures, the Bank has formed a special organizational unit, the Non-performing Loans Management Sector. In addition, with the aim of meeting regulatory and internal needs, the Bank has established monitoring, identification, prevention and reporting processes related to restructured and poor-quality exposures. The highest level of non-performing exposures acceptable to the Bank is defined by the RAS framework. The Non-performing Loan Management Sector, as the first line of defence, is responsible for managing non-performing exposures, proposing the option of resolving non-performing exposures and collection of exposures and reporting to the competent level on the status of non-performing exposures. The risk control sector, as the second line of defence, continuously monitors and measures the risks associated with non-performing loans on an individual and aggregate basis, taking into account the adequacy of internal/regulatory capital.

In the category of non-performing assets, the Bank classifies an asset if:

- the debtor has a delay in repaying the obligation for that item for more than 90 days;
- based on the assessment of the debtor's financial condition, i.e. creditworthiness, the Bank estimated that the debtor will not be able to settle the liabilities under that item in full without the collateral foreclosure, regardless of whether the debtor settles his liabilities on time or not;
- if the a default status for that item occurs in accordance with Article 197 of the Decision on Capital Adequacy of Credit Institutions and/or
- the receivable for that item is considered impaired in accordance with IFRS 9, is assigned to level 3 or represents an asset that was purchased or was created at a reduced value.

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

Structuring the Credit Portfolio

Effective credit risk management implies a proper understanding and structuring of the credit portfolio. The Bank structures the loan portfolio as follows:

- Performing credit portfolio;
- Performing credit portfolio that shows early indicators of credit risk;
- Credit portfolio with increased credit risk; and
- Credit portfolio with increased credit risk.

Structuring the portfolio in this way aims to timely and objectively identify the credit risk to which the Bank is exposed.

Performing credit portfolio – exposures that do not show increased credit risk.
A performing credit portfolio that shows early indicators of credit risk that indicate that the portfolio should be monitored more intensively and see if it is possible to prevent the transition to a portfolio with increased credit risk or if it needs to be recognized and viewed as a credit portfolio with increased credit risk in time.

Credit portfolio with increased credit risk - exposures that have some of the indicators that indicate increased credit risk, so the Bank intensively manages them, in order to prevent the transition to the status of default.

Loan portfolio in default status - exposures that show the probability that the Bank may not fully collect the liability. The defaulted portfolio is the NPE portfolio.

Credit exposures that are monitored intensively are exposures where a significant increase in the risk of default has been identified. Indicators that indicate credit exposure with increased credit risk are:

- The client is continuously (for the last 3 months) in arrears for more than 30 days and less than 90 days;
- The client's account has been blocked for more than 30 days in the last 3 months;
- Irregular settlement of tax liabilities - the Client is on the lists of the largest tax debtors published by the Tax Administration,
- Clients who have related persons who are in default with the Bank;
- Restructured loans that are classified as performing loans;
- Other (e.g. a client who has been given a benefit in accordance with the legal possibilities and his exposure is not treated as an event of default).

In this sense, the Bank creates watch lists, which it monitors on a daily basis.

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

Restructuring of credit exposures

It is considered that the Bank has restructured the debtor's loan if it is due to the deterioration of the debtor's creditworthiness:

- extended the repayment term for principal or interest;
- reduced the interest rate on the approved loan;
- assumed the debtor's receivable against a third party, in the name of full or partial recovery of the loan;
- reduced the amount of debt, principal or interest;
- capitalized the interest on the loan granted to the debtor;
- replaced existing loan/s with a new loan (loan renewal), or
- provided other similar benefits that facilitate the debtor's financial position.

The Bank does not consider credit restructuring:

- a change in the principal repayment terms due to unforeseen circumstances beyond the debtor's control (e.g. delays in completing the project), if the effective interest rate remains unchanged in relation to the agreed terms, as long as interest payments are made on time
- reduction of the interest rate or interest capitalization, which are not caused by the deterioration of the debtor's creditworthiness.

If the Bank restructures a loan that it has previously restructured, it is treated as a non-performing exposure. The Bank monitors the collection of restructured loans on a daily basis, and at least quarterly reviews the implementation of restructuring measures and checks the fulfilment of the conditions for restructured loans, on which it prepares reports that are submitted to the competent committees.

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

Credit risk analysis is provided in the following overviews.

Total exposure to credit risk excluding collateral:

TOTAL EXPOSURE TO CREDIT RISK

	31 December 2022		31 December 2021	
	Gross	**Net**	**Gross**	**Net**
I Cash and deposit accounts with Central Bank	**106,327**	106,172	**35,485**	**35,433**
II Financial assets at amortized cost	**129,562**	127,925	**85,748**	**84,574**
Loans and placements to banks	37,035	36,881	32,015	31,952
Loans and placements to customers	70,148	68,725	53,685	52,581
Corporate loans	53,485	52,221	45,344	44,297
Retail loans	16,439	16,306	8,192	8,139
Loans to entrepreneurs	120	119	2	2
Interest and other receivables	105	80	147	143
Securities	22,327	22,281	0	0
Other financial assets	51	39	49	41
III Financial assets at fair value through other comprehensive income	**104,994**	**104,994**	**98,508**	**98,508**
Securities	**104,994**	**104,994**	**98,508**	**98,508**
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	**140**	**62**	**94**	**26**
VI Off-balance items	**17,005**	**16,842**	**15,337**	**15,038**
Guarantees	10,813	10,738	7,330	7,158
Other contingent liabilities	6,192	6,104	8,007	7,880
Total (I+II+III+IV+V+VI)	**358,028**	**355,996**	**235,172**	**233,579**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

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

31 December 2022	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Loans and receivables from banks	**37,035**	**0**	**0**	**37,035**	**154**	**0**	**0**	**154**	**36,881**
Loans and receivables from customers	**49,928**	**10,917**	**9,303**	**70,148**	**415**	**144**	**865**	**1,423**	**68,725**
Retail loans	**16,063**	**340**	**35**	**16,439**	**96**	**6**	**31**	**134**	**16,306**
Housing loans	3,117	33	0	3,149	19	0	0	19	3,131
Cash non-purpose loans	5,365	160	0	5,525	32	4	0	36	5,489
Purchase of cars	11	0	0	11	0	0	0	0	10
Other	7,571	147	35	7,754	46	1	31	78	7,676
Corporate loans	**33,711**	**10,564**	**9,210**	**53,485**	**317**	**138**	**809**	**1,264**	**52,221**
Privately-owned companies	30,737	9,456	8,168	48,362	277	85	585	948	47,414
Non-resident companies	280	1,108	1,042	2,429	0	52	224	277	2,152
Other financial institutions, residents	1,451	0	0	1,451	16	0	0	16	1,435
Non-governmental and other non-profit organisations	1,243	0	0	1,243	23	0	0	23	1,220
Loans to entrepreneurs	**120**	**0**	**0**	**120**	**1**	**0**	**0**	**1**	**119**
Interest and other receivables	**34**	**14**	**57**	**105**	**0**	**0**	**24**	**25**	**80**
Securities (at amortised cost)	**22,327**	**0**	**0**	**22,327**	**47**	**0**	**0**	**47**	**22,281**
Securities (at fair value through other comprehensive income)	**104,994**	**0**	**0**	**104,994**	**0**	**0**	**0**	**0**	**104,994**
Off-balance sheet items	**15,812**	**1,193**	**0**	**17,005**	**122**	**41**	**0**	**163**	**16,842**
Guarantees	**10,218**	**595**	**0**	**10,813**	**64**	**10**	**0**	**75**	**10,738**
Irrevocable commitments	**5,594**	**598**	**0**	**6,192**	**58**	**30**	**0**	**88**	**6,104**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

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

31 December 2021	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment 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**
Securities (at amortised cost)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Securities (at fair value through other comprehensive income)	**98,508**	**0**	**0**	**98,508**	**0**	**0**	**0**	**0**	**98,508**
Off-balance sheet items	**8,731**	**4,765**	**1,840**	**15,337**	**99**	**118**	**83**	**299**	**15,038**
Guarantees	**3,164**	**2,326**	**1,840**	**7,330**	**37**	**53**	**83**	**172**	**7,158**
Irrevocable commitments	**5,567**	**2,439**	**0**	**8,007**	**62**	**64**	**0**	**126**	**7,880**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

SECURITIES

31 December 2022	S1	S2	S3	Total	Allowance for impairment S1	Allowance for impairment S2	Allowance for impairment S3	Total allowance for impairment	Net
Securities at amortised cost	**22,327**	**-**	**-**	**22,327**	**47**	**-**	**-**	**47**	**22,281**
General government, non-residents	9,623	-	-	**9,623**	14	-	-	**14**	**9,608**
International financial institutions	12,705	-	-	**12,705**	32	-	-	**32**	**12,673**
*** Securities at fair value through other comprehensive income**	**104,994**	**-**	**-**	**104,994**	**-**	**-**	**-**	**-**	**104,994**
Government of Montenegro	53,070	-	-	53,070	-	-	-	-	**53,070**
Banks, non-residents	0	-	-	0	-	-	-	-	**0**
Commercial companies, non-residents	12,889	-	-	12,889	**-**	**-**	**-**	**-**	**12,889**
General government, non-residents	39,036	-	-	39,036	-	-	-	-	**39,036**
Total	**127,322**	**-**	**-**	**127,322**	**47**	**-**	**-**	**47**	**127,275**

* Allowance for impairment of securities measured at fair value through other comprehensive income is recorded in equity as of 31 December 2022 amounts to EUR 461 thousand.

31 December 2021	S1	S2	S3	Total	Allowance for impairment S1	Allowance for impairment S2	Allowance for impairment S3	Total allowance for impairment	Net
Securities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General government, non-residents	-	-	-	-	-	-	-	-	-
International financial institutions	-	-	-	-	-	-	-	-	-
*** Securities at fair value through other comprehensive income**	**98,508**	**-**	**-**	**98,508**	**-**	**-**	**-**	**-**	**98,508**
Government of Montenegro	52,844	-	-	52,844	-	-	-	-	**52,844**
Banks, non-residents	2,480	-	-	2,480	-	-	-	-	**2,480**
Commercial companies, non-residents	4,565	**-**	**-**	4,565	**-**	**-**	**-**	**-**	**4,565**
General government, non-residents	38,618	-	-	38,618	-	-	-	-	**38,618**
Total	**98,508**	-	-	**98,508**	-	-	-	-	**98,508**

* Allowance for impairment of securities measured at fair value through other comprehensive income is recorded in equity as of 31 December 2021 amounts to EUR 396 thousand.

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

RECEIVABLES FROM CUSTOMERS BY OVERDUE DAYS - STAGE 1

31 December 2022	Undue	Overdue up to 30 days	From 31-60 days	From 61-90 days	Total
Loans and receivables from banks	**37,035**	**-**	**-**	**-**	**37,035**
Loans and receivables from customers	**37,935**	**11,994**	**-**	**-**	**49,928**
Retail loans	14,419	1,645	-	-	**16,063**
Housing loans	3,037	80	-	-	**3,117**
Cash non-purpose loans	4,706	658	-	-	**5,365**
Purchase of cars	11	0	-	-	**11**
Other	6,665	906	-	-	**7,571**
Corporate loans	23,396	10,314	-	-	**33,711**
Privately-owned companies	21,420	9,317	-	-	**30,737**
Non-resident companies	281	-1	-	-	**280**
Other financial institutions, residents	452	999	-	-	**1,451**
Non-governmental and other non-profit organisations	1,243	0	-	-	**1,243**
Loans to entrepreneurs	120	0	-	-	**120**
Total loans	**37.935**	**11.959**	**-**	**-**	**49.894**
Out of which: restructured	**-**	**-**	**-**	**-**	**-**
Interest and other receivables	**-**	**34**	**-**	**-**	**34**

31 December 2021	Undue	Overdue up to 30 days	From 31-60 days	From 61-90 days	Total
Loans and receivables from banks	**32,015**	**-**	**-**	**-**	**32,015**
Loans and receivables from customers	**14,968**	**2,938**	**-**	**-**	**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-profit organisations	49	462	-	-	**511**
Loans to entrepreneurs	2	0	-	-	**2**
Total loans	**14,968**	**2,926**	**-**	**-**	**17,894**
Out of which: restructured	**-**	**-**	**-**	**-**	**-**
Interest and other receivables	**-**	**12**	**-**	**-**	**12**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

RECEIVABLES FROM CUSTOMERS BY OVERDUE DAYS – STAGE 2

31 December 2022	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 customers	**7,426**	**2,777**	**507**	**208**	**-**	**10,917**
Retail loans	134	122	46	39	-	**340**
Housing loans	0	0	33	-	-	**33**
Cash non-purpose loans	53	55	13	39	-	**160**
Purchase of cars	-	-	-	-	-	**-**
Other	81	66	-	-	-	**147**
Corporate loans	7,293	2,649	456	166	-	**10,564**
Privately-owned companies	7,295	1,990	5	166	-	**9,456**
Non-resident companies	-2	659	451	-	-	**1,108**
Other financial institutions, residents	-	-	-	-	-	**-**
Non-governmental and other non-profit organisations	-	-	-	-	-	**-**
Loans to entrepreneurs	-	-	-	-	-	**-**
Total loans	**7,426**	**2,771**	**502**	**205**	**-**	**10,904**
Out of which: restructured	**1,895**	**642**	**-**	**-**	**-**	**2,537**
Interest and other receivables	**0**	**6**	**5**	**3**	**-**	**14**

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 customers	**5,157**	**11,229**	**8,706**	**236**	**-**	**25,329**
Retail loans	**175**	**313**	**111**	**14**	**-**	**613**
Housing loans	71	-	41	-	-	112
Cash non-purpose loans	105	123	65	2	-	295
Purchase of cars	-	-	-	-	-	-
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**	**-**	**-**	**2,864**
Interest and other receivables	**-**	**36**	**90**	**4**	**-**	**130**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

RECEIVABLES FROM CUSTOMERS BY OVERDUE DAYS - STAGE 3

31 December 2022	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 customers	**5,831**	**2,068**	**440**	**-**	**963**	**9,303**
Retail loans	**-**	**-**	**-**	**-**	**35**	**35**
Housing loans	-	-	-	-	-	-
Cash non-purpose loans	-	-	-	-	-	-
Purchase of cars	-	-	-	-	-	-
Other	-	-	-	-	**35**	**35**
Corporate loans	5,831	2,057	437	-	**886**	**9,210**
Privately-owned companies	5,769	1,120	437	-	**843**	**8,168**
Non-resident companies	62	937	-	-	**42**	**1,042**
Other financial institutions, residents	-	-	-	-	-	-
Non-governmental and other non-profit organisations	-	-	-	-	-	-
Loans to entrepreneurs	-	-	-	-	-	-
Total loans	**5,831**	**2,057**	**437**	**-**	**921**	**9,246**
Out of which: restructured	**5,778**	**1,092**	**408**	**-**	**60**	**7,338**
Interest and other receivables	**-**	**11**	**3**	**-**	**43**	**57**

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 customers	**6,635**	**3,684**	**50**	**79**	**2**	**10,450**
Retail loans	**1**	**-**	**-**	**-**	**-**	**1**
Housing loans	-	-	-	-	-	-
Cash non-purpose loans	1	-	-	-	-	1
Purchase of cars	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate loans	**6,635**	**3,683**	**50**	**78**	**-**	**10,445**
Privately-owned companies	6,199	3,625	50	78	-	9,951
Non-resident companies	436	58	-	-	-	494
Non-governmental and other non-profit organisations	-	-	-	-	-	-
Loans to entrepreneurs	**-**	**-**	**-**	**-**	**-**	**-**
Total loans	**6,635**	**3,683**	**50**	**78**	**-**	**10,445**
Out of which: restructured	**6,637**	**1,534**	**50**	**-**	**-**	**8,220**
Interest and other receivables	**-**	**1**	**-**	**1**	**2**	**4**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

SECURITIES BY DAYS OVERDUE

All securities in the Bank's portfolio are classified in Stage 1. Historically, the Bank has realized all cash flows from purchased instruments in a timely manner, without delay.

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

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

31 December 2022	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	**37,035**	**154**	-	-	-	-	**0.00%**
Loans and receivables from customers	**70,149**	**1,423**	**9,303**	**865**	**7,352**	**172**	**13.26%**
Retail loans	**16,439**	**134**	**35**	**31**	-	-	**0.22%**
Housing loans	3,149	19	-	-	-	-	0.00%
Cash non-purpose loans	5,525	36	-	-	-	-	0.00%
Purchase of cars	11	-	-	-	-	-	0.00%
Other	7,754	78	35	31	-	-	0.46%
Corporate loans	**53,485**	**1,264**	**9,211**	**809**	**7,338**	**171**	**17.22%**
Administrative and support service activities	592	7	-	-	-	-	0.00%
Financial and insurance activities	1,731	17	-	-	-	-	0.00%
Construction	9,268	213	1,582	137	1,561	136	17.07%
Information and communication	2,422	30	-	-	-	-	0.00%
Other service activities	1,231	23	-	-	-	-	0.00%
Agriculture, forestry and fishing	278	3	-	-	-	-	0.00%
Real estate operations	2,191	14	-	-	-	-	0.00%
Processing industry	9,764	53	28	-	-	-	0.29%
Traffic and warehousing	4,828	54	0	-	-	-	0.00%
Water supply	647	15	0	-	-	-	0.00%
Professional, scientific and technical activities	1,037	8	27	-	-	-	2.65%
Trade	8,503	746	1,857	638	62	-	21.84%
Art, entertainment and recreation	122	1	-	-	0	-	0.00%
Accommodation and catering services	10,154	64	5,715	34	5,715	34	56.29%
Extraction of ores and stone	498	9	-	-	-	-	0.00%
Healthcare and social security	218	8	-	-	-	-	0.00%
Loans to entrepreneurs	120	1	-	-	-	-	0.00%
Interest and other receivables	105	25	57	24	14	1	54.47%

As of 31 December 2022, the Bank has no S3 customers in off-balance sheet items

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

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

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 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%**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

CHANGES IN S3 RECEIVABLES

	Gross as of 31 December 2021	New S3 customers	Decrease in S3 customers	Rate impact	Other changes	Gross as of 31 December 2022	Net as of 31 December 2022
Loans and receivables from customers	**10,450**	**1,960**	**2,258**	**-**	**-849**	**9,303**	**8,438**
Retail loans	**1**	**35**	**1**	**-**	**0**	**35**	**4**
Housing loans	-	-	-	-	-	-	-
Cash non-purpose loans	1	-	1	-	-	-	-
Purchase of cars	-	-	-	-	-	-	-
Other	-	**35**	-	-	-	35	4
Corporate loans	**10,445**	**1,876**	**2,254**	**-**	**-857**	**9,210**	**8,401**
Privately-owned companies	9,951	897	2,196	-	-483	8,168	7,584
Non-resident companies	494	979	58	-	-374	1,042	817
Other financial institutions, residents	-	-	-	-	-	-	-
Non-governmental and other non-profit organisations	-	-	-	-	-	-	-
Loans to entrepreneurs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest and other receivables	**4**	**49**	**3**	**-**	**7**	**57**	**33**

As of 31 December 2022, the Bank has no S3 customers in off-balance sheet items.

4. RISK MANAGEMENT (Continued)

4.5. 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 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	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**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

RESTRUCTURINGS OF RECEIVABLES

31 December 2022	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	**70,149**	**9,889**	**0**	**2,537**	**7,352**	**233**	**0**	**61**	**172**	**14%**
Retail loans	**16,439**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0%**
Housing loans	3,149	0	0	0	0	0	0	0	0	0
Cash non-purpose loans	5,525	0	0	0	0	0	0	0	0	0
Purchase of cars	11	0	0	0	0	0	0	0	0	0
Other	7,754	0	0	0	0	0	0	0	0	0
Corporate loans	**53,485**	**9,875**	**0**	**2,537**	**7,338**	**232**	**0**	**61**	**171**	**18%**
Administrative and support service activities	592	0	0	0	0	0	0	0	0	0%
Financial and insurance activities	1,731	0	0	0	0	0	0	0	0	0%
Construction	9,268	3,456	0	1,895	1,561	148	0	11	136	37%
Information and communication	2,422	0	0	0	0	0	0	0	0	0%
Other service activities	1,231	0	0	0	0	0	0	0	0	0%
Agriculture, forestry and fishing	278	0	0	0	0	0	0	0	0	0%
Real estate operations	2,191	0	0	0	0	0	0	0	0	0%
Processing industry	9,764	0	0	0	0	0	0	0	0	0%
Traffic and warehousing	4,828	0	0	0	0	0	0	0	0	0%
Water supply	647	0	0	0	0	0	0	0	0	0%
Professional, scientific and technical activities	1,037	0	0	0	0	0	0	0	0	0%
Trade	8,503	704	0	642	62	50	0	49	0	8%
Art, entertainment and recreation	122	0	0	0	0	0	0	0	0	0%
Accommodation and catering services	10,154	5,715	0	0	5,715	34	0	0	34	56%
Extraction of ores and stone	498	0	0	0	0	0	0	0	0	0%
Healthcare and social security	218	0	0	0	0	0	0	0	0	0%
Loans to entrepreneurs	**120**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0%**
Interest and other receivables	**105**	**14**	**0**	**0**	**14**	**1**	**0**	**0**	**1**	**13%**

4. RISK MANAGEMENT (Continued)

4.5. 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 loans	**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	-	-	-	-	-	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	-	-	-	-	-	-	-	0%
Loans to entrepreneurs	**2**	**0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0%**
Interest and other receivables	**147**	**6**	**-**	**5**	**1**	**-**	**-**	**-**	**-**	**4%**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

CHANGES IN RESTRUCTURED S1 RECEIVABLES

During 2022 and 2021, there was no restructuring of S1 customers.

CHANGES IN RESTRUCTURED S2 RECEIVABLES

	Gross restructured S2 receivables as of 31 December 2021	New restructured S2 receivables	Decrease in restructured S2 receivables	Rate impact	Other changes – decrease (increase/decrease based on the transfer of already restructured loans to S2/ the transfer of already restructured loans to S3)	Gross as of 31 December 2022	Net as of 31 December 2022
Loans and receivables from customers	**2,869**	**642**	**974**	**-**	**-**	**2,537**	**2,476**
Retail loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate loans	**2,864**	**642**	**969**	**-**	**-**	**2,537**	**2,476**
Privately-owned companies	2,864	-	969	-	-	1,895	1,884
Non-resident companies	-	642	-	-	-	642	593
Other financial institutions, residents	-	-	-	-	-	-	-
Non-governmental and other non-profit organisations	-	-	-	-	-	-	-
Loans to entrepreneurs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest and other receivables	**5**	**-**	**5**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

CHANGES IN RESTRUCTURED S2 RECEIVABLES (Continued)

	Gross restructured S2 receivables as of 31 December 2020	New restructured S2 receivables	Decrease in restructured S2 receivables	Rate impact	Other changes – decrease (increase/decrease based on the transfer of already restructured loans to S2/ 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	**50**	**2,869**	**50**	**-**	**-**	**2,869**	**2,836**
Retail loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate loans	**50**	**2,864**	**50**		**-**	**2,864**	**2,831**
Privately-owned companies	50	2,864	50	-	-	2,864	2,831
Non-resident companies	-	-	-	-	-	-	-
Non-governmental and other non-profit organisations	-	-	-	-	-	-	-
Loans to entrepreneurs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest and other receivables	**-**	**5**	**-**	**-**	**-**	**5**	**5**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

CHANGES IN RESTRUCTURED S3 RECEIVABLES

	Gross restructured S3 receivables as of 31 December 2021	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 2022	Net as of 31 December 2022
Loans and receivables from customers	**8,221**	**73**	**943**	-	-	**7,352**	**7,180**
Retail loans	**-**	**-**	**-**	-	-	**-**	**-**
Corporate loans	**8,220**	**60**	**942**	-	-	**7,338**	**7,167**
Privately-owned companies	**7,727**	**60**	**510**			**7,276**	**7,105**
Non-resident companies	**494**	-	**432**	-	-	**62**	**62**
Other financial institutions, residents	-	-	-	-	-	-	-
Non-governmental and other non-profit organisations	-	-	-	-	-	-	-
Loans to entrepreneurs	-	-	-	-	-	-	-
Interest and other receivables	**1**	**14**	**1**		**0**	**14**	**13**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

CHANGES IN RESTRUCTURED S3 RECEIVABLES (Continued)

	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	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate loans	**5,722**	**2,560**	**61**	**-**	**-**	**8,220**	**7,935**
Privately-owned companies	**5,660**	**2,066**	**-**			**7,727**	**7,510**
Non-resident companies	**61**	**494**	**61**	-	-	**494**	**425**
Non-governmental and other non-profit organisations	**-**	**-**	**-**	-	-	**-**	**-**
Loans to entrepreneurs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest and other receivables	**56**	**1**	**56**	**-**	**-**	**1**	**1**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

Concentration risk

Concentration risk is identified by the Bank: when approving credit exposures; investing in securities and depositing funds in correspondent accounts and commercial bank accounts.

The Bank monitors and manages the concentration risk related to:

- Individual persons and groups of related persons;
- Exposure groups linked by common factors (activity, geographic area, similar businesses, application of the same credit risk reduction techniques);
- Entire credit portfolio.

The Bank monitors the concentration risk related to individual persons and groups of related persons through the indicator of large exposures. The Bank's exposure to one person or a group of related persons is considered a large exposure if its value is equal to or exceeds 10% of the Bank's basic capital. The highest amount of the Bank's exposure to one person or a group of related persons, after taking into account the effects of credit risk mitigation techniques, in accordance with the Law on Credit Institutions, may not exceed 25% of the Bank's basic capital, i.e. for exposure to another credit institution greater than two amounts : 25% of the basic capital of the Bank or the amount of EUR 2.5 million.

Groups of exposure linked by common risk factors are: Exposure according to economic sectors (industries); exposure according to geographic areas, exposure according to types of credit products and the application of the same credit risk reduction techniques.

The Bank monitors the concentration risk based on exposure to non-residents within the country risk, which is in line with the Bank's tendency to take risks. The Bank's exposure to business entities and natural persons from different parts of Montenegro is determined by considering the share of exposure in the total portfolio to customers by regions of the country of Montenegro: Northern region, Central region and Primorje.

The Bank is not significantly exposed to concentration risk arising from the use of guarantees and other guarantees and credit derivatives, because the dominant instrument for reducing credit risk for the Bank's exposures is cash and cash equivalents deposited in the Bank's accounts. Furthermore, the Bank does not automatically approve credit placements to clients on the basis of coverage with a recognised credit risk reduction instrument (cash and cash equivalents deposited in the Bank's accounts). Each credit placement in the Bank, regardless of credit risk reduction instruments, is subject to a special risk analysis and requires a decision by the authorised competent committee.

The Risk Control Sector monitors internal limits and reports to ALCO and the Bank's Management Board on the Bank's exposure to concentration risk (on a monthly basis). Operational limits are set at the RAS risk tolerance level.

- High exposure (limit 25% of the basic capital);
- Concentration of credit exposures to individual clients (top 10) - max 60%
- Exposure to one industry in the total credit portfolio - max 40%
- Exposure limit for debt securities in total assets - max 50%.

The early warning limit (RAS) prescribed as a minimum:

- High exposure (limit 24.5% of the basic capital);
- Concentration of credit exposures to individual clients (top 10) - max 50%
- Exposure to one industry branch in the total loan portfolio - max 35%
- Exposure limit for debt securities in total assets - max 47.50%.

For the calculation of internal capital requirements and stress testing (on a quarterly basis), the Bank can use the HHI indexes: Individual concentration index (HHIi) of the credit portfolio; Sector concentration index; HHIs); Geographic Concentration Index (HHIg) and Product Concentration Index (HHIp).

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

CONCENTRATION RISK

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

31 December 2022	Receivables from S1 and S2 customers					Receivables from S3 customers				
	Montenegro	Germany	Luxembourg	China	Other	Montenegro	Germany	Luxembourg	China	Other
Loans and receivables from banks	**1,833**	**11,730**	**-**	**2,616**	**20,702**	**-**	**-**	**-**	**-**	**-**
Loans and receivables from customers	**57,093**	**-**	**-**	**-**	**3,195**	**7,615**	**62**	**-**	**-**	**761**
Retail loans	**14,448**	**-**	**-**	**-**	**1,854**	**4**	**-**	**-**	**-**	**-**
Housing loans	1,758	-	-	-	1,373	-	-	-	-	-
Cash non-purpose loans	5,489	-	-	-	0	-	-	-	-	-
Purchase of cars	10	-	-	-	0	-	-	-	-	-
Other	7,191	-	-	-	481	4	-	-	-	-
Corporate loans	**42,484**	**-**	**-**	**-**	**1,336**	**7,584**	**62**	**-**	**-**	**755**
Administrative and support service activities	585	-	-	-	-	-	-	-	-	-
Financial and insurance activities	1,433	-	-	-	281	-	-	-	-	-
Construction	7,162	-	-	-	448	1,446	-	-	-	-
Information and communication	2,392	-	-	-	0	-	-	-	-	-
Other service activities	1,208	-	-	-	0	-	-	-	-	-
Agriculture, forestry and fishing	275	-	-	-	0	-	-	-	-	-
Real estate operations	2,177	-	-	-	0	-	-	-	-	-
Processing industry	9,684	-	-	-	0	28	-	-	-	-
Traffic and warehousing	4,775	-	-	-	0	-	-	-	-	-
Water supply	633	-	-	-	0	-	-	-	-	-
Professional, scientific and technical activities	1,003	-	-	-	0	27	-	-	-	-
Trade	5,930	-	-	-	608	402	62	-	-	755
Art, entertainment and recreation	121	-	-	-	0	-	-	-	-	-
Accommodation and catering services	4,409	-	-	-	0	5,681	-	-	-	-
Extraction of ores and stone	488	-	-	-	0	-	-	-	-	-
Healthcare and social security	209	-	-	-	0	-	-	-	-	-
Loans to entrepreneurs	**119**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest and other receivables	**42**	**-**	**-**	**-**	**5**	**27**	**-**	**-**	**-**	**6**
Securities (at amortised cost)	**-**	**-**	**9,900**	**-**	**12,381**	**-**	**-**	**-**	**-**	**-**
Securities (at fair value through other comprehensive income)	**53,070**	**1,609**	**-**	**5,074**	**45,241**	**-**	**-**	**-**	**-**	**-**
Off-balance sheet items	**16,107**	**-**	**-**	**-**	**736**	**-**	**-**	**-**	**-**	**-**
Guarantees	10,098	-	-	-	640	-	-	-	-	-
Irrevocable commitments	6,009	-	-	-	95	-	-	-	-	-
Total	**58,926**	**11,730**	**-**	**2,616**	**23,896**	**7,615**	**62**	**-**	**-**	**761**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

CONCENTRATION RISK (Continued)

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

31 December 2021	Receivables from S1 and S2 customers					Receivables from S3 customers				
	Montenegro	Turkey	Germany	Bosnia and Herzegovina	Other	Montenegro	Turkey	Germany	Bosnia and Herzegovina	Other
Loans and receivables from banks	**1,665**	**5,904**	**5,476**	**5,544**	**13,364**	**-**	**-**	**-**	**-**	**-**
Loans and receivables from customers	**35,930**	**-**	**-**	**-**	**6,527**	**9,698**	**-**	**384**	**-**	**42**
Retail loans	**8,139**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	-	-	-	-	-	-	-	-	-
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**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

Security instruments received

The Bank has implemented a credit risk management system, which aims to ensure optimal management of insurance instruments (collaterals) and reduce potential credit loss in case of debtor's default. The collateral policy, which is in line with the requirements of the regulator, prescribes the acceptability of security instruments (collateral) by type, valuation and monitoring rules, and ensures reliability, legal enforceability and timely collection from collateral, while technological support enables the recording of acceptable security instruments and the control of parameters that affect their valuation.

The insurance instrument can appear in several forms: real estate, movable property, cash deposit, securities, insurance policies, in the form of intangible credit protection: guarantees and other collaterals accepted in accordance with the EU and local regulations.

Insurance instruments are accepted exclusively as a secondary (additional) source of credit risk insurance (primary is the creditworthiness of the client/debtor) and cannot serve as a substitute for the debtor's ability to fulfil obligations.

The bank evaluates the acquired security instruments as part of the loan/placement approval process. The assessment is subject to regular revision.

During the duration of the contractual relationship, the Bank will hire an independent external appraiser for immovable properties to carry out revaluations: for immovable properties used for business purposes - at least once a year; for residential real estate - at least once every three years; in shorter terms in case of significant changes in the market. For exposure that amounts to more than 5% of the Bank's regulatory capital or exceeds the amount of EUR 500 thousand. (depending on which is lower), the Bank will provide an assessment of the value of collateral in the form of real estate by an independent appraiser, at least every three years, while for movable property whose value at the time of contracting the collateral was greater than EUR 500 thousand.

The collateral must be re-evaluated by a professional external appraiser and verified by the Bank no later than when the credit exposure becomes a non-performing exposure and before the Bank decides to initiate legal proceedings. For all non-performing exposures, collateral valuations should be updated when the exposure is classified as non-performing and at least annually for as long as it is classified as non-performing.

All real estate pledged with the Bank is insured against the occurrence of adverse events, whereby the insurance policy is provided for a term that is at least equal to the maturity of the loan. For movable property such as vehicles, aircraft and vessels and other equipment, an insurance policy is provided on an annual basis. For the insurance of equipment and machinery, an insurance policy is provided on an annual basis.

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

COLLATERALISED LOANS AND RECEIVABLES FROM CUSTOMERS

31 December 2022	S1 customers				S2 customers				S3 customers			
	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total
Retail loans	**6,585**	**167**	**9,215**	**15,967**	**120**	**-**	**215**	**334**	-	-	**4**	**4**
Housing loans	2,628	63	408	3,098	32	-	0	32	-	-	-	-
Cash non-purpose loans	1,349	85	3,899	5,333	0	-	156	156	-	-	-	-
Purchase of cars	-	-	10	10	0	-	0	0	-	-	-	-
Other	2,609	19	4,898	7,526	87	-	58	146	-	-	4	4
Corporate loans	**18,302**	**2,792**	**12,300**	**33,393**	**4,411**	**5,559**	**455**	**10,426**	**1,921**	**5,743**	**737**	**8,401**
Privately-owned companies	17,852	2,512	10,095	30,460	3,373	5,543	455	9,371	1,903	5,681	-	7,584
Non-resident companies	-	279	-	279	1,039	17	-	1,055	18	62	737	817
Other financial institutions, residents	450	-	985	1,435	-	-	-	-	-	-	-	-
Non-governmental and other non-profit organisations	-	-	1,220	1,220	-	-	-	-	-	-	-	-
Loans to entrepreneurs	**119**	-	-	**119**	-	-	-	-	-	-	-	-
Total	**25,006**	**2,959**	**21,515**	**49,480**	**4,531**	**5,559**	**670**	**10,761**	**1,921**	**5,743**	**742**	**8,405**

4. RISK MANAGEMENT (Continued)

4.5. Credit Risk (Continued)

COLLATERALISED LOANS AND RECEIVABLES FROM CUSTOMERS

31 December 2021	S1 customers				S2 customers				S3 customers			
	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total
Retail loans	**2,468**	**155**	**4,911**	**7,534**	**329**	**-**	**275**	**605**	**-**	**-**	**-**	-
Housing loans	691	29	169	889	111	-	-	111	-	-	-	-
Cash non-purpose loans	530	113	2,277	2,920	161	-	130	292	-	-	-	-
Purchase of cars	-	-	18	18	0	-	-	0	-	-	-	-
Other	1,247	13	2,448	3,707	57	-	145	202	-	-	-	-
Corporate loans	**5,506**	**375**	**4,330**	**10,210**	**9,248**	**8,942**	**5,776**	**23,966**	**2,152**	**7,735**	**234**	**10,121**
Privately-owned companies	5,506	375	2,237	8,117	7,555	6,930	4,462	18,947	2,111	7,585	-	9,696
Non-resident companies	-	-	1,590	1,590	1,693	2,013	1,202	4,908	41	150	234	425
Non-governmental and other non-profit organisations	-	-	503	503	-	-	111	111	-	-	-	0
Loans to entrepreneurs	**2**	-	-	**2**	-	-	-	**0**	-	-	-	**0**
Total	**7,976**	**530**	**9,241**	**17,747**	**9,577**	**8,942**	**6,051**	**24,571**	**2,152**	**7,735**	**234**	**10,121**

4. RISK MANAGEMENT (Continued)

4.6. Risk of Excessive Financial Leverage

The risk of excessive financial leverage is the risk arising from the Bank's vulnerability due to existing or potential financial leverage that may lead to unwanted changes to the Bank's business plan, including the forced sale of assets that may lead to losses or to the adjustment of the value of the Bank's remaining assets.

Measuring and limiting the risk of excessive financial leverage is done by monitoring regulatory limits, as well as establishing internal exposure limits to the risk of excessive financial leverage. In order to manage this risk, the Bank, in addition to regulatory limits, also monitors internal limits and internal early warning triggers (reporting triggers). The regulatory limit for the financial leverage ratio is defined at a minimum level of 3%, while the internal limit is defined at a minimum level of 3.10%, and the internal early warning trigger, which is considered to be a "watch" situation, is defined at a minimum level of 3.5%.

In order to mitigate the risk of excessive financial leverage, the Bank proactively undertakes activities to monitor deviations of the realized values of balance sheet positions compared to the planned ones, whereby in the event of significant balance sheet positions exceeding the amount of more than 20% compared to the business plan (budget), it considers the need to revise internal acts and performs a review of sufficient capitalisation, in order to assess the Bank's risk profile and define the measures that need to be taken. Significant balance sheet items are considered to be: asset size, loan amount and securities amount.

On a quarterly basis, the Bank assesses the exposure to the risk of excessive financial leverage, operations within the established limits, while monthly it monitors the excesses of the realised values compared to the planned ones and takes measures in case of a significant excess of the realised values compared to the planned ones.

As of 31 December 2022, financial leverage ratio was 3.70% and it is in line with regulatory and internally prescribed limits.

4.7. Operational Risk

Operational risk is the risk of losses for the Bank arising from inadequate or failed internal processes, people and systems or external events, including legal risk.

The Bank's operational risk management includes, in particular:
1) existing or potential risk of loss for the credit institution arising from inappropriate provision of financial services, including cases of intent or negligence (risk of negligent operation);
2) information system risk;
3) model risk;
4) business changes, including new products, activities, processes and systems;
5) risk that appears in project management;
6) legal risk;
7) external events,
8) operational risk arising from outsourcing; and
9) significant inherent risks in existing products, activities, processes and systems

4. RISK MANAGEMENT (Continued)

4.7. Operational Risk (Continued)

The Bank manages operational risk in such a way that it controls, mitigates, transfers to third parties or avoids it.
Internal acts that regulate the operational risk management system:

- Operational risk management policy,
- Operational risk management procedure,
- Methodology for identification of key risk indicators,
- Outsourcing management policy,
- Outsourcing management procedure,
- Methodology for assessing the impact of risks associated with outsourcing,
- Model risk management policy;
- New product introduction procedure.

Segregation of duties is achieved in a way that prevents conflicts of interest so that the employee in the Risk Control Sector who coordinates operational risk management and prepares reports is independent of the areas where the risks arise.

The annual revision of internal documents for operational risk management is carried out regularly.

The analysis of operational risks (Self-assessment of operational risks and controls) is carried out in the Bank on an annual basis, which identifies the potentially riskiest processes from the aspect of operational risk and subjects them to a deeper analysis and, if necessary, defines additional controls and measures to reduce risk if necessary.

Awareness of the culture of operational risk management is continuously improved by additional employee education conducted by the Risk Control Sector, as well as by improving the reporting system. The reporting system was established in order to inform management and relevant bodies about exposure to operational risk and measures to reduce operational risk.

The Bank has a database of risk events in which events caused by operational risk are recorded, regardless of whether they resulted in a loss for the Bank or not. Based on these data, additional possible measures/controls to reduce operational risks are defined. For all individual operational risk events that are certain to result in a gross loss of more than 0.1% of the regulatory capital, the Risk Control Sector prepares a special report for the Bank's Management Board.

The Bank has established and regularly maintains an early warning system - Key Risk Indicators (KRI) which are included in the operational risk report.

The Bank regularly supervises the fulfilment of contractual obligations and the quality of service with the aim of quality risk management arising from outsourced activities. In addition, the Bank informs the CBM about its intention to outsourced critical and important operations of the Bank (in accordance with the Decision on Risk Management related to the externalization of the CBM).

The calculation of the capital requirement for operational risk is carried out once a year using a simple approach.

4. RISK MANAGEMENT (Continued)

4.8. Fair Value of Financial Assets and Liabilities

	Carrying value		Fair value	
	2022	**2021**	**2022**	**2021**
Cash balances and deposits with central banks	**106,172**	**35,433**	**106,172**	**35,433**
Financial assets at amortised cost	**127,925**	**84,574**	**127,923**	**84,574**
Loans and receivables from banks	36,881	31,952	36,881	31,952
Loans and receivables from customers	68,725	52,581	68,725	52,581
Securities	22,281	-	22,278	
Other financial assets	39	41	39	41
Financial assets at FVTOCI* (securities*)	**104,994**	**98,508**	**104,994**	**98,508**
***Financial assets at FVTPL* (loans and receivables from customers)**	**-**	**-**	**-**	**-**
Financial liabilities at amortised cost				
Customers' deposits	324,827	199,914	324,827	199,914
Banks' deposits	6	4	6	4
Loans of customers other than banks	3,475	2,528	3,475	2,528
Other liabilities	6,602	4,917	6,602	4,917
Subordinated debt	-	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.

4.8.1. 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.

4. RISK MANAGEMENT (Continued)

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

4.8.1. 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 2022	Level 1	Level 2	Level 3	Total
Financial assets				
-at fair value through other comprehensive income	104,994	-	-	104,994
-at fair value through profit or loss	-	-	-	-
Total	**104,994**	**-**	**-**	**104,994**

31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets				
-at fair value through other comprehensive income	98,508	-	-	98,508
-at fair value through profit or loss	-	-	-	-
Total	**98,508**	**-**	**-**	**98,508**

Valuation techniques and assumptions used for the valuation of financial instruments measured at fair value

The fair value of securities (which are classified within Level 1) through other comprehensive income is based on market prices. As of 31 December 2022, the stated market prices of the securities were available.

4. RISK MANAGEMENT (Continued)

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

4.8.1. Fair Value of Financial Instruments Measured at Fair value (Continued)

Financial assets that are not measured at fair value, according to the fair value hierarchy

The estimated fair value of financial instruments, according to the fair value hierarchy, is presented in the following table:

31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets:				
Cash and cash balances and deposit accounts with central banks	106,172	-	-	106,172
Financial assets at amortized cost				
Loans and placements to banks	-	-	36,881	36,881
Loans and placements to customers	-	-	68,725	68,725
Securities	22,281			22,281
Other financial assets	-	-	39	39
Other assets	-	-	227	227
Total	**128,453**	**-**	**105,832**	**234,325**

31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets:				
Cash and cash balances and deposit accounts with central banks	35,433	-	-	35,433
Financial assets at amortized cost				
Loans and placements to banks	-	-	31,952	31,952
Loans and placements to customers	-	-	52,581	52,581
Securities	-	-	-	-
Other financial assets	-	-	41	41
Other assets	-	-	85	85
Total	**35,433**	**-**	**84,659**	**120,092**

Valuation techniques and assumptions used for the valuation of financial instruments not measured at fair value

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.

4. RISK MANAGEMENT (Continued)

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

4.8.1. Fair Value of Financial Instruments Measured at Fair value (Continued)

Loans and Placements to Banks

Loans and placements to banks include inter-bank loans and placements and items in the course of collection. The fair values of floating rate investments and overnight deposits approximate their carrying amounts at the statement of financial position date.

Loans and Placements to Customers

In order to determine the fair value of loans and placements to customers with fixed interest rate measured at amortized cost, the Bank compared the its interest rates on loans and placements to customers to the available information on the current market interest rates in the banking sector of Montenegro, i.e., weighted average market rates by business activities.

As the Bank's management states, the Bank's interest rates do not differ significantly from prevailing market interest rates in the banking sector of Montenegro, which means that the fair value of loans to customers calculated as the present value of future cash flows, discounted using the current market rates, i.e. the average weighted interest rates of the banking sector, does not deviate significantly from the carrying value of the loan as at the statement of financial position preparation date.

Securities at Amortised Cost

In the opinion of the Bank's Management, the carrying value at which the listed financial instruments are stated does not depart significantly from the fair value of similar instruments on the market as of 31 December 2022.

Financial Liabilities

For demand deposits and deposits with a remaining maturity of less than one year, it is assumed that the estimated fair value does not significantly differ from their carrying amounts. . According to the Bank's management, the Bank's interest rates are harmonized with the current market rates and the amounts stated in the financial statements represent the fair value which accurately reflects the fair value of these financial instruments, under the current circumstances.

5. CAPITAL MANAGEMENT

The Bank manages capital in such a way as to ensure compliance with capital requirements in accordance with regulations, as well as to ensure an adequate level of capital for future business development.

Regulatory capital represents the sum of the basic and supplementary capital of a credit institution. The core capital of a credit institution represents the sum of items of regular core capital and items of additional core capital, after regulatory adjustments and reductions for deductible items, in the manner regulated by the Decision on Capital Adequacy of Credit Institutions ("Official Gazette of Montenegro" no. 128/20, 140 /21 and 144/22).

As at 31 December 2022, the Bank's core capital consists of regular core capital in the amount of EUR 9,999 thousand and supplementary core capital in the amount of EUR 3,000 thousand. Core capital includes: ordinary shares, undistributed (retained) profit from previous years, accumulated other comprehensive income - FVOCI and adjustment of regular core capital due to prudential filters.

Losses arising from the revaluation of available-for-sale instruments determined in accordance with IFRS 9 amounted to EUR 7,293 thousand. and relate to securities that are measured at fair value through other comprehensive income. The Bank used the benefits from the Decision of the CBM on temporary measures to mitigate the negative impact of the epidemic of the infectious disease COVID 19 and the situation in Ukraine on the financial system ("Official Gazette of Montenegro" No. 135/22) dated 5 December 2022, in such a way that from calculation of the items of CET 1 excluded 100% of the amount of unrealised losses determined after the entry into force of this decision, when valuing debt financial instruments available for sale in accordance with IFRS 9, which are included in the total comprehensive income. The basis for the calculation is the difference between the market value of debt financial instruments as of 24 February 2022 and the market value of those instruments as of the day of capital calculation, whereby the debt instruments to which the measure applies are debt financial instruments issued by central governments from Article 131 of the Decision on Capital Adequacy of Credit Institutions ("Official Gazette of Montenegro", no. 128/20 and 140/21) and regional and local self-government units from Article 132 of the Decision on Capital Adequacy of Credit Institutions. On 31 December 2022, prudential adjustments amount to EUR 5,898 thousand.

The amount of EUR 105 thousand relates to additional adjustments (AVA), i.e. to the positions of securities, which are measured at fair value. Calculation of total AVA for adjustment of fair value to prudential value is determined by the Bank using a simplified approach as 0.1% of the sum of the absolute values of assets and liabilities measured at fair value.

Deductible items from the Bank's CET 1 are: intangible assets, the positive difference between the amount of calculated provisions for potential losses and the sum of the amount of value adjustments for balance sheet assets and provisions for off-balance sheet items classified as performing assets and the positive difference between the amount of calculated provisions for potential losses and the sum of the amount of the value adjustment for balance sheet assets and provisions for off-balance sheet items classified as non-quality exposures to which the deduction from the CET 1 from Article 18 point 13 of the Decision on the Capital Adequacy of Credit Institutions (created before the start of application of that decision) is not applied.

CET 1 relates to preferred non-cumulative shares.

The Bank does not have supplementary capital instruments.

The prescribed minimum capital rates according to the Law on Credit Institutions ("Official Gazette of Montenegro" no. 72/19, 82/20, 8/21) are as follows:

- Common Equity Tier 1 capital ratio (CET 1) of 4.5% (ratio between CET 1 capital and the total amount of risk exposure);
- Tier 1 capital ratio of 6% (ratio between Tier 1 capital and the total amount of risk exposure);
- total capital adequacy ratio of 8% (ratio between regulatory capital and the total amount of risk exposure).

5. CAPITAL MANAGEMENT (Continued)

In addition to the regulatory minimum capital adequacy rates, as of 31 December 2022, the Bank is obliged to comply with the following protective layers of CET 1 capital:

- Capital conservation buffer of 0.63% of the total amount of risk exposure;
- The higher of the systemic risk buffer (1.50% of the total amount of risk exposure) and the capital buffer for other systemically important credit institutions (2.0% of the total amount of risk exposure).
- Countercyclical capital buffer of 0% of the total amount of risk exposure.

Combined buffer applied to the Bank as of 31 December 2022 amounts to 2.63% of the total amount of risk exposure.

As of 31 December 2022, the Bank meets all regulatory and internally prescribed capital limits.

The following table shows the structure of regulatory capital, total risk-weighted assets and capital adequacy ratio for the Bank as of 31 December 2022:

		31/12/2022
1	**REGULATORY CAPITAL**	**12,999**
1.1.	**Tier 1**	**12,999**
1.1.1.	**CET 1**	**9,999**
1.1.1.1.	Equity instruments that are recognized as CET 1	12,500
1.1.1.2.	Retained earnings	982
1.1.1.3.	Accumulated other comprehensive income (total other comprehensive income) - FVOCI	-7,293
1.1.1.4.	Adjustments to CET 1 due to prudential filters	5,898
	(–) adjustment of valuation due to requirements for prudential valuation (AVA)	105
	other prudential adjustments	6,003
1.1.1.5.	Other intangible assets	191
1.1.1.6.	(–) Positive difference between the amount of the calculated provisions for potential losses and the sum of the amount of the value adjustment for balance sheet assets and provisions for off-balance sheet items	1,940
1.1.1.7.	Other elements or deductions from the regular share capital	43
1.1.2.	**AT1**	**3,000**
1.2.	**Tier 2**	**0**
	TOTAL AMOUNT OF RISK EXPOSURE	**90,201**
	CET1 ratio - min 4.5%	11.09%
	Tier 1 ratio - min 6%	14.41%
	TCR - min 8%	14.41%

6. INTEREST INCOME, INTEREST EXPENSES AND SIMILAR INCOME

	2022	2021
Interest income and similar income		
Deposits held with foreign banks	**100**	**37**
Loans	**2,781**	**2,534**
Privately-owned companies	1,940	2,171
Companies engaged in financial activity	28	-
Retail customers	766	324
Entrepreneurs	3	1
Other	44	38
Securities	**2,644**	**1,503**
Loan approval fee	**261**	**166**
Total interest income and similar income	**5,786**	**4,240**
Interest income on impaired placements		
Privately-owned companies	436	399
Total interest income on impaired placements	**436**	**399**
Interest expenses and similar expenses		
Deposits	**(858)**	**(642)**
Banks	(76)	(27)
Government of Montenegro	(32)	(6)
Privately-owned companies	(261)	(445)
Non-governmental sector	(1)	(1)
Retail customers	(486)	(163)
Entrepreneurs	(2)	-
Other persons	(1)	-
Borrowings	**(11)**	**(15)**
Government of Montenegro	(11)	(15)
Lease interest expenses	**(81)**	**(81)**
Subordinated debt	**(110)**	**(135)**
Total interest expenses	**(1,060)**	**(873)**
Net interest income	**5,162**	**3,766**

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

	2022	2021
Costs of loan impairment	299	375
Costs of impairment of interest receivables	-	(3)
Costs of impairment of cash equivalents, deposits, loans and other receivables with banks	195	45
Costs of impairment of securities at amortised cost (AC)	46	-
Costs of impairment of securities at FVTOCI	83	258
Costs of impairment of other financial assets	4	(1)
Costs of impairment of other assets	**40**	44
Provision costs for off-balance sheet liabilities	**(136)**	143
Total impairment and provision costs	**531**	**861**

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	Securities at amortised cost	Other assets (Note 20)	Off-balance sheet items	Total
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**
Increase in impairment allowances	2,176	40	951	10	46	50	499	3,772
Reversal of impairment	(1,877)	(40)	(756)	(5)	-	(11)	(635)	(3,324)
Write-off	-	(8)	-	-	-	(31)	-	(39)
Unwinding	-	29	-	-	-	-	-	29
Balance as of 31 December 2022	**1,398**	**25**	**309**	**13**	**46**	**77**	**163**	**2,031**

8. FEE AND COMMISSION INCOME AND EXPENSES

	2022	2021
Fees and commission income		
Bank charges	1,176	1,252
Account maintenance	983	721
Off-balance sheet operation fees	153	173
Card and ATM operations	175	84
Investment banking	109	55
Other fees	100	67
Loan fees	4	7
Total fees and commission income	**2,701**	**2,359**
Fee and commission expenses		
Bank charges	(478)	(391)
Deposit insurance	(294)	(176)
Card and ATM operations	(183)	(130)
Investment banking	(133)	(76)
Off-balance sheet operations	(3)	(6)
Other	(165)	(75)
Total fees and commission expenses	**(1,256)**	**(854)**
Net fees and commission income	**1,445**	**1,505**

9. PERSONNEL EXPENSES

	2022	2021
Net salaries	2,253	1,570
Payroll taxes, surtaxes and contributions	1,014	1,007
Remunerations to the members of the Supervisory Board, Board of Directors and Audit Committee	45	24
Taxes, surtaxes and contributions on the remunerations to the members of the Supervisory Board, Board of Directors and the Audit Committee	7	8
Employee training	3	1
Travel costs and per diems	5	4
Other costs	90	52
Total	**3,417**	**2,666**

10. DEPRECIATION EXPENSES

	2022	2021
Software depreciation	101	107
IT equipment depreciation	33	26
Office furniture depreciation	25	23
Plant and equipment depreciation	35	36
Depreciation of other tangible assets	95	90
Depreciation of vehicles	9	9
Depreciation of right-of-use assets (leases – lease and sub-lease)	446	379
Total	**744**	**670**

11. OVERHEADS AND ADMINISTRATIVE COSTS

	2022	2021
Rental costs	3	0
Control costs of the Central Bank of Montenegro	230	170
Software maintenance	147	145
Legal services	165	150
One-year licences	46	36
Hardware maintenance	11	10
Postal, telephone and communication network charges	115	91
Security costs	80	54
Translation services	16	12
SWIFT maintenance	29	28
Membership fee of the Association of Montenegrin Banks	16	16
Maintenance	53	50
Office supplies and consumables	16	14
Electricity and heating costs	34	30
Audit services	32	61
Insurance	11	8
Marketing and advertising	29	30
Representation costs	206	242
Donations and assistance	50	15
Consultancy services	199	59
Cards maintenance	52	66
Securities costs	19	10
Other operating costs	116	93
Total	**1,675**	**1,390**

The increase in the cost of consulting services in the amount of EUR 140 thousand is largely the result of hiring consultants for the implementation of new legal solutions.

12. INCOME TAXES

	2022	2021
Current tax expense	128	62
Deferred tax expense/(income)	(7)	(49)
Total	**121**	**13**

Deferred tax expense in the amount of EUR 7 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 2 thousand (31 December 2021: EUR 9 thousand). Deferred tax assets as of 31 December 2022 in the amount of EUR 968 thousand resulted from the reconciliation of the fair value of bonds (31 December 2021: EUR 72 thousand and they were classified as deferred tax liabilities).

12. INCOME TAXES (Continued)

The Bank's income tax calculation is presented below:

	2022	2021
Current income tax		
Gain before tax recorded in the income statement	781	743
Capital gains	0	(220)
Capital losses	114	0
Depreciation costs in the income statement	744	670
Depreciation costs for tax purposes	(652)	(108)
Tax effect of non-deductible income and expenses, net	83	46
The difference in costs calculated based on transfer price corrections between related parties	31	0
The difference in calculated income based on transfer price corrections between related parties	21	0
Taxable profit	**1,122**	**1,131**
Utilized tax losses up to the amount of taxable income	-	608
Remaining portion of the taxable operating profit	**1,122**	**523**
Capital gains	**-**	**220**
Transferred capital gains	**-**	**-**
Remaining portion of taxable capital gains	**-**	**220**
Tax base	**1,122**	**743**
Tax expense for the period	**132**	**67**
Tax liability reduction due to a timely payment	**(4)**	**(5)**
Tax effect of temporary differences		
Tax effect of temporary differences concerning fixed assets and intangible assets	**(7)**	**(49)**
Deferred tax expense	**(7)**	**(49)**
Total tax expense in the income statement	**121**	**13**

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.

	2022	2021
Profit in EUR 000	660	730
Weighted average number of ordinary shares issued during the year	132,500	107,500
Basic gain per share (in EUR per share)	**4.98**	**6.79**

14. CASH AND DEPOSITS WITH CENTRAL BANKS

	2022	2021
Cash equivalents	3,103	884
Funds in the gyro account with the Central Bank of Montenegro	85,785	24,104
Mandatory reserve held with the Central Bank of Montenegro	17,439	10,497
Total cash equivalents and deposits with central banks	**106,327**	**35,485**
Impairment allowance of the funds in the gyro account	131	36
Impairment allowance of the mandatory reserve	24	16
Impairment allowance of cash equivalents and deposits with central banks (Note 7.1.)	**155**	**52**
Cash equivalents and deposits with central banks reduced by an allowance for impairment	**106,172**	**35,433**

The Bank sets aside a mandatory reserve in accordance with the CBMNE's Decision on the 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)

	2022	2021
Cash	3,103	884
Funds in the gyro account with the Central Bank of Montenegro	85,785	24,104
Funds in sight accounts with foreign banks) (Note 15.1)	33,597	30,037
Sight deposits with local banks (Note 15.1)	1,838	1,670
Mandatory reserve held with the Central Bank of Montenegro	17,439	10,497
Total cash equivalents and deposits with central banks	**141,762**	**67,192**

15. FINANCIAL ASSETS AT AMORTISED COST

15.1. Loans and Receivables from Banks

	2022	2021
Correspondent accounts with foreign banks	33,597	30,037
Deposits held with domestic banks and other financial institutions	1,838	1,670
Term deposits held with foreign banks and other financial institutions	1,594	303
Interest receivables for deposits with banks	4	4
Accruals	2	-
Total loans and receivables from banks	**37,035**	**32,014**
Impairment allowance of funds in foreign accounts	146	57
Impairment allowance of deposits with resident banks	5	5
Impairment allowance of deposits with non-resident banks	3	
Impairment allowance of cash equivalents with banks (Note 7.1.)	**154**	**62**
Loans and receivables from banks reduced for impairment allowance	**36,881**	**31,952**

As of 31 December 2022, the Bank had funds in foreign accounts held with the following banks**:**

	2022	2021
PJSC VOSTOK BANK, Dnipro, Ukraine	2,433	910
Nurol Yatirim Bankasi A.S., Istanbul, Turkey	2,575	2,967
ASA banka doo Sarajevo, BiH	2,648	-
BANCA POPOLARE DI SONDRIO, Sondrio, Italy	2,680	2,798
Banca Creditinvest SA. Switzerland	1,707	-
AKTIF YATIRIM BANKASI A.S., Istanbul, Turkey	1,955	2,955
ALFA-BANK, Moscow, Russia	-	2,439
SBERBANK BH d.d., Sarajevo, BiH	-	2,435
TRANSKAPITALBANK, Moscow, Russia	-	1,674
Landesbank Baden – Wuerttemberg, Germany	2,646	-
INTESA SANPAOLO BANKA, Sarajevo, BiH	2,617	2,813
AIK BANKA, Beograd, Serbia	2,615	2,694
KT BANK AG, Frankfurt, Germany	2,632	2,902
ZHEJIANG CHOUZHOU COMMERCIAL BANK, Hangzhou, China	2,620	2,866
BAYERISCHE LANDESBANK, Minhen, Germany	6,469	2,584
Total	**33,597**	**30,037**

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 2021	Increase/ decrease	Balance as of 31 December 2022
Allowance for impairment			
Allowance for impairment of the funds in the gyro account	36	95	131
Allowance for impairment of the mandatory reserve	16	8	24
Allowance for impairment of the funds in foreign accounts	57	89	146
Impairment allowance of deposits with resident banks	5	-	5
Impairmant allowance of deposits with non-resident banks	-	3	3
Total	**114**	**195**	**309**

15.2. Loans and Receivables from Customers

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

	2022			2021		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
Privately-owned companies	8,216	40,296	48,512	5,651	32,029	37,680
Other financial institutions – residents	1,000	454	1,454	-	-	-
Entrepreneurs	-	121	121	-	2	2
Non-resident companies	42	2,395	2,437	1,657	5,498	7,155
Non-governmental and other non-profit organisations	123	1,124	1,247	-	634	634
Non-resident retail customers	-	1,875	1,875	-	-	-
Resident retail customers	90	14,582	14,672	48	8,200	8,248
Total gross loans at AC	**9,471**	**60,847**	**70,318**	**7,356**	**46,363**	**53,719**
Interest receivables	34	70	104	15	132	147
Accruals and deferrals	(31)	(243)	(274)	(24)	(158)	(182)
Allowance for impairment of principal	(442)	(956)	(1,398)	(205)	(894)	(1,099)
Allowance for impairment of interest accruals and deferrals	(18)	(7)	(25)	(2)	(2)	(4)
Net loans at AC	**9,014**	**59,711**	**68,725**	**7,140**	**45,441**	**52,581**

Loans and receivables from customers mainly relate to loans and receivables from legal entities. Short-term loans were mainly granted to privately-owned companies for the period of one month to one year, at interest rates ranging between 2.75% to 8.25% p.a.

Long-term loans are mostly approved for investments. Loans are most often approved for a term of 13 months to 120 months, with a fixed interest rate of 2.83% - 7.5% annually.

15. FINANCIAL ASSETS AT AMORTISED COST (Continued)

15.2. Loans and Receivables from Customers (Continued)

Gross loans

	Level 1	Level 2	Level 3	Total
As of 1 January 2022	**17,894**	**25,199**	**10,445**	**53,538**
New receivables	39,106	1,270	384	40,761
Decrease in/repayment of receivables	(8,653)	(12,487)	(3,111)	(24,251)
Transfer to Level 1	2,820	(2,820)	-	-
Transfer to Level 2	(754)	754	-	-
Transfer to Level 3	(498)	(1,559)	2,057	-
Other changes (utilised credit limits and other)	(21)	547	(530)	(5)
As of 31 December 2022	**49,894**	**10,904**	**9,246**	**70,044**
Interest and other receivables	**34**	**14**	**57**	**105**
Loans and receivables from customers	**49,928**	**10,917**	**9,303**	**70,148**

Allowance for impairment

	Level 1	Level 2	Level 3	Total
As of 1 January 2022	147	628	324	1.099
New receivables	68	98	516	681
Decrease in/repayment of receivables	(78)	(353)	(153)	(584)
Transfer to Level 1	112	(112)	-	-
Transfer to Level 2	(9)	9	-	-
Transfer to Level 3	(9)	(123)	132	-
Other changes (utilised credit limits and other)	183	(3)	22	202
As of 31 December 2022	414	143	840	1,398
Impairment allowance of interest receivables	-	-	24	24

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

16.1. Securities at Fair Value through Comprehensive Income

Balances of securities at fair value through other comprehensive income:

	2022	2021
Montenegro Government	52,921	52,855
Banks, non-residents	0	2,474
Non-resident companies	12,570	4,361
General government, non-residents	37,970	36,758
Non-depreciated discount / premium	185	932
Interest accruals	1,348	1,128
Total	**104,994**	**98,508**

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

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**
Impairment increase	159
Reversal of impairment allowance	(77)
Reversal based on the sale of securities	(17)
Balance as of 31 December 2022	**461**

Securities that are classified at fair value through other comprehensive income under the category of Montenegrin Government bonds as of 31 December 2022 in the amount of EUR 52,921 thousand refer to domestic government bonds (EUR 10,227 thousand) and Government Eurobonds (EUR 42,694 thousand).

The Bank had no securities in its portfolio that were classified at fair value through other comprehensive income as of 31 December 2022 in the Bank's category.

Securities that are classified by fair value through other comprehensive income as of 31 December 2022 in the category Companies, non-residents, in the amount of EUR 12,570 thousand relate to debt securities issued by the company CEZ, a. s. (Czech Republic), Abu Dhabi National Energy Company, KIA Motors, Eni Spa, Ooredoo QSC, Stellantis, Nissan Motor, State Grid Corp. of China (China), Shanghai International Port (China) and Perusahaan Listrik Negara (Indonesia).

Securities classified by fair value through other comprehensive income as of 31 December 2022 in the category General government, non-residents, in the amount of EUR 370,970 thousand, relate to debt securities issued by the Ministry of Finance of the following countries: Croatia, Slovenia, Hungary, Italy, Israel, Poland, Romania, Province of Quebec, North Rhine (Germany), Indonesia, Sweden, Saudi Arabia, South Korea, China, Canada, Qatar, Chile and Peru.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

16.2. Securities at Amortised Cost

In the previous year, the bank also invested in securities that are classified in the portfolio according to amortized cost as follows:

- Securities classified by amortised cost as of 31 December 2022 in the category of International Financial Institutions in the amount of EUR 12,840 thousand relate to EIB, EBRD and ESM (European Stability Mechanism).
- Securities classified by amortised cost as of 31 December 2022 in the category General government, non-residents, in the amount of EUR 9,688 thousand, relate to debt securities issued by the United Kingdom and Sweden.

	2022	2021
International financial institutions	12,840	-
General government, non-residents	9,688	-
Unamortized discount/premium	(220)	-
Interest accruals	19	-
Allowance for impairment of the principal	(46)	-
Total	**22,281**	**-**

Balance as of 31 December 2021	**0**
Increase in provisions	46
Reversal of provisions	-
Reversal based on the sale of securities	-
Balance as of 31 December	**46**

17. INVESTMENT PROPERTY

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

Cost	
Balance as of 1 January 2021	886
Additions	-
Balance as of 31 December 2021	**886**
Additions	-
Balance as of 31 December 2022	**886**
Accumulated depreciation	
Balance as of 1 January 2021	(78)
Depreciation expense	(78)
Balance as of 31 December 2021	**(156)**
Depreciation for the year	(78)
Balance as of 31 December 2022	**(234)**
Carrying value as of 31 December 2021	**730**
Carrying value as of 31 December 2022	**652**

18. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets (lease)	Equipment	Construction in progress	Total
Cost				
Balance as of 1 January 2021	3,422	1,460	3	4,886
Additions	277	193	(3)	467
Disposals and write-offs	-	(1)	-	(1)
Balance as of 31 December 2021	**3,699**	**1,652**	**0**	**5,352**
Additions	514	108	44	666
Disposals and write-offs	-	(1)	-	(1)
Balance as of 31 December 2022	**4,213**	**1,759**	**44**	**6,017**
Accumulated depreciation				
Balance as of 1 January 2021	(277)	(756)	-	(1,033)
Depreciation expense (Note 10)	(301)	(184)	-	(485)
Disposals and write-offs	-	-	-	-
Balance as of 31 December 2021	**(578)**	**(940)**	**0**	**(1,518)**
Depreciation for the year (Note 10)	(368)	(197)	0	(565)
Disposals and write-offs	0	1	0	1
Balance as of 31 December 2022	**(946)**	**(1,136)**	**0**	**(2,082)**
Carrying value as of 31 December 2021	**3,121**	**713**	**0**	**3,834**
Carrying value as of 31 December 2022	**3,267**	**624**	**44**	**3,935**

As of 31 December 2022, the Bank did not have pledged property for the purpose of securing the repayment of loans and other liabilities.

19. INTANGIBLE ASSETS

	Software	Intangible assets under construction	Total
Cost			
Balance as of 1 January 2021	829	16	845
Additions	41	38	79
Disposals and write-offs	(13)	0	(13)
Balance as of 31 December 2021	**857**	**54**	**911**
Additions for the year	15	(3)	12
Disposals and write-offs	-	-	0
Balance as of 31 December 2022	**872**	**51**	**923**
Accumulated amortisation			
Balance as of 1 January 2021	(538)	-	(538)
Amortisation charge (Note 10)	(107)	-	(107)
Disposals and write-offs	13	-	13
Balance as of 31 December 2021	**(632)**	**-**	**(632)**
Amortisation charge for the year (Note 10)	(100)	-	(100)
Disposals and write-offs	0	-	0
Balance as of 31 December 2022	**(732)**	**-**	**(732)**
Carrying value as of 31 December 2021	**225**	**54**	**279**
Carrying value as of 31 December 2022	**140**	**51**	**191**

20. OTHER ASSETS

	2022	2021
Fee and commission receivables	158	97
Prepaid costs	70	31
Temporary accounts	-	-
Trade receivables	7	7
Receivables from card operations	50	5
Advances paid	11	7
Other trade receivables	8	7
Allowance for impairment of other assets (Note 7.1.)	(77)	(69)
Total	**227**	**85**

21. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST

21.1. Deposits due to Customers and Banks

	2022	2021
Demand deposits	296,045	170,089
Term deposits	28,575	29,686
Interest payables	-	-
Accruals	213	143
Total	**324,833**	**199,918**

Demand deposits	**2022**	**2021**
Resident state owned companies	2,019	3,821
Privately owned companies	10,958	3,740
Entrepreneurs	26	31
Non-resident companies	208,030	96,949
Montenegro Government	2,636	5,705
Resident non-governmental and other non-profit organisations	295	149
Resident retail customers	2,019	966
Non-resident retail customers	70,021	58,717
Other financial depository institutions	33	2
Public services of local self-government units	2	5
Banks	6	4
Total demand deposits	**296,045**	**170,089**

Term deposits	**2022**	**2021**
Resident state owned companies	10	5
Privately owned companies	221	779
Non-resident companies	7,949	9,535
Entrepreneurs	100	-
Montenegro Government	-	2,000
Resident non-governmental and other non-profit organisations	50	50
Resident retail customers	6,438	5,183
Non-resident retail customers	13,807	12,134
Total term deposits	**28,575**	**29,686**
Total deposits	**324,620**	**199,775**

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.

21. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST (Continued)

21.2. Borrowings from Clients other than Banks

	2022	2021
Borrowings	3,475	2,528
Interest payable on borrowings	-	-
Total	**3,475**	**2,528**

	2022	2021
Payable within 12 months from the balance sheet date	258	-
Payable within 1-5 years	2,494	1,119
Payable within a period exceeding 5 years	723	1,409
Total	**3,475**	**2,528**

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. The final maturity date is 2030. The interest rate paid by the Bank ranges from 0% to 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 2022, derivatives held for hedging purposes amount to EUR 21 thousand.

23. OTHER LIABILITIES

	2022	2021
Advances received	1,331	515
Liabilities from custody operations	914	380
Lease liabilities	4,007	3,924
Temporary account	3	4
Trade payables	99	65
Liabilities from card operations	91	5
Other liabilities	114	1
Other tax liabilities	5	2
Fee and commission payables	37	21
Total	**6,601**	**4,917**

23. OTHER LIABILITIES (Continued)

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

	2022	2021
Short-term liabilities	3,036	1,351
Long-term liabilities	3,565	3,567
Total	**6,601**	**4,917**

	2022	2021
Maturities of lease liabilities:		
- up to one year	442	358
- from one to two years	468	366
- from two to three years	478	373
- from three to four years	488	381
- from four to five years	436	388
- over five years	1,695	2,058
	4,007	**3,924**

24. SUBORDINATED DEBT

Balance of subordinated debt:

	2022	2021
Privately-owned company – non-resident	-	3,000
Invoiced interest on subordinated debt	-	-
Total	**-**	**3,000**

As of 31 December 2022, the Bank has no subordinated debt. In the fourth quarter of 2022, OU Calyptra Invest converted the subordinated debt into the Bank's share capital.

25. EQUITY

	2022	2022
Issued share capital -ordinary shares (a)	12,500	12,500
Priority shares (a)	3,000	-
Accumulated loss	1,153	423
Effect of IFRS 9 application	(171)	(171)
Other reserves (b)	(7,292)	(726)
Profit for the year	660	730
Total	**9,850**	**12,756**

(a) 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.

25. EQUITY (Continued)

At the 2nd extraordinary session of the Shareholders' Assembly from 1 August 2022. In 2008, the Bank, among others, adopted; Decision on the Conversion of Debt into Share Capital of Zapad banka AD Podgorica No. 01-01-04/762-2022 dated 1 August 2022, Decision on Increasing the Capital of the Issuer Zapad banka AD Podgorica number 01-01-04/763-2022 dated 1 August 2022, Decision on the Issue of Preferred Non-cumulative Shares Based on the Conversion of Debt into Share Capital number 01-01-04/764-2022 dated 1 August 2022.

On 24 October 2022, acting on the request of the Bank for recording the issue of shares based on the debt to equity swap, the Capital Market Commission assessed that the conditions were met for recording the issue of shares issued based on the debt to equity swap in the amount of EUR 3,000,000.00, i.e. 30,000 of preferred non-cumulative shares without voting rights, series "F" with an individual nominal value of EUR 100.00 and passed Decision No. 02/6e-15/3-22 on recording the issue of shares based on the debt to share capital swap.

Data on this issue were registered with the CKDD on 25 October 2022, while the registration of the Bank's share capital increase with the Central Register of Companies of the Revenue and Customs Administration - CRPS was completed on 31 October 2022.

At the 5th extraordinary session of the Shareholders' Assembly on 22 December 2022, the Bank passed, among others, the Decision on the Issue of Shares Based on Exchange number 01-01-04/1253-2022.

Acting on the Bank's request for the registration of shares based on the exchange of shares, the Capital Market Commission assessed that the conditions for recording the issue of shares based on the exchange of preferred non-cumulative shares without voting rights into ordinary shares on 29 December 2022 have been met. The Bank adopted Decision No. 02/3e-194/-22, which records the aforementioned issue of shares pursuant to the Decision on the Issue of Shares Based on Exchange No. 01-01-04/1253-2022 of 22 December 2022, in the amount of €3,000,000.00, i.e. 30,000 ordinary shares of the series "G" - nominal value of the share was €100.00, all in accordance with the Capital Market Law.

The information on the new issuance of shares was registered with the CSDC on 30 December 2022 whereas an increase in Bank's share capital was registered with the Central Register of Companies on 17 January 2023.

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 share capital of the Bank as of 31 December 2022 is EUR 15,500 thousand and consists of 125,000 ordinary shares and 30,000 priority shares, each with a nominal value of EUR 100.00.

The ownership structure of the Bank's share capital as of 31 December 2022 and 31 December 2021 was as follows:

	2022	% of share	2021	% of share
Volodymyr Kostelman	5,952	38,40%	5,952	47,62%
Liya Morokhovska	5,893	38,02%	5,893	47,14%
Vadym Morokhovskyy	655	4,23%	655	5,24%
OU Calyptra Invest	3,000	19,35%	-	-
Total	**15,500**	**100%**	**12,500**	**100%**

25. EQUITY (Continued)

(b) Other reserves

Other reserves relate to revaluation reserves created as a result of reconciling the value of debt instruments with the market value.

Changes in the *revaluation reserves* of debt instruments measured through other comprehensive income are presented as follows:

	2022	2021
Opening balance as of 1 January	(726)	618
Increase in revaluation reserves	(7,462)	(1,477)
Decrease based on deferred taxes	896	133
Balance as of 31 December	**7,292**	**(726)**

25.1. Compliance with the Regulations of the Central Bank of Montenegro

In accordance with the Law on Credit Institutions and CBM regulations, the Bank achieved the following indicators:

(In EUR thousand)	Achieved business indicator 2022
Initial capital of the Bank (minimum amount of EUR 7.5 million)	9,850
Total capital ratio (min. 8%)	14.41%
Tier 1 capital ratio (min. 6%)	14.41%
Common Equity Tier 1 capital ratio (CET1) (4.5%)	11.09%
Financial leverage ratio (min. 3%)	3.70%
Liquid coverage ratio (LCR) (min. 100%)	342%
Daily liquidity ratio as of 31 December 2022 (min. ratio 0.9)	2.18
Decadal liquidity indicator for the decade ending on 31 December 2022 (min. Ratio - 1)	2.11
The Bank's exposure to one person or a group of related parties after taking into account the effects of credit risk techniques (limit - 25% of the Tier 1 capital, i.e. for credit institutions the larger of two amounts: 25% of the Bank's Tier 1 capital or an amount of EUR 2,500 thousand)	49.9%

As of 31 December 2022, the Bank's operations are in accordance with the prescribed exposure limits. As of 31 December 2022, the Bank operates in accordance with the limits of large exposures. All exposures are in accordance with regulatory limits.

The exposure at one correspondent bank is greater than 25% of the Tier 1 capital and amounts to 49.9% of the Tier 1 capital as of 31 December 2022, but the Bank has the approval of the CBM for the above mentioned excess and it must reduce it below 25% of the basic capital by 1 February 2023 at the latest, so the aforementioned exceedance is not considered a violation of the exposure limit. The increase of the limit above 25% of the basic capital for exposure to the credit institution was approved by the CBM due to the war in Ukraine and, consequently, the Bank's limited operations with five credit institutions. The Bank reduced the stated exposure within the deadline approved by the CBM, i.e. until 1 February 2023.

26. OFF-BALANCE SHEET ITEMS

	2022	2021
Irrevocable commitments for granted loans	**6,192**	**8,007**
Issued guarantees (a)	**10,813**	**7,330**
- Issued payable guarantees	1,131	2,734
- Issued performance bonds	7,304	3,837
- Other guarantees	2,378	759
Current contracts for foreign currency transactions	(21)	(12)
Collateral for receivables (b)	188,076	150,876
Custody operations (c)	30,253	15,783
Total off-balance sheet items	**235,313**	**181,984**

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 163 commitments.

b) Collateral for accounts receivable relates to assets received as collateral amounting to EUR 188,076 thousand.

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

	2022	2021
Property	164,952	117,266
Cash collateral	18,944	19,097
Pledged movable property	4,180	14,513
Total	**188,076**	**150,876**

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 2022 amounted to EUR 30,253 thousand, i.e. EUR 15,783 thousand as of 31 December 2021.

27. RELATED PARTY TRANSACTIONS

The Bank carries out numerous transactions with related parties in the course of its regular operations. In accordance with the Law on Credit Institutions, the definition of persons associated with the Bank is explained in Note 3.17.

27. RELATED PARTY TRANSACTIONS (Continued)

The volume of related party transactions, the balances of assets and liabilities as of 31 December 2022 and related income and expenses in the income statement are presented in the table below:

	Calyptra invest	PJSC Vostok bank	Gama Montenegro	MM Investi doo	Fozzy Holdings	Kashyyyk OU	Zapad Consulting GmbH	Inside Outside Holdings	Other related parties	Total
Receivables	-	-	-							
Foreign currency accounts	-	2,432	-		-	-	-	-	-	2,432
Term deposits with banks	-	-	-	-	-	-	-	-	-	-
Loans granted	281	-	655	233	-	-	-	-	632	1,801
Other receivables	1	38	-	-	-	-	-	-	-	39
Foreign currency accounts	-	-	-	-	-	-	-	-	52	52
Total receivables	**282**	**2,470**	**655**	**233**	**-**	**-**	**-**	**-**	**684**	**4,324**
Liabilities										
Demand deposits	2,236	-	57	243	248	68	4	40	1,676	4,572
Term deposits	7,377	-	-	-	-	-	-	-	14	7,391
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Other liabilities	18	-	-	-	-	-	-	-	1,390	1,408
Net receivables/(payables)	**9,631**	**-**	**57**	**243**	**248**	**68**	**4**	**40**	**3,080**	**13,371**
First-class collateral	**(9,349)**	**2,472**	**598**	**(10)**	**(248)**	**(68)**	**(4)**	**(40)**	**(2,396)**	**(9,047)**
Net receivables/ (payables) reduction by the first-class collateral)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**500**	**500**
Net receivables/(payables)	**(9,349)**	**2,472**	**598**	**(10)**	**(248)**	**(68)**	**(4)**	**(40)**	**(1,896)**	**(8,547)**

27. RELATED PARTY TRANSACTIONS (Continued)

	Calyptra invest	PJSC Vostok bank	Gama Montenegro	MM Investi doo	Fozzy Holdings	Kashyy yk OU	Zapad Consulting GmbH	Inside Outside Holdings	Other related parties	Total
Income										
Interest income	4	29	24	6	-	-	-	-	29	92
Fee and commission income	42	1	1	1	3	1	1	3	10	63
Total income	**46**	**31**	**25**	**7**	**3**	**1**	**1**	**3**	**38**	**155**
Expenses										
Interest expense	338	-	-	-	-	-	-	-	-	338
Fee and commission expenses	-	70	-	-	-	-	-	-	-	70
Rental costs	-	-	-	-	-	-	-	-	145	145
Total expenses	**338**	**70**	**-**	**-**	**-**	**-**	**-**	**-**	**145**	**553**
Net income/(expenses)	**(292)**	**(39)**	**25**	**7**	**3**	**1**	**1**	**3**	**(107)**	**(398)**

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 controlled 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**
				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)**

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 controlled entities			
Income										
Interest income	-	-	-	24	26	1	-	-	71	122
Fee and commission income	-	-	13	1		1	4	21	8	48
Total income	**-**	**-**	**13**	**25**	**26**	**2**	**4**	**21**	**79**	**170**
Expenses										
Interest expense	-	-	394	-	-	-	-	-	6	400
Fee and commission expenses	-	-	-	41	-	-	-	-	-	41
Rental costs	**-**	**-**	-	-	**-**	**-**	**-**	**-**	139	139
Total expenses	-	-	**394**	**41**	-	-	-	-	**145**	**580**
Net income/(expenses)	**-**	**-**	**(381)**	**(16)**	**26**	**2**	**4**	**21**	**(66)**	**(410)**

28. LITIGATIONS

As of 31 December 2022, the Bank had 2 (two) initiated court proceedings in which it had:

a) the status of the defendant (the determined amount of damage claim of the court proceedings in the amount of EUR 7,301 to EUR 73,100) and
b) the status of the accused legal entity.

Since the outcome of the legal proceedings against the Bank cannot be reliably estimated at present, the Bank's management, due to the specificity of the proceedings, and based on the opinion of the legal advisor, does not expect negative outcomes, and no provisions have been established for them.

In addition to the aforementioned, the Bank also initiated 2 (two) court proceedings in which it has the status of a plaintiff (of which the value for 1 (one) court proceeding was determined in the amount of EUR 8,506.30).

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 2022 and 2021 were as follows:

	31 December 2022	31 December 2021
USD	1.066600	1.13340
GBP	0.886930	0.83930
RUB	79.948833	84.88878
AED	3.914798	4.149718

30. EVENTS AFTER THE BALANCE SHEET DATE

During 2022, the Bank faced major business challenges that were primarily the result of strong exogenous factors in the form of unprecedented macroeconomic shocks, which created a completely new set of risk factors for the Bank's existing business model. The unfavourable macroeconomic situation was further aggravated at the global level on 24 February 2022, when the military conflict in Ukraine began. In order to adapt to the new circumstances, the Bank decided during 2022 to change its business strategy for the next period and transform its business model in order to enable the continuation of sustainable operations in a significantly changed environment. The Bank worked on changing the business model during 2022, which resulted in the reclassification of the portfolio of financial assets whose goal was the collection of contracted cash flows and sales (the so-called "hold to collect and sell" business model) into a business model whose goal was to hold debt paper until maturity and generating cash flows exclusively through the collection of contracted cash flows (the so-called "hold to collect" business model).

By defining a new business strategy, the Bank redefined its strategic goals so that they follow the Bank's efforts and goals in accordance with the Bank's new vision. The Bank has defined new strategic goals in light of the response to new circumstances:

- strengthening the market position in the "retail" segment,
- the introduction of new credit products with a variable interest rate,
- shortening the maturity (duration) for credit products with a fixed interest rate,
- investment in securities with a maturity of 6 to 18 months in accordance with the "hold to collect" business model for generating cash flows from securities,
- maturity, sector and client diversification of deposits with an emphasis on maturity and client diversification and improvement/extension of their maturity (in order to improve the Bank's liquidity position).

30. EVENTS AFTER THE BALANCE SHEET DATE (Continued)

The change in the business model for the management of financial assets has an effect on the financial statements in such a way that the total amount of securities at the Bank's disposal is presented as financial assets at amortized cost, i.e. the Bank no longer reports amounts in the position Financial assets at fair value through other comprehensive income.

When the Bank reclassifies a financial asset from the category of measurement at fair value through other comprehensive income to the category of measurement at amortized cost, the financial asset is reclassified at its fair value on the date of reclassification. However, cumulative gains or losses previously recognized through other comprehensive income are deleted from other reserves in equity and adjusted to fair value at the date of reclassification. Consequently, financial assets are measured at the date of reclassification as if they had always been measured at amortised cost. That adjustment affects the other comprehensive income, but does not affect the income statement, and therefore is not a reclassification adjustment in accordance with IAS 1: Presentation of Financial Statements. The effective interest rate and the measurement of expected credit losses are not adjusted due to the reclassification.

As of 1 January 2023, bonds with a carrying value of EUR 112,368 thousand were reclassified from the classification at fair value through other total results to securities at amortized cost. The market value of reclassified bonds at the time of reclassification was EUR 103,646 thousand. The aforementioned reclassifications had no impact on the measurement of expected credit losses, which as of 31 December 2022, amounted to EUR 461 thousand, but they did have an impact on their presentation (reclassification from other reserves within capital to a position in assets).

Total reserves previously recognized in equity in the amount of EUR 8,261 thousand are excluded. Deferred tax related to the cumulative loss previously recognized in other comprehensive income in the amount of EUR 968 thousand was cancelled accordingly. The effects of the reclassification on other comprehensive income will be presented separately in the statement of changes in equity for 2023.

Apart from the above, there were no events after the balance sheet date that could have an impact on the financial performance and results of operations shown in the financial statements for the year ended on 31 December 2022.

31. 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, 24/2018 and 34/22) 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 2022, the Bank had a head office, 4 branches and 2 representative offices.

As of 31 December 2022, the Bank had 100 (31 December 2021 – 76 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 Supervisory Board of as of 31 December 2022:

Vadim Morokhovski – Chairman of the Supervisory Board
Volodimir Kostelman- Deputy Chairman of the Supervisory Board
Dejan Marinović- member of the Supervisory Board
Vitali Migaško- member of the Supervisory Board
Natalia Njančuk- member of the Supervisory Board

An audit company that performed an audit of the financial statements for the year ended 31 December 2022 was BDO d.o.o, Bulevar Svetog Petra Cetinjskog 149, 81000 Podgorica, Montenegro.

There were no dividend payments in 2022.

In Podgorica,

29 March 2023

Vesna Kovačević
Finance Director

Mladen Rabrenović
President of the Management Board

Belkisa Zoronjić
Member of the Management Board

Zapad Banka A.D. Podgorica

BDO d.o.o. Podgorica
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Montenegro
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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.

BDO d.o.o. Podgorica, a limited liability company incorporated in Montenegro, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.
BDO is the brand name for the BDO network and for each of the BDO member firms.