HIPOTEKARNA BANKA A.D. PODGORICA

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

and

Independent Auditor's Report

CONTENTS

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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 Hipotekarna banka AD, Podgorica

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

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

Key Audit Matters (Continued)

Key audit matter	Audit procedures applied
1. Adequacy of the impairment of loans and off-balance sheet items **Notes 3.8.8, 5.2, 7, 17.2, 23 to the financial statements**	
The measurement of costs of the impairment of loans and provisions for off-balance sheet items is deemed to be a key audit matter since the determination of assumptions for expected credit losses requires a significant level of professional judgement by the Bank's management. Receivables for loans and placements to debtors as of 31 December 2021 amounted to EUR 238,173 thousand (EUR 229,963 thousand as of 31 December 2020), while the total amount of the allowance for impairment of these receivables amounted to EUR 16,444 thousand as of 31 December 2021 (EUR 14,568 thousand as of 31 December 2020). These provisions for losses constitute the best management's estimate of expected credit losses for the credit portfolio as of the balance sheet date. 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 Notes 3.8.8, 5.2, 7, 17.2, 23, as well as estimates and assumptions of expected outcomes in impairment scenarios for individually assessed placements. Possible outcomes are based on cash flows discounted by the effective interest rate for individually assessed placements. The assessment includes relevant data, such as impairment indicators, probabilities of relevant scenarios for expected future cash flows and cash flow forecasts, including the foreclosure of collateral. The Bank's management disclosed additional information in Notes 3.8.8, 5.2, 7, 17.2, 23 to the financial statements.	Based on our risk assessment and knowledge of the banking sector operations, we examined the costs of impairment of loans and provisions for off-balance sheet items and we estimated the applied methodology, as well as the assumptions used, in accordance with the description of the key audit matter. Our audit procedures included the following: • An estimate of key controls related to the assumptions used in expected credit loss (ECL) models to assess credit risk associated with the exposure and expected future cash flows of the customer; • Collection and detailed testing of evidence corroborating the assumptions used in ECL models applied in the allocation of credit quality levels. Testing assumptions applied to obtain twelve-month and multi-annual probability of default (PD and mPD) and determination of these probabilities, including a review of the application of the forward-looking component. A review of the method used to obtain the probability of loss given default (LGD); • Collection and detailed testing of evidence corroborating the applied assumptions related to impairment costs of loans and provisions for 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 estimate of key movements in a high-risk portfolio from the prior period in relation to industry standards and historical data; • An estimate of adequacy of certain management's decisions in comparison to certain macro projections applied in ECL models; • An evaluation of applied methodologies using our knowledge and experience of the industry; • An assessment of accuracy and completeness of disclosure in the financial statements. Based on the audit procedures applied, we did not identify any significant findings in terms of the adequacy of the impairment of loan placements and provisions for off-balance sheet exposures as of 31 December 2021.

INDEPENDENT AUDITOR'S REPORT

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

Other Matters

The financial statements of the Bank as of and for the year ended 31 December 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements on 20 May 2021.

Other Information Contained in the Bank's Annual Management Report

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

Podgorica, 20 April 2022

Društvo za reviziju BDO d.o.o. Podgorica

Milovan Popovic
Certified Auditor

INCOME STATEMENT
For the period from 1 January to 31 December 2021

	Notes	2021	2020
		(in EUR thousand)	
Interest income and similar income	3.1, 6	17,643	18,239
Interest income on impaired loans		342	-
Interest expenses and similar expenses	3.1, 6	(3,180)	(3,200)
NET INTEREST INCOME		**14,805**	**15,039**
Fee and commission income	3.2, 9	15,584	12,821
Fee and commission expenses	3.2, 9	(9,675)	(7,893)
NET FEE AND COMMISSION INCOME		**5,909**	**4,928**
Net gains/losses from the derecognition of financial instruments not measured at fair value through profit or loss		192	212
Net gains/losses arising from financial instruments held for trading		272	153
Net foreign exchange gains		531	461
Net gains/losses from the derecognition of other assets		237	152
Other income	13	236	645
Employee expenses	10	(5,969)	(5,551)
Amortisation/depreciation expenses	12	(2,381)	(2,542)
General and administrative expenses	11	(7,173)	(6,069)
Net gains/losses from the depreciation of financial instruments not measured at fair value through profit or loss	3.14, 7	(1,363)	(3,518)
Provisions	3.14, 8	(234)	(6)
Other expenses	14	(213)	(70)
OPERATING PROFIT		**4,849**	**3,834**
Income tax	3.6, 15	(465)	(346)
NET PROFIT		**4,384**	**3,488**
Earnings per share	**32**	**0.43**	**0.36**

The notes on the following pages form an integral part of these financial statements

These financial statements were approved by the Board of Directors of Hipotekarna banka A.D. Podgorica on 31 January 2022 in Podgorica.

Approved by and signed on behalf of Hipotekarna banka A.D. Podgorica:

Member of the Management Board
Jelena Vuletić

Member of the Management Board
Ana Golubović

Member of the Management Board
Nikola Špadijer

Member of the Management Board
Nataša Lakić

President of the Management Board
Esad Zaimović

HIPOTEKARNA BANKA A.D. PODGORICA

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from 1 January to 31 December 2021

(In EUR thousand)

	Note	2021	2020
Net profit		**4,384**	**3,488**
Total other comprehensive income			
Effects of value changes of securities measured at fair value through other comprehensive income		(2,768)	(2,051)
Income tax arising from other comprehensive income items		266	186
Total other comprehensive income for the year		**(2,502)**	**(1,865)**
TOTAL OTHER COMPREHENSIVE INCOME		**1,882**	**1,623**

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Member of the Management Board
Nataša Lakić

BALANCE SHEET
As of 31 December 2021

(In EUR thousand)

	Notes	31 December 2021	31 December 2020
ASSETS			
Cash balances and deposit accounts with central banks	3.7, 16	**235,881**	**163,390**
Financial assets at amortized cost		**271,117**	**240,348**
Loans and receivables from banks	3.8.3, 17.1	43,893	22,060
Loans and receivables from clients	3.8.3, 17.2	221,729	215,395
Securities	17,3	3,552	1,107
Other financial assets		1,943	1,786
Financial assets at fair value through other comprehensive income		**139,886**	**128,150**
Securities	18.1	139,886	128,150
Financial assets held for trading		**7,465**	**-**
Securities	18.2	7,465	-
Equity investments in associates and joint ventures		**-**	**-**
Property, plant and equipment	3.10, 19	**4,809**	**6,214**
Intangible assets	3.10, 20	**1,996**	**2,019**
Deferred tax assets	15c	**284**	**27**
Other assets	21	**2,293**	**2,433**
TOTAL ASSETS		**663,731**	**542,581**
LIABILITIES			
Financial liabilities at amortized cost		**573,036**	**451,662**
Deposits due to banks and central banks	22.1	1,714	1,214
Deposits due to customers	22.2	548,259	428,346
Borrowings to clients other than banks	22.3	22,667	22,048
Other financial liabilities		396	54
Reserves	23	**1,127**	**1,453**
Current tax liabilities		**464**	**342**
Deferred tax liabilities	15c	**-**	**23**
Other liabilities	24	**16,528**	**13,301**
Subordinated debt	26	**17,232**	**22,256**
TOTAL EQUITY AND LIABILITIES		**608,387**	**489,037**
EQUITY			
Share capital	25	52,362	16,006
Share premium		-	7,444
Retained earnings/losses		(61)	25,425
Current year profit		4,384	3,488
Other reserves		(1,341)	1,181
TOTAL EQUITY		**55,344**	**53,544**
TOTAL EQUITY AND LIABILITIES		**663,731**	**542,581**
OFF-BALANCE SHEET ITEMS	28	**877,361**	**753,678**

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STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 2021

(In EUR thousand)

	Share capital	Share premium	Current year profit	Other reserves	Total
As of 1 January 2020	**16,006**	**7,444**	**25,404**	**3,046**	**51,900**
Effect of reducing financial assets measured at fair value through other comprehensive income	-	-	-	(1,865)	(1,865)
Other effect of securities on equity	-	-	21	-	**21**
Current year profit	-	-	3,488	-	**3,488**
As of 31 December 2020	**16,006**	**7,444**	**28,913**	**1,181**	**53,544**
As of 1 January 2021	**16,006**	**7,444**	**28,913**	**1,181**	**53,544**
Share issuance	36,356	(7,444)	(28,912)	-	-
Effect of reducing financial assets measured at fair value through other comprehensive income	-	-	-	(2,502)	**(2,502)**
Other effect of securities on equity	-	-	(62)		**(62)**
Actuarial losses/gains, net	-	-	-	(20)	**(20)**
Current year profit	-	-	4,384	-	**4,384**
As of 31 December 2021	**52,362**	**-**	**4,323**	**(1,341)**	**55,344**

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CASH FLOW STATEMENT
For the period from 1 January to 31 December 2021

(In EUR thousand)

DESCRIPTION	Notes	2021	2020
Cash flows from operating activities			
Inflows from interest and similar income		16,920	18,363
Outflows from interest and similar income		(2,498)	(3,240)
Inflows from fees and commissions		15,584	12,821
Outflows from fees and commissions		(9,675)	(7,893)
Outflows from employee salaries and supplier costs		(22,337)	(21,909)
Increase/reduction in loans and other assets		(6,857)	13,568
Inflows from deposits and other liabilities		118,200	8,550
Paid taxes		(880)	(1,037)
Other outflows		(24,299)	(20,950)
Cash inflows/outflows from operating activities		**84,158**	**(1,727)**
Cash flows from investing activities			
Purchase of property and equipment		(616)	(573)
Purchase of intangible assets		(529)	(475)
Treasury bills		10,000	30,104
Inflows from the sale of tangible and long-term assets		18	87
Cash inflows/outflows from investing activities		**8,873**	**29,143**
Cash flows from financial activities			
Increase/reduction of borrowings		627	(283)
Cash inflow/outflow from financial activities		**627**	**(283)**
Foreign exchange effect on cash and cash equivalents		531	461
Net increase/reduction in cash and cash equivalents		**94,189**	**27,594**
Cash and cash equivalents at the beginning of the period		**180,599**	**153,005**
Cash and cash equivalents at the end of the period	29	**274,788**	**180,599**

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1. BANK ESTABLISHMENT AND OPERATION

Hipotekarna banka AD, Podgorica (hereinafter "the Bank") was registered in 1991 as a joint stock company with the Central Register of the Commercial Court under a registration number 4-0004632. The Bank was entered in the Register of Securities Issuers of the Capital Market Committee under No. 3 (Decision No. 02/3-1/2-01). According to the Decision No. 0101-75/1-2002 of 18 December 2002, the Bank obtained an operating licence from the Central Bank of Montenegro.

In accordance with the Law on Banks, Founder's Agreement, Articles of Association and Decision of the Central Bank of Montenegro, the Bank performs the operations of receiving monetary deposits and extending loans for its own account. In addition to the banking operations referred to in the previous paragraph, the Bank may also perform the following operations:

- issue guarantees and assume other off-balance sheet liabilities;
- purchase, sell and collect receivables (factoring, forfeiting, etc.);
- issue, process and record payment instruments;
- perform domestic and foreign payment transactions in accordance with the regulations governing payment transactions;
- finance lease;
- securities operations in accordance with the law governing securities;
- trade in its own name and for its own account or for the account of a client:
    - a) with foreign means of payment, including exchange operations,
    - b) with financial derivatives;
- securities depository operations;
- prepare analyses and provide information and consulting on the creditworthiness of companies and entrepreneurs and other matters related to business operations;
- rent safes;
- perform operations that are a part of banking operations, auxiliary operations relative to the bank's operations and operations directly related to the Bank's operations in accordance with the Articles of Association.
- With prior approval of the Central Bank, the Bank may also perform other operations in accordance with law.

Based on the approval of the Capital Market Commission and the Central Bank of Montenegro, the Bank also performs the following operations:

- custody operations;
- securities operations;
    - o brokerage operations;
    - o dealer operations;
    - o investment consulting operations.

The Bank's managing bodies are: the Shareholders' Assembly and Board of Directors. The Bank's Board of Directors has two permanent bodies: Audit Committee and Credit Risk Committee. Members of the Board of Directors are appointed by the Bank's Shareholders' Assembly. The Bank's Board of Directors has 5 (five) members, the majority of which are not employees of the Bank.

The Bank's head office is in Podgorica, Josipa Broza Tita 67. As at 31 December 2021, the Bank had a total of 225 employees, out of which 15 were assigned by employment agencies (as at 31 December 2020: 218 employees, out of which 16 were assigned by employment agencies).

2 BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS

2.1 Basis for preparation and presentation of the separate financial statements

The Bank prepares financial statements (hereinafter “the financial statements”) in accordance with Montenegro's Law on Accounting (“Official Gazette of Montenegro” no. 52/16), which requires the application of the International Accounting Standards and International Financial Reporting Standards, and in line with the Law on Banks (“Official Gazette of Montenegro” no. 17/08, 44/10, 40/11 and 73/17) and the decisions of the Central Bank of Montenegro governing financial reporting of banks.

The accompanying financial statements of the Bank were prepared in accordance with the Decision on the Content, Deadlines and Manner of Preparing and Submitting Financial Statements of Banks (“Official Gazette of Montenegro” no. 15/12, 18/13 and 24/18).

In the preparation of these financial statements, the Bank applied accounting policies based on the accounting, banking and tax regulations of Montenegro.

Pursuant to the Law on Accounting of Montenegro, the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board have to be adopted and published by the appropriate competent authority of Montenegro, which was licensed for translation and publishing by the appropriate body of the International Federation of Accountants (IFAC). Therefore, only the IFRSs and IASs officially adopted and published by the appropriate competent authority of Montenegro may be applied. The latest officially translated IFRS and IAS date back to 2009 (except for IFRS 7), along with the newly adopted IFRS 10, 11, 12 and 13, in effect since 2013. In the Decision on Minimum Standards for Credit Risk Management in Banks (“Official Gazette of Montenegro”, no. 22/12, 55/12, 57/13, 44/17 and 82/17), the Central Bank of Montenegro prescribed the mandatory application of IFRS 9 for banks, starting from 1 January 2018. In addition, the application of IFRS 16 – Leases, in accordance with the decision of the Central Bank of Montenegro, is mandatory for annual periods starting on 1 January 2020.

Taking into account the effects that the aforesaid departures of the accounting regulations of Montenegro from the IFRSs and IASs may have on the presentation of the Bank's financial statements, the accompanying financial statements differ and depart from the IFRS and IAS in that part.

The financial statements have been compiled in accordance with the historical cost principle, unless otherwise specified in the accounting policies. In the preparation of these financial statements, the Bank has applied the accounting policies disclosed in Note 3 based on the accounting, banking and tax regulations of Montenegro.

2.2 Rules of Estimates

Financial statements were compiled on the basis of the historical value principle, except for the following positions, which are valued at fair value:

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

2.3 Functional and Reporting Currency

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

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

2.4 Use of Estimates

The presentation of financial statements requires that the Bank's management use the best possible estimates and reasonable assumptions, which affect the presented amounts of assets and liabilities, and disclosure of contingent receivables and liabilities as at the date of preparation of the financial statements, along with the income and expenses during the reporting period. These estimates and assumptions are based on the information available on the day of compilation of the financial statements. However, the actual results may deviate from these estimates.

The estimates and the assumptions based on which the estimates were made result from regular reviews. If the reviews confirm that there have been changes to the estimated amount of assets and liabilities, the determined effects are recognised in the financial statements in the period when the change in the estimate occurred, if the change affects only that accounting period or the period when the change in the estimate occurred and the following accounting periods, if the change in the estimate affects the current and future accounting periods.

Note 4 contains information about the areas where the degree of assessment is the greatest, and which may have the most significant effect on the amounts recognised in the Bank's financial statements.

2.5 Going Concern

Taking into consideration the circumstances caused by the COVID-19 pandemic, along with the uncertainty regarding economic recovery, the Bank's management continues to assess with reasonable certainty that the Bank will continue operating at a profit in the foreseeable future. Accordingly, the Bank's financial statements have been prepared in accordance with the going concern concept, which implies that the Bank will continue as a going concern in future.

2.6 Reconciliation of Outstanding Balances with Counterparties

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

2.7 Consolidation

The Bank does not have control over any entities.

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

2.8 Impact of the COVID-19 Crisis on the Bank's Operations

In 2020, due to the negative impact of the COVID-19 pandemic on the economy, the Central Bank of Montenegro and the Government of Montenegro prescribed a set of measures to mitigate this negative impact.

The above measures were in effect in 2020 and 2021. During this period, the decisions prescribing the measures were supplemented and changed on multiple occasions. On 31 December 2021, the Decision on Temporary Measures for the Mitigation of the Negative Impact of the Epidemic of the Contagious Disease COVID-19 on the Financial System ("Official Gazette of Montenegro", no. 080/20 of 4 August 2020, 105/20 of 29 October 2020, 024/21 of 3 March 2021, 033/21 of 31 March 2021, 045/21 of 29 April 2021, 053/21 of 27 May 2021, 116/21 of 29 October 2021) was in effect.

In 2020 and 2021, the Bank approved moratoria on the repayment of loans to its clients in accordance with the temporary measures prescribed by the Central Bank of Montenegro, but the moratorium for all clients was finished in December 2021, so that at the end of the year, the Bank's credit portfolio did not have any clients using measures for the mitigation of the negative impact of COVID-19.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank consistently applies the adopted Accounting Policies and Procedures in all periods presented in the financial statements.

The principal accounting policies applied in the preparation of financial statements for 2021 are stated below.

3.1 Interest Income and Expenses

The effective interest rate presents the total income charged by the Bank from a client during the loan approval and repayment, or the total expenses incurred by the Bank by making payments to a client based on received deposits. By using the effective interest rate, discounted cash inflows are reconciled with discounted cash outflows, which pertain to loans and received deposits.

In accordance with the Decision on the Uniform Manner of Calculating and Presenting the Effective Interest Rate on Loans and Deposits ("Official Gazette of Montenegro", no. 48/03, 55/03), the basis for a uniform manner of calculating the effective interest rate on loans is the compound interest calculation and decursive calculation. The uniform manner of calculating the effective interest rate is based on the net present value method. The effective interest rate is the interest rate whose use equates the discounted series of net cash flows to zero. With regard to loans, that rate is additionally adjusted by the one-off equivalent of the effect of discounted cash inflows and outflows on account of the collateral used to ensure the collection of credits. With regard to credit relations, the net cash flow during a given period is the difference between all payments to the creditor (bank inflows) and all payments to the credit consumers (bank outflows) during that period. Cash flows include all monetary transfers between credit consumers and the creditor, and in some instances a third party, which is directly related to credit approval, i.e. which is part of the condition for using the credit (e.g. payment of principal, instalment for repayment, one-off commission for loan approval, fee for servicing the credit sub-account and similar), or which conditions the approval of a loan (e.g. fee for processing a loan application). With regard to credit relations, the net cash flow during a given period is the difference between all payments to the creditor (bank inflows) and all payments to the credit consumers (bank outflows) during that period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Interest Income and Expenses (Continued)

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

The gross book value of a financial asset is the amortized cost of the financial asset prior to a deduction by the expected credit loss.

The effective interest rate for financial assets and liabilities is calculated at the initial recognition of a financial asset or liability. When calculating interest income and expenses, the effective interest rate is applied to the gross book value of the assets (if the asset is not credit-impaired) or the amortized cost of liabilities. For financial instruments with a variable interest rate, the effective interest rate is changed due to periodic assessments of cash flows, so as to reflect the market movement of interest rates.

For financial assets that became credit-impaired after initial recognition, interest income is calculated using the effective interest rate method on the amortized cost of the financial asset. If the financial asset is no longer credit-impaired, the interest income is again calculated on the gross basis, i.e. interest is calculated using the effective interest rate on the gross book value of the financial asset.

For financial assets that are credit-impaired at the moment of initial recognition, interest income is calculated using the credit-adjusted interest rate on the amortized cost of the financial asset. The calculation of interest income is not returned to the gross principal even when the credit risk improves.

3.2 Fee and Commission Income and Expenses

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

Fee and commission income is recognized at the moment when the corresponding service has been provided. Fee and commission income includes the fees calculated and charged by the Bank for the provision of payment transaction services in the country and abroad, advanced sales channels, guarantee and letter of credit operations, and other services.

Fee and commission expenses usually pertain to fees for the performance of payment transaction services in the country and abroad, advanced sales channels, and fees for other services, which are recognized as expenses at the moment when the corresponding service is provided.

3.3 Net Gains/Losses from Financial Instruments Held for Trading

Net gains/(losses) from financial instruments held for trading include gains reduced by losses arising from financial assets and financial liabilities held for trading, including all realized and unrealized fair value changes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Foreign Currency Translation

Foreign currency business transactions were translated into EUR using the middle exchange rate established on the interbank foreign currency market valid on the date of the business transaction.

Assets and liabilities stated in foreign currencies on the balance sheet date are translated into EUR using the middle exchange rate established on the interbank foreign currency market valid on that date.

Net foreign exchange gains/losses that resulted from business transactions in foreign currencies or during the translation of balance sheet items stated in foreign currencies are credited or debited to the income statement as FX gains or losses.

Foreign currency commitments and contingent liabilities are translated into EUR using the middle exchange rate on the interbank foreign currency market valid on that date.

3.5. Leases

Based on a lease contract, the Company acts as a lessee. The Company classifies a lease as a finance lease in the case when the contract stipulates that essentially all risks and benefits arising from the ownership of the lease subject are transferred to the lessee. All other lease contracts are classified as operating lease contracts.

Lease contracts pertaining to a lease of business premises usually constitute operating lease. All payments made during the year on account of operating lease are recorded as costs in the income statement, evenly and linearly for the duration of the lease.

The assets held under a financial lease contract are recognized as assets of the Company at their fair value, or if that value is lower, at the present value of minimum lease instalments specified at the start of the lease contract period. As at the balance sheet date, the lease liability is disclosed at the present value of minimum lease payments.
Lease instalments are divided into the part pertaining to the financial cost and the part that reduces the financial lease liability, so that a constant interest rate is achieved on the remaining part of the liability. The financial cost is disclosed directly as an expense of the period.

International Financial Reporting Standard 16 – Leases (hereinafter: IFRS 16) mandates that the Bank calculates the present value of a liability under a lease contract taking into account the agreed lease payments, period of lease and the discount rate.
The agreed net amount is used for the calculation of the present value of assets with the right to use and for the calculation of the lease liability. The amounts of VAT that cannot be exempted under lease contracts concluded with legal persons and income tax of citizens under lease contracts concluded with natural persons are recorded as an expense of the period.

From the perspective of measuring and documenting lease, IFRS 16 requires various assessments, the most important of which pertain to the duration of the lease contract and the discount rates used in the calculation of the present value of liabilities.

In the calculation of the duration of the lease contract, the following must be taken into account:
- Period without the option of cancellation (which includes the period covered by the option for the termination of lease, if only the lessor has the right to terminate the lease);
- Optional period for lease extension, if the lessee is relatively certain that it will use that option;
- Periods covered by the option for termination of lease, if the lessee is relatively certain that it will not use that option.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Leases (Continued)

As regards the discount rate, it is allowed to use the rate implicit in the lease or the incremental borrowing rate for lessees. The Bank opted to use the incremental borrowing rate, which is based on the price of own sources of financing increased by the risk premium of 1%. The rates obtained in this way are interpolated so that the entire portfolio of the agreement period is covered.

The Bank chose to use facilities, which are proposed by the standard, and accordingly:

- Lease contracts where the purchase value of the structure or equipment being leased is less than EUR 5,000.00; and
- Lease contracts whose lease period is shorter than 12 months as at the date of first use are not recognized in accordance with the requirements of IFRS 16.

The Bank recognizes the rights to use under a lease contract within the balance sheet as a separate category of property, plant and equipment taken as a lease.

Liabilities under lease contracts are recognized as part of other liabilities and classified by maturity in accordance with the agreed payments.

Interest write-up costs for lease contracts are presented as part of interest expenses. Costs of amortization of the right to use are presented as cost of amortization of the period.

The accounting of the lessor under IFRS 16 is essentially unchanged relative to the accounting under IAS 17. Lessors will continue to classify all lease contracts using the same classification principle as under IAS 17 and differentiate between two types of leases: operating and financial lease.

3.6. Taxes and Contributions

Income Taxes

Current Income Tax

Income tax is calculated and paid in accordance with Article 28 of the Law on Income Tax of Legal Persons (“Official Gazette of Montenegro”, no. 65/01, 12/02, 80/04, 40/08, 86/09, 73/10, 40/11, 14/12, 61/13 and 055/16). The income tax rate is proportional and equals 9% of the tax base.

Taxable income is determined based on the Bank's profit disclosed in the income statement, with the reconciliation of income and expenses in accordance with the Law on Income Tax of Legal Persons (Articles 8 and 9 for income reconciliation and Articles 10 to 20 for the reconciliation of expenses) and Decision on the Chart of Accounts for Banks of the Central Bank of Montenegro (“Official Gazette of Montenegro”, no. 82/17).

Capital losses may be offset by capital gains made in the same year. If there are capital losses even after the offsetting with capital gains made in the same year, the taxpayer may transfer the capital loss to the account of future capital gains in the next five years.

Tax regulations of Montenegro do not envisage the use of the current period’s tax loss as a basis to recover the tax paid in prior periods. However, the current period’s losses presented in the tax balance sheet may be used to reduce the tax base for future accounting periods, but not longer than five years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Taxes and Contributions (Continued)

Income Taxes (Continued)

Deferred Income Tax

Deferred income tax is calculated using the liability method according to the balance sheet, on temporary differences arising between the tax bases of receivables and liabilities and their book values. The tax rates valid on the balance sheet date are used to establish the apportioned amount of the income tax. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and tax losses and credits, which may be transferred to the following fiscal periods, up to the degree to which it is likely that taxable income will exist from which deferred tax assets may be used.

Taxes and Contributions Not Dependent on the Operating Income

Taxes, contributions and other levies not dependent on the operating income include property tax and other taxes, fees and contributions paid according to various republic and local tax regulations.

3.7. Cash and Cash Equivalents

Cash and cash equivalents entail cash in the treasury accounts (EUR and foreign currency), assets in accounts with the Central Bank of Montenegro (including accounts for the allocation of the required reserve), assets in accounts with other banks in the country and abroad, assets with payment transaction agents, cheques and other monetary receivables.

Cash equivalents are short-term, highly liquid investments that are quickly turned into known amounts of cash and are not under considerable risk of changing value. Cash equivalents are term deposits with commercial banks for the period of up to three months.

3.8 Financial Instruments

3.8.1. Recognition

The purchase or sale of a financial asset or liability is documented using the accounting recognition on the date of balancing of the transaction.

Financial instruments are initially valued at fair value, which includes transaction costs for all financial assets or liabilities, except those valued at fair value through profit or loss. Financial assets at fair value, the effects of whose changes in fair value are disclosed in the income statement, are initially recognized at fair value, and the transaction costs encumber operating costs in the income statement.

3.8.2. Classification

The Bank classifies all its financial assets based on the business model for managing assets and contractual provisions of the property.

The Bank classifies financial assets into the following four categories:
- Financial assets valued at amortized cost (AC);
- Financial assets valued at fair value through other comprehensive income (FVOCI);
- Financial assets that have to be valued at fair value through profit or loss (mandatory FVTPL)
- Financial assets that are optionally valued at fair value through profit or loss (optional FVTPL)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.2. Classification (Continued)

Financial liabilities, except loan liabilities and financial guarantees, are measured at amortized cost or at FVTPL when they are held for trading and derivative instruments, or the determination of fair value is applied.

3.8.3 Financial Assets and Liabilities

3.8.3.1 Loans to banks, loans and advance payments made to clients, financial investments at amortized cost

The Bank only measures Loans to banks, loans and advance payments made to clients, and other financial investments at amortized cost if both of the following requirements are met:
- The financial asset is held in the business model with the aim of holding the financial asset for the purpose of obtaining the agreed cash flows.
- On certain dates, the terms of the agreement regarding the financial asset yield cash flows that are solely payment of principal and interest (SPPI) on outstanding principal.

3.8.3.2 Assessment of the business model

The Bank defines its business model on the level that best reflects the way it manages groups of financial assets for the purpose of achieving its business objective.

The Bank's business model is not assessed based on each individual instrument, but at a higher level of grouped portfolios, and is based on observed factors, such as:
- The way the performance of the business model and financial assets in that business model are assessed and the way they are reported to the key personnel in the management;
- The risks affecting the performance of the business model (and of financial assets in that business model), and especially the way those risks are managed;
- The manner in which fees to managers are determined (for example, whether the fee was based on the fair value of the asset being managed, or based on collected agreed cash flows);
- Expected frequency, value and time of sale are also important aspects of the Bank's assessment.

Business model assessment is based on reasonably expected scenarios without taking the "worst case" or "stress case" scenarios into consideration. If cash flows after initial recognition are realized in a manner different from the Bank's initial expectations, the Bank does not change the classification of remaining financial assets in the business model, but it takes this information into account when it assesses the newly created or recently purchased financial assets.

3.8.3.3 SPPI test

The second step in the classification process is for the Bank to assess the terms of agreement related to financing, to identify whether they pass the SPPI test.

The 'principal' for the purpose of this test is defined as the fair value of the financial asset during the initial recognition, and may be changed during the lifetime of the financial asset (for example, if there are principal repayments or amortization of premium/discount).

The most significant elements of interest in the credit arrangement are usually the consideration of the time value of money and credit risk. To perform the SPPI assessment, the Bank makes the assessment and considers the relevant factors, such as the currency of the financial assets, and the period for which the interest rate is determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.3 Financial Assets and Liabilities (Continued)

3.8.3.3 SPPI test (continued)

Contrary to this, the agreed terms introducing minimum exposure to risks or volatility in the agreed cash flows not related to the main crediting arrangement do not lead to agreed cash flows, which are exclusively payments of principal and interest on the outstanding amount. In such cases, the financial asset must be measured at FVTLP.

3.8.3.4 Debt instruments measured at FVOCI

Under IFRS 9, the Bank applies the new category of debt instruments measured at FVOCI when both of the following conditions are met:
- The instrument is held in the business model, whose aim is achieved by collecting the agreed cash flows and selling the financial assets;
- The terms of agreement of the financial asset pass the SPPI test.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses resulting from the changes in fair value recognized in other comprehensive income (OCI). Interest income and exchange rate gains and losses are recognized in the income statement in the same manner as financial assets measured at amortized cost. ECL (Expected Credit Loss) calculation for debt instruments at FVOCI is explained in Note 3.8.8. At derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to the income statement.

3.8.3.5 Equity instruments at FVOCI

Upon initial recognition, the Bank may choose to irrevocably classify some equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not intended for trading. This classification is defined at the instrument-by-instrument principle.

Gains and losses on these equity instruments are not reclassified as profit. Dividends are recognized in the income statement, as is other operating income, when the right to payment is determined, except when the Bank benefits from such income as a return of the part of the instrument's costs, in which case such gains are recorded in OCI. Equity instruments at FVOCI are not subject to the assessment of depreciation.

3.8.3.6 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are not held for trading and are defined by the management during initial recognition, or must be measured at fair value under IFRS 9. This classification is defined at the instrument-by-instrument principle, when one of the following criteria is met:
- Classification eliminates or significantly reduces the inconsistent treatment that would otherwise result from the measurement of assets or liabilities or recognition of gains or losses on them on a different basis, or
- Liabilities are a part of the group of financial liabilities (or financial assets, or both under IAS 39), which are managed, and whose work is assessed at fair value, in accordance with the documented risk management or investment strategy, or
- Liabilities containing one or more embedded derivatives, unless they considerably modify cash flows that would otherwise be contractually required, or when a similar instrument is first considered, it is clear with little or no analysis that the separation of an embedded derivative or multiple derivatives is prohibited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.3 Financial Assets and Liabilities (Continued)

3.8.3.6 Financial assets and financial liabilities at fair value through profit or loss (continued)

Financial assets and financial liabilities at FVTPL are documented in the balance sheet at fair value. Changes in fair value are documented in the income statement, except for movement of fair value of liabilities at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are documented in own credit reserve through OCI and are not reclassified in the income statement. Interest earned or resulting from instruments at FVTPL is calculated in interest income or expenses, and, using the effective interest rate, taking into account any discount/premium and qualified costs of the transaction that are integral to the instrument. Income from dividends from equity instruments at FVTPL is documented in the income statement as other operating income when the right to payment is established.

3.8.4 Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets after their initial recognition, except in extraordinary circumstances when the Bank acquires, alienates or terminates a business line. Financial liabilities are never reclassified.

3.8.5 Derecognition of Financial Assets and Liabilities

The Bank derecognizes a financial asset, such as a loan to a client, when the terms and provisions are negotiated to the point that it essentially becomes a new loan, with the difference recognized as profit or loss from the derecognition, in the extent to which the loss due to depreciation was not yet documented. Newly recognized loans are classified as Stage 1 for the purpose of ECL measuring, unless the new loan is considered POCI.

When assessing whether to derecognize a loan of a buyer, among other things, the Bank considers the following factors:
• Change of loan currency;
• Introduction of capital;
• Change in the counterparty;
• The modification is such that the instrument no longer meets the SPPI criteria.

If the change does not result in cash flows that are considerably different, the modification does not lead to derecognition. Based on the change in the cash flows discounted at the original effective interest rate, the Bank documents the profit or loss due to modification in the extent to which the loss on account of depreciation was not yet documented.

A financial liability is derecognized when the liability is met, i.e. when the debt is paid, cancelled or expired.

3.8.6 Write-off

Financial assets are written off partially or fully only if the Bank decides not to collect. If the amount to be written off exceeds the accumulated loan loss provisions, the difference is first calculated as additional provision, which is then reconciled with the gross book value. Any subsequent collection reduces the costs for credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.7 Forborne and Modified Loans

The Bank sometimes makes concessions or changes to the initial loan terms as a response to the debtor's financial difficulties, instead of taking ownership of or otherwise collecting the collateral. The Bank considers a loan forborne when such concessions or changes are the result of current or expected financial difficulties of the debtor, and the Bank would not have agreed with those changes if the debtor were financially stable. Indicators of financial difficulties include outstanding liabilities under covenants, or significant concerns by the Credit Risk Division. Forbearance may also include the extension of the repayment period and consenting to new loan terms. After renegotiating the terms, any impairment is measured using the original effective interest rate calculated before the terms were changed. The Bank's policy is to monitor forborne loans to ensure that future payments remain likely. Decisions on derecognition and classification into Stage 2 and Stage 3 are made on a case-by-case basis. If a loan loss is determined by these processes, the loan is managed and declared as an impaired Stage 3 forborne asset until its collection or write-off.

Restructured Loans

For loans where there are issues with repayment, the Bank always first endeavours to restructure them, if the conditions exist, because this is considered a better solution than taking over collateral. Rescheduling may entail extending the repayment and agreeing on new lending terms. After the terms have been rescheduled, the loans are no longer considered due, but it is monitored with special attention to ensure that all criteria are met and that future payments are certain. A loan is still subject to individual or collective assessment and value adjustment, which is calculated using the initial effective interest rate of the loan, and is treated as an NPL in the following six months.

When a loan is renegotiated or changed, but not derecognized, the Bank reassesses whether there has been a considerable increase in credit risk. The Bank also considers whether the assets will be classified as Stage 3. After an asset is classified as forborne, it remains forborne during a trial period lasting at least 24 months. For a loan to be reclassified from the forborne category, the client must meet the following criteria:

- All its loans must be considered performing;
- The trial period of two years from the date of the forborne agreement has elapsed;
- Regular payments exceeding an insignificant amount of principal or interest are made for at least half of the trial period;
- The user has no agreement under which it is overdue more than 30 days.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8 Impairment of Financial Assets and Provisions

Impairment of Financial Assets

The valuation of financial assets of the Bank defines a framework for adequate measuring of value adjustments due to loan losses in accordance with IFRS 9 and the Decision of the Central Bank of Montenegro on the Minimum Standards for Credit Risk Management in Banks.
The procedure defines in particular:

- General definitions of the type of value adjustment;
- Scope of application in terms of client exposure;
- Indicators for the impairment test;
- Key principles for the calculation of value adjustments: cash flow assessments, differentiating the assets relative to the cash flow assessment;
- Exceptions in the calculation of impairment;
- Recognition of interest and interest income after impairment (unwinding);
- Process of budgeting, forecasting and monitoring;
- Roles and responsibilities of key organizational units.

The complete portfolio is separated into three stages:

Stage 1 contains clients overdue less than 30 days. In Stage 1, in collective calculation, the expected credit loss is calculated for a 12-month period as part of the expected credit loss in the entire lifetime of the asset, which arises from an event of default of the financial asset in the 12 months after the reporting date or a shorter period, if the expected lifetime of the financial instrument is shorter than 12 months.

Stage 2 contains clients that meet one of the 4 criteria pointing to the existence of elevated credit risk, which pertain to a greater number of days overdue, increase in the PD coefficients, or presence in the watch list.
Stage 3 contains clients showing elements of impairment, expressed as a higher number of days overdue, considerable deterioration in operations, or with the POCI designation.

A client may migrate between stages, unless it is POCI (it remains in Stage 3 until the end of the financial lifetime). If it has been rescheduled, the cooling period is 12 months, and if it has not been rescheduled, this period is 6 months.

On the date of initial recognition of a financial asset, the Bank is required to determine whether the asset is impaired. The responsibility for the classification lies with the departments in the commercial area of operations which start the initiative. When rescheduling for clients in enforced collection, the responsibility for classification lies with the High-Risk Loan Management Department. The designation POCI is assigned at the level of ID (account – sub-account), when opening a new account – sub-account.

Definition of POCI assets: Rescheduled loans overdue more than 90 days, or rescheduled loans with classification C or worse, at the classification of the Central Bank of Montenegro (A, B1, B2, C1, C2, D and E), or purchase of an impaired financial asset from other banks.

The Bank separates its portfolio into: I) individual assessment and II) collective assessment.

I) Individual assessment (IA) is performed for all debt instruments (government or corporate bonds) for which there is no rating of an internationally recognized rating agency, and for all monetary assets/deposits given to banks or other financial institutions for which there is no rating of an internationally recognized rating agency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8 Impairment of Financial Assets and Provisions (Continued)

Impairment of Financial Assets (Continued)

Individual assessment for clients whose exposure exceeds EUR 50 thousand is performed in three steps:

a. Individual analysis of clients (mandatory IA) is performed for all clients that meet one of the 4 criteria indicating loan impairment;
b. Analysis of clients (desirable IA – Assessment form) that do not meet any of the 4 mandatory criteria, but do meet at least one additional criterion pointing to loan impairment;
c. Analysis of clients (Soft facts – Assessment form) that meet neither the 4 mandatory criteria nor any additional criteria.

In the individual assessment, for the calculation of expected credit losses, several scenarios with weighted probabilities of outcome during the lifetime of the financial asset need to be taken into consideration. The assessment consists of a consideration of the range of possible outcomes, which involves the identification of possible scenarios that specify the amount and time of cash flows for each outcome, and the estimated probability of a certain outcome.

When creating cash flows, in most cases the maximum expected term for forecasting the cash flow is up to 5 years. Payments until the final repayment or up to 5 years ahead are taken, because planning for more than 5 years is not considered realistic. Only in exceptional cases, if there are rational grounds that can be factually proved, can a longer term be taken.

II) Collective assessment is performed:

- For all clients not on individual assessment;
- If the individual value adjustment for credit losses is less than the collective calculation – except for specific clients, sub-accounts, and where there are clear and easily provable facts indicating this for the loan in question.

If the client was assessed individually, it may not go back to collective assessment in the following quarter. A "cooling" period of 6 months is applied.

As part of collective assessment, there is also a division and subdivision into:

- Legal persons;
- Natural persons (cash, consumer, housing loans).

Impairment for credit losses in Stage 1 for a given financial instrument is the sum over a period of months (12 months or until the maturity date, if it is in less than 12 months) of the product of exposure, marginal probability of default (PD), LGD and the discount factor. Discounting is performed using the monthly effective interest rate of the loan.

For the collective assessment of a financial instrument in Stage 2, impairment for credit losses is equal to the Expected Credit Loss (ECL) for the entirety of the lifetime of the loan. The ECL in the entire lifetime of the loan is defined as the set of all possible events that lead to default during the lifetime of the financial asset.
Impairment for credit losses in Stage 2 for a given financial instrument is the sum during the remaining months (of the entire lifetime) of the product of exposure, marginal probability of default (PD), LGD and the discount factor. Discounting is performed using the monthly effective interest rate of the loan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8 Impairment of Financial Assets and Provisions (Continued)

Impairment of Financial Assets (Continued)

Stage 3 contains impaired financial instruments. Value adjustment for credit losses is calculated as the product of net exposure at default (Net_EAD) and loss given default (LGD).

Exposure at default (EAD) used for calculating the expected credit loss depends on the characteristics of the financial instrument:

- Term loans – by assessing the EAD curve of the lifetime of the financial instrument, as the loan nears maturity;
- Guarantees and letters of credit – fixed EAD on the maturity date;
- Credits/loans without a clear repayment schedule, where the average lifetime is calculated.

The calculation of PD parameters consists of the following steps:

1. Calculation of transition matrices;
2. Performance of cumulative lifetime PD;
3. Calculation of marginal lifetime PD;
4. Adjustment of marginal PD for forward-looking information.

Absolute transition matrices are obtained from the historical classification of accounts (loans) by time categories (buckets). In the absolute transition matrix, elements Xi,jabs are the account (loan) number with the initial balance I, and balance j for the following month, where the balance is the time category (bucket).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8 Impairment of Financial Assets and Provisions (Continued)

Impairment of Financial Assets (Continued)

Reduction of dimensions of the absolute transition matrix by defining the "Default" status, which includes the time categories (buckets) over 90 days. A matrix obtained in this way is transformed into a relative transition matrix. During transformation, the assumption is that the "Default" has an absorbing status, which means that once an account (loan) gets the Default status, it keeps that status.

The cumulative unadjusted lifetime PD is obtained by using the Markov's chain assumption, by exponentiating a 1-month relative transition matrix.
The marginal PD is calculated as the difference between the cumulative PD for the given balance (bucket) in the current and previous months.

The Bank introduces forward-looking information in the manner that it directly adjusts marginal PDs using the corrective factor. In the first 36 months, marginal PD is aligned with the corrective factor, k, after which the adjusted marginal PD converges with the initial (unadjusted) marginal PD. The period of convergence is set at 36 months, after which there is no adjustment.

Loss given default (LGD) is calculated for unsecured exposures. That means that collateral was not taken into consideration and the assumption is that the collection will be generated from cash flows of regular operations. LGD parameters are calculated according to the portfolio and time categories (buckets). For default loans (time categories 4 and more), LGD is determined by comparing the sum of exposure by time category initially and after 12 months. In the calculation of LGD parameters, the Bank uses data from a 5-year period. The obtained results are expertly corrected through linear interpolation to ensure risk continuity by category, i.e. for LGD parameters to have a rising trend by time categories (buckets).

Calculation and approval of value adjustment for individual risks, and the entering of approved value adjustments on a collective basis may and should be performed continuously.
Entries are made in the Bank's Core System. After the value adjustments for expected credit losses are entered, reports are created.

Value adjustment for ECL in the balance sheet is presented as follows:

- For financial assets valued at amortized cost, value adjustment reduces the gross book value of a financial asset;
- For off-balance sheet exposures (assumed liabilities for undisbursed credits and financial guarantees), impairment is recognized as a provision in liabilities in the balance sheet;
- For debt instruments classified as FVOCI, value adjustment is not recognized in the balance sheet, given that the book value of these assets must equal their fair value.

3.8.9 Impact of the COVID-19 Pandemic on ECL Calculation

Taking into account the quantitative and qualitative criteria pertaining to the adequate measuring of expected credit risk, which are related to the impact of the COVID-19 pandemic on the operations of companies, in 2020 the Bank worked to improve the internal methodology of valuing financial assets and defining more stringent criteria for transfer into Stage 2 and Stage 3. Accordingly, on 30 September 2020
the Procedure of Valuing Financial Assets was adopted and came into effect, which takes more criteria for calculating ECL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.9 Impact of the COVID-19 Pandemic on ECL Calculation (Continued)

In line with the above, the main criteria for Stage 2 and Stage 3 are:

- Stage 2 contains clients that meet one of the 4 criteria pointing to the existence of elevated credit risk, and pertain to a greater number of days overdue, increase in the PD coefficients, or presence in the watch list.

- Stage 3 contains clients showing elements of impairment, expressed as a higher number of days overdue, considerable deterioration in operations, or with the POCI designation.

The above criteria resulted in an increase in the number of clients in Stage 2 and Stage 3, which led to a rise in ECL, and therefore higher value adjustments.

3.9. Provisions and Impairment of Loans and Receivables

Calculation of Provisions for Potential Losses

The Bank is required to classify the balance sheet and off-balance sheet items by which it is exposed to credit risk into appropriate classification groups, and to calculate provisions for potential losses, in accordance with the relevant Decision on the Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro", no. 22/12, 55/12, 57/13, 44/17, 82/17, 86/18 and 42/19). In accordance with the above Decision, the Bank applied the following percentages and days past due by risk category for the calculation of provisions for potential losses:

	As of 31 December 2021	
Risk category	% of provisions	Days past due
A	0.5	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

Days past due is not the only classification criterion, but they are an imperative one. The Bank is required to determine the difference between the amount of provisions for potential losses and the sum of value adjustments for balance sheet asset items and provisions for off-balance sheet items calculated in accordance with the Bank's internal methodology using International Accounting Standard 9.

The positive difference between the amount of calculated provisions for potential losses and the sum of value adjustments for balance sheet asset items and provisions for off-balance sheet items is deducted from the Bank's own assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Property, Plant, Equipment and Intangible Assets

Property, Plant and Equipment

Property, plant and equipment are expressed according to their purchase value minus the accumulated value adjustment. The purchase value is the value according to the supplier's invoice plus the dependent costs of procurement and costs for bringing assets into the condition of functional readiness.

The residual value and useful life of the asset are revised, and adjusted, if necessary, on the date of each balance sheet. The Bank assesses whether there is objective evidence that the asset is impaired. If any evidence exists, the reimbursable amount is estimated. The reimbursable amount exceeds the net selling price or value in use. If the reimbursable amount exceeds the book value, the asset should not be impaired.

Subsequent costs: costs of replacement of equipment parts (installation of new spare parts), costs of overhaul and general repairs of business premises are recognized as an increase in the present value of business premises or equipment, if it is likely that there will be an inflow of future economic benefits on that account, and if those costs can be reliably measured.

Costs resulting from the ongoing maintenance of equipment: replacement and installation of small spare parts and consumables, along with the costs of everyday repairs, are considered expenses of the period in which they occurred.

Losses or gains that occurred during write-off or disposal of business premises and equipment are determined as the difference between the amount obtained through sale and the present value at which the business premises or equipment were calculated, and are recognized as an asset or liability in the income statement in the period in which the write-off or disposal occurred.

Depreciation is evenly calculated on the purchase value of business premises and equipment, and using the following annual rates, with the aim of fully writing off the business premises and equipment during their useful life. The following rates were applied:

Main groups	Depreciation rates (%)
Buildings	2.00
Motor vehicles	15.00
Furniture and other equipment	15,00 – 20,00
Computer equipment	33.33
Small inventory	50

The period of depreciation of fixed assets begins when the assets are available for use. Gains and losses arising from the disposal of assets are established as the difference between the cash inflow and the book value and are presented in the income statement.

Intangible Assets

Intangible assets consist of software and licences. Acquired intangible assets are recognized at cost on the transaction date. After the initial recognition, intangible assets are stated at cost less the accumulated amortisation and impairment losses, if any.

The costs that may be directly linked to certain software, which will generate an economic benefit in a period longer than one year, are recorded as intangible assets. Maintenance costs and the development of computer software are recorded as an expense when they occur.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Property, Plant, Equipment and Intangible Assets (Continued)

Intangible Assets (Continued)

Amortisation is evenly calculated on the cost of intangible assets over a 5-year period with the aim of fully writing off intangible assets during their useful life. The calculation of amortisation of intangible assets begins when assets are put in use.

3.11 Bank's Equity

Share capital, share premium, Bank's reserves and accumulated income are stated within the Bank's equity.

The Bank's share capital consists of invested assets of the founders and shareholders of the Bank in monetary and nonmonetary form. The Law on Securities stipulates that securities are dematerialized and exist as an electronic entry in the computer system of the Central Securities Depository and Clearing Company. A statement from the register of the Central Securities Depository and Clearing Company is the only and exclusive evidence of ownership of securities.

3.12 Employee Benefits

Contributions for Employees' Social Security

In line with the applicable regulations in Montenegro, the Bank is required to pay contributions to state funds, which ensure the social security of employees. These liabilities include contributions for employees charged to the employer in the amounts calculated at the rates prescribed by the relevant legislation. The Bank is also required to deduct contributions from the employees' gross wages and pay them to those funds on behalf of its employees. Contributions charged to the employer and contributions charged to the employee are documented as expenses of the period to which they pertain.

Retirement Benefits or Other Long-term Employee Benefits

In accordance with the actuary's report, the Bank calculated retirement benefits paid to employees when they retire in the amount of three minimum net salaries.

Total expenses of long-term provisions pertaining to future outflows on account of retirement of employees are estimated based on actuarial calculation. For assessment purposes, the Bank hires a certified actuary who calculates future liabilities by discounting estimated future outflows, using the projected unit method.

Liabilities are measured in the amount of the present value of future expenses, taking into account the growth in future salaries and other conditions, which are distributed to employee benefits on account of past and future working life.

3.13 Fair Value

Fair value is the price that would be received for the sale of an asset or payments for the transfer of a liability in a regular transaction between market participants on the valuation date. Determination of fair value is based on the assumption that the transaction took place in the primary market of an asset or liability, or, in the absence of a primary market, in the most favourable market for the asset or liability.

If there is a primary market for an asset or liability, the fair value is the price in the market.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Fair Value (Continued)

The fair value of an asset or liability is valued using assumptions that would be used by market participants in the determination of the price of an asset or liability, assuming that market participants are acting in their best economic interest.

The fair value of a non-financial asset takes into account the possibility for a market participant to generate the greatest and best economic benefits from the use of that asset or from its sale to another market participant, which would use that asset in the best way.

The Bank uses valuation techniques which are appropriate in the circumstances, and for which the data used for determining the fair value are available, whereby the use of relevant identifiable input data is maximized and the use of unidentifiable input data is minimized. Valuation techniques are revised periodically, so as to appropriately reflect the current market conditions.

All assets and liabilities disclosed at fair value or whose fair value is disclosed in the financial statements are classified into three levels of hierarchy of fair value:

Level 1 - Quoted market prices (unadjusted) in the active market for the same assets or liabilities
Level 2 - Use of the valuation technique for which the lowest level of input data important for determining the fair value is directly or indirectly identifiable
Level 3 - Use of the valuation technique for which the lowest level of input data important for determining the fair value is not identifiable

For assets or liabilities which are continuously valued at fair value in the financial statements, the Bank determines whether their hierarchy levels have changed by reassessing the categorization at every reporting date.

3.14 Provisions

Provisions are recognized when:

- The Bank has a present legal or derived obligation as a result of previous events;
- it is highly probable that settling a liability will require an outflow of assets and
- the amount of a liability can be reliably estimated.

Provisions are measured at the present value of expenses required to settle liabilities.

Provisions are revised on the date of each balance sheet and adjusted so that they reflect the best current estimate. If it is no longer probable that an outflow of assets generating economic benefits will be required to settle the given obligation, the provision is removed through the income statement.

3.15 Financial Guarantees

Financial guarantees are agreements by which the Bank commits to make payments to their users for losses that occur due to a failure of a certain debtor to make a payment upon the maturity of a liability, in accordance with the terms of a debt instrument. Liabilities under financial guarantees are initially recognized at fair value, and the initial fair value is depreciated during the period of the financial guarantee. The liability under the guarantee is subsequently measured in the amount exceeding the depreciated value and present value of the expected future payment (when the payment under the guarantee is probable). Financial guarantees are documented as part of off-balance sheet items.
The received compensation is recognized in the income statement.

4. ACCOUNTING ESTIMATES AND ASSUMPTIONS

The management makes estimates and assumptions that affect the value of assets and liabilities in the following financial year. Accounting estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including the anticipation of future events believed to be reasonable in the given circumstances.

The management makes estimates and assumptions related to the future. The resulting accounting estimates will, by definition, rarely equal the achieved results. Estimates and assumptions which contain the risk of causing material adjustments of the book values of assets and liabilities during the next financial year are specified below.

Losses from impairment of financial assets

The measurement of impairment in accordance with IFRS 9 for all categories of financial assets requires an assumption, separately for the estimate of the amount and time of future cash flows and value of collateral when determining the losses from impairment and estimate of a significant increase in credit risk. These estimates are supported by numerous factors and changes that may result in different levels of impairment provisions. The calculation of the Bank's ECL represents output data of complex models with a series of assumptions related to the choice of variables and their interdependencies.

Elements of the ECL model that contain accounting assumptions and estimates include:

- Classification of financial assets: assessment of the business model for the management of financial assets and estimate whether the agreed terms of financial assets satisfy the SPPI test;
- Defining the Bank's criteria for assessment whether there has been a significant increase in the credit risk of a financial asset relative to the initial recognition, definition of a methodology for including prospective information for ECL calculation and selection and approval of models used for the calculation of ECL;
- Development of the ECL model, including various formulas and selection of input data.

Fair value

The determination of the fair value of financial assets and liabilities for which there is no apparent market price requires the use of various valuation techniques. For financial instruments not traded often, whose price transparency is low, fair value is not highly objective and requires a degree of variation in estimations, which depends on liquidity, concentration, uncertainty of market factors, price assumptions and other risks affecting a given instrument.

Contingent liabilities

Contingent liabilities include provisions for severance payments and provisions for court disputes.
For the purposes of calculation and valuation of contingent liabilities, the Bank's management defines assumptions on the probability and amount of outflow of resources, i.e. potential outcome and amount of liabilities on account of court disputes. The Bank's management estimates the amount of provisions for the outflow of funds on account of court disputes based on assessment made by the Bank's legal representatives, probability that the outflow will truly take place according to a contractual or legal obligation from the previous period.

The cost of long-term employee benefits is determined based on actuarial calculation, with the application of actuarial assumptions: discount rate, future growth in salaries in line with the rate of inflation and advancement, and growth in salaries on account of years of service, along with changes in the number of employees gaining the right to receive compensations. Given the long-term nature of these plans, estimates are subject to considerable uncertainty. The actuarial calculation is performed by an independent actuary.

4 ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

Useful life of intangible assets, property, plant and equipment

The determination of the useful life of intangible assets, property, plant and equipment is based on previous experience with similar assets, and on the anticipated technological development and changes affected by a large number of economic or industrial factors. The adequacy of a given useful life is reviewed annually or whenever there is an indication that the factors which constituted the basis for determining the useful life have changed considerably. The Bank reviews the lifetime of intangible assets, property, plant and equipment in every period of annual reporting.

5. RISK MANAGEMENT

5.1 Risk Management

The Bank has set up a comprehensive system for managing risks, which includes the defined risk management strategy, the adopted risk management policies and processes, the defined authorizations and responsibilities for risk management, an efficient and reliable IT system, procedures for unforeseen situations, stress testing.

In its operations, the Bank is exposed to various risks, the most significant of which are:
- credit risk;
- market risk;
- liquidity risk;
- operational risk.

The risk management strategy contains: overview, objectives and criteria of all risks to which the Bank is or may be exposed. Risk management procedures are designed to identify and analyse risks, to define appropriate limits and risk management controls, and to monitor the exposure of the Bank to certain risks. Risk management procedures are subject to regular control aimed at adequately responding to the changes that occur in the market, to products and services.

The Risk Control Division is responsible for monitoring the Bank's exposure to certain risks and harmonization with risk management procedures and defined limits, of which the Board of Directors is informed on a monthly basis. In addition, monitoring the Bank's exposure to credit risk is the responsibility of the Risk Management Division. The Bank also follows the announcements and changes in the legal regulations and analyses the impact of risks to timely comply its operations with regulations.

The Bank tests its sensitivity to certain types of risks at the cumulative basis as well, using multiple types of stress scenarios. Stress scenarios entail assumptions of the changes of market and other factors which may have a significant material impact on the Bank's operations.

5.2. Credit Risk

In its operations, the Bank endeavours to operate with creditworthy clients so as to minimize the potential exposure to credit risk, which is the risk that debtors will be unable to settle their debt to the Bank in its entirety and on time. The Bank makes provisions for impairment losses, which pertain to the losses that occur on the balance sheet date. When making the decision to extend loans, the Bank takes into consideration the changes in the economy, specifically the condition of certain branches of the economy that constitute a part of the Bank's loan portfolio, which could lead to losses different from the losses for which provisions were made on the balance sheet date.

The Central Bank of Montenegro adopted the Decision on Minimum Standards for Credit Risk Management in Banks (“Official Gazette of Montenegro”, no. 22/12, 55/12, 57/13, 44/17, 82/17 and 86/18), which has been in effect since 1 January 2013, and entails the application of International Financial Reporting Standards in the valuation and presentation of off-balance sheet asset items and off-balance sheet items.

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

In accordance with the Decision, the Bank has determined the Methodology for estimation of impaired balance assets and probable loss under off-balance positions. The Bank has consistently applied the Methodology and reviews it at least once per year, and as necessary adjusts it according to review results, and adjusts the assumptions on which the Methodology is based.

Credit risk mitigation entails that risk be maintained at a level acceptable for the Bank, i.e. that the credit portfolio remains acceptable. Credit risk mitigation is carried out by agreeing on adequate collateral for receivables.

5.2.1 Credit Risk Management

Credit risk exposure is a risk of a financial loss that occurs as a consequence of a debtor's inability to meet all agreed liabilities to the Bank. The Bank manages the assumed credit risk by defining limits relative to large loans, individual loan users and related persons. The above risks are continuously monitored and are subject to control which is performed annually or more frequently. All loans above the prescribed limit are approved by the Credit Risk Management Board.

In line with the limits prescribed by the Central Bank of Montenegro, the branch concentration of loans is subject to continued monitoring.

Risk exposure from individual borrowers, including other banks and financial institutions, is further limited by setting a sub-limit relative to balance sheet and off-balance sheet exposure. Actual exposure relative to the defined limits is regularly monitored.

Credit risk exposure is managed through regular analysis of capability of credit users and potential credit users to repay their liabilities. The Bank approves rescheduling of receivables to clients with certain problems in operations, in order to maximize the utilization of the available potential for settling receivables, and to at the same time ensure that the ability of a loan user to orderly service its debt is sustainable.

Commitments and Contingent Liabilities arising from Borrowings

The primary purpose of these instruments is to ensure that assets are available to the client according to requirements. Guarantees and activated letters of credit constitute irrevocable guarantees of the Bank to make payments in case the client is unable to fulfil its liabilities to third parties, and therefore have the same credit risk as loans. Documentary and commercial letters of credit which constitute a written statement of the obligation of the Bank assumed on behalf of a client, which authorizes a third party to draw bills of exchange from the Bank up to the amount agreed by special requirements, are secured by the basic delivery of the goods to which they pertain, and therefore carry less risk than direct borrowing.

5.2.2 Provisions – Value Adjustments for Impairment Losses

As at the date of preparing the financial statements, the Bank estimates whether there are any indicators of impairment of a financial asset or group of financial assets, in accordance with the requirements of IFRS 9. The indicators used by the Bank to identify a significant increase in credit risk, in accordance with IFRS 9, based on which it classifies assets as Stage 1, 2 or 3, are:

- change in the probability of status of default, i.e. PD during the lifetime of the exposure exceeds the PD during its lifetime at initial recognition by over 200%;
- the absolute level of PD, i.e. 12-month PD of the exposure at the reporting date exceeds 20%;
- delay in the payment of interest or principal;
- rescheduling of the credit and/or NPL status;
- watch list;

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.2 Provisions – Value Adjustments for Impairment Losses (Continued)

- status of default at the level of a group of related persons;
- and a set of additional criteria which may indicate financial difficulties in the operations of legal persons.

In line with the adopted methodology, the Bank estimates whether there is objective evidence of impairment, individually for financial assets that are individually significant.

The calculation of the present value of estimated future cash flows of a secured financial asset reflects cash flows that may be the result of exclusion reduced by the costs of acquisition and sale of collateral, regardless of whether the exclusion is probable or not.

For the purpose of joint assessment of impairment, financial assets that are not individually significant are grouped based on similar characteristics of credit risk.

5.2.3 Maximum Credit Risk Exposure under Balance Sheet and Off-balance Sheet Items

The following table shows the gross maximum exposure to credit risk of balance sheet and off-balance sheet items:

	31 December 2021		31 December 2020	
	Gross	Net	Gross	Net
I. Overview of assets				
Cash balances and deposit accounts with central banks	235,881	235,881	163,390	163,390
Financial assets at amortized cost				
-Loans and receivables from banks	44,007	43,893	22,217	22,060
-Loans and receivables from clients	238,173	221,729	229,963	215,395
-Securities	3,562	3,552	1,108	1,107
-Other financial assets	2,109	1,943	1,924	1,786
Financial assets at fair value through other comprehensive income				
-Securities	139,886	139,886	128,150	128,150
Financial assets held for trading				
-Securities	7,465	7,465	-	-
Other trade receivables	1,603	1,587	1,663	1,644
	672,686	**655,936**	**548,415**	**533,532**
II. Off-balance sheet items				
Payable guarantees	30,074	29,907	27,311	27,052
Performance bonds	21,597	21,571	27,567	27,497
Irrevocable commitments	29,684	29,179	36,608	35,900
Other types of guarantees and letters of credit	15,986	15,945	19,680	19,622
	97,341	**96,602**	**111,166**	**110,071**
Total (I+II)	**770,027**	**752,538**	**659,581**	**643,603**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.3 Maximum Credit Risk Exposure under Balance Sheet and Off-balance Sheet Items (Continued)

Exposure to credit risk is controlled by obtaining collateral instruments and guarantees of legal and natural persons.

Financial assets at fair value through other comprehensive income - securities are classified in Stage 1, because no delays in the settlement of receivables have been recorded in them, nor are there other indicators that of stage change (no rescheduling, not in the watch lists). Mark-to-market fair value is applied only for liquid, marketable and rated securities (S&P, Moody's, Fitch), while mark-to-model is used for other securities. Value adjustment is calculated based on collective assessment for liquid, marketable and rated securities, and for all others value adjustment is calculated based on individual assessment.

Prior to the approval of loans and other credits, the Bank assesses the debtor's creditworthiness, taking account of the criteria it defined in an internal document, along with the legal validity and the estimated value of collateral.

The value of collateral is calculated as its net value, which means its market value less all costs pertaining to the activation of collateral.

Types of collateral are:

- deposits;
- right of pledge on industrial machines, securities, inventories and vehicles;
- mortgages on property and fiduciary transfer of ownership;
- bills of exchange;
- authorizations;
- garnishments;
- guarantors;
- insurance policies;
- guarantees.

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements

The quality of financial assets exposed to credit risk is presented as follows:

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANISATIONS

(In EUR thousand)

31 December 2021	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Housing	87	124	14	**225**	-	-	-	**-**	**225**
Cash	71,350	16,115	9,546	**97,011**	(1,020)	(1,456)	(2,746)	**(5,222)**	**91,789**
Purchase of vehicles	307	8	12	**327**	(2)	-	12	**(14)**	**313**
Refurbishment of residential or commercial buildings	-	-	2	**2**	-	-	-	**-**	**2**
Other	4,090	1,451	695	**6,236**	(25)	(35)	(263)	**(323)**	**5,913**
Total retail customers	**75,834**	**17,698**	**10,269**	**103,801**	**(1,047)**	**(1,491)**	**(3,021)**	**(5,559)**	**98,242**
Large enterprises	3,956	637	5,201	**9,794**	(15)	(9)	(124)	**(148)**	**9,646**
Medium-sized enterprises	1,453	10,812	14,003	**26,268**	(31)	(1,256)	(1,879)	**(3,166)**	**23,102**
Small-sized enterprises	25,503	36,643	36,164	**98,310**	(550)	(2,155)	(4,866)	**(7,571)**	**90,739**
State	-	-	-	**-**	-	-	-	**-**	**-**
Corporate customers	**30,912**	**48,092**	**55,368**	**134,372**	**(596)**	**(3,420)**	**(6,869)**	**(10,885)**	**123,487**
Total	**106,746**	**65,790**	**65,637**	**238,173**	**(1,643)**	**(4,911)**	**(9,890)**	**(16,444)**	**221,729**
Banks	**44,007**	**-**	**-**	**44,007**	**(114)**	**-**	**-**	**(144)**	**43,893**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements (Continued)

The quality of financial assets exposed to credit risk is presented as follows:

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANISATIONS

(In EUR thousand)

31 December 2020	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Housing	129	184	17	**330**	-	(2)	-	**(2)**	**328**
Cash	66,737	17,562	9,137	**93,436**	(1,404)	(1,368)	(1,960)	**(4,732)**	**88,704**
Purchase of vehicles	351	76	16	**443**	(3)	(2)	(6)	**(11)**	**432**
Refurbishment of residential or commercial buildings	-	-	1	**1**	-	-	-	**-**	**1**
Other	3,693	1,674	647	**6,014**	(38)	(63)	(181)	**(282)**	**5,732**
Total retail customers	**70,910**	**19,496**	**9,818**	**100,224**	**(1,445)**	**(1,435)**	**(2,147)**	**(5,027)**	**95,197**
Large enterprises	3,509	2,914	973	**7,396**	(31)	(29)	(92)	**(152)**	**7,244**
Medium-sized enterprises	3,695	17,529	11,072	**32,296**	(22)	(1,905)	(1,313)	**(3,240)**	**29,056**
Small-sized enterprises	21,419	41,142	27,486	**90,047**	(378)	(2,276)	(3,495)	**(6,149)**	**83,898**
State	-	-	-	**-**	-	-	-	**-**	**-**
Corporate customers	**28,623**	**61,585**	**39,531**	**129,739**	**(431)**	**(4,210)**	**(4,900)**	**(9,541)**	**120,198**
Total	**99,533**	**81,081**	**49,349**	**229,963**	**(1,876)**	**(5,645)**	**(7,047)**	**(14,568)**	**215,395**
Banks	**22,217**	**-**	**-**	**22,217**	**(157)**	**-**	**-**	**(157)**	**22,060**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from Stage 1 customers are presented below:

(In EUR thousand)

31 December 2021	Not past due	Past due up to 30 days	Between 31-60 days	Between 61-90 days	Total
Housing	87	-	-	-	**87**
Cash	71,123	227	-	-	**71,350**
Purchase of vehicles	307	-	-	-	**307**
Other	3,785	305	-	-	**4,090**
Total retail customers	**75,302**	**532**	**-**	**-**	**75,834**
Large enterprises	3,956	-	-	-	**3,956**
Medium-sized enterprises	1,453	-	-	-	**1,453**
Small-sized enterprises	25,459	44	-	-	**25,503**
Corporate clients	**30,868**	**44**	**-**	**-**	**30,912**
Total	**106,170**	**576**	**-**	**-**	**106,746**
Out of which: rescheduled	**-**	**-**	**-**	**-**	**-**
Receivables from banks	**44,007**	**-**	**-**	**-**	**44,007**

(In EUR thousand)

31 December 2020	Not past due	Past due up to 30 days	Between 31-60 days	Between 61-90 days	Total
Housing	129	-	-	-	**129**
Cash	66,485	252	-	-	**66,737**
Purchase of vehicles	351	-	-	-	**351**
Other	3,407	286	-	-	**3,693**
Total retail customers	**70,372**	**538**	**-**	**-**	**70,910**
Large enterprises	3,509	-	-	-	**3,509**
Medium-sized enterprises	3,695	-	-	-	**3,695**
Small-sized enterprises	21,370	49	-	-	**21,419**
State	**-**	**-**	**-**	**-**	**-**
Corporate clients	**28,574**	**49**	**-**	**-**	**28,623**
Total	**98,946**	**587**	**-**	**-**	**99,533**
Out of which: rescheduled	**-**	**-**	**-**	**-**	**-**
Receivables from banks	**22,217**	**-**	**-**	**-**	**22,217**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from Stage 2 customers are presented in the tables below:

(In EUR thousand)

31 December 2021	Not past due	Past due up to 30 days	Between 31-60 days	Between 61-90 days	Over 90 days	Total
Housing	124	-	-	-	-	**124**
Cash	12,609	2,873	603	30	-	**16,115**
Purchase of vehicles	8	-	-	-	-	**8**
Other	1,042	310	73	26	-	**1,451**
Total retail customers	**13,783**	**3,183**	**676**	**56**	**-**	**17,698**
Large enterprises	637	-	-	-	-	**637**
Medium-sized enterprises	10,812	-	-	-	-	**10,812**
Small-sized enterprises	35,375	494	769	5	-	**36,643**
Corporate clients	**46,824**	**494**	**769**	**5**	**-**	**48,092**
Total	**60,607**	**3,677**	**1,445**	**61**	**-**	**65,790**
Out of which: rescheduled	**8,838**	**41**	**424**	**-**	**-**	**9,303**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

(In EUR thousand)

31 December 2020	Not past due	Past due up to 30 days	Between 31-60 days	Between 61-90 days	Over 90 days	Total
Housing	166	18	-	-	-	**184**
Cash	13,077	2,521	1,845	119	-	**17,562**
Purchase of vehicles	72	4	-	-	-	**76**
Other	1,193	279	150	52	-	**1,674**
Total retail customers	**14,508**	**2,822**	**1,995**	**171**	**-**	**19,496**
Large enterprises	2,914	-	-	-		**2,914**
Medium-sized enterprises	17,529	-	-	-	-	**17,529**
Small-sized enterprises	39,515	316	1,276	35	-	**41,142**
Corporate clients	**59,958**	**316**	**1,276**	**35**	**-**	**61,585**
Total	**74,466**	**3,138**	**3,271**	**206**	**-**	**81,081**
Out of which: rescheduled	**10,065**	**50**	**381**	**-**	**-**	**10,496**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from Stage 3 customers are presented in the tables below:

(In EUR thousand)

31 December 2021	Not past due	Past due up to 30 days	Between 31-60 days	Between 61-90 days	Over 90 days	Total
Housing	14	-	-	-	-	**14**
Cash	5,502	696	109	31	3,208	**9,546**
Purchase of vehicles	-	-	-	-	12	**12**
Refurbishment of residential or commercial buildings	-	-	-	-	2	**2**
Other	252	62	9	9	363	**695**
Total retail customers	**5,768**	**758**	**118**	**40**	**3,585**	**10,269**
Large enterprises	5,201	-	-	-	-	**5,201**
Medium-sized enterprises	13,963	-	-	-	40	**14,003**
Small-sized enterprises	29,469	2,871	317	2	3,505	**36,164**
Corporate clients	**48,633**	**2,871**	**317**	**2**	**3,545**	**55,368**
Total	**54,401**	**3,629**	**435**	**42**	**7,130**	**65,637**
Out of which: rescheduled	**5,171**	**5**	**-**	**-**	**482**	**5,658**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

(In EUR thousand)

31 December 2020	Not past due	Past due up to 30 days	Between 31-60 days	Between 61-90 days	Over 90 days	Total
Housing	17	-	-	-	-	**17**
Cash	6,085	321	289	7	2,435	**9,137**
Purchase of vehicles	-	-	-	-	16	**16**
Refurbishment of residential or commercial buildings	-	-	-	-	1	**1**
Other	240	88	14	11	294	**647**
Total retail customers	**6,342**	**409**	**303**	**18**	**2,746**	**9,818**
Large enterprises	973	-	-	-	-	**973**
Medium-sized enterprises	10,993	-	16	-	63	**11,072**
Small-sized enterprises	22,005	246	1,084	50	4,101	**27,486**
Corporate clients	**33,971**	**246**	**1,100**	**50**	**4,164**	**39,531**
Total	**40,313**	**655**	**1,403**	**68**	**6,910**	**49,349**
Out of which: rescheduled	**7,095**	**-**	**188**	**-**	**563**	**7,846**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from Stage 3 customers are presented in the tables below:

(In EUR thousand)

31 December 2021	Gross exposure	Impairment allowance	S3 receivables	Rescheduled S3 receivables	Impairment allowance S3	Share of S3 receivables in gross exposure	Amount of collaterals for S3
Retail customers	**103,801**	**(5,559)**	**10,269**	**39**	**(3,021)**	**9.89%**	**17,245**
Housing	225	-	14	-	-	6.22%	71
Cash	97,011	(5,222)	9,546	34	(2,746)	9.84%	16,630
Purchase of vehicles	327	(14)	12	-	12	3.67%	18
Refurbishment of residential or commercial buildings	2	-	2	-	-	100.00%	30
Other	6,236	(323)	695	5	(263)	11.14%	496
Corporate clients	**134,372**	**(10,885)**	**55,368**	**5,619**	**(6,869)**	**41.21%**	**102,728**
Agriculture	2,701	(425)	124	-	(11)	4.59%	785
Processing industry	7,443	(396)	1,899	4,460	(263)	25.51%	8,715
Electricity	7,074	(517)	5,810	-	(410)	82.13%	5,578
Construction	27,917	(3,910)	14,362	-	(2,830)	51.45%	27,287
Wholesale and retail trade	39,492	(2,171)	16,928	571	(1,637)	42.86%	26,804
Services	843	(35)	118	306	-	14.00%	295
Real estate activities	4,059	(231)	2,283	-	(97)	56.25%	6,981
Other	44,843	(3,200)	13,844	282	(1,621)	30.87%	26,283
Total	**238,173**	**(16,444)**	**65,637**	**5,658**	**(9,890)**	**27.56%**	**119,973**
Receivables from banks	**44,007**	**(114)**	**-**	**-**	**-**	**0.00%**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from Stage 3 customers are presented in the tables below:

(In EUR thousand)

31 December 2020	Gross exposure	Impairment allowance	S3 receivables	Rescheduled S3 receivables	Impairment allowance S3	Share of S3 receivables in gross exposure	Amount of collaterals for S3
Retail customers	**100,224**	**(5,027)**	**9,818**	**50**	**(2,147)**	**9.80%**	**18,490**
Residential	330	(2)	17	-	-	5.15%	71
Cash	93,436	(4,732)	9,137	34	(1,960)	9.78%	17,465
Purchase of vehicles	443	(11)	16	-	(6)	3.61%	18
Refurbishment of residential or commercial buildings	1	-	1	-	-	100.00%	104
Other	6,014	(282)	647	16	(181)	10.76%	832
Corporate clients	**129,739**	**(9,541)**	**39,531**	**7,796**	**(4,900)**	**30.47%**	**85,575**
Agriculture	3,355	(100)	435	410	(28)	12.97%	140
Processing industry	10,311	(316)	3,578	188	(179)	34.70%	11,070
Electricity	1,393	(114)	-	-	-	0.00%	-
Construction	28,747	(2,619)	10,779	4,505	(1,738)	37.50%	22,959
Wholesale and retail trade	33,845	(1,674)	9,053	952	(879)	26.75%	16,175
Services	1,012	(26)	-	323	-	0.00%	-
Real estate activities	3,952	(230)	1,853	42	(101)	46.89%	6,251
Other	47,124	(4,462)	13,833	1,376	(1,975)	29.35%	28,980
Total	**229,963**	**(14,568)**	**49,349**	**7,846**	**(7,047)**	**21.46%**	**104,065**
Receivables from banks	**22,217**	**(157)**	**-**	**-**	**-**	**0.00%**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements (Continued)

Movements in Stage 3 or non-performing loans are presented in the tables below:

(In EUR thousand)

	Gross as of 31 December 2020	New S3 clients	Reduction in existing S3 clients	Increase in existing S3 clients	Closed S3 clients	Gross as of 31 December 2021
Housing	17	-	(3)	-	-	**14**
Cash	9,137	3,814	(1,049)	336	(2,692)	**9,546**
Purchase of vehicles	16	-	(4)	-	-	**12**
Refurbishment of residential or commercial buildings	1	-	-	2	(1)	**2**
Other	647	185	104	102	(135)	**695**
Retail customers	**9,818**	**3,999**	**(1,160)**	**440**	**(2,828)**	**10,269**
Large enterprises	973	4,558	(77)	247	(500)	**5,201**
Medium-sized enterprises	11,072	7,591	(3,150)	26	(1,536)	**14,003**
Small-sized enterprises	27,486	21,747	(3,371)	214	(9,912)	**36,164**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**39,531**	**33,896**	**(6,598)**	**487**	**(11,948)**	**55,368**
Total	**49,349**	**37,895**	**(7,758)**	**927**	**(14,776)**	**65,637**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Quality of Financial Placements (Continued)

Movements in Stage 3 or impairment allowances of non-performing loans are presented in the tables below:

(In EUR thousand)

	Gross as of 31 December 2020	New S3 clients	Reduction in existing S3 clients	Increase in existing S3 clients	Closed S3 clients	Gross as of 31 December 2021
Housing	-	-	-	-	-	**-**
Cash	(1,960)	(714)	175	(575)	328	**(2,746)**
Purchase of vehicles	(6)	-	-	(6)	-	**(12)**
Refurbishment of residential or commercial buildings	-	-	-	-	-	**-**
Other	(181)	(61)	35	(90)	**34**	**(263)**
Retail customers	**(2,147)**	**(775)**	**210**	**(671)**	**362**	**(3,021)**
Large enterprises	(92)	(118)	8	(2)	80	**(124)**
Medium-sized enterprises	(1,313)	(972)	295	-	111	**(1,879)**
Small-sized enterprises	(3,495)	(1,988)	311	(819)	1,125	**(4,866)**
State	-	-	-	-	-	**-**
Other	-	**-**	**-**	**-**	**-**	**-**
Corporate clients	**(4,900)**	**(3,078)**	**614**	**(821)**	**1,316**	**(6,869)**
Total	**(7,047)**	**(3,853)**	824	**(1,492)**	**1,678**	**(9,890)**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.1. Restructured credits and loans

The tables below show an overview of restructured receivables:

(In EUR thousand)

31 December 2021	Restructured receivables- Gross exposure	S1 restructured receivables	S2 restructured receivables	S3 restructured receivables	Value adjustment of restructured receivables	Value adjustment of S1 restructured receivables	Value adjustment of S2 restructured receivables	Value adjustment of S3 restructured receivables	Share of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail customers	**4,254**	**-**	**4,215**	**39**	**693**	**-**	**690**	**3**	**4%**	**3,596**
Cash	4,249	-	4,215	34	693	-	690	3	4%	3,596
Other	5	-	-	5	-	-	-	-	0%	-
Corporate clients	**10,707**	**-**	**5,088**	**5,619**	**1,763**	**-**	**888**	**875**	**8%**	**26**
Agriculture	10	-	10	-	-	-	-	-	0%	-
Manufacturing	8,904	-	4,444	4,460	1,604	-	860	744	120%	-
Construction	-	-	-	-	-	-	-	-	0%	-
Wholesale and retail trade	695	-	124	571	83	-	12	71	2%	-
Services	516	-	210	306	-	-	-	-	61%	26
Real estate activities	-	-	-	-	-	-	-	-	0%	-
Other	582	-	300	282	76	-	16	60	1%	-
Total	**14,961**	**-**	**9,303**	**5,658**	**2,456**	**-**	**1,578**	**878**	**6%**	**3,622**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0%**	**0**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.1 Restructured credits and loans (Continued)

The tables below show an overview of restructured receivables:

(In EUR thousand)

31 December 2020	Restructured receivables- Gross exposure	S1 restructured receivables	S2 restructured receivables	S3 restructured receivables	Value adjustment of restructured receivables	Value adjustment of S1 restructured receivables	Value adjustment of S2 restructured receivables	Value adjustment of S3 restructured receivables	Share of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail customers	**664**	**-**	**614**	**50**	**(78)**	**-**	**(74)**	**(4)**	**1%**	**848**
Residential										
Cash	635	-	601	34	(77)	-	(74)	(3)	1%	516
Other	29	-	13	16	(1)	-	-	(1)	0%	332
Corporate clients	**17,678**	**-**	**9,882**	**7,796**	**(2,834)**	**-**	**(1,670)**	**(1,164)**	**14%**	**41,493**
Agriculture	410	-	-	410	(11)	-	-	(11)	12%	140
Manufacturing	720	-	532	188	(66)	-	(55)	(11)	7%	1,809
Construction	4,524	-	19	4,505	(563)	-	-	(563)	16%	10,442
Wholesale and retail trade	1,806	-	854	952	(328)	-	(95)	(233)	5%	4,310
Real estate activities	42	-	-	42	-	-	-	-	1%	38
Other	10,176	-	8,477	1,699	(1,866)	-	(1,520)	(346)	22%	24,754
Total	**18,342**	**-**	**10,496**	**7,846**	**(2,912)**	**-**	**(1,744)**	**(1,168)**	**8%**	**42,341**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0%**	**-**

5 RISK MANAGEMENT (Continued)

5.2 Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.1. Restructured credits and loans (Continued)

The tables below show an overview of restructured receivables:

(In EUR thousand)

CHANGES IN RESTRUCTURED S2 RECEIVABLES	Gross 31 December 2020	New restructured S2 receivables	Reduction in restructured S2 receivables	Effect of exchang e rate	Other changes	Gross 31 December 2021	Net 31 December 2021
Residential	-	-	-	-	-	-	-
Cash	601	3,614	(30)	-	30	4,215	3,525
Purchase of vehicles	-	-	-	-	-	-	-
Adaptation of residential or commercial property	-	-	-	-	-	-	-
Other	13	-	(13)	-	-	-	-
Retail customers	**614**	**3,614**	**(43)**	**-**	**30**	**4,215**	**3,525**
Large companies	-	-	-	-	-	-	-
Medium companies	8,931	4,002	-	-	-	12,933	3,208
Small enterprises	1,509	299	(509)	-	-	1,299	989
Government	-	-	-	-	-	-	-
Other	(558)	-	(93)	-	(8,493)	(9,144)	-
Corporate clients	**9,882**	**4,301**	**(602)**	**-**	**(8,493)**	**5,088**	**4,197**
Total	**10,496**	**7,915**	**(645)**	**-**	**(8,463)**	**9,303**	**7,722**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.1. Restructured credits and loans (Continued)

The tables below show an overview of restructured receivables:

In EUR thousand

CHANGES IN RESTRUCTURED S3 RECEIVABLES	**Gross 31 December 2020**	**New restructured S3 receivables**	**Reduction in restructured S3 receivables**	**Effect of exchange rate**	**Other changes**	**Gross 31 December 2021**	**Net 31 December 2021**
Residential	-	-	-	-	-	-	-
Cash	34	-	-	-	-	34	31
Purchase of vehicles	-	-	-	-	-	-	-
Adaptation of residential or commercial property	-	-	-	-	-	-	-
Other	16	-	(14)	-	3	5	-
Retail customers	**50**	**-**	**(14)**	**-**	**3**	**39**	**31**
Large companies	-	-	-	-	-	-	-
Medium companies	5,691	245	(245)	-	(2,526)	3,165	3,463
Small enterprises	2,105	1,310	(961)	-	-	2,454	1,272
The government	-	-	-	-	-	-	-
Other	-	14	(14)	-	-	-	17
Corporate clients	**7,796**	**1,569**	**(1,220)**	**-**	**(2,526)**	**5,619**	**4,752**
Total	**7,846**	**1,569**	**(1,234)**	**-**	**(2,523)**	**5,658**	**4,783**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.2. Loans and receivables from clients covered by collateral

In EUR thousand

31 December 2021	S1 clients				S2 clients				S3 clients			
	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total
Residential	87	-	-	**87**	124	-	-	**124**	14	-	-	**14**
Cash	16,261	1,503	53,586	**71,350**	4,710	556	10,849	**16,115**	5,045	415	4,086	**9,546**
Purchase of vehicles	11	-	296	**307**	-	-	8	**8**	-	-	12	**12**
Adaptation of residential or commercial property	-	-	-	**-**	-	-	-	**-**	2	-	-	**2**
Other	309	192	3,589	**4,090**	42	43	1,366	**1,451**	86	31	578	**695**
Retail customers	**16,668**	**1,695**	**57,471**	**75,834**	**4,876**	**599**	**12,223**	**17,698**	**5,147**	**446**	**4,676**	**10,269**
Large companies	1,705	-	2,251	**3,956**	135	-	502	**637**	4,836	-	365	**5,201**
Medium companies	327	2	1,124	**1,453**	8,850	8	1,970	**10,812**	13,836	50	117	**14,003**
Small enterprises	19,457	177	5,869	**25,503**	29,884	321	6,438	**36,643**	28,982	540	6,642	**36,164**
Corporate clients	**21,489**	**179**	**9,244**	**30,912**	**38,869**	**313**	**8,910**	**48,092**	**47,654**	**590**	**7,124**	**55,368**
Total	**38,157**	**1,874**	**66,715**	**106,746**	**43,745**	**912**	**21,133**	**65,790**	**52,801**	**1,036**	**11,800**	**65,637**
Receivables from banks	**.**	**-**	**44,007**	**44,007**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.2. Loans and receivables from clients covered by collateral (Continued)

(In EUR thousand)

31 December 2020	S1 clients				S2 clients				S3 clients			
	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total
Residential	129	-	-	**129**	184	-	-	**184**	17	-	-	**17**
Cash	13,825	1,532	51,380	**66,737**	5,571	858	11,133	**17,562**	5,186	371	3,580	**9,137**
Purchase of vehicles	15	-	336	**351**	-	-	76	**76**	-	-	16	**16**
Adaptation of residential or commercial property	-	-	-	**-**	-	-	-	**-**	1	-	-	**1**
Other	385	182	3,126	**3,693**	281	101	1,292	**1,674**	81	45	521	**647**
Retail customers	**14,354**	**1,714**	**54,842**	**70,910**	**6,036**	**959**	**12,501**	**19,496**	**5,285**	**416**	**4,117**	**9,818**
Large companies	1,704	-	1,805	**3,509**	145	-3	2,772	**2,914**	855	-	118	**973**
Medium companies	128	2	3,565	**3,695**	14,352	83	3,094	**17,529**	10,935	-	137	**11,072**
Small enterprises	14,726	252	6,441	**21,419**	31,837	580	8,725	**41,142**	22,892	713	3,881	**27,486**
Corporate clients	**16,558**	**254**	**11,811**	**28,623**	**46,334**	**660**	**14,591**	**61,585**	**34,682**	**713**	**4,136**	**39,531**
Total	**30,912**	**1,968**	**66,653**	**99,533**	**52,370**	**1,619**	**27,092**	**81,081**	**39,967**	**1,129**	**8,253**	**49,349**
Receivables from banks	**-**	**-**	**22,217**	**22,217**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.2. Loans and receivables from clients covered by collateral (Continued)

Fair value of collateral

(in EUR thousand)

	31 December 2021	31 December 2020
Deposits	21,325	31,407
Pledge	63,671	69,538
Mortgages and fiduciaries	393,905	377,024
Policies	11,924	9,797
Guarantees	350	350
Total	**491,175**	**488,116**

(in EUR thousand)

Loans assessed as a group	31 December 2021	31 December 2020
Deposits	17,845	29,392
Pledge	20,228	24,279
Mortgages and fiduciaries	166,640	181,648
Policies	11,924	9,722
Guarantees	350	350
	216,987	**245,391**

(in EUR thousand)

Loans assessed individually	31 December 2021	31 December 2020
Deposits	3,480	2,015
Pledge	43,443	45,259
Mortgages and fiduciaries	227,265	195,376
Policies	-	75
Guarantees	-	-
Total	**274,188**	**242,725**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.3 Geographic concentration

The geographic concentration of the Bank's exposure to credit risk is presented in the following table:

(In EUR thousand)

31 December 2021	Receivables from S1 and S2 clients				Receivables from S3 clients			
	Montenegro	European Union	USA and Canada	Other countries	Montenegro	European Union	USA and Canada	Other countries
Retail customers	**84,032**	**4,385**	**384**	**4,731**	**10,212**	**-**	**-**	**57**
Residential	211	-	-	-	14	-	-	-
Cash	78,018	4,379	384	4,684	9,501	-	-	45
Purchase of vehicles	315	-	-	-	12	-	-	-
Adaptation of residential or commercial property	-	-	-	-	2	-	-	-
Other	5,488	6	-	47	683	-	-	12
Corporate clients	**77,842**	**1,162**	**-**	**-**	**55,368**	**-**	**-**	**-**
Agriculture	2,577	-	-	-	124	-	-	-
Manufacturing	5,544	-	-	-	1,899	-	-	-
Electricity	1,264	-	-	-	5,810	-	-	-
Construction	13,554	-	-	-	14,362	-	-	-
Wholesale and retail trade	22,564	-	-	-	16,928	-	-	-
Services	726	-	-	-	118	-	-	-
Real estate activities	1,776	-	-	-	2,283	-	-	-
Other	29,837	1,162	-	-	13,844	-	-	-
Total	**161,874**	**5,547**	**384**	**4,731**	**65,580**	**-**	**-**	**57**
Receivables from banks	**5,002**	**32,072**	**-**	**6,933**	**-**	**-**	**-**	**-**
Securities	**78,385**	**51,556**	**519**	**20,453**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.3. Geographic concentration (Continued)

The geographic concentration of the Bank's exposure to credit risk is presented in the following table:

(In EUR thousand)

31 December 2020	Receivables from S1 and S2 clients				Receivables from S3 clients			
	Montenegro	European Union	USA and Canada	Other countries	Montenegro	European Union	USA and Canada	Other countries
Retail customers	**82,996**	**4,304**	**-**	**3,106**	**9,651**	**2**	**-**	**165**
Residential	313	-	-	-	17	-	-	
Cash	76,996	4,285	-	3,018	8,976	-	-	161
Passenger vehicles	427	-	-	-	16	-	-	-
Adaptation of residential or commercial property	-	-	-	-	1	-	-	-
Other	5,260	19	-	88	641	2	-	4
Corporate clients	**88,565**	**1,643**	**-**	**-**	**39,531**	**-**	**-**	**-**
Agriculture	2,920	-	-	-	435	-	-	-
Manufacturing	6,734	-	-	-	3,578	-	-	-
Electricity	1,393	-	-	-		-	-	-
Construction	17,969	-	-	-	10,779	-	-	-
Wholesale and retail trade	24,790	-	-	-	9,053	-	-	-
Services	1,012	-	-	-		-	-	-
Real estate activities	2,099	-	-	-	1,853	-	-	-
Other	31,648	1,643	-	-	13,833	-	-	-
Total	**171,561**	**5,947**	**-**	**3,106**	**49,182**	**2**	**-**	**165**
Receivables from banks	**5,003**	**16,400**	**-**	**814**	**-**	**-**	**-**	**-**
Securities	**85,556**	**32,359**	**1,565**	**9,768**	**-**	**-**	**-**	**-**

5 RISK MANAGEMENT (Continued)

5.2 Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.4 Industrial concentration

Concentration by activities through which the Bank is exposed to credit risk, with a deduction for impairment, is presented in the following table:

(In EUR thousand)

	Finance	Transport and telecommunications	Food and accommodation services	Wholesale and retail trade, repair of motor vehicles and motorcycles	Construction	Energy	Extraction of ore and rock	Administration and auxiliary services	Real estate trade	Agriculture, forestry and fishing	Production	Other	Retail customers	Total
Financial assets at amortized value														
Loans and placements to banks	43,893	-	-	-	-	-	-	-	-	-	-	-	-	**43,893**
Loans and placements to customers	2,526	5,977	17,846	37,321	24,007	6,557	4,651	1,679	3,829	2,276	7,047	9,771	98,242	**221,729**
Securities												3,552		**3,552**
Financial assets at fair value through other comprehensive income														
Securities	78,198	-	35	57	-	-	-	-	95	-	-	61,501	-	**139,886**
Financial assets held for trading														
Securities	-	-	-	-	-	-	-	-	-	-	-	7,465	-	**7,465**
31 December 2021	**124,617**	**5,977**	**17,881**	**37,378**	**24,007**	**6,557**	**4,651**	**1,679**	**3,924**	**2,276**	**7,047**	**82,289**	**98,242**	**416,525**
31 December 2020	**90,943**	**10,662**	**20,790**	**32,220**	**26,128**	**1,640**	**4,047**	**2,131**	**3,817**	**3,256**	**9,996**	**65,884**	**95,198**	**366,712**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Quality of financial loans (Continued)

5.2.4.5. Off-balance sheet records

The maturity of off-balance sheet items by which the Bank is exposed to credit risk is as follows:

(in EUR thousand)

	Undrawn credit lines	Guarantees	Letters of credit	Total
31 December 2021				
Up to 1 year	27,220	57,981	298	**85,499**
1 to 5 years	2,171	9,369	-	**11,540**
Over 5 years	293	9	-	**302**
	29,684	**67,359**	**298**	**97,341**

	Undrawn credit lines	Guarantees	Letters of credit	Total
31 December 2020				
Up to 1 year	32,726	61,138	249	**94,113**
1 to 5 years	3,042	13,170	-	**16,212**
Over 5 years	840	0	-	**840**
	36,608	**74,308**	**249**	**111,165**

5.3. Market risk

The Bank je exposed to market risks. Market risks occur in the case of open positions, due to changes in interest rates and the exchange rate. Limits for exposure to market risks are prescribed internally and in line with the limits prescribed by the Central Bank of Montenegro.

5.3.1 Foreign exchange risk

The Bank's financial position and cash flows are exposed to the effects of exchange rate changes. Exposure to foreign exchange risk is regularly monitored through compliance with the limits prescribed by the Central Bank of Montenegro.

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.1 Foreign exchange risk (Continued)

Exposure to the interest rate risk as at 31 December 2021 is presented in the following table:

(in EUR thousand)	USD	GBP	CHF	Other	Total
Foreign currency assets	26,432	1,989	1,176	44	29,641
Foreign currency liabilities	26,477	2,067	1,217	30	29,791
Net open position:					
31 December 2021	**(45)**	**(78)**	**(41)**	**14**	**(150)**
31 December 2020	**284**	**(10)**	**(31)**	**37**	**280**
% of core capital:					
31 December 2021	**0%**	**0%**	**0%**	**0%**	
31 December 2020	**1%**	**0%**	**0%**	**0%**	
Aggregate open position:					
31 December 2021	**(150)**				
31 December 2020	**280**				
% of core capital:					
31 December 2021	**(0.36)%**				
31 December 2020	**0.67%**				

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.1 Foreign exchange risk (Continued)

The following table shows the scenario of exchange rate change in the range from +10% to -10% relative to the euro.

(in EUR thousand)

	Total	Amount in currency	Exchange rate change 10%	Exchange rate change -10%
ASSETS				
Cash and deposits held with central banks	235,881	2,631	263	(263)
Financial assets at amortized value				
Loans and placements to banks	43,893	9,906	991	(991)
Loans and placements to customers	221,729	485	49	(49)
Securities	3,552	-	-	-
Other financial assets	1,943		-	-
Financial assets at fair value through other comprehensive income				
Securities	139,886	14,730	1,473	(1,473)
Financial assets held for trading				
Securities	7,465		-	-
Other operating receivables	2,293	1,889	189	(189)
Total assets	**656,642**	**29,641**	**2,964**	**(2,964)**
Liabilities				
Financial liabilities disclosed at amortized value				
Deposits due to banks	1,714		-	-
Deposits due to customers	548,259	28,031	2,803	(2,803)
Credits of clients other than banks	22,667	-	-	-
Other financial liabilities	396	-	-	-
Reserves	1,127	-	-	-
Other liabilities - balance sheet	16,528	1,760	176	(176)
Subordinated debt	17,232	-	-	-
Total liabilities	**607,923**	**29,791**	**2,979**	**(2,979)**
Other liabilities (guarantees and letters of credit) - off-balance sheet	**67,657**	**-**	**-**	**-**
Sensitivity of net exposure to foreign exchange risk on changes in rates of foreign currencies				
31 December 2021			**(15)**	**15**
31 December 2020			**28**	**(28)**

As at 31 December 2021, under the assumption that all other parameters are unchanged by the change of the EUR exchange rate relative to other currencies by +10% or -10%, the Bank's profit would increase, or decrease by EUR 15 thousand (31 December 2020: profit would increase or decrease by EUR 28 thousand). The reason for the low exposure of the Bank to exchange rate changes is the fact that most receivables and liabilities of the Bank are expressed in EUR.

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2 Interest rate risk

The following table shows interest bearing and non-interest bearing assets and liabilities of the Bank as at 31 December 2021:

(in EUR thousand)

	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and deposits held with central banks	14,466	221,415	235,881
Financial assets at amortized value			
Loans and placements to banks	38,907	4,986	43,893
Loans and placements to customers and other financial assets	221,729	-	221,729
Securities	3,552	-	3,552
Other financial assets	1,943	-	1,943
Financial assets at fair value through other comprehensive income			
Securities	127,444	12,442	139,886
Financial assets held for trading			
Securities	-	7,465	7,465
Other operating receivables	1,426	867	2,293
Total assets	**409,467**	**247,175**	**656,642**
LIABILITIES			
Financial liabilities disclosed at amortized value			
Deposits due to banks	1,714	-	1,714
Deposits due to customers	487,337	60,922	548,259
Borrowed assets from other clients	22,667	-	22,667
Other financial liabilities	-	396	396
Other liabilities	3,804	12,724	16,528
Subordinated debt	17,232	-	17,232
Total liabilities	**532,754**	**74,042**	**606,796**
Exposure to interest rate risk:			
31 December 2021	**(123,287)**	**173,133**	**49,846**
31 December 2020	**(59,696)**	**120,153**	**60,457**

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2 Interest rate risk (Continued)

The following tables show the annual active and passive interest rates of monetary financial instruments.

The active interest rates applied to approved loans to legal and natural persons in 2021 were the following:

Loan type	Interest rate
Legal entities:	
- short-term loans from the Bank's funds	0-9.75%p.a.
- short-term loans from other sources	4%-7.5%p.a.
- short-term loans to banks and other financial organizations	1.60%p.a.
- long-term loans from the Bank's funds	1.3%-10%p.a.
- long-term loans from other sources	4.5%-7.5%p.a.
- loans for small and medium-sized enterprises up to 24 months	At rates from the Bank's funds
- loans for small and medium-sized enterprises over 24 months	At rates from the Bank's funds
- loans for entrepreneurs up to 24 months	7%-8%p.a.
- loans for entrepreneurs over 24 months	4.5%-7.5%p.a.

Loan type	Interest rate
Natural persons	
- cash loans	0.6%p.m.-12%p.a.
- consumer loans	0-5.25%p.a.
- loans for the purchase of vehicles	4.99%p.a.

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2 Interest rate risk (Continued)

The passive interest rates applied to received deposits from legal and natural persons in 2021 were the following:

Deposit type	Interest rate
Legal entities:	
Demand deposits	-
Short-term deposits	0-1.4%p.a.
Long-term deposits	0-2.5%p.a.

Deposit type	Interest rate
Natural persons	
Demand deposits	
A vista savings:	
- EUR	0.01%p.a.
- other currencies	-
Term deposits in EUR:	
- one month	0.01%p.a.
- three months	0-0.08%p.a.
- six months	0.05%-1.2%p.a.
- 12 months	0.08%-2%p.a.
- 24 months	1.2%-1.8%p.a.
- 36 months	1%-2.5%p.a.
Term deposits in foreign currencies:	
- three months	-
- six months	-
- 12 months	0.25%-0.80%p.a.

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2 Interest rate risk (Continued)

Exposure to the interest rate risk as at 31 December 2021 is presented in the following table:

(in EUR thousand)

Interest-sensitive assets	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Cash and deposits held with central banks	14,466	-	-	-	-	**14,466**
Financial assets at amortized value						
Loans and placements to banks	38,907	-	-	-	-	**38,907**
Loans and placements to customers	13,445	15,883	20,001	49,209	123,191	**221,729**
Securities	3,552	-	-	-	-	**3,552**
Other financial assets	1,943	-	-	-	-	**1,943**
Financial assets at fair value through other comprehensive income						
Securities	-	441	442	3,054	123,507	**127,444**
Financial assets held for trading						
Securities	-	-	-	-	-	**-**
Other operating receivables	1,426	-	-	-	-	**1,426**
Total	**73,739**	**16,324**	**20,443**	**52,263**	**246,698**	**409,467**
% of total interest bearing assets	18%	4%	5%	13%	60%	**100%**
Interest-sensitive liabilities						
Financial liabilities disclosed at amortized value						
Interest bearing deposits of banks	1,714	-	-	-	-	**1,714**
Interest bearing deposits of customers	66,564	56,069	61,083	100,974	202,647	**487,337**
Interest bearing borrowing of customers	50	148	2,336	2,349	17,784	**22,667**
Other liabilities	776	133	201	411	2,283	**3,804**
Subordinated debt	-	-	-	-	17,232	**17,232**
Total	**69,104**	**56,350**	**63,620**	**103,734**	**239,946**	**532,754**
% of total interest bearing liabilities	13%	11%	12%	19%	45%	**100%**
Exposure to interest rate risk:						
31 December 2021	**4,635**	**(40,026)**	**(43,177)**	**(51,471)**	**6,752**	**(123,287)**
31 December 2020	**(7,702)**	**(14,732)**	**(31,069)**	**(61,991)**	**55,799**	**(59,695)**
Cumulative GAP:						
31 December 2021	**4,635**	**(35,391)**	**(78,568)**	**(130,039)**	**(123,287)**	
31 December 2020	**(7,702)**	**(22,434)**	**(53,503)**	**(115,494)**	**(59,695)**	

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2 Interest rate risk (Continued)

The following table shows the effect of changes in variable interest rates for receivables and liabilities expressed in EUR in the range from +0.4% bp to -0.4 bp.

(In EUR thousand)

	2021	+0.4 b.p. EUR	-0.4 b.p. EUR
ASSETS			
Cash and deposits held with central banks	**14,466**	-	-
with fixed interest rate		-	-
with variable interest rate	14,466	58	(58)
Financial assets at amortized value			-
Loans and placements to banks	**38,907**	-	-
Loans and placements to customers	**221,729**	-	-
with fixed interest rate	221,729	-	-
with variable interest rate		-	-
Securities	**3,552**	-	-
with fixed interest rate	3,552	-	-
Financial assets at fair value through other comprehensive income			
Securities	**127,444**		
with fixed interest rate	127,444		
with variable interest rate			
Financial assets held for trading			
Securities	**-**	-	-
with fixed interest rate	-	-	-
with variable interest rate		-	-
	406,098	**58**	**(58)**
Liabilities			
Financial liabilities disclosed at amortized value			
Deposits due to banks	**1,714**	**-**	**-**
Deposits due to customers	**487,337**	**-**	**-**
Borrowed assets from other clients	**22,667**	**-**	**-**
with fixed interest rate	19,167	-	-
with variable interest rate	3,500	14	(14)
Other liabilities	**3,804**		
Subordinated debt	**17,232**	**-**	**-**
	532,754	**14**	**(14)**
Net exposure to interest rate risk: 31 December 2021	**(126,656)**	**44**	**(44)**

As at 31 December 2021, under the assumption that all other parameters are unchanged by the change of interest rates by 4 bp (+/-0.4%), the Bank's profit would increase, or decrease by EUR 44 thousand (31 December 2020: profit would increase or decrease by EUR 46 thousand). The reason for the low exposure of the Bank to the changes of variable interest rates is the fact that most receivables and liabilities of the Bank are agreed with a fixed interest rate.

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2 Interest rate risk (Continued)

The following table shows the effect of changes in interest rates for securities expressed in EUR in the range from 50 bp to 200 bp as at 31 December 2021.

In EUR thousand

Securities - fixed rate	**Amount**	**Interest rate change**	**Average weighted bp**	**Change in EUR**	**Sign**
Short-term	3,937	50 b.p.	2	20	+/-
Mid-term	29,121	100 b.p.	22	291	+/-
Long-term	97,938	200 b.p.	150	1,959	+/-
Total	**130,996**		**173**	**2,270**	**+/-**

In EUR thousand

Securities - variable rate	**Amount**	**Interest rate change**	**Average weighted bp**	**Change in EUR**	**Sign**
Short-term	-	50 b.p.	-	-	+/-
Mid-term	-	100 b.p.	-	-	+/-
Long-term	-	200 b.p.	-	-	+/-
Total	**-**		**-**	**-**	**+/-**

5.4 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to secure sufficient funds for settling liabilities at the moment of their maturity, or the risk that the Bank will have to secure funds at a reasonable price and in a timely manner in order to settle its due liabilities.

Compliance and controlled non-compliance between maturity and interest rates for assets and liabilities are very important for the Bank's management. It is unusual for the Bank to have a fully compliant position, seeing as business transactions often have an undefined maturity date, and there are numerous types of them. A non-compliant item potentially increases profitability, but it also increases the risk of loss.

The maturity of assets and liabilities and the ability of the Bank to secure sources of funding upon the maturity of liabilities at acceptable costs, are an important factor for the assessment of the Bank's liquidity and its exposure to changes in interest rates and FX rates.

Liquidity needs for covering guarantees and activated letters of credit are considerably lower than the amount of assumed liabilities, given that the Bank does not expect a third party to draw the agreed funds. Total outstanding amount of the contractual obligation by which a loan with an extended maturity date is approved does not necessarily lead to a future requirement for liquid assets, given that many of these liabilities will expire or be terminated without financing.

5. RISK MANAGEMENT (Continued)

5.4 Liquidity risk

The maturity matching of financial assets and financial liabilities according to the expected maturity date as at 31 December 2021 is presented in the overview below:

(in EUR thousand)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets							
Cash and deposits held with central banks	221,415	-	-	-	14,466	-	**235,881**
Financial assets at amortized value							
Loans and placements to banks	43,601	-	-	-	-	292	**43,893**
Loans and placements to customers	9,727	2,079	19,377	50,191	111,841	28,514	**221,729**
Securities	3,552	-	-	-	-	-	**3,552**
Other financial assets	1,943	-	-	-	-	-	**1,943**
Financial assets at fair value through other comprehensive income							
Securities	6,486	441	442	3,054	67,816	61,647	**139,886**
Financial assets held for trading							
Securities	7,465	-	-	-	-	-	**7,465**
Other operating receivables	1,426	-	-	-	-	867	**2,293**
Total	**291,615**	**2,520**	**19,819**	**53,245**	**194,123**	**91,320**	**656,642**
Financial liabilities							
Financial liabilities disclosed at amortized value							
Deposits due to banks	1,714	-	-	-	-	-	**1,714**
Deposits due to customers	34,779	27,735	29,355	48,753	360,654	46,983	**548,259**
Borrowed assets from other clients	50	148	2,336	2,349	6,199	11,585	**22,667**
Other financial liabilities	-	-	-	396	-	-	**396**
Other liabilities	13,500	133	201	411	2,152	131	**16,258**
Subordinated debt	-	(67)	-	-	12,211	5,088	**17,232**
Total	**50,043**	**27,949**	**31,892**	**51,909**	**381,216**	**63,787**	**606,796**
Maturity mismatch							
31 December 2021	**245,572**	**(25,429)**	**(12,073)**	**1,336**	**(187,093)**	**27,533**	**49,846**
31 December 2020	**159,499**	**2,330**	**(12,139)**	**(19,726)**	**(78,318)**	**8,811**	**60,457**
Cumulative gap							
31 December 2021	**245,572**	**220,143**	**208,070**	**209,406**	**22,313**	**49,846**	
31 December 2020	**159,499**	**161,829**	**149,689**	**129,964**	**51,645**	**60,457**	
% of the total source of funds							
31 December 2021	**37.40%**	**(3.87%)**	**(1.84%)**	**0.20%**	**(28.49%)**	**4.19%**	
31 December 2020	**29.85%**	**0.44%**	**(2.27%)**	**(3.69%)**	**(14.66%)**	**1.65%**	

5. RISK MANAGEMENT (Continued)

5.4 Liquidity risk (Continued)

The structure of assets and liabilities as at 31 December 2021 indicates that there is a maturity mismatch in the expected period of maturity of assets and liabilities for the periods of 1-3 months, 3-6 months and 1-5 years.

The Bank's liquidity as its ability to timely settle all its due liabilities depends on the balance sheet structure on the one hand, and on the matching between the inflows and outflows of assets, on the other. There is no maturity mismatch in the cumulative gap. As at 31 December 2021, demand deposits in the above mentioned table are presented based on expected maturities using a model based on the Bank's historical data. The Bank has applied the above approach for managing liquidity since 31 December 2012.

The maturity matching of financial liabilities according to the remaining maturity (undiscounted cash flows) as at 31 December 2021 is presented in the overview below:

(in EUR thousand)

	Demand	Up to 1 month	1 to 3 months	3 - 12 months	1 to 5 years	Over 5 years	Total
31 December 2021							
LIABILITIES							
Loans and placements to banks	1,714	-	-	-	-	-	**1,714**
Loans and placements to customers	427,656	7,289	11,644	60,101	39,528	2,041	**548,259**
Borrowed assets from other clients	50	148	2,336	2,349	6,199	11,585	**22,667**
Other financial liabilities	-	-	-	396	-	-	**396**
Other liabilities	13,500	133	201	411	2,152	131	**16,258**
Subordinated debt		-	(67)	-	12,211	5,088	**17,232**
	442,920	**7,570**	**14,114**	**63,257**	**60,090**	**18,845**	**606,796**

	Demand	Up to 1 month	1 to 3 months	3 - 12 months	1 to 5 years	Over 5 years	Total
31 December 2020							
LIABILITIES							
Liabilities to banks	1,214	-	-	-	-	-	**1,214**
Liabilities to customers	322,524	9,891	13,494	45,839	35,067	1,531	**428,346**
Borrowed assets from other clients	50	155	887	2,775	7,419	10,762	**22,048**
Other financial liabilities	-	-	-	54	-	-	**54**
Other liabilities	9,154	332	173	593	2,136	913	**13,301**
Subordinated debt	-	-	-	10,071	4,062	8,123	**22,256**
	332,942	**10,378**	**14,554**	**59,332**	**48,684**	**21,329**	**487,219**

5. RISK MANAGEMENT (Continued)

5.5. Operational risks

Operational risk is the risk of possible adverse effects on the Bank's financial result and equity resulting from omissions (non-intentional and intentional) in employees' work, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, and from the occurrence of unforeseeable external events, including improbable events.

To set up a highly efficient process for identifying, evaluating, monitoring and reducing/controlling operational risk, the Bank has defined the following general categories of operational risks:

1. internal fraud and activities
2. external fraud and activities
3. attitude towards employees and occupational safety
4. clients, products and business practice
5. damage to fixed assets
6. disruption of operations and system failure
7. performance, delivery and management of processes

Guided by best practices, the Bank has defined the principles for setting up a framework for efficient management of operational risks, which relate to:

- establishment of a suitable environment for managing operational risks and
- identification, evaluation, monitoring and control/supervision of operational risks

The identification, evaluation, supervision and control of operational risks at the Bank is carried out on four levels:

First level - Decentralized responsible person for operational risks:

The decentralized responsible person for operational risks is: manager/director/coordinator within each Sector/Division/Department and by all business units/branches/branch offices.
The decentralized responsible person for operational risks must name a deputy for the cases of absence from work. Operational risks are an everyday part of the daily operations of a manager/director/coordinator of each Sector/Division/Department and in all business units/branches/branch offices (everyday monitoring is required for operational risks in the Bank's segments, in all branches of the organizational scheme, along the entire regional network by business units and all lines of business). Everyone is responsible in the part related to their scope of work, and has been assigned responsibilities (which are contained in the hierarchical organizational structure, set out in the existing policies and procedures, and carried out continuously as part of regular business activities).

Second level:

Performed by the Operational Risk Control Department in cooperation with other units inside the Bank, consisting of evaluation, supervision, control and reporting on operational risks.

Third level:

Regular, occasional and extraordinary audits of (operational) risk monitoring, carried out for the purpose of verifying the adherence to internal policies and procedures, and establishing whether there are deviations in the functioning of parts or the entire system of regular risk monitoring.

5. RISK MANAGEMENT (Continued)

5.5. Operational risks (Continued)

Fourth level:

Regular, occasional and extraordinary audits of compliance of operations related to (operational) risks with regulations, carried out by the Department for Monitoring Regulatory Compliance.

Exposure to operational risk is regularly monitored through compliance with the limits prescribed by the Central Bank of Montenegro. The objective of operational risk management is to ensure that the level of operational risk exposure is in accordance with the Risk Management Strategy and the Bank's policies, i.e. minimize losses arising from operational risks.

Proactive identification and risk assessment is performed annually, which is the way exposure to operational risks is assessed, taking into account the possibility or frequency of occurrence, along with their potential impact on the Bank.

5.6 Fair value of financial assets and liabilities

Comparison of fair and book value of financial assets and liabilities:

(in EUR thousand)

	Book value		**Fair value**	
	2021	**2020**	**2021**	**2020**
Financial assets				
Cash and deposits held with central banks	235,881	163,390	235,881	163,390
Financial assets at amortized value				
Loans and placements to banks	43,893	22,060	43,893	22,060
Loans and placements to customers	221,729	215,395	221,729	215,395
Securities	3,552	1,107	3,552	1,107
Other financial assets	1,943	1,786	1,943	1,786
Financial assets at fair value through other comprehensive income				
Securities	139,886	128,150	139,886	128,150
Financial assets held for trading				
Securities	7,465	-	7,465	
Investments in related companies and joint ventures using the capital method	-	-	-	-
Other assets	2,293	2,433	2,293	2,433
	656,642	**534,321**	**656,642**	**534,321**
Financial liabilities				
Financial liabilities disclosed at amortized value				
Deposits due to banks and central banks	1,714	1,214	1,714	1,214
Deposits due to customers	548,259	428,346	548,259	428,346
Borrowed assets from other clients	22,667	22,048	22,667	22,048
Other financial liabilities	396	54	396	54
Other liabilities	16,528	13,301	16,528	13,301
Subordinated debt	17,232	22,256	17,232	22,256
	590,268	**473,918**	**590,268**	**473,918**

5. RISK MANAGEMENT (Continued)

5.6 Fair value of financial assets and liabilities (Continued)

Hierarchy of fair value of financial instruments valued at fair value

Accounting regulations in force in Montenegro define a hierarchy of valuation techniques, based on whether the inputs required by those valuation techniques are available or not. The available inputs reflect the market data obtained from independent sources; the unavailable inputs include the Bank's market assumptions. These two types of inputs have created the following hierarchy of fair values:

- Level 1 – Quoted values (unadjusted) in the active market of those assets and liabilities. This level includes quoted capital instruments.
- Level 2 – Inputs other than quoted values included in Level 1, which are available and pertain to the given asset or liability, either directly (i.e. in the form of prices/values) or indirectly (in the form of conclusions based on prices/values).
- Level 3 – Inputs for assets and liabilities not based on the available market data. This level includes investments in capital under the Bank's market assumptions (there are no available data).

This hierarchy requires the use of available market data when they exist. In the assessment of fair value, the Bank takes into account the available market values whenever possible. As at 31 December 2021, the market prices of securities valued at fair value in the Bank's portfolio in Level 1 and Level 2 were available.

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

(in EUR thousand)

31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
-at fair value through other income	131,789	6,082	2,015	**139,886**
-at fair value through profit and loss	-	7,465	-	**7,465**
Total	**131,789**	**13,547**	**2,015**	**147,351**

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
-at fair value through other income	119,950	5,950	2,250	**128,150**
Total	**119,950**	**5,950**	**2,250**	**128,150**

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

The fair value of securities (classified in Level 1 and Level 2) through other comprehensive income is based on market prices. As at 31 December 2021, the aforementioned market prices of securities were available.

If the prices are not identifiable, either directly or indirectly, for securities (classified in Level 3) through other comprehensive income, the mark-to-model method is used, which is a process of discounting cash flows of a financial instrument by the appropriate discount rate obtained by the creation of a yield curve.

5. RISK MANAGEMENT (Continued)

5.6 Fair value of financial assets and liabilities (Continued)

Hierarchy of fair value of financial instruments not measured at fair value

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

31/12/2021	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and deposits held with central banks	-	235,881	-	235,881
Financial assets at amortized value				
Loans and placements to banks	-	43,893	-	43,893
Loans and placements to customers			221,729	221,729
Securities	3,552	-	-	3,552
Other financial assets	-	-	1,943	1,943
Other assets	-	-	2,293	2,293
Total	**3,552**	**279,774**	**225,965**	**509,291**

31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and deposits held with central banks	-	163,390	-	163,390
Financial assets at amortized value				
Loans and placements to banks	-	22,060	-	22,060
Loans and placements to customers			215,395	215,395
Securities	1,107	-	-	1,107
Other financial assets	-	-	1,786	1,786
Other assets	-	-	2,433	2,433
Total	**1,107**	**185,450**	**219,614**	**406,171**

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

For a part of the Bank's financial instruments, there are no available market prices. In the conditions where there are no available market prices, the fair value is assessed using the discounted cash flow model or other models. Changes in assumptions at the core of the assessments, including the discount rates and estimated cash flows, considerably affect the assessments. Therefore, the determined assessments of fair value may differ from the values achieved in the actual sale of the financial instrument.

In the assessment of fair value of financial instruments for which such value can be established, the following methods and assumptions were used:

Loans and placements to banks

Receivables from other banks include interbank loans and items in the process of collection. The fair value of fixed interest rate loans and overnight deposits is approximately equal to the book value of these financial assets expressed as at the balance sheet date.

5. RISK MANAGEMENT (Continued)

5.6 Fair value of financial assets and liabilities (Continued)

Loans and placements to customers

To determine the fair value of loans to customers with a fixed interest rate expressed at amortized value, a comparison was made between interest rates at which the loans were approved to clients with available information on the prevailing market interest rates in the banking sector of Montenegro, i.e. average weighted interest rates by activity.

The Bank's management believes that the Bank's interest rates to not significantly deviate from the prevailing market interest rates in the banking sector of Montenegro; accordingly, the fair value of loans to clients calculated as the present value of future cash flows discounted using current interest rates, i.e. average weighted interest rates for the banking sector, does not significantly deviate from the disclosed book values of loans as at the date of the report on the financial position.

Securities at amortized value

In the opinion of the Bank's management, the book value at which the above financial instruments were disclosed does not significantly deviate from the fair value of similar instruments in the market as at 31 December 2020.

Financial liabilities

For demand deposits and deposits with remaining maturity less than one year, the assumption is that the estimated fair value does not deviate significantly from the book values. In the opinion of the management, the Bank's interest rates are aligned with the current market interest rates; accordingly, the amounts in the financial statements reflect the real value which, in the given circumstances, most truthfully reflects the fair value of deposits with a fixed interest rate and remaining maturity longer than one year.

5.7 Capital management

Capital management has the following objectives:

- compliance with the prescribed regulations;
- protection of the Bank's ability to maintain a going concern so it would be able to provide payments to shareholders and compensations to other owners, and
- securing the capital to support the further development of the Bank.

The Bank's management controls the capital adequacy using the methodology and limits prescribed by the Central Bank of Montenegro (Official Gazette of Montenegro 60/08, 41/09, 55/12, 44/17, 82/17 and 86/18). The Bank delivers reports on the balance and structure of capital to the Central Bank of Montenegro on a quarterly basis.

The Bank's own assets consist of:

- Tier 1 capital (paid in share capital, retained earnings from the previous years, profit of the current year minus loss);
- Tier 2 capital (reserves formed at the expense of profit after tax: legal, statutory and other reserves, subordinate loan), and
- reduced by intangible investments, missing reserves and direct or indirect investments in another bank or another credit or financial institution in the amount that exceeds 10% of capital of those institutions.

The amount of own funds must always equal or exceed:

a) the minimum monetary part of Tier 1 capital in the amount of EUR 5 million, as prescribed by the Law on Banks;
b) total amount of capital necessary for all risks.

5. RISK MANAGEMENT (Continued)

5.7 Capital management (Continued)

In accordance with the regulations of the Central Bank of Montenegro, the Bank is required to maintain the minimum level of capital adequacy, expressed as the capital solvency ratio of 10%. The Bank is required to align the scope of its operations with the prescribed indicators, i.e. to align the scope and structure of its risk-weighted credits with the Law on Banks and the regulations of the Central Bank of Montenegro. As at 31 December 2021, the solvency ratio calculated by the Bank in the financial statements equalled 16.55% (31 December 2020: 17.62%).

6. INTEREST INCOME, INTEREST EXPENSE AND SIMILAR INCOME AND EXPENSE

(in EUR thousand)

Interest income	**2021**	**2020**
Deposits:		
- Foreign banks	-	-
- Other	-	8
	-	**8**
Loans:		
- Banks	80	80
- Government organizations	138	284
- Government of Montenegro	-	167
- Enterprises	5,911	6,330
- Natural persons	7,369	7,641
Income from fees recognized as interest income:	732	820
Securities	**3,412**	**2,901**
Other interest income:	**1**	**8**
Total interest income:	**17,643**	**18,239**

(in EUR thousand)

Interest expenses	**2021**	**2020**
Deposits:		
- Banks	193	90
- Financial institutions	11	52
- Government organizations	52	64
- Enterprises	213	157
- Natural persons	980	973
	1,449	**1,336**
Loans and other borrowing:	**437**	**485**
Subordinated debt	**1,208**	**1,275**
Leasing operations:	**86**	**104**
Total interest expenses	**3,180**	**3,200**

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

(in EUR thousand)	2021	2020
Net provisions/(reversal of provisions) on accounts of:		
- loans	1,201	3,459
-deposits held with banks	8	4
-Securities	198	21
- off-balance sheet items	(355)	3
- other	327	31
	1,363	**3,518**

7.1. Movements in impairment allowances and provisions

	31 December 2020	New loans - increase in value adjustment	Existing loans - reduction in value adjustment	Existing loans - increase in value adjustment	Closed loans - reversal of value adjustment	31.12.2021
Retail customers	5,027	1,473	(1,279)	1,384	(1,046)	5,559
Corporate clients	9,541	3,741	(1,740)	2,108	(2,765)	10,885
Total	**14,568**	**5,214**	**(3,019)**	**3,492**	**(3,811)**	**16,444**
Receivables from banks	**157**	**111**	**(8)**	**2**	**(148)**	**114**

7. NET GAINS/LOSSES FROM IMPAIRMENT OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

7.2. Changes in provisions

Changes in value adjustment accounts of uncollectible receivables and provisions

(In EUR thousand)

31 December 2020	Loans and placements to banks (note 17.2)	Interest (note 17.2)	Acquired assets (note 21)	Provisions for operational risk, country risk and court disputes (note 23)	Other receivables (notes 17.2 and 21)	Other financial assets	Provisions for off-balance sheet records (note 23)	Impairment of securities (note 18)	Loans and receivables from banks (note 17.1)	Total
Balance at the beginning of the year	14,159	197	667	426	1,024	140	1,092	894	7	18,606
*Impairment during the year, net	3,318	8	-	6	19	(1)	3	21	150	3,524
Reversals/adjustments that had no effect on the income statement	(3,032)	(146)	590	(95)	(16)	-	-	(3)	-	(2,702)
Balance at the end of the year	**14,445**	**59**	**1,257**	**337**	**1,027**	**139**	**1,095**	**912**	**157**	**19,428**

* Changes to provisions contain impairment during the year, which is made up of net income/expenses on account of the impairment of financial instruments (note 7) and costs of provisions (note 8).

(In EUR thousand)

31 December 2021	Loans and placements to banks (note 17.2)	Interest (note 17.2)	Acquired assets (note 21)	Provisions for operational risk, country risk and court disputes (note 23)	Other receivables (notes 17.2 and 21)	Other financial assets	Provisions for off-balance sheet records (note 23)	Impairmen t of securities (note 18)	Loans and receivables from banks (note 17.1)	Total
Balance at the beginning of the year	14,445	59	1,257	337	1,027	139	1,095	912	157	19,428
*Impairment during the year, net	1,530	1	-	4	235	28	(355)	198	(44)	1,597
Reversals/adjustments that had no effect on the costs of impairment and provisions	(307)	630	(169)	-	(486)	-	-	4	-	(328)
Balance at the end of the year	**15,668**	**690**	**1,088**	**341**	**776**	**167**	**740**	**1,114**	**113**	**20,697**

* Changes to provisions contain impairment during the year, which is made up of net income/expenses on account of the impairment of financial instruments (note 7) and costs of provisions (note 8).

8. PROVISIONS

(In EUR thousand)

	2021	2020
Net provisions on account of:		
- litigation	(1)	9
- other	235	(3)
	234	**6**

9. FEE INCOME AND EXPENSE

(in EUR thousand)

Fee income	**2021**	**2020**
Fees under loans	289	316
Fees under off-balance sheet transactions	820	917
Fees for payment services and e-banking	3,113	2,554
Fees for payments abroad	1,614	1,395
Fees for card and ATM operations	8,579	6,671
Other fees and commissions	1,169	968
	15,584	**12,821**

(in EUR thousand)

Fee expense	**2021**	**2020**
Fees to the Central Bank	949	722
Fees for international payment transactions	360	259
Fees for the deposit insurance premium	2,303	2,089
Fees for received loans and guarantees	44	66
Fees for card and ATM operations	5,608	4,489
Other fees and commissions	411	268
	9,675	**7,893**

10. EMPLOYEE EXPENSES

(In EUR thousand)

	2021	2020
Net salaries	2,870	2,822
Taxes, surtax and salary contributions	1,964	1,899
Other net payments to employees	74	78
Severance pay and jubilee awards	25	48
Compensations to the members of the Board of Directors	126	126
Compensations to the members of the Development Board	72	72
Compensations to the members of the Credit Risk Committee	37	36
Compensations to the members of the Investment Committee	7	7
Compensations to the members of the Audit Committee	42	42
Net transport costs	40	40
Travel expenses and per diems	620	310
Training of employees	21	15
Costs of provisions for retirement benefits and jubilee awards (note 23)	3	4
Assistance to employees	26	18
Other expenses	42	34
	5,969	**5,551**

11. GENERAL AND ADMINISTRATIVE EXPENSES

(In EUR thousand)

	2021	2020
Lease costs	405	311
Costs of security of premises and transport of money	568	514
Costs of electricity and fuel	169	153
Cleaning	160	168
Maintenance of computers and equipment	261	255
Taxes related to business premises	7	4
Costs of vehicle maintenance	62	45
Insurance	590	554
Audit and supervision	355	337
Court expenses	-	2
Other professional fees	3	32
Costs of legal services	10	40
Consultancy services	225	291
Costs of intellectual services	190	198
Telephone	104	95
Costs of communications networks	240	129
Postage fees	24	25
Office equipment	175	178
Utilities	20	19
Entertainment costs	695	346
Advertising and marketing	537	378
Subscriptions and donations	255	327
Software maintenance	523	441
Equipment rental	111	135
Processing services	660	442
Costs of card business	159	120
Other expenses	665	530
	7,173	**6,069**

12. AMORTISATION AND DEPRECIATION EXPENSES

(in EUR thousand)	2021	2020
Property and equipment (note 19)	767	849
Intangible investments (note 20)	517	489
Right of use assets (note 19)	1,097	1,204
	2,381	**2,542**

13. OTHER INCOME

(in EUR thousand)	2021	2020
Income from dividends	133	99
Other operating income	-	12
Income from collected written-off receivables	30	113
Other income	73	421
	236	**645**

14. OTHER EXPENSES

(in EUR thousand)	2021	2020
Expenses from the direct write-off of receivables	3	8
Various charges	169	49
Extraordinary costs	41	13
	213	**70**

15. INCOME TAX

a) Components of income tax

(in EUR thousand)	2021	2020
Calculated current tax	476	349
Calculated deferred tax	(11)	(3)
	465	**346**

b) Numerical Reconciliation of Income Tax Recognised in the Income Statement and Profit for the Year Before Tax Multiplied by the Statutory Income Tax Rate

(in EUR thousand)	2021	2020
Income in the income statement before tax	**4,849**	**3,834**
Income tax at the legal rate of 9%	410	324
Tax effects of expenses not recognized for tax purposes	54	12
Other	1	10
Income tax disclosed in the income statement	**465**	**346**
Effective tax rate	**9,58%**	**9,02%**

The tax rate used for 2021 and 2020 was 9%, and applies to taxable income of legal persons in Montenegro, in accordance with the Law on Income Tax.

15. Income tax (Continued)

c) Deferred tax assets and liabilities

(in EUR thousand)	31 December 2021	31 December 2020
Deferred tax assets/liabilities as a result of booked unrealized gains on account of securities available for sale	243	(23)
Deferred tax assets/liabilities on account of a temporary difference between the accounting and tax base for property and equipment	39	27
Deferred tax assets/liabilities as a result of booked actuarial gains/losses on account of provisions for severance pay at retirement (IAS 19)	2	-
	284	**4**

16. CASH AND CASH BALANCES AND DEPOSITS HELD WITH CENTRAL BANKS

(in EUR thousand)	31 December 2021	31 December 2020
Cash in treasury:	**28,843**	**24,723**
-in EUR	26,212	23,590
- in foreign currency	2,631	1,133
Account number	177,001	114,835
Required reserve with the Central Bank of Montenegro	28,931	22,853
Assets in the process of collection	1,106	979
	235,881	**163,390**

The required reserves of the Bank as at 31 December 2021 are allocated funds in accordance with the regulations of the Central Bank of Montenegro, to which the Decision on the Required Reserve of Banks with the Central Bank of Montenegro (Official Gazette of Montenegro 88/17 and 43/20) relates. In view of the above, banks calculate the required reserve on demand deposits and term deposits.

Banks calculate the required reserve using the rate of:

- 5.5% - to the part of principal made up of demand deposits and deposits agreed with the maturity of up to one year, i.e. up to 365 days;
- 4.5% - to the part of principal made up of deposits agreed with the maturity of over one year, i.e. over 365 days.

For deposits agreed with the maturity of over one year, i.e. 365 days, which have the clause on the possibility of early release of those deposits in the term shorter than one year, i.e. within the term shorter than 365 days, the rate of 5.5% is applied.

The required reserve is calculated using the prescribed rates on the appropriate part of the principal during the previous accounting period. The maintenance period is a monthly period from the third Wednesday of the month, which lasts until the date preceding the third Wednesday of the following month.

The Bank allocates the calculated required reserve to the account of the required reserve in the country and/or to the accounts of the Central Bank abroad, and may not allocate it and hold it in another form. The required reserve is allocated in EUR. The funds allocated to the accounts of the Central Bank abroad may not be transferred to other accounts abroad, but may only be transferred to the transaction account of the Bank in the RGTS system.

16. CASH AND CASH BALANCES AND DEPOSITS HELD WITH CENTRAL BANKS (Continued)

On 50% of the assets of the required reserve allocated in accordance with the Decision, the Central Bank pays to the Bank a monthly payment calculated at the EONIA rate minus 10 basis points at the annual level, by the eighth of the month for the previous month, whereby this rate may not be less than zero.

If the Bank plans to withdraw the required reserve funds from the account of the Central Bank abroad, in the amount exceeding EUR 500,000, it is required to announce it and inform the Central Bank thereof in writing, no later than three working days before the date of withdrawal of required reserve funds.

The Bank may use up to 50% of allocated required reserve funds for the maintenance of daily liquidity. The Bank does not pay a fee for the used amount of the required reserve it returns on the same day. For the amount of required reserve assets it does not return on the same day, the Bank is required to pay a monthly fee at the rate specified by a special regulation of the Central Bank.

When the Central Bank ascertains that the Bank has improperly calculated and/or allocated the required reserve, or that it has not allocated it in the prescribed deadline, or that it does not maintain the prescribed amount of the required reserve, the Bank is required to pay a monthly fee for the established amount of improperly calculated or untimely allocated required reserve, at the rate specified by a special regulation of the Central Bank.

17. FINANCIAL ASSETS AT AMORTIZED COST

17.1. Loans and placements to banks

(In EUR thousand)

	31 December 2021	31 December 2020
Correspondent accounts with foreign banks	38,907	17,209
Deposits with banks and other deposit institutions, non-residents	98	5
Loans to banks	5,002	5,003
	44,007	**22,217**
Less		
Impairment of loans and receivables from banks	(114)	(157)
	43,893	**22,060**

	Account 31 December 2020	Changes during the year	Account 31 December 2021
Allowance for impairment of loans and placements to banks (Note 7.2)	(157)	43	(114)

17. FINANCIAL ASSETS AT AMORTIZED COST (Continued)

17.2 Loans and placements to customers

In EUR thousand

	31 December 2021	31 December 2020
Matured loans:		
- municipalities (public organizations)	-	2
- privately owned companies	3,391	2,293
- companies with majority state ownership	-	-
- natural persons	1,641	1,303
- Other	10	14
Short-term loans:		
- Government of Montenegro	-	-
- municipalities (public organizations)	-	103
- privately owned companies	32,605	27,047
- companies with majority state ownership	-	-
- natural persons	4,100	3,192
- Other	642	1,081
Long-term loans		
- Government of Montenegro	-	-
- municipalities (public organizations)	44	95
- privately owned companies	91,922	93,718
- companies with majority state ownership	2,283	2,884
Retail customers	97,233	95,326
- Other	2,456	2,279
	236,327	**229,337**
Interest receivables:		
- loans	925	202
Accruals:		
- interest on loans	1,252	1,142
- Fee	(811)	(733)
Factoring	-	5
Deposits with other deposit institutions	-	-
Failed guarantees	480	10
	1,846	**626**
	238,173	**229,963**
Less:		
Allowance for impairment of loans, failed guarantees and factoring (note 7.2)	(15,667)	(14,445)
Impairment of interest (note 7.2)	(690)	(59)
Impairment of accruals (note 7.2)	(87)	(64)
	(16,444)	**(14,568)**
	221,729	**215,395**

17. FINANCIAL ASSETS AT AMORTIZED COST (Continued)

17.2. Loans and placements to customers (Continued)

Concentration by activity of total loans extended to clients by the Bank is as follows:

(In EUR thousand)

	31 December 2021	31 December 2020
Agriculture, forestry and fishing	2,276	3,256
Mining	4,651	4,047
Manufacturing	7,047	9,996
Water supply	741	361
Construction	24,007	26,128
Trade	37,321	32,171
Transportation and storage	5,977	8,686
Accommodation and food services	17,846	20,755
Information and communications	1,227	1,355
Financial activities and insurance	2,526	700
Real estate trade	3,829	3,722
Professional, scientific and technical activities	4,256	2,762
Administration and auxiliary services	1,679	2,131
State administration and defence and compulsory social insurance	-	-
Education	177	132
Health and social protection	631	239
Arts, entertainment and recreation	769	298
Other services	7,365	2,264
Non-residents - legal persons	1,162	1,194
Retail customers	98,242	95,198
	221,729	**215,395**

17. FINANCIAL ASSETS AT AMORTIZED COST (Continued)

17.2. Loans and placements to customers (Continued)

Changes to loans and receivables from clients and value adjustment are presented in the following tables:

LOANS	Level 1	Level 2	Level 3	POCI	Total
31 December 2020	**99,533**	**73,045**	**48,848**	**8,537**	**229,963**
New receivables	56,186	29,858	26,496	-	112,540
Transfer from Level 1	(10,205)	8,772	1,433	-	-
Transfer from Level 2	4,788	(15,728)	10,940	-	-
Transfer from Level 3	70	285	(355)	-	-
Collection (reduction in existing loans)	(14,553)	(8,892)	(10,531)	(4,036)	(38,012)
Increase in existing loans	1,032	1,008	2,695	32	4,767
Closed	(29,986)	(26,542)	(13,702)	(357)	(70,587)
Write-off	(119)	(16)	(363)	-	(498)
31 December 2021	**106,746**	**61,790**	**65,461**	**4,176**	**238,173**

ADJUSTMENTS	Level 1	Level 2	Level 3	POCI	Total
31 December 2020	**(1,876)**	**(4,150)**	**(6,899)**	**(1,643)**	**(14,568)**
New receivables	(825)	(1,785)	(2,603)	-	(5,213)
Transfer from Level 1	160	(132)	(28)	-	-
Transfer from Level 2	(354)	891	(537)	-	-
Transfer from Level 3	(9)	(47)	56	-	-
Collection (reduction in existing adjustments)	710	659	952	700	3,021
Increase in existing adjustments	(45)	(1,143)	(2,291)	(11)	(3,490)
Closed	593	1,589	1,397	41	3,620
Write-off	3	2	181	-	186
31 December 2021	**(1,643)**	**(4,116)**	**(9,772)**	**(913)**	**(16,444)**

As at 31 December 2021, the Bank's portfolio on individual allowance for impairment equalled EUR 118,928 thousand (2020: EUR 102,698 thousand), and on collective allowance for impairment - EUR 119,245 thousand (2020: EUR 127,265 thousand).

As at 31 December 2021, the allowance for impairment of the portfolio on individual value adjustment equalled EUR 11,327 thousand (2020: EUR 9,515 thousand), and for the portfolio on collective allowance for impairment - EUR 5,117 thousand (2020: EUR 5,053 thousand).

As at 31 December 2021, there were 528 credit sub-accounts in individual adjustment (2020: 449), and 58,725 credit sub-accounts in collective adjustment (2020: 42,011).

17. FINANCIAL ASSETS AT AMORTIZED COST (Continued)

17.3 Securities at amortized cost

(In EUR thousand)

	31 December 2021	31 December 2020
Debt securities		
Non-residents	3,562	1,107
	3,562	**1,107**

Changes in allowance for impairment of securities

(In EUR thousand)

	Balance as at 31 December 2020	Additions	Balance as at 31 December 2021
Allowance for impairment of securities measured at amortised cost	-	(10)	(10)

Securities classified as financial assets at amortized cost as at 31 December 2021 in the amount of EUR 3,562 thousand pertain to bonds in the nominal value of EUR 3,511 thousand. The above bonds are maturing in the period from February 2022 to December 2025, with the interest rate ranging between 0.3340% and 6.75%.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND HELD FOR TRADING

18.1 Securities at fair value through other comprehensive income

(In EUR thousand)

	31 December 2021	31 December 2020
Debt securities		
Government of Montenegro	78,198	85,387
Non-residents	55,202	35,161
	133,400	**120,548**
Equity securities		
Residents	187	179
Non-residents	6,299	7,423
	6,486	**7,602**
	139,886	**128,150**

Changes in the allowance for impairment of securities:

(In EUR thousand)

	Balance as at 31 December 2020	Additions	Balance as at 31 December 2021
Allowance for impairment of securities at fair value through other comprehensive income	(912)	(192)	(1,104)

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND HELD FOR TRADING (Continued)

18.1. Securities at fair value through other comprehensive income (Continued)

Securities classified as financial assets at fair value through other comprehensive income as at 31 December 2021 in the amount of EUR 78,198 thousand pertain to government bonds of Montenegro and Montenegro government Eurobonds in the nominal value of EUR 80,096 thousand.

The Eurobonds mature between 2025 and 2029, with the coupon interest rate at the level: 3.375% for the series maturing in 2025, 2.875% for the series maturing in 2027 and 2.55% for the series maturing in 2029, and have the nominal value of EUR 56,000 thousand. Government bonds mature in 2024, with the coupon interest rate of 3.00%, and have the nominal value of EUR 22,625 thousand.

Debt securities - non-residents, which are classified as financial assets at fair value through other comprehensive income as at 31 December 2021 in the amount of EUR 55,202 thousand mature in the period from February 2022 to April 2032, with the interest rate ranging from 0.3340% to 7.25%.

Equity securities classified as financial assets at fair value through other comprehensive income as at 31 December 2021 in the amount of EUR 6,486 thousand pertain to stakes in bond investment funds in the amount of EUR 6,082 thousand and investments in shares of companies in the amount of EUR 404 thousand.

18.2. Securities held for trading

(In EUR thousand)

	31 December 2021	31 December 2020
securities		
Residents	-	-
Non-residents	7,465	-
	7,465	**-**

Securities classified as financial assets at fair value through profit or loss as at 31 December 2021 in the amount of EUR 7,465 thousand pertain to stakes in short-term bond investment funds.

19. PROPERTY, PLANT AND EQUIPMENT

Trends in property, equipment and other assets for 2021 and 2020 are shown in the following table:

	Buildings	Computer equipment	Other equipment	Construction in progress	Right of use assets	Total
Cost						
Balance as at 1 January 2020	-	1,565	5,562	152	4,289	**11,568**
Additions	-	207	409	245	-	**861**
Modification of lease period	-	-	-	-	931	**-**
Transfer	-	220	115	(335)	-	**-**
Sales, disposals and termination of agreements	-	(112)	(681)	-	(140)	**(933)**
31 December 2020	**-**	**1,880**	**5,405**	**62**	**5,080**	**12,427**
Additions	-	109	391	71	1,213	**1,784**
Modification of lease period	-	-	-	-	(456)	**(456)**
Transfer	-	17	83	(100)	-	**-**
Sales, disposals and termination of agreements	-	(300)	(391)	(5)	(1,525)	**(2,221)**
As at 31 December 2021	**-**	**1,706**	**5,488**	**28**	**4,312**	**11,534**
Value adjustment						
As at 1 January 2020	-	1,269	3,658	-	**-**	**4,927**
Depreciation (note 12)	-	269	580	-	1,204	**2,053**
Sales, disposals and termination/modification of agreements	-	(111)	(656)	-	**-**	**(767)**
31 December 2020	**-**	**1,427**	**3,582**	**-**	**1,204**	**6,213**
Accumulated depreciation (note 12)	-	248	519	-	1,097	**1,864**
Sales, disposals and termination/modification of agreements	-	(300)	(174)	-	(878)	**(1,352)**
As at 31 December 2021	**-**	**1,375**	**3,927**	**-**	**1,423**	**6,725**
Carrying value:						
31 December 2021	**-**	**331**	**1,561**	**28**	**2,889**	**4,809**
31 December 2020	**-**	**453**	**1,823**	**62**	**3,876**	**6,214**

As at 31 December 2021, the Bank has no assets pledged as collateral for the repayment of loans and other liabilities.

Construction in progress mostly relates to payments concerning the conceptual design of the administration building in the amount of EUR 21 thousand, purchase and installation of ATMs in the amount of EUR 3 thousand, and purchase of stands for POS terminals in the amount of EUR 4 thousand.

20. INTANGIBLE ASSETS

Intangible assets largely consist of licences and software. In the overview that follows, movements in intangible assets in 2021 and 2020 are shown:

	Other intangible investments	Licences	Software	Intangible assets under construction	Total
Cost					
As at 1 January 2020	321	1,220	2,935	65	4,541
Additions	-	66	251	204	521
Transfer	-	-	107	(153)	46
Sales and disposals	-	-	(43)		(43)
31 December 2020	**321**	**1,286**	**3,250**	**116**	**4,973**
Additions	-	50	300	203	553
Transfer	-	-	189	(213)	(24)
Sales and disposals	-	-	-	(35)	(35)
As at 31 December 2021	**321**	**1,336**	**3,739**	**71**	**5,467**
Accumulated amortisation					
As at 1 January 2020	321	370	1,813	-	2,504
Amortization (note 12)	-	98	391	-	489
Sales and disposals	-	-	(39)	-	(39)
31 December 2020	**321**	**468**	**2,165**	**-**	**2,954**
Amortization (note 12)	-	102	415	-	517
Sales and disposals	-	-	-	-	-
As at 31 December 2021	**321**	**570**	**2,580**	**-**	**3,471**
Carrying value:					
31 December 2021	**-**	**766**	**1,159**	**71**	**1,996**
31 December 2020	**-**	**818**	**1,085**	**116**	**2,019**

Increases in intangible assets in 2021 mainly relate to the increase in software, i.e. implementation of new applications in the application software Dabar in the amount of EUR 383 thousand, along with new services, functions and software improvements related to card and electronic banking in the amount of EUR 70 thousand.

Intangible assets under construction amount to EUR 71 thousand. These investments mostly pertain to software projects related to card and ATM operations.

In accordance with IAS 38, the Bank does not depreciate licences with unlimited lifetimes. Useful life is reviewed at the end of every reporting period.

21. OTHER ASSETS

(In EUR thousand)

	31 December 2021	31 December 2020
Repossessed assets	1,105	1,275
Prepaid costs	689	771
Receivables from custody operations	48	46
Advance payments	190	203
Fees and commissions receivable	268	247
Receivables from government funds	108	65
Receivables from buyers	134	224
Receivables from card operations	685	707
Receivables from employees	304	77
Other financial receivables	35	70
Other operating receivables	504	968
Impairment of other assets	(1,777)	(2,220)
	2,293	**2,433**

Repossessed assets in the amount of EUR 1,105 thousand as at 31 December 2021 (31 December 2020: EUR 1,275 thousand) pertain to assets acquired from the activation of loan collateral, which has been in the Bank's ownership for over 12 months. Repossessed assets are recorded at the lower of the total value of receivables and estimated value.

Allowance for impairment of other assets mostly relates to acquired assets in the amount of EUR 1,088 thousand (31 December 2020: EUR 1,257 thousand) and EUR 689 thousand for the value adjustment from business relations (31 December 2020: EUR 963 thousand).

22. FINANCIAL LIABILITIES AT AMORTIZED COST

22.1. DEPOSITS DUE TO BANKS AND CENTRAL BANKS

(In EUR thousand)

	31 December 2021	31 December 2020
Demand deposits	1,670	1,169
Term deposits	44	45
	1,714	**1,214**

Deposits due to banks in the amount of EUR 1,714 thousand as at 31 December 2021 (31 December 2020: EUR 1,214 thousand) relate to term and demand deposits, of which EUR 610 thousand relates to demand deposits from domestic banks, and EUR 1,060 thousand to demand deposits of foreign banks.

22. FINANCIAL LIABILITIES AT AMORTIZED COST (Continued)

22.2. DEPOSITS DUE TO CUSTOMERS

(In EUR thousand)

	31 December 2021	31 December 2020
Demand deposits:		
- financial institutions	2,181	1,174
- privately owned companies	145,754	121,188
- companies with majority state ownership	44,936	16,621
- municipalities (public organizations)	4,960	2,710
- funds	450	713
Retail customers	198,479	146,016
- non-profit organisations;	8,793	7,926
- Government of Montenegro	7,294	3,775
- Other	10,119	12,069
	422,966	**312,192**
Assets in the escrow account:	**4,384**	**2,188**
Short-term deposits:		
- financial institutions	900	1,200
- privately owned companies	4,391	5,490
- companies with majority state ownership	7,120	3,000
- municipalities (public organizations)	600	650
Retail customers	47,994	41,321
- non-profit organisations;	76	-
- Government of Montenegro	302	5,108
- Other	1,450	1,450
	62,833	**58,219**
Long-term deposits:		
- financial institutions	3	3
- privately owned companies	17,460	20,271
- companies with majority state ownership	-	-
- municipalities (public organizations)	572	654
Retail customers	37,972	32,887
- non-profit organisations;	57	59
- Government of Montenegro	150	251
- Other	2	5
	56,216	**54,130**
Interest liabilities and other liabilities	-	-
Accruals - deposits:	**1,860**	**1,617**
	548,259	**428,346**

Demand deposits of natural persons in EUR were deposited with the interest rate of 0.01% annually.

Short-term and long-term deposits of natural persons in EUR were deposited with the interest rate ranging between 0% and 6.30% annually, depending on the selected savings package and the deposited amount (up to EUR 50 thousand and over EUR 50 thousand). Short-term and long-term deposits of natural persons in foreign currency were deposited depending on the currency, with the interest rate ranging from 0% to 1.20% annually.

22. FINANCIAL LIABILITIES AT AMORTIZED COST (Continued)

22.3. BORROWINGS FROM CLIENTS OTHER THAN BANKS

Short-term and long-term deposits of companies in EUR were deposited with the interest rate ranging between 0% and 2.50% annually, depending on the duration of the term and the deposited amount (up to EUR 100 thousand and over EUR 100 thousand). For short-term and long-term deposits in other currencies, the interest rate is 0.25%.

For demand deposits of legal persons, interest is calculated at 0% to 0.40% annually.

(In EUR thousand)

	Period (year)	Annual interest rate	31 December 2021	31 December 2020
European Investment Bank (2009)	12	4.032%	-	297
European Investment Bank (2009)	12	3.923%	-	165
European Investment Bank (2010)	12	3.604%	236	695
European Investment Bank (2010)	12	3.168%	231	454
European Investment Bank (2010)	12	3.019%	227	447
European Investment Bank (2011)	12	3.841%	544	889
European Investment Bank (2011)	12	3.181%	195	288
European Investment Bank (2012)	12	2.398%	623	822
European Bank for Reconstruction and Development (2020.)	2.5	2.860%	3,333	5,000
Green For Growth Fund, See S.A. 2021	6.11	2,200%	3,500	-
			8,889	**9,057**
Investment and Development Fund of Montenegro A.D. Podgorica (2014 to 2021)	3.10 – 15.3	1% – 5.78%	11,175	12,910
Directorate for Development of Small and Medium Sized Enterprises (2007 and 2010)	7.6	1%	50	50
Ministry of Finance (2021)	9	0%	2,531	-
			13,756	**12,960**
			22,645	**22,017**
Accruals				
Interest not due			22	31
Total			**22,667**	**22,048**

As at 31 December 2021, the Bank has liabilities to the European Investment Bank (EIB) on account of long-term loans in the amount of EUR 2,056 thousand (31 December 2020: EUR 4,057 thousand). The loans were approved to encourage the development of small and medium-sized enterprises in Montenegro, with the grace period of up to two years. Collateral for orderly repayment of the above liabilities to the EIB is the guarantee of the Government of Montenegro. The Bank does not have the obligation to fulfil financial covenants for the loans taken from the EIB.

As at 31 December 2021, liabilities under loans and borrowings in the amount of EUR 11,175 thousand (31 December 2020: EUR 12,910 thousand) pertain to liabilities to the Investment and Development Fund of Montenegro a.d. Podgorica under multiple long-term loans. The interest rate ranges from 1% to 5.78%. The approved maturity rate ranges from 3 to 15 years. Under the above loans, the Bank does not have the obligation to fulfil financial indicators.

In 2020 the Bank also signed an agreement with the EBRD in the amount of EUR 5,000 thousand, by which it secured aid to small and medium-sized enterprises affected by the pandemic of the novel coronavirus. Under this loan, the Bank has the obligation to fulfil certain financial covenants, and the requirements were met on 31 December 2021.

22. FINANCIAL LIABILITIES AT AMORTIZED COST (continued)

22.3. BORROWINGS FROM CLIENTS OTHER THAN BANKS (continued)

In 2021 the Bank also signed a loan agreement with the Green for Growth Fund in the amount of EUR 7,000 thousand. The assets from the above loan agreement are intended for the financing of the construction and upgrade of energy efficient structures. The disbursement is made in two tranches of EUR 3,500 thousand each, where the first tranche was disbursed in December 2021, and the disbursement of the second tranche is planned for April 2022, with a grace period of 18 months. The final deadline for loan repayment is December 2028. Under this loan, the Bank has the obligation to fulfil certain financial covenants; the requirements were met on 31 December 2021.

In 2021 the Bank signed an agreement with the Ministry of Finance and Social Welfare of the Government of Montenegro, which, in cooperation with the Council of Europe Development Bank (CEB), initiated the programme for stimulating the recovery of the economy from the negative effects of the COVID-19 pandemic. In accordance with the programme/agreement, the Bank provides 50% of the funds for financing the loan at market interest rates, while the Ministry of Finance and Social Welfare provides the remaining 50% of the funds at an interest rate of 0.00%. The Bank does not have the obligation to fulfil financial covenants under this loan.

23. RESERVES

(In EUR thousand)

	31 December 2021	31 December 2020
Provisions for potential losses on account of:		
- off-balance sheet exposures (note 7.2)	740	1,095
- operational risk and country risk (note 7.2)	316	310
- court disputes (note 7.2)	25	27
Provisions for retirement benefits and jubilee awards	46	21
	1,127	**1,453**

Assessment as at

	31 December 2021	31 December 2020
Discount rate – for retirement benefits	2.88%	2.88%
Workforce trends	3.96%	4.66%
Inflation/deflation rate	2.41%	(0.26%)

Trends in provisions for compensations to employees are presented in the following table:

(in EUR thousand)

	2021	2020
Balance at the start of the year	21	17
Provisions during the year (note 10)	3	4
Provisions during the year (net effect recorded in capital)	23	-
Use of provisions	(1)	-
As at 31 December	**46**	**21**

24. OTHER LIABILITIES

(In EUR thousand)

	31 December 2021	31 December 2020
Liabilities from consignment operations	625	185
Advances received	3,305	2,820
Liabilities for other taxes	50	47
Liabilities on account of payroll	22	30
Liabilities to suppliers	777	464
Calculated liabilities	382	393
Lease liabilities – right of use assets	2,908	3,866
Liabilities for custody operations	5,417	3,865
Temporary account	2,229	798
Other liabilities	813	833
	16,528	**13,301**

Lease liabilities (in EUR thousand)

	Business premises	Technical equipment	Total
As at 1 January 2021	**2,796**	**1,070**	**3,866**
New additions	187	-	187
Interest expense	55	21	76
Termination of agreements	-	-	-
Modification of the lease price	(468)	378	(90)
Lease payments	(780)	(351)	(1,131)
As at 31 December 2021	**1,790**	**1,118**	**2,908**

Maturity of lease liabilities (in EUR thousand)

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Lease liabilities	217	560	2,000	131	**2,908**

25. SHARE CAPITAL

Based on decisions of the Extraordinary Shareholders' Assembly held on 21 December 2021, the Bank performed the following corporate activities:

a) Share split, Decision No 02-26018/3 of 21 December 2021, by which the shares were split in the ratio 1:100. On this basis, the previous shares (31,305 shares, with the individual nominal value of EUR 511.2900) were annulled, and new shares were issued upon the split, B series, so that the entire share capital was divided into 3,130,500 shares with the individual nominal value of EUR 5.1129.
b) The issue of shares on account of conversion of retained earnings into capital, Decision No 02-26018/5 of 21 December 2021, which allocated the amount of retained earnings of EUR 28,912,789.9359 to shareholders through the issue of new shares, whereby 5,654,871 shares of C series were issued with the individual nominal value of EUR 5.1129. According to the adopted Decision, the shares were allocated to the persons who held shares on the date of adoption of this decision, and the shares were divided proportionately to their participation in the Bank's capital.
c) The issue of shares on account of conversion of share premium into capital, Decision No 02-26018/7 of 21 December 2021, which allocated the amount of share premium of EUR 7,443,242.2233 to shareholders through the issue of new shares, whereby 1,455,777 shares of D series were issued with the individual nominal value of EUR 5.1129. According to the adopted Decision, the shares were allocated to the persons who held shares on the date of adoption of this decision, and the shares were divided proportionately to their participation in the Bank's capital.

After the completion of corporate activities, the Bank's share capital amounted to EUR 52,361,965.61, and was divided into 10,241,148 shares with the nominal value of EUR 5.1129.

The ownership structure of the Bank as at 31 December 2021 and 2020 is presented in the following overview:

	31 December 2021			31 December 2020		
Name of shareholder	**Number of shares**	**(in EUR thousand)**	**% of share**	**Number of shares**	**(in EUR thousand)**	**% of share**
Generali Financial Holdings FCP-FIS Sub-Fund 2	-	-	-	5,281	2,700	16.87
Hipotekarna banka AD Podgorica/HB – Cumulative custody account 1	3,053,899	15,614	29.82	-	-	-
Cerere s.p.a.	870,205	4,449	8.50	4,360	2,229	13.93
Gorgoni Lorenzo	1,329,189	6,796	12.98	4,063	2,077	12.98
Gorgoni Antonia	1,024,290	5,237	10.00	3,131	1,601	10.00
Ibis SRL	498,568	2,549	4.87			
Todorović Miljan				2,316	1,184	7.40
Other	3,464,997	17,717	33.83	12,154	6,215	38.82
Total	**10,241,148**	**52,362**	**100.00**	**31,305**	**16,006**	**100.00**

26. SUBORDINATED DEBT

Overview of the state of subordinated debt as at 31 December 2021 and 2020 is presented in the following overview:

In EUR thousand

In	Year of debt issuance	Period/ years	Annual interest rate	31 December 2021	31 December 2020
HB01 subordinated bonds	2014	7	6.00%	-	10,022
HB02 subordinated bonds	2017	6	5.90%	4,080	4,087
HB03 subordinated bonds	2019	6	5.00%	8,163	8,147
HB04 subordinated bonds	2021	6	4.50%	4,989	-
				17,232	**22,256**

In December 2021, the first series of HB01 subordinated bonds matured, in the amount of EUR 10,000 thousand. In late December 2021, the Bank issued the fourth series of subordinated bonds in the amount of EUR 5,000 thousand, which will mature in January 2028.

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

The Bank is required to align the scope of its operations with the prescribed indicators, i.e. to align the scope and structure of its risk-weighted loans with the Law on Banks and the regulations of the Central Bank of Montenegro.

In accordance with the Decision on Capital Adequacy of Banks (Official Gazette of Montenegro 38/11, 55/12 and 82/17), the Bank's own assets are the sum of the Bank's Tier 1 and Tier 2 capital, reduced by deductibles. As at 31 December 2021, the Bank's own assets amounted to EUR 54,214 thousand (31 December 2020: EUR 51,092 thousand).

The Bank's Tier 1 capital, formed in accordance with the Decision on Capital Adequacy of Banks, as at 31 December 2021 amounted to EUR 42,014 thousand (31 December 2020: EUR 41,492 thousand). The Bank's Tier 1 capital as at 31 December 2021 consisted of the main elements of the Bank's own assets: paid share capital at nominal value, charged issue premium, increased by the amount of retained earnings from the previous years, the amount mitigating the negative effects on the Bank's own assets on account of the transfer to the valuation of asset items using IFRS 9, specified in accordance with paragraphs 5 and 6 of Article 4 of the Decision on Capital Adequacy of Banks, the amount of intangible assets and unrealized losses on account of value adjustment of financial assets available for sale, at fair value, and the positive difference between the amount of calculated provisions for potential losses and the sum of value adjustment for items of balance sheet assets and provisions for off-balance sheet items.

The supplementary elements of own assets that are included in Tier 2 capital as at 31 December 2021 amounted to EUR 12,200 thousand and consist of subordinated debt for which the requirements from Article 6 of the Decision on Capital Adequacy of Banks are fulfilled, i.e. subordinated bonds issued by the Bank, with the nominal value of EUR 17,000 thousand, whereby, in accordance with Article 8 of the Decision the Bank is required to adhere to the following ratios when calculating own assets:

1) the total amount of Tier 2 capital must not exceed the amount of Tier 1 capital of the Bank;
2) the total sum of subordinated debt and cumulative preference shares must not exceed 50% of Tier 1 capital.

27. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO (Continued)

In accordance with the Decision on Capital Adequacy of Banks, in effect on 31 December 2021, the Bank is required to maintain the minimum level of the solvency ratio of 10%. As at 31 December 2021, the solvency ratio of the Bank equalled 16.55% (31 December 2020: 17.62%), which exceeds the prescribed minimum. As at 31 December 2021, no business indicator of the Bank's operations deviated from the prescribed minimum, as required by the legal regulations of the Central Bank of Montenegro.

		Achieved business indicators	
(in EUR thousand)	**Prescribed limits**	**2021**	**2020**
Capital	Minimum amount of initial capital of EUR 5 million	55,344	53,544
Solvency ratio	Minimum 10%	16.55%	17,62%
Total exposure of the Bank to a single person or group of related persons	Maximum 25% of the Bank's own assets	18%	15%
Sum of all large exposures of the Bank	Maximum 800% of the Bank's own assets	115%	107%
Total exposure to all persons related to the Bank	Maximum 200% of the Bank's own assets	15%	14%
Total exposure to a shareholder without a qualified participation in the Bank	Maximum 10% of the Bank's own assets	7%	7%
Minimum liquidity indicator	0.9 on a daily level/1 on a ten-day level	RLS 2.82 / DPL 2.82	RLS 2.42 / DPL 2.42
Foreign exchange risk - net open position for individual currency	15% of the Bank's Tier 1 capital	0%	1%

28. OFF-BALANCE SHEET ITEMS

(In EUR thousand)

	31 December 2021	**31 December 2020**
Undrawn credit lines	29,684	18,540
Irrevocable documentary letters of credit issued for payments abroad	-	-
Other letters of credit issued for payments abroad	298	249
Issued guarantees		
- Issued payable guarantees	30,074	27,311
- Issued performance bonds	21,597	27,567
- Other guarantees	15,688	19,431
	97,341	**93,098**
Collateral on receivables (Note 5.2.4.2)	491,175	488,116
Other items of the Bank's off-balance sheet exposure	288,733	171,829
Broken-period interest	112	635
Total	**780,020**	**660,580**
Total	**877,361**	**753,678**

Other types of guarantees include tender, customs and advance types of guarantees.

28. OFF-BALANCE SHEET ITEMS (Continued)

Other items of off-balance sheet exposure of the Bank mostly relate to received credit obligations under custody operations in the amount of EUR 286,520 thousand (2020: EUR 151,579 thousand) and written-off receivables from internal records - EUR 2,213 thousand (2020: EUR 2,183 thousand).

Received credit obligations under custody and brokerage operations include the received credit obligations under custody operations in the amount of EUR 233,108 thousand (2020: EUR 97,015 thousand) and received credit obligations under brokerage operations in the amount of EUR 53,412 thousand (2020: EUR 54,564 thousand).

29. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents are used for recognizing all assets with the maturity under three months, specifically: cash and free available assets with the Central Bank of Montenegro, other banks and deposit institutions.

(In EUR thousand)

	31 December 2021	**31 December 2020**
Cash on hand in EUR	26,212	23,590
Cash on hand in foreign currency	2,631	1,133
Assets in the process of collection	1,106	979
Account number	177,001	114,835
Correspondent accounts with foreign banks	38,907	17,209
Required reserve with the Central Bank of Montenegro	28,931	22,853
	274,788	**180,599**

30. RELATED PARTY TRANSACTIONS

The Law on Banks (Official Gazette of Montenegro 17/08, 44/10, 40/11 and 73/17) defines that a significant influence on the Bank's operations is exerted by persons which place at least one representative to the Board of Directors or similar body, either through ownership of shares, based on agreement with the owners, or otherwise. In accordance with the Law on Banks, transactions with related persons are presented in the following tables:

	31 December 2021	31 December 2020
ASSETS		
Loans and placements to banks		
Podravska Banka d.d., Koprivnica	120	15
	120	**15**
Loans and placements to customers		
Montinari Dario	561	531
Montinari Andrea	3,581	3,526
Gorgoni Mario	10	8
The Bank's employees	2,271	2,159
	6,423	**6,224**
Investment securities - available for sale		
Podravska Banka d.d., Koprivnica	2,015	2,251
	2,015	**2,251**
Other financial receivables		
Sigilfredo Montinari	3	7
	3	**7**
Total assets	**8,561**	**8,497**
Liabilities		
Deposits due to banks		
Podravska Banka d.d., Koprivnica	261	432
	261	**432**
Deposits due to customers		
Miljan Todorović	286	332
Sigilfredo Montinari	47	47
Gorgoni Lorenzo	-	-
Cerere s.p.a.	14	1
Gorgoni Mario	20	21
Gorgoni Paolo	2	2
Employees	1,202	1,299
	1,571	**1,702**
Other liabilities		
Sigilfredo Montinari	16	24
Podravska Banka d.d., Koprivnica	-	-
Employees	95	286
	111	**310**
Total liabilities	**1,943**	**2,444**

Expenses from transactions with related persons with a significant influence on the Bank's operations in 2021 amounted to EUR 192 thousand (2020: EUR 188 thousand), while revenues amounted to EUR 241 thousand (2020: EUR 142 thousand).

31. LITIGATIONS

As at 31 December 2021, there were 28 court disputes ongoing against the Bank, initiated by legal and natural persons. The total value of damage claims is EUR 1,369 thousand. The outcome of the disputes cannot be reliably estimated at the moment. Given that the Bank's management, based on the opinion of a legal advisor, does not expect negative outcomes of disputes that could have material effects on the Bank's financial statements for 2021, no provisions were formed. The total amount of court disputes as at 31 December 2021, in which the Bank is the plaintiff, equalled EUR 11,501 thousand.

32. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit belonging to the Bank's shareholders with the weighted average number of ordinary shares in circulation for the period.

	2021	2020
Basic and diluted earnings per share		
Net profit in EUR thousand	4,384	3,488
Weighted average number of ordinary shares in circulation	10,241,148	9,559,012
Earnings per share in EUR	0.43	0.36

In 2021 the Bank performed a share split and issued new shares by turning retained earnings and share premium into capital (note 25).

International Accounting Standard 33 – Earnings per Share, requires that if the number of ordinary shares in circulation increases due to capitalization, bonus issue or share split, or it decreases due to a reverse share split (consolidation), the calculation of earnings per share is retroactively corrected for all presented periods.

In line with the above requirement, the Bank has performed the new calculation of earnings per share for the comparative period.

33. TAX RISKS

The tax laws of Montenegro are often interpreted in different ways and are subject to frequent amendments. The interpretation of tax laws by tax authorities relative to the Bank's transactions and activities may differ based on the interpretation by the Bank's management. As a result of the above, transactions may be disputed by tax authorities and the Bank may be charged an additional amount of taxes, penalties and interest. Tax liabilities are valid for five years. This practically means that tax authorities have the right to order the payment of outstanding liabilities within five years of the occurrence of the liability. The Bank's management believes that the tax liabilities recorded in the attached financial statements are correctly disclosed.

34. EVENTS AFTER THE REPORTING DATE

As at the date of issuance of these financial statements, the impact of the COVID-19 pandemic is ongoing. With a strong capital and liquidity position, the Bank actively follows the development of events and assesses the impact on its operations, financial results, financial position and cash flows.

As of 1 January 2022, new banking regulations are in effect, specifically the Law on Credit Institutions and accompanying bylaws, which entail the application of new banking standards aimed at the strengthening of capital requirements for banks, forming a framework for new regulatory requirements related to liquidity, and additional capital requirements for systemically important financial institutions.

As at the date of publishing of these statements, the Bank has not identified any significant events that would require corrections of the attached financial statements.

35. EXCHANGE RATES

The official exchange rates used to convert foreign currency items in the balance sheet into EUR on 31 December 2021 and 2020 were:

	2021	**2020**
USD	1.1334	1.2281
CHF	1.0363	1.0857
GBP	0.8393	0.90307

36. GENERAL INFORMATION ABOUT THE BANK

In accordance with the Decision on the Content, Deadlines and Manner of Preparing and Submitting Financial Statements of Banks (Official Gazette of Montenegro 15/12, 18/13 and 24/18), the basic information about the Bank is as follows:

Name:	Hipotekarna banka AD, Podgorica
Address	Josipa Broza Tita no. 67, 81000 Podgorica
Registration number:	02085020
Telephone:	+382 77 700 001
Website:	http://www.hipotekarnabanka.com
Email address:	hipotekarna@hb.co.me
Number of branches:	The Bank has the head office and 21 branches and branch offices.
Number of employees as at 31 December 2021	225
Account number:	907-52001-93.

The ten largest shareholders of the Bank as at 31 December 2021 were:

	Data on shares	
Name of person/company	**number of shares**	**percentage share**
HIPOTEKARNA BANKA A.D Podgorica/HB – Collective Custody account 1	3,053,899	29.82%
GORGONI LORENZO	1,329,189	12.98%
GORGONI ANTONIA	1,024,290	10.00%
CERERE S.P.A.	870.205	8.50%
IBIS SRL	498,568	4.87%
MONTINARI DARIO	472,723	4.62%
MONTINARI SIGILFREDO	472,723	4.62%
MONTINARI ANDREA	472,396	4.61%
MONTINARI PIERO	472,396	4.61%

The total amount of share capital as at 31 December 2021: EUR 52,362 thousand.

Data on the members of the Board of Directors and the Management on 31 December 2021

Board of Directors	**Name**
President	Sigilfredo Montinari
Member	Božana Kovačević
Member	Goran Varat
Member	Renata Vinković
Member	Esad Zaimović

Management	**Name**
Chief Executive Officer	Esad Zaimović
Chief Risk Officer	Jelena Vuletić
Executive Director for Corporate and Financial Markets	Ana Golubović
Executive Director for Retail and Advanced Sales Channels	Nikola Špadijer

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