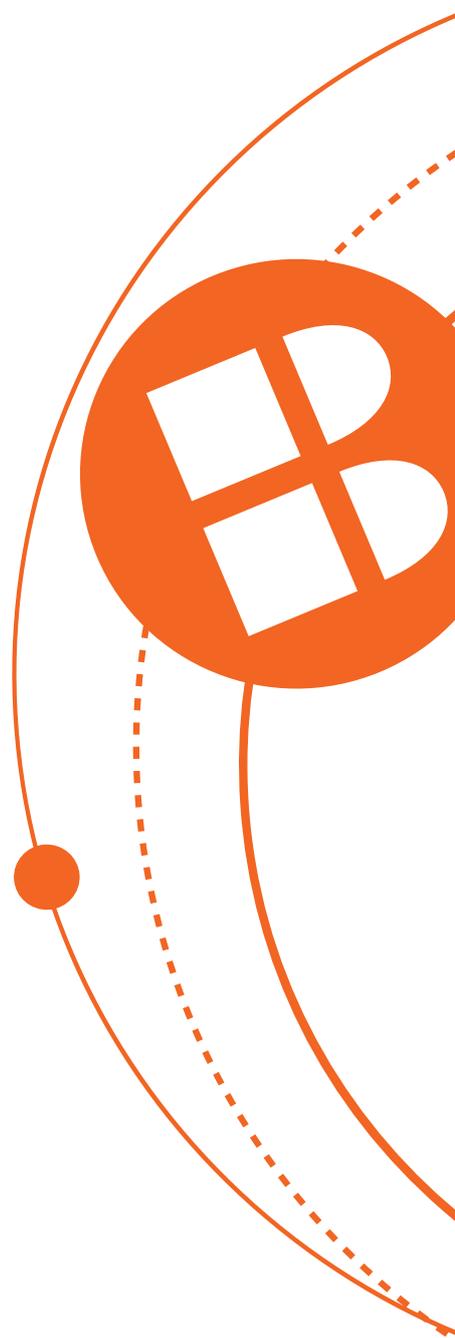


ANNUAL REPORT

2022

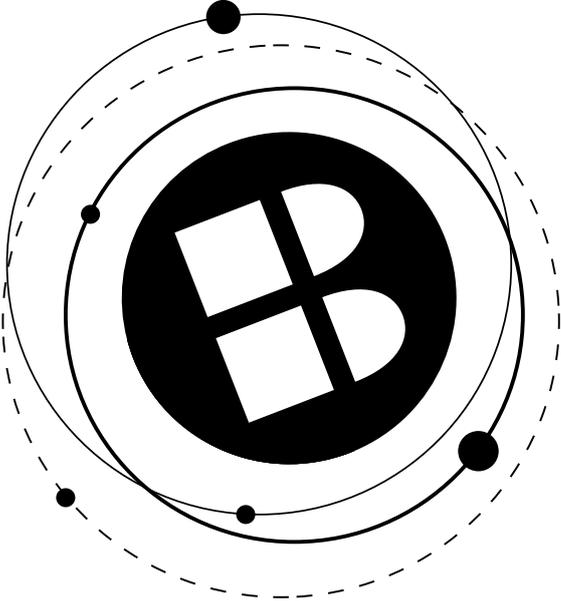
 **HIPOTEKARNA
BANKA**

Vama posvećena



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1

**FROM THE
EXTERNAL
AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hipotekarna banka AD Podgorica

Opinion

We have audited the accompanying financial statements of Hipotekarna banka AD, Podgorica (hereinafter: "the Bank"), which comprise the balance sheet as at December 31, 2022, income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other disclosures (hereinafter 'financial statements'.)

In our opinion, the accompanying financial statements present truly and objectively, in all material respects, the Bank's financial position as of December 31, 2022, as well as its operating results and cash flows for the year ended that day, in accordance with the International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Law on Audit of Montenegro, Law on Accounting of Montenegro and International Standards on Auditing (ISA) applicable in Montenegro. Our responsibilities under these standards are described in more detail in the report section entitled *Auditor's Responsibility for the Audit of Financial Statements*. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the Committee on International Ethics for Accountants (IESBA Code) and the ethical requirements relevant to our audit of financial statements in Montenegro, and 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 questions are those matters that, in our professional judgment, were of paramount importance for auditing the financial statements of the current period. We have addressed these issues in the context of our audit of the financial statements as a whole and in forming our opinion on them, and we do not give a separate opinion on these issues.

<i>Key Audit Matters</i>	<i>Appropriate audit procedure</i>
<i>Impairment of given loans and receivables from clients and provisions for off-balance sheet items</i>	
As at December 31, 2022 the gross value of given loans and receivables from clients amounted EUR 252,474 thousand (December 31, 2021.:EUR 238,173 thousand), while the total amount of impairment of given loans and receivables from clients amounted EUR 15,662 thousand as of December 31, 2022 (December 31, 2021: EUR 16,444 thousand).	Based on our risk assessment and industry knowledge we examined the cost of impairment of given loans, receivables from clients and provisions for off-balance sheet items and evaluated the applied methodology as well as used assumptions and in accordance with the key audit matter.

INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters (continued)

Key Audit Matters	Appropriate audit procedure
<p data-bbox="240 495 831 526"><i>Impairment of given loans and receivables from clients and provisions for off-balance sheet items</i></p> <p data-bbox="240 557 831 831">The measurement of the cost of impairment of given loans and receivables from clients and provision for off-balance sheet items is considered key audit matter considering that the determination of the amount of provision for impairment requires the significant assessment by the management to determine the moment when the impairment is recognized as well as the impairment amount.</p> <p data-bbox="240 862 831 893">The most significant consideration relates to:</p> <ul data-bbox="304 925 831 1288" style="list-style-type: none"> • Assumption that are used in the model of expected credit loss for the assessment of credit risk related to exposure and expected credit losses for future cash flow of the client. • Timely identification of the exposure with significant increase of exposure to the credit risk and credit impairment. • Valuation of collateral and assumptions of the future cash flow on individually estimated credit exposures. • <p data-bbox="240 1296 831 1444">The management disclosed the additional information about the impairment cost of the given loans and receivables from clients for off-balance sheet items in Notes 3.8.8, 5.2, 7, 17.2 and 23 of the financial statements.</p>	<p data-bbox="831 526 1436 557">Our audit procedures included:</p> <ul data-bbox="895 566 1436 1807" style="list-style-type: none"> • The assessment of key controls over assumptions which are used in expected credit loss model for the assessment of the credit risk related to exposure and future expected cash flows of the client. • detailed testing of the calculation of risk parameters, based on the official methodology of the Bank, which is the subject of assessment of compliance with accounting requirements. This testing also includes the assessment of model assumptions; • Assessment of key controls over the timely identification of exposure with significant increase of the credit risk and exposure identification of the impairment. • Collection and detailed testing which support the appropriate determination of the impairment cost of the loans and receivables including valuation of collateral and assumptions of future cash flow for individually assessed exposure of the loan impairment. • Assessment of key development of high-risk portfolio from the previous period with regard to industry standards and historical data. • Assessing the adequacy of various identified decisions of the Management regarding to assumptions related to the calculation of expected credit losses for individually assessed loans, as well as decisions on the approach to assessment of expected credit losses for collectively assessed loans, as well as evaluating applied methodologies using our industry knowledge; • Assessment of the accuracy and completeness of disclosure in financial statements.

INDEPENDENT AUDITOR'S REPORT (Continued)

Other information

The financial statements of the Bank as of and for the year ended December 31, 2021 were audited by another auditor who expressed an unqualified opinion on those financial statements as of April 20, 2022.

Other information contained in the Bank's annual management report

Other information refers to the information contained in the annual management report, but does not include the financial statements and the auditor's report on them. The management of the Bank is responsible for the preparation of other information in accordance with the regulations of Montenegro. Our opinion on the financial statements does not include other information. In connection with the audit of the financial statements, it is our responsibility to read the other information and thereby consider whether the other information is consistent in all material respects with the financial statements, with our knowledge obtained during the audit, or otherwise appears to be materially incorrect. In addition, we assessed whether the other information was prepared, in all materially significant aspects, in accordance with the Accounting Law of Montenegro, especially whether the other information was formally in accordance with the requirements and procedures for the preparation of other information of the Accounting Law of Montenegro in the context of materiality, i.e. whether any non-compliance with these requirements could affect the judgments made on the basis of this other information.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedure above, in our opinion:

1. other information describing the facts that are also presented in the financial statements are, in all materially significant aspects, in accordance with the financial statements; and
2. other information was prepared in accordance with the requirements of the Law on Accounting of Montenegro.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Annual Management Report. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, as well as for those internal controls that management considers it necessary to prepare financial statements that are free from material misstatement, whether due to fraud or error.

When preparing financial statements, management is responsible for assessing the Bank's ability to continue operating in accordance with the going concern principle, disclosing, if necessary, issues relating to going concern principle and applying the principle of going concern as an accounting basis, unless management intends to liquidate the bank either discontinues its business or has no other realistic option other than the above. The persons responsible for management are responsible for managing the financial reporting process that is established by the Bank.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is 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 contains 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, Law on Accounting of Montenegro and ISAs applicable in Montenegro will always detect a material misstatement when it exists. Misstatements can arise due to fraud or error and are considered material if, individually or as a group, 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 of Montenegro, Law on Accounting in Montenegro and ISAs applicable in Montenegro, we apply professional judgment and maintain professional skepticism 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 avoiding 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 Company's internal control.
- Evaluate the applied 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 cause significant doubt on the Banks'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 Company 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 basic 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 for managing 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 expected to affect on our independence, and where applicable, related protection measures.

INDEPENDENT AUDITOR'S REPORT (Continued)***Auditor's Responsibilities for the Audit of the Financial Statements (continued)***

From the matters communicated with those charged with managing, 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 excludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be included in our report because it is reasonable to expect the adverse consequences to be greater than benefits of such communication.

The auditing partner on the basis of which this independent auditor's report was prepared is Đorđe Dimić.

Crowe MNE d.o.o. Podgorica

April 7, 2023



Đorđe Dimić, Certified auditor

Pero Đuričković, Certified auditor

Anastasija Boljević, Certified auditor

Vladimir Kavarić, Authorized person





2

BUSINESS ACTIVITIES AND ORGANISATIONAL STRUCTURE OF THE BANK

BUSINESS ACTIVITIES AND ORGANISATIONAL STRUCTURE OF THE HIPOTEKARNA BANKA

ABOUT THE BANK

Hipotekarna Banka AD Podgorica (hereinafter: the Bank) provides the widest range of banking and financial products and services to legal and natural persons in Montenegro in accordance with the licenses issued by the competent institutions.

The Law on Credit Institutions and the Law on Business Undertakings, as well as enabling regulations of the Central Bank of Montenegro (hereinafter: the CBCG) prescribe the conditions for founding and functioning of banks in Montenegro.

The provision of services performed by the Bank in the securities market is regulated by the Law on Capital Markets and enabling regulations of the Capital Markets Authority. The Bank also performs payment operations that are governed by the Payment System Law and relevant enabling regulations of the CBCG.

The Bank also performs the insurance agency activities that are regulated by the Law on Insurance and relevant enabling regulations of the Insurance Supervision Agency.

The Bank is subject to the supervision and oversight of the CBCG, the Capital Markets Authority and the Insurance Supervision Agency.

As at 31 December 2022, the Bank had 240 employees, of which 11 held a master's degree (5%), 110 held a university degree (46%), 62 held a bachelor's degree (27.1%), and 57 held a secondary school degree (23%).

CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE RULES

The bodies of the Bank are as follows:

- 1) General Shareholders Assembly,
- 2) Supervisory Board, and
- 3) Management Board

General Shareholders Assembly

General Shareholders Assembly is the highest body of the Bank.

The General Shareholders Assembly of the Bank is composed of its shareholders whose interests may be represented also by authorised proxies.

Pursuant to Article 15b of the Law on Takeover of Joint Stock Companies:

- 1) The structure of the Bank's capital is as follows:

- » The share capital of the Bank amounts to EUR 52,361,965.61, and it consists of 10,241,148 common shares issued in the name of the holder;
- » The nominal value of one share is EUR 5,1129;
- » The shares are dematerialised, indefinitely transferrable and issued in the name of the holder. The excerpt from the registry with the Central Securities Depository and Clearing Company AD Podgorica is the only evidence of the ownership of shares;
- » A shareholder of the Bank, as the owner of common shares, is entitled to the following:
 1. right to attend the General Shareholders Assembly,
 2. right to manage proportionately to the share in capital of this class of shares,
 3. right to dispose of shares, in accordance with the applicable regulations,
 4. pre-emptive right to acquire new shares,
 5. right to acquire shares free of charge in case of the increase in share capital from the Bank's funds, proportionately to its investment,
 6. right to dividend pay-out, after the distribution of preferred shares to owners, when the Bank's General Shareholders Assembly decides to pay out the dividend,
 7. right to obtain, at personal request, a copy of the balance sheet and profit and loss statement, as well as external auditor's report,
 8. right to have an insight, thirty days prior to the session of the General Shareholders Assembly and at the General Shareholders Assembly, in the financial reports including also external auditor's report,
 9. right to proportionate part of assets in case of Bank's winding up and other rights in accordance with the applicable regulations.

2) There are no restrictions for transferring shares i.e., securities;

3) Significant direct and indirect equity investments (15 largest shareholders):

Name	Number of shares	% of capital
<i>CERERE SPA - TRST, ITALIJA</i>	<i>1,628,706</i>	<i>15.9035%</i>
<i>TODOROVIC MILJAN</i>	<i>737,668</i>	<i>7.2030%</i>
<i>CERFIN DOO</i>	<i>396,070</i>	<i>3.8674%</i>
<i>TODOROVIC MILJAN NIKOLA</i>	<i>174,823</i>	<i>1.7071%</i>
<i>GORGONI ANTONIA</i>	<i>1,024,290</i>	<i>10.0017%</i>
<i>GORGONI PAOLO</i>	<i>880,509</i>	<i>8.5978%</i>
<i>GORGONI MARIO</i>	<i>804,939</i>	<i>7.8599%</i>
<i>IBIS SRL</i>	<i>498,568</i>	<i>4.8683%</i>
<i>MONTINARI SIGILFREDO</i>	<i>472,723</i>	<i>4.6159%</i>
<i>MONTINARI ANDREA</i>	<i>472,396</i>	<i>4.6127%</i>
<i>MONTINARI DARIO</i>	<i>472,723</i>	<i>4.6159%</i>
<i>MONTINARI PIERO</i>	<i>472,396</i>	<i>4.6127%</i>

<i>KRUGGER DOO PODGORICA</i>	<i>276,511</i>	<i>2.7000%</i>
<i>GENMONT DOO TIVAT</i>	<i>401.840</i>	<i>3.9238%</i>
<i>BALANCE AK DOO TIVAT</i>	<i>329.190</i>	<i>3.2144%</i>

- 1) There are no securities giving special control rights;
- 2) Applicable laws and other regulations apply to the acquisition of shares by employees;
- 3) There are no restrictions of voting rights, such as restriction of the voting right of the owner holding a certain percentage of securities or number of shares by deadlines for exercising right to vote, and the like;
- 4) There is no agreement between shareholders with which the issuer is familiar and that may result in the restriction of transfer of securities and/or voting rights;
- 5) The manner of appointing and removing from office of members of the Management Board is defined by applicable laws and other regulations;
- 6) The powers of the members of the Management Board are defined by the applicable laws and other regulations;
- 7) There are no significant agreements in which the issuer is a contracting party and which produce legal action, are amended or terminated after the takeover of the issuer in the process of the public initial offering for takeover and their legal effects, unless these agreements are such that their disclosure would have significant harmful effects on the issuer, provided that the issuer is not explicitly obliged to disclose such a data in accordance with the law;
- 8) Members of the Management Board and individual directors of the organisational parts of the Bank have covenants which regulate the payment of fee for the termination of term of office in the amount ranging from 6 (six) to 18 (eighteen) monthly net salaries.

Management bodies of the Bank are: a) Supervisory Board, and b) Management Board.

Supervisory Board

The Supervisory Board is a management body of the Bank, which performs an oversight function of the operations of the Bank. The powers of the Supervisory Board are specified by the Law on Credit institutions, the Law on Business Undertakings, and the Bank's Articles of Association.

The members of the Supervisory Board are elected and appointed by the General Shareholders Assembly of the Bank.

The structure of the Supervisory Board and its bodies is as follows:

Supervisory Board of the Bank:

- Sigilfredo Montinari, Chairperson
- Miljan Todorović, Member
- Miljan Nikola Todorović, Member
- Antonio Moniaci, Member
- Mato Njavro, Member

Risk Committee:

- Antonio Moniaci, Chairperson
- Sigilfredo Montinari, Member
- Mato Njavro, Member

Remuneration Committee:

- Miljan Todorović, Chairperson
- Antonio Moniaci, Member
- Mato Njavro, Member

Nomination Committee:

- Sigilfredo Montinari, Chairperson
- Antonio Moniaci, Member
- Mato Njavro, Member

Audit Committee:

Audit Committee has 3 (three) members that are appointed and removed from office by the Supervisory Committee.

Members of the Audit Committee are:

- Draško Popović, Chairperson
- Vedrana Cicvarić, Member
- Goran Knežević, Member

During 2022, the Supervisory Board of the Bank passed decisions on the issues from within its remit, and it had continuously overseen the operations of the Bank, and periodically considered reports on the financial situation, operations and risks. In addition, the reports of the standing bodies and control functions were regularly considered at the meetings of the Supervisory Board.

The Supervisory Board also reviewed reports on the completed examinations of the CBCG, and followed up the implementation of measures and recommendations that related to the improvement of operations.

Management Board

The Management Board is a management body of the Bank which performs an executive function and is accountable for managing the Bank on day-to-day basis and for its representation. The powers of the Management Board are specified by the Law on Credit Institutions, the Law on Business Undertakings, enabling regulations, and the Bank's Articles of Association.

The members of the Management Board are elected and appointed by the Supervisory Board of the Bank.

Management Board of the Bank:

- Esad Zaimović, Chairperson
- Ana Golubović, Member

- Jelena Vuletić, Member
- Nikola Špadijer, Member
- Nataša Lakić, Member

The Management Board of the Bank holds meetings as needed, and at least once a month. During 2022, the Management Board of the Bank held 31 meeting where the issues were discussed from within its remit.

The Management Board manages the affairs of the Bank and oversees the work of the employees in the Bank on daily basis.

The Management Board of the Bank ensures that the Bank operates in accordance with the regulations governing the operations of the Bank, and set up and implement a reliable system of Bank management in accordance with the Law on Credit Institutions.

The Management Board of the Bank reviews periodically and at least once a year, the efficiency of the system for Bank management, including the suitability of procedures and efficiency of control functions, and notifies the Supervisory Board of the conclusions and take proper measures to eliminate the identified deficiencies.

The Management Board of the Bank also reviewed reports on completed examinations of the Central Bank of Montenegro, as well as reports of other supervisory institutions.

CORPORATE GOVERNANCE RULES

The Bank has established corporate governance in accordance with legal regulations, the CBCG regulations and the best practices.

Instead of the so-called monistic (one-line) model, according to which there is one body that performs the function of oversight and management (board of directors), starting from 1 January 2022, the Bank developed an organisational structure in accordance with the provisions of the Law on Credit Institutions. The Law envisages a dualistic (two-line) management model according to which the supervisory board performs the oversight function, and the management function is performed by the credit institution's management board, whereby the management and oversight functions are more clearly delineated, and the management of the credit institution is ensured on a daily basis.

The corporate governance aims at providing a transparent organisational structure and segregation of duties and responsibilities of corporate bodies and their committees, achieving effective oversight, functioning of internal controls, with the emphasis on risk management, protection of assets and reputation of the Bank.

General Shareholders Assembly of the Bank

The shareholders of the Bank exercise their rights at the Bank's General Shareholders Assembly. The General Shareholders Assembly of the Bank decides on issues prescribed by the Law on Credit Institutions, Law on Business Undertakings, and the Bank's Articles of Association.

The Supervisory Board of the Bank convenes the General Shareholders Assembly and the right to convene the General Shareholders Assembly also have the shareholders with at least

5% holding in the share capital of the Bank in accordance the Law on Business Undertakings and the Bank's Articles of Association.

The convening of the General Shareholders Assembly, handling of the General Shareholders Assembly, the quorum, decision-making and other issues important for the work of the General Shareholders Assembly is governed by the Law on Business Undertakings, Bank's Articles of Association and its internal acts.

Supervisory Board and Management Board

The obligations and responsibilities of the members of the Bank's Supervisory and Management Boards are determined by the Law on Credit Institutions, the Law on Business Undertakings and the Bank's Articles of Association.

The process for appointing and removing from office or relieving of duty of the members of the Bank's Supervisory or Management Board is determined by the Law on Credit Institutions, the Law on Business Undertakings and the Bank's Articles of Association.

Supervisory Board

The Supervisory Board is a management body of the Bank, which performs an oversight function of the operations of the Bank. The powers of the Supervisory Board are specified by the Law on Credit institutions, the Law on Business Undertakings and the Bank's Articles of Association.

The members of the Supervisory Board of the Bank, who are previously authorised by the Central Bank of Montenegro, are elected by the General Shareholders Assembly. The term of office of the members of the Supervisory Board of the Bank lasts 4 years and they may be re-elected. Members of the Supervisory Board of the Bank must meet the requirements prescribed by the Law on Credit Institutions, the Law on Business Undertakings, relevant decisions of the Central Bank of Montenegro and Bank's internal acts. The members of the Supervisory Board must jointly have professional knowledge, skills and experience required for independent and autonomous oversight of operations of the Bank, in particular for understating tasks and significant risks of the Bank.

The Supervisory Board has at least 5 (five) and at a maximum 9 (nine) members, of which two fifths are independent members in accordance with the provisions of the Law on Business Undertakings.

The Supervisory Board of the Bank established the following standing bodies:

- Nomination Committee
- Risk Committee
- Remuneration Committee
- Audit Committee

Management Board of the Bank

The Management Board is a management body of the Bank which performs an executive function and is accountable for managing the Bank on day-to-day basis and for its representation. The powers of the Management Board are specified by the applicable laws and other regulations and the Bank's Articles of Association.

The Management Board of the Bank has five members who are appointed by the Supervisory Board for a period of four years and the member whose term of office has elapsed may be re-appointed.

The members of the Management Board of the Bank must meet the requirements prescribed by the Law on Credit Institutions, the Law on Business Undertakings, relevant Decision of the CBCG and Bank's internal acts.

Since the members of the Bank's Management Board manage the Bank's affairs on a daily basis, they are also responsible for managing the risks to which the Bank is exposed in its operations. The chairperson of the Management Board represents the Bank in accordance with the decisions of the Shareholders' Assembly, the Supervisory Board and the Management Board. When undertaking legal actions and legal affairs on behalf and for the account of the Bank, the chairperson of the Management Board must ensure the signature of one more member of the Management Board, who is, as a rule, functionally responsible for the business area in question, i.e. the signature of another member of the Management Board. The members of the Management Board must be employed in the Bank, full-time, and must manage the Bank's affairs from the territory of Montenegro.

Internal Controls System and Risk Management Process as regards to the Financial Reporting

With the aim to ensure the reliability and objectivity of accounting statements and reports, a system of internal control has been established in such a way that internal organisation and procedures define control points, thus ensuring control of accuracy and completeness of data, as well as that all changes are accurately recorded and business books mutually consistent.

The Bank has established control procedures and activities related to data processing, segregation of duties, approval and authorisation system and reporting area.

Financial reporting risk is assessed through analysis and management of internal and external risks while compiling realistic and objective financial statements in accordance with the adopted internal acts of the Bank. The internal audit controls the functioning of the internal controls system and gives recommendations for their improvement, within the audits envisaged in the annual plan. The Bank seeks, through the existing system of internal controls, to reduce the possibility of errors in the financial reporting.

New Control Function – Risk Control Service

Starting from 1 January 2022, the Bank introduced, in accordance with the new Law on Credit Institutions, another pillar of defence of the Bank against risks by establishing new and independent service – Risk Control Service.

An additional pillar of defence is an additional reminder and "conscience" of the Bank, which tries, in a formal and analytical way, to see all the risks that may befall the Bank, to proactively warn and give instructions, with the aim of keeping the Bank on the given course with high profitability, which enables quality and long-term development of the Bank.

The primary task of the Risk Control Service is to inform the Management Board, the Supervisory Board and the Risk Committee about the Bank's current status, trends, deviations from the strategy and defined objectives with the aim of timely alarming and giving recommendations in order to maintain the entire system within the framework of safe and successful operations.

In this regard, during 2022, the Risk Management Framework - RAF (Risk Appetite Framework) was introduced as an additional tool that monitors the Bank's given operations in relation to the planned, and which is expected to adequately maintain the required ratios at a high level and significantly above the minimum, giving the Bank a favourable positions to start off on the right footing for the next business years.

STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

As a member of the Association of Montenegrin Banks, the Chamber of Commerce of Montenegro, and the Union of Employers of Montenegro, the Bank adheres to the objectives and guidelines of the code of business conduct of the above stated relevant organisations and the principles they contain.

The Bank is a member of the Montenegro Stock Exchange AD Podgorica.

The Code of Corporate Governance in Montenegro - the Code, adopted by the Board of Directors of Montenegro Stock Exchange AD Podgorica intended for joint stock companies whose financial instruments are listed on the stock exchange, contains a set of rules and principles aimed at improving the corporate governance practice, and its implementation is based on the application of the rule “apply or explain”, thus an additional explanation of the method of regulating the issue of preventing and resolving corporate conflicts is provided below.

Namely, the Bank’s internal acts regulate the issue of conflict of interest, including the issues of preventing and resolving the conflict of interest of employees. Furthermore, in accordance with regulations governing the capital market, the Bank has regulated, *inter alia*, the issue of preventing negative effects of the conflict of interest on the provision of investment and ancillary services, and carrying out investment activities, taking into account the interests of the Bank, other persons, and clients. In addition, the Bank’s Articles of Association also regulate the prevention and resolution of conflicts of interest of members of the Management Board. As the Management Board of the Bank manages the Bank, this implies, by analogy, that it also resolves issues of possible (corporate) conflicts that may arise between shareholders and the Bank. In the same vein, the Management Board of the Bank is responsible for ensuring that the operations of the Bank are carried out in accordance with the law, other regulations and internal acts of the Bank, and thus for minimizing harmful consequences for the Bank, which may also arise from the relationship between the Bank and its shareholders. No shareholder of the Bank has been in conflict with the Bank so far, nor did they file a lawsuit against the Bank.

Having considered the aforesaid, in accordance with the provisions of Articles 15 and 19 of the Law on Accounting (OGM 145/21, 152/22), the members of the Managing Board of the Bank declare that they apply the Code of Corporate Governance in Montenegro, as well as codes of business conduct of relevant organisations, of which it is a members.

DIVERSITY POLICY AND STRUCTURE OF THE BANK'S MANAGEMENT BODY

The scope of this Policy is based on the principle of proportionality, i.e. taking into account:

- type, scope and complexity of operations;
- risk profile, and
- the Bank’s business strategy.

In general, with regard to diversity, the Bank’s policy is to hire the best candidates for jobs or positions, regardless of whether they are male or female or of age.

Historically speaking, the Bank had a diverse structure and a significant number of women in leading positions, and for several years an equal number of male and female executive directors.

The Bank's objectives will continue to be that, in addition to gender equality, the candidates' expertise, a wide range of skills and competences, as well as previous experience are taken into account during selection, in order to meet all the necessary criteria for diversity, and not only in management bodies, but also in the Bank as a whole, while enabling the representation of different views, experience and independence of opinion as an incentive for decision-making and the execution of tasks as a whole.

The structure of the Bank's Management Board is defined by positive regulations, the Articles of Association and other internal acts of the Bank, which ensure that the composition of the Bank's Management Board as a whole has the necessary professional knowledge, skills and experience, which enables it to independently and autonomously manage the Bank's affairs and thus to establish and implement legal, safe and stable operations of the Bank.

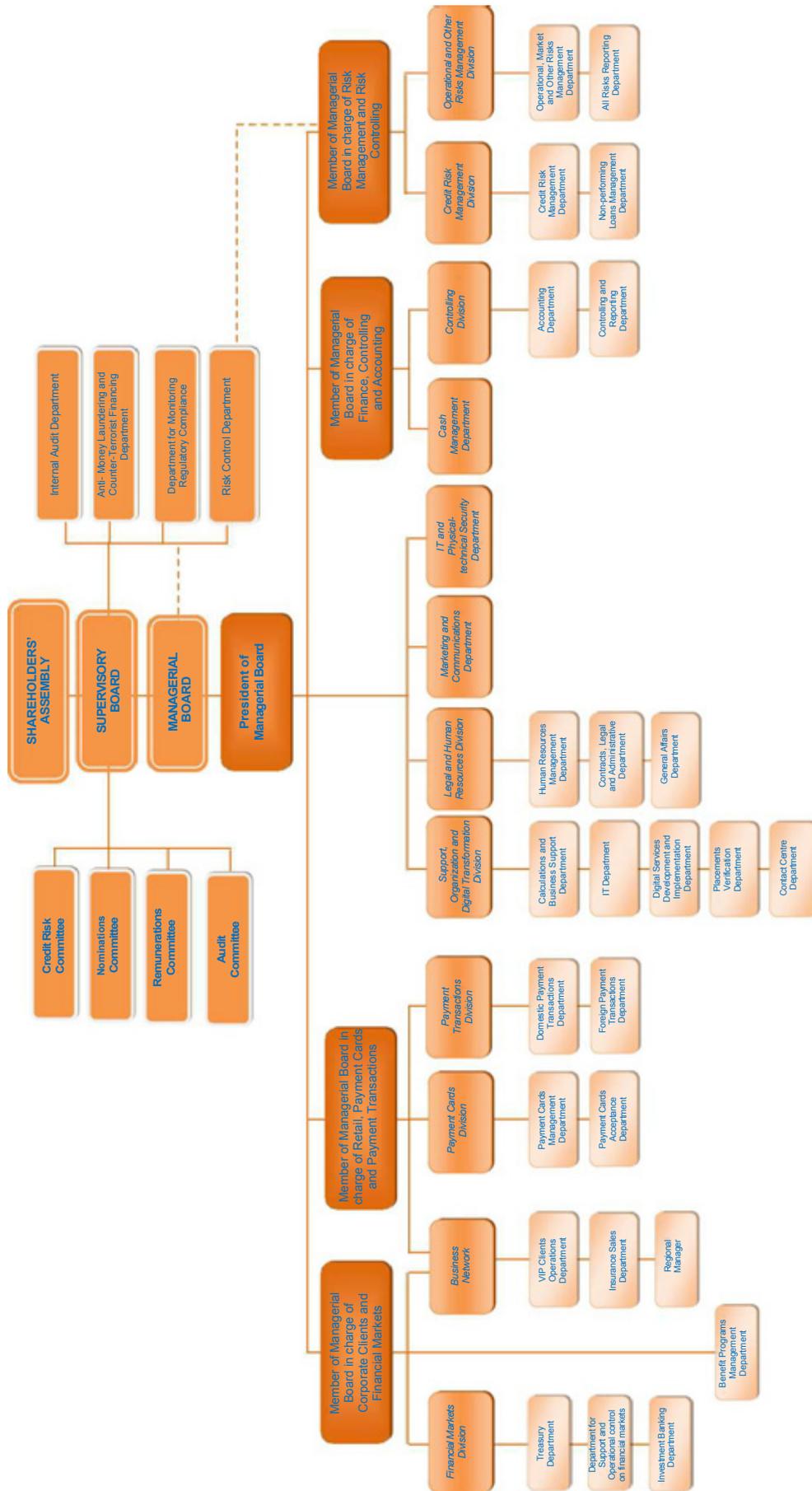
The powers and responsibility of the Bank's Supervisory Board and its working bodies is determined by positive regulations, the Articles of Association and other internal acts of the Bank, and the structure of the Supervisory Board in terms of diversity, or the fulfilment of the quantitative objective for the participation of the less represented gender, at the level of at least one third, is in the domain of the Bank's shareholders, so by adopting this Policy at the Bank's General Shareholders Assembly, the shareholders simultaneously assume an obligation regarding the target structure of the Bank's Supervisory Board.

MANAGEMENT OF THE BANK

MANAGEMENT BOARD	<p>Esad Zaimović, Chairperson of the Management Board</p> <p>Nikola Špadijer, member of the Management Board for operations with natural persons, payment card operations and payment system</p> <p>Ana Golubović, member of the Management Board for operations with legal persons and financial markets</p> <p>Jelena Vuletić, member of the Management Board for risk management and control of risks</p> <p>Nataša Lakić, member of the Management Board for finance affairs, controlling and accounting</p>
CONTROL FUNCTIONS:	
INTERNAL AUDIT DIVISION	Veselin Ivanović, Chief Internal Auditor
COMPLIANCE SERVICE	Danka Dragičević, Director of the Service
DIVISION FOR PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING	Sanja Mijušković, Compliance Officer for prevention of money laundering and terrorist financing
RISK CONTROL SERVICE	Goran Smolović, Director of the Service

SENIOR MANAGEMENT:	
DEPARTMENTS	<p>Tamara Braunović, Director of the Business network</p> <p>Gojko Maksimović, Director of the Financial Markets Department</p> <p>Sejad Šehić, Acting Director of the Department for Payment Cards Operations</p> <p>Milena Grupković, Director of the Payment System Department</p> <p>Nikola Milović, Director of the Department for Support, Organisation, and Digital Transformation</p> <p>Božo Đurašković, Director of the Department for Legal Affairs and Human Resources</p> <p>Milana Stevanović, Director of the Department for Credit Risk Management</p> <p>Nikola Pejović, Director of the Department for Operational, Market and Other Risks Management</p>
INDEPENDENT SERVICES	<p>Haris Dizdarević, Director of the Service for Information and Physical and Technical Security</p>

BANK'S ORGANISATIONAL CHART









3

**DEVELOPMENT,
FINANCIAL POSITION
AND BUSINESS
RESULTS OF THE BANK**

DEVELOPMENT, FINANCIAL POSITION AND BUSINESS RESULTS OF THE BANK

BUSINESS OPERATIONS

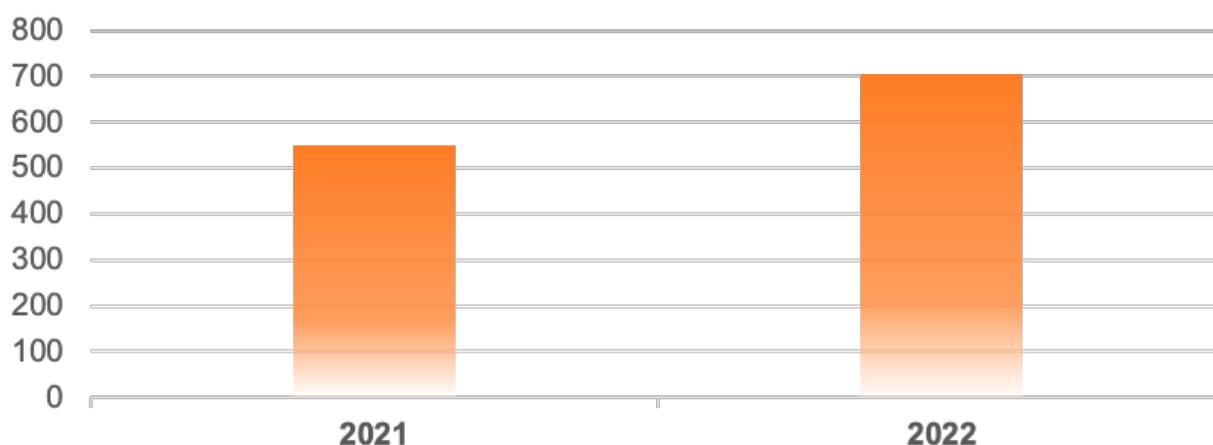
DEPOSITS

In 2022, deposits saw a y-o-y growth of 28.19%, which indicates the continued growth of the confidence of citizens and economy in the Bank also in 2022, in addition to high level of deposits recorded in the previous years.

Stock of total deposits¹:

year	Total deposits (EUR 000)	% of change
2021	548,113	28.08%
2022	702,642	28.19%

The following graph shows total deposits in EUR '000.000:

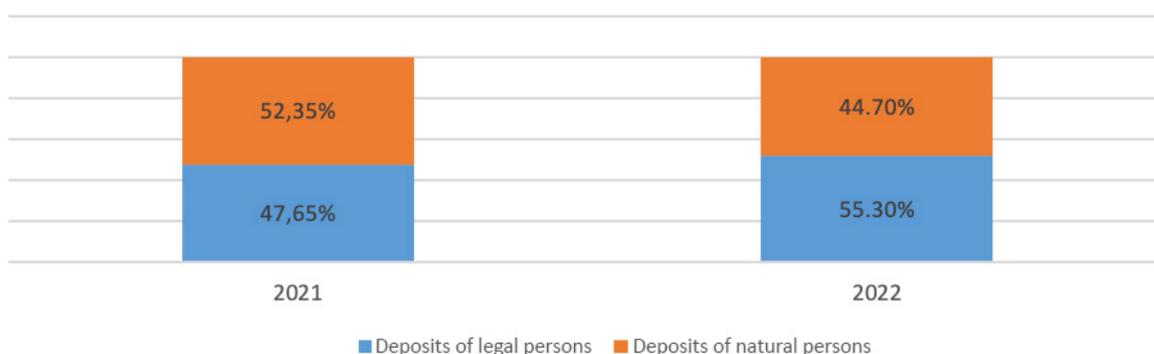


The increase in deposits resulted from the increase in the number of clients, as well as the increase in the confidence in the Bank. Thanks to all Bank's features, which are, first and foremost, security, professionalism and high quality of the offer, we are recognised as a trustworthy bank, thus we continued the positive trend of deposit growth.

With regard to the share of time and demand deposits in total deposits, the Bank maintained adequate deposit structure.

The share of deposits of legal persons accounted for 55.30% of total deposits, while deposits of natural persons stood at 44.70%, as shown in the graph below:

¹ Deposits from clients and banks do not include interest payables and prepayments and accruals



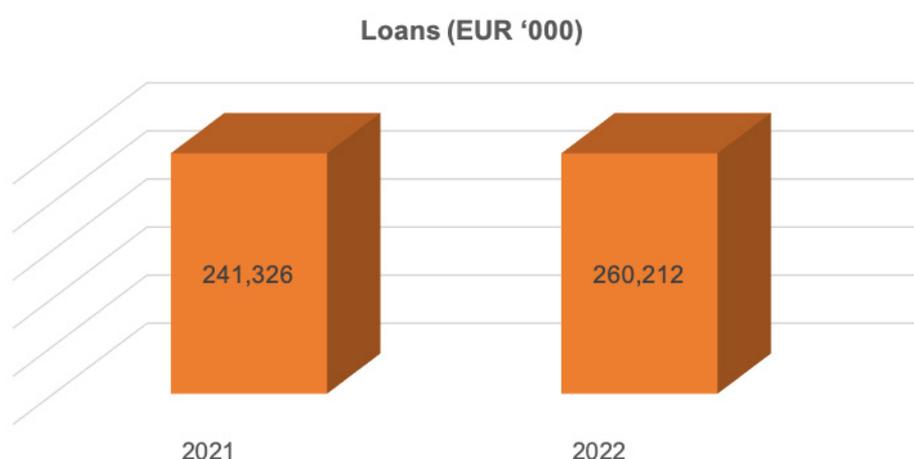
LOANS

In 2022, as well as in the previous years, the Bank granted loans to a large number of new clients. An ongoing support and further development of the existing clients is an imperative for the Bank, while employees of the Bank put a special focus on anticipating the needs of the clients, optimising the structuring of arrangements and tariffs for the existing clients.

One of the recognizable characteristics of the Bank is that, in addition to granting loans, it also provides consulting services to clients, with the aim of improving operations and achieving better business results for both the Bank and its clients.

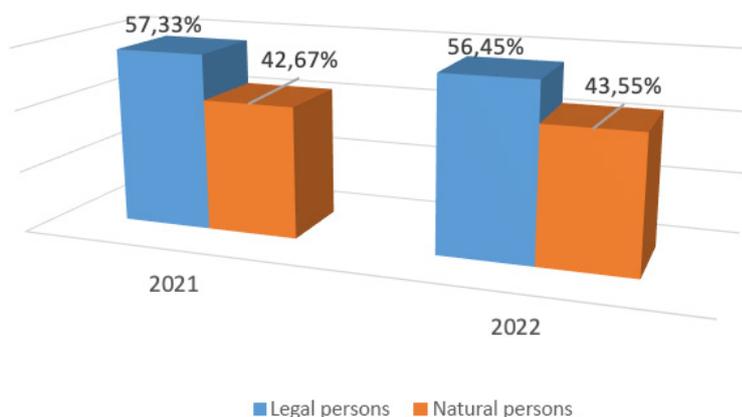
Stock of total loans²:

Year	Loans (EUR 000)	% of change
2021	241,326	2.98%
2022	260,212	7.82%



With regard to the structure of total loans, household loans made up 43.55%, while the share of corporate loans was 56.45% of total loan portfolio.

² Stock of total loans is the amount of gross loans granted to clients and banks and they do not include interest receivables and prepayments and accruals



In 2022, the Bank continued to optimise portfolio for guarantees issues, taking into account the structure and purpose of the guarantees. As at-end 2022, as a result, the portfolio of guarantees amounted to EUR 59,78 million.



The Bank's range of services offered to legal persons included cash loans, revolving loans, loans for payment of liabilities to suppliers, loans for refinancing of debts with other banks, overdraft loans, factoring, as well as all types of guarantees.

The Bank also offers a wide spectrum of household loans: cash loans, purpose-specific loans, student loans, car purchase loans, remodelling and refurbishment loans, sailor loans, overdraft loans, consumer instalment loans, and the like, as well as all types of guarantees.

DEVELOPMENT OF NEW PRODUCTS AND SERVICES

As a leader in banking innovations in Montenegrin market, and in accordance with global trends, Hipotekarna Banka offered its clients, among the first in Montenegro and the region, a mobile application that enables business entities, companies and entrepreneurs to turn their mobile phone into a POS terminal (a terminal for payment via payment cards and mobile wallet). This innovative solution is intended to improve the operations of business entities - small and medium-sized enterprises, as well as registered entrepreneurs, regardless of their registered activity.

Cash withdrawal when paying by cards is a new service that the Bank offers to merchants, users of POS terminals. Using this service, when shopping, the consumer can also request a cash payment from his card from the seller.

In accordance with the mandates of the card schemes, we have successfully implemented the new version of the 3DS 2.2 service for secure online shopping.

At the end of 2022, the first contactless ATM in the ATM network of Hipotekarna Banka was put into operation.

In cooperation with the Mastercard, Hipotekarna Banka enabled its users to use the Apple Pay service. Users can simply bring their iPhone or Apple Watch closer to the payment terminal to make a contactless payment. In less than three months, we had over 5,000 clients who felt the benefits of paying with their iPhone.

During the year, we organised several activities where we rewarded users of the MojNovčanik application, Apple pay, as well as the 50,000th user of the Premium card.

This year was also significant in the field of application of new technologies, primarily AI (artificial intelligence).

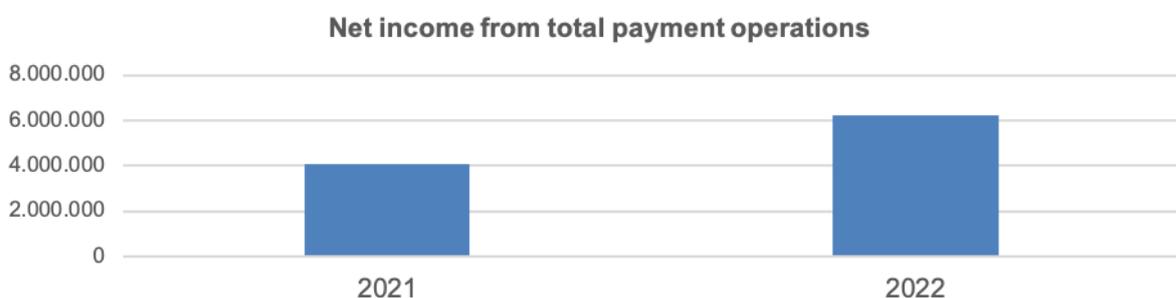
Artificial intelligence has become an indispensable and reliable participant in the processes within the Bank. The Bank today, with the help of companies such as Uhura Solutions and Robotics, is able to massively process documents from executive institutions with which it has mandatory cooperation. The solution autonomously opens received mails, "reads" them and selects the necessary attributes, which it robotically enters into the information system.

PAYMENT OPERATIONS

In 2022, the payment operations of the Bank are characterised by the growth in indicators that define the operations of this segment of the Bank.

The payment operations plans that were set have been achieved and exceeded, which shows how successful and efficient the Bank was during the previous year.

Net income from the total payment operations rose by 47% compared to the previous year.



DOMESTIC PAYMENT OPERATIONS

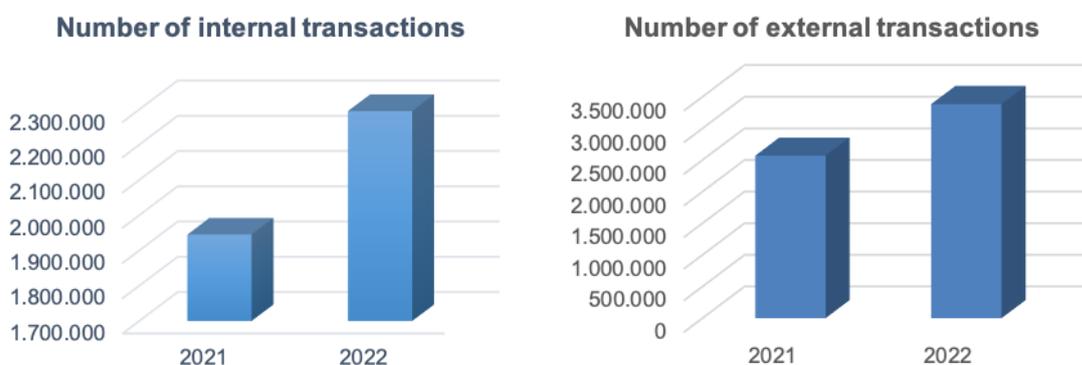
In 2022, the Bank faced significant changes in regulation in this segment, as well the need to adjust its internal documentation and procedures to the changes, which was successfully completed.

As a continuation of the current trend, the Bank's domestic payment operations saw growth in 2022.

Total number of outgoing and incoming transactions in the domestic payment operations increased by 26% compared to 2021.



In accordance with the general trend, the number of internal transactions in the Bank increased by 18% compared to the previous year. External transactions also saw growth of 31%, y-o-y.



Electronic transactions (e-banking) recorded a significant increase, which represented a continuation of a good trend and indicates the clients are increasingly choosing electronic applications and execute payments using electronic payment orders. The increase in the number of e-transactions in the domestic payment operations amounted to 21% compared to 2021.



INTERNATIONAL PAYMENT OPERATIONS

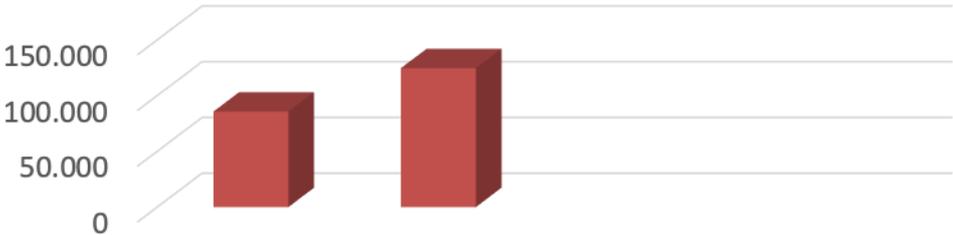
In 2022, this segment of the Bank's business was exposed to various challenges (in the field of domestic regulation, but also in the tightening of correspondent bank standards), which it successfully overcame, while maintaining the continuity of, and additionally increasing,

a high number of payments, and greatly exceeded all plans in terms of the number and the amount of inflows. As an illustration of the above, it should be pointed out that the Bank has moved to a new, higher category in terms of swift traffic, exceeding 1000 swift messages on a daily basis. In the field of documentary business, the Bank, in cooperation with correspondent banks and the EBRD, achieved standard good results and successfully responded to the needs of clients.

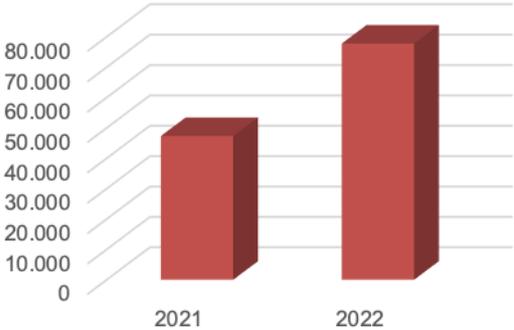
In the past year, the communication at the level of execution and daily operations with correspondent banks was significantly improved, which was recognised as an additional effort towards consolidating and strengthening the already stable and good cooperation.

The number of international payment transactions increased by 22% compared to the previous year. The number of realized inflows increased by 64% compared to the previous year.

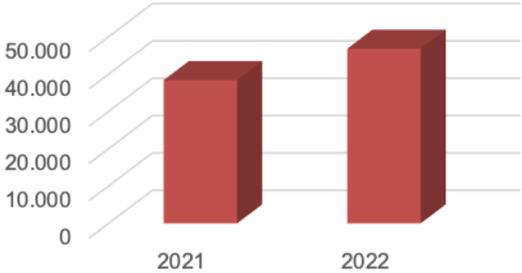
Total number of international payment transactions



Inflows

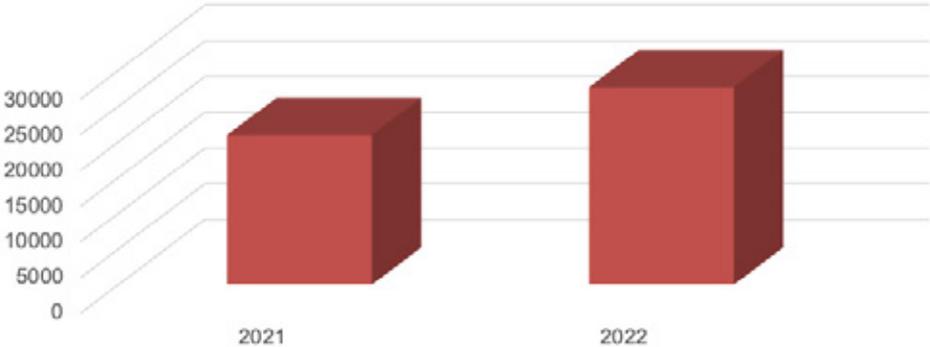


Outflows

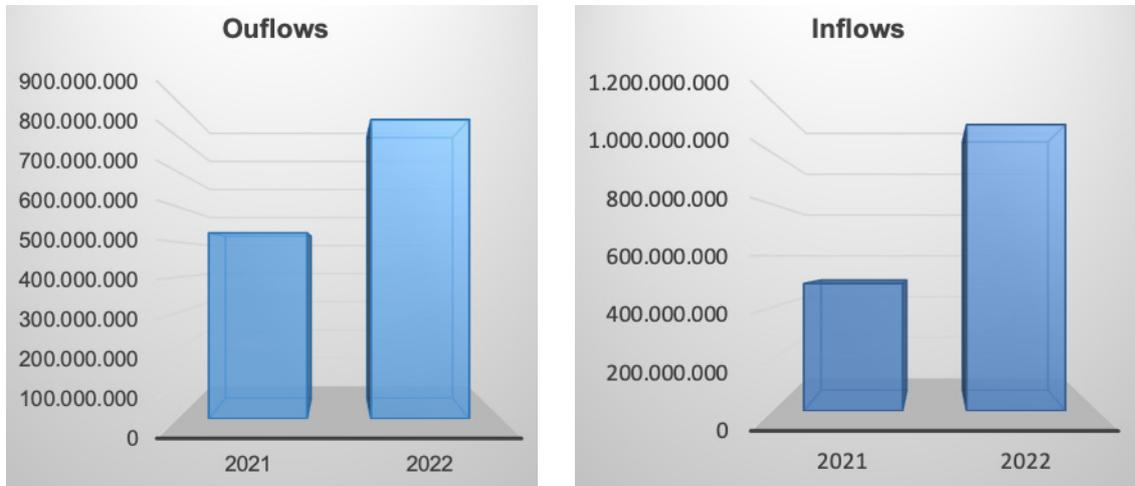


The number of international electronic payments using “HB-klik” (e-banking) increased by 32%, y-o-y, as shown in the graph below:

International electronic payments



Larger number of both outgoing and incoming transactions is followed also by the increase in their amounts. Thus, in 2022, outgoing transactions grew by 61% compared to 2021 (all currencies denominated in EUR), while the growth in foreign inflows more than doubled y-o-y, by 105%.



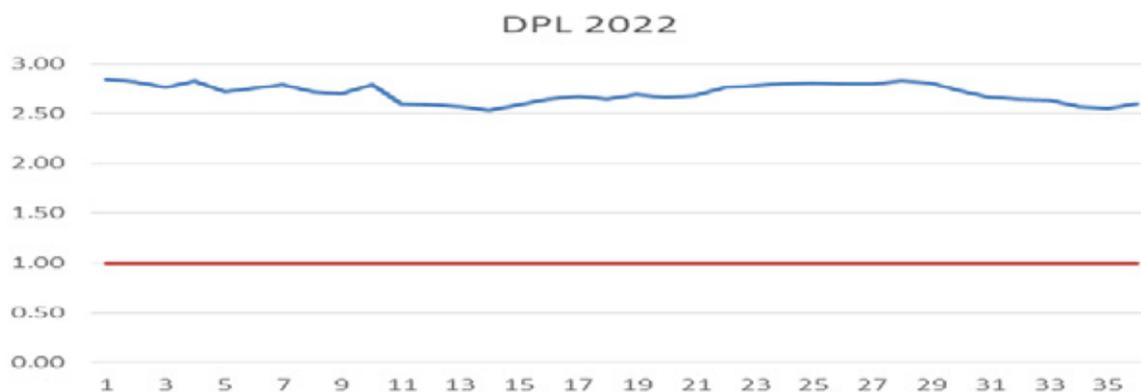
ASSET MANAGEMENT

Providing optimal liquidity is a basic requirement for safe and efficient operations of each bank. With a view to maintaining adequate liquid assets to total liabilities ratio, the Bank should provide the liquidity needed by applying rational assets and liabilities management. In 2022, the Bank also put emphasis on stabilising domestic sources of funding, expanding its depositor base, and reducing short-term sources in favour of long-term sources of funding.

Thanks to its rational liquidity management, the Treasury Service, operating as a part of the Financial Markets Department, managed to maintain the level of liquid assets and total liquid position of the Bank at the satisfactory level throughout 2022. In addition, the Service reconciled funding sources with loans by daily, weekly, ten-day and monthly scheduling of available liquid assets. Adequate allocation of funds was performed through close cooperation with other departments and services in the Bank. This allowed the Bank to meet its obligations towards creditors regularly, as well as to accommodate client requests within the shortest terms possible. The daily liquidity ratio, which is calculated using the methodology set by the CBCG, was above the statutory minimum of 0.90 throughout 2022.



Also, ten-day liquidity ratio was above the statutory minimum of 1.00.



With the aim to manage liquidity within a period, the Bank regularly monitored indicators of the structural liquidity through maturity match of financial assets and liabilities, overview of maturity of large deposits, and by establishing a stable part of demand deposits using the internal model. The Bank maintained liquidity at the satisfactory levels.

During 2022, the Bank also achieved high values in terms of the LCR. In accordance with the CBCG Regulation, the minimum amount of this ratio is 100%. The highest value of the ratio was achieved by the Bank in January 2022, when the LCR was 362%, while the lowest value was achieved in May 2022, when the LCR was 249%.



Given that 2022 was characterised by uncertainty in interest rate trend, and taking into account the caution of clients in managing their own funds, it can be noted that, even in such circumstances, the Bank was recognised as one of the most reliable and most liquid banks in the banking system of Montenegro.

This statement is supported by the 2021 year-end data that showed total deposits in the amount of EUR 548 million, and 2022 year-end data showing total deposits in the amount of EUR 703 million, which represented an increase of 28%.

On the other hand, according to the Central Bank of Montenegro data, during 2022, total deposits recorded growth of about 24.35%, and the Bank recorded also better results than the market in this segment. In addition to lending activity, surpluses of liquid funds were invested in marketable securities.

In 2022, the Bank took part in T-Bill auctions, where it bought T-Bills in nominal amount of EUR 9 million. Also, through the activities of the Financial Markets Department, the Bank invested in other international securities. Thus, at the end of 2022, the securities portfolio

amounted to about EUR 206.41 million, and compared to the end of 2021 when it amounted to EUR 150.90 million, it increased by about 36.8% or about EUR 55.5 million.

In the structure of the securities portfolio, Montenegrin government debt securities accounted for the main share of about EUR 97.7 million, or about 47.3%.

In 2022, significant fluctuations in currency exchange rates were recorded, especially in the EUR/USD currency pair, which has the greatest impact on the Bank's exposure to the risk of exchange rate changes.



Even in these conditions, the Trading Service managed to achieve an exceptional result on the basis of income from foreign exchange rate differences, which is the result of adequate risk management of exchange rate changes. At the end of 2022, the total income from exchange rate differences amounted to EUR 1.2 million, which had a significant impact on the Bank's final financial result. Realized income from exchange rate differences at the end of 2022 was 126% higher than in 2021, which encourages that economic activity began to recover after the great decline in 2020 caused by the global coronavirus pandemic.

INVESTMENT BANKING

Montenegro's Capital Market

In 2022, total turnover recorded at the Montenegro Stock Exchange amounted EUR 78,182,655.72, which was a y-o-y increase of about 68.25%. In 2022, some 2,488 deals were concluded in the Montenegrin market, which was an increase of about 53.77% compared to 2021.

MNSE 10 index (index that follows the price trend in 10 most liquid companies) rose by 31.97% last year, while MONEX grew by 43.31% over the same period.

In 2022, one broker company terminated its membership in the Montenegro Stock Exchange, and at the end of 2022, only five members were active in the exchange, of which three were banks.

Broker and Custody Operations

In 2022, total turnover that the Bank recorded at the Montenegro Stock Exchange amounted EUR 34,788,126.03, which made up 22.3% of total turnover. Observing the realised turnover,

the Hipotekarna Banka AD ranked third in terms of participation in total turnover realised at the Montenegro Stock Exchange.

The table below provides a structure of the realised turnover of the Bank:

Type of securities	Number of transactions	Realised turnover
Shares	433	32.636.366,03
Bonds	10	2.151.760,00
TOTAL	443	34.788.126,03

In 2022, total turnover realised by trading in subordinated bonds of the Bank, HBO2, HBO3 and HBO4, amounted to EUR 1,070,000.00. An overview of trading in Hipotekarna Banka AD bonds was as follows:

Name of the bond	Number of transactions	Realised turnover
HBO2	0	0
HBO3	4	1.070.000,00
HBO4	0	0
TOTAL	4	1.070.000,00

In 2021, the turnover realised by the Bank in the international market for the account of clients amounted to EUR 134 million. The largest portion of the said transactions referred to OTC transactions with bonds.

The table below provides an overview of concluded transactions in the international market in period from 01 January – 31 December 2022.

Total number of executed transactions	824
Total value of executed transactions (EUR):	Approx. 242,709,892.24
Total value of executed transactions (USD):	Approx. 224,618,762.75

Compared to the previous year, the Bank generated higher turnover by 143%.

As at 31 December 2022, the Bank's clients held securities with the Bank in the amount of EUR 280 million, which was by 20% higher (or by approximately EUR 47 million) than as at end-2021. It is worth emphasizing that of the total amount of clients' portfolio, foreign securities amounted to about EUR 248 million. Therefore, the Bank maintained the position of the leader in the field of custody operations in Montenegro.

RISK EXPOSURE AND MANAGEMENT

Generally speaking, the risk management process involves: identifying, measuring, monitoring, controlling and reporting on risks. Risk management policies and procedures are being developed within the organisational parts in charge of risk management, as well as methodologies and procedures for measuring them. Establishing a comprehensive risk management framework as well as recognising the risk management culture in the general corporate culture of the Bank is a necessary precondition for the long-term success of any banking strategy.

This process is integrated into the Bank's corporate governance framework and is based on a model "Three lines of defence" - "the first line of defence" consists of Bank's business lines, where risks associated with products, activities, processes and systems occur; "the second line of defence" consists of organisational parts of the Bank responsible for managing and controlling the risks – Department for Credit Risk Management, Department for Operational, Market and Other Risks Management, and Risk Control Service. The "third line of defence" consists of internal audit, independent external auditor, and it may include external independent qualified entities.

A special attention within the risk management is paid to the policies and procedures related to risk management, as well as the development of the necessary methodologies. Reporting within individual departments is performed on a weekly, monthly, quarterly and annual basis, and all activities are reported to the ALCO, the Management Board, the Non-Financial Risk Committee, the Supervisory Board and the Risk Committee.

The Bank actively manages credit risk, liquidity risk, interest rate risk from the banking book, market risk, operational risk in its operations. All other categories of risks are monitored on an ongoing basis and measures to control risk are taken, if needed.

Credit Risk

Credit risk is defined as the risk of loss due to the inability or unwillingness of a client to fully and timely meet its obligations to the bank.

Credit risk management is a key component of overall risk management system. Credit risk management is aimed at maximising the ratio between the risk and return of the Bank. In order to accomplish this objective, credit risk is managed at individual level (at the level of sub-account) within the Department for Risk Management, and at the portfolio level within the Department for Operational, Market and Other Risks Management.

The tables below show loan portfolio that consists of receivables based on principal of loans granted to clients and banks, and receivables based on called guarantees.

As at end-December 2022, Bank's loan portfolio increased by 7.72%, y-o-y.

PORTFOLIO / PROVISIONS 2018-2022(EUR THOUSAND)



Bank's performing assets (A and B1) accounted for 57% of total portfolio, while substandard assets (B2) accounted for 36%, and non-performing assets (C, D and E) amounted to 7%.

Asset quality – December 2022 (EUR million)



The main indicators of credit risk were: the percentage of loan loss provisions, loans past due, and share of non-performing assets in total portfolio (NPL%).

- According to the CBCG methodology, as at 31 December 2022, loan loss provisions made up 5.73% of the portfolio or EUR 14,924,651. When compared to 2021 year-end, these provisions increased by 7.40% or EUR 1,027,915.

Portfolio / provisions based on the CBCG

	31.12.2021.	31.03.2022.	30.06.2022.	30.09.2022.	31.12.2022.
Portfolio	241.806.927	248.057.031	273.591.540	260.763.715	260.471.830
Provisions	13.896.737	14.440.893	15.610.837	14.802.509	14.924.651
Provisions (%)	5,75%	5,82%	5,71%	5,68%	5,73%

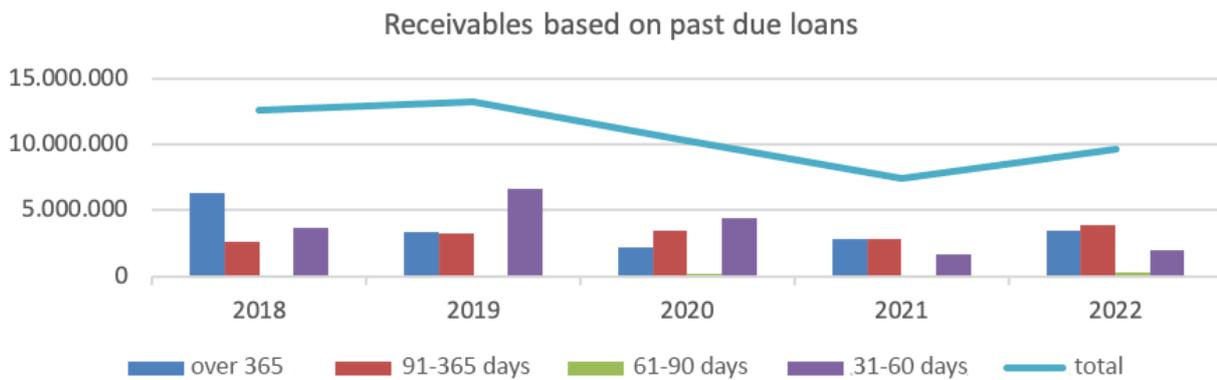
- According to the internal methodology, as at 31 December 2022, loan impairments amounted to EUR 14,645,125 or 5.62% of the portfolio. Y-o-y, the impairments decreased by EUR 1,133,259 or 7.18%.

Portfolio / impairments based on internal methodology (model)

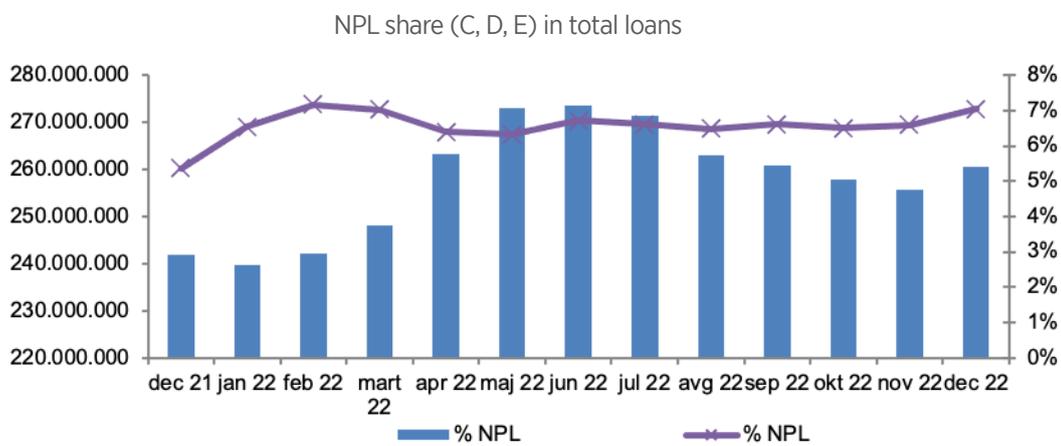
	31.12.2021.	31.03.2022.	30.06.2022.	30.09.2022.	31.12.2022.
Portfolio	241.806.927	248.057.031	273.591.540	260.763.715	260.471.830
Impairments	15.778.384	15.290.946	16.342.528	15.129.989	14.645.125
Provisions (%)	6,53%	6,16%	5,97%	5,80%	5,62%

Loans past due:

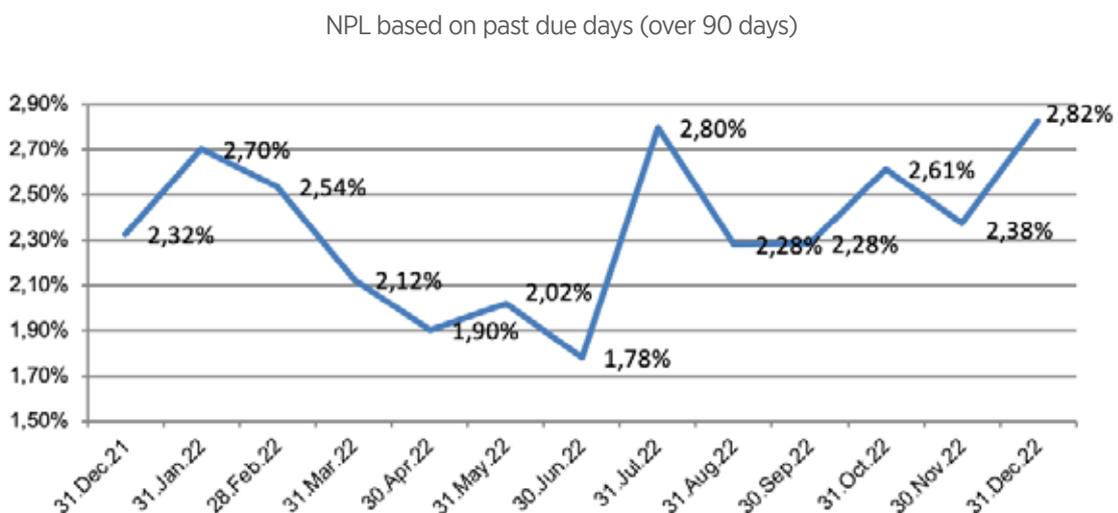
- As at 31 December 2022, past due loans over 30 days amounted to EUR 9,619,685 or 3.69% of total portfolio of the Bank, while as at 31 December 2021, they stood at EUR 7,384,496 or 3.06% of total portfolio of the Bank.
- With regard to the past due loans over 90 days as at 31 December 2022, they amounted to EUR 7,356,173 or 2.82% of total portfolio of the Bank, while as at 31 December 2021, they amounted to EUR 5,609,438 or 2.32% of total portfolio of the Bank.



With regard to the classification categories (C, D and E), as at end-December 2022, NPLs amounted to EUR 18,318,225 or 7.03% of the portfolio, while as at December 2021, they amounted to EUR 12,947,849 or 5.35% of the portfolio.



As at end-December 2022, based on the past due days over 90 days, NPLs amounted to EUR 7,356,173 or 2.82% of the portfolio, while as at December 2021 it amounted to EUR 5,609,438 or 2.32%.



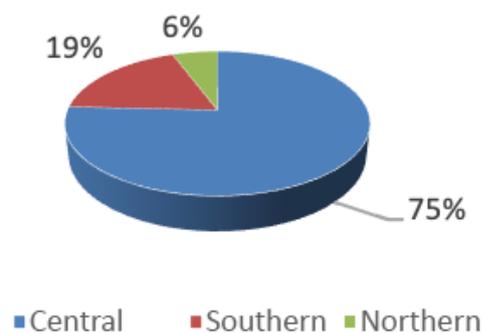
The table below shows the structure of loan portfolio per industries in December 2022. The trade sector accounted for the largest share in loan portfolio and it amounted to 18.61% of the portfolio, while the share of exposure to natural persons amounted to 40.05%.

Portfolio structure per industries as at 31 December 2021 (EUR thousand)

Industry	Amount of loan	% of portfolio	Limit
Agriculture, forestry and fishing	2.502	0,96%	40%
Mining and quarrying	4.617	1,77%	40%
Manufacturing industry	4.734	1,82%	40%
Electricity supply	6.440	2,47%	40%
Water supply	757	0,29%	40%
Construction	23.712	9,10%	40%
Wholesale, retail trade and repair of motor vehicles and motorcycles	48.481	18,61%	40%
Transport and warehousing	5.696	2,19%	40%
Accommodation and food services	18.431	7,08%	40%
Information and communication	3.099	1,19%	40%
Financial and insurance activities	11.444	4,39%	40%
Real estate business	7.210	2,77%	40%
Professional, scientific and technical activities	6.136	2,36%	40%
Administrative and support service activities	1.243	0,48%	40%
Public administration, defence and compulsory social insurance	0	0,00%	40%
Education	206	0,08%	40%
Health and social welfare	386	0,15%	40%
Art, entertainment and recreational activities	830	0,32%	40%
Other service activities	695	0,27%	40%
Activities of households as employers	0	0,00%	40%
Activities of extra-territorial organisations and bodies	0	0,00%	40%
Natural persons - residents	104.308	40,05%	45%
Non-residents	9.546	3,67%	40%
Total	260.472		

The graph below shows the exposure of the Bank to regions in December 2022. .

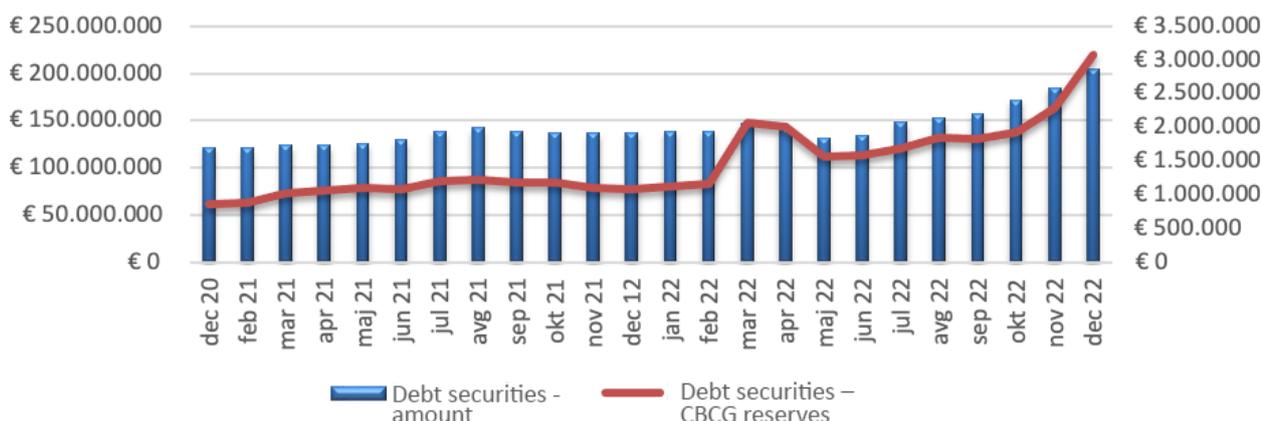
Overview of exposures by regions



Securities – within credit risk

As at 31 December 2022, portfolio of securities consisted of equity and debt financial instruments. In December, all positions in the banking book were within the statutory and internally defined limits. As at 31 December 2022, total securities owned by the Bank amounted to EUR 208,515,613. Of that amount, debt securities amounted to EUR 202,640,381, while equity securities were EUR 5,875,231.

Graph: Debt securities and reserves



Graph: Equity securities and reserves



Market Risk

The Bank analyses the following risks within **market risks**: interest rate risk from the banking book, foreign exchange risk and position risk.

Interest rate risk from the banking book is the potential negative impact of changes in interest rates on the economic value of equity (EVE) and net interest income of the Bank.

When calculating the impact of changes in interest rates on economic value of equity through gap analysis, the impact on changes in interest rates is considered in the following six scenarios:

- Parallel shock up;

- Parallel shock down;
- steeper shock (short rates down and long rates up);
- flattener shock (short rates up and long rates down);
- short rates shock up;
- short rates shock down.

Flattener shock had the largest impact on economic value of equity where the economic value of equity was reduced by 4.08% of value of Bank's Tier 1 capital. This value was significantly above the statutory limit of 20%.

The impact of parallel shock up of interest rates of 100 basis points on net interest income amounted to EUR -1,140.27 million.

Foreign exchange risk did not have any significant impact on total risk profile of the Bank. The table below shows net open FX position per individual currencies as at 31 December 2022, denominated in EUR.

Currency	Assets	Liabilities	Net position
AUD	14.726	-9.777	4.949
CAD	21.458	-18.308	3.150
DKK	20.554	-11.887	8.667
JPY	0	0	0
KWD	0	0	0
NOK	894	0	894
SEK	6.250	-2.257	3.993
CHF	2.630.100	-2.621.047	9.054
GBP	1.277.902	-1.269.195	8.707
USD	35.135.093	-34.918.943	216.151

POSITION RISK

Position risk is the risk of losses due to changes in the prices of financial instruments. As at 31 December 2022, the Bank did not have any positions in the trading book.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be able to meet its due obligations at any time. Given the Bank's strategic commitments, maintaining a high level of liquidity is an imperative in the process of managing this risk. The reputation of a highly liquid Bank is especially important for ensuring business growth through the growth of household and corporate deposits. The high level of liquidity was maintained even in the conditions of the crisis caused by the effects of the coronavirus epidemic, which indicates a stable level of deposits that the Bank has at its disposal, as well as the confidence that clients have in the Bank.

In 2022, Bank's deposit portfolio recorded a significant increase of EUR 154 million. In the coming period, the Bank will pay special attention to preserving the liquidity position and maintaining the optimal maturity structure in order to efficiently manage assets and liabilities.

The Bank will not tolerate higher liquidity risk in order to achieve higher returns, because it would jeopardize the strategically defined ratio of return and risk, as well as the reputation in the market segment recognized as key to the Bank's development - households and small and medium enterprises.

Maturity match of financial assets and financial liabilities as at 31 December 2022
(based on expected maturity)

I	Financial assets in the balance sheet	1 - 7 dana	8 - 15 dana	16 - 30 dana	31 - 90 dana	91 - 180 dana	181 - 365 dana	1 - 5 godina	Preko 5 godina	UKUPNO
1.	Cash, deposits with central banks and receivables from banks	309.074	0	0	0	0	0	19.123	0	328.197
1.a	Cash and cash equivalents	289.952								289.952
1.b	Reserve requirement	19.123						19.123		38.246
2.	Financial assets at amortised cost	35.666	667	4.289	26.652	51.931	80.456	222.250	51.478	473.391
2.a	Receivables from banks (funds with banks)	24.543								24.543
2.c	Loans to banks					3.118	6.500			9.618
2.d	Loans to clients	4.722	945	3.049	18.966	26.455	56.816	123.729	16.173	250.854
2.e	Securities	0	0	2.469	9.571	25.967	20.130	105.254	39.275	202.666
2.f	Other financial assets								2.021	2.021
2.g	Interest receivables, accruals and prepayments, and value adjustments	-171	-251	-1.117	-2.013	-3.111	-2.777	-6.370	-500	-16.311
3.	FVOCI	0	0	0	0	0	0	0	5.875	5.875
3.e	Securities								5.875	5.875
4.	Held-for-trading financial assets	0	0	0	0	0	0	0	0	0
5.	Financial assets measured at fair value through profit or loss, not held for trading	0	0	0	0	0	0	0	0	0
6.	Derivatives held for hedging	0	0	0	0	0	0	0	0	0
7.	Other assets	1.938	0	0	0	4	368	124	0	2.434
	Total :	340.277	945	42.324	123.649	32.046	83.815	153.118	50.035	826.209

II	Financial liabilities in the balance sheet	1 - 7 dana	8 - 15 dana	16 - 30 dana	31 - 90 dana	91 - 180 dana	181 - 365 dana	1 - 5 godina	Preko 5 godina	UKUPNO
1.		61.253	27.973	36.546	91.693	87.400	119.953	258.777	36.239	719.833
1.a	Financial liabilities at amortised cost	214	99	130	325	317	448	915	12	2.461
1.b	Deposits of banks and central banks	60.065	27.861	36.416	91.025	86.797	118.948	251.906	27.163	700.181
1.d	Deposits of clients	50	0	0	155	200	555	5.816	8.973	15.749
1.f	Loans of clients, other than banks	174								174
1.g	Other financial liabilities	750	12	0	188	86	1	140	90	1.268
2.	Interests and accruals and prepayments	0	0	0	0	0	0	0	0	0
3.	Held-for-trading financial liabilities	0	0	0	0	0	0	0	0	0
4.	Financial liabilities not traded and measured at fair value through profit or loss		289	104	0	0	3.990	7.979	4.987	17.349
5.	Subordinated debt	0	0	0	0	0	0	0	0	0
6.	Derivative financial liabilities as hedging instrument	10.069	0	0	1.601	0	0	0	6.873	18.543
	Other liabilities	70.572	28.250	36.650	93.105	87.315	123.941	266.617	48.008	754.457
	Total :									

III	DIFFERENCE :	1 - 7 dana	8 - 15 dana	16 - 30 dana	31 - 90 dana	91 - 180 dana	181 - 365 dana	1 - 5 godina	Preko 5 godina	UKUPNO
1.		269.705	-27.305	-31.132	-64.569	-31.771	-40.126	-18.387	15.335	71.751
2.	Maturity gap I-II	269.705	242.400	211.269	146.700	114.929	74.803	56.416	71.751	1.187.973
	Cumulative gap	35,7%	32,1%	28,0%	19,4%	15,2%	9,9%	7,5%	9,5%	
	% of total sources of funds									

Cumulative gap in all maturity columns was positive.

OPERATIONAL RISK

Operational risk is the probability of loss for the Bank, due to inadequate internal systems, processes and controls, including inadequate information technology, due to the engagement of persons outside the Bank to perform certain tasks for the Bank, weaknesses or omissions in performing tasks or internal processes, work of employees, illegal actions and external events, which may expose the Bank to risk.

Operational risk management is regulated by the Bank's internal acts, as well as the CBCG acts. The Bank identifies, on daily basis, the events arising from exposure to operational risks. The Management Board and the Committee for Non-Financial Risks are reported on the identified risks, incurred losses, as well as the measures that need to be taken in order to solve the identified problems. In the part of operational risk management, the improvement of the existing processes is constantly applied, mostly related to educating employees about the importance of identifying and reporting events related to operational risks, improvements in identifying and assessing operational risks within the self-assessment process, in the field of new products, processes and systems and outsourcing of business activities.

The objective of the Bank's operational risk management is to establish an efficient and effective operational risk management system, based on a number of risk factors to which the Bank is exposed in performing its activities, including the scope, sophistication, nature and complexity of the Bank's activities. The system ensures the following:

- Identifying the existing sources of operational risks and sources of operational risks that may arise from the introduction of new products, systems or activities;
- measuring operational risk by accurate and timely assessment of that risk;
- monitoring of operational risks by analysing the situation, changes and trends of exposure to that risk;
- controlling operational risks by maintaining that risk at a level acceptable to the Bank, reducing or eliminating it altogether;
- defining powers and responsibilities in the process of establishing an operational risk management system;
- system of reporting and informing.

Operational risk is subject to decentralised management, i.e., the organisational units that have operational risk are responsible for managing it in cooperation with the Department for Operational, Market and Other Risks Management, which is in charge of supporting the identification, measurement, mitigation and monitoring of risks, and providing a methodology to assist employees to manage risk in a timely and systemic manner.

Own Funds and Capital Adequacy

As at 31 December 2022, total own funds of the Bank amounted to EUR **58,466** million and they consist of the following:

- Common Equity Tier 1 capital in the amount of EUR **48,149** million.
- Tier 2 capital in the amount of EUR **10,317** million.

The following table shows capital adequacy ratios and minimum requirements for own funds:

CAR	31.12.2022	Min
CET1*	15.49%	7.125%
T1**	15.49%	8.625%
Total***	18.81%	10.625%

* COMMON EQUITY TIER 1 ADEQUACY RATIO

** TIER 1 ADEQUACY RATIO

*** TOTAL CAPITAL ADEQUACY

Since 1 January 2022, the regulation changed in terms of reporting of own funds. All ratios were above the statutory limits, including capital buffers determined by the Central Bank of Montenegro.

HEDGING METHODS

Hedging against placement risk is performed using proactive and preliminary analyses based on risk to return ratio (the classification by rating agencies and the CBCG, and expected return/interest), comparison of similar investments and alternatives. The Bank makes pre-analysis before making investments (by reviewing published ratings, using external ratings, and the like). Credit risk factors can be changed also during the life of an investment, and the decisions are made on keeping, reducing, selling or rescheduling the placements.

Credit risk is defined as a risk of possibility of incurring negative effects on the financial result and capital of the Bank due to the debtor's default or due to deterioration in debtor's credit rating. Default is when a client cannot repay its obligations when they become due, for instance inability to pay interest or failure to meet agreed contractual clauses. Since historically the calculations of probability of default can be done, the Bank tends to avoid classes that have had poor classification in the history.

Measurement and assessment of credit risk are performed simultaneously at the level of the account (debtor) as well as at the level of the loan portfolio.

- At the level of the debtor, the potential risk of the client is determined on the basis of a set of risk characteristics. For citizens, these characteristics include socio-demographic and behavioural characteristics, while for corporate clients, creditworthiness and potential credit risk are determined based on a set of financial risk parameters (related to the client's financial condition), as well as business risk and industry risk. The significance of a particular risk characteristic for the purposes of predicting the client's future risk is determined on the basis of an analysis of the historical data that the Bank has on its clients. Summing up all risk characteristics weighted by the probability of their occurrence gives a general measure of risk for an individual debtor.
- At the same time, the Bank measures credit risk at the level of the entire portfolio. The Bank continuously assesses its loan portfolio in terms of changes in the quality, composition and level of provisions, and identifies the causes of such changes or possible non-compliance with the targeted results. Risk analysis at the portfolio level, analysis of portfolio sub-segments, continuous testing of process efficiency and application of risk-based limits are becoming increasingly important for the Bank's lending activity.

Hedging against the risk at the level of individual account and portfolio level is performed by collateralising the loans, and in addition to the cash flow estimation (primary source of repayment), the secondary sources of repayment that can be used include deposits, guarantees, sureties, co-debtors, guarantors, mortgages, cessions.

Several classes of risk are also monitored including: 1. interest rate fluctuations; 2. reinvestment risk; 3. early repayment risk and call risk; 4. liquidity risk; 5. exchange rate risks; 6. inflation risk; 7. macroeconomic and external risks.

Hedging against them is performed as follows:

Since interest rate risk consists of a series of cash flows, risk in fixed interest rates increases with the increase of interest rate. As the interest rates grows in the market, the existing contracts have fixed interest income, the existing placements are worth less, and they are less attractive (if cash were at the account, it could be invested under higher interest rates and make higher income, opportunity cost). Since the returns are lower than the potential returns, the possibility of sale of these investments decreases i.e., the value of investments reduces.

The Bank monitors changes in interest rates and adjust them proactively by trying to have horizontal or maturity match, and therefore lower maturity gaps. New placements follow the market and periodical adjustments of lending and deposit interest rates so that interest rate spread would remain at the same level and enable the Bank better profitability.

Reinvestment risk is connected with maturity. The shorter the period the lower the risk. The risk is lower if new investments will have more significant changes in interest rates and in conditions under which they will be invested compared to the current ones. The Bank makes mainly short-term investments. The investment to legal persons accounted for the main share in the Bank, smaller portion referred to investments to natural persons, whereas the majority of them referred to consumer loans, cash loans and credit cards, and minimum housing loans. The average remaining weighed maturity of these loans is given below:

Weighted maturity	
Total portfolio	3.64
Natural persons	4.49
Legal persons	2.94

Risk of early repayment is the risk of inability to anticipate cash flows, planning and monitoring. The Bank reduces this risk by negotiating clauses on fee for early repayment of loans, which are aligned with the law on consumer loans. The fee has exclusive purpose of compensation for the expenses based on the payment of interest on deposits and credit lines from which it is funded and from which it monitors maturity match of loans and sources (liabilities, deposits and borrowings).

Liquidity risk reflects in an inability of the Bank to provide funds at the market for financing activities under the same or similar conditions, and to sell loans under the same or similar conditions. The Bank hedges against it by trying to adjust to the maximum possible extent loans with sources and by reducing maturity gaps. New loans are monitored through the spread of new price of sources. Transaction expenses of purchase of credit lines, deposits and sale of placements are compensated with fees and they are monitored on the assets side of the balance sheet of the Bank.

Exchange rate hedging is made by currency adjustment of loans with sources and by trying to have net open position at the lowest possible level. In doing so, the exchange rate fluctuations do not reflect on the profit and loss statement; they have neutral position since the positive sign on the asset side is negative sign on the liabilities side and vice versa. Also, the Bank reviews the currency of the client in which it operates and has cash flow, and it grants currency loans or make investments to these clients.

Inflation risk also affects the realistic value of money and disrupts the return on equity and the expectations of the owners of the Bank. The Bank calculates the value of cash flows in its projections by monitoring also projections of inflationary expectations in Montenegro and EUR currency. The main operations in the Bank are performed in EUR.

Many external and macroeconomic factors cannot be anticipated and viewed in the present moment. This includes political risk that the debtors will not be able to service regularly their obligations. There is also a regulatory risk, transfers of capital, natural disasters, corporate restructurings, acquisitions, mergers, and the like. The Bank monitors ratings of countries and available information and tends to keep concentration risk to individual countries, products and clients within the limits that cannot jeopardise the survival and operations of the Bank.

The Bank reduces operational risks through higher level of automation, procedures, double controls, and internal audits as overall internal controls system.

ENVIRONMENTAL INVESTMENTS

In the area of environmental protection, the Bank continues to take steps towards controlling and improving the impact it has on the environment, as well as implementing a strategy for its improvement.

In this regard, with a specific set of planned activities that make up the mentioned strategy, the Bank has shown the seriousness of its intention to prevent and limit financing that can have a negative impact on the environment, while it has oriented its business policy towards financing that encourages the provision of protection or improvement of the environment. In particular, by introducing more energy-efficient technologies in the previous business year, the Bank successfully conducted a series of trainings, primarily educating all its employees about the importance of this issue, as well as the expected participation in joint action with the aim of suppressing negative and strengthening positive externalities that banking operations can have on the environment, society as well as the overall market.

In addition, the Bank continues to find ways to use the funds from credit lines that are in line with the intention to preserve the environment, including those to improve energy efficiency of households and those from the European institutions, primarily the European Bank for Reconstruction and Development (EBRD).

In the forthcoming period, the Bank is preparing new sources of funding and products with the same objective, and it also plans to publish its efforts in this area in the format of official Report on sustainability of its operations with a view to actively contributing to the well-being of the environment and the community in which it operates.

PLANNED FUTURE DEVELOPMENT

Two macroeconomic problems that have started during 2022 and which will mark 2023 are the war in Ukraine and inflation and the fight against inflation. Forecasts of global economic growth have been drastically reduced, and all events in 2022 signal that 2023 will also be a crisis year.

Following the trends of general macroeconomic indicators of the global economy, as well as the Montenegrin economy, the Bank continues to focus its development towards raising the quality of service to its clients in all areas of business, while preserving the existing values. This implies that in the coming period the Bank will pay significant attention to:

- continuous innovation of existing technical solutions in the use of the Bank's digital services, in order to increase the availability and quality of products and services, with the aim of adapting to the needs of an even greater number of clients;
- strengthening of internal capacities through ongoing training of employees, opening of new business units;
- continuous monitoring and improvement of the system of internal controls at all levels of business in order to ensure and maintain the quality of operations at a high level, launch initiatives for revenue growth and optimization of operational efficiency;
- in order to satisfy all stakeholders of the Bank.

In order to support our business plan, we decided to accelerate two key levers of further development – digitalization and sustainability. This will allow us to increase our business momentum and ensure that we remain relevant to our clients and well equipped for the future. New technologies accelerate digitization, and our clients appreciate the flexibility that our digital services offer for their daily lives, and thus we will continue to make banking easier.

As we are a universal bank with more than 30 years of history of supporting the development of the Montenegrin economy, our values are deeply rooted in this society. We are one of the largest banks in Montenegro with a strong market position. Bearing in mind our responsibility towards current and future generations, we have made sustainability an integrated part of our business strategy. By doing so, we enable sustainable choices for our clients and drive change through our lending and investment decisions. We work every day to support the financial development of our clients, acting in their best interest.

We would not have been able to achieve the results so far without our skilled and highly dedicated employees, which strengthens the planned, continuous investment, also during 2023, in the education of employees, as it is especially important for us that clients perceive our employees as professional, proactive, kind and capable to respond to their requests.

Alignment with complex regulations, harmonized with EU standards, is ahead of us also in 2023, but we are adjusted to face the challenges.

We will persevere with supporting the community in various fields - education, culture, health, which will contribute to social and economic recovery and progress.

RESEARCH, DEVELOPMENT AND INVESTMENT IN EDUCATION OF EMPLOYEES

The Bank has continued with the promotion and activities on the affirmation of the current values. The Bank continuously monitors and participates in market research, as well as in the analyses published by renowned agencies, thus using the obtained data to position the brand.

The key elements of success and our organisational culture are based on the knowledge, skills and dedication of our employees. Therefore, the Bank continuously plans the development and improvement of the skills of its employees, both by organising trainings, which is assisted by experienced, competent employees, and by hiring reputable foreign consultants/consulting firms specialised in human resources management. We particularly consider it important to emphasize expert training seminars for our sales staff, i.e., employees in positions where communication with clients is most commonly accomplished, with the aim of improving their communication skills, styles adapted to different stages of that communication, as well as further developing of skills for understanding clients' needs, which is in their best interest. In addition, the Bank is committed to the concept of continuous development of employees in managerial positions, thus hiring external consulting teams to improve their skills in accordance with modern standards.

BUYBACK OF OWN SHARES

In 2022, the Bank did not buy its shares back.

FINANCIAL INSTRUMENTS IMPORTANT FOR THE ASSESSMENT OF FINANCIAL POSITION AND BUSINESS PERFORMANCE OF THE BANK

With regard to the financial instruments used by the Bank that are important for assessing the financial position and business performance, and for determining assets, liabilities, financial position and profit or loss, three series of subordinated Bonds issued by the Bank in 2017, 2019 and 2021 stand out, which had a positive effect on increasing long - term sources of funding and strengthening the Bank's capital adequacy ratio. In July 2023, the second series of subordinated bonds in nominal amount of EUR 4 million will mature.

NETWORK OF BANK BUSINESS UNITS

The network of Bank business units includes the following branches and sub-branches:

Branch in Podgorica

Address: Slobode 91
Phone: +382 19905
E-mail: filijala.podgorica@hb.co.me

Branch in Nikšić

Address: Trg Save Kovačevića bb
Phone: +382 19905
E-mail: filijala.niksic@hb.co.me

Branch in Bar

Address: Maršala Tita bb
Phone: +382 19905
E-mail: filijala.bar@hb.co.me

Branch in Budva

Address: Mediteranska bb
Phone: +382 19905
E-mail: filijala.budva@hb.co.me

Branch in Kotor

Address: SC Kamelija, Trg M. Petrovića bb
Phone: +382 19905
E-mail: filijala.kotor@hb.co.me

Branch in Herceg Novi

Address: Trg Nikole Đurkovića bb
Phone: +382 19905
E-mail: filijala.hercegnovi@hb.co.me

Branch in Bijelo Polje

Address: Slobode bb
Phone: +382 19905
E-mail: filijala.bijelopolje@hb.co.me

Branch in Berane

Address: Mojsija Zečevića bb
Phone: +382 19905
E-mail: filijala.berane@hb.co.me

Branch in Ulcinj

Address: 26. Novembar bb
Phone: +382 19905
E-mail: filijala.ulcinj@hb.co.me

Branch in Danilovgrad

Address: Baja Sekulića 8
Phone: +382 19905
E-mail: filijala.danilovgrad@hb.co.me

Branch in Herceg Novi

Address: Kompleks PORTONOVI, Donje naselje o4
Phone: +382 19905
E-mail: filijala.hercegnovi@hb.co.me

Branch in Podgorica

Address: Josipa Broza Tita 67
Phone: +382 19905
E-mail: ekspozitura.centrala@hb.co.me

Branch in Podgorica

Address: Svetog Petra Cetinjskog 30
Phone: +382 19905
E-mail: ekspozitura.podgorica1@hb.co.me

Branch in Podgorica

Address: Đoka Miraševića M3
Phone: +382 19905
E-mail: ekspozitura.podgorica2@hb.co.me

Sub-branch in Podgorica

Address: Cetinjski put bb, Donja Gorica
Phone: +382 19905
E-mail: ekspozitura.podgorica3@hb.co.me

Sub-branch in Podgorica

Address: Cetinjski put bb Shopping mol Delta City
Phone: +382 19905
E-mail: filijala.podgorica@hb.co.me

Branch in Cetinje

Address: Bajova 74
Phone: +382 19905
E-mail: ekspozitura.cetinje@hb.co.me

Branch in Tivat

Address: 21. Novembra 21
Phone: +382 19905
E-mail: ekspozitura.tivat@hb.co.me

Branch in Tivat – Porto Montenegro

Address: Porto Montenegro, zgrada Teuta, Obala bb
Phone: +382 19905
E-mail: ekspozitura.porto.montenegro@hb.co.me

Branch in Žabljak

Address: Narodnih heroja bb
Phone: +382 19905
E-mail: ekspozitura.zabljak@hb.co.me





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FINANCIAL REPORTS AND INDICATORS

FINANCIAL REPORTS AND INDICATORS

BALANCE SHEET

as at 31 December 2022 (EUR '000)

	ASSETS	31-Dec-2022	31-Dec-2021
1.	Cash and deposit accounts with central banks	328,197	235,881
2.	Financial assets at amortised cost	473,391	271,117
2.a.	Loans and receivables from banks	34,018	43,894
2.b.	Loans and receivables from clients	236,812	221,729
2.c.	Securities	200,539	3,552
2.d.	Other financial assets	2,021	1,942
3.	Financial assets at fair value through other comprehensive income	5,875	139,886
3.a.	Loans and receivables from banks	-	-
3.b.	Loans and receivables from clients	-	-
3.c.	Securities	5,875	139,886
3.d.	Other financial assets	-	-
4.	Held-for-trading financial assets	-	7,465
4.a.	Loans and receivables from banks	-	-
4.b.	Loans and receivables from clients	-	-
4.c.	Securities	-	7,465
4.d.	Other financial assets	-	-
5.	Financial assets carried at fair value through profit and loss, not held for trading	-	-
6.	Derivative financial assets as hedging instruments	-	-
7.	Changes in the fair value of items being subject to hedging	-	-
8.	Investments in associates, subsidiaries and joint ventures at equity method	-	-
9.	Investment properties	-	-
10.	Property, plant and equipment	8,750	4,809
11.	Intangible assets	2,056	1,996
12.	Current tax assets	-	-
13.	Deferred tax assets	109	284
14.	Non-current assets held for sale and discontinued operations	-	-
15.	Other assets	4,460	2,293
16.	TOTAL ASSETS:	822,839	663,731
	LIABILITIES		
17.	Financial liabilities carried at amortised cost	719,833	573,036
17.a.	Deposits of banks and central banks	2,460	1,714
17.b.	Deposits of clients	701,434	548,259

17.c.	Borrowings from banks and central banks	-	-
17.d.	Borrowings from clients other than banks	15,764	22,667
17.e.	Securities	-	-
17.f.	Other financial liabilities	174	397
18.	Held-for-trading financial liabilities	-	-
19.	Financial liabilities not traded and measured at fair value through profit or loss	-	-
20.	Derivative financial liabilities as hedging instruments	-	-
21.	Changes in the fair value of items being subject to hedging	-	-
22.	Provisions	1,068	1,127
23.	Liabilities on non-current assets held for sale and discontinued operations	-	-
24.	Current tax liabilities	1,178	464
25.	Deferred tax liabilities	-	-
26.	Other liabilities	20,961	16,528
27.	Subordinated debt	17,348	17,232
28.	TOTAL LIABILITIES:	760,388	608,388
CAPITAL			
29.	Share capital	52,362	52,362
30.	Issue premiums	-	-
31.	Retained earnings	4,341	-61
32.	Current year profit/loss	6,042	4,384
33.	Other reserves	-294	-1,341
34.	Non-controlling interests in equity	-	-
35.	TOTAL CAPITAL: (29. do 34.)	62,451	55,344
36.	TOTAL CAPITAL AND LIABILITIES: (28. + 35.)	822,839	663,731

PROFIT AND LOSS STATEMENT

From 1 January to 31 December 2022 (EUR '000)

	POSITION	31-Dec-2022	31-Dec-2021
1.	Interest income and similar income	18,390	17,643
2.	Interest income on impaired loans	732	342
3.	Interest expenses and similar expenses	2,529	3,180
I.	NET INTEREST INCOME (1 + 2 - 3)	16,593	14,805
4.	Fee and commission income	23,101	15,584
5.	Fee and commission expenses	13,493	9,675
II.	NET FEE AND COMMISSION INCOME (4-5)	9,607	5,909
6.	Net gains/losses from derecognition of financial instruments not carried at fair value through profit or loss	3	192
7.	Net gains/losses on held-for-trading financial instruments	-59	272
8.	Net gains/losses from financial instruments carried at fair value through profit or loss, not held for trading	-	-
9.	Changes in fair value in hedge accounting	-	-
10.	Net gains/losses from FX revaluation	1,193	531
11.	Net gains/losses from derecognition of other assets	-5	237
12.	Other income	314	236
13.	Employee expenses	7,255	5,969
14.	Depreciation expenses	2,514	2,381
15.	Overhead and administrative expenses	7,920	7,173
16.	Net gains/losses from modification and reclassification of financial instruments	-	-
17.	Net gains/losses from impairment of financial instruments not carried at fair value through profit or loss	2,709	1,363
18.	Provision expenses	-13	234
19.	Other expenses	72	213
III.	PROFIT/LOSS BEFORE TAX: I+II+6+7+8+9+10+11+12-13-14-15-16-17-18-19	7,191	4,849
21.	Profit tax	1,149	465
22.	NET PROFIT/LOSS (III - 21)	6,042	4,384

PROFIT AND LOSS STATEMENT

In 2022, the Bank recorded profit of EUR 6,042 million. Interest income rose by 6.32% compared to the previous year and they amounted to EUR 19,123 million, which was the result of the investment in securities and an increase in lending activity.

Fee income increased by 48.23% compared to the previous year, and they amounted to EUR

23,101 million. The increase in fee income mostly referred to the increase in fee income based on card operations and payment transactions. Net fee income amounted to 40.87% of net income arising from regular operations of the Bank.

Other income fell by 1.37% in the observed period, and they amounted to EUR 1,448 million.

Operating expenses, including depreciation, amounted to EUR 17,761 million, and they rose by 12.87% compared to the previous year. The expenses growth was due to the increased activities of the Bank that refer to the development of business network, the number of employees as well as other expenses following the operations of the Bank.

CAPITAL

As at 31 December 2022, total capital of the Bank amounted to EUR 64,850 million. It saw an increase of 17.18% compared to the previous year.

As at 31 December 2022, share capital amounted to EUR 52,362 million in nominal terms. The share capital consisted of 10,241,148 shares, and nominal amount of each share was EUR 5,1129.

INDICATORS

As at 31 December 2022, the position of the Bank in the Montenegrin banking system, according to the last, publicly disclosed, data on financial statements of all banks in Montenegro was as follows:

BALANCE SHEET CATEGORIES	RANK
Securities	1
Loans and receivables from banks and clients	4
Deposits of banks and clients	2
Total capital	4
Total balance sheet	3
Net interest income	4
Net fee and commission income	2
Net profit	5

Financial indicators as at 31 December 2022:

- ROAA – 0.81%
- ROAE – 10.26%

MANAGEMENT BOARD

Member of the Management Board
Jelena Vuletić

Chairperson of the Management Board
Esad Zaimović

Member of the Management Board
Ana Golubović

Member of the Management Board
Nikola Špadijer

Member of the Management Board
Nataša Lakić

