

"CROWE MNE" d.o.o.

Broj. 98-1/25

Podgorica, 16.04. 2025. god.

HIPOTEKARNA BANKA A.D. PODGORICA

**Financial statements
Year ended December 31, 2024
and Independent Auditor's report**

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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 a statement of financial position as at December 31, 2024, a statement of comprehensive income, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes, including a summary of significant accounting policies and other disclosures (hereinafter 'financial statements').

In our opinion, the accompanying financial statements present fairly, in all material respects, the Bank's financial position as of December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with 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 further described in Auditor's Responsibility for the Audit of Financial Statements section in our report. 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) together with the ethical requirements that are relevant to our audit of the 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 matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

| <i>Key Audit Matters</i> | <i>Appropriate audit procedure</i> |
|--|---|
| <i>Impairment of given loans and receivables from clients and provisions for off-balance sheet items</i> | |
| As of December 31, 2024, the gross value of loans and receivables from clients amounted to EUR 287,059 thousand (December 31, 2023: EUR 266,107 thousand), while the total amount of the value correction of loans and receivables from clients amounted to EUR 17,494 thousand as of December 31, 2024 (December 31, 2023: EUR 17,696 thousands). | Based on our risk assessment and industry knowledge we examined the cost of impairment of given loans, receivables from clients and provisions for off-balance sheet items and evaluated the applied methodology as well as used assumptions and in accordance with the key audit matter. |

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

| Key Audit Matters | Appropriate audit procedure |
|---|---|
| <p><i>Impairment of given loans and receivables from clients and provisions for off-balance sheet items</i></p> <p>The measurement of the cost of impairment of given loans and receivables from clients and provision for off-balance sheet items is considered key audit matter considering that the determination of the amount of provision for impairment requires the significant assessment by the management to determine the moment when the impairment is recognized as well as the impairment amount.</p> <p>The most significant consideration relates to:</p> <ul style="list-style-type: none"> • Assumption that are used in the model of expected credit loss for the assessment of credit risk related to exposure and expected credit losses for future cash flow of the client. • Timely identification of the exposure with significant increase of exposure to the credit risk and credit impairment. • Valuation of collateral and assumptions of the future cash flow on individually estimated credit exposures. <p>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 3.3.8, 5.2, 7, 7.12 and 23 of the financial statements.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • The assessment of key controls over assumptions which are used in expected credit loss model for the assessment of the credit risk related to exposure and future expected cash flows of the client. • detailed testing of the calculation of risk parameters, based on the official methodology of the Bank, which is the subject of assessment of compliance with accounting requirements. This testing also includes the assessment of model assumptions; • Assessment of key controls over the timely identification of exposure with significant increase of the credit risk and exposure identification of the impairment. • Collection and detailed testing which support the appropriate determination of the impairment cost of the loans and receivables including valuation of collateral and assumptions of future cash flow for individually assessed exposure of the loan impairment. • Assessment of key development of high-risk portfolio from the previous period with regard to industry standards and historical data. • Assessing the adequacy of various identified decisions of the Management regarding to assumptions related to the calculation of expected credit losses for individually assessed loans, as well as decisions on the approach to assessment of expected credit losses for collectively assessed loans, as well as evaluating applied methodologies using our industry knowledge; • Assessment of the accuracy and completeness of disclosure in financial statements. |

INDEPENDENT AUDITOR'S REPORT (continued)

Other information 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 on the implemented procedures, to the extent that we are able to evaluate them, we report that :

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 the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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 includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Audit, 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 in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law on Audit 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the 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 with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

Crowe MNE d.o.o. Podgorica

April 16, 2025



Đorđe Dimić, Certified auditor



Pero Đuričković, Certified auditor



Marija Dašić, Certified auditor



Vladimir Kavarić, Authorized person

INCOME STATEMENT

For the period from January 1 to December 31 2024

(In thousands of EUR)

| | <u>Note</u> | <u>2024</u> | <u>2023</u> |
|---|-------------|-----------------|-----------------|
| Interest income and similar income | 3.1, 6 | 32,150 | 24,383 |
| Interest income on impaired loans | | 790 | 903 |
| Interest expenses | 3.1, 6 | <u>(2,096)</u> | <u>(2,169)</u> |
| NET INTEREST INCOME | | 30,844 | 23,117 |
| Fee and commission income | 3.2, 9 | 32,226 | 28,998 |
| Fee and commission expense | 3.2, 9 | <u>(18,670)</u> | <u>(17,334)</u> |
| NET FEE AND COMMISSION INCOME | | 13,556 | 11,664 |
| Net profit/loss due to the derecognition of financial instruments not valued at fair value through profit and loss | | (171) | (41) |
| Net profit/loss on account of financial instruments held for trading | 3.3. | 2,521 | 901 |
| Net exchange rate gains | 3.4. | 1,271 | 1,244 |
| Net profit/loss from the derecognition of other property | | 208 | 273 |
| Other income | 14 | 171 | 135 |
| Employee expenses | 10 | (8,636) | (7,040) |
| Depreciation expenses | 12 | (2,979) | (2,572) |
| General and administrative expenses | 11 | (12,596) | (9,310) |
| Net income/expenses due to the depreciation of financial instruments not valued at fair value through profit and loss | 3.8, 7 | (1,993) | (3,561) |
| Provisioning costs | 3.14, 8 | 64 | (148) |
| Other expenses | 13 | <u>(144)</u> | <u>(129)</u> |
| OPERATING PROFIT | | 22,116 | 14,533 |
| Income tax | 3.6, 15 | <u>(3,655)</u> | <u>(2,276)</u> |
| NET PROFIT | | 18,461 | 12,257 |
| Earnings per share | 31 | 1.8 | 1.2 |

These financial statements were approved by the Board of Directors of Hipotekarna banka A.D. Podgorica on March 1, 2025 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 attention 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 2024

(In thousand EUR)

| | <u>2024</u> | <u>2023</u> |
|---|---------------|---------------|
| Net profit | <u>18,461</u> | <u>12,257</u> |
| Total other comprehensive income | | |
| The effects of changes in the value of securities that valued at fair value through other total results | 475 | 492 |
| Income tax based on items of total other result | (17) | 6 |
| Total other result for current year | <u>(57)</u> | <u>(53)</u> |
| Total other comprehensive income | <u>418</u> | <u>439</u> |
| TOTAL OTHER COMPREHENSIVE INCOME | <u>18,879</u> | <u>12,696</u> |

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Board member

Nikola Špadijer
Board member

Nataša Lakić
Board member

HIPOTEKARNA BANKA A.D., PODGORICA

BALANCE SHEET

As at December 31, 2024

(In thousands of EUR)

| | <u>Notes</u> | <u>December 31, 2024</u> | <u>December 31, 2023</u> |
|---|---------------|--------------------------|--------------------------|
| ASSETS | | | |
| Cash and cash balances and deposits accounts with central banks | | | |
| Financial assets at amortized cost | 3.7, 16 | 274,038 | 224,223 |
| Loans and receivables from banks | 3.8, 17.1 | 792,966 | 674,299 |
| Loans and receivables from clients | 3.8, 17.2 | 118,561 | 77,265 |
| Securities | 17.3 | 269,565 | 248,411 |
| Other financial assets | | 401,517 | 345,861 |
| Financial assets at fair value through other comprehensive income | | 3,323 | 2,762 |
| Securities | 18 | 6,817 | 6,368 |
| Financial assets held for trading | | 6,817 | 6,368 |
| Securities | 18 | - | - |
| Property, plant and equipment | 3.5, 3.10, 19 | 10,403 | 9,129 |
| Intangible assets | 3.10, 20 | 2,770 | 2,306 |
| Deferred tax assets | 15c | 22 | 43 |
| Other assets | 21 | 4,785 | 5,037 |
| TOTAL ASSETS | | 1,091,801 | 921,405 |
| LIABILITIES | | | |
| Financial liabilities at amortized cost | | 952,501 | 803,438 |
| Deposits due to banks and central banks | 22.1 | 36,195 | 2,415 |
| Deposits due to customers | 22.2 | 897,102 | 788,852 |
| Borrowings from banks and central banks | | 4,500 | - |
| Borrowings from clients other than banks | 22.3 | 14,257 | 11,928 |
| Other financial liabilities | | 447 | 243 |
| Reserves | 23 | 1,542 | 924 |
| Current tax liabilities | | 3,507 | 2,233 |
| Deferred tax liabilities | 15c | 72 | 15 |
| Other liabilities | 3.5, 24 | 26,917 | 26,381 |
| Subordinated debt | 26 | 13,271 | 13,261 |
| TOTAL LIABILITIES | | 997,810 | 846,252 |
| EQUITY | | | |
| Share equity | | 52,362 | 52,362 |
| Share premium | 25 | - | - |
| Retained earnings/losses | | 22,614 | 10,383 |
| Current year profit | | 18,461 | 12,257 |
| Other reserves | | 554 | 151 |
| TOTAL EQUITY | 3.11 | 93,991 | 75,153 |
| TOTAL EQUITY AND LIABILITIES | | 1,091,801 | 921,405 |
| OFF-BALANCE SHEET ITEMS | 28 | 1,087,319 | 957,066 |

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STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to December 31, 2024

| (In thousand EUR) | Share capital | Share premium | Current year profit | Other reserves | Total |
|--|------------------|------------------|------------------------|-------------------|---------------|
| Balance as of 1 January 2023 | 52,362 | - | 10,383 | (294) | 62,451 |
| Effect of the fair value of financial assets measured at fair value through other comprehensive income | - | - | - | 439 | 439 |
| Profit of the year | - | - | 12,257 | - | 12,257 |
| Actuarial losses/gains, net | - | - | - | 6 | 6 |
| Balance as of December 31, 2023 | 52,362 | - | 22,640 | 151 | 75,153 |
| Balance as of 1 January 2024 | 52,362 | - | 22,640 | 151 | 75,153 |
| Effect of the fair value of financial assets measured at fair value through other comprehensive income | - | - | - | 418 | 418 |
| Other effect of securities on capital | - | - | (26) | - | (26) |
| Profit of the year | - | - | 18,461 | - | 18,461 |
| Actuarial losses/gains, net | - | - | - | (15) | (15) |
| Balance as of December 31, 2024 | 52,362 | - | 41,075 | 554 | 93,991 |

These financial statements were approved by the Board of Directors of Hipotekarna banka A.D. Podgorica on March 1, 2025 in Podgorica.

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STATEMENT OF CASH FLOWS
For the period from 1 January to December 31, 2024

(In thousand EUR)

| | <u>2024.</u> | <u>2023.</u> |
|---|----------------|-----------------|
| Cash flows from business activities | | |
| Inflows from interest and similar income | 32,681 | 24,565 |
| Outflows from interest and similar income | (1,580) | (2,040) |
| Inflows from fees and commissions | 32,226 | 28,997 |
| Outflows from fees and commissions | (18,670) | (17,334) |
| Outflows from employee salaries and supplier costs | (39,659) | (33,099) |
| Increase/reduction of credits and other assets | (21,169) | (16,102) |
| Inflows from deposits and other liabilities | 142,429 | 87,757 |
| Paid taxes | (3,184) | (2,069) |
| Other outflows | (66,659) | (107,608) |
| Cash inflow/outflow from business activities | 56,415 | (36,933) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (2,331) | (1,885) |
| Purchase of intangible assets | (1,036) | (795) |
| Treasury bills | 30,000 | (20,358) |
| Inflows from the sale of material and long-term assets | 42 | 13 |
| Cash inflow/outflow from investing activities | 26,675 | (23,025) |
| Cash flows from financial activities | | |
| Increase/reduction of borrowed assets | 6,831 | (3,835) |
| Cash inflow/outflow from financial activities | 6,831 | (3,835) |
| Exchange rate effect on cash and cash equivalents | 1,270 | 1,245 |
| Net increase/reduction of cash and cash equivalents | 91,191 | (62,548) |
| Cash and cash equivalents at the beginning of the period | 290,193 | 352,741 |
| Cash and cash equivalents at the end of the period | 381,384 | 290,193 |

These financial statements were approved by the Board of Directors of Hipotekarna banka A.D. Podgorica on March 1, 2025 in Podgorica.

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

Esad Zaimović
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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2024

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 (forfeiting);
- 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 those 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 already defined in the previous paragraphs.

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.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024

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:

- Custody affairs;
- Transactions with securities:
 - o broker trading
 - o dealer trading
 - o 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 31.12.2024. year, the total number of employees employed in the Bank is 283 (243 employees of the bank and 40 seconded), of which 2 are doctors of science (0.72%), 13 masters (4.59%), 140 with a higher education (49.47%), 63 with a bachelor's degree (22.26%), 13 with a higher education (4.59%) and 52 with a secondary education (18.37%).

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2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**2.1. Basis of preparation and presentation of the financial statements**

The Bank's financial statements for 2024 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 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 2022.

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024**2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**
(Continued)**2.4. Use of estimates**

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 December 31, 2024.

2.7. Consolidation

The Bank does not control any entities.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024

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, 2023.

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 Amendments and additions to standards whose entry into force and application are mandatory in the current year

The adopted accounting policies are in accordance with the previous financial year, except for the following amended IFRS adopted by the Bank from January 1, 2024:

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (amendments)**

The amendments and additions are effective for annual reporting periods beginning on or after 1 January 2024, and are required to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for classifying liabilities as current and non-current depending on the rights that exist at the end of the reporting period. The classification is not affected by the entity's (management) expectations or events after the reporting date. The Bank has assessed that the adoption of the amendments to this standard has no impact on the Bank's financial statements.

- **IAS 1 Presentation of Financial Statements: Long term liabilities – covenants (amendments)**

The amendments and additions are effective for annual periods beginning on or after 1 January 2024, and the amendments improve the information that an entity provides when its right to defer settlement of an obligation for at least 12 months is dependent on compliance with contractual covenants. The Bank has assessed that the adoption of the amendments to this standard will not have an impact on the Bank's financial statements.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2024. The amendments are intended to improve the requirements that a seller-lessee uses in measuring a lease liability arising from a sale and leaseback transaction in IFRS 16, while not changing the accounting treatment of leases that are not related to sale and leaseback transactions. The Bank has assessed that the adoption of the amendments to this standard will not have an impact on the Bank's financial statements.

- **IAS 7 Statement of cash flow i IFRS 7 Financial instruments, disclosures: Supplier Finance Arrangements (amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2024. The amendments require disclosures in IAS 7 - an entity shall disclose information about its supplier financing arrangements that enable users of financial statements to assess the effects on liabilities and cash flows, as well as the entity's exposure to liquidity risk. Supplier finance arrangements are where one or more financial service providers offer to pay amounts owed by the entity to its suppliers and the entity agrees to pay in accordance with the terms and conditions of the arrangement on or after the date on which the suppliers are paid. The amendments clarify that arrangements that are solely credit enhancements to the entity or instruments that the entity uses to directly settle amounts owed to suppliers are not supplier finance arrangements. Meanwhile, the amendments to IFRS 7 require an entity to disclose a description of how it manages liquidity risk arising from these arrangements. The Bank has assessed that the adoption of the amendments to this standard has no impact on the Bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024**2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**
(Continued)**2.10 Standards that have been issued but have not yet entered into force and have not been previously adopted****• IAS 21 The Effects of Changes in Foreign Exchange Rates (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2025. The amendments clarify how an entity should assess whether a currency is convertible and how it should determine the spot rate when the possibility of exchange is lacking. A currency is convertible when the entity can exchange that currency for another currency through market or exchange mechanisms that create enforceable rights and obligations without undue delay at the measurement date and for a specified purpose. If a currency is not convertible at the measurement date, the entity is required to estimate the spot rate as the rate that would apply to an orderly exchange transaction between market participants at the measurement date under current economic conditions, and to disclose the expected effects on the entity's financial statements. The Bank does not expect an impact on the financial statements.

• IFRS 9 and IFRS 7 (ammandments)

The amendments concerning the classification and measurement of financial instruments are effective for annual periods beginning on or after January 1, 2026.

- **IFRS 18 (new standard) – Presentation and Disclosure in Financial Statements:** It is effective for annual periods beginning on or after January 1, 2027.

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- **IFRS 19 (new standard) – Subsidiaries without Public Accountability:** It is effective for annual periods beginning on or after January 1, 2027.

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 basic accounting policies applied in the preparation of the financial statements for the year 2024 are listed below.

3.1. Interest and fee income and expenses

Interest income and expenses are reported 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.

Interest income and expense are recognized in the income statement for all interest bearing debt instruments, using the effective interest method, on an accrual basis, in accordance with the terms of the contractual relationship defined by the contract between the Bank and the client.

Effective interest method is the method of calculation of costs of amortized value of financial assets or liabilities and deferral of interest income or interest expense during relevant period.

The effective interest rate is the rate that discounts future cash inflows or outflows, during expected life period of financial instrument or when it is applicable, shorter period, to the carrying value of financial asset or liability. The calculation includes all paid and received fees between contractual parties, which are integral part of the effective interest rate, transaction costs and all other premiums and 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 the 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, in order to reflect the market movement of interest rates.

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

For financial assets that are credit-impaired at the time of initial recognition, interest income is calculated by applying the credit-adjusted interest rate to the amortized value of the financial asset. The calculation of interest income does not return to the gross basis even when the credit risk improves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Fees and commissions income and expenses

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

Income from fees and commissions is recognized at the moment when the corresponding service is performed. Income from fees and commissions includes fees that the Bank calculates and charges for the performance of payment services in the country and abroad, advanced sales channels, guarantees and letters of credit, as well as other services.

Expenses of fees and commissions mainly refer to fees for the performance of payment services in the country and abroad, advanced sales channels and fees for other services, which are recognized as expenses at the time when the corresponding service is performed.

3.3. Net gain/(loss) on financial instruments held for trading

Net gain/(loss) on financial instruments held for trading includes gains less losses on financial assets and financial liabilities held for trading, including all realized and unrealized changes in fair value

3.4. Foreign Exchange Translation

Business changes in foreign currency were converted into EUR at the mid-rate determined on the interbank foreign exchange market, which was valid on the day of the business change.

Assets and liabilities expressed in foreign currency on the balance sheet date were converted into EUR at the mid-rate determined on the interbank foreign exchange market valid on that day.

Net positive or negative exchange rate differences arising during business transactions in foreign currency and during the recalculation of balance sheet positions expressed in foreign currency are credited or debited to the income statement, as gains or losses from exchange rate differences.

Assumed and potential liabilities in foreign currency were converted into EUR at the mid-rate determined on the interbank foreign exchange market valid on that day.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.5. Leasing**

International Financial Reporting Standard 16 - Leasing (hereafter IFRS 16) requires the Bank to calculate the present value of the liability under the leasing contract taking into account the contracted lease payments, the lease term and the discount rate.

For the calculation of the current value of the property with the right of use and the calculation of the liability based on the lease, the contracted net amount is taken. Amounts of non-deductible VAT on the basis of lease agreements concluded with legal entities and personal income tax on lease agreements concluded with natural persons are recorded as expenses of the period.

From the perspective of measuring and recording leasing, IFRS 16 requires different assessments, the most significant of which relate to the duration of the leasing contract as well as the discount rate used in calculating the present value of the liability.

When calculating the duration of the leasing contract, it is necessary to take into account:

- The period without the possibility of cancellation (which includes the period covered by the option to terminate the lease, if only the lessor has the right to terminate the lease).
- Optional period for extending the lease, if the lessee is relatively sure to use that option.
- Periods covered by the option to terminate the lease, if the lessee is relatively certain that he will not exercise that option.

Regarding the discount rate, it is allowed to use the implicit rate for leasing or the incremental borrowing rate of the lessee. The bank has decided to apply an incremental borrowing rate, which is based on the price of its own sources of financing increased by a risk premium of 1%. The rates obtained in this way are interpolated in such a way as to cover the entire portfolio for the duration of the contract.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Leasing (Continued)

The bank has chosen to use the facilities proposed by the standard and accordingly:

- Lease contracts whose newly acquired value of the object or equipment to be rented is less than EUR 5,000.00; and
- Lease agreements whose lease period is shorter than 12 months on the date of first application are not recognized in accordance with the requirements of IFRS 16.

The bank recognizes the rights of use based on the leasing contract within the balance sheet as a separate category of real estate, plant and equipment that has been leased.

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

Interest accrual costs for leasing contracts are shown under interest expense. Right-of-use amortization costs are shown as period amortization costs.

Lessor accounting under IFRS 16 is essentially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as under IAS 17 and distinguish between two types of leases: operating and finance leases.

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, 152/2022, 28/23, 125/23 and 88/24) 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)***Deferred 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 utilized.

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)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial instruments (continued)

3.8.2. Classification (continued)

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

3.8.3. Financial assets and liabilities

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

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

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

3.8.3.2 Assessment of the business model

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

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

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

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

3.8.3.2 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024

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 FVTPL.

3.8.3.4 Equity instruments valued 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.

3.8.3.5 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.8. Financial instruments (continued)****3.8.3. *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.

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.8. Financial instruments (continued)****3.8.4. 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.

3.8.5. 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)****3.8.6. 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.

3.8.7. Restructured loans

For loans where there are issues with repayment, the Bank always first endeavours to restructure them, if the conditions exist, because this is considered a better solution than taking over collateral. Rescheduling may entail extending the repayment and agreeing on new lending terms. After the terms have been rescheduled, the loans 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024

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 impairment 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024

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.

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 $X_{i,j}$ 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)

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024**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)***

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**

- 4 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:

| Risk Category | December 31, 2024 | |
|---------------|-------------------|---------------|
| | % provisions | 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 and intangible assets****Property, plant and equipment**

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

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

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

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

Losses or gains that occurred 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 | <u>Depreciation rate (%)</u> |
|-------------------------------|-------------------------------------|
| Construction objects | 2.00 |
| 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.

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due attention 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2024**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.10. Property, plant, equipment and intangible assets****Property, plant and equipment**

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.

3.10. 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.

3.11. 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.

3.12. 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, and which implies the application of International Financial Reporting Standards when valuing and reporting off-balance sheet assets and off-balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

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 loans

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.2. Provisions – impairment based on loans (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, 2024 | | December 31, 2023 | |
|--|-------------------|------------------|-------------------|------------------|
| | Gross | Net | Gross | Net |
| I. Overview of assets | | | | |
| Cash and deposit accounts with central banks | 274,038 | 274,038 | 224,223 | 224,223 |
| <i>Financial assets at amortized value</i> | | | | |
| - Loans and receivables from Banks | 118,904 | 118,561 | 77,529 | 77,265 |
| - Loans and receivables from clients | 287,059 | 269,565 | 266,107 | 248,411 |
| - Securities | 404,898 | 401,517 | 349,694 | 345,861 |
| - Other financial assets | 3,323 | 3,323 | 2,762 | 2,762 |
| <i>Financial assets at fair value through other comprehensive income</i> | | | | |
| - Securities | 6,817 | 6,817 | 6,368 | 6,368 |
| Other assets | 2,185 | 1,931 | 2,581 | 2,429 |
| | 1,097,224 | 1,075,752 | 929,264 | 907,319 |
| II. Off-balance sheet items | | | | |
| Payable guarantees | 33,424 | 33,394 | 37,496 | 37,469 |
| Performance bonds | 18,185 | 18,175 | 17,318 | 17,311 |
| Irrevocable commitments | 54,378 | 53,349 | 41,121 | 40,761 |
| Other | 28,583 | 28,574 | 18,622 | 18,616 |
| | 134,570 | 133,492 | 114,557 | 114,157 |
| Total (I+II) | 1,231,794 | 1,209,244 | 1,043,821 | 1,021,476 |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024**6. 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 total results - securities are classified in Stage 1, because within them no delays in the settlement of claims were recorded, and there are no other indicators of stage changes (no restructuring, no watch lists). Fair value mark to market is applied only for liquid, tradable and rated securities (S&P, Moodys, Fitch), while for other securities the Mark to model is applied. The value correction is calculated on the basis of Collective Assessment for liquid, marketable and ranked securities, and for all others the value correction is calculated on the basis of 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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial placements

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

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANISATIONS

| December 31, 2024 | S1 | S2 | S3 | Total | Impairment S1 | Impairment S2 | Impairment S3 | Total Impairment | In thousand EUR | |
|--|----------------|----------------|---------------|----------------|----------------|----------------|----------------|------------------|-----------------|-----------------|
| | | | | | | | | | Net | Impairment |
| Housing | 14,363 | 6,900 | 697 | 21,960 | (103) | (425) | (246) | (774) | 21,186 | (774) |
| Cash | 46,721 | 4,575 | 1,735 | 53,031 | (645) | (256) | (890) | (1,791) | 51,240 | (1,791) |
| Purchase of vehicles | 6,293 | 494 | 123 | 6,910 | (100) | (16) | (14) | (130) | 6,780 | (130) |
| Refurbishment of residential or commercial buildings | 9,583 | 1,353 | 94 | 11,030 | (126) | (68) | (15) | (209) | 10,821 | (209) |
| Other | 33,491 | 8,660 | 1,391 | 43,542 | (449) | (1,300) | (681) | (2,430) | 41,112 | (2,430) |
| Total retail | 110,451 | 21,982 | 4,040 | 136,473 | (1,423) | (2,065) | (1,846) | (5,334) | 131,139 | (5,334) |
| Large enterprises | 14,996 | 8,745 | 1,355 | 25,096 | (208) | (323) | (600) | (1,131) | 23,965 | (1,131) |
| Medium-sized enterprises | 13,359 | 21,718 | 755 | 35,832 | (774) | (1,336) | (285) | (2,395) | 33,437 | (2,395) |
| Small-sized enterprises | 30,139 | 54,296 | 5,223 | 89,658 | (485) | (4,960) | (3,189) | (8,634) | 81,024 | (8,634) |
| State | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| Corporate customers | 58,494 | 84,759 | 7,333 | 150,586 | (1,467) | (6,619) | (4,074) | (12,160) | 138,426 | (12,160) |
| Total | 168,945 | 106,741 | 11,373 | 287,059 | (2,890) | (8,684) | (5,920) | (17,494) | 269,565 | (17,494) |
| Banks | 118,904 | - | - | 118,904 | (343) | - | - | (343) | 118,561 | (343) |
| State | 253,252 | - | 1,028 | 254,280 | (828) | - | (995) | (1,823) | 252,457 | (1,823) |
| Corporate | 67,588 | 2,109 | - | 69,697 | (749) | (794) | - | (1,543) | 68,154 | (1,543) |
| Supranational | 80,921 | - | - | 80,921 | (15) | - | - | (15) | 80,906 | (15) |
| Securities | 401,761 | 2,109 | 1,028 | 404,898 | (1,592) | (794) | (995) | (3,381) | 401,517 | (3,381) |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

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

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANISATIONS

| December 31, 2023 | S1 | S2 | S3 | Total | Impairment S1 | Impairment S2 | Impairment S3 | Total Impairment | In thousand EUR Net |
|--|----------------|---------------|---------------|----------------|----------------|----------------|----------------|------------------|---------------------|
| Housing | 15,739 | 2,866 | 414 | 19,019 | (79) | (75) | (123) | (277) | 18,742 |
| Cash | 42,074 | 5,889 | 3,257 | 51,220 | (432) | (282) | (1,938) | (2,652) | 48,568 |
| Purchase of vehicles | 4,453 | 498 | 54 | 5,005 | (58) | (14) | (12) | (84) | 4,921 |
| Refurbishment of residential or commercial buildings | 7,389 | 1,377 | 104 | 8,870 | (81) | (33) | (76) | (190) | 8,680 |
| Other | 28,199 | 8,563 | 2,110 | 38,872 | (340) | (1,377) | (1,005) | (2,722) | 36,150 |
| Total retail | 97,854 | 19,193 | 5,939 | 122,986 | (990) | (1,781) | (3,154) | (5,925) | 117,061 |
| Large enterprises | 15,408 | 9,539 | 1,575 | 26,522 | (148) | (307) | (521) | (976) | 25,546 |
| Medium-sized enterprises | 5,335 | 16,832 | 6,595 | 28,762 | (29) | (1,045) | (1,542) | (2,616) | 26,146 |
| Small-sized enterprises | 30,912 | 48,139 | 8,786 | 87,837 | (311) | (3,091) | (4,777) | (8,179) | 79,658 |
| State | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| Corporate customers | 51,655 | 74,510 | 16,956 | 143,121 | (488) | (4,443) | (6,840) | (11,771) | 131,350 |
| Total | 149,509 | 93,703 | 22,895 | 266,107 | (1,478) | (6,224) | (9,994) | (17,696) | 248,411 |
| Banks | 77,529 | - | - | 77,529 | (264) | - | - | (264) | 77,265 |
| State | 222,557 | - | 1,271 | 223,828 | (868) | - | (1,221) | (2,089) | 221,739 |
| Corporate | 63,746 | 2,083 | 1,401 | 67,230 | (347) | (665) | (725) | (1,737) | 65,493 |
| Supranational | 58,636 | - | - | 58,636 | (7) | - | - | (7) | 58,629 |
| Securities | 344,939 | 2,083 | 2,672 | 349,694 | (1,222) | (665) | (1,946) | (3,833) | 345,861 |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

Receivables from clients at Stage 1 are presented below:

| RECEIVABLES FROM CLIENTS AT STAGE 1 | | In thousand EUR | | | |
|--|---------------------|----------------------------|---------------------------|---------------------------|---------------------|
| December 31, 2024 | Not in delay | Delay up to 30 days | From 31 to 60 days | From 61 to 90 days | Over 90 days |
| Housing | 14,363 | - | - | - | 14,363 |
| Cash | 46,454 | 267 | - | - | 46,721 |
| Purchase of vehicles | 6,293 | - | - | - | 6,293 |
| Refurbishment of residential or commercial buildings | 9,583 | - | - | - | 9,583 |
| Other | 33,147 | 344 | - | - | 33,491 |
| Total retail | 109,840 | 611 | - | - | 110,451 |
| Large enterprises | 14,997 | (1) | - | - | 14,996 |
| Medium-sized enterprises | 13,359 | - | - | - | 13,359 |
| Small-sized enterprises | 30,136 | 3 | - | - | 30,139 |
| State | - | - | - | - | - |
| Other | - | - | - | - | - |
| Corporate customers | 58,492 | 2 | - | - | 58,494 |
| Total | 168,332 | 613 | - | - | 168,945 |
| of which: restructured | - | - | - | - | - |
| Receivables from banks | 118,904 | - | - | - | 118,904 |

| RECEIVABLES FROM CLIENTS AT STAGE 1 | | In thousand EUR | | | |
|--|---------------------|----------------------------|---------------------------|---------------------------|---------------------|
| December 31, 2023 | Not in delay | Delay up to 30 days | From 31 to 60 days | From 61 to 90 days | Over 90 days |
| Housing | 15,739 | - | - | - | 15,739 |
| Cash | 41,921 | 153 | - | - | 42,074 |
| Purchase of vehicles | 4,453 | - | - | - | 4,453 |
| Refurbishment of residential or commercial buildings | 7,376 | 13 | - | - | 7,389 |
| Other | 27,779 | 420 | - | - | 28,199 |
| Total retail | 97,268 | 586 | - | - | 97,854 |
| Large enterprises | 15,408 | - | - | - | 15,408 |
| Medium-sized enterprises | 5,335 | - | - | - | 5,335 |
| Small-sized enterprises | 30,911 | 1 | - | - | 30,912 |
| State | - | - | - | - | - |
| Other | - | - | - | - | - |
| Corporate customers | 51,654 | 1 | - | - | 51,655 |
| Total | 148,922 | 587 | - | - | 149,509 |
| of which: restructured | - | - | - | - | - |
| Receivables from banks | 77,529 | - | - | - | 77,529 |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

Receivables from clients at Stage 2 are presented below:

| RECEIVABLES FROM CLIENTS AT STAGE 2 | | | | | | In thousand EUR |
|--|---------------------|----------------------------|---------------------------|---------------------------|---------------------|------------------------|
| December 31, 2024 | Not in delay | Delay up to 30 days | From 31 to 60 days | From 61 to 90 days | Over 90 days | Total |
| Housing | 6,833 | - | 3 | 64 | - | 6,900 |
| Cash | 4,111 | 52 | 233 | 179 | - | 4,575 |
| Purchase of vehicles | 492 | - | 2 | - | - | 494 |
| Refurbishment of residential or commercial buildings | 1,305 | - | 30 | 18 | - | 1,353 |
| Other | 8,361 | 175 | 74 | 50 | - | 8,660 |
| Total retail | 21,102 | 227 | 342 | 311 | - | 21,982 |
| Large enterprises | 8,745 | - | - | - | - | 8,745 |
| Medium-sized enterprises | 21,718 | - | - | - | - | 21,718 |
| Small-sized enterprises | 53,806 | 3 | 141 | 346 | - | 54,296 |
| State | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Corporate customers | 84,269 | 3 | 141 | 346 | - | 84,759 |
| Total | 105,371 | 230 | 483 | 657 | - | 106,741 |
| of which: restructured | 7,985 | - | - | - | - | 7,985 |
| Receivables from banks | - | - | - | - | - | - |
| RECEIVABLES FROM CLIENTS AT STAGE 2 | | | | | | In thousand EUR |
| December 31, 2023 | Not in delay | Delay up to 30 days | From 31 to 60 days | From 61 to 90 days | Over 90 days | Total |
| Housing | 2,502 | - | 88 | 276 | - | 2,866 |
| Cash | 5,183 | 75 | 381 | 250 | - | 5,889 |
| Purchase of vehicles | 429 | - | 69 | - | - | 498 |
| Refurbishment of residential or commercial buildings | 1,346 | - | 31 | - | - | 1,377 |
| Other | 8,184 | 189 | 136 | 54 | - | 8,563 |
| Total retail | 17,644 | 264 | 705 | 580 | - | 19,193 |
| Large enterprises | 9,539 | - | - | - | - | 9,539 |
| Medium-sized enterprises | 16,831 | - | - | 1 | - | 16,832 |
| Small-sized enterprises | 47,799 | 5 | 39 | 296 | - | 48,139 |
| State | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Corporate customers | 74,169 | 5 | 39 | 297 | - | 74,510 |
| Total | 91,813 | 269 | 744 | 877 | - | 93,703 |
| of which: restructured | 6,480 | - | 21 | - | - | 6,501 |
| Receivables from banks | - | - | - | - | - | - |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

Receivables from clients at Stage 3 are presented below

| RECEIVABLES FROM CLIENTS AT STAGE 3 | | | | | | |
|--|---------------|---------------------|--------------------|--------------------|--------------|--------------------------|
| December 31, 2024 | Not in delay | Delay up to 30 days | From 31 to 60 days | From 61 to 90 days | Over 90 days | In thousand EUR Total |
| Housing | 283 | - | - | 24 | 390 | 697 |
| Cash | 568 | 10 | 27 | 25 | 1,105 | 1,735 |
| Purchase of vehicles | 81 | - | 6 | - | 36 | 123 |
| Refurbishment of residential or commercial buildings | 56 | - | 19 | 6 | 13 | 94 |
| Other | 741 | 6 | - | 2 | 642 | 1,391 |
| Total retail | 1,729 | 16 | 52 | 57 | 2,186 | 4,040 |
| Large enterprises | 1,355 | - | - | - | - | 1,355 |
| Medium-sized enterprises | 754 | - | - | - | 1 | 755 |
| Small-sized enterprises | 3,110 | 1 | 1 | - | 2,111 | 5,223 |
| State | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Corporate customers | 5,219 | 1 | 1 | - | 2,112 | 7,333 |
| Total | 6,948 | 17 | 53 | 57 | 4,298 | 11,373 |
| of which: restructured | 440 | - | - | - | 784 | 1,224 |
| Receivables from banks | - | - | - | - | - | - |
| RECEIVABLES FROM CLIENTS AT STAGE 3 | | | | | | |
| December 31, 2023 | Not in delay | Delay up to 30 days | From 31 to 60 days | From 61 to 90 days | Over 90 days | In thousand EUR Total |
| Housing | 168 | - | 3 | - | 243 | 414 |
| Cash | 633 | 7 | 56 | 24 | 2,537 | 3,257 |
| Purchase of vehicles | 28 | - | 4 | - | 22 | 54 |
| Refurbishment of residential or commercial buildings | 6 | - | - | - | 98 | 104 |
| Other | 426 | 13 | 560 | 22 | 1,089 | 2,110 |
| Total retail | 1,261 | 20 | 623 | 46 | 3,989 | 5,939 |
| Large enterprises | 1,575 | - | - | - | - | 1,575 |
| Medium-sized enterprises | 5,216 | 1,379 | - | - | - | 6,595 |
| Small-sized enterprises | 3,902 | 53 | 33 | 29 | 4,769 | 8,786 |
| State | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Corporate customers | 10,693 | 1,432 | 33 | 29 | 4,769 | 16,956 |
| Total | 11,954 | 1,452 | 656 | 75 | 8,758 | 22,895 |
| of which: restructured | 1,286 | - | 12 | - | 2,569 | 3,867 |
| Receivables from banks | - | - | - | - | - | - |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

Receivables from clients at Stage 3 are presented below:

**RECEIVABLES FROM
CLIENTS AT STAGE 3**

| | Gross exposure | Impairment | S 3 receivables | Restructured S 3 receivables | Impairment S 3 | Share of S3 receivables in gross exposure | In thousand EUR |
|--|----------------|-----------------|-----------------|------------------------------|----------------|---|-----------------|
| December 31, 2024 | | | | | | | |
| Retail | 136,473 | (5,334) | 4,040 | 30 | (1,846) | 2.96% | 11,915 |
| Housing | 21,960 | (774) | 697 | - | (246) | 3.17% | 2,002 |
| Cash | 53,031 | (1,791) | 1,735 | 9 | (890) | 3.27% | 3,246 |
| Purchase of vehicles | 6,910 | (130) | 123 | - | (14) | 1.78% | 415 |
| Refurbishment of residential or commercial buildings | 11,030 | (209) | 94 | - | (15) | 0.85% | 1,211 |
| Other | 43,542 | (2,430) | 1,391 | 21 | (681) | 3.19% | 5,041 |
| Corporate clients | 150,586 | (12,160) | 7,333 | 1,194 | (4,074) | 4.87% | 27,056 |
| Agriculture | 1,924 | (600) | 1,355 | - | (600) | 70.43% | 2,420 |
| Processing industry | 12,537 | (1,829) | 463 | 225 | (434) | 3.69% | 3,340 |
| Electricity | 1,134 | (188) | - | - | - | 0.00% | - |
| Construction | 29,475 | (2,339) | 1,468 | 418 | (776) | 4.98% | 8,072 |
| Wholesale and retail trade | 46,097 | (2,280) | 1,164 | 209 | (943) | 2.53% | 1,874 |
| Services | 866 | (15) | 19 | 11 | (2) | 2.19% | 243 |
| Real estate activities | 3,202 | (253) | - | - | - | 0.00% | - |
| Other | 55,351 | (4,656) | 2,864 | 331 | (1,319) | 5.17% | 11,107 |
| Total | 287,059 | (17,494) | 11,373 | 1,224 | (5,920) | 3.96% | 38,971 |
| Receivables from banks | 118,904 | (343) | - | - | - | 0.00% | - |
| State | 254,280 | (1,823) | 1,028 | - | (995) | 0.40% | - |
| Corporate | 69,697 | (1,543) | - | - | - | 0.00% | - |
| Supranational | 80,921 | (15) | - | - | - | 0.00% | - |
| Securities | 404,898 | (3,381) | 1,028 | - | (995) | 0.25% | - |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

Receivables from clients at Stage 3 are presented below:
RECEIVABLES FROM
CLIENTS AT STAGE 3

| December 31, 2023 | Gross exposure | Impairment | S 3 receivables | Restructured S 3 receivables | Impairment S 3 | Share of S3 receivables in gross exposure | In thousand EUR |
|--|----------------|-----------------|-----------------|------------------------------|----------------|---|-----------------|
| Retail | 122,986 | (5,925) | 5,939 | 25 | (3,154) | 4.83% | 9,829 |
| Housing | 19,019 | (277) | 414 | - | (123) | 2.18% | 76 |
| Cash | 51,220 | (2,652) | 3,257 | - | (1,938) | 6.36% | 6,876 |
| Purchase of vehicles | 5,005 | (84) | 54 | - | (12) | 1.08% | 74 |
| Refurbishment of residential or commercial buildings | 8,870 | (190) | 104 | - | (76) | 1.17% | 232 |
| Other | 38,872 | (2,722) | 2,110 | 25 | (1,005) | 5.43% | 2,571 |
| Corporate clients | 143,121 | (11,771) | 16,956 | 3,850 | (6,840) | 11.85% | 51,660 |
| Agriculture | 4,117 | (549) | 1,575 | - | (520) | 38.26% | 2,105 |
| Processing industry | 9,796 | (1,134) | 990 | 330 | (682) | 10.11% | 1,857 |
| Electricity | 5,424 | (966) | 4,111 | - | (751) | 75.79% | 3,620 |
| Construction | 22,402 | (2,823) | 3,779 | 3,200 | (1,825) | 16.87% | 18,933 |
| Wholesale and retail trade | 46,408 | (2,067) | 1,254 | 296 | (933) | 2.70% | 7,459 |
| Services | 966 | (7) | 26 | 24 | (1) | 2.69% | 1,013 |
| Real estate activities | 2,138 | (101) | - | - | - | 0.00% | - |
| Other | 51,870 | (4,124) | 5,221 | - | (2,128) | 10.07% | 16,673 |
| Total | 266,107 | (17,696) | 22,895 | 3,875 | (9,994) | 8.60% | 61,489 |
| Receivables from banks | 77,529 | (264) | - | - | - | 0.00% | - |
| State | 223,828 | (2,089) | 1,271 | - | (1,221) | 0.57% | - |
| Corporate | 67,230 | (1,737) | 1,401 | - | (725) | 2.08% | - |
| Supranational | 58,636 | (7) | - | - | - | 0.00% | - |
| Securities | 349,694 | (3,833) | 2,672 | - | (1,946) | 0.76% | - |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

The tables below show changes in Stage 3, i.e. problematic receivables:

CHANGES OF S3
RECEIVABLES

In thousand EUR

| | Gross December 31, 2023. | New S3 clients | Reduction in existing S3 clients | Increase in existing S3 clients | Closed S3 clients | Gross December 31, 2024. |
|--|--------------------------------|-------------------|--|---------------------------------------|----------------------|-----------------------------|
| Housing | 414 | 505 | (65) | - | (157) | 697 |
| Cash | 3,257 | 679 | (266) | 13 | (1,948) | 1,735 |
| Purchase of vehicles | 54 | 93 | (12) | - | (12) | 123 |
| Refurbishment of residential or commercial buildings | 104 | 77 | (16) | - | (71) | 94 |
| Other | 2,110 | 748 | (452) | 10 | (1,025) | 1,391 |
| Retail | 5,939 | 2,102 | (811) | 23 | (3,213) | 4,040 |
| Large enterprises | 1,575 | - | (220) | - | - | 1,355 |
| Medium-sized enterprises | 6,595 | 1 | (370) | - | (5,471) | 755 |
| Small-sized enterprises | 8,786 | 1,255 | (930) | 66 | (3,954) | 5,223 |
| State | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Corporate clients | 16,956 | 1,256 | (1,520) | 66 | (9,425) | 7,333 |
| Total | 22,895 | 3,358 | (2,331) | 89 | (12,638) | 11,373 |
| Receivables from banks | - | - | - | - | - | - |
| State | 1,271 | - | (26) | - | (217) | 1,028 |
| Corporate | 1,401 | - | - | - | (1,401) | - |
| Supranational | - | - | - | - | - | - |
| Securities | 2,672 | - | (26) | - | (1,618) | 1,028 |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

The tables below show changes in Stage 3, i.e. impairment of the problematic receivables:

**CHANGES OF S3
RECEIVABLES**

| | In thousand EUR | | | | | |
|--|--------------------------------|-------------------|--|---------------------------------------|----------------------|-----------------------------|
| | Gross December 31, 2023. | New S3 clients | Reduction in existing S3 clients | Increase in existing S3 clients | Closed S3 clients | Gross December 31, 2024. |
| Housing | (123) | (64) | - | (78) | 19 | (246) |
| Cash | (1,938) | (201) | 120 | (195) | 1,324 | (890) |
| Purchase of vehicles | (12) | (10) | 2 | (1) | 7 | (14) |
| Refurbishment of residential or commercial buildings | (76) | (5) | - | (4) | 70 | (15) |
| Other | (1,005) | (188) | 270 | (70) | 312 | (681) |
| Retail | (3,154) | (468) | 392 | (348) | 1,732 | (1,846) |
| Large enterprises | (521) | - | - | (79) | - | (600) |
| Medium-sized enterprises | (1,542) | (1) | 3 | (50) | 1,305 | (285) |
| Small-sized enterprises | (4,777) | (848) | 397 | (314) | 2,353 | (3,189) |
| State | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Corporate clients | (6,840) | (849) | 400 | (443) | 3,658 | (4,074) |
| Total | (9,994) | (1,317) | 792 | (791) | 5,390 | (5,920) |
| Receivables from banks | - | - | - | - | - | - |
| State | (1,221) | - | 21 | - | 205 | (995) |
| Corporate | (725) | - | - | - | 725 | - |
| Supranational | - | - | - | - | - | - |
| Securities | (1,946) | - | 21 | - | 930 | (995) |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (Continued)
- 5.2. Credit risk (continued)
- 5.2.4. Quality of financial statements (continued)
- 5.2.4.1. Restructured loan and placements

The tables below give an overview of restructured receivables:

| RESTRUCTURED RECEIVABLES | 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 |
|--|----------------------------------|--------------------------------|-------------------------------|-------------------------------|--|---|---|---|---|---|
| | | | | | | | | | | |
| December 31, 2024 | | | | | | | | | | |
| Retail | 3,903 | 3,873 | 30 | 1,031 | 1,031 | 1,031 | 1,031 | 1,031 | 2.86% | 5,667 |
| Housing | - | - | - | - | - | - | - | - | 0.00% | - |
| Cash | 21 | 12 | 9 | - | - | - | - | - | 0.04% | 118 |
| Purchase of vehicles | - | - | - | - | - | - | - | - | 0.00% | - |
| Refurbishment of residential or commercial buildings | - | - | - | - | - | - | - | - | 0.00% | - |
| Other | 3,882 | 3,861 | 21 | 1,031 | 1,031 | 1,031 | 1,031 | 1,031 | 0.00% | - |
| Corporate clients | 5,306 | 4,112 | 1,194 | 1,760 | 1,760 | 1,760 | 705 | 1,055 | 3.52% | 21,976 |
| Agriculture | - | - | - | - | - | - | - | - | 0.00% | - |
| Processing industry | 247 | 22 | 225 | 226 | 226 | 226 | - | 226 | 1.97% | 1,936 |
| Electricity | - | - | - | - | - | - | - | - | 0.00% | - |
| Construction | 2,405 | 1,987 | 418 | 525 | 525 | 525 | 155 | 370 | 8.16% | 8,122 |
| Wholesale and retail trade | 209 | - | 209 | 209 | 209 | 209 | - | 209 | 0.45% | 571 |
| Services | 11 | - | 11 | - | - | - | - | - | 1.27% | 140 |
| Real estate activities | - | - | - | - | - | - | - | - | 0.00% | - |
| Other | 2,434 | 2,103 | 331 | 800 | 800 | 800 | 550 | 250 | 4.40% | 11,207 |
| Total | 9,209 | 7,985 | 1,224 | 2,791 | 2,791 | 2,791 | 1,736 | 1,055 | 3.21% | 27,643 |
| Receivables from Banks | - | - | - | - | - | - | - | - | 0.00% | - |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

5.2.4.1. Restructured loans and receivables (continued)

| RESTRUCTURED RECEIVABLES | 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 |
|--|----------------------------------|--------------------------------|-------------------------------|-------------------------------|--|---|---|---|---|---|
| | | | | | | | | | | |
| December 31, 2023 | 3,690 | - | 3,665 | 25 | 1,128 | - | 1,108 | 20 | 3,00% | 428 |
| Retail | 2 | - | 2 | - | - | - | - | - | 0.01% | 85 |
| Housing | 35 | - | 35 | - | 1 | - | 1 | - | 0.07% | - |
| Cash | - | - | - | - | - | - | - | - | 0.00% | - |
| Purchase of vehicles | - | - | - | - | - | - | - | - | - | - |
| Refurbishment of residential or commercial buildings | - | - | - | - | - | - | - | - | - | - |
| Other | 3,653 | - | 3,628 | 25 | 1,127 | - | 1,107 | 20 | 0.00% | - |
| Corporate clients | 6,678 | - | 2,836 | 3,842 | 2,652 | - | 576 | 2,076 | 4,67% | 6,253 |
| Agriculture | - | - | - | - | - | - | - | - | 0.00% | - |
| Processing industry | 380 | - | 50 | 330 | 252 | - | - | 252 | 3.88% | 402 |
| Electricity | - | - | - | - | - | - | - | - | 0.00% | - |
| Construction | 3,661 | - | 460 | 3,201 | 1,593 | - | 50 | 1,543 | 16.34% | 3,029 |
| Wholesale and retail trade | 313 | - | 17 | 296 | 282 | - | 1 | 281 | 0.67% | 283 |
| Services | 15 | - | - | 15 | - | - | - | - | 1.55% | 86 |
| Real estate activities | - | - | - | - | - | - | - | - | 0.00% | - |
| Other | 2,309 | - | 2,309 | - | 525 | - | 525 | - | 4.45% | 2,453 |
| Total | 10,368 | - | 6,501 | 3,867 | 3,780 | - | 1,684 | 2,096 | 3.90% | 6,681 |
| Receivables from Banks | - | - | - | - | - | - | - | - | 0.00% | - |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)
5.2. Credit risk (continued)

5.2.4. Quality of financial statements (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, 2023 | New restructured S2 receivables | Reduction in restructured S2 receivables | Exchange rate effect | Other changes | Gross December 31, 2024 | Net December 31, 2024 |
|--|----------------------------|--|--|----------------------------|------------------|-------------------------------|--------------------------|
| Housing | 2 | - | (2) | - | - | - | - |
| Cash | 35 | - | (23) | - | - | 12 | 12 |
| Purchase of vehicles | - | - | - | - | - | - | - |
| Refurbishment of residential or commercial buildings | - | - | - | - | - | - | - |
| Other | 3,628 | 233 | - | - | - | 3,861 | 2,830 |
| Retail | 3,665 | 233 | (25) | - | - | 3,873 | 2,842 |
| Large companies | - | - | - | - | - | - | - |
| Medium companies | 314 | - | (314) | - | - | - | - |
| Small enterprises | 2,522 | 1,620 | (30) | - | - | 4,112 | 3,407 |
| Government | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Corporate clients | 2,836 | 1,620 | (344) | - | - | 4,112 | 3,407 |
| Total | 6,501 | 1,853 | (369) | - | - | 7,985 | 6,249 |
| Receivables from banks | - | - | - | - | - | - | - |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

5.2.4.2. Restructures loans and placements (continued)

The tables below show an overview of restructured receivables:

CHANGES OF RESTRUCTURED S2 RECEIVABLES

| | Gross December 31, 2022 | New restructured S2 receivables | Reduction in restructured S2 receivables | Exchange rate effect | Other changes | Gross December 31, 2023 | Net December 31, 2023 |
|--|-------------------------------|--|--|----------------------------|------------------|-------------------------------|--------------------------|
| Housing | - | - | - | - | - | - | - |
| Cash | - | 9 | - | - | - | 9 | 9 |
| Purchase of vehicles | - | - | - | - | - | - | - |
| Refurbishment of residential or commercial buildings | - | - | - | - | - | - | - |
| Other | 25 | - | (4) | - | - | 21 | 21 |
| Retail | 25 | 9 | (4) | | | 30 | 30 |
| Large companies | - | - | - | - | - | - | - |
| Medium companies | 1,104 | - | (1,104) | - | - | - | - |
| Small enterprises | 2,738 | 331 | (1,875) | - | - | 1,194 | 139 |
| Government | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Corporate clients | - | - | - | | | - | - |
| Total | 3,842 | 331 | (2,979) | | | 1,194 | 139 |
| Receivables from banks | 3,867 | 340 | (2,983) | | | 1,224 | 169 |
| Housing | - | - | - | - | - | - | - |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

5.2.4.2. Loans and receivables from clients covered by collateral

| December 31, 2024 | S 1 clients | | | | | | S 2 clients | | | | | | S 3 clients | | | |
|--|---------------|--------------|------------|------------------|----------------|--|---------------|--------------|------------|------------------|----------------|--|--------------|-----------|------------------|---------------|
| | Property | Deposits | Guarantees | Other collateral | Total | | Property | Deposits | Guarantees | Other collateral | Total | | Property | Deposits | Other collateral | Total |
| Residential | 9,798 | 532 | - | 4,033 | 14,363 | | 6,728 | 4 | - | 168 | 6,900 | | 652 | - | 45 | 697 |
| Cash | 4,338 | 889 | - | 41,494 | 46,721 | | 1,400 | 88 | - | 3,087 | 4,575 | | 562 | 6 | 1,167 | 1,735 |
| Purchase of vehicles | 226 | 122 | - | 5,945 | 6,293 | | - | 19 | - | 475 | 494 | | 22 | - | 101 | 123 |
| Adaptation of residential or commercial property | 2,700 | 136 | - | 6,747 | 9,583 | | 803 | 26 | - | 524 | 1,353 | | 51 | - | 43 | 94 |
| Other | 4,106 | 503 | - | 28,882 | 33,491 | | 2,380 | 623 | - | 5,657 | 8,660 | | 1,051 | 8 | 332 | 1,391 |
| Retail | 21,168 | 2,182 | - | 87,101 | 110,451 | | 11,311 | 760 | - | 9,911 | 21,982 | | 2,338 | 14 | 1,688 | 4,040 |
| Large companies | 9,034 | 1,502 | - | 4,460 | 14,996 | | 5,221 | - | - | 3,524 | 8,745 | | 1,355 | - | - | 1,355 |
| Medium companies | 9,719 | - | - | 3,640 | 13,359 | | 15,685 | 1 | - | 6,032 | 21,718 | | 743 | - | 12 | 755 |
| Small enterprises | 18,867 | 502 | 229 | 10,541 | 30,139 | | 47,554 | 5,063 | 999 | 680 | 54,296 | | 4,227 | - | 996 | 5,223 |
| State | - | - | - | - | - | | - | - | - | - | - | | - | - | - | - |
| Other | - | - | - | - | - | | - | - | - | - | - | | - | - | - | - |
| Corporate clients | 37,620 | 2,004 | 229 | 18,641 | 58,494 | | 68,460 | 5,064 | 999 | 10,236 | 84,759 | | 6,325 | - | 1,008 | 7,333 |
| Total | 58,788 | 4,186 | 229 | 105,742 | 168,945 | | 79,771 | 5,824 | 999 | 20,147 | 106,741 | | 8,663 | 14 | 2,696 | 11,373 |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (Continued)
5.2. Credit risk (continued)

5.2.4. Quality of financial statements (continued)

5.2.4.2. Loans and receivables from clients covered by collateral

| December 31, 2023 | S 1 clients | | | | | S 2 clients | | | | | S 3 clients | | | | |
|--|-------------|----------|------------|------------------|---------|-------------|----------|------------|------------------|--------|-------------|----------|------------|------------------|--------|
| | Property | Deposits | Guarantees | Other collateral | Total | Property | Deposits | Guarantees | Other collateral | Total | Property | Deposits | Guarantees | Other collateral | Total |
| Residential | 10,534 | 319 | - | 4,885 | 15,739 | 1,555 | 165 | - | 1,146 | 2,866 | 350 | - | - | 64 | 414 |
| Cash | 1,708 | 726 | - | 39,640 | 42,074 | 1,887 | 144 | - | 3,859 | 5,889 | 762 | 18 | - | 2,477 | 3,257 |
| Purchase of vehicles | 195 | 120 | - | 4,138 | 4,453 | 46 | 28 | - | 424 | 498 | 12 | - | - | 42 | 54 |
| Adaptation of residential or commercial property | 1,781 | 125 | - | 5,483 | 7,389 | 709 | 17 | - | 651 | 1,377 | 18 | - | - | 86 | 104 |
| Other | 3,781 | 562 | - | 23,856 | 28,199 | 1,217 | 449 | - | 6,897 | 8,563 | 540 | 13 | - | 1,557 | 2,110 |
| Retail | 18,000 | 1,852 | - | 78,001 | 97,854 | 5,414 | 803 | - | 12,976 | 19,193 | 1,682 | 31 | - | 4,226 | 5,939 |
| Large companies | 116 | 4 | - | 15,288 | 15,408 | 1,714 | - | - | 7,824 | 9,539 | 1,575 | - | - | - | 1,575 |
| Medium companies | 1,838 | - | - | 3,496 | 5,335 | 12,514 | - | - | 4,318 | 16,832 | 5,663 | - | - | 932 | 6,595 |
| Small enterprises | 12,445 | 251 | - | 18,216 | 30,912 | 25,113 | 389 | 22,637 | - | 48,139 | 1,903 | 100 | - | 6,783 | 8,786 |
| State | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Corporate clients | 14,399 | 255 | - | 37,000 | 51,655 | 39,341 | 389 | 22,637 | 12,142 | 74,510 | 9,142 | 100 | - | 7,715 | 16,956 |
| Total | 32,399 | 2,108 | - | 115,002 | 149,509 | 44,755 | 1,192 | 22,637 | 25,118 | 93,703 | 10,824 | 131 | - | 11,941 | 22,895 |

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (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

| | <u>December 31, 2024</u> | <u>In thousand EUR December 31, 2023</u> |
|---------------------------|--------------------------|--|
| Deposits | 13,569 | 13,690 |
| Pledge | 52,827 | 35,554 |
| Mortgages and fiduciaries | 486,105 | 447,261 |
| Policies | 17,734 | 13,033 |
| Guarantees | 1,329 | 738 |
| Total | <u>571,564</u> | <u>510,276</u> |

| | <u>In thousand EUR</u> | |
|------------------------------------|--------------------------|--------------------------|
| Due but assessed as a group | <u>December 31, 2024</u> | <u>December 31, 2023</u> |
| Deposits | 12,646 | 13,235 |
| Pledge | 38,058 | 28,283 |
| Mortgages and fiduciaries | 320,284 | 314,805 |
| Policies | 17,734 | 13,033 |
| Guarantees | 329 | 738 |
| | <u>389,051</u> | <u>370,094</u> |

| | <u>In thousand EUR</u> | |
|------------------------------|--------------------------|--------------------------|
| Individually assessed | <u>December 31, 2024</u> | <u>December 31, 2023</u> |
| Deposits | 923 | 455 |
| Pledge | 14,769 | 7,271 |
| Mortgages and fiduciaries | 165,821 | 132,456 |
| Policies | - | - |
| Guarantees | 1,000 | - |
| Total | <u>182,513</u> | <u>140,182</u> |

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2024

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (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, 2024

| | Receivables from S1 and S2 clients | | | | Receivables from S3 clients | | | |
|---|------------------------------------|----------------|----------------|---------------|-----------------------------|----------------|----------------|--------------|
| | Montenegro | European Union | USA and Canada | Other | Montenegro | European Union | USA and Canada | Other |
| Retail clients | 123,174 | 3,948 | 2,741 | 2,570 | 3,898 | 2 | - | 140 |
| Residential | 16,928 | 216 | 2,454 | 1,665 | 575 | - | - | 122 |
| Cash | 50,273 | 4 | 287 | 732 | 1,727 | - | - | 8 |
| Purchase of vehicles | 6,780 | 2 | - | 5 | 123 | - | - | - |
| Adaptation of residential or commercial | 10,922 | - | - | 14 | 89 | - | - | 5 |
| Other | 38,271 | 3,726 | - | 154 | 1,384 | 2 | - | 5 |
| Corporate clients | 143,253 | - | - | - | 5,876 | 1,457 | - | - |
| Agriculture | 569 | - | - | - | 1,356 | - | - | - |
| Manufacturing | 12,074 | - | - | - | 463 | - | - | - |
| Electricity | 1,134 | - | - | - | - | - | - | - |
| Construction | 28,007 | - | - | - | 1,467 | - | - | - |
| Wholesale and retail trade | 44,934 | - | - | - | 1,164 | - | - | - |
| Services | 846 | - | - | - | 19 | - | - | - |
| Real estate activities | 3,202 | - | - | - | - | - | - | - |
| Other | 52,487 | - | - | - | 1,407 | 1,457 | - | - |
| Total | 266,427 | 3,948 | 2,741 | 2,570 | 9,774 | 1,459 | - | 140 |
| Receivables from banks | 21,741 | 92,201 | - | 4,962 | - | - | - | - |
| State | 95,563 | 135,596 | - | 22,093 | - | - | - | 1,028 |
| Corporate | 111 | 66,831 | - | 9,572 | - | - | - | - |
| Supranational | - | 77,186 | - | 3,735 | - | - | - | - |
| Securities | 95,674 | 279,613 | - | 35,400 | - | - | - | 1,028 |

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2024

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (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 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 | 11,253 | - | - | - | - | - | - | - | - | - | - | 107,308 | - | 118,561 |
| Financial assets at fair value through other comprehensive income | 2,820 | 6,459 | 19,460 | 43,817 | 27,134 | 946 | 3,002 | 2,351 | 2,950 | 1,324 | 10,708 | 17,453 | 131,141 | 269,565 |
| Securities | 4,278 | 1,004 | - | - | - | - | - | - | - | - | 593 | 395,642 | - | 401,517 |
| December 31, 2024 | <u>18,351</u> | <u>7,564</u> | <u>19,495</u> | <u>43,893</u> | <u>27,134</u> | <u>946</u> | <u>3,002</u> | <u>2,351</u> | <u>2,950</u> | <u>1,324</u> | <u>11,301</u> | <u>527,008</u> | <u>131,141</u> | <u>796,460</u> |
| December 31, 2023. | <u>89,891</u> | <u>9,447</u> | <u>18,201</u> | <u>44,406</u> | <u>19,378</u> | <u>4,458</u> | <u>4,602</u> | <u>2,288</u> | <u>2,037</u> | <u>3,568</u> | <u>9,762</u> | <u>352,586</u> | <u>117,061</u> | <u>677,905</u> |

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5. RISK MANAGEMENT (Continued)

5.2. Credit risk (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 |
| December 31, 2024 | | | | |
| Up to 1 year | 51,146 | 63,803 | - | 114,949 |
| 1 to 5 years | 2,999 | 14,280 | - | 17,279 |
| Over 5 years | 233 | 2,109 | - | 2,342 |
| | <u>54,378</u> | <u>80,192</u> | <u>-</u> | <u>134,570</u> |

| | In thousand EUR | | | |
|--------------------------|-------------------------|---------------|-------------------|----------------|
| | Undrawn credit lines | Guarantees | Letters of credit | Total |
| December 31, 2023 | | | | |
| Up to 1 year | 36,746 | 54,804 | 83 | 91,633 |
| 1 to 5 years | 3,326 | 18,540 | - | 21,866 |
| Over 5 years | 1,049 | 9 | - | 1,058 |
| | <u>41,121</u> | <u>73,353</u> | <u>83</u> | <u>114,557</u> |

5.2. 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 risk of currency exchange rate changes on December 31, 2024 is shown in the following table

| In thousand EUR | USD | GBP | CHF | Other | Total |
|---------------------------------|--------------|-------------|-----------|-----------|--------------|
| Foreign currency assets | 25,510 | 1,686 | 3,274 | 60 | 30,530 |
| Foreign currency liabilities | 23,952 | 1,569 | 3,250 | 35 | 28,806 |
| Net open position: | | | | | |
| - December 31, 2024 | <u>1,558</u> | <u>117</u> | <u>24</u> | <u>25</u> | <u>1,724</u> |
| - December 31, 2023 | <u>587</u> | <u>(33)</u> | <u>7</u> | <u>46</u> | <u>607</u> |
| % core capital | | | | | |
| - December 31, 2024 | <u>2%</u> | <u>0%</u> | <u>0%</u> | <u>0%</u> | |
| - December 31, 2023 | <u>1%</u> | <u>0%</u> | <u>0%</u> | <u>0%</u> | |
| Aggregate open position: | | | | | |
| - December 31, 2024 | 1,724 | | | | |
| - December 31, 2023 | 607 | | | | |
| % core capital | | | | | |
| - December 31, 2024 | 2.71% | | | | |
| - December 31, 2023 | 1.19% | | | | |

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 changes ranging from +10% to -10% in relation to EUR.

Sensitivity analyzes (foreign exchange risk)

| | Total | 2024 Amount at Foreign currency | In thousand EUR Change in exchange rate | |
|---|------------------|--|--|----------------|
| | | | 10% | -10% |
| Assets | | | | |
| Cash and deposits held with central banks | 274,038 | 3,215 | 322 | (322) |
| <i>Financial assets at amortized value</i> | | | | |
| Loans and placements from banks | 118,561 | 6,194 | 619 | (619) |
| Loans and placements from clients | 269,565 | 495 | 50 | (50) |
| Securities | 401,517 | 15,945 | 1,595 | (1,595) |
| Other financial assets | 3,323 | 3,302 | 330 | (330) |
| <i>Financial assets at fair value through other comprehensive income</i> | | | | |
| Securities | 6,817 | - | - | - |
| Other operating receivables | 4,785 | - | - | - |
| Total assets | 1,078,606 | 29,151 | 2,916 | (2,916) |
| Liabilities | | | | |
| <i>Financial liabilities at amortized value</i> | | | | |
| Deposits due to Banks | 36,195 | - | - | - |
| Deposits due to customers | 897,102 | 27,692 | 2,769 | (2,769) |
| Loans from clients other than banks | 14,257 | - | - | - |
| Other financial liabilities | 447 | - | - | - |
| Reserves | 1,542 | - | - | - |
| Other liabilities - balance sheet | 26,917 | 1,114 | 111 | (111) |
| Subordinated debt | 13,271 | - | - | - |
| Total liabilities | 989,731 | 28,806 | 2,880 | (2,880) |
| Other liabilities (guarantees and letters of credit) – off balance sheet | 80,192 | - | - | - |
| Sensitivity of net exposure to foreign exchange risk on changes in rates of foreign currencies | | | | |
| - December 31, 2024 | | | 36 | (36) |
| - December 31, 2023 | | | 61 | (61) |

On December 31, 2024, assuming that all other parameters are unchanged by a change in the EUR exchange rate against other currencies by +10% or -10%, the Bank's profit would increase or decrease by EUR 36 thousand (December 31, 2023: profit would increase or decrease by EUR 61 thousand). The reason for the Bank's small exposure to exchange rate changes is the fact that most of the Bank's receivables and liabilities are expressed in EUR

5. RISK MANAGEMENT (Continued)

5.4. Market risk (Continued)

5.4.1. Interest rate risk

The following table shows interest bearing and non-interest bearing assets and liabilities of the Bank as at December 31, 2024:

| | In thousand EUR | | |
|--|-------------------------|-----------------------------|-------------------------|
| | <u>Interest bearing</u> | <u>Non-interest bearing</u> | <u>Total</u> |
| ASSETS | | | |
| Cash and deposits held with central banks | 22,687 | 251,351 | 274,038 |
| <i>Financial assets at amortized value</i> | | | |
| Loans and placements from banks | 118,561 | - | 118,561 |
| Loans and placements from customers and other financial assets | 269,565 | - | 269,565 |
| Securities | 401,517 | - | 401,517 |
| Other financial assets | 3,323 | - | 3,323 |
| <i>Financial assets at fair value through other comprehensive income</i> | | | |
| Securities | - | 6,817 | 6,817 |
| Other operating receivables | - | 4,785 | 4,785 |
| Total assets | <u>815,653</u> | <u>262,953</u> | <u>1,078,606</u> |
| LIABILITIES | | | |
| <i>Financial liabilities at amortized value</i> | | | |
| Deposits due to Banks | 11,129 | 25,066 | 36,195 |
| Deposits due to clients | 818,021 | 79,081 | 897,102 |
| Borrowed assets from other clients | 14,257 | - | 14,257 |
| Other financial liabilities | - | 447 | 447 |
| Other liabilities | - | 26,917 | 26,917 |
| Subordinated debt | 13,271 | - | 13,271 |
| Total liabilities: | <u>856,678</u> | <u>131,511</u> | <u>988,189</u> |
| Exposure to interest rate risk: | | | |
| - December 31, 2024 | <u>(41,025)</u> | <u>131,442</u> | <u>90,417</u> |
| - December 31, 2023 | <u>(34,593)</u> | <u>101,440</u> | <u>66,847</u> |

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 | 0-9 p.a. |
| - short-term loans from other sources | 0-9 p.a. |
| - short-term loans to banks and other financial organizations | 0-9 p.a. |
| - arrangement loans | 0-9 p.a. |
| - long-term loans from the Bank's funds | 0-8,5 p.a. |
| - long-term loans from other sources | 0-8,5 p.a. |
| - loans for small and medium-sized enterprises up to 24 months | 0-9 p.a. |
| - loans for small and medium-sized enterprises over 24 months | 0-8,5 p.a. |
| - loans for entrepreneurs up to 24 months | 2.5-7.5p.a. |
| - loans for entrepreneurs over 24 months | 2.5-7.5p.a. |

Active interest rates applied to approved loans to individuals in 2024 are as follows:

| Loan type | Interest rate |
|--|------------------|
| Retail: | |
| - cash loans | 0.70-14.09% p.a. |
| - consumer loans | 0-14.09% p.a. |
| - loans for the purchase of vehicles | 4.99 p.a. |
| - loans for adaptation and financing up to 60 months | 0.70-14.09% p.a. |
| - loans for adaptation and financing over 60 months | 0.70-14.09% p.a. |
| - housing | 4.5-5.48% p.a. |

Passive interest rates applied to received deposits from legal entities in 2024 are as follows:

| Deposit type | Interest rate |
|---------------------|----------------|
| Demand deposits | 0 p.a. |
| Short-term deposits | 0.01-0.05 p.a. |
| Long-term deposits | 0.5-0.75 p.a. |

Passive interest rates applied to received deposits from individuals in 2024 are as follows:

| Deposit type | Interest rate |
|--------------------------------------|----------------|
| Demand deposits | |
| A vista savings: | |
| - EUR | 0.01 p.a. |
| - other currencies | |
| Term deposits in EUR: | |
| - one month | 0.01 p.a. |
| - three months | 0.01-0.02 p.a. |
| - six months | 0.04-0.06 p.a. |
| - 12 months | 0.5-0.8 p.a. |
| - 24 months | 0.6-0.9 p.a. |
| - 36 months | 0.7-1 p.a. |
| Term deposits in foreign currencies: | |
| - three months | 0.01 p.a. |
| - six months | 0.02 p.a. |
| - 12 months | 0.2 p.a. |
| - 24 months | 0.25 p.a. |

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2. Interest rate risk (Continued)

Exposure to the interest rate risk as at December 31, 2024 is presented in the following table:

| | In thousand EUR | | | | | |
|---|---------------------|-----------------------|--------------------|---------------------|------------------|-----------------|
| | Up to one months | From 1 to 3 months | From 3-6 months | From 6-12 months | Over one year | Total |
| Sensitive assets | | | | | | |
| Cash and deposits held with central banks | 22,687 | - | - | - | - | 22,687 |
| <i>Financial assets at amortized value</i> | | | | | | |
| Loans and receivables from banks | 107,307 | - | 3,555 | 7,699 | - | 118,561 |
| Loans and receivables from clients | 7,538 | 24,498 | 25,982 | 64,087 | 147,460 | 269,565 |
| Securities | 43,953 | 53,412 | 107,706 | 23,538 | 172,908 | 401,517 |
| Other financial assets | - | - | - | - | 3,323 | 3,323 |
| Total | 181,485 | 77,910 | 137,243 | 95,324 | 323,691 | 815,653 |
| % of total interest bearing assets | 22% | 10% | 17% | 12% | 40% | 100% |
| Sensitive liabilities | | | | | | |
| <i>Financial liabilities disclosed at amortized value</i> | | | | | | |
| Interest bearing deposits from banks | 11,104 | - | - | 10 | 15 | 11,129 |
| Interest bearing deposits from banks | 79,291 | 68,550 | 123,320 | 190,977 | 355,883 | 818,021 |
| Interest bearing borrowing from clients | 235 | 2 | 369 | 504 | 13,147 | 14,257 |
| Subordinated debt | 288 | - | - | - | 12,983 | 13,271 |
| Total | 90,918 | 68,552 | 123,689 | 191,491 | 382,028 | 856,678 |
| % of total interest bearing liabilities | 11% | 8% | 14% | 22% | 45% | 100% |
| Exposure to interest rate risk: | | | | | | |
| - December 31, 2024 | 90,567 | 9,358 | 13,554 | (96,167) | (58,337) | (41,025) |
| - December 31, 2023 | 65,721 | (22,234) | 22,243 | (70,031) | (30,292) | (34,593) |
| Cumulative GAP: | | | | | | |
| - December 31, 2024 | 90,567 | 99,925 | 113,479 | 17,312 | (41,025) | |
| - December 31, 2023 | 65,721 | 43,487 | 65,730 | (4,301) | (34,593) | |

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 | +0.4 b.p. | -0.4 b.p. |
| | 2024 | EUR KS | EUR KS |
| ASSETS | | | |
| Cash and deposits held with central banks | 22,687 | | |
| with fixed interest rate | - | | |
| with variable interest rate | 22,687 | 91 | (91) |
| <i>Financial assets at amortized value</i> | | | |
| Loans and placements from banks | 118,561 | | |
| Loans and placements from clients | 269,565 | | |
| with fixed interest rate | 269,565 | | |
| with variable interest rate | - | - | - |
| Securities | 401,517 | | |
| with fixed interest rate | 401,517 | | |
| | 812,330 | 91 | (91) |
| Liabilities | | | |
| <i>Financial liabilities at amortized value</i> | | | |
| Deposits due to banks | 11,129 | | |
| Deposits due to customers | 818,021 | | |
| Borrowed assets from other clients | 14,257 | | |
| with fixed interest rate with variable interest rate | 14,257 | | |
| with fixed interest rate with variable interest rate | - | - | - |
| Other liabilities | - | | |
| Subordinated debt | 13,271 | | |
| | 856,678 | - | - |
| Net exposure to interest rate risk: | | | |
| - 31. decembar 2024. godine | (44,348) | 91 | (91) |

On December 31, 2024, assuming that all other parameters are unchanged by the change in interest rates by 40 b.p. (+/-0.4%), the Bank's profit would increase or decrease by the amount of EUR 91 thousand (December 31, 2023: the profit would increase or decrease by the amount of EUR 86 thousand). The reason for the Bank's small exposure to changes in variable interest rates is the fact that most of the Bank's receivables and liabilities are contracted with a fixed interest rate.

5. RISK MANAGEMENT (Continued)

5.3. Liquidity risk

Liquidity risk represents the risk that the Bank will not be able to provide sufficient funds for the settlement of obligations at the time of their maturity, or the risk that the Bank will have to provide funds for the settlement of due obligations at a price higher than the market price.

The Bank's balance sheet structure and maturity transformation of assets make it inherently exposed to liquidity risk. According to the Liquidity Risk Management Strategy, the Bank's main source of funding is client deposits (the majority of which are retail avista deposits), while on the asset side, the dominant position is occupied by securities, loans to clients and cash. The maturity mismatch of financial assets and liabilities is the main source of the Bank's liquidity risk. The identification of the positions of financial assets, liabilities and off-balance sheet items based on which cash inflows or outflows occur, and their distribution by expected maturity forms the starting point for identifying the Bank's liquidity position, i.e. the position of the source of 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 December 31, 2024 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 | 251,351 | - | - | - | 22,687 | - | 274,038 |
| <i>Financial assets at amortized value</i> | | | | | | | |
| Loans and receivables from banks | 107,308 | - | 3,554 | 7,699 | - | - | 118,561 |
| Loans and receivables from clients | 7,538 | 24,498 | 25,983 | 64,087 | 125,059 | 22,400 | 269,565 |
| Securities | 43,953 | 53,412 | 107,706 | 23,538 | 152,727 | 20,181 | 401,517 |
| <i>Other financial assets at fair value through other comprehensive income</i> | | | | | | | |
| Securities | 3,323 | - | - | - | - | - | 3,323 |
| Securities | - | - | - | - | - | 6,817 | 6,817 |
| Other operating receivables | 4,785 | - | - | - | - | - | 4,785 |
| Total | 418,258 | 77,910 | 137,243 | 95,324 | 300,473 | 49,398 | 1,078,606 |
| Financial liabilities | | | | | | | |
| <i>Financial liabilities at amortized value</i> | | | | | | | |
| Deposits due to banks | 36,170 | - | - | 10 | 15 | - | 36,195 |
| Deposits due to clients | 87,345 | 75,295 | 135,702 | 209,123 | 377,074 | 12,563 | 897,102 |
| Borrowed assets from other clients | 235 | 2 | 369 | 504 | 9,762 | 3,385 | 14,257 |
| Other financial liabilities | 447 | - | - | - | - | - | 447 |
| Other liabilities | 20,348 | - | - | - | 6,569 | - | 26,917 |
| Subordinated debt | 288 | - | - | - | 12,983 | - | 13,271 |
| Total | 144,833 | 75,297 | 136,071 | 209,637 | 406,403 | 15,948 | 988,189 |
| Maturity inconsistency | | | | | | | |
| - December 31, 2024 | 273,425 | 2,613 | 1,172 | (114,313) | (105,930) | 33,450 | 90,417 |
| - December 31, 2023 | 223,861 | (29,512) | 9,005 | (89,050) | (92,557) | 45,100 | 66,847 |
| Cumulative gap | | | | | | | |
| - December 31, 2024 | 273,425 | 276,038 | 277,210 | 162,897 | 56,967 | 90,417 | |
| - December 31, 2023 | 223,861 | 194,349 | 203,354 | 114,304 | 21,747 | 66,847 | |
| % of the total source of funds | | | | | | | |
| - December 31, 2024 | 25,35% | 0,24% | 0,11% | (10,60%) | (9,82%) | 3,10% | |
| - December 31, 2023 | 24,60% | (3,24%) | 0,99% | (9,79%) | (10,17%) | 4,96% | |

5. RISK MANAGEMENT (Continued)

5.4. Liquidity risk (Continued)

The structure of assets and liabilities as of December 31, 2024, according to the expected maturity, does not indicate the existence of a maturity mismatch in any maturity period, observing the cumulative gap. Looking at individual gaps, a negative gap exists for the maturity period of 6-12 months and 1-5 years.

The Bank's liquidity, as its ability to fulfill its due obligations on time, depends on the one hand on the balance sheet structure, and on the other hand, on the matching of inflows and outflows of funds. As of December 31, 2024, demand deposits in the above table are shown based on expected maturities using a model based on the Bank's historical data.

The term structure of financial obligations according to the remaining maturity (undiscounted cash flows) with the balance as of December 31, 2024 is shown in the following overview:

| | In thousand EUR | | | | | | |
|------------------------------------|-----------------|------------------|------------------------|---------------------------|-------------------------|-----------------|----------------|
| | Demand | Up to 1 month | From 1- 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
| December 31, 2024 | | | | | | | |
| LIABILITIES | | | | | | | |
| Liabilities to banks | 36,170 | - | - | 10 | 15 | - | 36,195 |
| Liabilities to clients | 798,324 | 3,183 | 16,348 | 48,405 | 28,794 | 2,048 | 897,102 |
| Borrowed assets from other clients | - | 235 | 2 | 873 | 9,762 | 3,385 | 14,257 |
| Other financial liabilities | - | 447 | - | - | - | - | 447 |
| Other liabilities | - | 20,348 | - | - | - | 6,569 | 26,917 |
| Subordinated debt | - | 288 | - | - | 12,983 | - | 13,271 |
| | 834,494 | 24,501 | 16,350 | 49,288 | 51,554 | 12,002 | 988,189 |

| | In thousand EUR | | | | | | |
|------------------------------------|-----------------|------------------|------------------------|---------------------------|-------------------------|-----------------|----------------|
| | Demand | Up to 1 month | From 1- 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
| December 31, 2023 | | | | | | | |
| LIABILITIES | | | | | | | |
| Liabilities to banks | 2,380 | - | - | 10 | 25 | - | 2,415 |
| Liabilities to clients | 699,579 | 878 | 11,639 | 43,948 | 30,967 | 1,841 | 788,852 |
| Borrowed assets from other clients | - | 233 | 111 | 958 | 6,477 | 4,149 | 11,928 |
| Other financial liabilities | - | 243 | - | - | - | - | 243 |
| Other liabilities | - | 19,943 | - | - | - | 6,438 | 26,381 |
| Subordinated debt | - | 289 | - | - | 12,972 | - | 13,261 |
| | 701,959 | 21,586 | 11,750 | 44,916 | 50,441 | 12,428 | 843,080 |

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

| | Book value | | In thousand EUR Fair value | |
|--|------------------|----------------|-------------------------------|----------------|
| | 2024 | 2023 | 2024 | 2023 |
| | | | | |
| Financial assets | | | | |
| Cash and deposits held with central banks | 274,038 | 224,223 | 274,038 | 224,223 |
| <i>Financial assets at amortized value</i> | | | | |
| Loans and receivables from Banks | 118,561 | 77,265 | 118,561 | 77,265 |
| Loans and receivables from clients | 269,565 | 248,411 | 269,565 | 248,411 |
| Securities | 401,517 | 345,861 | 400,883 | 336,774 |
| Other financial assets | 3,323 | 2,762 | 3,323 | 2,762 |
| <i>Financial assets at fair value through other comprehensive income</i> | | | | |
| Securities | 6,817 | 6,368 | 6,817 | 6,368 |
| <i>Financial assets held for trading</i> | | | | |
| Securities | - | - | - | - |
| Investments in related companies and joint ventures using the capital method | | | | |
| Other assets | 4,785 | 5,037 | 4,785 | 5,037 |
| | 1,078,606 | 909,927 | 1,077,972 | 900,840 |
| Financial liabilities | | | | |
| <i>Financial liabilities at amortized value</i> | | | | |
| Deposits due to banks and central banks | 36,195 | 2,415 | 36,195 | 2,415 |
| Deposits due to clients | 897,102 | 788,852 | 897,102 | 788,852 |
| Borrowed assets from other clients | 14,257 | 11,928 | 14,257 | 11,928 |
| Other financial liabilities | 447 | 243 | 447 | 243 |
| Other liabilities | 26,917 | 26,381 | 26,917 | 26,381 |
| Subordinated debt | 13,271 | 13,261 | 13,271 | 13,261 |
| | 988,189 | 843,080 | 988,189 | 843,080 |

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 December 31, 2023, 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, 2024 | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|------------|--------------|----------|--------------|
| Financial assets | | | | |
| -at fair value through other result | 328 | 6,489 | - | 6,817 |
| Total | 328 | 6,489 | - | 6,817 |
| | | | | |
| December 31, 2023 | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| -at fair value through other result | 318 | 6,050 | - | 6,368 |
| Total | 318 | 6,050 | - | 6,368 |

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 December 31, 2023, the aforementioned market prices of securities were available.

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

5. RISK MANAGEMENT (Continued)

5.7. 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)

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, 2024 amounts to EUR 68,341 thousand, and consists of EUR 63,637 thousand regular core capital and EUR 4,704 thousand 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.

Deductible elements from the regular fixed capital consist of:

- investments in own capital instruments,
- other reserves,
- adjustments due to prudential filters,
- intangible assets i
- positive differences between calculated provisions and value adjustments.

Supplementary elements of regulatory capital amount to EUR 4,704 thousand as of 12/31/2024. year 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

| | <u>2024</u> | <u>2023</u> |
|---|----------------------|----------------------|
| Deposits: | | |
| - Foreign banks | 2,881 | 1,644 |
| - Other | 104 | 108 |
| | <u>2,985</u> | <u>1,752</u> |
| Loans: | | |
| - Banks | 264 | 230 |
| - State institutions | 40 | 34 |
| - Legal entities | 6,450 | 5,518 |
| - Individuals | 8,452 | 7,557 |
| Fee income recognized in interest income: | 927 | 952 |
| | <u>16,133</u> | <u>14,291</u> |
| Securities: | 12,948 | 8,273 |
| | <u>12,948</u> | <u>8,273</u> |
| Other interest income | <u>84</u> | <u>67</u> |
| | <u>84</u> | <u>67</u> |
| Total interest income: | <u><u>32,150</u></u> | <u><u>24,383</u></u> |

Interest expense

In thousand EUR

| | <u>2024</u> | <u>2023</u> |
|-----------------------------------|---------------------|---------------------|
| Deposits: | | |
| - Banks | 18 | 35 |
| - Financial institutions | 2 | 6 |
| - State institutions | 138 | - |
| - Legal entities | 29 | 25 |
| - Individuals | 73 | 119 |
| | 746 | 696 |
| Loans and other borrowings | <u>1,006</u> | <u>881</u> |
| | <u>268</u> | <u>319</u> |
| Subordinated debt: | <u>635</u> | <u>774</u> |
| Leasing | <u>187</u> | <u>195</u> |
| | <u><u>2,096</u></u> | <u><u>2,169</u></u> |

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

a) Impairment

| In thousand EUR | <u>2024</u> | <u>2023</u> |
|--|--------------|--------------|
| Net provisions/ (reversal of provisions) based on: | | |
| - loans | 1,974 | 3,637 |
| - deposits at banks | 16 | 13 |
| - securities | (445) | (491) |
| - off balance items | 678 | (287) |
| - other | (230) | 689 |
| | <u>1,993</u> | <u>3,561</u> |

7.1. Changes at impairment accounts

| | <u>December 31,2023</u> | <u>New placements- increase of impairment</u> | <u>Existing - reduction of impairment</u> | <u>Existing placements - increase of impairment</u> | <u>Closed placements - reversal of impairment</u> | <u>December 31,2024</u> |
|-----------------------------------|-----------------------------|---|---|---|---|-----------------------------|
| Retail | 5,925 | 1,626 | (895) | 573 | (1,895) | 5,334 |
| Corporate | 11,771 | 5,271 | (1,180) | 1,548 | (5,250) | 12,160 |
| Total | <u>17,696</u> | <u>6,897</u> | <u>(2,075)</u> | <u>2,121</u> | <u>(7,145)</u> | <u>17,494</u> |
| Receivables from banks | <u>264</u> | <u>305</u> | <u>-</u> | <u>17</u> | <u>(243)</u> | <u>343</u> |

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2024

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, 2024 | | | | | | | December 31, 2023 | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|----------------------|---------------------------|--|-----------------------------|------------------------|--|--------------------------------------|--|--------|-----------------|--|----------------------|---------------------------|--|-----------------------------|------------------------|--|--------------------------------------|--|--------|-------|-------|-----|-----|-----|-------|-------|------|--------|--|--|
| 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 21) | Other financial assets | Provisions for off balance sheet records (Note 23) | Impairment of securities (Note 17.3) | Loans and receivables from banks (Note 17.1) | Total | 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 21) | Other financial assets | Provisions for off balance sheet records (Note 23) | Impairment of securities (Note 17.3) | Loans and receivables from banks (Note 17.1) | Total | | | | | | | | | | | |
| Balance at the beginning of the year | 16,717 | 902 | 1,450 | 476 | 953 | 115 | 401 | 3,834 | 264 | 25,112 | 16,873 | 506 | 1,318 | 401 | 963 | 76 | 1,078 | 3,381 | 343 | 24,939 | 14,503 | 1,045 | 1,085 | 328 | 981 | 157 | 688 | 4,628 | 151 | 23,566 | | |
| Impairment over the year, net | 1,795 | (67) | - | (64) | 28 | 6 | 678 | (526) | 79 | 1,929 | (1,639) | (329) | (132) | (11) | (18) | (45) | (1) | 73 | - | (2,102) | 3,537 | 5 | 642 | 148 | (2) | 4 | (287) | (450) | -113 | 3,710 | | |
| Reversal/ impairment that did not affect impairment and provision costs ** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Decrease in income from interest on impaired placements | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Interest on impaired placements | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Decrease in income from interest on impaired placements | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Balance at the end of the year | 16,717 | 902 | 1,450 | 476 | 953 | 115 | 401 | 3,834 | 264 | 25,112 | 16,717 | 902 | 1,450 | 476 | 953 | 115 | 401 | 3,834 | 264 | 25,112 | 16,717 | 902 | 1,450 | 476 | 953 | 115 | 401 | 3,834 | 264 | 25,112 | | |

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due attention 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.

7. PROVISION COSTS

In thousand EUR

Net provisions based on:

| | <u>2024</u> | <u>2023</u> |
|---------------|--------------------|-------------------|
| - litigations | 15 | 7 |
| - other | <u>(79)</u> | <u>141</u> |
| | <u>(64)</u> | <u>148</u> |

9. FEE INCOME AND EXPENSES

Fee income

In thousand EUR

| | <u>2024</u> | <u>2023</u> |
|--|----------------------|----------------------|
| Loan fees | 927 | 953 |
| Fees from off-balance-sheet operations | 1,186 | 843 |
| Fees from payment transactions and e-banking | 4,216 | 6,117 |
| Fees for foreign payments | 3,429 | 1,356 |
| Fees on credit card operations | 19,560 | 17,303 |
| Other fees and commissions | <u>2,908</u> | <u>2,426</u> |
| | <u>32,226</u> | <u>28,998</u> |

Fee expenses

In thousand EUR

| | <u>2024</u> | <u>2023</u> |
|---|----------------------|----------------------|
| Fees payable to the Central Bank | 796 | 861 |
| Fees for foreign payment transactions | 748 | 488 |
| Deposit insurance premium fees | 4.713 | 3.581 |
| Fees paid for borrowings and guarantees | 23 | 40 |
| Fees based on card and ATMs operations | 11,590 | 11,670 |
| Other fees and commissions | <u>800</u> | <u>694</u> |
| | <u>18,670</u> | <u>17,334</u> |

10. EMPLOYEE EXPENSES

| In thousand EUR | <u>2024</u> | <u>2023</u> |
|---|--------------|--------------|
| Net salaries | 4,586 | 3,786 |
| Taxes and contributions on salaries | 1,950 | 1,728 |
| Other employee benefits, net | 180 | 141 |
| Severance and jubilee awards | 32 | 31 |
| Remunerations to members of the Supervisory Board | 246 | 246 |
| Remunerations to members of the Development Committee | 67 | 24 |
| Remunerations to members of the Sustainable Development Committee | 15 | 16 |
| Fees to members of the Committee for monitoring the quality of the loan portfolio | - | 36 |
| Fees to members of the Investment Committee | 7 | 7 |
| Remunerations to members of the Audit Committee | 42 | 42 |
| Transportation expenses, net | 47 | 45 |
| Travel expenses and per diems | 1,349 | 830 |
| Employee training | 35 | 24 |
| Provision expenses for Severance and jubilee awards (note 23) | 4 | 5 |
| Assistance / Help given to employees | 15 | 22 |
| Other expenses | 61 | 57 |
| | <u>8,636</u> | <u>7,040</u> |

11. GENERAL AND ADMINISTRATIVE EXPENSES

| In thousand EUR | <u>2024</u> | <u>2023</u> |
|--|---------------|--------------|
| Rental costs | 480 | 447 |
| Security services | 794 | 713 |
| Electricity and fuel bills | 204 | 193 |
| Cleaning services | 202 | 189 |
| Computer and other equipment maintenance | 336 | 288 |
| Premises-related taxes | 19 | 23 |
| Vehicle maintenance | 157 | 93 |
| Insurance costs | 807 | 608 |
| Audit expense | 598 | 527 |
| Court expenses | 1 | 11 |
| Other professional fees | 7 | 3 |
| Lawyer fees | 70 | 30 |
| Consulting services | 1,009 | 466 |
| Intellectual services | 68 | 98 |
| Telecommunication costs | 122 | 114 |
| Communication network costs | 377 | 346 |
| Postage | 28 | 81 |
| Office supplies | 205 | 214 |
| Utilities | 24 | 25 |
| Representation expenses | 2,314 | 1,396 |
| Advertising and marketing | 831 | 731 |
| Subscriptions and donations | 414 | 247 |
| Software maintenance | 966 | 633 |
| Equipment rentals | 98 | 126 |
| Data processing services | 992 | 994 |
| Payment card operations | 186 | 188 |
| Other expenses | 1,287 | 526 |
| | <u>12,596</u> | <u>9,310</u> |

| | | |
|--|--------------|--------------|
| 12. DEPRECIATION COST | | |
| In thousand EUR | 2024 | 2023 |
| Property plant and equipment (Note 19) | 1051 | 718 |
| Intangible assets (Note 20) | 640 | 544 |
| Property with the right of use (Note 19) | 1,288 | 1,310 |
| | <u>2,979</u> | <u>2,572</u> |
| 13. OTHER EXPENSES | | |
| In thousand EUR | 2024 | 2023 |
| Direct write off of receivables | 15 | 4 |
| Various fees | 63 | 53 |
| Extraordinary expenses | 66 | 72 |
| | <u>144</u> | <u>129</u> |
| 14. OTHER INCOME | | |
| In thousand EUR | 2024 | 2023 |
| Dividend income | 52 | 51 |
| Collected receivables previously written off | 43 | 15 |
| Other income | 76 | 69 |
| | <u>171</u> | <u>135</u> |
| 15. INCOME TAX | | |
| a) Components of Income Tax | | |
| In thousand EUR | 2024 | 2023 |
| Calculated current income tax | 3,633 | 2,248 |
| Calculated deferred income tax | 22 | 28 |
| | <u>3,655</u> | <u>2,276</u> |
| Effective tax rate | 16.53% | 15.66% |

15. INCOME TAX (Continued)

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

| In thousand EUR | <u>2024</u> | <u>2023</u> |
|---|---------------|---------------|
| The result in the income statement before taxation | 22,116 | 14,533 |
| Income tax at statutory rate | 3,269 | 2,132 |
| Tax effects of expenses not recognized for tax purposes | 364 | 138 |
| Other | 22 | 6 |
| | <u>3,655</u> | <u>2,276</u> |
| Income tax disclosed in Income statement | 16.53% | 15.66% |

The tax rate used for 2023 and 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 EUR 1,500,000.01 taxable profits, in accordance with the Law on Corporate Profit Tax.

c) Deferred tax liabilities

| In thousand EUR | <u>December 31, 2024</u> | <u>December 31, 2023</u> |
|--|------------------------------|------------------------------|
| Deferred tax assets/liabilities as a result of booked unrealized gains on securities valued at fair value through other comprehensive income | (72) | (15) |
| Deferred tax assets/liabilities based on the temporary difference between the book and tax basis of property and equipment | 3 | 42 |
| Deferred tax assets/liabilities as a result of booked actuarial gains/losses based on provisions for retirement benefits (IAS 19) | 19 | 1 |
| | <u>(50)</u> | <u>28</u> |

16. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

| In thousand EUR | December 31, 2024 | December 31, 2023 |
|--|----------------------|----------------------|
| Cash on hand: | 30,647 | 32,380 |
| - in EUR | 27,432 | 29,138 |
| - in foreign currencies | 3,215 | 3,242 |
| Gyro account | 195,228 | 146,295 |
| Obligatory reserves held with the Central Bank of Montenegro | 45,374 | 42,787 |
| Funds in the collection process | 2,789 | 2,761 |
| | <u>274,038</u> | <u>224,223</u> |

The mandatory reserve of the Bank as of December 31, 2024 represents allocated funds in accordance with the regulations of the Central Bank of Montenegro to which the "Decision on the mandatory reserve of credit institutions at the Central Bank of Montenegro" refers ("Official Gazette of Montenegro", no. 19/22 and 78/24). In accordance with the above, credit institutions calculate the required reserve on demand deposits and time deposits, except for central bank deposits.

Mandatory reserve is calculated by credit institutions using the rate of:

- 5.5% - on the part of the base made up of demand deposits and contracted deposits with a maturity of up to 365 days; that is, up to 366 days
- 4.5% - on the part of the base made up of deposits contracted with a maturity of over 365 days, i.e. 366 days

A rate of 5.5% is applied to deposits contracted with a maturity of over 365 days, i.e. 366 days, which have a clause on the possibility of installments of those deposits within a period shorter than 365 days, i.e. within a period shorter than 366 days.

The mandatory reserve is calculated by applying the prescribed rates to the corresponding part of the base during the previous monthly period, two days before the end of the maintenance period. The maintenance period is a monthly period, starting from the third Wednesday of the month and lasting until the day before the third Wednesday of the following month.

The credit institution allocates the calculated mandatory reserve to the account of the mandatory reserve in the country and/or to the accounts of the Central Bank abroad and cannot be allocated and kept in another form. Mandatory reserve is set aside in EUR. Funds allocated to the accounts of the Central Bank abroad cannot be transferred to other accounts abroad, but can be transferred exclusively to the transaction account of the credit institution in the RTGS system.

If the credit institution plans to withdraw the required reserve funds from the Central Bank's account abroad, in an amount greater than EUR 500,000, it is obliged to notify the Central Bank of this in writing no later than three working days before the day of withdrawal of the required reserve funds.

A credit institution can use up to 50% of the allocated reserve funds to maintain daily liquidity. The credit institution does not pay a fee for the used amount of the required reserve that it returns on the same day. The credit institution is obliged to pay a monthly fee for the amount of mandatory reserve funds that it does not return on the same day at a rate determined by a special regulation of the Central Bank.

When the Central Bank determines that the credit institution incorrectly calculated and/or set aside the mandatory reserve or did not set it aside within the prescribed period, i.e. that it does not maintain the mandatory reserve in the prescribed amount, the credit institution is obliged to pay monthly compensation for the determined amount of incorrectly calculated or untimely set aside mandatory reserves at a rate determined by a special regulation of the Central Bank.

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

A credit institution can use up to 50% of the allocated reserve funds to maintain daily liquidity. The credit institution does not pay a fee for the used amount of the mandatory reserve that it returns on the same day. The credit institution is obliged to pay a monthly fee for the amount of mandatory reserve funds that it does not return on the same day at the rate determined by a special regulation of the Central Bank.

When the Central Bank determines that the credit institution improperly calculated and/or set aside the mandatory reserve or did not set it aside within the prescribed period, i.e. that it does not maintain the mandatory reserve in the prescribed amount, the credit institution is obliged to pay for the determined amount of improperly calculated or untimely set aside mandatory reserves per month pays compensation at the rate determined by a special regulation of the Central Bank.

17. FINANCIAL ASSETS AT AMORTIZED VALUE

17.1. Loans and receivables from banks

| In thousand EUR | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Correspondent accounts with foreign banks | 107,347 | 65,969 |
| Loans to banks | 11,557 | 11,560 |
| | 118,904 | 77,529 |
| Minus Impairment of loans and receivables from banks | (343) | (264) |
| | 118,561 | 77,265 |
| | Balance, December 31, 2023 | Balance, December 31, 2024 |
| Impairment of loans and receivables from banks (Note 7.2) | (264) | (343) |
| | (79) | |

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.2. Loans and receivables from clients

| In thousand EUR | December 31, 2024 | December 31, 2023 |
|--|----------------------|----------------------|
| Due loans: | | |
| - municipalities (public organizations) | - | 5 |
| - legal entities | 1,497 | 3,979 |
| - state owned companies | 1,106 | 2,329 |
| - individuals | 7 | 10 |
| - other | | |
| Short-term loans: | 44,586 | 42,836 |
| - legal entities | 5,322 | 6,005 |
| - individuals | 2,899 | 2,063 |
| Long-term loans: | | |
| - municipalities (public organizations) | - | 15 |
| - legal entities | 97,882 | 89,835 |
| - state owned companies | 1,589 | 2,541 |
| - individuals | 129,632 | 114,089 |
| - other | 1,794 | 1,283 |
| | <u>286,314</u> | <u>264,990</u> |
| Interest receivables: | | |
| - loans | 565 | 973 |
| Accruals: | | |
| - interest on loans | 1,419 | 1,158 |
| - fees | (1,278) | (1,316) |
| Deposits with other depository institutions | 39 | 302 |
| | <u>745</u> | <u>1,117</u> |
| | <u>287,059</u> | <u>266,107</u> |
| <i>Minus:</i> | | |
| Impairment allowance of loans, activated guarantees and factoring (Note 7.2) | (16,873) | (16,717) |
| Impairment allowance of interest receivables (Note 7.2) | (506) | (902) |
| Impairment allowance of accruals | (115) | (77) |
| | <u>(17,494)</u> | <u>(17,696)</u> |
| | <u>269,565</u> | <u>248,411</u> |

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, 2024 | December 31, 2023 |
|---|----------------------|----------------------|
| Agriculture, forestry and fishing | 1,324 | 3,568 |
| Mining | 3,002 | 4,602 |
| Processing industry | 10,708 | 8,662 |
| Water supply | 569 | 777 |
| Construction industry | 27,134 | 19,578 |
| Trade | 43,817 | 44,341 |
| Transport and storage | 3,156 | 4,345 |
| Accommodation and catering services | 19,460 | 18,166 |
| Information and communications | 3,303 | 3,994 |
| Finance and insurance sector | 2,820 | 5,468 |
| Real estate trade | 2,950 | 2,037 |
| Professional, scientific and technical activities | 4,621 | 5,725 |
| Administrative and support service activities | 2,351 | 2,288 |
| Education | 133 | 151 |
| Health and social care | 286 | 93 |
| Art, entertainment and recreational activities | 10,993 | 2,138 |
| Other services | 743 | 5,417 |
| Retail customers | 1,054 | - |
| Agriculture, forestry and fishing | 131,141 | 117,061 |
| | <u>269,565</u> | <u>248,411</u> |

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 (in thousand EUR) | Stage 1 | Stage 2 | Stage 3 | POCI | TOTAL |
|--------------------------------|----------------|----------------|----------------|--------------|----------------|
| December 31, 2023 | 149,509 | 93,706 | 21,156 | 1,736 | 266,107 |
| New receivables | 92,676 | 54,677 | 683 | 331 | 148,367 |
| Transfer to level 1 | (8,800) | 7,695 | 1,105 | - | - |
| Transfer to level 2 | 1,432 | (3,871) | 2,439 | - | - |
| Transfer to level 3 | 253 | 1,236 | (1,592) | 103 | - |
| POCI crossings | - | - | - | - | - |
| Existing billing | (24,897) | (19,687) | (3,391) | (161) | (48,136) |
| Existing enlargement | 2,904 | 1,710 | 109 | - | 4,723 |
| Closed | (44,114) | (28,719) | (9,971) | (2) | (82,806) |
| Written off | (18) | (1) | (1,177) | - | (1,196) |
| Transfer to other level | - | - | - | - | - |
| December 31, 2024 | 168,945 | 106,746 | 9,361 | 2,007 | 287,059 |

| IMPAIRMENT (in thousand EUR) | Stage 1 | Stage 2 | Stage 3 | POCI | TOTAL |
|-------------------------------------|----------------|----------------|----------------|--------------|-----------------|
| December 31, 2023 | (1,478) | (6,225) | (9,403) | (590) | (17,696) |
| New receivables | (1,885) | (3,945) | (321) | (250) | (6,401) |
| Transfer to level 1 | 58 | (53) | (5) | - | - |
| Transfer to level 2 | (36) | 280 | (244) | - | - |
| Transfer to level 3 | (25) | (220) | 336 | (91) | - |
| POCI crossings | - | - | - | - | - |
| Existing billing | 300 | 964 | 725 | 87 | 2,076 |
| Existing enlargement | (230) | (1,079) | (1,285) | (24) | (2,618) |
| Closed | 406 | 1,592 | 4,028 | 1 | 6,027 |
| Written off | - | - | 1,118 | - | 1,118 |
| Transfer to other level | - | - | - | - | - |
| December 31, 2024 | (2,890) | (8,686) | (5,051) | (867) | (17,494) |

On December 31, 2024, the Bank's portfolio on individual value adjustment amounts to EUR 77,607 thousand (2023: EUR 62,335 thousand), and on collective value adjustment EUR 209,452 thousand (2023: EUR 203,772 thousand).

On December 31, 2024, the value correction for the portfolio that is on individual correction amounts to EUR 13,499 thousand (2023: EUR 12,838 thousand), and for the portfolio that is on collective correction EUR 3,995 thousand (2023: EUR 4,858 thousand).

On December 31, 2024, on the individual correction there are 206 credit lots (2023: 208), and on the collective 52,702 credit lots (2023: 50,984).

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.3 Securities

| In thousand EUR | December 31, 2024 | December 31, 2023 | |
|------------------------|---------------------------------|----------------------|---------------------------------|
| Debt securities | | | |
| Residents | 95,563 | 118,541 | |
| Non-residents | 309,335 | 231,154 | |
| | 404,898 | 349,695 | |
| <i>Impairment</i> | 3,381 | 3,834 | |
| | 401,517 | 345,861 | |
| | | | |
| In thousand EUR | Balance December 31, 2023 | Change | Balance December 31, 2024 |
| Debt securities | (3,834) | 453 | (3,381) |
| | (3,834) | 453 | (3,381) |

The securities classified as financial assets under the amortized cost method include investments in Montenegrin local bonds and Eurobonds with a value of EUR 95,368 thousand as at 31 December 2024 and investments in debt securities – non-residents with a value of EUR 306,149 thousand as at 31 December 2024.

Montenegro's local bonds mature on April 23, 2026, with a coupon interest rate of 3.5% and have a nominal value of EUR 1,380,000.

Eurobonds of Montenegro with a maturity 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 2029, have a nominal value of EUR 94,430 thousand.

Debt securities - bonds and government bonds - non-residents as at 31 December 2024 have a value of EUR 306,149 thousand. These securities, with a nominal value of EUR 310,051 thousand, mature in the period from 2025 to 2032 with coupon interest rates ranging from 0.00% to 6.96%.

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.3 Securites (Continued)

| | December 31, 2024 | December 31, 2023 |
|---|---|----------------------|
| Short-term debt instruments - government records of the Ministry of Finance of the Government of Montenegro | - | 29,412 |
| Short-term debt instruments - domestic bonds of the Ministry of Finance of the Government of Montenegro | - | 22,716 |
| Short-term debt instruments - bonds of financial institutions | 8,836 | 4,285 |
| Short-term debt instruments - corporate bonds | 11,376 | 6,692 |
| Short-term debt instruments - supranational bonds | 69,108 | 58,628 |
| Short-term debt instruments - bonds of foreign governments | 92,802 | 54,185 |
| Short-term debt instruments - municipal bonds | 287 | - |
| Short-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro | 44,844 | - |
| Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro | 48,096 | 63,718 |
| Long-term debt instruments - domestic bonds of the Ministry of Finance of the Government of Montenegro | 1,383 | 1,384 |
| Long-term debt instruments - bonds of foreign governments | 63,997 | 49,882 |
| Long-term debt instruments - municipal bonds | - | 270 |
| Long-term debt instruments - corporate bonds | 33,224 | 35,667 |
| Long-term debt instruments - bonds of financial institutions | 15,435 | 19,730 |
| Long-term debt instruments - supranational bonds | 11,728 | - |
| | 401,116 | 346,569 |
| Interest receivables | 3,782 | 3,125 |
| Correction of the value of securities at amortized value | (3,381) | (3,833) |
| | 401,517 | 345,861 |
| | Principal amount due over 1 year | Maturity |
| Long-term debt instruments - bonds of foreign governments | 21,139 | |
| Long-term debt instruments - corporate bonds | 17,684 | |
| Long-term debt instruments - bonds of financial institutions | 7,727 | 2026 |
| Long-term debt instruments - supranational bonds | 5,791 | |
| Long-term debt instruments - corporate bonds | 11,421 | |
| Long-term debt instruments - domestic bonds of the Ministry of Finance of the Government of Montenegro | 29,764 | 2027 |
| Long-term debt instruments - bonds of foreign governments | 32,167 | |
| Long-term debt instruments - bonds of financial institutions | 1,964 | |
| Long-term debt instruments - corporate bonds | 2,581 | 2028 |
| Long-term debt instruments - corporate bonds | 506 | |
| Long-term debt instruments - bonds of foreign governments | 1,475 | |
| Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro | 18,333 | 2029 |
| Long-term debt instruments - bonds of financial institutions | 3,042 | |
| Long-term debt instruments - bonds of foreign governments | 4,507 | |
| Long-term debt instruments - corporate bonds | 2,033 | 2030 |
| Long-term debt instruments - bonds of financial institutions | 1,700 | |
| Long-term debt instruments - bonds of foreign governments | 3,066 | 2031 |
| Long-term debt instruments - supranational bonds | 5,938 | |
| Long-term debt instruments - bonds of foreign governments | 3,025 | 2032 |
| | 173,863 | |

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

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE RESULT

| In thousand EUR | December 31, 2024 | December 31, 2023 |
|--------------------------|----------------------|----------------------|
| Equity securities | | |
| Residents | 112 | 100 |
| Non-residents | 6,705 | 6,268 |
| | 6,817 | 6,368 |
| | 6,817 | 6,368 |

Securities classified as financial assets at fair value and recognised through other comprehensive income as at 31 December 2024 in the amount of EUR 6,817 thousand and relate to investments in bond investment funds in the amount of EUR 6,489 thousand, as well as investments in company shares in the amount of EUR 328 thousand.

19. PROPERTY, PLANT AND EQUIPMENT

Movements on property, equipment and other assets for 2024 and 2023 are presented in the following table

| In thousand EUR | Properties | Computer equipment | Other equipment | Investments in progress | Assets with the right of use | Total |
|---|------------|--------------------|-----------------|-------------------------|------------------------------|---------------|
| Cost | | | | | | |
| Balance, January 1, 2023 | 160 | 1,472 | 5,531 | 228 | 9,489 | 16,880 |
| Additions | - | 147 | 530 | 1,152 | 218 | 2,047 |
| Modification of the lease period | - | - | - | - | 645 | 645 |
| Transfers | - | 598 | 732 | (1,331) | - | (1) |
| Disposals, disposals and termination of contracts | (160) | (87) | (481) | - | (253) | (981) |
| Balance, December 31, 2023 | - | 2,130 | 6,312 | 49 | 10,099 | 18,590 |
| Additions | - | 210 | 909 | 1,215 | 837 | 3,171 |
| Modification of the lease period | - | - | - | - | 606 | 606 |
| Transfers | - | 154 | 1,058 | (1,232) | - | (20) |
| Disposals, disposals and termination of contracts | - | (33) | (705) | - | (273) | (1,011) |
| Balance, December 31, 2024 | - | 2,461 | 7,574 | 32 | 11,269 | 21,336 |
| Impairment | | | | | | |
| Balance, January 1, 2023 | - | 1,258 | 4,206 | - | 2,665 | 8,130 |
| Depreciation (Note 12) | - | 212 | 506 | - | 1,310 | 2,028 |
| Disposals | - | (87) | (374) | - | (235) | (697) |
| Balance, December 31, 2023 | - | 1,383 | 4,338 | - | 3,740 | 9,461 |
| Depreciation (Note 12) | - | 373 | 678 | - | 1,288 | 2,339 |
| Disposals, disposals and termination of contracts | - | (33) | (666) | - | (168) | (867) |
| Balance, December 31, 2024 | - | 1,723 | 4,350 | - | 4,860 | 10,933 |
| Current value | | | | | | |
| - December 31, 2024 | - | 738 | 3,224 | 32 | 6,409 | 10,403 |
| - December 31, 2023 | - | 747 | 1,974 | 49 | 6,359 | 9,129 |

As of December 31, 2024, the Bank has no assets under pledge to secure repayment of loans and other obligations.

Investments in progress refer to payments related to the purchase of ATM devices in the amount of EUR 29 thousand and the purchase of stands for POS terminals in the amount of EUR 2 thousand.

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

Property with the right of use

| In thousand EUR | <u>Business space</u> | <u>Equipment</u> | <u>Total</u> |
|---|---------------------------|-------------------|---------------------|
| Balance as at, January 1, 2024 | 5,548 | 811 | 6,359 |
| New acquisitions | 669 | 168 | 837 |
| Depreciation | (998) | (290) | (1,288) |
| Termination of contract means | (149) | (125) | (274) |
| Termination of contract accumulated depreciation | 168 | - | 168 |
| Modification of the lease period | 337 | 269 | 606 |
| Balance as at December 31,2024 | <u>5,575</u> | <u>833</u> | <u>6,408</u> |

20. INTANGIBLE ASSETS

Intangible assets mostly consist of licenses and software. The following overview shows the movements in intangible assets during 2024 and 2023:

| In thousand EUR | Other Intangible assets | Licences | Software | Intangible assets in progress | Total |
|-----------------------------------|-------------------------------|--------------|--------------|-------------------------------------|--------------|
| Cost | | | | | |
| Balance, January 1, 2023 | 287 | 1,341 | 4,047 | 341 | 6,016 |
| Additions | - | 315 | 318 | 207 | 840 |
| Transfers | - | - | 129 | (174) | (45) |
| Disposals | (47) | - | (462) | - | (509) |
| Balance, December 31, 2023 | <u>240</u> | <u>1,656</u> | <u>4,032</u> | <u>374</u> | <u>6,302</u> |
| Additions | - | - | 498 | 606 | 1,104 |
| Transfers | - | - | 812 | (812) | - |
| Disposals | (39) | - | (3) | - | (42) |
| Balance, December 31, 2024 | <u>201</u> | <u>1,656</u> | <u>5,339</u> | <u>168</u> | <u>7,364</u> |
| Impairment | | | | | |
| Balance, January 1, 2023 | 287 | 675 | 2,998 | - | 3,960 |
| Depreciation (Note 12) | - | 124 | 420 | - | 544 |
| Disposals | (47) | - | (461) | - | (508) |
| Balance, December 31, 2023 | <u>240</u> | <u>799</u> | <u>2,957</u> | <u>-</u> | <u>3,996</u> |
| Depreciation (Note 12) | - | 156 | 484 | - | 640 |
| Disposals | (39) | - | (3) | - | (42) |
| Balance, December 31, 2024 | <u>201</u> | <u>955</u> | <u>3,438</u> | <u>-</u> | <u>4,594</u> |
| Current value | | | | | |
| - December 31, 2024 | <u>-</u> | <u>701</u> | <u>1,901</u> | <u>168</u> | <u>2,770</u> |
| - December 31, 2023 | <u>-</u> | <u>857</u> | <u>1,075</u> | <u>374</u> | <u>2,306</u> |

Increases in intangible assets during 2024 refer mainly to the increase in software, i.e. investments related to security standards and functionalities for online payments in the amount of EUR 741 thousand, implementation of new applications within the application software Dabar in the amount of EUR 420 thousand, investments in process automation in the amount of EUR 24 thousand, procurement of software for servers in the amount of EUR 8 thousand, as well as functionalities and software improvements related to card and electronic banking in the amount of EUR 117 thousand.

Investments in progress for intangible investments amount to EUR 168 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 | <u>December 31, 2024</u> | <u>December 31, 2023</u> |
|---|------------------------------|------------------------------|
| Assets acquired through collection of receivables | 2,391 | 2,523 |
| Prepaid costs | 1,756 | 1,539 |
| Receivables from custody | 77 | 71 |
| Advances | 244 | 740 |
| Other receivables from fees and commissions | 354 | 417 |
| Receivables from state funds | 73 | 69 |
| Receivables from costumers | 337 | 305 |
| Credit card receivables | 858 | 824 |
| Receivables from employees | 337 | 334 |
| Other financial receivables | 22 | 27 |
| Other operating receivables | <u>578</u> | <u>629</u> |
| Impairment of other assets | <u>(2,242)</u> | <u>(2,441)</u> |
| | <u>4,785</u> | <u>5,037</u> |

Assets acquired through the collection of receivables in the amount of EUR 2,391 thousand as of December 31, 2024 (December 31, 2023: EUR 2,523 thousand) refer to assets acquired based on the activation of loan collateral. 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 correction of the value of other assets mostly refers to the assets acquired through the collection of receivables in the amount of EUR 1,318 thousand (December 31, 2023: EUR 1,450 thousand) and EUR 924 thousand to the correction of value from business relationships (December 31, 2023: EUR 991 thousand).

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE

22.1 DEPOSITS FROM BANKS AND CENTRAL BANKS

| In thousand EUR | <u>December 31, 2024</u> | <u>December 31, 2023</u> |
|-----------------|------------------------------|------------------------------|
| Avista deposits | 36,170 | 2,380 |
| Term deposits | <u>25</u> | <u>35</u> |
| | <u>36,195</u> | <u>2,415</u> |

Bank deposits in the amount of EUR 36,195 thousand as of December 31, 2024 (December 31, 2023 EUR 2,415 thousand) refer to term and demand deposits, of which EUR 12,499 thousand refer to demand deposits from domestic banks, and EUR 23,671 thousand refer to demand deposits from 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, 2024 | December 31, 2023 |
|---|----------------------|----------------------|
| Demand deposits: | | |
| - financial institutions | 3,598 | 3,496 |
| - legal entities | 259,636 | 235,384 |
| - companies with majority state ownership | 37,278 | 34,436 |
| - municipalities (public organizations) | 12,213 | 8,931 |
| - individuals | 369,867 | 340,711 |
| - non-profit organizations | 13,912 | 12,141 |
| - The Government of Montenegro | 75,583 | 40,260 |
| - others | 24,096 | 20,807 |
| | 796,183 | 696,166 |
| Funds on escrow accounts | 2,141 | 3,281 |
| Short - term deposits: | | |
| - financial institutions | 2,569 | - |
| - legal entities | 3,131 | 2,375 |
| - companies with majority state ownership | 8,401 | 4,330 |
| - municipalities (public organizations) | - | 900 |
| - individuals | 35,746 | - |
| - non-profit organizations | 52 | 35,968 |
| - The Government of Montenegro | 100 | 105 |
| - others | 7 | 100 |
| Funds on escrow accounts | - | 104 |
| | 50,006 | 43,882 |
| Long-term deposits: | | |
| - financial institutions | 103 | 103 |
| - legal entities | 9,125 | 8,581 |
| - companies with majority state ownership | 2 | 2 |
| - municipalities (public organizations) | 526 | 527 |
| - individuals | 36,892 | 34,473 |
| - non-profit organizations | 70 | 71 |
| - The Government of Montenegro | 300 | 300 |
| - others | 412 | 302 |
| | 47,430 | 44,359 |
| <i>Interest and other liabilities</i> | | |
| Accruals: deposits | 1,342 | 1,164 |
| | 897,102 | 788,852 |

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 2.7% on an annual basis.

Short-term and long-term term deposits of companies in EUR are deposited with an interest rate ranging from 0% to 2.00% on an annual basis, 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 1.05% 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, 2024 | December 31, 2023 |
|--|-------------------|----------------------------|----------------------|----------------------|
| European Investment Bank (2012) | 12 | 2.398% | - | 213 |
| European Bank for Reconstruction and Development (2020.) | 6.11 | 2.755% | 5,000 | - |
| Green For Growth Fund, See S.A. (2021) | 6.11 | 4.860% | 2,545 | 3,182 |
| | | | 7,545 | 3,395 |
| Investment Development Fund of Montenegro, Podgorica (2014 - 2021.) | 5.11-13.05 | 1%-2.33% | 4,480 | 5,939 |
| Directorate for the Development of Small and Medium Enterprises (2007.) | 7.6 | 1% | 50 | 50 |
| Ministry of Finance (2021) | 9 | 0% | 2,170 | 2,531 |
| | | | 6,700 | 8,520 |
| | | | 14,245 | 11,915 |
| <i>Accruals</i> | | | | |
| Interest not due | | | 12 | 13 |
| Total | | | 14,257 | 11,928 |

On 25 November 2024, the Bank signed a Credit Line Agreement with the European Bank for Reconstruction and Development (EBRD). A credit line of €10 million will be directed to housing loans. It was agreed that the payment would be made in two tranches of EUR 5 million each. The first tranche was disbursed on December 23, 2024.

The withdrawal of the second tranche is planned in mid-2025, depending on the dynamics of housing loan payments.

As collateral for the said Agreement, the bonds of the European Union, ISIN: EU000A3K4DD8, were pledged.

The expiration date of the loan is November 25, 2031, and the interest rate is fixed.

23. RESERVES

| In thousand EUR | December 31, 2024 | December 31,2023 |
|--|----------------------|---------------------|
| Provisions for potential losses for: | | |
| - off-balance sheet exposures (note 7.2) | 1,078 | 401 |
| - operational risk and country risk (note 7.2) | 362 | 441 |
| - litigation / court disputes (note 7.2) | 39 | 35 |
| Provisions for employee retirement benefits and jubilee awards | 63 | 47 |
| | 1,542 | 924 |

| | Estimate per day | |
|--|----------------------|----------------------|
| | December 31, 2024 | December 31, 2023 |
| Discount rate for retirement benefits | 4.51 % | 2.88% |
| Employee turnover ratio (does not include employees referred by employment agencies) | 12.50 % | 1.41% |
| Inflation rate | 3.40 % | 8.70 % |
| Expected salaries growth rate | - | - |

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

| In thousand EUR | 2024 | 2023 |
|--|-----------|-----------|
| Balance at the beginning of the year | 48 | 52 |
| Provisions during the year (note 10) | 4 | 5 |
| Provisions during the year through capital | 17 | (6) |
| Use of provisions | (6) | (3) |
| Balance as at December, 31 | 63 | 48 |

24. OTHER LIABILITIES

| In thousand EUR | <u>December 31, 2024</u> | <u>December 31, 2023</u> |
|--|------------------------------|------------------------------|
| Liabilities from consignment operations | 201 | 227 |
| Advances received | 5,216 | 5,350 |
| Liabilities for other taxes | 87 | 64 |
| Liabilities relating to deductions from salaries | 113 | 76 |
| Trade payables | 803 | 954 |
| Accrued liabilities | | |
| Lease liabilities with the right of use | 6,569 | 6,438 |
| Custody operation liabilities | 10,204 | 5,289 |
| Suspense accounts | 1,194 | 969 |
| Other liabilities | 2,530 | 7,014 |
| | <u>26,917</u> | <u>26,381</u> |

Lease liabilities

| | <u>Business space</u> | <u>Technical equipment</u> | <u>Total</u> |
|---|---------------------------|--------------------------------|--------------|
| Balance, January 1, 2024 | 5,622 | 816 | 6,438 |
| New purchases | 669 | 168 | 837 |
| Interest expense | 164 | 20 | 184 |
| Contract termination | (62) | (48) | (110) |
| Modification of the rental price/lease period | 332 | 262 | 594 |
| Leasing payments | (1,072) | (302) | (1,374) |
| Balance, December 31, 2024 | 5,653 | 916 | 6,569 |

Maturity of lease liabilities

| | <u>Up to 3 months</u> | <u>From 3 to 12 months</u> | <u>From 1 to 5 years</u> | <u>Over 5 years</u> | <u>Total</u> |
|-------------------|---------------------------|------------------------------------|----------------------------------|-------------------------|--------------|
| Lease liabilities | 330 | 945 | 3,587 | 1,707 | 6,569 |

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 amounts to 5,129 EUR;
- 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, 2023 and 2022 was as follows

| Shareholder | December 31, 2024 | | | December 31, 2023. | | |
|---|-------------------|-----------------|---------------|--------------------|-----------------|---------------|
| | Number of shares | In thousand EUR | % share | Number of shares | In thousand EUR | % share |
| HIPOTEKARNA BANKA A.D Podgorica-HB - Zbirni Kastodi račun 1 | 3,220,711 | 16,467 | 31,45 | 3,220,397 | 16,465 | 31,44 |
| Gorgoni Paolo | 1,455,154 | 7,440 | 14,21 | 1,024,290 | 5,237 | 10,00 |
| Gorgoni Mario | 1,379,584 | 7,054 | 13,47 | 880,509 | 4,502 | 8,60 |
| Montinari Sigifredo | 503,973 | 2,577 | 4,92 | 804,939 | 4,116 | 7,86 |
| Montinari Dario | 503,973 | 2,577 | 4,92 | 498,568 | 2,549 | 4,87 |
| Other | 3,177,753 | 16,247 | 31,03 | 3,812,445 | 19,493 | 37,23 |
| Total | 10,241,148 | 52,362 | 100,00 | 10,241,148 | 52,362 | 100,00 |

26. SUBORDINATED DEBT

An overview of the subordinated debt as of December 31, 2024 and 2023 is presented in the following overview

| In thousand EUR | Year of debt | Period/ year | Annual Interest rate | 2024 | 2023 |
|-------------------------|-----------------|-----------------|----------------------------|---------------|---------------|
| Subordinated bonds HB03 | 2019 | 6 | 5.00% | 8,178 | 8,172 |
| Subordinated bonds HB04 | 2021 | 6 | 4.50% | 5,093 | 5,089 |
| | | | | <u>13,271</u> | <u>13,261</u> |

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 – 1,875%;
- countercyclical buffer – 0%;
- buffer for OSV institutions – 2%;
- P2R – 2.44%

28. OFF BALANCE SHEET ITEMS

| In thousand EUR | December 31, 2024 | December 31, 2023 |
|---|-------------------------|-----------------------|
| Undrawn credit lines | 54,378 | 41,121 |
| Other letters of credit for payments abroad | - | 83 |
| Guarantees issued | | |
| -Payment guarantees | 33,424 | 37,496 |
| -Performance guarantees | 18,185 | 17,318 |
| -Other types of guarantees | 28,583 | 18,539 |
| | <u>134,570</u> | <u>114,557</u> |
| Collateral based on receivables | 571,564 | 510,276 |
| Other off-balance sheet items | 381,185 | 332,233 |
| Evident interest | - | - |
| Total | <u>952,749</u> | <u>842,509</u> |
| Total off balance | <u>1,087,319</u> | <u>957,066</u> |

Other types of guarantees include tenders, 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 379,563 thousand (2023: EUR 330,639 thousand) and written-off receivables from internal records in the amount of EUR 1,622 thousand (2023: EUR 1,594 thousand).

Obtained credit obligations for custody and brokerage operations include obtained credit obligations for custody operations in the amount of EUR 364,643 thousand (2023: EUR 317,436 thousand) and obtained credit obligations for brokerage operations in the amount of EUR 14,919 thousand (2023: EUR 13,203 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, 2024 | December 31, 2023 |
|---|-------------------------|-------------------------|
| Cash on hand | 27,432 | 29,138 |
| Cash on hand-foreign currency | 3,215 | 3,242 |
| Assets in the course of settlement | 2,789 | 2,761 |
| Gyro account | 195,228 | 146,295 |
| Correspondent accounts with foreign banks | 107,346 | 65,970 |
| Deposits placed with the Central Bank of Montenegro | 45,374 | 42,787 |
| | <u>381,384</u> | <u>290,193</u> |

30. RELATED PARTY TRANSACTIONS

Transactions with related parties are shown in the following tables:

| In thousand EUR | December 31, 2024 | December 31, 2023 |
|---|-------------------------|-------------------------|
| Assets | | |
| Loans and receivables from banks | | |
| Podravska Banka d.d., Koprivnica | 3,555 | 3,557 |
| | 3,555 | 3,557 |
| Loans and receivables from clients | | |
| Todorović Miljan Nikola | 593 | 543 |
| Gorgoni Mario | 10 | - |
| Employees and individuals related to them | 3,178 | 233 |
| | 3,781 | 776 |
| Securities | | |
| Podravska Banka d.d., Koprivnica | 3,740 | 3,740 |
| | 3,740 | 3,740 |
| Other financial receivables | | |
| Podravska Banka d.d., Koprivnica | 3,388 | 3,054 |
| | 3,388 | 3,054 |
| Total assets | 14,464 | 11,127 |
| Liabilities | | |
| Deposits from banks | | |
| Podravska Banka d.d., Koprivnica | 9,021 | 85 |
| | 9,021 | 85 |
| Deposits from clients | | |
| Todorović Miljan Nikola | 564 | 772 |
| Miljan Todorović | 321 | 304 |
| Sigilfredo Montinari | 2 | - |
| Njavro Mato | 49 | 36 |
| Moniaci Antonio | 2 | 2 |
| Cerere s.p.a. | 3,622 | 223 |
| Gorgoni Mario | 19 | 22 |
| Gorgoni Paolo | 5 | 2 |
| Employees and individuals related to them | 735 | 706 |
| | 5,319 | 2,067 |
| Other liabilities | | |
| Sigilfredo Montinari | 109 | 62 |
| | 109 | 62 |
| Total liabilities | 14,449 | 2,214 |

Expenses from transactions with related parties that have a significant impact on the Bank's operations in 2024 amounted to EUR 1,797 thousand (2023: EUR 1,592 thousand), while income amounted to EUR 372 thousand (2023: EUR 281 thousand).

30. LITIGATIONS

As of December 31, 2024, there are 29 lawsuits against the Bank (as of December 31, 2023, the number of active disputes was 31) by legal entities and individuals.

The total value of disputes (principal) as of 31.12.2024 is EUR 680 thousand (excluded value of the dispute in the case of the lawsuit of Željko Radjenovic P no. 3777/14, in the amount of EUR 553 thousand, because the proceedings regarding the main case - have been finalized, i.e. the proceedings are pending before the Higher Court in Podgorica, only in the part concerning the awarded costs). The outcome of the disputes cannot be reliably estimated for the time being, given that the Bank's management, based on the opinion of the legal advisor, does not expect negative outcomes of disputes that could have material effects on the Bank's financial statements for 2024.

The total amount of litigation as at 31.12.2024 in which the Bank is the plaintiff amounts to EUR 4,458 thousand (EUR 6,531 thousand as of 31 December 2023).

31. 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 | | |
| Net profit (In 000 EUR) | <u>2024</u> | <u>2023</u> |
| | 18,461 | 12,257 |
| Weighted average number of ordinary shares | <u>10,241,148</u> | <u>10,241,148</u> |
| Earning per share / In EUR | 1,80 | 1,20 |

32. TAX RISKS

The tax laws of Montenegro are often interpreted differently and are subject to frequent changes. The interpretation of tax laws by the tax authorities in relation to the transactions and activities of the Bank may differ from the interpretation of the Bank's management. According to IFRIC 23, there may be uncertainties regarding the application of tax regulations to certain transactions and circumstances, and the acceptability of certain tax treatment under tax law will be uncertain until a competent tax authority or court makes a decision in the future. As a consequence, the challenge or examination of a certain tax procedure by the tax authorities may have an impact on the accounting of current or deferred tax assets or liabilities by the entity. The statute of limitations for a tax liability is five years, which means that the tax authorities have the right to determine the payment of outstanding liabilities within five years from when the liability arose.

During 2023 and 2024, the Bank was subject to control by the Tax Administration of Montenegro. The control included, among other things, a review of corporate income tax and withholding tax for the period from 1 January 2018. until 31.12.2022. year. In 2024, the Bank submitted a request to the Ministry of Finance of Montenegro to challenge/review the decision of the Tax Administration. Until the date of these financial statements, the Bank has not received a final decision from the Ministry of Finance of Montenegro.

In accordance with its accounting policies in case of uncertain tax treatment, and in accordance with IFRIC 23, the Bank considers the likelihood that the tax authorities will accept or challenge the appropriate tax treatment. An additional tax liability would be recognized if the probability of challenging the uncertain tax treatment by the tax authorities was greater than a 50% chance. Otherwise, the Bank treats such liabilities as potential liabilities. The Bank bases its assessment of probability on the assessment of internal and external legal representatives, whereupon every change in facts and circumstances that may affect the Bank's assessment and judgement, the Bank makes a new assessment.

32. TAX RISKS (Continued)

Considering that the assessment of the Bank's internal and external legal representatives is that it is likely that the Ministry of Finance will accept the appeal against the decision of the Tax Administration, the Bank did not recognize the obligation on this basis in its financial statements as of 12/31/2024. year.

As at the end of 2024, in the "Official Gazette of Montenegro" no. 088/24 published the Law on write-off of interest on overdue tax liabilities, which applies from January 1, 2025, it is possible for taxpayers who settle the basic due tax debt in full to write off the interest on the said overdue tax claims.

Pursuant to the aforementioned Law, and bearing in mind that any obligation determined by a first-instance tax decision is considered due regardless of the appeal filed, the Bank on January 3, 2025. made a payment in the amount of EUR 6,271 thousand, and submitted a request for the write-off of the interest and thus acquired the condition for the write-off of the same. With the aforementioned payment, the Bank made a conscientious approach with the aim of reducing the amount of risk, which does not change the Bank's position on the question of disputing the entire amount of the correction determined by the decision.

33. SUBSEQUENT EVENTS

There were no reconciliation events after the reporting date that could affect the Bank's financial position and result as of December 31, 2024.

34. EXCHANGE RATES

The official exchange rates used to convert foreign currency balance sheet items into EUR as at December 31, 2023 and 2022 were:

| | <u>December 31,</u> <u>2024</u> | <u>December 31,</u> <u>2023</u> |
|-----|------------------------------------|------------------------------------|
| USD | 1.0444 | 1.1050 |
| CHF | 0.9435 | 0.9260 |
| GBP | 0.8295 | 0.86905 |

35. 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 |
| Adress: | Ulica Josipa Broza Tita broj 67. 81000 Podgorica |
| ID number: | 02085020 |
| Telephone/Fax: | +382 77 700 001 |
| Website: | http://www.hipotekarnabanka.com |
| Email address: | hipotekarna@hb.co.me |
| Number of branches | The bank has a head office and 21 branches and sub-branches |
| Number of employees as of December 31, 2024. | 291 |
| Gyro account: | 907-52001-93 |

The ten largest shareholders of the Bank as of December 31, 2024 are:

| Name and Surname / Company name | number of shares | Percentage share |
|---|------------------|------------------|
| HIPOTEKARNA BANKA A.D Podgorica/HB - Zbirni Kastodi račun 1 | 3,220,711 | 31.45% |
| GORGONI PAOLO | 1,455,154 | 14.21% |
| GORGONI MARIO | 1,379,584 | 13.47% |
| MONTINARI SIGILFREDO | 503,973 | 4.92% |
| MONTINARI DARIO | 503,973 | 4.92% |
| MONTINARI PIERO | 503,646 | 4.92% |
| MONTINARI ANDREA | 503,646 | 4.92% |
| GENMONT DOO | 401,840 | 3.92% |
| HIPOTEKARNA BANKA A.D Podgorica/HB zbirni račun 6 | 363,130 | 3.55% |
| BALANCE AK DOO | 329,190 | 3.21% |

Total amount of share capital as of December 31, 2023: EUR 52,362 thousand.

Informations on the Bank's Supervisory Board and Management Board as of December 31, 2024

| | Name and surname | Day of birth | Residence information | |
|-------------|-------------------------|--------------|-----------------------|--|
| 1. Chairman | Sigilfredo Montinari | 27.05.1966. | Lecce, Italija | Via P. Cecere 3, Lecce, Italija |
| 2. member | Antonio Moniaci | 03.03.1973. | Trst, Italija | Via Enrico Etia 12, Trst, Italija |
| 3. member | Miljan Todorović | 22.05.1964. | Trst, Italija | Via Bonafata 9, Trst, Italija |
| 4. member | Miljan Nikola Todorović | 26.07.1995. | Milano, Italija | Via Viskonti di Modrone 1, Milano, Italija |
| 5. member | Mato Njavro | 16.02.1986. | Zagreb, Croatia | Podgaj 57,Zagreb, Croatia |

Informations on the Bank's executive management as of December 31, 2024:

| | Name and surname | Day of birth | Residence information | |
|------------------------------|------------------|--------------|-----------------------|--------------------------------------|
| Chairman of Management board | Esad Zaimović | 17.03.1964. | Podgorica | Bulevar Džordža Vašingtona br.92/VII |
| Member of Management board | Jelena Vuletić | 27.04.1968. | Podgorica | Bulevar Revolucije 50/4 |
| Member of Management board | Ana Golubović | 06.09.1976. | Podgorica | Bulevar Ivana Crnojevića 56/3 |
| Member of Management board | Nikola Špadijer | 16.08.1979. | Podgorica | Arhitekta Milana Popovica 3 |
| Member of Management board | Nataša Lakić | 20.10.1978. | Podgorica | Ivana Vujoševića br.11 |