HIPOTEKARNA BANKA A.D. PODGORICA

Financial statements
Year ended December 31, 2022
and Independent Auditor's report

Content	**Page**

Crowe MNE d.o.o.
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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.

Key Audit Matters	Appropriate audit procedure
Impairment of given loans and receivables from clients and provisions for off-balance sheet items	
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.

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INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters (continued)

Key Audit Matters	Appropriate audit procedure
Impairment of given loans and receivables from clients and provisions for off-balance sheet items	
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. The most significant consideration relates to: • Assumption that are used in the model of expected credit loss for the assessment od 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. • 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.	Our audit procedures included: • 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.

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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.

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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.

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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

INCOME STATEMENT
For the period from January 1 to December 31 2022

(In thousands of EUR)

	Notes	2022	2021
Interest income and similar income	3.1, 6	18,390	17,643
Interest income on impaired loans		732	342
Interest expenses and similar expenses	3.1, 6	(2,529)	(3,180)
NET INTEREST INCOME		**16,593**	**14,805**
Fee and commission income	3.1, 9	23,101	15,584
Fee and commission expense	3.1, 9	(13,493)	(9,675)
NET FEE AND COMMISSION INCOME		**9,608**	**5,909**
Net profit/loss due to the derecognition of financial instruments not valued at fair value through profit and loss		3	192
Net profit/loss on account of financial instruments held for trading		(59)	272
Net exchange rate gains		1,193	531
Net profit/loss from the derecognition of other property		(5)	237
Other income	14	314	236
Employee expenses	10	(7,255)	(5,969)
Depreciation expenses	12	(2,514)	(2,381)
General and administrative expenses	11	(7,920)	(7,173)
Net income/expenses due to the depreciation of financial instruments not valued at fair value through profit and loss	3.8, 7	(2,709)	(1,363)
Provisioning costs	3.8, 8	13	(234)
Other expenses	13	(71)	(213)
OPERATING PROFIT		**7,191**	**4,849**
Income tax	3.6, 15	(1,149)	(465)
NET PROFIT		**6,042**	**4,384**
Earnings per share	32	0.59	0.43

These financial statements were approved by the Board of Directors of Hipotekarna banka A.D. Podgorica on March 9, 2022 in Podgorica.

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

Esad Zaimović
President of the Management Board

Ana Golubović
Board member

Jelena Vuletić
Board member

Nikola Špadijer
Board member

Nataša Lakić
Board member

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from January 1 to December 31 2022

(In thousand EUR)

	2022	2021
Net profit	**6,042**	**4,384**
Total other comprehensive income		
Effects of changes in value of securities measured at fair value through other comprehensive income	1.253	(2,768)
Income tax based on assets of other comprehensive income	(205)	266
Total other result for current year	**1,048**	**(2,502)**
TOTAL OTHER COMPREHENSIVE INCOME	**7,090**	**1,882**

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BALANCE SHEET
As at December 31, 2022
(In thousands of EUR)

	Notes	December 31, 2022	December 31, 2021	January 1, 2021
ASSETS				
Cash and cash balances and deposits accounts with central banks	3.7, 16	**328,197**	**235,881**	**163,390**
Financial assets at amortized cost		**473,391**	**271,117**	**240,348**
Loans and receivables from banks	3.8, 17.1	34,019	43,893	22,060
Loans and receivables from clients	3.8, 17.2	236,812	221,729	215,395
Securities	17.3	200,539	3,552	1,107
Other financial assets		2,021	1,943	1,786
Financial assets at fair value through other comprehensive income		**5,875**	**139,886**	**128,150**
Securities	18.1	5,875	139,886	128,150
Financial assets held for trading		**-**	**7,465**	**-**
Securities	18.2	-	7,465	-
Property, plant and equipment	3.10, 19	**8,750**	**4,809**	**6,214**
Intangible assets	20	**2,056**	**1,996**	**2,019**
Deferred tax assets	15c	**110**	**284**	**27**
Other assets	21	**4,460**	**2,293**	**2,433**
TOTAL ASSETS		**822,839**	**663,731**	**542,581**
LIABILITIES				
Financial liabilities at amortized cost		**719,833**	**573,036**	**451,662**
Deposits due to banks and central banks	22.1	2,461	1,714	1,214
Deposits due to customers	22.2	701,434	548,259	428,346
Borrowings from clients other than banks	22.3	15,764	22,667	22,048
Other financial liabilities		174	396	54
Reserves	23	**1,068**	**1,127**	**1,453**
Current tax liabilities		**1,178**	**464**	**342**
Deferred tax liabilities	15c	**-**	**-**	**23**
Other liabilities	24	**20,961**	**16,528**	**13,301**
Subordinated debt	**26**	**17,348**	**17,232**	**22,256**
TOTAL LIABILITIES		**760,388**	**608,387**	**489,037**
EQUITY				
Share equity	25	52,362	52,362	16,006
Share premium		-	-	7,444
Retained earnings/losses		4,341	(61)	25,425
Current year profit		6,042	4,384	3,488
Other reserves		(294)	(1,341)	1,181
TOTAL EQUITY		**62,451**	**55,344**	**53,544**
TOTAL EQUITY AND LIABILITIES		**822,839**	**663,731**	**542,581**
OFF-BALANCE SHEET ITEMS	28	**933,278**	**877,361**	**753,678**

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STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 2022

(In thousand EUR)	Share capital	Share premium	Current year profit	Other reserves	Total
Balance as of 1 January 2021	16,006	7,444	28,913	1,181	**53,544**
Emission of shares	36,356	(7,444)	(28,912)	-	**-**
Effect of the fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(2,502)	**(2,502)**
Other effect of securities on capital	-	-	(62)	-	**(62)**
Profit of the year	-	-	4,384	-	**4,384**
Actuarial losses/gains, net	-	-	-	(20)	**(20)**
Balance as of 31 December 2021	**52,362**	**-**	**4,323**	**(1,341)**	**55,344**
					-
Balance as of 1 January 2022	**52,362**	**-**	**4,323**	**(1,341)**	**55,344**
Reclassification of debt instruments measured at fair value through other comprehensive income at amortized cost	-	-	-	17,991	**17,991**
Effect of the fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(16,943)	**(16,943)**
Other effect of securities on capital	-	-	18	-	**18**
Profit of the year	-	-	6,042	-	**6,042**
Actuarial losses/gains, net				(1)	**(1)**
Balance as of 31 December 2022	**52,362**	**-**	**10,383**	**(294)**	**62,451**

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STATEMENT OF CASH FLOWS
For the period from 1 January to 31 December 2022

(In thousand EUR)

Cash flows from business activities	**2022**	**2021**
Inflows from interest and similar income	18,001	16,920
Outflows from interest and similar income	(2,801)	(2,498)
Inflows from fees and commissions	23,101	15,584
Outflows from fees and commissions	(13,493)	(9,675)
Outflows from employee salaries and supplier costs	(18,841)	(22,337)
Increase/reduction of credits and other assets	(18,367)	(6,857)
Inflows from deposits and other liabilities	154,272	118,200
Paid taxes	(1,266)	(880)
Other outflows	(47,045)	(24,299)
Cash inflow/outflow from business activities	**93,561**	**84,158**
Cash flows from investing activities		
Purchase of property and equipment	(618)	(616)
Purchase of intangible assets	(458)	(529)
Treasury bills	(8,840)	10,000
Inflows from the sale of material and long-term assets	11	18
Cash inflow/outflow from investing activities	**(9,905)**	**8,873**
Cash flows from financial activities		
Increase/reduction of borrowed assets	(6,896)	627
Cash inflow/outflow from financial activities	**(6,896)**	**627**
Exchange rate effect on cash and cash equivalents	1,193	531
Net increase/reduction of cash and cash equivalents	**77,953**	**94,189**
Cash and cash equivalents at the beginning of the period	**274,788**	**180,599**
Cash and cash equivalents at the end of the period	**352,741**	**274,788**

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1. ESTABLISHMENT AND OPERATIONS OF THE BANK

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

In accordance with the Law on Banks, Founder's Agreement, Articles of Association and Decision of the Central Bank of Montenegro, the Bank performs the operations of receiving monetary deposits and extending credits for its own account.

In addition to the banking operations referred to in the previous paragraph, the Bank may also perform basic and additional financial services:

Basic financial services are considered to be:

- receiving deposits or other refunds;
- approval of loans, including consumer loans, mortgage loans and loans for financing commercial operations, purchase of receivables with or without recourse (factoring), including export financing based on the purchase with a discount and without recourse of long-term overdue receivables secured by financial instruments (forfeting);
- financial lease;
- provision of payment services in accordance with a special law
- issuing of guarantees or other guarantees;
- trading for own account or client's account
-     - money market instruments (cheques, bills of exchange, certificates of deposit),
-     - transferable securities,
    - foreign means of payment, including exchange transactions,
    - financial futures and options,
    - currency and interest instruments;
- services directly related to loan services, such as: data collection, analysis and providing information on the creditworthiness of legal entities and entrepreneurs;
- issuing other payment instruments and managing those instruments, if the provision of these services is not considered the provision of services from point 6 of this paragraph, and in accordance with the law;
- rental of safes;
- mediation in concluding deals on the money market;
- participating in the issuance of financial instruments and providing services related to the issuance of financial instruments, in accordance with the regulations governing the capital market;
- management of clients' assets and consulting in connection with the management of these assets;
- custody services, in accordance with the regulations regulating the capital market;
- advising legal entities in relation to capital structure, business strategy and similar issues and providing services related to status changes, acquisition of shares and shares in other companies;
- issuance of electronic money;
- investment and auxiliary services and activities in accordance with the law governing the capital market, which do not represent services from point 1 to 15 of this paragraph.

Additional financial services are considered to be:

- representation and mediation in insurance, in accordance with the law regulating insurance;
- provision of payment systems management services, in accordance with the law governing payment transactions;
- other services that the credit institution can provide in accordance with the provisions of the law;
- gold trading;
- data delivery services in accordance with the regulations governing the capital market;
- other services or jobs that, considering the way they are provided and the risk to which the Bank is exposed, have similar characteristics as basic financial services.

The bank may, with the prior approval of the Central Bank, perform other tasks in accordance with the law.

1. ESTABLISHMENT AND OPERATIONS OF THE BANK (Continued)

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

- Transactions with securities:
  - broker trading
  - dealer trading
  - investment advising.

The bank also performs insurance representation operations, which are regulated by the Insurance Act and the relevant by-laws of the Insurance Supervision Agency.

Bank authorities are:

1) shareholders' Assembly
2) supervisory board and
3) management board

Shareholders' Assembly
The shareholders' assembly is the highest authority of the Bank.
The shareholders' assembly consists of the Bank's shareholders, whose interests can be represented by authorized proxies.

Supervisory Board
The Supervisory Board is the Bank's management body that performs the function of supervising the Bank's operations and whose competences are determined by the Law on Credit Institutions, the Law on Business Companies and the Bank's Statute.

Members of the Bank's Supervisory Board are elected by the Shareholders' Assembly, with prior approval from the Central Bank of Montenegro. The mandate of the members of the Bank's Supervisory Board lasts 4 years and they can be re-elected. The members of the Supervisory Board must together have the professional knowledge, abilities, and experience necessary for independent and independent supervision of the Bank's affairs, and especially for understanding the Bank's affairs and significant risks.
The Supervisory Board has a minimum of 5 (five) and a maximum of 9 (nine) members, of which two fifths are independent members, in accordance with the provisions of the Law on Business Companies.
The Supervisory Board of the Bank formed the following permanent working bodies:

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

Management Board
The Management board is the Bank's management body that performs an executive function and is responsible for managing the Bank daily and its representation, and whose competences are determined by the Law on Credit Institutions, the Law on Business Companies, by-laws and the Bank's Statute.
The Management board manages the Bank's affairs and supervises the work of the Bank's employees daily.
The Management board of the Bank's ensures that the Bank complies with the regulations governing the Bank's operations, and that it establishes and implements a reliable Bank management system in accordance with the Law on Credit Institutions.
The Management Board of the Bank has five members who are appointed by the Supervisory Board for a period of four years, with the fact that the member whose mandate expires can be reappointed.
The members of the Management Board are elected and appointed by the Supervisory Board of the Bank.
The Bank's headquarters are in Podgorica, at street Josipa Broza Tita no. 67. On December 31,2022, the total number of employees in the Bank is 240, of which 11 have master's degrees (5%), 110 have higher professional qualifications (46%), 62 have bachelor's degrees (27.1%) and 57 have secondary professional qualifications (23%)

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis for the preparation and presentation of financial statements

The Bank's financial statements for 2022 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the regulations of the Central Bank of Montenegro that regulate the financial reporting of banks.

The attached financial statements have been prepared in the form prescribed by the Decision on the content, terms and method of preparing and submitting financial statements of banks ("Official Gazette of Montenegro" No. 034/22).

The financial statements prepared for the year ended December 31, 2022 are the first financial statements prepared by the Bank in accordance with International Financial Reporting Standards.

The accounting policies and estimates regarding the recognition and valuation of assets and liabilities used in the preparation of these financial statements are consistent with the accounting policies and estimates applied in the preparation of the Bank's annual financial statements for 2021.

The financial statements have been prepared under the historical cost basis, except otherwise stated in accounting policies.

In compiling these financial statements, the Bank applied the accounting policies explained in the note Overview of significant accounting policies.

The Bank's financial statements are expressed in thousands of euros (EUR), which is the functional currency of the Bank and the official currency in which financial statements are submitted in Montenegro. Unless otherwise indicated, all amounts are in thousands of EUR.

2.2. Rules of estimates

The financial statements are prepared under the historical cost basis, except for the following positions, which are valued at fair value:
- financial instruments at fair value through profit and loss,
- financial instruments at fair value through other comprehensive income,
- financial liabilities at fair value through the income statement.

2.3. Functional and reporting currency

The Bank's financial statements are expressed in euros (EUR), which is the functional currency of the Bank and the official currency in which financial statements are submitted in Montenegro. Unless specified otherwise, all amounts are presented in thousands of EUR.

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

2.4. Use of assessment

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

The assessments and the assumptions on which the assessments were made are the result of regular verification. If the verification ascertains that there have been changes to the assessed value of assets and liabilities, the ascertained effects are recognised in the financial statements in the period when the change in the assessment occurred, if the change in the assessment affects only that accounting period, or in the period when the change in the assessment occurred and the following accounting periods, if the change in the assessment affects the current and future accounting periods.

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

2.5. Going concern

The Bank's management continues to assess with reasonable certainty that the Bank will continue operating at a profit in the foreseeable future. Accordingly, the Bank's financial statements have been prepared in accordance with the going concern concept, which implies that the Bank will continue to operate in future.

2.6. Reconciliation of receivables and liabilities

In accordance with the applicable legal regulations, the Bank has reconciled its receivables and liabilities with the Bank's debtors and creditors as at 31 December 2022.

2.7. Consolidation

The Bank does not control any entities.

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

2.8 Comparative Data

Comparative data on these financial statements represent data from the Bank's audited financial statements as of and for the year ended December 31, 2021.

If necessary, the Bank reclassifies comparative data in order to achieve consistency in the data from the financial statements for the current year.

2.9 Implementation of the new standards and amendments to existing ones

The new standards, interpretations and their amendments are listed below.

The following new standards, interpretations and changes to existing standards are mandatory for reporting periods starting on January 1, 2022:

Standard	Name	Description	Active for the next financial year
IFRS 16	Changes to IFRS 16 Leases	Lease concessions related to Covid-19	From April 2021
IFRS 1, IFRS 9, IFRS 16	Annual improvements to IFRS in the cycle from 2018 to 2020	IFRS 1 First-time implementation of IFRS, IFRS 9 Financial instruments, IFRS 16 Leases	2022
IAS 16	IAS 16 Property, Plant and Equipment	Income before intended use	2022
IAS 37	IAS 37 Provisions, Contingent Liabilities and Contigent Assets	Froud contracts	2022

2.9.1. Changes to IFRS 16 Leases: Lease Concessions Related to Covid-19

Amendments to IFRS 16 Leases (Covid-19 Lease Concessions) extend the practical benefit of the Covid-19 concessions for any change in lease payments initially due on or before June 30, 2022. As a practical convenience, the lessee may choose not to assess whether the assignment of leases in relation to Covid-19 is a contractual change of lease or not. A tenant who makes this choice treats any change in contract payments that results from a concession related to Covid-19 in the way that change is not a lease modification. This amendment applies to annual reports beginning on or after April 1, 2021. Earlier application is allowed. Addiko Bank has chosen not to use this practical convenience.

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

2.9 Implementation of the new standards and amendments to existing ones (Continued)

2.9.2. Annual improvements to IFRS in the cycle form 2018 to 2020

Collection of annual improvements to IFRS 2018-2020. includes amendments to the following standards:
The amendments to IFRS 1 allow a subsidiary applying paragraph D16(a) of IFRS 1 to measure cumulative exchange rates using amounts reported by the parent, based on the date of the parent's transition to IFRS.
Amendments to IFRS 9 clarify which charges an entity includes when applying the "10 percent" test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on behalf of the other.
The amendment to IFRS 16 relates only to the changes in illustrative example 13 (no effective date specified).
The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. These amendments do not lead to significant changes within Bank.

2.9.3 IAS 16 Property, plant and equipment

The amendments to IAS 16 relate to income generated before an item of property, plant and equipment is ready for use. Costs of testing to verify that an item of property, plant and equipment is functioning properly are still directly attributable costs. If goods have already been produced as part of such trials, sales revenue and production costs must be recognized in the profit and loss account in accordance with the relevant standards. Therefore, it is no longer allowed to net the income with the costs of the item of property, plant and equipment. The amendment applies to annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. These amendments do not lead to significant changes within Bank.

2.9.4. IAS 37 Provisions, Contingent, Liabilities and Contingent Assets

Amendments to IAS 37 clarify which costs should be considered contract performance costs when assessing whether a contract is harmful. Contract fulfillment costs include costs directly related to the contract. They can be incremental costs of contract fulfillment or distribution of other costs directly related to contract fulfillment.
The amendment applies to annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. These amendments do not lead to significant changes within Bank.
Bank did not adopt new standards early, interpretations and amendments to existing standards issued by the IASB, but which have not yet entered into force, and it is not expected that the application of these standards, interpretations and amendments will have a significant impact on Bank's financial statements.

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

2.9 Implementation of the new standards and amendments to existing ones (Continued)

2.9.5. New standards - not yet in use

The following new standards, interpretations and amendments to existing standards issued by the IASB and adopted by the EU that are not yet in force and that Bank has not adopted early:

Standard	Name	Description
IFRS 17	IFRS 17 Insurance Contracts	New standard replacing the IFRS 4
IFRS 17	Amendments to IFRS 17 Insurance Contracts	Initial implementation of IFRS 17 and IFRS 9 – Comparative information
IAS 1	Amandments to IAS 1 - Presentation of FInancial Statements	Disclosure of Accounting Policies
IAS 8	Amandments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Deffinicion of Accounting Estimates
IAS 12	IAS 12 Income tax	Deferred taxes related to assets and liabilities arising from a single transaction

The new standard IFRS 17 Insurance Contracts will replace IFRS 4 Insurance Contracts. It applies to annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. It is not expected that this new standard and its amendments will lead to significant changes within Bank.

The amendments to IAS 1 clarify the requirements for disclosure of materially significant accounting policies instead of significant accounting policies. The amendment applies to annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. These changes are not expected to result in significant changes within Bank.

The amendments to IAS 8 replace the definition of changes in accounting estimates with the definition of accounting estimates. According to the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." Entities develop accounting estimates if accounting policies require that financial statement items to be measured in a manner that involves measurement uncertainty. The appendices clarify that a change in accounting estimate resulting from new information or new events is not a correction of an error.
Furthermore, the effects of a change in the input or measurement technique used to make an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in accounting estimate may affect only the profit or loss of the current period or the profit or loss of both current and future periods. The amendment applies to annual reporting periods beginning on or after January 1, 2023. Earlier application is allowed. These changes are not expected to result in significant changes within Bank

The amendments to IAS 12 provide additional exceptions to the initial recognition exception. As amended, an entity does not apply the exemption from initial recognition for transactions that give rise to equal taxable and deductible temporary differences. Depending on the tax law, equal taxable and deductible temporary differences may arise during the initial recognition of assets and liabilities in a transaction that is not a business combination and does not affect either accounting or taxable profit. Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset subject to the recoverability criteria in IAS 12. The amendment applies to annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. These changes are not expected to result in significant changes within Bank.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The principal accounting policies applied in the preparation of financial statements for 2022 are stated below.

3.1. Interest income and expenses

Interest income and expenses are disclosed in the income statement using the effective interest rate method. The effective interest rate represents the rate that accurately discounts future inflows and outflows during the expected term of the financial instrument to:
- The gross book value of the financial asset or
- Depreciated value of the financial liability.

The effective interest rate method is a method of calculating the amortized value of financial assets or financial liabilities and allocating income based on interest or expenses based on interest over appropriate time periods. The effective interest rate is the rate that discounts estimated future cash payments or inflows over the expected life of the financial instrument or, where practicable, a shorter period to the present value of the financial assets or financial liabilities. When calculating the effective interest rate, the Bank evaluates cash flows considering all the contractual terms of financial instruments (eg advance payment options), but does not consider future losses based on credit risk. The calculations include all fees and commissions paid or received between the contracting parties that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.
The amortized value of the financial asset or financial liability represents the amount at which the financial asset or financial liability was valued at the time of initial recognition of the reduction for principal repayments and increased or decreased by cumulative depreciation, calculated using the effective interest rate, the difference between the initial amount and the amount at maturity, and for financial assets, adjusted for expected credit loss.

The gross book value of a financial asset is the amortized value of the financial asset before deduction for expected credit loss.

The effective interest rate for financial assets and liabilities is calculated upon initial recognition of the financial asset or liability. When calculating interest income and expenses, the effective interest rate is applied to the gross book value of assets (if the asset is not credit-impaired) or the amortized value of liabilities. For financial instruments with a variable interest rate, the effective interest rate changes as a result of periodic cash flow assessments to reflect market movements in interest rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Interest income and expenses (Continued)

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

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

3.2. Income and expenses from fees and commissions

Income and expenses from fees and commissions that are integral to the effective interest rate of a financial asset or financial liability are included in the calculation of interest income and expenses with the application of the effective interest rate method.

Income from fees and commissions is recognized in the moment when the corresponding service has been performed. Income from fees and commissions includes the fees calculated and charged by the Bank for the performance of payment transaction services in the country and abroad, advanced sales channels, guarantee and letter of credit operations, and other services.

Expenses from fees and commissions usually pertain to fees for the performance of payment transaction services in the country and abroad, advanced sales channels, and fees for other services, which are recognized as expenses in the moment when the corresponding service is performed.

3.3. Net profit/(loss) on account of financial instruments held for trading

Net profit/(loss) on account of financial instruments held for trading includes profit reduced by losses on account of financial assets and financial liabilities intended for trading, including all realized and unrealized changes to the fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Conversion of foreign currency amounts

Business changes occurring in foreign currencies are converted into EUR using the middle exchange rate established in the interbank foreign currency market valid on the date of the business change.

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

Net exchange rate gains or losses that resulted from business transactions in a foreign currency or during the conversion of balance sheet items disclosed in a foreign currency are credited or debited to the income statement, as exchange rate gains or losses.

Assumed and contingent liabilities in a foreign currency are converted into EUR using the middle exchange rate in the interbank foreign currency market valid on that date.

3.5. Leases

Based on a leasing agreement, the Company acts as a lessee. The Company classifies leasing as financial leasing in the case when the agreement regulates that essentially all risks and benefits arising from ownership of the object of lease are transferred to the lessee. All other leasing agreements are classified as operating lease agreements.

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

The assets held under a financial leasing agreement are recognized as assets of the Company at their fair value, or if that value is lower, at the present value of minimum leasing instalments specified at the start of the leasing agreement period. As at the balance sheet date, the leasing liability is disclosed at the present value of minimum leasing payments.

Leasing instalments are divided into the part pertaining to the financial cost and the part that reduces the financial leasing liability, so that a constant interest rate is achieved on the remaining part of the liability. The financial cost is disclosed directly as an expense of the period.

International Financial Reporting Standard 16 – Leases (hereinafter: IFRS 16) mandates that the Bank calculates the present value of a liability under a leasing agreement taking into account the agreed lease payments, period of leasing and the discount rate.

The agreed net amount is used for the calculation of the present value of assets with the right to use and for the calculation of the leasing liability. The amounts of VAT that cannot be exempted under leasing agreements concluded with legal persons and income tax of citizens under leasing agreements concluded with individuals are recorded as an expense of the period.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Leases (Continued)

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

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

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

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

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

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

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

3.6. Taxes and contributions

Income tax

Current income tax

Income tax is calculated and paid in accordance with the Law on Corporate Income Tax ("Official Gazette of the Republic of Montenegro" No. 65/01, 12/02, 80/04, No. 40/08, 86/09, 14/ 12, 61/13, 55/16, 146/21 and 152/2022) by applying the prescribed rate to the amount of taxable profit shown in the tax balance sheet.

The amount of taxable profit is determined by reconciling the profit shown in the income statement with the amounts of income and expenses in the manner defined by tax regulations.
Corporate income tax is calculated by applying a progressive rate to the total profit reported in the tax balance sheet.
The tax rates on the amount of taxable profit are:

1) up to EUR 100,000.00 9%;
2) from EUR 100,000.01 to EUR 1,500,000.00: EUR 9,000.00 + 12% on the amount over EUR 100,000.01;
3) over 1,500,000.01 euros: 177,000.00 euros + 15% on the amount over 1,500,000.01 euros

Taxable profit is determined based on the Bank's profit shown in the income statement with the adjustment of income and expenses in accordance with the provisions of the Law on Corporate Income Tax (Articles 8 and 9 for the adjustment of income and Articles 10 to 20 for the adjustment of expenses).

Capital losses can be offset against capital gains realized in the same year. If a capital loss occurs even after offsetting with capital gains realized in the same year, the taxpayer can transfer the capital loss to the account of future capital gains in the following five years.

The tax regulations of Montenegro do not provide that tax losses from the current period can be used as a basis for the refund of tax paid in previous periods. However, losses from the current period shown in the tax balance can be used to reduce the tax base of future accounting periods, but not longer than five years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Taxes and contributions (Continued)

Income tax (Continued)

Deffered income tax

Deferred income tax is calculated using the method of determining liabilities according to the balance sheet, for temporary differences resulting from the difference between the tax base of receivables and liabilities and their book value. Tax rates in effect at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and tax losses and credits, which can be carried forward to subsequent fiscal periods, to the extent that it is probable that taxable profit will exist against which the deferred tax assets can be utilised.

Taxes, contributions, and other levies not dependent on the operating income

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

3.7. Cash and cash equivalents

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

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

3.8 Financial instruments

3.8.1. Recognition

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

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

3.8.2. Classification

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

- Financial assets valued at amortized cost (AC);
- Financial assets valued at fair value through other comprehensive income (FVOCI);
- Financial assets that have to be valued at fair value through profit and loss (mandatory FVTPL)
- Financial assets that are optionally valued at fair value through profit and loss (optoinal FVTPL)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments

3.8.2. Clasification (Continued)

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

3.8.3. Financial assets and liabilities

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

The Bank only measures Loans to banks, loans and advance payments made to clients, and other financial investments at amortized cost if both of the following requirements are met:

- The financial asset is held in the business model with the aim of holding the financial asset for the purpose of obtaining the agreed cash flows.
- On certain dates, the terms of the agreement regarding the financial asset yield cash flows that are solely payment of principal and interest (SPPI) on outstanding principal.

3.8.3.2 Assessment of the business model

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

The Bank's business model is not assessed based on each individual instrument, but at a higher level of grouped portfolios, and is based on observed factors, such as:

- The way the performance of the business model and financial assets in that business model are assessed and the way they are reported to the key personnel in the management;
- The risks affecting the performance of the business model (and of financial assets in that business model), and especially the way those risks are managed;
- The manner in which fees to managers are determined (for example, whether the fee was based on the fair value of the asset being managed, or based on collected agreed cash flows);
- Expected frequency, value and time of sale are also important aspects of the Bank's assessment.

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

3.8.3.3 SPPI test

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.3. Financial assets and liabilities (Continued)

3.8.3.3 SPPI test (Continued)

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

3.8.3.4 Debt instruments valued at FVOCI

Under IFRS 9, the Bank applies the new category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held in the business model, whose aim is achieved by collecting the agreed cash flows and selling the financial assets;
- The terms of agreement of the financial asset pass the SPPI test.

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

3.8.3.5 Equity instruments at FVOCI

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

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

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

Financial assets and financial liabilities in this category are not held for trading and are defined by the management during initial recognition, or must be measured at fair value under IFRS 9. This classification is defined at the instrument-by-instrument principle, when one of the following criteria is met:

- Classification eliminates or significantly reduces the inconsistent treatment that would otherwise result from the measurement of assets or liabilities or recognition of gains or losses on them on a different basis, or
- Liabilities are a part of the group of financial liabilities (or financial assets, or both under IAS 39), which are managed, and whose work is assessed at fair value, in accordance with the documented risk management or investment strategy, or
- Liabilities containing one or more embedded derivatives, unless they considerably modify cash flows that would otherwise be contractually required, or when a similar instrument is first considered, it is clear with little or no analysis that the separation of an embedded derivative or multiple derivatives is prohibited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.3. Financial assets and liabilities (Continued)

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

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

3.8.4. Reclassification of financial assets and liabilities

The Bank reclassifies its financial assets after their initial recognition, in cases of business model change, and in exceptional circumstances when the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. Reclassification of financial assets is carried out from the date of reclassification, whereby previously recognized profit, losses (including expected credit losses) and interest are not adjusted.

If the Bank reclassifies a financial asset from the category of measurement at amortized cost to the category of measurement at fair value through the income statement, its fair value is measured on the date of reclassification. Any gain or loss arising as a difference between the previously amortized cost of the financial asset and the fair value is recognized in the income statement.

If the Bank reclassifies a financial asset from the category of measurement at fair value through the income statement to the category of measurement at amortized cost, its fair value on the date of reclassification becomes its new gross book value. Based on the above, the effective interest rate is adjusted on the date of reclassification, which is considered the new date of initial recognition for the purposes of measuring expected credit losses.

If the Bank reclassifies a financial asset from the category of measurement at amortized cost to the category of measurement at fair value through other comprehensive income, its fair value is measured on the date of reclassification. Any gain or loss arising as a difference between the previously amortized cost of the financial asset and the fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted due to the reclassification.

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

If the Bank reclassifies financial assets from the category of measurement at fair value through the income statement to the category of measurement at fair value in other comprehensive income, the financial assets are still measured at fair value. The date of reclassification is considered the new date of initial recognition for the purposes of measuring expected credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.4 Reclassification of financial assets and liabilities (Continued)

If the Bank reclassifies financial assets from the category of measurement at fair value through other comprehensive income to the category of measurement at fair value through the income statement, the financial assets are still measured at fair value. Cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to the income statement as a reclassification adjustment in accordance with IAS 1: Presentation of financial statements at the date of reclassification.

As disclosed in Note 17.3, during 2022 the Bank reclassified the portfolio of securities from the category of measurement at fair value through other comprehensive income to the category of measurement at amortized cost. The corresponding effects are shown in the Statement of changes in equity and Note 17.3.

Changing the business model

The Management Board of Hipotekarna banka AD Podgorica at the session held on November 23, 2022. issued a Decision on changing the business model for the portfolio of debt securities in accordance with IFRS 9 and reclassifying financial instruments (Decision No. 02-12730/9-4). The above mentonied Decision was approved by the Supervisory Board at its 8th session, held on November 24, 2022. years.

Namely, the Bank's Management Board adopted a new Trading and Investment Strategy, which defined investment goals focused primarily on the formation of a portfolio of financial instruments in the long term and the achievement of stable fixed interest returns in the future. The trading and investment strategy was confirmed by the Supervisory Board by giving consent to it.

The adoption of the aforementioned decisions resulted from the influence of significant external events related to the implementation of the new banking regulation in Montenegro, with significant implications for the Bank's strategy, Bank management, capital management, liquidity management and other changes aimed at the successful implementation of the new banking regulation. Namely, during 2022, the Bank started monitoring and calculating certain liquidity indicators (according to the implementation of the new regulation) and observed their movement alongside the significant growth of the Bank's deposits. The monitoring led to consideration for a different management of liquidity positions, first in the part of looking at stable sources of funds and potential outflows in stressful scenarios. The increase in the amount of deposits occurred even though the Bank kept passive interest rates at a low level. The aforementioned increase primarily related to the growth of a-vista deposits in relation to time deposits. The Bank's experience from previous years shows that a-vista deposits are still a stable source of funds and that a significant part of these deposits remains longer in the Bank as a stable and cheap source of financing. Namely, by monitoring the liquidity indicators, the Bank concluded that all of them are significantly above the prescribed minimum values and that not one of them is threatened in a stress situation (in none of the four developed scenarios), and at the same time, it decided to adopt a new internal indicator that it will monitor - the loan ratio and deposits, the maximum amount of which is set at 55%. The reason for introducing the mentioned indicator is to ensure a sufficient level of the Bank's liquid assets.
The change in the Strategy and business model is the result of a series of changes that took place and to which the Bank adapted its operations, with the intention of maintaining a stable position as a significant financial institution in Montenegro. In particular, they stand out as relevant changes related to the way of measuring, monitoring and managing the Bank's long-term liquidity. Ajustment with changes in regulations (primarily with the Law on Credit Institutions, and then also by-laws adopted on the basis of that Law) also brought about significant internal changes in the management structure of the Bank. In particular, from 2022, four new members were appointed to the Supervisory Board of the bank, and there was also a change of the president of the Investment Committee (INKOM) as the main body for the operational management of securities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.4 Reclassification of financial assets and liabilities (Continued)

Changing the business model (Continued)

With the changes in the macroeconomic environment, as well as the management of liquidity and capital adequacy, and then due to the need to achieve satisfactory returns, the Bank concluded that it will classify subsequent investments in securities into the business model "holding for the purpose of collecting contracted cash flows". At the same time, the Bank decided to completely suspend the business model "holding for the purpose of collecting contracted cash flows and sales", taking into account everything previously described as well as the intention to manage all securities under the jurisdiction of ALCO and INKOM within the framework of a single business model .

Due to the start and intensification of the "holding for collection" business model and the termination of the "holding for collection and sale" business model, and as a consequence of the new Securities Management Strategy (and new business plans and budget for the following year), the Bank concluded that there were changes in the securities management model in accordance with IFRS 9.4.4. and IFRS 9B4.4.1, which require reclassification in accordance with IFRS 9.5.6.1.

In accordance with IFRS 9B.4.4.1, it is expected that reclassifications will be very rare because they imply significant changes for the Bank, the start or end of certain activities that are significant for the Bank's operations, approval from the highest level of management in the Bank as a result of internal or external changes and that they are provable to external parties.

In this regard, the Bank considers that all the stated conditions are met and that IFRS 9 requires reclassification in the described situation (in accordance with Basis for Conclusion IFRS 9.BC4.115). One of the main reasons for the position that reclassification is mandatory when the conditions are met is to ensure that the financial statements faithfully present the way in which financial assets are managed (Basis for conclusion IFRS 9.BC4.113). The conditions for reclassification specified in IFRS 9B.4.4.1 are met, bearing in mind that the Bank decided to abandon the business model "holding for the purpose of collecting contracted cash flows and selling", thus de facto ceasing a certain activity that was extremely significant in the earlier period. The aforementioned change was approved by the top management of the Bank and this was proven by the adoption of the Securities Management Strategy. A similar change did not occur in the previous period, and the Bank believes that it will not occur in the near future either, bearing in mind the analysis of business plans and macroeconomic trends.

On that basis, the reclassification of the entire portfolio of debt securities valued according to FVOCI (the amount of which is equal to EUR 140.121 million as of November 30, 2022) was made. The aforementioned was done in accordance with IFRS 9.4.4.1, where it is stated that in the event of a change in the business model, all financial assets will be reclassified in the same business model, which makes it impossible to reclassify individual financial assets due to a change in management's intentions with certain financial instruments (as stated in IFRS 9.B4.4.3(a)). The above indicates that this is a significant change for the Bank's operations, considering that there is an impact on 17.28% of the Bank's total assets (observed as of November 30, 2022).

The table below shows the state of debt securities that were measured according to the Valuation method by determining the fair value and its recognition through other comprehensive income "FVOCI" on November 30,2022. and after reclassification, after the end of the next reporting period, i.e. on December 31,2022:

	December 31, 2022	November 30, 2022
Date of reclassification – December 1, 2022		
Measurement of securities at fair value through other comprehensive income - FVOCI	-	140,121
Measurement of securities at amortized value - AC	200,539	44,782
Effect of reclassification on equity	17,991	-

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.5 Derecognition of financial assets and liabilities

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

When assessing whether to derecognize a loan of a buyer, among other things, the Bank considers the following factors:

- Change of loan currency;
- Introduction of capital;
- Change in the counterparty;
- The modification is such that the instrument no longer meets the SPPI criteria.

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

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

3.8.6 Write-off

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.7 Forborne and modified loans

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

Restructured loans

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.8 Impairment of financial assets and provisions

Impairment of financial assets

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

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

The complete portfolio is separated into three stages:

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.8 Impairment of financial assets and provisions (Continued)

Impairment of financial assets (Continued)

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

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

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

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

II) Collective assessment is performed:

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

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

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

- Legal entities;
- Individuals (cash, consumer, housing loans).

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.8 Impairment of financial assets and provisions (Continued)

Impairment of financial assets (Continued)

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

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

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

The calculation of PD parameters consists of the following steps:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.8 Impairment of financial assets and provisions (Continued)

Impairment of financial assets (Continued)

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

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

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

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

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

Impairment for ECL in the balance sheet is presented as follows:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Provisions and impairment of loans and receivables

Calculation of provisions for potential losses

The bank is obliged to classify balance and off-balance sheet items on the basis of which it is exposed to credit risk into the appropriate classification group, as well as to calculate provisions for potential losses, in accordance with the valid Decision on the criteria and method of asset classification and calculation of provisions for potential credit losses of credit institutions ("Official Gazette of Montenegro", No. 127/20, 140/21). In accordance with the aforementioned Decision, the Bank applied the following percentages and days of delay by risk categories for the calculation of the provision for potential losses:

	As of December 31, 2022	
Risk category	% Of provision	Days of delay
A	0.5	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Property, plant, equipment i intangible assets

Property, plant and equipment

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

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

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

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

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

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

Main groups	Depreciation rate (%)
Buildings	2.00
Motor vehicles	15.00
Furniture and other equipment	15.00 – 20.00
Computer equipment	33.33
Small inventory	50

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

Intangible investments

Intangible investments consist of software and licences. Intangible investments that are obtained are recognized in the amount of purchase value as at the transaction date. After initial recognition, intangible investments are disclosed in the amount of purchase value less the accumulated depreciation and potential value reduction due to impairment.

The costs that may be directly linked to certain software, which will generate an economic benefit in a period longer than one year, are recorded as intangible investments. Maintenance costs and the development of computer software are documented as a cost at the moment in which they occurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Property, plant, equipment i intangible assets (Continued)

Intangible investments (Continued)

Depreciation is evenly calculated on the purchase value of intangible investments over a 5-year period, with the aim of fully writing off the intangible investments during their useful life. The depreciation charges for intangible investments begin when the assets are put in use.

3.11. Equity

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

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

3.12. Employee benefits

Contributions ensuring the employees' social security

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

Liabilities on account of severance pay at retirement or other long-term payments to employees

In accordance with the actuary's report, the Bank has calculated the obligation to pay severance pay to employees when they retire, in the amount of three minimum net salaries.

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

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

3.13. Fair value

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Fair value (Continued)

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

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

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

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

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

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

3.14. Provisions

Provisions are recognized when:

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

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

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

3.15. Financial guarantees

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

4. ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

Losses from impairment of financial assets

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

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

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

Fair value

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

Contingent liabilities

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

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

4. ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

Useful life of intangible assets, property, plant and equipment

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

5. RISK MANAGEMENT

5.1 Risk management

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

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

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

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

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

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

5.2. Credit risk

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

The Central Bank of Montenegro adopted the Decision on criteria and method of asset classification and calculation of provisions for potential credit losses of credit institutions ("Official Gazette of Montenegro", No. 127/20, 140/21), which applies from January 1, 2022. year, and which implies the application of International Financial Reporting Standards when valuing and reporting off-balance sheet assets and off-balance sheet items.

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

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

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

5.2.1. Credit Risk Management

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

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

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

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

Commitments and Contingent Liabilities arising from Borrowings

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

5.2.2. Provisions – impairment based on losses

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

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

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.2. Provisions – impairment based on losses (Continued)

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

In accordance with the adopted methodology, the Bank estimates whether there is objective evidence of impairment, individually for financial assets that are individually significant. The calculation of the present value of estimated future cash flows of a secured financial asset reflects cash flows that may be the result of exclusion reduced by the costs of acquisition and sale of collateral, regardless of whether the exclusion is probable or not.

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

5.2.3. Maximum Credit Risk Exposure at Balance Sheet and Off Balance Sheet Items

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

TOTAL EXPOSURE TO CREDIT RISK	December 31,2022		December 31, 2021	
	Gross	Net	Gross	Net
I. Overview of assets				
Cash and deposit accounts with central banks	328,197	328,197	235,881	235,881
Financial assets at amortized value				
- Loans and receivables from Banks	34,170	34,019	44,007	43,893
- Loans and receivables from clients	252,474	236,812	238,173	221,729
- Securities	205,166	200,539	3,562	3,552
- Other financial assets	2,021	2,021	2,109	1,943
Financial assets at fair value through other comprehensive income				
- Securities	5,875	5,875	139,886	139,886
- Financial assets held for trading				
- Securities	-	-	7,465	7,465
Other assets	2,386	2,061	1,603	1,587
	830,289	**809,524**	**672,686**	**655,936**
II. Off-balance sheet items				
Payable guarantees	28,293	28,119	30,074	29,907
Performance bonds	15,595	15,516	21,597	21,571
Irrevocable commitments	34,846	34,441	29,684	29,179
Other	16,181	16,150	15,986	15,945
	94,915	**94,226**	**97,341**	**96,602**
Total (I+II)	**925,204**	**903,750**	**770,027**	**752,538**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.3. Maximum Credit Risk Exposure at Balance Sheet and Off Balance Sheet Items (Continued)

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

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

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

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

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

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements

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

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANISATIONS

In thousand EUR

December 31, 2022	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total Impairment	Net
Housing	10,508	2,365	194	**13,067**	(64)	(40)	(12)	**(116)**	**12,951**
Cash	50,422	7,349	3,897	**61,668**	(730)	(521)	(2,697)	**(3,948)**	**57,720**
Purchase of vehicles	2,022	128	60	**2,210**	(31)	(5)	(21)	**(57)**	**2,153**
Refurbishment of residential or commercial buildings	4,234	770	69	**5,073**	(50)	(32)	(59)	**(141)**	**4,932**
Other	21,517	9,431	2,067	**33,015**	(334)	(1,052)	(844)	**(2,230)**	**30,785**
Total retail	**88,703**	**20,043**	**6,287**	**115,033**	**(1,209)**	**(1,650)**	**(3,633)**	**(6,492)**	**108,541**
Large enterprises	19,533	7,381	1,784	**28,698**	(416)	(336)	(550)	**(1,302)**	**27,396**
Medium-sized enterprises	9,458	19,790	2,830	**32,078**	(380)	(1,475)	(453)	**(2,308)**	**29,770**
Small-sized enterprises	28,122	41,338	7,205	**76,665**	(371)	(1,954)	(3,235)	**(5,560)**	**71,105**
State	-	-	-	**-**	-	-	-	**-**	**-**
Other	-	-	-	**-**	-	-	-	**-**	**-**
Corporate customers	**57,113**	**68,509**	**11,819**	**137,441**	**(1,167)**	**(3,765)**	**(4,238)**	**(9,170)**	**128,271**
Total	**145,816**	**88,552**	**18,106**	**252,474**	**(2,376)**	**(5,415)**	**(7,871)**	**(15,662)**	**236,812**
Banks	**34,170**	**-**	**-**	**34,170**	**(151)**	**-**	**-**	**(151)**	**34,019**
Securities	**198,624**	**4,873**	**1,670**	**205,167**	**(1,831)**	**(1,958)**	**(839)**	**(4,628)**	**200,539**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

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

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANISATIONS

In thousand EUR

December 31, 2021	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total Impairment	Net
Housing	87	124	14	**225**	-	-	-	**-**	**225**
Cash	71,350	16,115	9,546	**97,011**	(1,020)	(1,456)	(2,746)	**(5,222)**	**91,789**
Purchase of vehicles	307	8	12	**327**	(2)	-	(12)	**(14)**	**313**
Refurbishment of residential or commercial buildings	-	-	2	**2**	-	-	-	**-**	**2**
Other	4,090	1,451	695	**6,236**	(25)	(35)	(263)	**(323)**	**5,913**
Total retail	**75,834**	**17,698**	**10,269**	**103,801**	**(1,047)**	**(1,491)**	**(3,021)**	**(5,559)**	**98,242**
Large enterprises	3,956	637	5,201	**9,794**	(15)	(9)	(124)	**(148)**	**9,646**
Medium-sized enterprises	1,453	10,812	14,003	**26,268**	(31)	(1,256)	(1,879)	**(3,166)**	**23,102**
Small-sized enterprises	25,503	36,643	36,164	**98,310**	(550)	(2,155)	(4,866)	**(7,571)**	**90,739**
State	-	-	-	**-**	-	-	-	**-**	**-**
Other	-	-	-	**-**	-	-	-	**-**	**-**
Corporate customers	**30,912**	**48,092**	**55,368**	**134,372**	**(596)**	**(3,420)**	**(6,869)**	**(10,885)**	**123,487**
Total	**106,746**	**65,790**	**65,637**	**238,173**	**(1,643)**	**(4,911)**	**(9,890)**	**(16,444)**	**221,729**
Banks	**44,007**	**-**	**-**	**44,007**	**(114)**	**-**	**-**	**(114)**	**43,893**
Securities	**3,562**	**-**	**-**	**3,562**	**(10)**	**-**	**-**	**(10)**	**3,552**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from clients at Stage 1 are presented below:

RECEIVABLES FROM CLIENTS AT STAGE 1 — In thousand EUR

December 31, 2022	Not in delay	Delay up to 30 days	From 31 to 60 days	From 61 to 90 days	Total
Housing	10,508	-	-	-	**10,508**
Cash	49,987	435	-	-	**50,422**
Purchase of vehicles	2,022	-	-	-	**2,022**
Refurbishment of residential or commercial buildings	4,234	-	-	-	**4,234**
Other	21,139	378	-	-	**21,517**
Total retail	**87,890**	**813**	**-**	**-**	**88,703**
Large enterprises	19,533	-	-	-	**19,533**
Medium-sized enterprises	9,458	-	-	-	**9,458**
Small-sized enterprises	28,041	81	-	-	**28,122**
State	-	-	-	-	**-**
Other	-	-	-	-	**-**
Corporate customers	**57,032**	**81**	**-**	**-**	**57,113**
Total	**144,922**	**894**	**-**	**-**	**145,816**
of which: restructured	**-**	**-**	**-**	**-**	**-**
Receivables from banks	**34,170**	**-**	**-**	**-**	**34,170**

In thousand EUR

December 31, 2021	Not in delay	Delay up to 30 days	From 31 to 60 days	From 61 to 90 days	Total
Housing	87	-	-	-	**87**
Cash	71,123	227	-	-	**71,350**
Purchase of vehicles	307	-	-	-	**307**
Refurbishment of residential or commercial buildings	-	-	-	-	**-**
Other	3,785	305	-	-	**4,090**
Total retail	**75,302**	**532**	**-**	**-**	**75,834**
Large enterprises	3,956	-	-	-	**3,956**
Medium-sized enterprises	1,453	-	-	-	**1,453**
Small-sized enterprises	25,459	44	-	-	**25,503**
State	-	-	-	-	**-**
Other	-	-	-	-	**-**
Corporate customers	**30,868**	**44**	**-**	**-**	**30,912**
Total	**106,170**	**576**	**-**	**-**	**106,746**
of which: restructured	**-**	**-**	**-**	**-**	**-**
Receivables from banks	**44,007**	**-**	**-**	**-**	**44,007**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from clients at Stage 2 are presented below:

RECEIVABLES FROM CLIENTS AT STAGE 2

In thousand EUR

December 31, 2022	Not in delay	Delay up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Housing	2,098	236	31	-	-	**2,365**
Cash	5,266	1,604	429	50	-	**7,349**
Purchase of vehicles	124	4	-	-	-	**128**
Refurbishment of residential or commercial buildings	735	35	-	-	-	**770**
Other	8,467	583	365	16	-	**9,431**
Total retail	**16,690**	**2,462**	**825**	**66**	**-**	**20,043**
Large enterprises	7,381	-	-	-	-	**7,381**
Medium-sized enterprises	19,790	-	-	-	-	**19,790**
Small-sized enterprises	40,903	56	379	-	-	**41,338**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**68,074**	**56**	**379**	**-**	**-**	**68,509**
Total	**84,764**	**2,518**	**1,204**	**66**	**-**	**88,552**
of which: restructured	**5,339**	**-**	**83**	**-**	**-**	**5,422**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

In thousand EUR

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

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from clients at Stage 3 are presented below:

RECEIVABLES FROM CLIENTS AT STAGE 3

In thousand EUR

December 31, 2022	Not in delay	Delay up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Housing	190	4	-	-	-	**194**
Cash	659	204	152	2	2,880	**3,897**
Purchase of vehicles	38	1	-	-	21	**60**
Refurbishment of residential or commercial buildings	3	-	-	-	66	**69**
Other	652	301	10	4	1,100	**2,067**
Total retail	**1,542**	**510**	**162**	**6**	**4,067**	**6,287**
Large enterprises	1,784	-	-	-	-	**1,784**
Medium-sized enterprises	1,640	-	-	-	1,190	**2,830**
Small-sized enterprises	2,630	237	831	236	3,271	**7,205**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**6,054**	**237**	**831**	**236**	**4,461**	**11,819**
Total	**7,596**	**747**	**993**	**242**	**8,528**	**18,106**
of which: restructured	**586**	**-**	**448**	**-**	**481**	**1,515**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

In thousand EUR

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

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from clients at Stage 3 are presented below:

RECEIVABLES FROM CLIENTS AT STAGE 3

In thousand EUR

December 31, 2022	Gross exposure	Impairment	S 3 receivables	Restructured S 3 receivables	Impairment S 3	Share of S3 receivables in gross exposure	Amount of collateral for S3
Retail	**115,033**	**(6,492)**	**6,287**	**103**	**(3,633)**	**5.47%**	**12,466**
Housing	13,067	(116)	194	4	(12)	1.48%	653
Cash	61,668	(3,948)	3,897	-	(2,697)	6.32%	5,006
Purchase of vehicles	2,210	(57)	60	-	(21)	2.71%	65
Refurbishment of residential or commercial buildings	5,073	(141)	69	-	(59)	1.36%	189
Other	33,015	(2,230)	2,067	99	(844)	6.26%	6,553
Corporate clients	**137,441**	**(9,170)**	**11,819**	**1,412**	**(4,238)**	**8.60%**	**43,139**
Agriculture	2,507	(552)	1,832	-	(550)	73.08%	2,738
Processing industry	4,765	(544)	937	448	(474)	19.66%	8,587
Electricity	6,520	(461)	-	-	-	0.00%	-
Construction	23,809	(2,046)	2,790	18	(826)	11.72%	10,837
Wholesale and retail trade	48,616	(2,682)	2,374	307	(1,144)	4.88%	5,375
Services	695	(2)	37	20	-	5.32%	243
Real estate activities	7,195	(490)	23	-	(23)	0.32%	838
Other	43,334	(2,393)	3,826	619	(1,221)	8.83%	14,521
Total	**252,474**	**(15,662)**	**18,106**	**1,515**	**(7,871)**	**7.17%**	**55,605**
Receivables from banks	**34,170**	**(151)**	**-**	**-**	**-**	**0.00%**	**-**
Securities	**205,167**	**(4,628)**	**1,670**	**-**	**(839)**	**0.81%**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

Receivables from clients at Stage 3 are presented below:

POTRAŽIVANJA OD KLIJENATA-STAGE 3

In thousand EUR

December 31, 2021	Gross exposure	Impairment	S 3 receivables	Restructured S 3 receivables	Impairment S 3	Share of S3 receivables in gross exposure	Amount of collateral for S3
Retail	**103,801**	**(5,559)**	**10,269**	**39**	**(3,021)**	**9.89%**	**17,245**
Housing	225	-	14	-	-	6.22%	71
Cash	97,011	(5,222)	9,546	34	(2,746)	9.84%	16,630
Purchase of vehicles	327	(14)	12	-	(12)	3.67%	18
Refurbishment of residential or commercial buildings	2	-	2	-	-	100.00%	30
Other	6,236	(323)	695	5	(263)	11.14%	496
Corporate clients	**134,372**	**(10,885)**	**55,368**	**5,619**	**(6,869)**	**41.21%**	**102,728**
Agriculture	2,701	(425)	124	-	(11)	4.59%	785
Processing industry	7,443	(396)	1,899	4,460	(263)	25.51%	8,715
Electricity	7,074	(517)	5,810	-	(410)	82.13%	5,578
Construction	27,917	(3,910)	14,362	-	(2,830)	51.45%	27,287
Wholesale and retail trade	39,492	(2,171)	16,928	571	(1,637)	42.86%	26,804
Services	843	(35)	118	306	-	14.00%	295
Real estate activities	4,059	(231)	2,283	-	(97)	56.25%	6,981
Other	44,843	(3,200)	13,844	282	(1,621)	30.87%	26,283
Total	**238,173**	**(16,444)**	**65,637**	**5,658**	**(9,890)**	**27.56%**	**119,973**
Receivables from banks	**44,007**	**(114)**	**-**	**-**	**-**	**0.00%**	**-**
Securities	**3,562**	**(10)**	**-**	**-**	**-**	**0.00%**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

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

CHANGES OF S3 RECEIVABLES — In thousand EUR

	Gross December 31, 2021	New S3 clients	Reduction in existing S3 clients	Increase in existing S3 clients	Closed S3 clients	Gross December 31, 2022
Housing	14	159	-	35	(14)	**194**
Cash	9,546	787	(1,945)	226	(4,717)	**3,897**
Purchase of vehicles	12	28	-	20	-	**60**
Refurbishment of residential or commercial buildings	2	3	-	64	-	**69**
Other	695	514	(126)	1,278	(294)	**2,067**
Retail	**10,269**	**1,491**	**(2,071)**	**1,623**	**(5,025)**	**6,287**
Large enterprises	5,201	1,784	-	-	(5,201)	**1,784**
Medium-sized enterprises	14,003	2,162	(459)	7	(12,883)	**2,830**
Small-sized enterprises	36,164	1,518	(1,477)	121	(29,121)	**7,205**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**55,368**	**5,464**	**(1,936)**	**128**	**(47,205)**	**11,819**
Total	**65,637**	**6,955**	**(4,007)**	**1,751**	**(52,230)**	**18,106**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**
Securities	**-**	**1,670**	**-**	**-**	**-**	**1,670**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

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

CHANGES OF S3 IMPAIRMENT	Gross December 31, 2021	New S3 clients	Reduction in existing S3 clients	Increase in existing S3 clients	Closed S3 clients	Gross December 31, 2022
Housing	-	(11)	-	(1)	-	**(12)**
Cash	(2,746)	(264)	422	(525)	416	**(2,697)**
Purchase of vehicles	(12)	(1)	-	(8)	-	**(21)**
Refurbishment of residential or commercial buildings	-	-	-	(59)	-	**(59)**
Other	(263)	(140)	69	(557)	47	**(844)**
Retail	**(3,021)**	**(416)**	**491**	**(1,150)**	**463**	**(3,633)**
Large enterprises	(124)	(550)	-	-	124	**(550)**
Medium-sized enterprises	(1,879)	(336)	2	(31)	1,791	**(453)**
Small-sized enterprises	(4,866)	(377)	151	(813)	2,670	**(3,235)**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Corporate clients	**(6,869)**	**(1,263)**	**153**	**(844)**	**4,585**	**(4,238)**
Total	**(9,890)**	**(1,679)**	**644**	**(1,994)**	**5,048**	**(7,871)**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**
Securities	**-**	**(839)**	**-**	**-**	**-**	**(839)**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.1. Restructures loans and placements

RESTRUCTURED RECEIVABLES

December 31, 2022	Restructures receivables - Gross	S 1 restructured receivables -	S2 restructured receivables -	S3 restructured receivables -	Impairment of restructured receivables	Impairment of S1 restructured receivables	Impairment of S2 restructured receivables	Impairment of S3 restructured receivables	Share of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail	**1,160**	**-**	**1,057**	**103**	**133**	**-**	**100**	**33**	**1,01%**	**2,068**
Housing	4	-	-	4	1	-	-	1	0,03%	-
Cash	48	-	48	-	1	-	1	-	0,08%	118
Purchase of vehicles	-	-	-	-	-	-	-	-	0,00%	1,950
Refurbishment of residential or commercial buildings	-	-	-	-	-	-	-	-	0,00%	-
Other	1,108	-	1,009	99	131	-	99	32	3,36%	-
Corporate clients	**5,777**	**-**	**4,365**	**1,412**	**931**	**-**	**346**	**585**	**4,20%**	**27,085**
Agriculture	-	-	-	-	-	-	-	-	0,00%	-
Processing industry	526	-	78	448	135	-	-	135	11,04%	2,106
Electricity	-	-	-	-	-	-	-	-	0,00%	-
Construction	3,625	-	3,607	18	303	-	303	-	15,23%	20,160
Wholesale and retail trade	420	-	113	307	276	-	2	274	0,86%	1,547
Services	20	-	-	20	-	-	-	-	2,88%	140
Real estate activities	-	-	-	-	-	-	-	-	0,00%	-
Other	1,186	-	567	619	217	-	41	176	2,74%	3,132
Total	**6,937**	**-**	**5,422**	**1,515**	**1,064**	**-**	**446**	**618**	**2,75%**	**29,153**
Receivables from Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

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5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.1. Restructures loans and placements (Continued)

The tables below show an overview of restructured receivables:

RESTRUCTURED RECEIVABLES

December 31, 2021	Restructures receivables - Gross	S 1 restructured receivables -	S2 restructured receivables -	S3 restructured receivables -	Impairment of restructured receivables	Impairment of S1 restructured receivables	Impairment of S2 restructured receivables	Impairment of S3 restructured receivables	Share of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail	**4,254**	**-**	**4,215**	**39**	**693**	**-**	**690**	**3**	**4.10%**	**3,596**
Housing	-	-	-	-	-	-	-	-	0.00%	-
Cash	4,249	-	4,215	34	693	-	690	3	4.38%	3,596
Purchase of vehicles	-	-	-	-	-	-	-	-	0.00%	-
Refurbishment of residential or commercial buildings	-	-	-	-	-	-	-	-	0.00%	-
Other	5	-	-	5	-	-	-	-	0.08%	-
Corporate clients	**10,707**	**-**	**5,088**	**5,619**	**1,763**	**-**	**888**	**875**	**7.97%**	**26**
Agriculture	10	-	10	-	-	-	-	-	0.37%	-
Processing industry	8,904	-	4,444	4,460	1,604	-	860	744	119.63%	-
Electricity	-	-	-	-	-	-	-	-	0.00%	-
Construction	-	-	-	-	-	-	-	-	0.00%	-
Wholesale and retail trade	695	-	124	571	83	-	12	71	1.76%	-
Services	516	-	210	306	-	-	-	-	61.21%	26
Real estate activities	-	-	-	-	-	-	-	-	0.00%	-
Other	582	-	300	282	76	-	16	60	1.30%	-
Total	**14,961**	**-**	**9,303**	**5,658**	**2,456**	**-**	**1,578**	**878**	**6.28%**	**3,622**
Receivables from Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.00%**	**-**

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5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.1. Restructures loans and placements (Continued)

The tables below show an overview of restructured receivables:

CHANGES OF RESTRUCTURED S2 RECEIVABLES

	Gross December 31, 2021	New restructured S2 receivables	Reduction in restructured S2 receivables	Exchange rate effect	Other changes	Gross December 31, 2022	Net December 31, 2022
Housing	-	-	-	-	-	-	-
Cash	4,215	-	(13)	-	(4,154)	48	47
Purchase of vehicles	-	-	-	-	-	-	-
Refurbishment of residential or commercial buildings	-	-	-	-	-	-	-
Other	-	388	28	-	593	1,009	910
Retail	**4,215**	**388**	**15**	**-**	**(3,561)**	**1,057**	**957**
Large companies	-	300	-	-	-	300	272
Medium companies	12,933	-	(210)	-	(12,688)	35	33
Small enterprises	1,299	3,665	(235)	-	(699)	4,030	3,714
Government	-	-	-	-	-	-	-
Other	(9,144)	-	-	-	9,144	-	-
Corporate clients	**5,088**	**3,965**	**(445)**	**-**	**(4,243)**	**4,365**	**4,019**
Total	**9,303**	**4,353**	**(430)**	**-**	**(7,804)**	**5,422**	**4,976**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.1. Restructures loans and placements (Continued)

The tables below show an overview of restructured receivables:

CHANGES OF RESTRUCTURED S3RECEIVABLES

	Gross December 31, 2021	New restructured S2 receivables	Reduction in restructured S2 receivables	Exchange rate effect	Other changes	Gross December 31, 2022	Net December 31, 2022
Housing	-	-	(1)	-	5	4	3
Cash	34	-	-	-	(34)	-	-
Purchase of vehicles	-	-	-	-	-	-	-
Refurbishment of residential or commercial buildings	-	-	-	-	-	-	-
Other	5	86	-	-	8	99	67
Retail	**39**	**86**	**(1)**	**-**	**(21)**	**103**	**70**
Large companies	-	-	-	-	-	-	-
Medium companies	3,165	-	(459)	-	(2,247)	459	359
Small enterprises	2,454	18	(135)	-	(1,384)	953	468
Government	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Corporate clients	**5,619**	**18**	**(594)**	**-**	**(3,631)**	**1,412**	**827**
Total	**5,658**	**104**	**(595)**	**-**	**(3,652)**	**1,515**	**897**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.2. Loans and receivables from clients covered by collateral

December 31, 2022.	S 1 clients					S 2 clients				S 3 clients			
	Property	Deposits	Guarantees	Other collateral	Total	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total
Residential	8,586	273	-	1,649	**10,508**	1,674	220	471	**2,365**	179	-	15	**194**
Cash	4,459	858	-	45,105	**50,422**	1,555	559	5,235	**7,349**	798	22	3,077	**3,897**
Purchase of vehicles	155	70	-	1,797	**2,022**	-	17	111	**128**	18	-	42	**60**
Adaptation of residential or commercial property	1,773	99	-	2,362	**4,234**	471	-	299	**770**	52	-	17	**69**
Other	5,963	509	-	15,045	**21,517**	2,336	435	6,660	**9,431**	1,552	21	494	**2,067**
Retail	**20,936**	**1,809**	**-**	**65,958**	**88,703**	**6,036**	**1,231**	**12,776**	**20,043**	**2,599**	**43**	**3,645**	**6,287**
Large companies	4,747	3	-	14,783	**19,533**	6,322	-	1,059	**7,381**	1,784	-	-	**1,784**
Medium companies	8,274	-	-	1,184	**9,458**	18,807	98	885	**19,790**	2,797	-	33	**2,830**
Small enterprises	20,625	327	440	6,730	**28,122**	34,849	1,502	4,987	**41,338**	5,308	6	1,891	**7,205**
State	-	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Other	-	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Corporate clients	**33,646**	**330**	**440**	**22,697**	**57,113**	**59,978**	**1,600**	**6,931**	**68,509**	**9,889**	**6**	**1,924**	**11,819**
Total	**54,582**	**2,139**	**440**	**88,655**	**145,816**	**66,014**	**2,831**	**19,707**	**88,552**	**12,488**	**49**	**5,569**	**18,106**
Receivables from Banks	**-**	**-**	**-**	**34.170**	**34.170**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

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

December 31, 2021	S 1 clients				S 2 clients				S 3 clients				
	Property	Deposits	Other collateral	Total	Property	Deposits	Other collateral	Total	Property	Deposits	Guarantees	Other collateral	Total
Residential	87	-	-	**87**	124	-	-	**124**	14	-	-	-	**14**
Cash	16,261	1,503	53,586	**71,350**	4,710	556	10,849	**16,115**	5,045	415	12	4,074	**9,546**
Purchase of vehicles	11	-	296	**307**	-	-	8	**8**	-	-	-	12	**12**
Adaptation of residential or commercial property	-	-	-	**-**	-	-	-	**-**	2	-	-	-	**2**
Other	309	192	3,589	**4,090**	42	43	1,366	**1,451**	86	31	-	578	**695**
Retail	**16,668**	**1,695**	**57,471**	**75,834**	**4,876**	**599**	**12,223**	**17,698**	**5,147**	**446**	**12**	**4,664**	**10,269**
Large companies	1,705	-	2,251	**3,956**	135	-	502	**637**	4,836	-	-	365	**5,201**
Medium companies	327	2	1,124	**1,453**	8,850	(8)	1,970	**10,812**	13,836	50	-	117	**14,003**
Small enterprises	19,457	177	5,869	**25,503**	29,884	321	6,438	**36,643**	28,982	540	-	6,642	**36,164**
State	-	-	-	**-**	-	-	-	**-**	-	-	-	-	**-**
Other	-	-	-	**-**	-	-	-	**-**	-	-	-	-	**-**
Corporate clients	**21,489**	**179**	**9,244**	**30,912**	**38,869**	**313**	**8,910**	**48,092**	**47,654**	**590**	**-**	**7,124**	**55,368**
Total	**38,157**	**1,874**	**66,715**	**106,746**	**43,745**	**912**	**21,133**	**65,790**	**52,801**	**1,036**	**12**	**11,788**	**65,637**
Receivables from Banks	**-**	**-**	**44,007**	**44,007**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

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

Fair value of collateral

In thousand EUR

	December 31, 2022	December 31, 2021
Deposits	18,238	21,325
Pledge	32,869	63,671
Mortgages and fiduciaries	420,647	393,905
Policies	12,075	11,924
Guarantees	791	350
Total	**484,620**	**491,175**

In thousand EUR

Due but assessed as a group	December 31, 2022	December 31, 2021
Deposits	17,466	17,845
Pledge	27,349	20,228
Mortgages and fiduciaries	258,210	166,640
Policies	12,070	11,924
Guarantees	791	350
	315,886	**216,987**

In thousand EUR

Individually assessed	December 31, 2022	December 31, 2021
Deposits	772	3,480
Pledge	5,520	43,443
Mortgages and fiduciaries	162,437	227,265
Policies	5	-
Guarantees	-	-
Total	**168,734**	**274,188**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.3. Geographic concentration

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

December 31, 2022	Receivables from S1 and S2 clients				Receivables from S3 clients			
	Montenegro	European Union	USA and Canada	Other countries	Montenegro	European Union	USA and Canada	Other countries
Retail clients	**98,824**	**5,037**	**357**	**4,528**	**6,261**	**-**	**-**	**26**
Residential	9,784	569	-	2,520	194	-	-	-
Cash	56,052	12	357	1,350	3,880	-	-	17
Purchase of vehicles	2,142	-	-	8	60	-	-	-
Adaptation of residential or commercial	4,969	-	-	35	69	-	-	-
property	25,877	4,456	-	615	2,058	-	-	9
Corporate clients	**125,622**	**-**	**-**	**-**	**11,819**	**-**	**-**	**-**
Agriculture	676	-	-	-	1,832	-	-	-
Manufacturing	3,828	-	-	-	937	-	-	-
Electricity	6,520	-	-	-	-	-	-	-
Construction	21,019	-	-	-	2,790	-	-	-
Wholesale and retail trade	46,242	-	-	-	2,374	-	-	-
Services	658	-	-	-	37	-	-	-
Real estate activities	7,171	-	-	-	23	-	-	-
Other	39,508	-	-	-	3,826	-	-	-
Total	**224,446**	**5,037**	**357**	**4,528**	**18,080**	**-**	**-**	**26**
Receivables from banks	**6,500**	**22,568**	**-**	**5,102**	**-**	**-**	**-**	**-**
Securities	**97,998**	**89,089**	**524**	**21,761**	**-**	**-**	**-**	**1,670**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.3 Geographic concentration (Continued)

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

31.12.2021.	Receivables from S1 and S2 clients				Receivables from S3 clients			
	Montenegro	European Union	USA and Canada	Other countries	Montenegro	European Union	USA and Canada	Other countries
Retail clients	**84,032**	**4,385**	**384**	**4,731**	**10,212**	**-**	**-**	**57**
Residential	211	-	-	-	14	-	-	-
Cash	78,018	4,379	384	4,684	9,501	-	-	45
Purchase of vehicles	315	-	-	-	12	-	-	-
Adaptation of residential or commercial	-	-	-	-	2	-	-	-
property	5,488	6	-	47	683	-	-	12
Corporate clients	**77,842**	**1,162**	**-**	**-**	**55,368**	**-**	**-**	**-**
Agriculture	2,577	-	-	-	124	-	-	-
Manufacturing	5,544	-	-	-	1,899	-	-	-
Electricity	1,264	-	-	-	5,810	-	-	-
Construction	13,554	-	-	-	14,362	-	-	-
Wholesale and retail trade	22,564	-	-	-	16,928	-	-	-
Services	726	-	-	-	118	-	-	-
Real estate activities	1,776	-	-	-	2,283	-	-	-
Other	29,837	1,162	-	-	13,844	-	-	-
Total	**161,874**	**5,547**	**384**	**4,731**	**65,580**	**-**	**-**	**57**
Receivables from Banks	**5,002**	**32,072**		**6,933**	**-**	**-**	**-**	**-**
Securities	**78,385**	**51,556**	**519**	**20,453**				

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.4. Industrial concentration

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

In EUR thousand EUR

	Finance	Transport and Telecommunications	Food and accommodation services	Wholesale and retail trade, repair of motor vehicles and motorcycle	Construction	Energy	Extraction of ore and rock	Administration and auxiliary services	Real estate trade	Agriculture, Forestry And fishing	Production	Other	Individuals	Total
Financial assets at amortized value														
Loans and receivables from Banks	34.019	-	-	-	-	-	-	-	-	-	-	-	-	34.019
Loans and receivables from clients	1.718	-	17.285	45.934	21.763	6.059	4.527	983	6.705	1.955	4.222	17.119	108.542	236.812
Securities	5.472	1.956	-	-	-	-	165	-	-	-	1.557	191.389	-	200.539
Financial assets at fair value through other comprehensive income														
Securities	-	142	35	68	-	-	-	–	–	–	-	5.630	–	5.875
Financial assets held for trading														
Securities	–	-	-	-	-	-	-	-	-	-	-	-	-	-
December 31. 2022	**41.209**	**2.098**	**17.320**	**46.002**	**21.763**	**6.059**	**4.692**	**983**	**6.705**	**1.955**	**5.779**	**214.138**	**108.542**	**477.245**
December 31. 2021	**48.434**	**7.067**	**17.881**	**37.378**	**24.007**	**6.557**	**4.837**	**1.679**	**3.924**	**2.276**	**8.486**	**155.757**	**98.242**	**416.525**

5. RISK MANAGEMENT (Continued)

5.2. Risk Management (Continued)

5.2.4. Quality of Financial Placements (Continued)

5.2.4.5. Off balance Sheet

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

In thousand EUR

	Undrawn credit lines	Guarantees	Letters of credit	Total
31 December 2022				
Up to 1 year	32,671	46,814	286	**79,771**
1 to 5 years	1,872	12,960	-	**14,832**
Over 5 years	303	9	-	**312**
	34,846	**59,783**	**286**	**94,915**

In thousand EUR

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

5.3. Market risk

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

5.3.1. Foreign exchange risk

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

5. RISK MANAGEMENT (Continued)

5.3. Market Risk (Continued)

5.3.1. Foreign exchange risk (continued)

Exposure to the interest rate risk as at 31 December 2022 is presented in the following table:

In thousand EUR	USD	GBP	CHF	Other	Total
Foreign currency assets	35,134	1,278	2,630	63	39,105
Foreign currency liabilities	34,919	1,269	2,621	42	38,851
Net open position:					
- December 31, 2022	**215**	**9**	**9**	**21**	**254**
- December 31, 2021	**(45)**	**(78)**	**(41)**	**14**	**(150)**
% core capital:					
- December 31, 2022	**0%**	**0%**	**0%**	**0%**	
- December 31, 2021	**0%**	**0%**	**0%**	**0%**	
Aggregate open: position:					
- December 31, 2022	**254**				
- December 31, 2021	**(150)**				
% core capital:					
- December 31, 2022	**0,53%**				
- December 31, 2021	**(0,36%)**				

5. RISK MANAGEMENT (Continued)

5.3. Market Risk (Continued)

5.3.1. Foreign exchange risk (Continued)

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

Sensitivity analyzes (foreign exchange risk)

In thousand EUR

		2022	**Change in exchange rate**	
	Total	**Amount at Foreign currency**	**10%**	**-10%**
Assets				
Cash and deposits held with central banks	328,197	3,615	362	(362)
Financial assets at amortized value				
Loans and placements from banks	34,019	15,224	1,522	(1,522)
Loans and placements from clients	236,812	516	52	(52)
Securities	200,539	17,606	1,761	(1,761)
Other financial assets	2,021	1,989	199	(199)
Financial assets at fair value through other comprehensive income				
Securities	5,875	-	-	-
Financial assets held for trading				
Securities	-	-	-	-
Other operating receivables	4,460	155	16	(16)
Total assets	**811,923**	**39,105**	**3,912**	**(3,912)**
Liabilities				
Financial liabilities at amortized value				
Deposits due to Banks	2,461	-	-	-
Deposits due to customers	701,434	38,060	3,806	(3,806)
Loans from clients other than banks	15,764	-	-	-
Other financial liabilities	174	-	-	-
Reserves	1,068	-	-	-
Other liabilities - balance sheet	20,961	791	79	(79)
Subordinated debt	17,348	-	-	-
Total liabilities	**759,210**	**38,851**	**3,885**	**(3,885)**
Other liabilities (guarantees and letters of credit) – off balance sheet	60.069	-	-	-
Sensitivity of net exposure to foreign exchange risk on changes in rates of foreign currencies				
- December 31, 2022			**25**	**(25)**
- December 31, 2022			**(15)**	**15**

As at 31 December 2022, under the assumption that all other parameters are unchanged by the change of the EUR exchange rate relative to other currencies by +10% i.e. -10%, the Bank's profit would increase, i.e. decrease by EUR 25 thousand (31 December 2021: profit would increase i.e. decrease by EUR 15 thousand). The reason for the low exposure of the Bank to exchange rate changes is the fact that most receivables and liabilities of the Bank are expressed in EUR.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2. Interest rate risk

The following table shows interest bearing and non-interest bearing assets and liabilities of the Bank as at 31 December 2022:

In thousand EUR

	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and deposits held with central banks	19,123	309,074	328,197
Financial assets at amortized value			
Loans and placements from banks	24,544	9,475	34,019
Loans and placements from customers and other financial assets	236,812	-	236,812
Securities	200,539	-	200,539
Other financial assets	1,989	32	2,021
Financial assets at fair value through other comprehensive income			
Securities	-	5,875	5,875
Financial assets held for trading			
Securities	-	-	-
Other operating receivables	-	4,460	4,460
Total assets	**483,007**	**328,916**	**811,923**
LIABILITIES			
Financial liabilities at amortized value			
Deposits due to Banks	65	2,396	2,461
Deposits due to clients	628,268	73,166	701,434
Borrowed assets from other clients	15,764	-	15,764
Other financial liabilities	174	-	174
Other liabilities	-	20,961	20,961
Subordinated debt	17,348	-	17,348
Total liabilities:	**661,619**	**96,523**	**758,142**
Exposure to interest rate risk:			
- December 31, 2022	**(178,612)**	**232,393**	**53,781**
- December 31, 2022	**(123,287)**	**173,133**	**49,846**

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2. Interest rate risk (Continued)

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

Loan type	Interest rate
Legal entities	
- short-term loans from the Bank's funds	1.5-10
- short-term loans from other sources	2.0-7.0
- short-term loans to banks and other financial organizations	2.0-7.0
- arrangement loans	2.0-7.0
- long -term loans from the Bank’s funds	1.5-10
- long-term loans from other sources	2.0-7.0
- loans for small and medium-sized enterprises up to 24 months	2.5-7.5
- loans for small and medium-sized enterprises over 24 months	2.5-7.5
- loans for entrepreneurs up to 24 months	2.5-7.5
- loans for entrepreneurs over 24 months	2.5-7.5

Active interest rates applied to approved loans to individuals in 2022 are as follows:

Loan type	Interest rate
Retail:	
- cash loans	0.88-11.09
- consumer loans	8.00
- loans for the purchase of vehicles	4.99
- loans for adaptation and financing up to 60 months	1-12.68
- loans for adaptation and financing over 60 months	1-12.68
- housing	7.49

The passive interest rates applied to received deposits from legal entities in 202 were the following:

Deposit type	Interest rate
Demand deposits	0
Short-term deposits	0.3-0.5
Long-term deposits	1.25-1.6

The passive interest rates applied to received deposits from individuals in 202 were the following:

Deposit type	Interest rate
Demand deposits	0.01
A vista savings:	
- EUR	0.01
- other currencies	0.00
Term deposits in EUR:	
- one month	0.01
- three months	0.05
- six months	0.08
- 12 months	0.75
- 24 months	0.85
- 36 months	0.95
Term deposits in foreign currencies:	
- three months	0.05
- six months	0.05
- 12 months	0.25

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2. Interest rate risk (Continued)

Exposure to the interest rate risk as at 31 December 2022 is presented in the following table:

In thousand EUR

Sensitive assets	Up to one months	From 1 to 3 months	From 3-6 months	From 6-12 months	Over one year	Total
Cash and deposits held with central banks	19,123	-	-	-	-	19,123
Financial assets at amortized value						
Loans and receivables from banks	24,544	-	-	-	-	24,544
Loans and receivables from clients	11,938	17,361	26,434	57,371	123,708	236,812
Securities	2,443	9,470	25,694	19,330	143,602	200,539
Other financial assets	-	-	-	-	1,989	1,989
Financial assets at fair value through other comprehensive income						
Securities	-	-	-	-	-	-
Financial assets held for trading						
HOV	-	-	-	-	-	-
Securities						
Other operating receivables						-
Total	**58,048**	**26,831**	**52,128**	**76,701**	**269,229**	**483,007**
% of total interest bearing assets	12%	6%	11%	16%	56%	100%
Sensitive liabilities						
Financial liabilities disclosed at amortized value						
Interest bearing deposits from banks	65	-	-	-	-	65
Interest bearing deposits from banks	98,648	80,002	84,049	133,575	231,994	628,268
Interest bearing borrowing from clients	50	3	167	740	14,804	15,764
Other financial liabilities	-	-	-	-	174	174
Other liabilities	-	-	-	-	-	-
Subordinated debt	-	-	-	4,082	13,266	17,348
Total	**98,763**	**80,005**	**84,216**	**138,397**	**260,238**	**661,619**
% of total interest bearing liabilities	15%	12%	13%	21%	39%	100%
Exposure						
to interest rate risk:						
- December 31, 2022	**(40,715)**	**(53,174)**	**(32,088)**	**(61,107)**	**8,472**	**(178,612)**
- December 31, 2021	**4,635**	**(40,026)**	**(43,177)**	**(51,471)**	**6,752**	**(123,287)**
Cumulative GAP:						
- December 31, 2022	**(40,715)**	**(93,889)**	**(125,977)**	**(187,084)**	**(178,612)**	
- December 31, 2021	**4,635**	**(35,391)**	**(78,568)**	**(130,039)**	**(123,287)**	

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2. Interest rate risk (Continued)

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

Sensitivity analyzes (risk of interest rate changes)		In thousand EUR Net effect as a result of interest rate changes	
	2022	+0.4 b.p. EUR KS +0.3 b.p. FX KS	-0.4 b.p. EUR KS -0.3 b.p. FX KS
ASSETS			
Cash and deposits held with central banks	**19,123**		
with fixed interest rate	-		
with variable interest rate	19,123	76	(76)
Financial assets at amortized value			
Loans and placements from banks	**24,544**		
Loans and placements from clients	**236,812**		
with fixed interest rate	236,812		
with variable interest rate	-	-	-
Securities	**200,539**		
with fixed interest rate	200,539		
Financial assets at fair value through other comprehensive income			
Securities	**-**		
with fixed interest rate	-		
with variable interest rate	-	-	-
Financial assets held for trading			
Securities	**-**		
with fixed interest rate	-		
with variable interest rate	-	-	-
	481,018	**76**	**(76)**
Liabilities			
Financial liabilities at amortized value			
Deposits due to banks	**65**		
Deposits due to customers	**628,268**		
Borrowed assets from other clients	**15,764**		
with fixed interest rate with variable interest rate	15,764		
with fixed interest rate with variable interest rate	-	-	-
Other liabilities	**-**		
Subordinated debt	**17,348**		
	661,445	**-**	**-**
Net exposure to interest rate risk: - December 31, 2022	**(180,427)**	**76**	**(76)**

As at 31 December 2022, under the assumption that all other parameters are unchanged by the change of interest rates by 4 bp (+/-0.4%), the Bank's profit would increase, or decrease by EUR 76 thousand (31 December 2021: profit would increase i.e. decrease by EUR 44 thousand). The reason for the low exposure of the Bank to the changes of variable interest rates is the fact that most receivables and liabilities of the Bank are agreed with a fixed interest rate

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2. Interest rate risk (Continued)

The following table shows the effect of changes in interest rates for securities expressed in EUR in the range from 50 bp to 200 bp as at 31 December 2022.

In thousand EUR

Securities - fixed rate	Amount	Interest rate change	Average weighted bp	Change in EUR	Sign
Short-term	57,526	50 b.p.	14	288	+/-
Mid-term	104,254	100 b.p.	52	1.043	+/-
Long-term	38,759	200 b.p.	39	775	+/-
Total	**200,539**		**105**	**2.105**	**+/-**

In thousand EUR

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

5.4. Liquidity Risk

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

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

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

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

5. RISK MANAGEMENT (Continued)

5.4. Liquidity Risk (Continued)

The maturity matching of financial assets and financial liabilities according to the expected maturity date as at 31 December 2022 is presented in the overview below:

In thousand EUR

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets							
Cash and deposits held with central banks	309,074	-	-	-	-	19,123	**328,197**
Financial assets at amortized value	-	-	-	-	-	-	-
Loans and receivables from banks	24,543	-	3,018	6,458	-	-	**34,019**
Loans and receivables from clients	8,228	17,904	24,974	53,636	116,803	15,267	**236,812**
Securities	2,443	9,471	25,694	19,329	104,739	38,863	**200,539**
Other financial assets	-	-	-	-	-	2,021	**2,021**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Securities	-	-	-	-	-	5,875	**5,875**
Financial assets held for trading	-	-	-	-	-	-	-
Securities	-	-	-	-	-	-	**-**
Other operating receivables	1,938	-	4	368	124	2,026	**4,460**
Total	**346,226**	**27,375**	**53,690**	**80,381**	**221,076**	**83,175**	**811,923**
Financial liabilities							
Financial liabilities at amortized value							
Deposits due to banks	444	325	317	448	915	12	**2,461**
Deposits due to clients	124,342	91,025	86,797	118,948	253,159	27,163	**701,434**
Borrowed assets from other clients	50	155	200	555	5,831	8,973	**15,764**
Other financial liabilities	174	-	-	-	-	-	**174**
Other liabilities	10,069	4,019	-	-	-	6,873	**20,961**
Subordinated debt	-	-	-	-	4,082	13,266	**17,348**
Total	**135,079**	**95,524**	**87,314**	**119,951**	**263,987**	**56,287**	**758,142**
Maturity inconsistency							
- December 31, 2022	**211,147**	**(68,149)**	**(33,624)**	**(39,570)**	**(42,911)**	**26,888**	**53,781**
- December 31, 2021	**245,572**	**(25,429)**	**(12,073)**	**1,336**	**(187,093)**	**27,533**	**49,846**
Cumulative gap							
- December 31, 2022	**211,147**	**142,998**	**109,374**	**69,804**	**26,893**	**53,781**	
- December 31, 2021	**245,572**	**220,143**	**208,070**	**209,406**	**22,313**	**49,846**	
% of the total source of funds							
- December 31, 2022	**26.01%**	**(8.39%)**	**(4.14%)**	**(4.95%)**	**(5.21%)**	**3.31%**	
- December 31, 2021	**37.40%**	**(3.87%)**	**(1.84%)**	**0.20%**	**(28.49%)**	**4.19%**	

5. RISK MANAGEMENT (Continued)

5.4. Liquidity Risk (Continued)

The structure of assets and liabilities as at 31 December 2022 indicates that there is a maturity inconsistency in the expected period of maturity of assets and liabilities for the periods of 1-3 months, 3-6 months, 6-12 months and 1-5 years.

The Bank's liquidity as its ability to timely settle all its due liabilities depends on the balance sheet structure on the one hand, and on the matching between the inflows and outflows of assets, on the other. There is no maturity inconsistency in the cumulative gap. As at 31 December 2022, demand deposits in the above mentioned table are presented based on expected maturities using a model based on the Bank's historical data. The Bank has applied the above approach for managing liquidity since 31 December 2012.

The maturity compatibility of financial liabilities according to the remaining maturity (undiscounted cash flows) as at 31 December 2022 is presented in the overview below:

In thousand EUR

	Demand	Up to 1 month	From 1-3 months	From 3 to 12 months	From1 to 5 years	Over 5 years	Total
December 31, 2022							
LIABILITIES							
Liabilities to banks	444	325	317	448	915	12	**2,461**
Liabilities to clients	124,342	91,025	86,797	118,948	253,159	27,163	**701,434**
Borrowed assets from other clients	50	155	200	555	5,831	8,973	**15,764**
Other financial liabilities	174	-	-	-	-	-	**174**
Other liabilities	10,069	4,019	-	-	-	6,873	**20,961**
Subordinated debt	-	-	-	-	4,082	13,266	**17,348**
	135,079	**95,524**	**87,314**	**119,951**	**263,987**	**56,287**	**758,142**

In thousand EUR

	Demand	Up to 1 month	From 1-3 months	From 3 to 12 months	From1 to 5 years	Over 5 years	Total
December 31, 2021							
LIABILITIES							
Liabilities to banks	1,714	-	-	-	-	-	**1,714**
Liabilities to clients	427,656	7,289	11,644	60,101	39,528	2,041	**548,259**
Borrowed assets from other clients	50	148	2,336	2,349	6,199	11,585	**22,667**
Other financial liabilities	-	-	-	396	-	-	**396**
Other liabilities	13,500	133	201	411	2,152	131	**16,528**
Subordinated debt	-	-	(67)	-	12,211	5,088	**17,232**
	442,920	**7,570**	**14,114**	**63,257**	**60,090**	**18,845**	**606,796**

5. RISK MANAGEMENT (Continued)

5.5. Operational risks

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

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

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

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

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

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

First level - Decentralized responsible person for operational risks:

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

Second level:

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

Third level:

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

5. RISK MANAGEMENT (Continued)

5.5. Operational risks (Continued)

Fourth level:

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

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

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

5.6. Fair value of financial assets and liabilities

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

In thousand EUR

	Book value		Fair value	
	2022	**2021**	**2022**	**2021**
Financial assets				
Cash and deposits held with central banks	328,197	235,881	328,197	235,881
Financial assets at amortized value				
Loans and receivables from Banks	34,019	43,893	34,019	43,893
Loans and receivables from clients	236,812	221,729	236,812	221,729
Securities	200,539	3,552	200,539	3,552
Other financial assets	2,021	1,943	2,021	1,943
Financial assets at fair value through other comprehensive income				
Securities	5,875	139,886	5,875	139,886
Financial assets held for trading				
Securities		7,465	-	7,465
Investments in related companies and joint ventures using the capital method				
Other assets	4.460	2.293	4.460	2.293
	811.923	**656.642**	**811.923**	**656.642**
Financial liabilities				
Financial liabilities at amortized value				
Deposits due to banks and central banks	2,461	1,714	2,461	1,714
Deposits due to clients	701,434	548,259	701,764	548,259
Borrowed assets from other clients	15,764	22,667	15,764	22,667
Other financial liabilities	174	396	174	396
Other liabilities	20,961	16,528	20,961	16,528
Subordinated debt	17,348	17,232	17,348	17,232
	758,142	**606,796**	**758,472**	**606,796**

5. RISK MANAGEMENT (Continued)

5.6. Fair value of financial assets and liabilities (Continued)

Hierarchy of fair value of financial instruments valued at fair value

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

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

This hierarchy requires the use of available market data when they exist. In the assessment of fair value, the Bank takes into account the available market values whenever possible. As at 31 December 2022, the market prices of securities valued at fair value in the Bank's portfolio in Level 1 and Level 2 were available.

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

December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
-at fair value through other result	344	5,531	-	5,875
-at fair value through income statement	-	-	-	-
Total	**344**	**5,531**	**-**	**5,875**

December 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
-at fair value through other result	131.789	6.082	2.015	139.886
-at fair value through income statement	-	7.465	-	7.465
Total	**131.789**	**13.547**	**2.015**	**147.351**

5. RISK MANAGEMENT (Continued)

5.6. Fair value of financial assets and liabilities (Continued)

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

The fair value of securities (classified in Level 1 and Level 2) through other comprehensive income is based on market prices. As at 31 December 2022, the aforementioned market prices of securities were available.

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

The significant changes shown in the table above regarding the fair value hierarchy were due to the reclassification of the entire portfolio of debt securities from the category Financial assets at fair value through other comprehensive income to the category Financial assets at amortized value (note 3.8.4).

5.7. Capital Management

Capital management aims to:

- compliance with the regulations of the regulator;
- protection of the Bank's ability to maintain going concern in order to be able to provide payments to shareholders and compensation to other owners;
- to provide the capital to support the further development of the Bank;
- to provide an adequate level of capital in case of unexpected losses.

The bank controls of the capital adequacy in accordance with the Decision on the Capital Adequacy of credit institutions of the Central Bank of Montenegro ("Official Gazette of Montenegro" no. 128/20, 140/21 and 144/22). The bank submits quarterly reports on the state, structure, and capital adequacy to the Central Bank.

The bank's regulatory capital is prudently valued capital that aims to cover unexpected losses. The goal of maintaining an adequate level of regulatory capital, which is measured by capital adequacy indicators, is primarily to protect the bank, its creditors and the entire economy, in order to ensure that the financial institution has sufficient quality financial support to safely and efficiently continue its business continuity on a healthy basis. By setting limits, both regulatory and internally determined, the bank is prevented from taking a higher level of risk than it could bear.

The bank's regulatory capital consists of:

1. Regular core capital (CET1)
2. Additional core capital (AT1)
3. Supplementary capital (T2)

5. RISK MANAGEMENT (Continued)

5.7. Capital Management (Continued)

In accordance with the Decision on capital adequacy of credit institutions ("Official Gazette of Montenegro" no. 128/20, 140/21 and 144/22), the Bank's regulatory capital represents the sum of elements of regular core capital, additional core capital , and supplementary capital. The Bank's regulatory capital as of December 31, 2022 amounts to EUR 58,466 thousand, and consists of EUR 48,149 thousand of regular core capital and EUR 10,317 thousand of supplementary capital. The bank does not have elements of additional core capital.

Elements of regular core capital consist of: paid instruments of share capital, retained earnings from previous years, and the applicable amount of the negative effect of the transition to the valuation of asset by applying IFRS 9, in accordance with article 504a of the Decision on capital adequacy of credit institutions.

Deductible elements from regular core capital represent: deductions based on accumulated comprehensive profit, other reserves, prudential valuation, intangible assets, and positive differences between calculated provisions and impairment.

Supplementary elements of regulatory capital amount to EUR 10,317 thousand as of December 31, 2022 and consists of unamortized paid instruments of supplementary capital (issued subordinated bonds). The bank has no deductions based on supplementary capital.

6. INTEREST INCOME AND EXPENSES AND SIMILAR INCOME AND EXPENSES

Interest income

In thousand EUR	**2022**	**2021**
Deposits:		
- Foreign banks	117	-
- Other	20	-
	137	**-**
Loans:		
- Banks	103	80
- State institutions	34	138
- Government of Montenegro		
- Legal entities	5,562	5,911
- Individuals	7,387	7,369
Fee income recognized in interest income:	863	732
	13,949	**14,230**
Securities:	4,303	3,412
	4,303	**3,412**
Repurchase operations:	-	-
Ither interest income	**1**	**1**
	1	**1**
Total interest income:	**18,390**	**17,643**

Interest expense

In thousand EUR	**2022**	**2021**
Deposits:		
- Banks	113	193
- Financial institutions	10	11
- State institutions	48	52
- Legal entities	122	213
- Individuals	863	980
	1,156	**1,449**
Loans and other borrowings	**355**	**437**
Subordinated debt:	**884**	**1,208**
Leasing operations:	**134**	**86**
	2,529	**3,180**

7. NET INCOME/EXPENSE BASED ON IMPAIRMENT OF FINANCIAL INSTRUMENTS NOT VALUED AT FAIR VALUE THROUGH INCOME STATEMENT

a) Impairment

In thousand EUR	2022	2021
Net provisions/ (reversal of provisions) based on:		
- loans	(1,009)	1,201
- deposits at banks	6	(8)
- securities	3,384	198
- off balance items	(52)	(355)
- other	380	327
	2,709	**1,363**

7.1. Changes at impairment accounts

	December 31, 2021	New placements- increase of impairment	Existing - reduction of impairment	Existing placements - increase of impairment	Closed placements – reversal of impairment	December 31, 2022
Retail	5,559	1,008	(837)	1,444	(682)	6,492
Corporate	10,885	2,743	(1,507)	1,762	(4,713)	9,170
Total	**16,444**	**3,751**	**(2,344)**	**3,206**	**(5,395)**	**15,662**
Receivables from banks	**114**	**143**	**(2)**	**6**	**(110)**	**151**

7. NET INCOME/EXPENSE BASED ON IMPAIRMENT OF FINANCIAL INSTRUMENTS NOT VALUED AT FAIR VALUE THROUGH INCOME STATEMENT (Continued)

7.2. Changes on provisions

Changes in the impairment accounts of uncollectible receivables and provisions

December 31, 2021

In thousand EUR	**Loans and receivables from clients (Note 17.2)**	**Interest (Note 17.2)**	**Acquired assets (Note 21)**	**Reserves for operational risk, country risk and court disputes (Note 23)**	**Other receivables (Note 17.2 and 21)**	**Other financial assets**	**Provisions for off balance sheet records (Note 23)**	**Impairment of securities (Note 18)**	**Loans and receivables from banks (Note 17.1)**	**Total**
Balance at the beginning of the year	14,445	59	1,257	337	1,027	139	1,095	912	**157**	**19,428**
Impairment over the year, net	1,530	1		4	235	28	(355)	198	(44)	**1,597**
Reversal/ impairment that did not affect impairment and provision costs **	(307)	630	(169)	-	(486)	-	-	4	-	**(328)**
Decrease in income from interest on impaired placements										
Balance at the end of the year	**15,668**	**690**	**1,088**	**341**	**776**	**167**	**740**	**1,114**	**113**	**20,697**

December 31, 2022

In thousand EUR	**Loans and receivables from clients (Note 17.2)**	**Interest (Note 17.2)**	**Acquired assets (Note 21)**	**Reserves for operational risk, country risk and court disputes (Note 23)**	**Other receivables (Note 17.2 and 21)**	**Other financial assets**	**Provisions for off balance sheet records (Note 23)**	**Impairment of securities (Note 18)**	**Loans and receivables from banks (Note 17.1)**	**Total**
Balance at the beginning of the year	**15,668**	**690**	**1,088**	**341**	**776**	**167**	**740**	**1,114**	**113**	**20,697**
Impairment over the year, net	(969)	2		(13)	205	(10)	(52)	3,496	37	**2,696**
Reversal/ impairment that did not affect impairment and provision costs **	(196)	353	(3)	-	-	-	-	18	1	**173**
Decrease in income from interest on impaired placements										
Balance at the end of the year	**14,503**	**1,045**	**1,085**	**328**	**981**	**157**	**688**	**4,628**	**151**	**23,566**

8. PROVISION COSTS

In thousand EUR	2022	2021
Net provisions based on:		
- litigations	3	(1)
- other	(16)	235
	(13)	**234**

9. FEE INCOME AND EXPENSES

Fee income
In thousand EUR

	2022	2021
Loan fees	863	289
Fees from off-balance-sheet operations	745	820
Fees from payment transactions and e-banking	4,228	3,113
Fees for foreign payments	2,437	1,614
Fees on credit card operations	13,315	8,579
Other fees and commissions	1,513	1,169
	23,101	**15,584**

Fee expenses
In thousand EUR

	2022	2021
Fees payable to the Central Bank	1,120	949
Fees for foreign payment transactions	417	360
Deposit insurance premium fees	2,629	2,303
Fees paid for borrowings and guarantees	64	44
Fess based on card and ATMs operations	8,592	5,608
Other fees and commissions	671	411
	13,493	**9,675**

10. EMPLOYEE EXPENSES

In thousand EUR	2022	2021
Net salaries	3,960	2,870
Taxes and contributions on salaries	1,847	1,964
Other employee benefits, net	86	74
Severance and jubilee awards	-	25
Remunerations to members of the Supervisory Board	246	126
Remunerations to members of the Development Committe	22	72
Remunerations to members of the Credit Risk Committee	-	37
Remunerations to members of the Sustainable Development Committee	16	-
Fees to members of the Committee for monitoring the quality of the loan portfolio	36	-
Fees for members of the Board of Education	3	-
Fees to members of the Investment Committee	7	7
Remunerations to members of the Audit Committee	42	42
Transportation expenses, net	44	40
Travel expenses and per diems	833	620
Employee training	26	21
Provision expenses for Severance and jubilee awards (note 23)	5	3
Assistance / Help given to employees	21	26
Other expenses	61	42
	7,255	**5,969**

11. GENERAL AND ADMINISTRATIVE EXPENSES

In thousand EUR	2022	2021
Rental costs	409	405
Security services	637	568
Electricity and fuel bills	187	169
Cleaning services	143	160
Computer and other equipment maintenance	282	261
Premises-related taxes	4	7
Vehicle maintenance	73	62
Insurance costs	588	590
Audit expense	455	355
Court expenses	2	-
Other professional fees	3	3
Lawyer fees	23	10
Consulting services	283	225
Intellectual services	58	190
Telecommunication costs	106	104
Communication network costs	277	240
Postage	20	24
Office supplies	211	175
Utilities	21	20
Representation expenses	1,111	695
Advertising and marketing	580	537
Subscriptions and donations	206	255
Software maintenance	556	523
Equipment rentals	105	111
Data processing services	934	660
Payment card operations	155	159
Other expenses	491	665
	7,920	**7,173**

12. DEPRECIATION COST

In thousand EUR	2022	2021
Property plant and equipment (Note 19)	742	767
Intangible assets (Note 20)	530	517
Property with the right of use (Note 19)	1,242	1,097
	2,514	**2,381**

13. OTHER EXPENSES

In thousand EUR	2022	2021
Direct write off of receivables	11	3
Various fees	54	169
Extraordinary expenses	6	41
Other expenses		-
	71	**213**

14. OTHER INCOME

In thousand EUR	2022	2021
Dividend income	79	133
Other operating income	4	-
Collected receivables previously written off	12	30
Other income	219	73
	314	**236**

15. INCOME TAX

a) Components of Income Tax

In thousand EUR	2022	2021
Calculated current income tax	1,178	476
Calculated deferred income tax	(29)	(11)
	1,149	**465**
Effective tax rate	15.98%	9.59%

15. INCOME TAX (Continued)

b) Reconciliation between tax expense and the product of accounting results multiplied by the applicable tax rate

In thousand EUR	2022	2021
The result in the income statement before taxation	7,191	4,849
Income tax at statutory rate	1,031	410
Tax effects of expenses not recognized for tax purposes	116	54
Other	2	1
Income tax disclosed in Income statement	**1,149**	**465**
	15.98%	**9.59%**

The tax rate used for 2022 is progressive and amounts to 9% up to EUR 100,000.00 of taxable profit, 12% from EUR 100,000.01 to EUR 1,500,000.00 of taxable profit and 15% on the amount over 1,500,000.01 of taxable profit, in accordance with the Corporate Income Tax Law. The tax rate used for 2021 is 9% and is applied to the taxable profit of legal entities.

c) Deferred tax liabilities

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Deferred tax assets/liabilities as a result of booked unrealized gains on securities valued at fair value through other comprehensive income	38	243	(23)
Deferred tax assets/liabilities based on the temporary difference between the book and tax basis of property and equipment	69	39	27
Deferred tax assets/liabilities as a result of booked actuarial gains/losses based on provisions for retirement benefits (IAS 19)	3	2	-
	110	**284**	**4**

The reduction of deferred tax assets is mostly related to the change in the business model, which resulted in the reclassification of the entire portfolio of debt securities from the category of Financial assets at fair value through other comprehensive income to the category of Financial assets at amortized value (note 3.8.4).

16. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Cash on hand:	**29,102**	**28,843**	**24,723**
- in EUR	25,486	26,212	23,590
- in foreign currencies	3,616	2,631	1,133
Gyro account	258,758	177,001	114,835
Obligatory reserves held with the Central Bank of Montenegro	38,246	28,931	22,853
Funds in the collection process	2,091	1,106	979
	328,197	**235,881**	**163,390**

The mandatory reserve of the Bank with the balance as of December 31, 2022 represents allocated funds in accordance with the regulations of the Central Bank of Montenegro to which the "Decision on the mandatory reserve of banks at the Central Bank of Montenegro" refers ("Official Gazette of Montenegro", No. 88/ 17 and 43/20). In accordance with the above, banks calculate the required reserve on demand deposits and time deposits, except for central bank deposits.

Banks calculate the obligatory reserve applying the following rates:

- 5.5% to the base comprised of demand deposits and deposits maturing within a year. i.e. 365 days; and
- 4.5% to the base comprised of deposits with maturities of over a year. i.e. 365 days.

The rate of 5.5% is also applied to deposits with contractually defined maturities of over a year. i.e. 365 days, with contractual clause on early withdrawal option (within less than 365 days).

The obligatory reserve is to be calculated by applying the aforesaid rates to the appropriate part of the base during the previous week, two days before the expiry of the maintenance period. The maintenance period is a monthly period, from the third Wednesday of the month and lasts until the day preceding the third Wednesday of the following month.

The Bank sets aside the calculated reserves to the obligatory reserve accounts held with the Central Bank of Montenegro in the country and/or abroad and cannot be separated and held in a different form. Required reserves are allocated in EUR. Funds allocated to the accounts of the Central Bank abroad cannot be transferred to other accounts abroad, instead they can be transferred exclusively to the Bank's transaction account in the RTGS system.

On 50% of the required reserves allocated in accordance with the Decision, the Central Bank pays to the Bank until the eighth day of the month for the previous month a fee calculated at the rate of EONIA reduced by 10 basis points on an annual basis, but this rate cannot be less than zero.

If the Bank is planning to withdraw funds from the account of required reserves of the Central Bank held abroad, in the amount of more than EUR 500,000 is obliged to announce and on written notice to the Central Bank no later than three working days before the withdrawal of the required reserve.

16. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS (Continued)

For the maintenance of daily liquidity, the Bank may use up to 50% of the required reserve. On the used amount of required reserves, which has returned on the same day, the bank does not pay a fee. In case the amount of the required reserve does not return on the same day, the Bank is obligated to pay a fee paid monthly at a rate determined by a special regulation of the Central Bank.

When the Central Bank determines that the Bank has incorrectly calculated and / or allocated a mandatory reserve or failed to do so within the prescribed deadline, that is that the Bank does not maintain the required reserve in the prescribed amount, the Bank shall, for a fixed amount of incorrectly calculated or untimely allocated reserve, pay a monthly fee at a rate determined by special regulation of the Central Bank.

17. FINANCIAL ASSETS AT AMORTIZED VALUE

17.1. Loans and receivables from banks

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Correspondent accounts with foreign banks	24,544	38,907	17,209
Deposits with banks and other depository institutions, residents	-	-	-
Deposits with banks and other depository institutions, non - residents	-	98	5
Loans to banks	9,625	5,002	5,003
	34,169	**44,007**	**22,217**
Minus	(150)	(114)	(157)
Impairment of loans and receivables from banks			
	34,019	**43,893**	**22,060**

	Balance, January 1, 2021	Balance, December 31, 2021	Changes during the year	Balance, December 31, 2022
Impairment of loans and receivables from banks (Note 7.2)	(157)	(114)	(37)	(151)

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.2. Loans and receivables from clients

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Due loans:			
- Government of Montenegro	-	-	-
- municipalities (public organizations)	-	-	2
- legal entities	2,262	3,391	2,293
- state owned companies	-	-	-
- individuals	1,736	1,641	1,303
- other	16	10	14
Short-term loans:			
- Government of Montenegro	-	-	-
- municipalities (public organizations)	-	-	103
- legal entities	39,264	32,605	27,047
- state owned companies	-	-	-
- individuals	5,141	4,100	3,192
- other	455	642	1,081
Long-term loans:			
- Government of Montenegro	-	-	-
- municipalities (public organizations)	63	44	95
- legal entities	91,679	91,922	93,718
- state owned companies	1,851	2,283	2,884
- individuals	106,978	97,233	95,326
- other	1,150	2,456	2,279
	250,595	**236,327**	**229,337**
Interest receivables:			
- loans	1,154	925	202
Accruals:			
- interest on loans	1,458	1,252	1,142
- fees	(1,014)	(811)	(733)
Factoring		-	5
Deposits with other depository institutions	281	480	10
	1,879	**1,846**	**626**
	252,474	**238,173**	**229,963**
Minus:			
Impairment allowance of loans, activated guarantees and factoring (Note 7.2)	(14,503)	(15,667)	(14,445)
Impairment allowance of interest receivables (Note 7.2)	(1,045)	(690)	(59)
Impairment allowance of accruals	(114)	(87)	(64)
	(15,662)	**(16,444)**	**(14,568)**
	236,812	**221,729**	**215,395**

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.2. Loans and receivables from clients (Continued)

The concentration by activities of the total net loans to customers by the Bank is as follows:

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Agriculture, forestry and fishing	1,955	2,276	3,256
Mining	4,527	4,651	4,047
Processing industry	4,222	7,047	9,996
Water supply	744	741	361
Construction industry	21,763	24,007	26,128
Trade	45,934	37,321	32,171
Transport and storage	5,350	5,977	8,686
Accommodation and catering services	17,285	17,846	20,755
Information and communications	3,067	1,227	1,355
Finance and insurance sector	1,718	2,526	700
Real estate trade	6,705	3,829	3,722
Professional, scientific and technical activities	5,914	4,256	2,762
Administrative and support service activities	983	1,679	2,131
Public administration, defense and compulsory social security	-	-	-
Education	204	177	132
Health and social care	361	631	239
Art, entertainment and recreational activities	787	769	298
Other services	6,751	7,365	2,264
Non-resident legal entities	-	1,162	1,194
Retail customers	108,542	98,242	95,198
	236,812	**221,729**	**215,395**

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.2. Loans and receivables from clients (Continued)

Changes in loans and receivables from clients and impairment are shown in the following tables:

LOANS	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
December 31, 2021	**106,746**	**61,790**	**65,461**	**4,176**	**238,173**
New receivables	71,207	46,677	1,081	86	119,051
Transfer to level 1	(10,998)	10,279	719	-	-
Transfer to level 2	4,907	(11,393)	6,486	-	-
Transfer to level 3	14,538	17,319	(31,857)	-	-
POCI crossings	-	-	-	-	-
Existing billing	(18,113)	(10,771)	(4,070)	-	(32,954)
Existing enlargement	7,931	1,173	380	18	9,502
Closed	(30,385)	(26,515)	(19,901)	(4,002)	(80,803)
Written off	(17)	(6)	(472)	-	(495)
Transfers from other levels	-	-	-	-	-
December 31, 2022	**145,816**	**88,553**	**17,827**	**278**	**252,474**

IMPAIRMENT	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
December 31, 2021	**(1,643)**	**(4,116)**	**(9,772)**	**(913)**	**(16,444)**
New receivables	(987)	(2,635)	(110)	(19)	(3,751)
Transfer to level 1	159	(151)	(8)	-	-
Transfer to level 2	(173)	1,062	(889)	-	-
Transfer to level 3	(577)	(1,580)	2,157	-	-
POCI crossings	-	-	-	-	-
Existing billing	653	1,246	444	-	2,343
Existing enlargement	(230)	(528)	(2,373)	(73)	(3,204)
Closed	422	1,286	2,556	795	5,059
Written off	-	1	334	-	335
Transfers from other levels	-	-	-	-	-
December 31, 2022	**(2,376)**	**(5,415)**	**(7,661)**	**(210)**	**(15,662)**

On December 31, 2022. the Bank's portfolio on individual value adjustment amounts to EUR 73,987 thousand (2021: EUR 118,928 thousand). and on the collective value adjustment EUR 178,488 thousand (2021: EUR 119,245 thousand).

On December 31, 2022. the value correction for the portfolio that is on individual correction amounts to EUR 9,962 thousand (2021: EUR 11,327 thousand). and for the portfolio that is under collective correction, EUR 5,700 thousand (2021: EUR 5,117 thousand).

On December 31, 2022. there are 230 credit lots on the individual correction (2021: 528). and on the collective 45,964 credit lots (2021: 58,725).

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.3 Securities

In thousand EUR	December 31, 2022	December 31, 2021	January 1. 2021
Debt securities			
Residents	97,896	-	-
Non-residents	107,271	3,562	1,107
	205,167	**3,562**	**1,107**
Impairment	**4,628**	**10**	**-**
	200,539	**3,552**	**1,107**

In thousand EUR	Balance January 1, 2021	Balance December 31, 2021	Change	Balance December 31, 2022
Debt securities	-	(10)	(4,618)	(4,628)
	-	**(10)**	**(4,618)**	**(4,628)**

Securities classified as financial assets according to the amortized cost method with a balance as of December 31, 2022 have a total value of EUR 200,539 thousand. The largest share of investments refers to local and Eurobonds, as well as government bonds of Montenegro, whose value as of December 31, 2022 is EUR 97,678 thousand. The rest of the portfolio, which is classified according to the amortized cost method, refers to non-resident debt securities.

Local bonds of Montenegro mature in 2024 and 2026, with coupon interest rates of 3% and 3.5%, have a nominal value of EUR 24,096 thousand.

Eurobonds of Montenegro with maturity dates from 2025 to 2029, with a coupon interest rate of: 3.375% for the series maturing in 2025, 2.875% for the series maturing in 2027 and 2.55% for the series maturing in 2027 due in 2029, have a nominal value of EUR 64,324 thousand.

Government bills of Montenegro with a maturity of 182 days, with coupon interest rates of: 2.98%, 3.5%, 3.75% and 4%, have a nominal value of EUR 9,000 thousand.

Debt securities - non-residents as of December 31, 2022 have a value of EUR 102,860 thousand. These securities, with a nominal value of EUR 105,246 thousand, mature in the period from 2023 to 2032 with coupon interest rates ranging from 0.25% to 6.375%.

As stated in Note 3.8.4, during 2022 the Bank reclassified part of portfolio of securities at fair value through other total results in the portfolio at amortized value

On 01.12.2022. year, the reclassification of bonds with a gross book value of EUR 140,121 thousand was carried out. The above-mentioned reclassifications did not affect the measurement of expected credit losses, but they did affect their presentation (reclassification from other reserves within capital to a position in assets).

The effects of the reclassification on other comprehensive income are presented separately in the Statement of changes in equity.

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.3 Securities (Continued)

	December 31, 2022	December 31, 2021
Short-term debt instruments - government records of the Ministry of Finance of the Government of Montenegro	8,868	-
Short-term debt instruments - bonds of financial institutions	3,995	1,000
Short-term debt instruments - corporate bonds	15,381	1,536
Short-term debt instruments - supranational bonds	5,558	-
Short-term debt instruments - bonds of foreign governments	25,236	888
Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	63,611	-
Long-term debt instruments - domestic bonds of the Ministry of Finance of the Government of Montenegro	24,103	-
Long-term debt instruments - bonds of foreign governments	23,375	-
Long-term debt instruments - municipal bonds	279	-
Long-term debt instruments - corporate bonds	24,752	100
Long-term debt instruments - bonds of financial institutions	7,482	-
	202,640	**3,524**
Interest receivables	2,527	38
Correction of the value of securities at amortized value	(4,628)	(10)
	200,539	**3,552**

	Principal amount due over 1 year	Maturity
Long-term debt instruments - bonds of foreign governments	4,418	2024
Long-term debt instruments - corporate bonds	3,570	
Long-term debt instruments - bonds of financial institutions	274	
Long-term debt instruments - domestic bonds of the Ministry of Finance of the Government of Montenegro	22,716	
Long-term debt instruments - corporate bonds	4,585	2025
Long-term debt instruments - bonds of foreign governments	2,524	
Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	28,863	
Long-term debt instruments - bonds of financial institutions	1,007	
Long-term debt instruments - municipal bonds	279	
Long-term debt instruments - corporate bonds	6,513	2026
Long-term debt instruments - bonds of financial institutions	1,439	
Long-term debt instruments - bonds of foreign governments	1,497	
Long-term debt instruments - domestic bonds of the Ministry of Finance of the Government of Montenegro	1,386	
Long-term debt instruments - corporate bonds	7,087	2027
Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	16,479	
Long-term debt instruments - bonds of foreign governments	2,686	
Long-term debt instruments - corporate bonds	950	2028
Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	18,268	2029
Long-term debt instruments - bonds of financial institutions	3,061	
Long-term debt instruments - bonds of foreign governments	1,462	
Long-term debt instruments - bonds of foreign governments	4,670	2030
Long-term debt instruments - corporate bonds	2,046	
Long-term debt instruments - bonds of financial institutions	1,700	2031
Long-term debt instruments - bonds of foreign governments	3,090	
Long-term debt instruments - bonds of foreign governments	3,032	2032
	143,602	

Nominal interest rates on domestic and Eurobonds range from 2.55% to 3.375%.

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

18.1. Securities at fair value through other comprehensive income

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Debt Securities			
The Government of Montenegro	-	78,198	85,387
Non-residents	-	55,202	35,161
	-	**133,400**	**120,548**
Equity securities			
Residents	103	187	179
Non-residents	5,772	6,299	7,423
	5,875	**6,486**	**7,602**
	5,875	**139,886**	**128,150**

In thousand EUR	Balance January 1, 2021	Balance December 31, 2021	Change	Balance December 31, 2022
Debt Securities	912	(1,104)	1,104	-
Equity securities	-	-	-	-
	912	**(1,104)**	**1,104**	**-**

Securities that are classified as financial assets at fair value and recognized through other comprehensive income with a balance as of December 31, 2022 in the amount of EUR 5,875 thousand refer to roles in bond investment funds in the amount of EUR 5,531 thousand, as well as investments in company shares in the amount of EUR 344 thousand.

18.2 Securities held for trading

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Debt Securities			
Residents	-	-	-
Non-residents	-	7,465	-
	-	**7,465**	**-**

As at December 31, 2022, there are no investments in securities that are classified at fair value through the profit and loss account (FVPL).

19. PROPERTY, PLANT AND EQUIPMENT

Movements on property, equipment and other assets for 2022 and 2021 are presented in the following table:

	Properties	Computer equipment	Other equipment	Investmentin progress	Assets with the right of use	Total
Cost						
Balance, January 1, 2021	-	1,880	5,405	62	5,080	12,427
Additions	-	109	391	71	1,213	1,784
Modification of the lease period	-	-	-	-	(456)	(456)
Transfers	-	17	83	(100)	-	-
Disposals	-	(300)	(391)	(5)	(1,525)	(2,221)
Balance, December 31, 2021	**-**	**1,706**	**5,488**	**28**	**4,312**	**11,534**
Additions	-	117	150	515	4,836	5,618
Modification of the lease period	-	-	-	-	341	341
Transfers	160	4	128	(292)	-	-
Disposals	-	(355)	(235)	(23)	-	(613)
Balance, December 31, 2022	**160**	**1,472**	**5,531**	**228**	**9,489**	**16,880**
Impairment						
Balance, January 1, 2021	-	1,427	3,582	-	1,204	6,213
Depreciation (Note 12)	-	248	519	-	1,097	1,864
Disposals	-	(300)	(174)	-	(878)	(1,352)
Balance, December 31, 2021	**-**	**1,375**	**3,927**	**-**	**1,423**	**6,725**
Depreciation (Note 12)	1	236	505	-	1,242	1,984
Disposals / agreement modification	-	(353)	(226)	-	-	(579)
Balance, December 31, 2022	**1**	**1,258**	**4,206**	**-**	**2,665**	**8,130**
Current value						
December 31, 2022	**159**	**214**	**1,325**	**228**	**6,824**	**8,750**
December 31, 2021	**-**	**331**	**1,561**	**28**	**2,889**	**4,809**
January 1, 2021	**-**	**453**	**1,823**	**62**	**3,876**	**6,214**

As of December 31, 2022, the Bank has no assets under pledge to secure repayment of loans and other obligations.

Investments in progress mainly refer to payments related to the purchase and installation of ATMs in the amount of EUR 225 thousand and the purchase of stands for POS terminals in the amount of EUR 3 thousand.

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

Property with right of use

	Business space	Equipment	Total
Balance as at January 1, 2021	**2,808**	**1,068**	**3,876**
Balance as at January 1, 2022	**1,775**	**1,114**	**2,889**
New acquisitions	4,836	-	4,836
Depreciation	(882)	(360)	(1,242)
Termination of the contract means	-	-	-
Termination of contract accumulated depreciation	-	-	-
Modification of the lease period	(5)	346	341
Balance as ta December 31, 2022	**5,724**	**1,100**	**6,824**

20. INTANGIBLE ASSETS

Intangible assets mostly consist of licenses and software. The following overview shows the movements in intangible assets during 2022 and 2021:

	Other intangible assets	Licences	Software	Intangible assets in progress	Total
Cost					
Balance, January 1, 2021	321	1,286	3,250	116	4,973
Additions	-	50	300	203	553
Transfers	-	-	189	(213)	(24)
Disposals	-	-	-	(35)	(35)
Balance, December 31, 2021	**321**	**1,336**	**3,739**	**71**	**5,467**
Additions	-	5	250	551	806
Transfers	-	-	66	(281)	(215)
Disposals	(34)	-	(8)	-	(42)
Balance, December 31, 2021	**287**	**1,341**	**4,047**	**341**	**6,016**
Impairment					
Balance, January 1, 2021	321	468	2,165	-	2,954
Depreciation (Note 12)	-	102	415	-	517
Disposals	-	-	-	-	-
Balance, December 31, 2021	**321**	**570**	**2,580**	**-**	**3,471**
Depreciation (Note 12)		105	425		530
Disposals	(34)		(7)		(41)
Balance, December 31, 2022	**287**	**675**	**2,998**	**-**	**3,960**
Current value					
December 31, 2022	**-**	**666**	**1,049**	**341**	**2,056**
December 31, 2021	**-**	**766**	**1,159**	**71**	**1,996**
January 1, 2021	**-**	**818**	**1,085**	**116**	**2,019**

Increases in intangible assets during 2022 refer mainly to the increase in software, i.e. implementation of new applications, within the application software Dabar in the amount of EUR 242 thousand, investments in process automation in the amount of EUR 43 thousand, as well as new services, functionalities and software improvements related to card and electronic banking (Apple Pay, Soft POS) in in the amount of EUR 31 thousand.

Investments in progress for intangible investments amount to EUR 341 thousand. These investments mostly refer to software projects related to card and ATM operations.

In accordance with IAS 38, the Bank does not amortize licenses with an unlimited life. The useful life is reviewed at the end of each reporting period.

21. OTHER ASSETS

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Assets acquired through collection of receivables	2,802	1,105	1,275
Prepaid costs	681	689	771
Receivables from custody	59	48	46
Advances	625	190	203
Other receivables from fees and commissions	303	268	247
Receivables from state funds	70	108	65
Receivables from costumers	222	134	224
Credit card receivables	789	685	707
Receivables from employees	316	304	77
Other financial receivables	23	35	70
Other operating receivables	677	504	968
Mpairment of other assets	(2,107)	(1,777)	(2,220)
	4,460	**2,293**	**2,433**

Funds acquired through collection in the amount of EUR 2,802 thousand as of December 31, 2022 (December 31, 2021: EUR 1,105 thousand) refer to funds acquired based on the activation of loan collateral, which are owned by the Bank for a period longer than 12 months. Funds acquired on the basis of debt collection are recorded at the lower of the total value of the debt and the estimated value.
The value adjustment of other assets mostly refers to acquired assets in the amount of EUR 1,085 thousand (December 31, 2021: EUR 1,088 thousand) and EUR 1,022 thousand to the value adjustment from business relationships (December 31, 2021: EUR 689 thousand).

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE

22.1 Deposits from banks and central banks

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Avista deposits	2,417	1,670	1,169
Term deposits	44	44	45
	2,461	**1,714**	**1,214**

Bank deposits in the amount of EUR 2,461 thousand as of December 31, 2022 (December 31, 2021 EUR 1,714 thousand) refer to term and demand deposits, of which EUR 917 thousand refer to demand deposits from domestic banks, and EUR 1,500 thousand refer to demand deposits of foreign banks.

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (Continued)
22.2 Deposits from clients

Demand deposits of natural persons in EUR are deposited with an interest rate of 0.01% per year.

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Demand deposits:			
- financial institutions	3,101	2,181	1,174
- legal entities	206,694	145,754	121,188
- companies with majority state ownership	30,412	44,936	16,621
- municipalities (public organizations)	5,750	4,960	2,710
- funds	757	450	713
- individuals	316,154	198,479	146,016
- non-profit organizations	9,853	8,793	7,926
- The Government of Montenegro	13,978	7,294	3,775
- others	14,502	10,119	12,069
	601,201	**422,966**	**312,192**
Funds on escrow accounts	**3,706**	**4,384**	**2,188**
Short - term deposits:			
- financial institutions	1,000	900	1,200
- legal entities	3,080	4,391	5,490
- companies with majority state ownership	2,085	7,120	3,000
- municipalities (public organizations)	1	600	650
- funds	-	-	-
- individuals	39,327	47,994	41,321
- non-profit organizations	84	76	-
- The Government of Montenegro	400	302	5,108
- others	1,453	1,450	1,450
	47,430	**62,833**	**58,219**
Long-term deposits:			
- financial institutions	3	3	3
- legal entities	15,161	17,460	20,271
- companies with majority state ownership			
- municipalities (public organizations)	1,372	572	654
- funds			
- individuals	31,149	37,972	32,887
- non-profit organizations	57	57	59
- The Government of Montenegro		150	251
- others	102	2	5
	47,844	**56,216**	**54,130**
Interest and other liabilities			
Accruals: deposits	**1,253**	**1,860**	**1,617**
	701,434	**548,259**	**428,346**

Short-term and long-term term deposits of natural persons in EUR are deposited with an interest rate ranging from 0% to 6.30% per year depending on the savings package chosen and the amount to be termed (up to EUR 50 thousand and over EUR 50 thousand). Short-term and long-term term deposits of natural persons in foreign currency are deposited depending on the currency, with an interest rate ranging from 0% to 0.90% annually.

Short-term and long-term term deposits of companies in EUR are deposited with an interest rate ranging from 0% to 2.50% annually, depending on the term period and the amount being termed (up to EUR 100 thousand and over EUR 100 thousand). The interest rate on short-term and long-term time deposits in other currencies is 0.25%.

Demand deposits of legal entities are charged interest ranging from 0% to 0.40% annually.

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (Continued)
22.3. Loans from clients which are not banks

In thousand EUR	Period (Years)	Annual Interest rate	December 31, 2022	December 31, 2021	January 1, 2021
European Investment Bank (2009.)	12	4.032%	-	-	297
European Investment Bank (2009.)	12	3.923%	-	-	165
European Investment Bank (2010.)	12	3.604%	-	236	695
European Investment Bank (2010.)	12	3.168%	-	231	454
European Investment Bank (2010.)	12	3.019%	-	227	447
European Investment Bank (2011.)	12	3.841%	185	544	889
European Investment Bank (2011.)	12	3.181%	99	195	288
European Investment Bank (2012.)	12	2.398%	420	623	822
European Bank for Reconstruction and Development (2020.)	2.5	2.860%		3,333	5,000
Green For Growth Fund, See S.A. (2021)	6.11	4.679%	3,500	3,500	-
			4,204	**8,889**	**9.057**
Investment Development Fund of Montenegro, Podgorica (from 2014. to 2021.)	3.10 -15.3	1%-5.78%	8,964	11,175	12,910
Directorate for the Development of Small and Medium Enterprises (2007)	7.6	1%	50	50	50
Ministry of Finance (2021)	9	0%	2,531	2,531	-
			11,545	**13,756**	**12,960**
			15,749	**22,645**	**22,017**
Accruals					
Interest not due			15	22	31
Total			**15,764**	**22,667**	**22,048**

As of December 31, 2022, the Bank has liabilities to the European Investment Bank ("EIB") based on long-term loans in the amount of EUR 704 thousand (December 31, 2021: EUR 2,056 thousand). Loans are approved to encourage the development of small and medium-sized companies in Montenegro, with a grace period of up to two years. The guarantee of the Government of Montenegro is the means of ensuring the orderly repayment of the aforementioned obligations towards the EIB.

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (Continued)

22.3. Loans from clients which are not banks (Continued)

In the course of 2021, the bank also signed a loan agreement with the Green for Growth Fund, in the amount of 7 million euros, which funds are intended for financing the construction and renovation of energy-efficient buildings. The payment is in two tranches of EUR 3.5 million, the first tranche was paid in December 2021. The deadline for repayment is December 2028. The second tranche of the GGF loan was not paid in April 2022. Meanwhile, two amendments were signed between the Bank and GGF. One was signed on April 12, and the other on June 20. The aforementioned amendments defined that the second installment of the loan will be paid on June 24, that is, on September 26, 2022.

However, in September 2022, the installment payment was not made, due to the fact that the Bank and GGF agreed that, for the purposes of implementing the contract, technical assistance would be provided by GGF, in order to engage a consultant who would work for the Bank prepared an analysis of projects that could be fully financed by the GGF. The aim of the consultancy agreement is to provide support from GGF, in such a way that a consultant would be hired for the Bank's needs, who would prepare a certain number of environmental impact assessments (IA) of projects, in order to verify and report primary energy savings and emission reduction levels CO2 for projects that will be financed from the GGF loan.

The Consulting Agreement on the provision of impact assessment services (GGF Impact Assessment Services) has not yet been signed. It is expected to be signed during March or April 2023. After the preparation of the mentioned document, and the results that will be presented, further activities related to the implementation of the project will be developed.

23. RESERVES

In thousand EUR	**December 31,2022**	**December 31,2021**	**January 1, 2021**
Provisions for potential losses for:			
- off-balance sheet exposures (note 7.2)	688	740	1,095
- operational risk and country risk (note 7.2)	300	316	310
- litigation / court disputes (note 7.2)	28	25	27
Provisions for employee retirement benefits and jubilee awards	52	46	21
	1,068	**1,127**	**1,453**

	December 31,2022	**Estimate per day December 31,2021**	**January 1, 2021**
Discount rate for retirement benefits	2.88%	2.88%	2.88%
Employee turnover ratio (does not include employees referred by employment agencies)	1.43%	3.96%	4.66%
Inflation rate	13.00%	2.41%	-0.26%
Expected salaries growth rate	-	-	-

Movements on the account of provisions for employee retirement benefits were as follows:

In thousand EUR	**2022**	**2021**	**January 1, 2021**
Balance at the beginning of the year	46	21	17
Provisions during the year (note 10)	5	3	4
Provisions during the year through capital	1	23	-
Usage of provisions	-	(1)	-
Balance as at December 31	**52**	**46**	**21**

24. OTHER LIABILITIES

In thousand EUR	December 31, 2022	December 31, 2021	January 1, 2021
Liabilities from consignment operations	384	625	185
Advances received	3,764	3,305	2,820
Liabilities for other taxes	49	50	47
Liabilities relating to deductions from salaries	91	22	30
Trade payables	890	777	464
Accrued liabilities		382	393
Lease liabilities with the right of use	6,873	2,908	3,866
Custody operation liabilities	4,318	5,417	3,865
Suspense accounts	755	2,229	798
Other liabilities	3,837	813	833
	20,961	**16,528**	**13,301**

Lease liabilities

	Business space	Technical equipment	Total
Balance January 1, 2021	**2,796**	**1,070**	**3,866**
Balance January 1, 2022	**1,790**	**1,118**	**2,908**
New purchases	4,836	-	4,836
Interest expense	22	104	126
Contract termination	-	-	-
Modification of the rental price/lease period	(9)	338	329
Adjustments for the variable portion of the lease payments	-	-	-
Leasing payments	(952)	(374)	(1,326)
Adjustment for exchange rate differences	-	-	-
Balance, December 31, 2022	**5,687**	**1,186**	**6,873**

Maturity of lease liabilities

	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Liabilities based on leasing	315	931	3,565	2,062	**6,873**

25. SHARE CAPITAL

- The Bank's share capital amounts to EUR 52,361,965.61, consisting of 10,241,148 registered shares;
- The nominal value of one share is EUR 5.1129;
- Shares are dematerialized, infinitely transferable and registered. An extract from the register at the Central Depository Clearing Company AD Podgorica is the only proof of ownership of shares;

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

	December 31, 2022		
Shareholder	**Number of shares**	**In thousand EUR**	**% share**
HIPOTEKARNA BANKA A.D Podgorica/HB – Summary Custody Accound 1	2,345,210	11,991	22,90
Gorgoni Antonia	1,024,290	5,237	10,00
Gorgoni Paolo	880,509	4,502	8,60
Cerere S.P.A.	870,205	4,449	8,50
Gorgoni Mario	804,939	4,116	7,86
Other	4,315,995	22,067	42,14
Total	**10,241,148**	**52,362**	**100,00**

	December 31, 2021		
Shareholder	**Number of shares**	**In thousand EUR**	**% share**
HIPOTEKARNA BANKA A.D Podgorica/HB - Summary Custody Accound 1	3,053,899	15,614	29,82
Gorgoni Lorenzo	1,329,189	6,796	12,98
Gorgoni Antonia	1,024,290	5,237	10,00
Cerere S.P.A.	870,205	4,449	8,50
Ibis SRL	498,568	2,549	4,87
Other	3,464,997	17,717	33,83
Total	**10,241,148**	**52,362**	**100,00**

	January 1, 2021		
Shareholder	**Number of shares**	**In thousand EUR**	**% share**
Generali Financial Holdings FCP-FIS - Sub-Fund 2	5,281	2,700	16,87
Cerere S.P.A.	4,360	2,229	13,93
Gorgoni Lorenzo	4,063	2,077	12,98
Gorgoni Antonia	3,131	1,601	10,00
Todorović Miljan	2,316	1,184	7,40
Other	12,154	6,215	38,82
Total	**31,305**	**16,006**	**100,00**

26. SUBORDINATED DEBT

An overview of the subordinated debt as of December 31, 2022 and 2021 is presented in the following overview:

In thousand EUR	Year of Debt	Period/ year	Annual interest rate	2022	2021	January 2, 2021
Subordinated bonds HB01	2014	7	6.00%	-	-	10,022
Subordinated bonds HB02	2017	6	5.90%	4,095	4,080	4,087
Subordinated bonds HB03	2019	6	5.00%	8,167	8,163	8,147
Subordinated bonds HB04	2021	6	4.50%	5,086	4,989	-
				17,348	**17,232**	**22,256**

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

The bank is obliged to coordinate the scope of its operations with the prescribed indicators, which are determined by the Law on Credit Institutions and by-laws of the Central Bank of Montenegro.

The bank is obliged to meet the following capital requirements at all times:

1) adequacy ratio of regular basic capital of 4.5%;
2) capital adequacy ratio of 6%;
3) total capital adequacy ratio of 8%.

In addition to the aforementioned minimum coefficients prescribed by law, the Bank must also meet the following requirements for capital buffers:

- capital preservation buffer - 0.625%;
- countercyclical buffer – 0%;
- buffer for OSV institutions – 2%;

i.e. combined capital buffer in the amount of 2.625%.

The presentation of the minimum required and achieved capital ratios is given in the following table:

December 31, 2022

	MIN:	Achieved:
CET1:	7.125%	15.49%
T1:	8.625%	15.49%
Total request:	10.625%	18.81%

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

	2021
The Bank's own funds	54,214
Bank's share capital	42,014
Subordinated debt	17,000
Solvency ratio	16.55%

	2022
Regulatory capital	58,466
Share capital (Tier 1)	48,149
Common equity (CET 1)	48,149
Supplementary capital (Tier 2)	10,317
Common Equity Tier 1 (CET1) ratio	15.49%
Core capital ratio (Tier 1)	15.49%
Total Capital Ratio (TCR)	18.81%

		Achieved business indicators	
In thousand EUR	Prescribed limits	2022	2021
Equity	Minimum amount of EUR 7.5 million	62,451	55,344
The solvency ratio	Minimum 10%	n/a	16.55%
Common Equity Tier 1 (CET1) ratio	min 4.5% legal / min HB for 2022 7.125%	15.49%	n/a
Core capital ratio (Tier 1)	min 6% legal / min HB for 2022 8.625%	15.49%	n/a
Total Capital Ratio (TCR)	min 8% legal / min HB for 2022 10,625%	18.81%	n/a
The bank's total exposure to one person or a group of related persons	Maximum 25% of the share capital	15%	18%
The sum of all the Bank's major exposures	Limit not prescribed	138%	115%
Total exposure to all persons connected with the bank	Maximum 200% of the share capital	10%	15%
Total exposure to a shareholder who does not have a qualified participation in the bank	Maximum 10% of the Bank's own funds	n/a	7%
Total exposure to a member of the supervisory or management board and procurator of the credit institution	Maximum 2% share capital	1.12%	n/a
Minimum liquidity indicator	0.9 at the daily level/1 at the decadal level	RLS 2.58 / DPL 2.58	RLS 2.82 / DPL 2.82
Foreign exchange risk - net open position for an individual currency	15% of the basic capital of the bank	1%	0%

28. OFF-BALANCE SHEET ITEMS

In thousand EUR	December 31, 2022	December 31 2021	January 1, 2021
Undrawn credit lines	34,846	29,684	18,540
Other letters of credit for payments abroad	286	298	249
Guarantees issued			
-Payment guarantees	28,293	30,074	27,311
-Performance guarantees	15,595	21,597	27,567
-Other types of guarantees	15,895	15,688	19,431
	94,915	**97,341**	**93,098**
Collateral based on receivables	484,620	491,175	448,116
Other off-balance sheet items	353,743	288,733	171,829
Evident interest		112	635
Total	**838,363**	**780,020**	**660,580**
Total	**933,278**	**877,361**	**753,678**

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

Other items of the Bank's off-balance sheet exposure are mostly related to received credit obligations under custody operations in the amount of EUR 351,479 thousand (2021: EUR 286,520 thousand) and written-off receivables from internal records in the amount of EUR 2,265 thousand (2021: EUR 2,213 thousand).

Obtained credit obligations for custody and brokerage operations include obtained credit obligations for custody operations in the amount of EUR 279,962 thousand (2021: EUR 233,108 thousand) and obtained credit obligations for brokerage operations in the amount of EUR 71,517 thousand (2021: EUR 53,412 thousand)

29. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statement, cash and cash equivalents comprises of all assets with maturities of up to three months as follows: cash and available assets held with the Central Bank of Montenegro, other banks and depositary institutions.

In thousand EUR	December 31, 2022	December 31, 2021	January 1 2021
Cash on hand	25,486	26,212	23,590
Cash on hand-foreign currency	3,616	2,631	1,133
Assets in the course of settlement	2,092	1,106	979
Gyro account	258,758	177,001	114,835
Correspondent accounts with foreign banks	24,543	38,907	17,209
Deposits placed with the Central Bank of Montenegro	38,246	28,931	22,853
	352,741	**274,788**	**180,599**

30. RELATED PARTY TRANSACTIONS

Transactions with related parties are shown in the following tables:

	December 31, 2022	December 31, 2021
Assets		
Loans and receivables from banks		
Podravska Banka d.d., Koprivnica	3,125	120
	3,125	**120**
Loans and receivables from clients		
Todorović Miljan Nikola	541	-
Montinari Dario	-	561
Montinari Andrea	-	3,581
Gorgoni Mario	-	10
Employees and individuals related to them	209	2,271
	750	**6,423**
Securities		
Podravska Banka d.d., Koprivnica	3,740	2,015
	3,740	**2,015**
Other financial receivables		
Podravska Banka d.d., Koprivnica	7	-
Sigilfredo Montinari	-	3
	7	**3**
Total assets	**7,622**	**8,561**
Liabilities		
Deposits from banks		
Podravska Banka d.d., Koprivnica	389	261
	389	**261**
Deposits from clients		
Todorović Miljan Nikola	1,803	-
Miljan Todorović	304	286
Gorgoni Lorenzo	-	47
Sigilfredo Montinari	-	-
Cerere s.p.a.	1,101	14
Gorgoni Mario	-	20
Gorgoni Paolo	-	2
Njavro Mato	18	-
Moniaci Antonio	16	-
Employees and individuals related to them	924	1,202
	4,166	**1,571**

30. RELATED PARTY TRANSACTIONS (Continued)

Other liabilities		
Sigilfredo Montinari	86	16
Employees and individuals related to them	-	95
	86	**111**
Total liabilities	**4,641**	**1,943**

Expenses from transactions with related parties that have a significant impact on the Bank's operations in 2022 amounted to EUR 1,850 thousand (2021: EUR 1,013 thousand), while income amounted to EUR 276 thousand (2021: EUR 251 thousand).

31. LITIGATIONS

As of December 31, 2022, there are 29 court cases against the Bank by legal entities and individuals (28 as of December 31, 2021). The total value of the disputes is EUR 1,280 thousand (EUR 1,369 thousand as of December 31, 2021). For now, it is not possible to reliably assess the outcome of the disputes, given that the Bank's management, based on the opinion of the legal advisor, does not expect negative outcomes of the disputes that could have materially significant effects on the Bank's financial statements for 2022.

The total amount of court disputes as of December 31, 2022. year in which the Bank is the plaintiff amounts to EUR 9,601 thousand (EUR 11,501 thousand as of December 31, 2021).

32. EARNING PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Bank divided by the weighted average number of ordinary shares outstanding for the period.

Basic and diluted earnings per share	**2022**	**2021**
Net profit (In 000 EUR)	6,042	4,384
Weighted average number of ordinary shares	10,241,148	10,241,148
Earning per share / In EUR	0.59	0.43

33. TAX RISK

Montenegrin tax laws are often interpreted differently and are subject to frequent changes. The interpretation of tax laws by the tax authorities in relation to the Bank's transactions and activities may differ from the interpretation of the Bank's management. As a result, transactions may be challenged by the tax authorities and an additional amount of taxes, penalties and interest may be imposed on the Bank. The statute of limitations for the tax liability is five years. This practically means that the tax authorities have the right to order the payment of outstanding liabilities within five years from the time the obligation arose. The Bank's management believes that the tax liabilities recorded in the accompanying financial statements are properly disclosed.

34. SUBSEQUENT EVENTS

At the date of these reports, the Bank has not identified significant events that would require adjustments to the accompanying financial statements.

35. EXCHANGE RATES

The official exchange rates used to convert foreign currency balance sheet items into EUR as at 31 December 2022 and 2021 were:

	December 31, 2022	**December 31, 2021**
USD	1.0666	1.1334
CHF	0.9847	1.0363
GBP	0.88693	0.8393

36. GENERAL INFORMATION ABOUT THE BANK

In accordance with the Decision on Content. deadlines and in the act of preparing and submitting financial statements of banks ("Official Gazette of Montenegro", no. 15/12. 18/13 and 24/18), general information about the Bank is presented as follows:

Name of the Bank:	Hipotekarna banka AD. Podgorica
Adrress:	Josipa Broza Tita broj 67. 81000 Podgorica
ID number:	02085020
Telephone/Fax:	+382 77 700 001
Website:	http://www.hipotekarnabanka.com
Email adress:	hipotekarna@hb.co.me
Number of branches:	The bank has a headquarters and 20 branches
Number of employees on December 31, 2022	240
Bank account:	907-52001-93

The ten largest shareholders of the Bank as of December 31, 2022 are:

	Stock data	
Name and Surname / Company name	**number of shares**	**Percentage share**
HIPOTEKARNA BANKA A.D Podgorica/HB - Aggregate Custody account 1	2,345,210	22.90%
GORGONI ANTONIA	1,024,290	10.00%
GORGONI PAOLO	880,509	8.60%
CERERE S.P.A.	870,205	8.50%
GORGONI MARIO	804,939	7.86%
IBIS SRL	498,568	4.87%
MONTINARI SIGILFREDO	472,723	4.62%
MONTINARI DARIO	472,723	4.62%
MONTINARI ANDREA	472,396	4.61%
MONTINARI DARIO	472,396	4.61%

Total amount of share capital as of December 31, 2022: EUR 52,362 thousand.

Informations on the Bank's Supervisory Board and Management Board as of December 31, 2022:

	Name and surname	**Birth date**	**Residence information**	
1. President	Sigilfredo Montinari	27.05.1966.	Lecce, Italy	Via P. Cecere 3, Lecce, Italy
2. Member	Antonio Moniaci	03.03.1973.	Trst, Italy	Via Enrico Elia 12, Trst, Italy
3. Member	Miljan Todorović	22.05.1964.	Trst, Italy	Via Bonafata 9, Trst, Italy
4. Member	Miljan Nikola Todorović	26.07.1995.	Milano, Italy	Via Viskonti di Modrone 1, Milano, Italy
6. Member	Mato Njavro	16.02.1986.	Zagreb, Croatia	Podgaj 57,Zagreb, Croatia

Informations on the Bank's executive management as of December 31, 2022:

	Name and surname	**Birth date**	**Residence information**	
			City	**Adress (street and number)**
Management Board President	Esad Zaimović	17.03.1964.	Podgorica	Bulevar Džordža Vašingtona br.92/VII
Management Board member	Jelena Vuletić	27.04.1968.	Podgorica	Bulevar Revolucije 50/4
Management Board member	Ana Golubović	06.09.1976.	Podgorica	Bulevar Ivana Crnojevića 56/3
Management Board member	Nikola Špadijer	16.08.1979.	Podgorica	Arhitekte Milana Popovica 3
Management Board member	Nataša Lakić	20.10.1978.	Podgorica	Ivana Vujoševića br.11