UNIVERSAL CAPITAL BANK A.D. PODGORICA

Financial Statements for the Year Ended 31 December 2021

and

Independent Auditor's Report

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This is an English translation of Independent Auditor's Report originally issued in the Montenegrin language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Universal Capital Bank AD, Podgorica

Opinion

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

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

Basis for opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Universal Capital Bank AD, Podgorica (Continued)

Key Audit Matters (Continued)

Key audit matter	Audit procedures applied
1. Adequacy of the impairment of loans and off-balance sheet items Notes 3.8.8, 5.2, 15, 18.2 and 29 to the financial statements	
The measurement of costs of the impairment of loans and provisions for off-balance sheet items is deemed to be a key audit matter since the determination of assumptions for expected credit losses requires a significant level of professional judgement by the Bank's management. Receivables for loans and placements to debtors as of 31 December 2021 amounted to EUR 158,089 thousand (EUR 106,755 thousand as of 31 December 2020), while the total amount of the allowance for impairment of these receivables amounted to EUR 8,042 thousand as of 31 December (EUR 5,226 thousand as of 31 December 2020). These provisions for losses constitute the best management's estimate of expected credit losses for the credit portfolio on the balance sheet date. Key areas of judgement include the interpretation of impairment requirements in accordance with International Financial Reporting Standard 9: Financial Instruments, which is reflected in the Bank's expected credit loss model, the identification of exposures where there has been a significant increase in credit risk (for which the expected credit loss is calculated over the life of the financial instrument), the parameters and assumptions used in the expected credit loss model, such as the counterparty's financial position and expected future cash flows, as disclosed in Notes 3.8.8, 5.2, 15, 18.2 and 26 as well as estimates and assumptions of expected outcomes in impairment scenarios for individually assessed placements. Possible outcomes are based on discounted cash flows using the effective interest rate for individually assessed placements. Relevant data are used for the assessment, such as impairment indicators, probabilities of relevant scenarios for expected future cash flows and cash flow forecasts, including the foreclosure of collateral. The Bank's management disclosed additional information in Notes 3.8.8, 5.2, 15, 18.2 and 26 to the financial statements.	Based on our risk assessment and knowledge of the banking sector operations, we examined the costs of impairment of loans and provisions for off-balance sheet items and we estimated the applied methodology, as well as the assumptions used, in accordance with the description of the key audit matter. Our audit procedures included the following: • An estimate of key controls related to the assumptions used in expected credit loss (ECL) models to assess credit risk associated with the exposure and expected future cash flows of the customer; • Collection and detailed testing of evidence corroborating the assumptions used in ECL models applied in the allocation of credit quality levels. Testing assumptions applied to obtain twelve-month and multi-annual probability of default (PD and mPD) and determination of these probabilities, including a review of the application of the forward-looking component. A review of the method used to obtain the probability of loss given default (LGD); • Collection and detailed testing of evidence corroborating the applied assumptions related to impairment costs of loans and provisions for off-balance sheet exposures, including a review of the applied CCF, the measurement of collaterals, used haircuts and expected collection periods and assumptions of future cash flows for individually assessed exposures on loan impairment; • An estimate of key movements in a high-risk portfolio from the prior period in relation to industry standards and historical data; • An estimate of adequacy of certain management's decisions in comparison to certain macro projections applied in ECL models; • An evaluation of applied methodologies using our knowledge and experience of the industry; • An assessment of accuracy and completeness of disclosure in the financial statements. Based on the audit procedures applied, we did not identify any significant findings in terms of the adequacy of the impairment of loan placements and provisions for off-balance sheet exposures as of 31 December 2021.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Universal Capital Bank AD, Podgorica (Continued)

Other Information Contained in the Bank's Annual Management Report

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Universal Capital Bank AD, Podgorica (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Universal Capital Bank AD, Podgorica (Continued)

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

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

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

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

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

Podgorica, 28 April 2022

Društvo za reviziju BDO d.o.o. Podgorica

Milovan Popovic
Certified Auditor

SEPARATE INCOME STATEMENT
For the year ended 31 December 2021

in thousand EUR	Note	2021	2020
Interest and similar income	3.1, 6.1.	7,326	5,610
Interest income on impaired placements	3.1, 6.2.	382	200
Interest and similar expenses	3.1, 6.3.	(2,004)	(1,213)
Net interest income		**5,705**	**4,597**
Fee and commission income	3.2, 7.1.	6,802	5,124
Fee and commission expenses	3.2, 7.2.	(1,684)	(2,397)
Net fee and commission income		**5,118**	**2,727**
Net gains on derecognition of financial instruments not measured at fair value through profit or loss	8	146	81
Net losses on financial instruments held for trade	3.3, 9	79	(67)
Net foreign exchange gains	3.4, 10	2,446	1,035
Net losses on derecognition of other assets		10	(1)
Other income	11	(55)	13
Staff costs	12	(1,966)	(1,746)
Depreciation/amortization charge	13	(579)	(473)
General and administrative costs	14	(1,785)	(1,329)
Net losses from the impairment of financial instruments not measured at fair value through profit or loss	15	(3,176)	(2,562)
Provisions		(15)	-
Other expenses		(68)	(35)
Profit before tax		**5,860**	**2,240**
Income tax	16	(529)	(195)
NET PROFIT		**5,331**	**2,045**

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

Signed on behalf of Universal Capital Bank A.D. Podgorica, on 30 March 2022:

Miloš Pavlović
President of the Management Board

Veselin Vuković
Member of the Management Board

Nikola Vujošević
Member of the Management Board

Lana Kalezić
Lana Kalezić
Head of Finance and Accounting

SEPARATE BALANCE SHEET
As of 31 December 2021

In thousand EUR	Note	31 December 2021	31 December 2020
ASSETS			
Cash and deposits held with the central banks	17	181,041	78,179
Financial assets at amortized cost			
Loans and receivables from banks	18.1.	37,513	25,305
Loans and receivables from clients	18.2.	150,047	101,529
Securities	18.3.	53,747	48,570
Other financial assets		89	37
Financial assets at fair value through other comprehensive income			
Securities	19	33,918	41,670
Financial assets held for trade			
Securities	20	368	551
Hedge derivatives		-	11
Investment property	21	198	187
Property, Plant and Equipment	22	5,224	3,932
Intangible assets	23	275	418
Deferred tax assets	16	214	151
Other assets	24	5,067	9,192
Total assets		**467,701**	**309,732**
LIABILITIES			
Financial liabilities at amortized cost			
Deposits from banks and central banks	25.1.	2,486	-
Deposits from clients	25.1.	429,886	282,873
Borrowings from clients other than banks	25.2.	4,146	3,072
Hedge derivative financial liabilities		-	-
Reserves		527	402
Current tax liabilities		563	192
Deferred tax liabilities	16	79	112
Other liabilities	26	5,365	3,010
Subordinated debt	27	1,002	1,002
Total liabilities		**444,054**	**290,663**
EQUITY			
Share capital	28	12,122	12,122
Retained earnings		6,947	4,902
Profit for the current year		5,331	2,045
Other reserves		(753)	-
Total equity		**23,647**	**19,069**
Total equity and liabilities		**467,701**	**309,732**
Off-balance sheet items	29	**433,090**	**320,760**

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Head of Finance and Accounting

SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

In thousand EUR	Share capital	Retained earnings	Other reserves	Total
Balance as of 1 January 2020	**12,122**	**4,902**	**1,173**	**18,197**
Result of the period	-	2,045	-	2,045
Reclassification of debt instruments measured at fair value through other comprehensive income on amortized cost	-	-	1,089	1,089
Net amount reclassified to the income statement on the sale of securities measured through other comprehensive income	-	-	(86)	(86)
Net change in provisions for expected credit losses of debt instruments measured through other comprehensive income	-	-	241	241
Effects of fair value changes of securities measured through other comprehensive income, net	-	-	(2,417)	(2,417)
Balance as of 31 December 2020	**12,122**	**6,947**	**-**	**19,069**
Result of the period	-	5,331	-	5,331
Reclassification of debt instruments measured at fair value through other comprehensive income on amortized cost (Note 18.3)	-	-	(241)	(241)
Net amount reclassified to the income statement on the sale of securities measured through other comprehensive income	-	-	(99)	(99)
Net change in provisions for expected credit losses of debt instruments measured through other comprehensive income	-	-	652	652
Effects of fair value changes of securities measured through other comprehensive income, net	-	-	(1,065)	(1,065)
Balance as of 31 December 2021	**12,122**	**12,278**	**(753)**	**23,647**

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Universal Capital Bank AD PODGORICA

Lana Kalezić
Head of Finance and Accounting

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

in thousand EUR	2021	2020
PROFIT FOR THE PERIOD	**5,331**	**2,045**
OCI items that cannot be reclassified to profit or loss		
Effects of value changes of equity securities measured at fair value through other comprehensive income	-	(20)
OCI items that may be reclassified to profit or loss		
Effects of value changes of debt securities measured at fair value through other comprehensive income	(827)	(1,269)
Tax related to other comprehensive income	74	116
Total other comprehensive income	**(753)**	**(1,173)**
TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**4,578**	**872**

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Lana Kalezić

Lana Kalezić
Head of Finance and Accounting

SEPARATE CASH FLOW STATEMENT

For the year ended 31 December 2021

in thousand EUR	31 December 2021	31 December 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and similar receipts	7,732	7,033
Interest and similar outflows	(1,225)	(1,179)
Fee and commission receipts	7,017	4,562
Fees and commissions paid	(1,693)	(2,397)
Payments to employees and suppliers	(3,909)	(3,254)
Outflows from loans and other assets	(50,744)	(14,942)
(Outflows) / inflows from deposits and other liabilities	150,001	(7,806)
Tax paid	(269)	(403)
Other inflows/(outflows)	169	114
Net cash from/(used in) operating activities	**107,079**	**(18,272)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(816)	(402)
Purchase of intangible assets	(36)	(43)
Securities	642	16,478
Income from the sale of tangible and long-term assets	-	-
Net cash used in investing activities	**(210)**	**16,033**
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in borrowings	1,074	(808)
Net cash used in financing activities	**1,074**	**(808)**
Effects of FX gains/losses on cash and cash equivalents	2,446	1,036
Net decrease in cash and cash equivalents	**110,389**	**(2,011)**
Cash and cash equivalents at the beginning of the year	**103,060**	**105,071**
Cash and cash equivalents at the end of the year (Note 17)	**213,449**	**103,060**

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

Signed on behalf of Universal Capital Bank A.D. Podgorica, on 30 March 2022:

Miloš Pavlović
President of the Management Board

Veselin Vuković
Member of the Management Board

Nikola Vujošević
Member of the Management Board

Lana Kalezić
Head of Finance and Accounting

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
31 December 2021

1. CORPORATE INFORMATION

Universal Capital Bank AD, Podgorica was founded under the name First Financial Bank AD, Podgorica (hereinafter: the Bank) established on 18 October 2007. The Decision of the Shareholders Assembly of the Bank's name change was adopted at the session held on 30 May 2014, and the new name was official changed on 4 June 2014.

The Bank's headquarters are in Podgorica, Stanka Dragojevića Street bb.

The Bank has obtained a permit from the Central Bank of Montenegro (Decision No. 0101-2933/3-2 dated 12 July 2007). The Bank is inscribed in the Register of the issuers of securities maintained by the Securities Commission under number 472 (Decision No. 02/3-33/2-07 dated 31 October 2007).

In accordance with the Law on Banks, the Decision on Incorporation and the Articles of Incorporation, the Bank performs banking operations i.e., activities of reception of cash deposits and approval of loans for its own account.

In addition to these activities, the Bank may perform the following tasks:

1) Issuance of guarantees and undertaking of other off-balance sheet commitments;
2) The purchase, sale and collection of receivables (factoring, forfeiting and other);
3) The issuance, processing and recording of payment instruments;
4) Payments in the country and abroad, in accordance with the relevant regulations;
5) Finance lease;
6) The activities with securities, in accordance with the law governing the securities;
7) Trading in its own name and for its own account or on behalf of clients: with foreign currencies, including exchange transactions in financial derivatives;
8) Depot operations;
9) Analysis and provision of information and advice on the creditworthiness of companies and entrepreneurs and other issues regarding operations;
10) Rental of safe deposit boxes;
11) The activities that are part of banking operations, ancillary tasks in relation to the operations of the Bank, other activities directly related to the operations of the Bank in accordance with the Articles of Incorporation.

With prior approval of the Central Bank, the Bank may perform other activities in accordance with the law.

As of 31 December 2021, the Bank included a Central Office located in Podgorica, a branch office in Milocer and Podgorica, as well as a representative office in Dubai. The Bank has 80 employees (31 December 2020: 70 employees).

The Bank has a subsidiary, Portokali Adriatic d.o.o. Podgorica, with a 100% of equity interest. The main activity of the company is retail sale of fruit and vegetables in specialised stores.

1 CORPORATE INFORMATION (Continued)

As of 31 December 2021, the members of the Bank's Board of Directors were as follows:

First and last name	Position
Božo Milatović	Chairman of the Board of Directors
Alfredo Longo	Member of the Board of Directors
Ronald K. Noble	Member of the Board of Directors
Miloš Pavlović	Member of the Board of Directors
Goran Bencun	Member of the Board of Directors

As of 31 December 2021, the Bank's management is comprised of the following members:

First and last name	Position
Danijela Jović	Chief Executive Officer
Miloš Pavlović	Executive Director
Veselin Vuković	Executive Director

As of 31 December 2021, the members of the Bank's Audit Committee were as follows:

First and last name	Position
Mina Jovanović	Chairman
Miljan Marković	Member
Lazar Mišurović	Member

The Bank's internal auditor as of 31 December 2021 is Sonja Burzan.
The Bank's head office is in Podgorica, at Stanka Dragojevića bb.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of the separate financial statements

The Bank prepares separate financial statements (hereinafter: financial statements) in accordance with the Law on Accounting ("Official Gazette of Montenegro", no. 052/16), the Law on Banks ("Official Gazette of Montenegro", no. 17/08, 44/10, 40/11 and 73/17) and other laws governing financial reporting of banks.

The accompanying financial statements are prepared in accordance with the Decision on the Contents, Deadlines and Manner of Preparation and Submission of the financial Statements of Banks (Official Gazette of Montenegro, no. 15/12, 18/13 and 24/18).

In preparation of these financial statements the Bank applied policies in conformity with the regulations of the Central Bank of Montenegro, which however, in the part regarding recording receivables eligible for derecognition from the Bank's balance sheet and in the form for the presentation of the financial statements depart from the requirements of IFRSs and IASs effective as at 31 December 2021.

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

2.1. Basis for preparation and presentation of the separate financial statements (Continued)

Pursuant to the Law on Accounting of Montenegro, legal entities prepare financial statements in accordance with IASs and IFRs published by the International Accounting Standards Board, which need to be adopted and published by the competent authority in Montenegro by obtaining approval from the IFAC's competent body to translate and public them. Therefore, only IFRS and IAS officially adopted and published by the competent authority in Montenegro can be applied. The latest officially translated IFRS and IAS date back from 2009 (except IFRS 7), as well as the newly adopted IFRS 10, 11, 12 and 13, which have been applicable since 2013 and include the basic text of standards and interpretations, but it excludes the basis for conclusions, illustrative examples, application guidance, comments, opinions and other explanatory material. Additionally, the said translation does not include a translation of the Basis of Preparation and Presentation of Financial Statements. Moreover, changes and improvements of IASs after 1 January 2009, i.e. of IFRSs after 1 January 2013, have neither been translated nor published. Pursuant to the regulations of the Central Bank of Montenegro, the application of IFRS 9 Financial Instruments and IFRS 16 Leases have been mandatory for banks since 1 January 2018 and 1 January 2020, respectively.

Taking into consideration the effects that the above-mentioned departures of the accounting regulations in Montenegro from the IFRS and IAS can have on the presentation of Bank's financial statements, the accompanying financial statements differ and deviate in that respect from IFRS and IAS and cannot be treated as financial statements prepared in accordance with the IFRS and IAS.

These financial statements represent the separate financial statements of the Bank. In accordance with Article 134 of the Law on Banks of Montenegro ("Official Gazette of Montenegro" No. 17/08, 44/10, 40/11, 73/17), the consolidated financial statements of the banking group do not include subordinate members of the banking group whose balance sheet is less than 1% of the balance sheet of the parent group member. Since the Bank has, as of 31 December 2021, the control over one subordinate entity, and fulfils the condition from Article 134 of the Law on Banks, the Bank does not compile consolidated financial statements, using the right to exemption from consolidation.

In preparing these financial statements, the Bank has applied the accounting policies disclosed in Note 3.

2.2. Rules of Estimate

The accompanying financial statements have been prepared in accordance with the historical cost convention, except for the following items measured at fair value:

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

2.3. Functional and Reporting Currency

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

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

2.4. Use of Estimates

The presentation of financial statements requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the presented values of assets and liabilities, as well as the disclosure of contingent liabilities and receivables as at the date of the preparation of the financial statements, and the income and expenses arising during the reporting period. These estimations and assumptions are based on information available to us as at the financial statements' preparation date. However, the actual results may differ from the values estimated in this manner.

The estimates as well as the assumptions on the basis of which the estimates are made are the result of regular controls.

If the control determines that there has been a change in the estimated value of assets and liabilities, the identified effects are recognized in the financial statements in the period when the change in the estimate occurred, if the change in the estimate affects only that accounting period, or in the period when there has been a change in the estimate in subsequent accounting periods, if the change in the estimate affects the current and future accounting periods.

Note 4 provides information about the areas where the level of assessment is the largest and may have the most significant effect on the amounts recognized in financial statements of the Bank.

2.5. Changes in Accounting Policies and Disclosures

New and Amended Standards and Interpretations

Except for the amendments mentioned below, the accounting policies have been consistently applied in all accounting periods presented in these financial statements.

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. In addition, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 "Financial Instruments: Disclosures" to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. When the application is retrospective, an entity is not required to restate prior periods. The Bank's management does not expect material implementation effects on the Bank's financial statements.

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

2.5. Changes in Accounting Policies and Disclosures (Continued)

Standards Issued but Not Yet Effective and Not Early Adopted

- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Long-Term Investments in Subsidiaries and Joint Ventures: Sale or Contribution to Assets between the Investor and its Subsidiaries or Joint Ventures**

The amendments relate to the identified inconsistency between the requirements of IFRS 10 and the requirements of IAS 28 in the treatment of sales or contributions to assets between an investor and its subsidiaries or joint ventures. The main consequence of the amendment is that the full amount of profit or loss is recognized when the transaction involves business (whether it takes place in a subsidiary or not). Partial gain or loss is recognized when the transaction involves non-operating assets, even if the assets belong to a subsidiary. In December 2015, the IASB moved the effective date of the amendment indefinitely, depending on the capital accounting research project. The Bank's management does not expect material implementation effects on the Bank's financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Short-Term or Long-Term (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The International Accounting Standards Board has issued a proposal to postpone the date of entry into force of these amendments until 1 January 2023. The aim is to promote consistency in the application of requirements by assisting companies in determining whether, in the balance sheet, debt and other liabilities with an indefinite maturity date should be classified as short-term or long-term. The amendments affect the presentation of liabilities in the balance sheet and do not alter existing requirements regarding the measurement or immediate recognition of any asset, liability, income or expense, or the disclosure of information about those items. Also, the amendments clarify the classification requirements for debt that can be converted into equity by issuing its own equity instruments. In November 2021, the Board published an Exposure Draft, which clarifies the treatment of liabilities for which the fulfilment of covenants has been agreed on a date after the reporting period. Namely, the Board proposes amendments to IAS 1 of a narrow scope that effectively repeal the 2020 amendments, which required entities to classify as short-term only those liabilities that are subject to the compliance with the covenants that have to be observed in the next 12 months after the reporting date, in case the covenants are not fulfilled at the end of the reporting period. Instead, the draft requires that the entities be expected to record separately all long-term liabilities that are subject to the compliance with the covenants that have to be observed in the next 12 months after the reporting date. Additionally, if the entity does not ensure the compliance with the covenants at the end of the reporting period, additional disclosures will be required. The proposals contained in the Amendments will become effective for annual reporting periods beginning on or after 1 January 2024, and will need to be applied retrospectively in accordance with IAS 8, with earlier application permitted. Accordingly, the Board also proposed postponing the effective date of the 2020 amendments, so that the entities will not be expected to change their current practice before the proposed amendments enter into force. These amendments, including the Exposure Draft, have not yet been adopted by the EU. The Bank's management does not expect material effects on its financial statements.

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

2.5. Changes in Accounting Policies and Disclosures (Continued)

Standards Issued but Not Yet Effective and Not Early Adopted (Continued)

- **IFRS 3: Business Combinations; IAS 16: Property, Plant and Equipment; MRS 37: Provisions, Contingent Liabilities and Contingent Assets, and Annual improvements to IFRS Standards "2018-2020 Cycle" (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The International Accounting Standards Board has issued amendments to the narrow-scope IFRS as follows:

- **IFRS 3 Business Combinations (amendments)** updates the reference in IFRS 3 Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (amendments)** prohibits a company from deducting from the cost of property, plant and equipment amounts received from the sale of items produced while the company is preparing an asset for its use. Instead, the Company will recognize such sales revenue and related expenses in the income statement.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (amendments)** specifies which costs an entity includes in determining the cost of performing a contract to assess whether the contract is onerous.
- **Annual improvements to IFRS Standards "2018-2020 Cycle" –** amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards, IFRS 9: Financial Instruments, IAS 41: Agriculture and Illustrative Examples for IFRS 16 Leasing.

These amendments have not yet been adopted by the EU. The Bank's management does not expect material effects on the Bank's financial statements with respect thereto.

- **IFRS 16: Leases – Covid-19-Related Rent Concessions beyond 30 June 2021**

The amendment is effective for annual reporting periods beginning on or after 1 April 2021, with a permitted early application, including in financial statements not yet authorized for issuance on the date of publishing this amendment. In March 2021, the Board modified the conditions of practical exemptions from IFRS 16, which provides lessees with an exemption from applying the IFRS 16 guideline on how to account for lease contract modifications related to concessions occurring as a direct consequence of the Covid-19 pandemic. After the amendments, practical exemptions are applied to rent concessions for which any reduction in lease payments only affects payments originally due on 30 June 2022, provided that other requirements for applying the practical exemption have been met. The Bank's management does not expect material effects on the Bank's financial statements with respect thereto.

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

2.5. Changes in Accounting Policies and Disclosures (Continued)

Standards Issued but Not Yet Effective and Not Early Adopted (Continued)

- **IAS 1: Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with a permitted early application. The amendments provide guidance on the application of the materiality assessment concept to the disclosure of accounting policies. In particular, the amendments to IAS 1 replace the requirement to disclose "significant" accounting policies with the requirement to disclose "material" accounting policies. In addition, guidance and illustrative examples have been added to the Practice Statement in order to assist in the application of the materiality concept when making assessments on the disclosure of accounting policies. These amendments have not yet been adopted by the EU. The Bank's management does not expect material effects on the Bank's financial statements with respect thereto.

- **IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with a permitted early application, and are applied to changes in accounting policies and changes in accounting estimates occurring on or after the beginning of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify what changes in accounting estimates are and how they differ from changes in accounting policies and corrections of errors. These amendments have not yet been adopted by the EU. The Bank's management does not expect material effects on the Bank's financial statements with respect thereto.

- **IAS 12: Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with a permitted early application. In May 2021, the Board published amendments to IAS 12, which narrow the scope of the initial recognition exemption under IAS 12 and specify how companies should account for deferred tax on transactions such as lease liabilities and liabilities from withdrawing assets from use. According to the amendments, the exemption from initial recognition does not apply to transactions that lead to equal taxable and deductible temporary differences on initial recognition. It is only applied if the recognition of a leased asset and a lease liability (or a liability for withdrawing assets from use and assets being withdrawn from use) leads to taxable and deductible temporary differences that are not equal. These amendments have not yet been adopted by the EU. The Bank's management does not expect material effects on the Bank's financial statements with respect thereto.

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

2.6. Going Concern Assumption

The accompanying financial statements have been prepared in accordance with the going concern principle, which implies that the Bank will continue to operate for an indefinite period in the foreseeable future.

2.7. Reconciliation of Outstanding Balances with their Counterparties

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

2.8. Covid-19 Pandemic

Following the outbreak of the Covid-19 coronavirus pandemic (hereinafter: coronavirus) worldwide in late 2019 and early 2020, the Bank, as a responsible legal entity, has taken all necessary measures to protect its employees, customers and business partners. Measures have been taken in order to ensure safe working conditions for the Bank, respecting the recommendations of the Institute of Public Health of Montenegro as well as measures of the Government of Montenegro that enable uninterrupted performance of the Bank's business activities.

The accompanying effects of the pandemic (closing borders, slowing down international trade, increasing uncertainty in international markets, drastic impact on certain industries) had multiple negative impacts on the economic environment in Montenegro, as well as on the Bank's operations. The most affected industries are tourism and catering, which make up a significant part of Montenegro's gross domestic product.

The Central Bank of Montenegro (CBM) has repeatedly passed appropriate decisions on temporary measures to mitigate the negative coronavirus effects on the financial system, which, among other things, provided a moratorium on payments and loan restructuring to clients in sectors particularly affected by pandemic and healthcare policies conditioned by the pandemic.

After the expiration of the conditions from the moratorium, which referred to the delay in the repayment of clients' obligations, the Bank continued with the activities of regular loan collection. The accrued interest was credited to the principal debt with an extension of the repayment period for the number of annuities covered by the moratorium. Activities related to the conditions on the continuation of calculation and collection of loans were performed by the Bank in accordance with the Decision of the CBM.

Considering that the moratorium on the part of the borrower was on a voluntary basis, as well as the characteristics of the Bank's portfolio, the effect of the moratorium on the Bank's liquidity was limited.

In addition, by the Decision on Amendments to the Decision on Reserve Requirements of Banks (Official Gazette of Montenegro No. 43/20) with the CBM of 11 May 2020, the CBM reduced the reserve requirements from 7.5% and 6.5% to 5.5% and 4.5%, which created the preconditions for the smooth preservation of credit activity. In addition, the Bank provided a credit facility in the event of liquidity losses in the amount of EUR 5 million (Note 25.2).

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

2.8. Covid-19 Pandemic (Continued)

In 2021, although the pandemic cannot be considered over, its most adverse effects are mainly in the past: international trade is recovering despite supply chain difficulties and the problem of the increasing global inflation.

In 2021, the economic conditions in Montenegro significantly recovered, primarily under the influence of more liberal healthcare and economic policies and policies and a campaign of mass vaccination against the Covid-19 virus. The successful tourist season resulted in an estimated Montenegrin GDP growth of 12.3% compared to a 2020 decline of15.3percentage.

This had positive effects on the Bank's operations in almost all segments and the Bank achieved the best result in the history of its operations, surpassing the record FY 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied during the preparation of the financial statements for the year ended 31 December 2021 are listed below.

3.1. Interest Income and Expense

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate represents the rate that discounts future inflows and outflows during the expected deadline of financial instrument:

- Gross book value of a financial asset or
- Amortised amount of the financial liabilities.

When calculating the effective interest rate for financial instruments, except for purchased or approved credit-impaired assets, the Bank when estimating future cash flows takes into account all agreed terms but not for ECL. For purchased or credit-impaired financial assets the credit – adjusted effective interest rate is calculated taking into account expected cash flows including ECL.

When calculating effective interest rate the transaction cost and all unpaid or paid fees are considered, which are the part of effective interest rate. The transaction costs are incremental costs which can be directly attributed to the issuance or disposal of some financial assets or financial liabilities.

Amortized amount of the financial asset or financial liability represents the amount by which the financial asset or financial liability are valuated in the moment of initial recognition less for repayment of principal and increased or decreased for cumulative depreciation calculated using effective interest rate, the difference between initial amount and the amount of the maturity and for financial assets, corrected for expected credit loss.

Gross book amount of financial asset is the amortized amount of financial asset before the impairment for expected credit loss.

The effective interest rate for financial assets and financial liabilities is calculated at initial recognition of the financial asset or liability. When calculating the interest income and expense the effective interest rate is applied on gross carrying amount of the assets (if the amount is not credit – impaired) or amortized value of liability. For the financial instruments with variable interest rate the effective interest rate is fluctuated due to periodic estimation of cash flow to reflect market interest rate trend.

For financial assets which became credit – impaired after initial recognition the interest income is calculated by applying the effective interest rate method on amortized value of financial asset. If the financial assets are no longer credit–impaired the calculation of the income is calculated again on a gross basis i.e., the interest is calculated applying effective interest rate on gross carrying amount of the financial asset of the financial asset.

For financial assets which are credit-impaired at the time of initial recognition the interest income is calculated by applying credit–adjusted interest rate on the amortized amount of financial asset. The calculation of interest income does not return to gross basis not even when the credit risk is improved.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Interest Income and Expense (Continued)

Fee income and expenses which are part of the effective interest rate of the financial asset or financial liability are included in the calculation of the income and expenses from interest by applying effective interest rate method.

Default interest and other income and other expenses related to interest-bearing assets, i.e., interest-bearing liabilities, are calculated on an accrual basis.

3.2. Interest and Commission Income and Expenses

Fee and commission income include fees that the Bank calculates and charges for performance of payment services in the country and abroad, guarantees and letters of credit, as well as other services. Fee and commission income are recognized at the time when the correspondent service is done.

Fee and commission expenses generally relate to fees for domestic and foreign payment operations and other services which are recognized as an expense in the moment when the service is provided.

3.3. Net profit / (loss) based on Financial Instruments Held for Trade

Net profit / (loss) based on financial instruments held for trade includes profit less losses based on financial assets and financial liabilities held for trade, including all realized and unrealized changes in fair value.

3.4. Foreign Currency Translation

Transactions denominated in foreign currencies are translated into EUR at the date of transaction. Assets and liabilities denominated in a foreign currency are translated into EUR by applying the official exchange rate, as determined on the exchange rate list from Central Bank of Montenegro valid on day given. For currencies that are not on this list, the exchange rate from the Interbank foreign exchange market is used. The treatment of assumed and contingent liabilities in foreign currency is identical.

Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the statement of comprehensive income as gains or losses based on foreign exchange.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Leases

On the date of establishing the contract, the Bank assesses whether it constitutes a lease, i.e., whether the contract transfers the right to control the use of the determined property during a certain period of time in exchange for compensation.

3.5.1. Bank as a Lessee

The Bank applies a single recognition and measurement approach to all leases, except for short-term contracts or low-value assets. The Bank recognizes lease and asset liabilities - rights to use.

The Bank recognizes assets on the basis of the right to use them on the day of the beginning of the lease agreement, i.e., the date of obtaining the right to use the property. Subsequent measurement is performed at amortized cost, with adjustments based on compliance with lease obligations. Initial direct costs and advances paid less benefits received are included in the value of the asset at the date of initial recognition. Depreciation is calculated on a straight-line basis over the term of the contract. For contracts without a term, the Bank applies a period of 5 years.

Right-of-use assets are presented in Note 22 – Property, plant and equipment.

On the date of commencement of the lease agreement, the Bank recognizes a lease liability measured at the net present value of future payments under the lease agreement until the expiration of the contract. For contracts without a term, the Bank applies a period of 5 years. The Bank has no variable elements of future payments or built-in options in the contracts.

3.5.2. Bank as a Lessor

Leases under which the Bank does not transfer substantial risks and rewards of ownership are classified as operating leases. Lease income is recognized on a straight-line basis over the term of the contract. Initial costs related to the asset, such as negotiation costs and asset preparation costs, are included in the carrying amount of the asset and depreciated in accordance with the recognition of rental income.

3.6. Taxes and Contributions

3.6.1. Income Taxes

Current Income Tax

Income taxes are calculated and paid in conformity with the Law on Corporate Income Tax ("Official Gazette of Montenegro", No. 80/2004, 40/2008, 86/2009, 14/2012, 61/2013 and 55/2016). The income tax rate is proportional and amounts to 9% of the tax base.

Capital losses may be offset against capital gains realized in the same year. Where, upon offsetting capital loss against capital gains realized in the same year capital loss remains, the taxpayer may carry it forward and set against the next gains over a five-year period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Taxes and Contributions (Continued)

3.6.1. Income Taxes (Continued)

Current Income Tax (Continued)

The Montenegrin tax regulations do not envisage the possibility of using the current period tax loss as a basis for the recovery of tax paid in prior periods. However, current period losses presented in the tax balance sheet may be used to reduce the future tax base for up to 5 years.

Deferred Income Taxes

Deferred income tax is determined using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities, and their book values. The tax rates effective at the balance sheet date, or the tax rates that came into effect after that 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 the deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Taxes, contributions and other duties not related to operating results

Taxes, contributions and other duties that are not related to the bank's operating result, include property taxes and other various taxes, fees and contributions paid pursuant to republic and municipal regulations.

3.7. Cash and Cash Equivalents

Cash and cash equivalents comprise cash (EUR and foreign currencies), cash at treasury (EUR and foreign currencies), balances with the Central Bank of Montenegro, including both the obligatory reserves, and balances on accounts with other banks in the country and abroad, as well as other highly liquid assets with maturity up to three months.

Cash and cash equivalents are valued at amortized value at balance sheet.

3.8. Financial Instruments

3.8.1. Initial Recognition

Purchase or sale of a financial asset or liability is recorded using an accounting coverage at the balance sheet date of the transaction.

Financial instruments are initially measured at fair value plus transaction costs for all financial assets or liabilities other than those that are valued at fair value through income statement. Financial assets at fair value, whose effect of changes in fair value are recognized in income the statements, initially recognized at fair value, and transaction cost are charged to operating expenses in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.2. Classification and Measurement

The Bank classifies all its financial assets based on the business model for asset management and contractual provisions of the asset (identification of SPPI criteria).

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 mandatorily measured at fair value through profit and loss (mandatory FVTPL) and
- Financial assets optionally measured at fair value through profit and loss (optional FVTPL).

Financial liabilities are measured at amortized cost, except for liabilities held for trading or derivative instruments, where the determination of fair value is applied. In this case, changes in fair value are recorded in the income statement.

3.8.2.1. Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.2. Classification and Measurement (continued)

3.8.2.2. SPPI test

The second step in the classification process is that the Bank assesses contractual terms of funding to identify whether they meet the SPPI test.

'Principal' for the purposes of this test is defined as the fair value of a financial asset on initial recognition and may change over the lifetime of the financial asset (for example, if there are principal repayments or premium / discount depreciation). The most important elements of the interest for loan arrangement are usually taking into account the time value of the money and credit risk. In order to implement the SPPI rating, the Bank applies assessment and considers relevant factors such as currency in which is denominated financial asset and the period for which the interest rate is determined.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.8.3. Financial Assets and Liabilities

3.8.3.1. Loans and receivables from banks and clients, securities and other financial assets at amortized cost

The Bank measures loans and receivables from banks, loans and receivables from customers, debt securities and other financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within the business model with the aim of holding the financial asset for the purpose of collecting contracted cash flows;
- The contractual terms of the financial asset give cash flows on certain dates that are solely payments of principal and interest (SPPI) on the amount of outstanding principal.

Loans and receivables

Loans approved from the Bank are recorded in the business books in the moment of the transfer of the assets to the loan beneficiary.

Loans are stated in the balance sheet in the amount of approved placement increased by the amount of interest due less repaid principal and paid interest and impairment of the value based on the assessment of the identified risk for individual placements and risk for which the experience indicates that they are contained in credit portfolio.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.3. Financial Assets and Liabilities (Continued)

3.8.3.1. Loans and receivables from banks and clients, securities and other financial assets at amortized cost (Continued)

Financial guarantees, letters of credit and undrawn borrowings

Financial guarantees are initially recognized in the financial statements (as part of the provision) at fair value, with a premium received. After initial recognition, the Bank's liability for each guarantee is measured as greater than the initial amount recognized less cumulative depreciation recognized in the income statement, and in accordance with IFRS 9 - ECL Provisions as set out in Note 3.8.8. The premium received is recognized in the income statement in net income from fees and commissions proportionately over the life of the guarantee.
Unused loan liabilities and letters of credit are liabilities under which, during the term of the liability, the Bank is obliged to provide the client with a loan with predetermined conditions. Similar to contracts, and for financial guarantees, provisions are created in the case of an onerous contract, but as of 1 January 2018, these contracts have been within the requirements of the ECL.

3.8.3.2. Debt instruments measured at FVOCI

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

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

3.8.3.3. Equity instruments at FVOCI

On initial recognition, the Bank may choose to irrevocably classify some of equity instruments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 *Financial Instruments:* Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never reclassified to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.3. Financial Assets and Liabilities (Continued)

3.8.3.4. Financial assets and liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Such designation is determined when one of the following conditions is met:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Hedge derivatives

The effects of reducing the fair value of derivative financial instruments are recognized in the income statement at the reporting date.

3.8.4. Reclassification of Financial Assets and Liabilities

The Bank reclassifies its financial assets after their initial recognition, in cases of changes in the business model, and in exceptional circumstances when the Bank acquires, disposes of or terminates the business line. Financial liabilities are never reclassified. Reclassification of financial assets is performed from the date of reclassification, without restatement of previously recognized profit, loss (including expected credit losses) or interest.

If the Bank reclassifies financial assets from the measurement category at amortized cost to the measurement category at fair value through profit or loss, its fair value is measured at the date of reclassification. All gains or losses arising as the difference between the amortized cost of financial assets and fair value are recognized in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.4. Reclassification of Financial Assets and Liabilities (Continued)

If the Bank reclassifies a financial asset from the fair value through profit or loss category to at amortized cost category, its fair value at the date of reclassification becomes its new gross carrying amount. Based on the above, the effective interest rate is adjusted on the reclassification date, which is considered the new date of initial recognition for the purpose of measuring expected credit losses.

If the Bank reclassifies financial assets from the measurement category at amortized cost to the measurement category at fair value through other comprehensive income, its fair value is measured at the date of reclassification. All gains or losses arising as the difference between the amortized cost of financial assets and fair value are recognized in other comprehensive income. Effective interest rate and measurement of expected credit losses are not adjusted due to reclassification.

If the Bank reclassifies financial assets from measurement at fair value through other comprehensive income to measurement at amortized cost, the financial asset is reclassified at its fair value at the date of reclassification. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and carried at fair value at the date of reclassification. Consequently, financial assets are measured at the reclassification date as if they were always 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. Effective interest rate and measurement of expected credit losses are not adjusted for reclassification purposes.

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

If the Bank reclassifies financial assets from the fair value through other comprehensive income to the fair value through profit or loss category, the financial assets are still measured at fair value. Cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment in accordance with IAS: 1 Presentation of Financial Statements at the Date of Reclassification.

As disclosed in Note 18.3, in 2021 the Bank reclassified part of the securities portfolio from the measurement at fair value through other comprehensive income to the measurement at amortized cost. The corresponding effects are presented in the Statement of Changes in Equity and Note 18.3.

3.8.5. Derecognition of Financial Assets and Liabilities

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI or Purchased or Originated as Credit-Impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.5. Derecognition of Financial Assets and Liabilities (Continued)

When assessing whether or not to derecognize a loan to a customer, among others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criteria.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Recognition of financial liability terminates when the liability is met i.e., when the debt is paid, cancelled or expired.

3.8.6. Write-off

The financial assets are written off partly or in total only if the Bank withdraws from collection. If the amount that should be written off is greater than accumulated provision for credit losses the difference is initially calculated as additional provision which conflicts with gross carrying amount. Any other additional collection is recognized as extraordinary income within the balance sheet item – other income.

Write-offs may relate to the financial asset in whole or in part. Indicators of lack of reasonable expectation of recovery of financial assets are: death of the client and / or guarantor, complete loss of communication and access to the client, partial or complete legal nullity of the contract, exhaustion of legal collection possibilities (termination of litigation and enforcement proceedings) or from its assets and finally non-recognition of receivables in the bankruptcy estate of the debtor. The existence of any of the indicators (or more of them) is a necessary but not a sufficient condition for the write-off of financial assets. The decision on write-off is made by the Board of Directors, while the responsibility for materially insignificant amounts is delegated to the Credit Committee.

In 2021, the Bank wrote off financial assets with a total gross carrying amount of EUR 25 5 thousand. Collection of previously written off financial assets during 2020 amounted to EUR 5 thousand.

3.8.7. Forborne and Modified Loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Financial difficulty indicators include outstanding liabilities to covenants, or significant concerns from the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.7. Forborne and Modified Loans (Continued)

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions that red in classification in POCI or between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due.

An overview of the development of restructured loans during 2021 is presented in Note 5.

3.8.8. Impairment of Financial Assets

In accordance with the valid Decision on minimum standards for credit risks management in banks (Official Gazette of Montenegro, no. 22/12, 55/12, 57/13, 44/17 and 82/17), the bank is obliged to assess the quality of assets at least quarterly, determine whether there is objective evidence of impairment of balance sheet assets, or probable loss on the basis of off-balance sheet items and to calculate the adequate amount of such impairment, or probable loss, and to classify these items in the appropriate classification group, in accordance with the aforementioned Decision.

For the purposes of assessing impairment of financial assets and calculation of impairment, the Bank applies the Methodology for estimating impairment and expected loss according to IFRS 9.

In accordance with IFRS 9, impairment of financial assets (i.e., expected credit losses, ECL) is considered for all financial assets except those classified at fair value through profit or loss and equity instruments at fair value through other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.1. Basic IFRS 9 principles

When assessing the impairment of financial assets, the Bank starts from the requirements of IFRS 9 standard, as follows:

- An impairment assessment is based on expected losses;
- The expected losses are made at the 12-month level and the lifetime level of financial instruments and contain the probability of weighted assessments;
- Impairment is recognized both individually and, on a group, (portfolio) basis;
- Calculation of impairment for clients in default is based on an assessment of the expected future cash flows of a financial asset;
- The time value of money is taken into account in a manner that entails discounting cash flows from a financial asset that are measured at amortized cost by using the contractual effective interest rate, except for POCI assets, which use credit risk adjusted EKS;
- Probability-weighted scenarios for calculating the expected loss - means that a probability-weighted scenario for calculation needs to be embedded in minimum two different scenarios in all stages of the calculation of expected losses;
- Necessary adequate parameter risk modelling (EAD exposure, PD - probability of default, LGD - loss by default, CCF - credit conversion factor).
- Necessary modelling of forward-looking expectations - when determining risk parameters, it is also necessary to take into consideration forward-looking information, in which way historical data on credit losses are adjusted for future expectations;
- Calculation of interest income on non-performing assets is performed on (net) amortised cost.

Forward-looking information

According to the requirements of IFRS 9, in the first step the Bank is required to assess, at reasonable cost and effort, at which point in the economic cycle it is currently and in relation to its exposures and how future events may affect the level of expected credit losses. The very concept of expected credit losses (as opposed to the previous concept of incurred losses) requires the use of forward-looking information. The most common method of including this information is to find a significant relationship between the components in the expected credit loss model and macroeconomic variables and then, use the estimated movements of macroeconomic variables to predict the future values of the expected credit loss model components (risk parameters).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.1. Basic IFRS 9 principles (Continued)

Forward-looking information (continued)

However, starting from the following assumptions:

- A new global coronavirus (Covid-19) pandemic broke out in the first quarter of 2020, with still unforeseeable consequences on the population and the economy;
- The pandemic has had a negative impact on indicators in various industries, especially tourism and hospitality (significant industries in Montenegro);
- As a result of the above, a significant decline in GDP and an increase in the unemployment rate in Montenegro is expected;
- There is still great uncertainty about the magnitude of the negative effects on the Montenegrin economy and it is currently impossible to accurately estimate the recovery period;

We come to the conclusion that the so-called black swan has occurred and that the use of standard statistical methods to examine the interdependence between macroeconomic variables (e.g. linear regression) would be inadequate in every respect.

Instead, the Bank opted for an expert assessment of the correction factor (for forward-looking approach), by examining the historical PD and its movement by years (separately for the retail and corporate segments). In this way, the maximum increase in PD over a period of 12 months was identified. By indexing this increase, a corrective factor was obtained.

Individual significant receivables

Individually significant receivables are considered as total gross exposure of the Bank to the one party or a group of related parties which is greater than EUR 50,000 in the segment of operations with legal entities, individuals and entrepreneurs.

Default status

A default status is a status which is assigned to receivables if one of the following criteria is met:

- There is a delay in repayment more than 90 days;
- There are other qualitative factors which indicate objective impairment evidence – an assessment of uncertainty for fulfilling debtor's obligations;
- Financial problems of the debtor
- Restructuring designated as non-performing;
- Bankruptcy or liquidation;
- Lack of client cooperation and terminated contracts;
- Write-off of receivables.

A default status is indicative of a client whose creditworthiness is estimated to be either D or E, i.e. when all their exposures are classified under Stage 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.1. Basic IFRS 9 principles (Continued)

Low credit risk exposures

In accordance with the regulations of IFRS 9 the credit risk of financial instrument is considered low if the risk if there is a low risk of default of financial instrument, if the debtor is totally capable in a short term to fulfil all its contractual liabilities in terms of cash flow and if unfavourable changes in the economic and business conditions can in a long term but not necessarily decrease the ability of the debtor to fulfil his contractual liabilities in terms of cash flow.

Financial instruments are not considered as instrument of the low credit risk when the risk from loss on the basis of those instruments consider low only because of the value or security as collateral. Financial instruments do not need to obtain an external rating to be considered as instruments of the low credit risk from a market's participants perspective considering all the terms of financial instruments.

3.8.8.2. Impairment calculation

Staging

During the initial recognition, all financial assets that fall within the scope of IFRS 9 (except POCI assets) are allocated in Stage 1 and require the calculation of 12-month expected losses.

A significant increase in credit risk in relation to initial recognition for exposures that are not part of the low credit risk portfolio leads to the transition to Stage 2 according to the criteria of client creditworthiness and delay of legal entities and individuals. Exiting from Stage 2, i.e. return to phase 1 for legal, individuals and S.M.E. (in which the staging is conditioned by the days of delay) it is possible for clients A, B and C if the client at the end of the accounting period meets the condition for belonging to Stage 1. An exception from the preceding paragraph relates to the restructuring performance that require the cooling period of 12 months from the date of restructuring to expire, provided that at the end of the reporting periods in the cooling period there is no delay of more than 30 days in the trial period. The Bank may also classify certain exposures in Stage 2 based on individual decision and assessment of credit risk increase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Staging (continued)

Indicators of a significant increase in credit risk compared to initial recognition are as follows:

- the financial condition of the debtor shows a deterioration compared to the initially assessed condition, which is accompanied by a change in the initial creditworthiness from good to low quality (with the restriction that the newly assigned is not lower than the category belonging to the classification group C);
- the fact that there is information about the breach of contractual obligations;
- Delays in settling due liabilities for 31-90 days;
- a significant change in the terms of loan repayment compared to the originally agreed, assuming that at the time of concluding the restructuring the client is up to 90 days in arrears (so-called performing-restructuring);
- information from external sources suggests a negative development of the client's creditworthiness (e.g. litigations and lawsuits are filed against the client, account blockade, loss of significant customers or suppliers, etc.);
- Available information from the credit register shows that the client is in a significant delay in repaying the loan with other banks, etc. (excluding situations in which the Bank's loan is clearly separable from other loans granted to the same borrower by its characteristics or sources of repayment);
- Bad historical experience;
- unfavourable change in the regulatory or technological environment of the debtor;
- significant change in the value of collateral to the extent that reduces the debtor's incentive to continue with the orderly settlement of contractual obligations, etc.);
- disappearance of the active market for financial instruments of debtors;
- Expect a significant reduction in customer turnover and loss of a large customer. A decline in turnover is defined as significant if it is not the result of "one-off" events or events related to the specificity of the industry, i.e. seasonality but is the result of regular business activity.

For securities, the transition to Stage 2 represents a decline in the issuer's rating (according to the scales of Moody's, S&P, Fitch), which leads to an increase in the lifetime of PD higher than 200% compared to PD at the time of recognition of the financial instrument. Exposures with a rating lower than C or exposures with a default event are considered Stage 3.

Criteria for client allocation in Stage 3 are objective evidence of impairment, and by definition they are:

- there is a delay in repayment for more than 90 days,
- there are other qualitative factors that are pointing to objective proof of impairment - assessment of uncertainty for fulfilment of obligations of the debtor,
- restructuring designated as non-performing,
- terminated contracts, bankruptcy or liquidation, POCI
- clients with current solvency D or E.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Staging (continued)

The transition of exposures from Stage 3 to Stage 2 and from Stage 2 to Stage 1 is only possible in stages:

- the condition for the transition from Stage 3 to Stage 2 is possible after the expiration of a period of 3 months in condition that at the end of the reporting periods during the cooling period there are no delays of more than 90, if the condition for Stage 3 was a delay of more than 90 days, i.e. that the conditions of belonging to the Stage 2 have been fulfilled;
- Exiting from Stage 2, i.e. the return to Stage 1 for legal entities, individuals and S.M.E. (in which the shifting is conditioned by the days of delay) is for clients A, B and C is possible if the client at the end of the accounting period meets the condition for belonging to Stage 1.

The exception to the above applies to non-performing loans that require a cooling period of 12 months from the date of restructuring, provided that at the end of the reporting period there is no delay of more than 90 days, with an additional 12 months in Stage 2, provided that at the end of the reporting periods during that cooling period no delays of more than 30 days were recorded, after which the condition for transition to Stage 1 is met.

Belonging to the stage for clients with a larger number of individual exposures is determined by the exposure with the largest delay in repayment. The Bank is obliged to take into account the relations within the group of related legal entities by classifying the dominant debtor from the group of related persons in Stage 2/Stage 3 and other entities from that group in that category. Clients with ICL (Intensive Care List) checklist are treated under Stage 2 and Stage 3, respectively.

POCI i assets

Financial assets that are recognized as impaired at the time of initial recognition are considered POCI assets (Purchased or Originated as Credit Impaired).

For POCI assets, expected credit losses are always assessed at the level of lifetime, and cannot be assessed at the level of twelve-month expected losses. Credit risk-adjusted EIR is used to discount expected future cash flows.

Impairment calculation process

The Bank identifies the items of balance sheet assets and the expected loss on the basis of risk items and calculates the appropriate amount of that impairment, i.e. expected loss on:

- An individual basis of material significant receivables; a group basis (group assessment for receivables which are not individually significant in default);
- A group basis (group assessment of individually significant items which are not in default).

Expected credit losses are assessed on a quarterly basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Individual ECL assessment

Assessment of expected losses on an individual basis relates to exposures to clients whose exposure exceeds the materiality threshold and are in the default status. An assessment of expected losses on an individual basis is based on an assessment of the expected cash flows from the loan repayment or from collateral. Expected scenarios are in three scenarios with different probabilities. The amount of impairment represents the discounted value of cash flows through the collection scenarios weighted by their probability. The scenarios use estimates of expected future cash flows from ordinary activities (continued loan repayment) or from the foreclosure of collateral.

The assessment of cash flows from the continuation of loan repayment is based on the assessment for each client individually in accordance with the expectation of cash flows (whether based on assumptions from the previous period or oral / written agreement with the client). The expected cash flows are the result of the probability of a weighted outcome as explained in this Methodology - part of the inclusion of forward-looking information.

In accordance with the Bank's policy on the acceptability and effective value of collateral, the assessment of cash flows expected to be realized by collateral is also based on the probability of weighted results. The expected effective value of the collateral is considered through the scenario of expected collection and discounted at the original effective interest rate on the reporting date. The impairment calculation is considered on the net principle.

The assessment of expected losses on a group basis is for all other financial assets that are not the subject of an individual assessment and for which the impairment is not established. Estimation of expected losses on a group basis is done according to the phases defined by this Methodology as follows:

- for Stage 1 at the level of twelve months of losses;
- for Stage 2 and Stage 3 at the level of expected lifetime losses.

Group ECL assessment

Group assessment of expected losses are made according to groups with similar credit risk characteristics, and considering the current size and structure of the Bank's loan portfolio.

Risk parameters in the calculation of expected losses:

- PD - Probability of Default (12-month or in duration) which indicates the probability of occurrence of default status;
- LGD - Loss Given at Default which indicates the amount of loss on default;
- EAD – Exposure at Default which indicates the Bank's exposure to credit losses;
- CCF – Credit Conversion Factor which indicates the probability of converting off-balance sheet exposures to on-balance sheet exposures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Group ECL assessment (continued)

The PD is directly calculated from the migration matrix (which contains the probability of transition between two statuses in a specific time period) by monitoring in all segments for exposures that are not in default for twelve months and reflecting the percentage of exposure that has passed into default status during that period. The obtained PD values will be used as the basis for the calculation for all segments of the portfolio.

The probability of default can vary in different life stages of the loan, so in terms of the probability of migration, it is important to consider all stages of the loan's duration. Changes in the time periods for PD calculation can be determined by multiplying the matrix with the corresponding path number in order to assess the appropriate time horizon. PD for a period of 12 months is obtained by calculating the number of migrations at the beginning and at the end of the period.

Based on days of delay the Bank will classifies the following groups (buckets):

Bucket	Status	Days of delay
1	Impairment before default	0 - 30 days
2	Impairment before default	31 - 60 days
3	Impairment before default	61 - 90 days
4	Impairment after default	90+ days

A twelve-month parameter of the PD risk having the 'i' status in a 't' year is defined as:

$$PD_i(t) = \frac{N_{[t-1,\, t)}^{\;i \to default}}{N_{t-1}^{\;i}}$$

where:

$N_{[t-1,\, t)}^{\;i \to default}$ - the number or transitions from the 'i' status to the 'default' status for a time period [t-1, t)

$N_{t-1}^{\;i}$ – a number of placements having the 'i' status was measured in the year (t-1).

For PD calculation for retail portfolio, migration matrices are based on the party level. Corporate portfolio migration matrices are based on client level.

For the calculation of twelve-month losses, a PD will be used based on twelve months matrices adjusted by macroeconomic adjustment weighted by the probability as described in the introduction - the inclusion of forward-looking information.

When calculating the lifetime values of the PD, the same matrix format used to calculate the 12-month PD values will be used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Group ECL assessment (continued)

Step 1:

Starting from the value of the PD at the twelve-month level according to the matrix of migration, the Bank will multiply the matrix by calculating the cumulative probability of a PD for maturity up to 5 years, from where further to the maximum maturity of financial instruments in the portfolio implies constant values of cumulative probability per bucket.

The multiplication of migration matrices is based on the access to a Markov chain and is calculated using the following formula:
$T_t=T_{t-1} \times T=\ldots= T^t$,

where:

T – is a one-year migration matrix.

* Note: The multiplication of the matrix does not have commutative characteristic and is marked as 'x'.

Step 2:

Based on the obtained cumulative values of PD for different maturities and buckets, the Bank will calculate probabilities of PD for the same maturities and buckets (assuming that a certain exposure has transition to default in a year ‘n’, assuming that it has "survived" up to the year n-1). Transfer from cumulative to conditional probability is obtained based on the Bayes approach:

$$PD_{conditional}(t)=\frac{PD_{cumulative}(t)-PD_{cumulative}(t-1)}{1-PD_{cumulative}(t-1)}$$

Step 3:

Based on the obtained conditional probability of the PD, the Bank will calculate from the same matrices the marginal values of the PD, which marks the default exactly in a year ‘n’ for all maturities and buckets. For the marginal value of the PD from the 5th year, the Bank will use a constant simple weighted average of marginal value of the PD until that year. The Bank calculates the marginal probability using the following formula:

$$PD_{marginal}(t)= PD_{conditional}(t)\cdot(1-PD_{cumulative}(t-1))$$

*Marginal, cumulative and conditional PD in the first year (t=1) are equal, therefore it is the same which one is used during the calculation of twelve months credit losses. In lifetime loans only marginal PD is used. For the further consistency, for the parameter valuation of the PD risk we are considering the valuation of marginal probability of PD.

Step 4:
The Bank adjusts the obtained marginal values of the PD for all maturities and buckets by multiplying them with a corrective factor as described in the introduction – the inclusion of forward-looking information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Group ECL assessment (continued)

The PD parameter for securities is used according to the values Moody's rating, i.e., S&P and according to the expectation of the changes of rating in the following year the macroeconomic adjustment of the weighted probability is done, as described in the introduction – inclusion of the forward-looking information.

The LGD parameter is used for securities according to the values and rating scale of Moody's or S&P.
To calculate the LGD for Corporate (legal entities) customers and Retal (natural persons) customers, the following formula is used:

$$\text{LGD} = (1\text{-CR}) * \left(\frac{\text{EAD - max}\{0,\text{effective collateral value}\}}{\text{EAD}}\right)$$

where:

LGD – is Loss Given Default,

CR – is Cure Rate, obtained from twelve-month migration matrixes (for stage 3 it amounts to 0)

In the case where the effective value of the collateral equals or its greater than amount of EAD, and with the aim for LGD not to equal zero, a fixed value of 5% is used in the formula: $\left(\frac{\text{EAD - max}\{0,\text{effective value of collateral}\}}{\text{EAD}}\right)$. The percentage is determined by experts, by taking into account the high value of collateral, and on the other hand takes into account the provision of IFRS 9 that the assessment of expected credit losses should always reflect the possibility of credit losses even if the absence of credit loss (IFRS 9, 5.5.41) is most likely.

The LGD parameter is not macro-economically adjusted, since the adjustment is at PD level, and is taken into account by multiplying in the impairment formula.

For the calculation of impairment within the homogeneous groups Corporate with first class collateral and Retail with first class collateral, the Bank will apply a fixed percentage of 0.1% in relation to EAD.

The exposure level according to the definition in the introduction and based on the amortisation/depreciation plan is used as **EAD**, i.e. an exposure level for 12-month expected credit losses and a useful life of a financial instrument. For off-balance sheet exposures as a basis for impairment calculation, the amount of off-balance sheet exposure is used together with the credit conversion factor as defined by the Methodology for Assessment of Impairment and Expected Loss (i.e. as a product of an off-balance sheet exposure and credit conversion factors).

As defined in Article 13 of the Capital Adequacy Decision, the values of the credit conversion factor (**CCF**) for different types of off-balance sheet exposures are used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Group ECL assessment (continued)

The calculation of impairment for placements on a group basis is done according to the formulas below for all segments, and for those clients, where there is no objective evidence of impairment if they are materially significant clients or clients with evidence of impairment, but whose exposure is not material.

For exposures that are classified in Stage 1 and for which a twelve-month expected credit loss is calculated on a group basis, the following formula is used:

$$12EL = PD_s \cdot LGD_s \cdot EAD_s$$

12EL	Twelve months expected credit losses
EADs	Exposure at the time of the reporting date
PDs	The probability of entering the default status adjusted for future expectations
LGDs	Loss in the default status, i.e. the recovery rate which indicates on that which the part (percentage) of the contract that were in a default status of the obligation came out in a natural way (considering the value of collateral for individual contracts) during a given time period

For exposures classified in Stage 2 and 3 and for which expected credit losses over the useful lives of financial instruments are calculated on a group basis, the following formula is used:

a) For non-default exposures

$$LEL = \sum_{t=1}^{\text{Maturity}} EAD_s[t] \cdot mPD_s[t] \cdot LGD_s[t]$$

where:

LEL	Expected credit loss over the useful life of a financial instrument
mPDs[t]	A PD vector adjusted through probability-weighted scenarios for macroeconomic expectations
LGDs[t]	LGD vector
EADs[t]	Credit risk exposure vector

b) For default exposures

The same formula as in the previous section is used, whereby the PD vector=1 for all curve points.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Individual ECL calculation

After selecting individual significant placements and establishing the existence of one or more objective evidence of impairment of receivables, the impairment is assessed on an individual basis.

The amount of impairment in accordance with IFRS is calculated as a difference between the carrying values of assets and the present value based on probability-weighted scenarios of the estimated cash flows discounted on the present value, i.e. the reporting date value.

Impairment (Pind) on an individual basis is calculated as:

$$P_{ind} = CA - RA$$

where:

CA	Carrying amount of a financial asset
RA	The amount that the Bank expects to collect per individually impaired asset through probability-weighted scenarios. RA is defined as the present value of the future cash flows CFt.

The RA calculation is presented in the following mathematical formula:

$$RA = \sum_{0}^{t} \frac{CF_t}{(1+r)^t},$$

where:

t	is an expected collection period of the receivables from the Bank. Cash flows are added on a monthly basis.

An assessment of the amount that the Bank expects to collect on an individually impaired asset is in accordance with the probability of weighted assumptions, so that the bank assesses it in two different scenarios to which is assigned the probability and amount of the collection, and the final amount of RA is the sum of the collection amount according to the probability scenario with its probability.

The discount factor 'r' presents the initially agreed effective interest rate calculated for a certain loan if it is the loan that is classified in the Stage 3, i.e. credit adjusted effective interest rate if it is about POCI assets.

The Bank considers the following relation between annual EIR and monthly EIR: $EKS_{p.m.} = (1 + EKS_{p.a.})^{1/12} - 1$

A customer assessment consists of the assessment of the future cash flow. The expected future cash flows include:

- Future cash flows from the loan collection; and
- Future cash flows from the collateral collection.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment calculation (continued)

Individual ECL calculation (calculation)

For the discounting of the cash flow the effective interest rate or credit adjusted effective interest rate (expressed on a monthly level) is used, depending on the type of the assets. For the impairment calculation on the off – balance sheet items and discounting of the future cash flows the effective interest rate can be used on one of the following ways:

- With approved and unused loans – there is an effective interest rate;
- The Bank uses an interest rate of 10% for guarantees, letters of credit and other off-balance sheet liabilities.

In addition, taking into account the maturity from 12-24 months, it is considered that the contingent off – balance sheet item, would transfer to loan if it would be on the Bank's expense, the maturity from 12-24 months and possibly all other conditions that would affect the amount of effective interest rate.

The following parameters are deemed significant:

- The agreed effective interest rate;
- The date of improvement and the date of maturity of the placements;
- Expected collection of the cash flows (principal, interest, fee) from original plan of the repayment or corrected in accordance with delay of experience;
- Expected collection of the collateral, if the collection is not expected from cash flows. Collateral is entered reduced by the corresponding haircut, defined by the procedure.

Considering the determinative of IFRS 9 that the assessment of the expected credit losses should always reflect the possibility of credit losses, even if it is most likely that that the credit loss will not occur the Bank will define the percentage of 0.1% as a minimum amount of impairment at individual party.

3.8.8.3. Presentation

ECL impairment in the income statement is recognized as follows:

- For financial assets valued at amortized cost, impairment decreases the gross carrying amount of a financial asset;
- For off-balance sheet exposures (irrevocable commitments for undrawn loans and financial guarantees) impairment is recognized as a reserve in the equity and liabilities of the balance sheet;
- For partially withdrawn credit facilities where the Bank cannot separately identify the ECL, the expected credit losses should be recognized together as a deductible item of gross carrying value of withdrawn credit parties. Provision is recorded to the extent where the combined ECL exceeds the gross carrying value of the assets;

For debt instruments classified at FVOCI the impairment is not recognized in the balance sheet, due to the carrying amount of these assets must be equal to their fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.4. Provisions

Pursuant to the Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro no. 22/12, 55/12, 57/13, 44/17 and 82/17), the Bank is obligated, depending on the probability of loss, to classify asset items into the following categories:

- A category ("Good Assets") - including loan and other receivables for which there are firm documentary evidences that will be collected in full and as agreed
- B category ("Special Mention") - with B1 and B2 subcategories - including loan for which there is remote probability of loss, but which, require special attention of the Bank, as potential risk, if not adequately monitored, could diminish in terms of its collection
- C category ("Substandard assets") – with C1 and C2 subcategories for which there is high probability of loss, due to the clearly identified collectability issues;
- D category ("Doubtful assets") including loan the full collection of which is, taking into account the creditworthiness of the borrower, value and possibility of realization of collaterals, highly unlikely.
- E category ("Loss") – including the items which are uncollectable in full, or will be collectable in an insignificant amount.

The calculation of provision is conducted on a monthly basis. On a monthly basis, based on the performed classification of balance sheet assets and off-balance sheet items, the Bank calculates provisions for potential losses, applying percentages in the following table:

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

The Bank shall determine the difference between the amount of loan loss provisions calculated in accordance with the above given table and the sum of the amount of allowances for impairment losses and provisions for off-balance sheet items calculated in accordance with the provisions of Decision regulating the manner of valuation of asset items by applying IFRS 9.

A positive difference between the calculated provisions for potential losses and the sum of allowances for items of balance sheet assets and provisions for off-balance sheet items represents a deductible item from the Bank's own assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Property, Plant and Equipment and Intangible Assets

Property, Plant, Equipment and Intangible Assets as of 31 December 2021 are recorded at cost less accumulated depreciation/amortisation. Cost is the value contained in the supplier's invoice increased by attributable expenses based on procurement and input of the assets in the functional state.

Depreciation/amortisation is calculated on a straight-line basis on cost using the following annual rates, in order to write them off over their expected useful lives. Calculation of depreciation commences when the assets are put into use.

	Rate (%)	
	2021	**2020**
Buildings	1	1
Computers and computer equipment	20	20
Furniture and other equipment	11	11
Vehicles	15	15
Leasehold improvements	15	15
Intangible assets	20	20

Pursuant to the Corporate Income Tax Law ("Official Gazette of Montenegro" No. 80/04, 40/08, 86/09, 14/12, 61/13 and 055/16) the value of buildings for tax purposes is calculated using the proportional method and value of equipment and application software by applying digressive method for the entire period, regardless the date of activation. Business premises belong to the group I for which the applicable rate is of 5%, while the remaining fixed assets, equipment and software, are arranged in groups II to V, for which applicable rates are in the range from 15% to 30%.

3.10. Investment Property

Investments in property are tangible assets that are not used directly for the performance of activities, but are acquired for the lease or sales purposes.

Investment property is initially recognized at cost, which consists of cost and transaction costs of acquisition. Subsequent measurement is based on a fair value model based on market value. Gains and losses on subsequent measurement are recognized in the income statement.

3.11. Impairment of Tangible and Intangible Assets

On each balance sheet date, the Bank's management reviews the carrying amounts of tangible and intangible assets. If there is an indication that an asset is impaired, the recoverable amount of the asset is estimated in order to determine the amount of impairment loss. If the recoverable amount of an asset is estimated to be less than the value at which the asset is stated, existing value of the asset is reduced to its recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Impairment of Tangible and Intangible Assets (Continued)

An impairment loss is recognized as an expense of the current period and is recorded under other operating expenses. If subsequently there is a situation that the loss recognized in previous years does not exist or is reduced, the value of the asset is increased up to the revised estimate of its recoverable value, but in way that increased value at which the asset is managed does not exceed the value at which the asset would be managed if in the previous years was not recognized loss due to impairment of assets.

The Bank's management believes that the total value of tangible and intangible assets as at 31 December 2021 is not overstated.

3.12. Repossessed Assets

Repossessed assets are assets acquired by the Bank on foreclosure of receivables for placements collateralised by the above-mentioned property. The Bank recorded repossessed assets at the lower of the gross carrying value of receivables or market value of collateral less costs to sell.

In accordance with the Decision on minimum standards for bank investments in real estate and fixed assets ("Official Gazette of Montenegro", No. 24/09, 66/10, 58/11, 61/12, 13/13, 51/13, 16/15 and 82/17), the total investment of the Bank in real estate and fixed assets shall not be greater than share equity of the Bank's own funds. Exceptionally, the Bank may have investments in real estate and fixed assets even above the level of the equity, if the following conditions are met:

- the amount of investment in real estate and fixed assets exceeding the amount of share equity calculated in accordance with paragraph 1 is treated by the Bank as a deduction item in the calculation of the total amount of own funds of the Bank;
- after the deduction of own funds of the Bank, performed in accordance with point 1), own funds and the solvency ratio of the Bank exceed the regulatory minimum.

For tangible property acquired in exchange for receivables in the process of debt restructuring, in bankruptcy or liquidation of the debtor of the Bank, in the process of reorganization of the debtor in accordance with the regulations governing bankruptcy or execution procedure for the settlement of claims, the Bank is obliged to, when calculating the total amount of investments in real estate and fixed assets, include in the calculation the value of the related real estate in the minimum following percentages:

- 0% if no more than four years have passed since the acquisition date of the immovable property;
- 30% if more than four but not more than five years have passed since the acquisition date of the immovable property;
- 50% if more than five, but not more than six years have passed since the acquisition date of the immovable property;
- 75% if more than six years have passed since the acquisition date of the immovable property.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Provisions

Provisions are recognized when:

- the Bank has a present legal or constructive obligation as a result of past events;
- when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- When a reliable estimate of the amount of the liability can be made.

Provisions are measured at the present value of the expenditures required to settle the liability.

Provisions are reassessed at each balance sheet date and adjusted to reflect the best current estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the liability, the provision is reversed through the income statement.

3.14. Employee Benefits

3.14.1. Contributions for Social Security of Employees

Pursuant to the regulations effective in Montenegro, the Bank has an obligation to pay contributions to various state social security funds for social security of employees. These obligations involve the payment of contributions on behalf of an employee, by the employer, in amounts calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

3.14.2. Retirement Benefits

The present value of future obligations under the General Collective Agreement in Montenegro, such as severance payments for retirement after fulfilling the conditions, as assessed by the Bank's management does not have a material effect on the financial statements taken as a whole, and, therefore, in accordance with accounting policies applicable in Montenegro, provisions are made based on mentioned employee benefits, using the actuarial calculation.

3.15. Borrowings

Borrowings are initially recognized at fair value less transaction costs. Subsequently, borrowings are carried at their amortized value. All differences between the realized inflows (less transaction costs) and the amounts repaid are carried through profit and loss over the period of using the amounts borrowed by applying the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Payment Operations and Cash Management

The Bank performs payment operations and cash management based on a Business Co-operation Contract, which is concluded between a customer, as one contracting party, and a User, as the other party. The Bank is obliged to receive funds from the Customer and conclude a Loan Agreement for Payment Operations and Cash Management with the Loan User on behalf of the Bank and for the account of the Customer and to make these funds fully available to the Loan User. The Loan User will pay interest based on the Loan Agreement for Payment Operations and Cash Management in accordance with the loan repayment schedule, whereas the Bank charges a fee for performing payment operations and cash management. Payment operations and cash management differ from credit operations due to the fact that the Bank does not bear the credit risk, which fully belongs to the customer. Thus, the Bank accounts for these operations under off-balance sheet items, while fee and commission income is recorded in the income statement under the fee and commission income during the payment operations and cash management.

4. ACCOUNTING POLICIES AND ASSUMPTIONS

The management performs assessment and makes assumptions which affects to the value of the assets and liabilities in the following financial year. Accounting policies and assumptions are continuously valued and based on historical experience and other factors, including expectations of the future events for which it is believed that they will be reasonable in the given circumstances.

The resulting accounting assumptions will by the definition rarely be equal with the archived results. The most significant uses of estimates and judgments are as follows:

4.1. Impairment of loans

The Bank monitors and checks the quality of the loan portfolio on a monthly basis, both on an individual and collective basis, with the aim of ongoing assessment of the required amount of security. In determining the amount of impairment on an individual basis, the Bank estimates the value of future cash flows, including from collateral, using a certain degree of impairment of collateral (hair-cuts) and a certain collection period.

Management uses historical loss estimates for assets with similar credit risk characteristics to assess the level of impairment of collateral and the period of collection. The methodology and assumptions used in estimating the amounts and periods of future cash flows are reviewed regularly to eliminate any differences between estimated losses and actual experience.

Stress testing for credit risk predicts the impact of adverse macroeconomic conditions on non-collection and loss rates. Based on historical experience, the relationship between macroeconomic and risk factors is assessed and a benchmark for existing exposures is applied to assess the additional default rate and the provision required to respond to the identified risk. The assumption in these scenarios is that the exposure does not change over the course of one year.

Low-risk loans and lower-exposure loans are reviewed collectively.

4.2. Impairment of securities

To assess the impairment of securities, the Bank uses the rating system of internationally recognized rating agencies (Moody's, S&P, Fitch), as well as their research on government and corporate debt.

In the part of PD parameters (Probability of Default), data from the above-mentioned researches are used directly, where the influence of estimates and assumptions is low. The estimation of the LGD parameter (Loss Given at Default) for government debt is based on the information from the above research for default economies, which is most similar to the economies of issuers whose securities the Bank has in its portfolio. Average values are used for corporate debt.

The most significant assumptions relate to forward-looking information, with the Bank, guided by the precautionary principle in times of heightened uncertainty, using moderately pessimistic scenarios in modelling.

4. ACCOUNTING POLICIES AND ASSUMPTIONS (Continued)

4.3. Fair value of financial instruments

The fair value of financial instruments traded in an active market is obtained based on the published market price on the valuation date.

Determining the fair value of financial assets and liabilities for which there is no observable market price requires the use of various valuation techniques. Although valuation techniques reflect market conditions to a good extent on the day of measurement, they may still differ from market conditions before and after that day.

For financial instruments that are not traded frequently and have low price transparency, fair value is less objective and requires some degree of valuation variation depending on liquidity, concentration, uncertainty of market factors, price assumptions and other risks affecting a particular instrument. A change in the estimates of these factors could affect the fair value of the financial instruments shown.

4.4. Long-term employee benefits

The cost of long-term employee benefits is determined on the basis of actuarial calculation, using actuarial assumptions: discount rate, future wage growth in line with inflation and promotion rates, and wage growth based on past work, as well as changes in the number of employees entitled to compensation. Given the long-term nature of these plans, estimates are subject to significant uncertainty. An independent actuary performs actuarial calculation.

4.5. Lifetime of intangible assets, properties, plants and equipment

Determining the lifetime of intangible assets, properties, plants and equipment is based on previous experience with similar assets as well as anticipated technical development and changes that are influenced by a large number of economic and industrial factors. The adequacy of a certain useful lifetime is reconsidered at an annual level or whenever there is an indication that there has been a significant change of the factors which presented the basis for determining the lifetime.

4.6. Litigation

The Bank's management estimates the amount of provisions for outflows based on litigation based on an assessment of the probability that the outflow of resources will actually occur under a contractual or legal obligation from prior periods.

4. ACCOUNTING POLICIES AND ASSUMPTIONS (Continued)

1.1. Lease assessments

4.7.1. Assessment of the indefinite lease term

The Bank has lease agreements for business premises in which it performs activities concluded for an indefinite period of time. The Bank's management estimates the expected duration of the contract based on available information. Estimates are revised at each reporting period or if there are significant changes in contractual terms.

4.7.2. Estimation of incremental borrowing rate (discount rate)

The Bank is not able to determine the implicit leasing rate, therefore it uses an incremental borrowing rate in measuring the lease liability. The incremental borrowing rate reflects the rate at which the Bank could borrow funds necessary to purchase the leased assets, in similar economic circumstances.

5. RISK MANAGEMENT

5.1. Introduction

The Bank is exposed to various risks in its business operations, including the most important:

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

The risk management strategies, policies, procedures and other risk management documents are designed to identify and analyse risks, define limits and controls required for risk management and to monitor Bank's exposure to each risk. Risk management documents are subject to regular control in order to adequately respond to any changes in the market, products and services.

The Department for Risk Monitoring, Management and Reporting is responsible for monitoring the Bank's exposure to certain risks, which is reported to the Asset and Liability Management Committee and the Board of Directors on a monthly basis.

5.2. Credit risk

The Bank is exposed to credit risk which is a risk that customers will be unable to pay their liabilities to the Bank in full and on time. The Bank makes provisions for expected credit losses as defined by the Methodology for the Assessment of Impairment and Expected Loss according to IFRS 9 (Note 3.3.8). Significant changes in the economic environment or certain industries included in the Bank's loan portfolio might result in losses that are different from the losses provided for as of the balance sheet date. Therefore, the Bank's management carefully manages Bank's credit risk exposure.

5.2.1. Credit risk management

A credit risk exposure is a risk of a financial loss resulting from the borrower's inability to meet all their contractual obligations towards the Bank's strategic commitment is aimed at ensuring optimal diversification of risks and income sources in order to increase cost-effectiveness and the segment of providing existing products and services, as well as promoting and affirming new ones. The Bank manages the credit risk assumed by setting limits in respect of large loans, single borrowing entities and related parties. Such risks are monitored and reviewed on an ongoing basis.

Credit risk exposure management is performed by a regular analysis of the ability of the borrower and potential borrowers to repay their liabilities for interest and principal.

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.1. Credit risk management (Continued)

Loan Commitments and Contingent Liabilities

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit represent Bank's irrevocable undertakings that it will make payments in the event that a customer cannot meet its obligations to third parties, and therefore they carry the same credit risk as loans.

5.2.2. Provisions for credit losses on impairment in accordance with accounting regulations prevailing in Montenegro

The Bank makes an impairment assessment (for balance sheet items), i.e. an estimate of a probable loss (for off-balance sheet items) regarding all balance sheet and off-balance sheet items that are exposed to credit risk. According to the methodology, the Bank has classified all financial assets into groups (portfolios) with similar credit risk characteristics, and taking into consideration the current size and structure of the loan portfolio, they are divided into: placements to corporate customers and entrepreneurs and placements to retail customers. As of the reporting date, the Bank establishes if financial assets were impaired. Objective impairment evidence is explained in Note 3.8.8.

5.2.3. Maximum credit risk exposure

An overview of financial assets and off-balance sheet exposures to credit risk (the amounts contain all receivables, including interest and accruals and deferrals) is presented below):

In EUR thousand	**31 December 2021**		**31 December 2020**	
I Overview of assets	**Gross**	**Net**	**Gross**	**Net**
Cash and deposit accounts with central banks	181,041	181,041	78,179	78,179
Loans and advances to banks	37,571	37,513	25,323	25,305
Loans and advances to customers	158,089	150,047	106,755	101,529
Securities	88,631	87,550	91,396	90,446
Other financial assets	118	89	65	37
Other assets	2,949	2,759	6,755	6,645
	468,399	**458,999**	**308,473**	**302,141**
II Off-balance sheet items				
Irrevocable commitments	7,741	7,451	4,039	3,987
Payment guarantees	8,515	8,482	9,052	8,769
Performance guarantees	1,455	1,269	2,647	2,582
	17,711	**17,202**	**15,738**	**15,338**
Total (I+II)	**486,110**	**476,201**	**324,211**	**317,479**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.3. Maximum credit risk exposure (Continued)

Types of collaterals are as follows:

- deposits;
- pledges on industrial machinery, securities, inventories and vehicles;
- property mortgages and fiduciary ownership transfer;
- promissory notes;
- authorisations;
- garnishments and injunctions;
- endorsers and
- insurance policies.

The catalogue of eligible collaterals defines collateral types (security instruments for the Bank's loan repayments) and establishes which objects and rights are treated as collaterals, i.e. which objects and rights and under what conditions the Bank takes into account when analysing and assessing borrower’s credit risk. Credit risk management is partially controlled in this way.

Taking into consideration the collateral value risk when estimating cash flows from collaterals, the Bank applies a haircut of at least 30% up to 100% to all immovable property depending on the type of collateral and location, whereas a 90% haircut is applied to a collateral in the form of a pledge on movable property.

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers

Loans and advances to banks and customers - staging

An overview of gross exposures and the calculated impairment of advances' principal (ECL – expected credit losses) by stages for loans and advances to banks and customers is provided below:

In EUR thousand

31 December 2021	Gross S1	Gross S2	Gross S3	Total	ECL S1	ECL S2	ECL S3	Total ECL	Net
Cash loans	1,620	116	489	**2,226**	40	40	446	526	**1,699**
Housing loans	284	284	27	**595**	2	20	27	49	**546**
Credit cards	428	29	50	**507**	3	4	8	15	**492**
Other	1,454	1142	482	**3078**	37	37	345	419	**2,659**
Loans to retail customers	3,751	387	840	**4,978**	81	102	826	1,009	**5,396**
Large and medium-sized enterprises	84,843	34,609	16,687	**136,139**	584	1,349	4,254	6,187	**129,952**
State	13,388	-	-	**13,388**	147	-	-	147	**13,241**
Other	120	-	-	**120**	2	-	-	2	**118**
Loans to corporate customers	**98,351**	**34,609**	**16,687**	**149,647**	**733**	**1,349**	**4,254**	**6,336**	**143,311**
Total loans to customers	**102,137**	**36,180**	**17,735**	**156,052**	**814**	**1,451**	**5,080**	**7,345**	**148,707**
Loans to banks	**37,571**	**-**	**-**	**37,571**	**58**	**-**	**-**	**-**	**37,513**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Loans and advances to banks and customers - staging

In EUR thousand

31 December 2020	Gross S1	Gross S2	Gross S3	Total	ECL S1	ECL S2	ECL S3	Total ECL	Net
Cash loans	1,555	78	483	**2,116**	46	18	442	**506**	**1,610**
Housing loans	409	275	28	**712**	3	32	28	**63**	**649**
Credit cards	619	13	7	**639**	4	3	6	**13**	**626**
Other	1,168	21	322	**1,511**	7	-	322	**329**	**1,182**
Loans to retail customers	**3,751**	**387**	**840**	**4,978**	**60**	**53**	**798**	**911**	**4,067**
Large and medium-sized enterprises	55,559	23,567	6,816	**85,942**	408	1,103	2,198	**3,709**	**82,233**
State	15,000	-	-	**15,000**	83	-	-	**83**	**14,917**
Other	89	-	-	**89**	-	-	-	**-**	**89**
Loans to corporate customers	**70,648**	**23,567**	**6,816**	**101,031**	**491**	**1,103**	**2,198**	**3,792**	**97,239**
Total loans to customers	**74,399**	**23,954**	**7,656**	**106,009**	**551**	**1,156**	**2,996**	**4,703**	**101,306**
Loans to banks	**25,323**	**-**	**-**	**25,323**	**18**	**-**	**-**	**18**	**25,305**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

An overview of the data on the credit risk exposure of advances' principal by sectors and categories of advances, stage and the number of days in arrears on the repayment of past due liabilities is provided below:

Advances to customers and banks – Stage 1

In EUR thousand

31 December 2021	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	1,146	474	-	-	-	**1,620**
Housing loans	193	91	-	-	-	**284**
Credit cards	-	428	-	-	-	**428**
Other	1,416	38	-	-	-	**1,454**
Loans to retail customers	**2,755**	**1,131**	**-**	**-**	**-**	**3,786**
Large and medium-sized enterprises	78,126	6,717	-	-	-	**84,843**
State	13,388	-	-	-	-	**13,388**
Other	120	-	-	-	-	**120**
Loans to corporate customers	**91,634**	**6,717**	**-**	**-**	**-**	**98,351**
Total loans to customers, out of which:	**94,389**	**7,748**	**-**	**-**	**-**	**102,137**
Restructured	**-**	**-**	**-**	**-**	**-**	**-**
Loans to banks	**37,571**	**-**	**-**	**-**	**-**	**37,571**

31 December 2020	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	1,133	423	-	-	-	**1,556**
Housing loans	320	88	-	-	-	**408**
Credit cards	-	619	-	-	-	**619**
Other	1,168	-	-	-	-	**1,168**
Loans to retail customers	**2,621**	**1,130**	**-**	**-**	**-**	**3,751**
Large and medium-sized enterprises	55,500	59	-	-	-	**55,559**
State	15,000	-	-	-	-	**15,000**
Other	36	53	-	-	-	**89**
Loans to corporate customers	**70,536**	**112**	**-**	**-**	**-**	**70,648**
Total loans to customers, out of which:	**73,157**	**1,242**	**-**	**-**	**-**	**74,399**
Restructured	**19,757**	**-**	**-**	**-**	**-**	**19,757**
Loans to banks	**25,323**	**-**	**-**	**-**	**-**	**25,323**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Advances to customers and banks – Stage 2

In EUR thousand

31 December 2021	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	41	28	23	24	-	**116**
Housing loans	193	1	90	-	-	**284**
Credit cards	-	12	6	11	-	**29**
Other	565	576	1	-	-	**1,142**
Loans to retail customers	**799**	**617**	**120**	**35**	**-**	**1,571**
Large and medium-sized enterprises	30,771	3,831	6	1	-	**34,609**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Loans to corporate customers	**30,771**	**3,831**	**6**	**1**	**-**	**34,609**
Total loans to customers, out of which:	**31,570**	**4,448**	**126**	**36**	**-**	**36,180**
Restructured	**22,341**	**3,322**	**17**	**8**	**-**	**25,688**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

31 December 2020	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	12	44	16	6	-	**78**
Housing loans	10	6	195	64	-	**275**
Credit cards	-	9	3	1	-	**13**
Other	-	21	-	-	-	**21**
Loans to retail customers	**22**	**80**	**214**	**71**	**-**	**387**
Large and medium-sized enterprises	20,123	3,414	-	30	-	**23,567**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Loans to corporate customers	**20,123**	**3,414**	**-**	**30**	**-**	**23,567**
Total loans to customers, out of which:	**20,145**	**3,494**	**214**	**101**	**-**	**23,954**
Restructured	**5,252**	**926**	**195**	**-**	**-**	**6,373**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Advances to customers and banks – Stage 3

In EUR thousand

31 December 2021	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	12	8	-	1	468	**489**
Housing loans	-	-	-	-	27	**27**
Credit cards	-	41	-	-	9	**50**
Other	-	160	-	-	322	**482**
Loans to retail customers	**12**	**209**	**-**	**1**	**826**	**1,048**
Large and medium-sized enterprises	6,928	6,389	-	200	3,170	**16,687**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Loans to corporate customers	**6,928**	**6,389**	**-**	**200**	**3,170**	**16,687**
Total loans to customers, out of which:	**6,940**	**6,598**	**-**	**201**	**3,996**	**17,735**
Restructured	**6,548**	**5,319**	**-**	**-**	**2,695**	**14,562**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

31 December 2020	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	13	11	2	-	457	**483**
Housing loans	-	-	-	-	28	**28**
Credit cards	-	-	-	-	7	**7**
Other	-	-	-	-	322	**322**
Loans to retail customers	**13**	**11**	**2**	**-**	**814**	**840**
Large and medium-sized enterprises	2,372	2,890	-	19	1,535	**6,816**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Loans to corporate customers	**2,372**	**2,890**	**-**	**19**	**1,535**	**6,816**
Total loans to customers, out of which:	**2,385**	**2,901**	**2**	**19**	**2,349**	**7,656**
Restructured	**1,987**	**1,059**	**-**	**-**	**1,267**	**4,313**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

An overview of the data on impaired advances by days in arrears (advances' principal and the appropriate amount of expected credit losses) is provided below):

Advances to customers and banks – Stage 3

In EUR thousand

31 December 2021	Gross loan	Impairment	Stage 3	Restructured Stage 3	Impairment Stage 3	Share Stage 3	Collateral for Stage 3
Cash loans	2,225	526	489	250	446	21.98%	1,088
Housing loans	595	49	27	24	27	4.52%	-
Credit cards	507	15	50	-	8	9.87%	34
Other	3,078	419	482	322	345	15.66%	1,084
Loans to retail customers	**6,405**	**1,009**	**1,048**	**596**	**826**	**16.36%**	**2,206**
Large and medium-sized enterprises	136,139	6,187	16,687	13,966	4,254	12.26%	25,836
State	13,388	147	-	-	-	0.00%	**-**
Other	120	2	-	-	-	0.00%	**-**
Loans to corporate customers	**149,647**	**6,336**	**16,687**	**13,966**	**4,254**	**11.15%**	**25,836**
Total loans to customers	**156,052**	**7,345**	**17,735**	**14,562**	**5,080**	**11.37%**	**28,042**
Loans to banks	**37,571**	**58**	**-**	**-**	**-**	**0.00%**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Advances to customers and banks – Stage 3

In EUR thousand

31 December 2020	**Gross loan**	**Impairment**	**Stage 3**	**Restructured Stage 3**	**Impairment Stage 3**	**Share Stage 3**	**Collateral for Stage 3**
Cash loans	2,116	506	483	237	442	22.83%	1,364
Housing loans	712	63	28	25	28	3.93%	-
Credit cards	639	13	7	-	6	1.10%	51
Other	1,511	329	322	322	322	21.31%	903
Loans to retail customers	**4,978**	**911**	**840**	**584**	**798**	**16.87%**	**2,318**
Large and medium-sized enterprises	85,942	3,709	6,816	3,729	2,198	7.93%	**8,319**
State	15,000	83	-	-	-	0.00%	**-**
Other	89	-	-	-	-	0.00%	**-**
Loans to corporate customers	**101,031**	**3,792**	**6,816**	**3,729**	**2,198**	**6.75%**	**8,319**
Total loans to customers	**106,009**	**4,703**	**7,656**	**4,313**	**2,996**	**7.22%**	**10,637**
Loans to banks	**25,323**	**18**	**-**	**-**	**-**	**0.00%**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

An overview of movements in loans and advances to customers by stages in 2021 for the principal amounts of advances and expected credit losses is presented below:

In EUR thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 31 December 2020	**74,399**	**23,954**	**7,656**	**106,009**
New advances	65,600	6,279	1,775	**73,564**
Reduction / Advance repayment	(11,719)	(9,653)	(2,239)	**(23,611)**
Transition to Stage 1	249	(249)	-	**-**
Transition to Stage 2	(21,570)	21,596	(26)	**-**
Transition to Stage 3	(4,822)	(5,747)	10,569	**-**
Balance as of 31 December 2021	**102,137**	**36,180**	**17,735**	**156,052**

In EUR thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as of 31 December 2020	**550**	**1,156**	**2,997**	**4,703**
New advances	543	912	272	**1,727**
Reduction / Advance repayment	(275)	(141)	(57)	**(473)**
Impairment during the year	4	122	1,262	**1,388**
Transition to Stage 1	25	(25)	-	**-**
Transition to Stage 2	(28)	36	(8)	**-**
Transition to Stage 3	5	(609)	614	**-**
Balance as of 31 December 2021	**814**	**1,451**	**5,080**	**7,345**

Restructured loans and advances

The Bank has restructured a borrower's loan if it did the following due to the deterioration of the borrower's creditworthiness:

- extended the repayment period for principal or interest,
- reduced the interest rate on the approved loan,
- assumed the borrower's claims against a third party for the purpose of the loan repayment either in full or in part;
- reduced the amount of debt. principal or interest;
- capitalized interest on the loan approved to the borrower;
- replaced the existing loan or existing loans with a new loan (loan renewal);
- provided other similar benefits that facilitate the borrower's financial position.

During the loan restructuring, the Bank performs financial due diligence of the borrower and assesses the borrower's ability, after the loan restructuring, to generate cash flows that will be sufficient to repay the loan principal and interest. In 2021 the Bank restructured loans in the amount of EUR 14,722 thousand, out of which the amount of EUR 14,647 thousand (2020: EUR 6,777 thousand), is related to corporate customers and EUR 75 thousand (2020: EUR 65 thousand).

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Data on restructured loans and advances are presented below:

Restructured loans and advances

In EUR thousand **31 December 2021**	**Restructured advances**	**S1**	**S2**	**S3**	**ECL restructured advances**	**ECL S1**	**ECL S2**	**ECL S3**	**Share of restructured advances**	**Collateral for restructured advances**
Cash loans	304	-	54	250	253	-	18	236	13.67%	369
Housing loans	218	-	195	24	39	-	15	24	36.68%	289
Credit cards	-	-	-	-	-	-	-	-	0.00%	-
Other	342	-	20	322	323	-	-	322	11.11%	1,156
Loans to retail customers	**864**	**-**	**269**	**596**	**615**	**-**	**33**	**582**	**13.49%**	**1,814**
Large and medium-sized enterprises	39,385	-	25,418	13,966	3,921	-	753	3,168	28.93%	53,560
State	-	-	-	-	-	-	-	-	0.00%	-
Other	-	-	-	-	-	-	-	-	0.00%	-
Loans to corporate customers	**39,385**	**-**	**25,418**	**13,966**	**3,921**	**-**	**753**	**3,168**	**26.32%**	**53,560**
Total loans to customers	**40,249**	**-**	**25,687**	**14,562**	**4,536**	**-**	**786**	**3,750**	**25.79%**	**55,374**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.00%**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Restructured loans and advances (Continued)

In EUR thousand

31 December 2020	Restructured advances	S1	S2	S3	ECL restructured advances	ECL S1	ECL S2	ECL S3	Share of restructured advances	Collateral for restructured advances
Cash loans	257	-	19	237	231	-	3	229	12.10%	527
Housing loans	235	-	211	25	45	-	21	25	33.01%	289
Credit cards	-	-	-	-	-	-	-	-	0.00%	-
Other	343	-	21	322	323	-	-	322	22.70%	1,156
Loans to retail customers	**835**	**-**	**251**	**584**	**599**	**-**	**24**	**576**	**16.75%**	**1,972**
Large and medium-sized enterprises	29,608	19,757	6,122	3,729	1,316	20	258	1,038	34.45%	37,635
State	-	-	-	-	-	-	-	-	0.00%	-
Other	-	-	-	-	-	-	-	-	0.00%	-
Loans to corporate customers	**29,608**	**19,757**	**6,122**	**3,729**	**1,316**	**20**	**258**	**1,038**	**29.30%**	**37,635**
Total loans to customers	**30,443**	**19,757**	**6,373**	**4,313**	**1,915**	**20**	**282**	**1,614**	**28.72%**	**39,607**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.00%**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Restructured loans and advances (Continued)

The data on movements in 2021 in restructured loans classified under Stage 1 are provided below:

In EUR thousand	Balance as of 31 December 2020	New restructured S1 advances	Reduction in existing S1 advances	Transition to S2	Transition to S3	Balance as of 31 December 2021
Cash loans	-	45	-	(45)	-	-
Housing loans	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to retail customers	**-**	**45**	**-**	**(45)**	**-**	**-**
Large and medium-sized enterprises	19,757	5,235	-	(20,235)	(4,757)	-
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to corporate customers	**19,757**	**5,235**	**-**	**(20,235)**	**(4,757)**	**-**
Total loans to customers	**19,757**	**5,280**	**-**	**(20,280)**	**(4,757)**	**-**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Restructured loans and advances (Continued)

The data on movements in 2021 in restructured loans classified under Stage 2 are provided below:

In EUR thousand	**Balance as of 31 December 2020**	**New restructured S2 advances**	**Reduction in existing S2 advances**	**Transition to S1**	**Transition to S3**	**Balance as of 31 December 2021**
Cash loans	19	68	(15)	-	(18)	54
Housing loans	211	-	(16)	-	-	195
Credit cards	-	-	-	-	-	-
Other	21	-	(1)	-	-	20
Loans to retail customers	**251**	**68**	**(32)**	**-**	**(18)**	**269**
Large and medium-sized enterprises	6,122	27,282	(3,416)	-	(4,570)	25,418
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to corporate customers	**6,122**	**27,282**	**(3,416)**	**-**	**(4,570)**	**25,418**
Total loans to customers	**6,373**	**27,350**	**(3,448)**	**-**	**(4,588)**	**25,687**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Restructured loans and advances (Continued)

The data on movements in 2021 in restructured loans classified under Stage 3 are provided below:

In EUR thousand	Balance as of 31 December 2020	New restructured S3 advances	Reduction in existing S3 advances	Transition to S1	Transition to S2	Balance as of 31 December 2021
Cash loans	237	25	(12)	-	-	250
Housing loans	25	-	(1)	-	-	24
Credit cards	-	-	-	-	-	-
Other	322	-	-	-	-	322
Loans to retail customers	**584**	**25**	**(13)**	**-**	**-**	**596**
Large and medium-sized enterprises	3,729	11,692	(1,455)	-	-	13,966
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to corporate customers	**3,729**	**11,692**	**(1,455)**	**-**	**-**	**13,966**
Total loans to customers	**4,313**	**11,717**	**(1,468)**	**-**	**-**	**14,562**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Geographic concentration

The geographic concentration of the Bank's credit risk exposure is as follows:

In EUR thousand

	Stage 1 and Stage 2					*Stage 3*				
31 December 2021	**Montenegro**	**EU**	**Europe - other**	**Other**	**Total**	**Montenegro**	**EU**	**Europe - other**	**Other**	**Total**
Retail customers	**2,177**	**105**	**1,368**	**136**	**3,786**	**1,578**	**577**	**430**	**34**	**2,619**
Cash loans	1,597	-	22	-	**1,619**	601	-	3	-	**604**
Housing loans	204	80	-	-	**284**	311	-	-	-	**311**
Credit cards	192	25	76	136	**429**	33	12	-	-	**45**
Other	184	-	1,270	-	**1,454**	633	565	427	34	**1,659**
Corporate customers	**35,714**	**-**	**593**	**62,044**	**98,351**	**44,743**	**1,500**	**200**	**4,853**	**51,296**
Banks and financial activities	2,000	-	-	-	**2,000**	202	-	-	-	**202**
State, public and local self-government	17,707	-	-	-	**17,707**	-	-	-	-	**-**
Construction	7,841	-	200	-	**8,041**	3,352	-	-	-	**3,352**
Information and communication	2,056	-	-	-	**2,056**	-	-	-	-	**-**
Other	752	-	-	-	**752**	1,508	-	-	-	**1,508**
Mining	1,000	-	-	-	**1,000**	359	-	-	-	**359**
Traffic and logistics	75	-	-	-	**75**	1,354	-	-	-	**1,354**
Professional, scientific and technical activities	2,288	-	393	4,340	**7,021**	4,956	1,500	200	4,852	**11,508**
Trade	1,785	-	-	11,750	**13,535**	4,231	-	-	1	**4,232**
Artistic, entertainment and recreational activities	-	-	-	-	**-**	6,907	-	-	-	**6,907**
Services	210	-	-	45,954	**46,164**	21,874	-	-	-	**21,874**
Loans to banks	**-**	**7,545**	**22,619**	**7,407**	**37,571**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Geographic concentration (Continued)

In EUR thousand

	Stage 1 and Stage 2					*Stage 3*				
31 December 2020	**Montenegro**	**EU**	**Europe - other**	**Other**	**Total**	**Montenegro**	**EU**	**Europe - other**	**Other**	**Total**
Retail customers	**2,084**	**716**	**700**	**252**	**3,752**	**1,220**	**2**	**3**	**1**	**1,226**
Cash loans	1,531	-	26	-	**1,557**	557	-	3	-	**560**
Housing loans	325	84	-	-	**409**	303	-	-	-	**303**
Credit cards	154	50	162	252	**618**	17	2	-	-	**19**
Other	74	582	512	-	**1,168**	343	-	-	1	**344**
Corporate customers	**54,036**	**-**	**520**	**16,092**	**70,648**	**16,633**	**1,500**	**-**	**12,250**	**30,383**
Banks and financial activities	480	-	-	-	**480**	100	-	-	-	**100**
State, public and local self-government	17,912	-	-	-	**17,912**	-	-	-	-	**-**
Construction	4,000	-	-	-	**4,000**	1,540	-	-	-	**1,540**
Information and communication	3,414	-	-	-	**3,414**	-	-	-	-	**-**
Other	292	-	-	-	**292**	1,479	-	-	-	**1,479**
Mining	472	-	-	-	**472**	564	-	-	-	**564**
Traffic and logistics	6	-	-	-	**6**	1,501	-	-	-	**1,501**
Professional, scientific and technical activities	4,573	-	520	4,340	**9,433**	295	1,500	-	12,250	**14,045**
Trade	1,993	-	-	11,752	**13,745**	3,252	-	-	-	**3,252**
Artistic, entertainment and recreational activities	4,494	-	-	-	**4,494**	1,499	-	-	-	**1,499**
Services	16,400	-	-	-	**16,400**	6,403	-	-	-	**6,403**
Loans to banks	**-**	**25,323**	**5,692**	**5,590**	**25,323**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Concentration per industry

The Concentration per industry of the Bank's credit risk exposure is as follows:

In EUR thousand **31 December 2021**	**State, public administration and local self-government**	**Banks and financial activities**	**Professional, scientific and technical activities**	**Service activity**	**Trade**	**Artistic, entertainment and recreational activities**	**Construction**	**Information and communication**	**Mining**	**Traffic and logistics**	**Other**	**Retail customers**	**Total**
Financial assets at amortized cost													
Loans and advances to banks	-	37,571	-	-	-	-	-	-	-	-	-	-	37,571
Loans and advances to customers	17,707	2,202	18,529	68,038	17,767	6,907	11,393	2,056	1,359	1,429	2,260	6,405	156,052
Securities	54,345	-	-	-	-	-	-	-	-	-	-	-	54,345
Other financial assets	-	-	-	-	-	-	-	-	-	-	2,949	-	2,949
Financial assets at FVOCI													
Securities	32,178	524	-	196	1,020	-	-	-	-	-	-	-	33,918
Financial assets at FVPL													
Securities	102	-	-	266	-	-	-	-	-	-	-	-	368
Other assets	-	-	-	-	-	-	-	-	-	-	2,949	-	2,949
Total	**104,332**	**40,297**	**18,529**	**68,500**	**18,787**	**6,907**	**11,393**	**2,056**	**1,359**	**1,429**	**8,158**	**6,405**	**288,152**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Concentration per industry (Continued)

In EUR thousand 31 December 2020	State, public administration and local self-government	Banks and financial activities	Professional, scientific and technical activities	Service activity	Trade	Artistic, entertainment and recreational activities	Construction	Information and communication	Mining	Traffic and logistics	Other	Retail customers	Total
Financial assets at amortized cost													
Loans and advances to banks	-	25,323	-	-	-	-	-	-	-	-	-	-	**25,323**
Loans and advances to customers	17,912	581	23,478	22,802	16,997	5,993	5,541	3,414	1,036	1,507	1,770	4,978	**106,009**
Securities	45,523	-	3,652	-	-	-	-	-	-	-	-	-	**49,175**
Other financial assets	-	-	-	-	-	-	-	-	-	-	65	-	**65**
Financial assets at FVOCI													
Securities	40,552	923	-	-	-	-	-	-	-	-	195	-	**41,670**
Financial assets at FVPL													
Securities	102	-	-	449	-	-	-	-	-	-	-	-	**551**
Other assets	-	-	-	-	-	-	-	-	-	-	6,755	-	**6,755**
Total	**104,089**	**26,827**	**27,130**	**23,251**	**16,997**	**5,993**	**5,541**	**3,414**	**1,036**	**1,507**	**8,785**	**4,978**	**229,548**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Loans secured by collateral

Loans and advances to banks and customers secured by collaterals (only secured amounts) are provided below:

In EUR thousand	Stage 1				Stage 2				Stage 3			
31 December 2021	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**
Cash loans	227	72	-	**299**	6	-	-	**6**	370	-	14	**384**
Housing loans	167	80	-	**247**	276	-	-	**276**	-	-	-	**-**
Credit cards	-	347	-	**347**	-	15	-	**15**	-	34	-	**34**
Other	191	-	-	**191**	576	565	-	**1,141**	482	-	-	**482**
Loans to retail customers	**585**	**499**	**-**	**1,084**	**858**	**580**	**-**	**1,438**	**852**	**34**	**14**	**900**
Large and medium-sized enterprises	5,234	65,101	320	**70,655**	5,296	26,068	-	**31,364**	7,065	4,917	-	**12,036**
State	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Other	70	-	-	**70**	-	-	-	**-**	-	-	-	**-**
Loans to corporate customers	**5,304**	**65,101**	**320**	**70,725**	**5,296**	**26,068**	**-**	**31,364**	**7,065**	**4,917**	**-**	**12,036**
Total loans to customers	**5,889**	**65,600**	**320**	**71,809**	**6,154**	**26,648**	**-**	**32,802**	**7,917**	**5,005**	**14**	**12,936**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Loans secured by collateral (Continued)

	Stage 1				Stage 2				Stage 3			
31/12/2020	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**
Cash loans	109	14	-	**123**	26	-	-	**26**	371	-	14	**385**
Housing loans	245	84	-	**329**	266	-	-	**266**	-	-	-	**-**
Credit cards	-	520		**520**	-	-	-	**-**	-	-	1	**1**
Other	538	582	-	**1,120**	21	-	-	**21**	322	-	-	**322**
Loans to retail customers	**892**	**1,200**	**-**	**2,092**	**313**	**-**	**-**	**313**	**693**	**-**	**15**	**708**
Large and medium-sized enterprises	4,779	41,089	37	**45,905**	8,152	12,500	-	**20,652**	3,837	-	-	**3,837**
State	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Other	89	-	-	**89**	-	-	-	**-**	-	-	-	**-**
Loans to corporate customers	**4,868**	**41,089**	**37**	**45,994**	**8,152**	**12,500**	**-**	**20,652**	**3,837**	**-**	**-**	**3,837**
Total loans to customers	**5,760**	**42,289**	**37**	**48,086**	**8,465**	**12,500**	**-**	**20,965**	**4,530**	**-**	**15**	**4,545**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.5. Off-balance sheet items

In EUR thousand

31 December 2021	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
Up to 1 year	5,684	2,247	-	7,931
From 1 to 5 years	2,057	7,723	-	9,780
Total	**7,741**	**9,970**	**-**	**17,711**

31 December 2020	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
Up to 1 year	238	2,008	-	2,246
From 1 to 5 years	3,801	9,691	-	13,492
Total	**4,039**	**11,699**	**-**	**15,738**

Exposures and provisions for off-balance sheet items by stage are presented below:

31 December 2021	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
Exposure				
Stage 1	6,285	7,945	-	14,230
Stage 2	1,375	1,503	-	2,878
Stage 3	81	522	-	603
Total	**7,741**	**9,970**	**-**	**17,711**
Provision for off-balance				
Stage 1	178	66	-	244
Stage 2	70	123	-	193
Stage 3	43	30	-	73
Total	**291**	**219**	**-**	**510**
Net				

5. RISK MANAGEMENT (Continued)

5.2. Credit risk (Continued)

5.2.5. Off-balance sheet items (Continued)

31 December 2020	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
Exposure				
Stage 1	3,906	10,502	-	14,408
Stage 2	82	868	-	950
Stage 3	51	329	-	380
Total	**4,039**	**11,699**	**-**	**15,738**
Provision for off-balance				
Stage 1	43	111	-	154
Stage 2	7	172	-	179
Stage 3	2	65	-	67
Total	**52**	**348**	**-**	**400**
Net	**3,987**	**11,352**	**-**	**15,339**

5.3. Market risk

The Bank is exposed to market risks. Market risks arise in the case of open positions due to changes in interest rate, changes in exchange rates and changes in the prices of securities that change in accordance with market fluctuations. Limits for the market risk exposure are internally prescribed and harmonized 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 changes in foreign exchange rates. Exposure to foreign exchange risk is regularly monitored through compliance with the limits prescribed by the Central Bank of Montenegro. The exposure to foreign exchange risk as of 31 December 2021 is presented below:

In EUR thousand	USD	GBP	CHF	Other	Total
Foreign currency assets	774	3,691	103	16,128	20,696
Foreign currency liabilities	796	3,692	102	16,085	20,675
Net open position					
31 December 2021	**(22)**	**(1)**	**1**	**43**	**21**
31 December 2020	**(3)**	**(1)**	**2**	**47**	**45**
% of stake capital					
31 December 2021	**-0.14%**	**-0.01%**	**0.01%**	**0.27%**	**0.13%**
31 December 2020	**-0.02%**	**-0.01%**	**0.01%**	**0.31%**	**0.30%**

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.1. Foreign exchange risk (Continued)

The Bank's assets and liabilities in major currencies as of 31 December 2021 are provided below:

In EUR thousand	USD	GBP	CHF	Other currencies	Total foreign currencies	Local currency (EUR)	Total
Cash and deposit accounts with central banks	115	17	58	11	201	180,840	181,041
Financial assets at amortised cost							
Loans and advances to banks	371	3,674	45	16,063	20,153	17,360	37,513
Loans and advances to customers	-	-	-	-	-	150,047	150,047
Securities	-	-	-	-	-	53,747	53,747
Financial assets at FVOCI	-	-	-	-	-	89	89
Securities							
Financial assets held for trading	-	-	-	-	-	33918	33,918
Securities for trading						368	368
Derivatives held for risk protection	-	-	-	-	-	-	-
Other assets	288	-	-	54	342	2,417	2,759
Total financial assets	**774**	**3,691**	**103**	**16,128**	**20,696**	**438,786**	**459,482**
Financial liabilities at amortised cost							
Customer deposits						2,486	**2,486**
Loans to non-bank customers	593	3,692	102	14,631	19,018	410,868	**429,886**
Derivative financial liabilities as a hedging instrument						4,146	**4,146**
Other liabilities	-	-	-	-	-	-	**-**
Subordinated debt	203	-	-	1,454	1,657	3,708	**5,365**
Customer deposits	-	-	-	-	-	1,002	**1,002**
Total financial liabilities	**796**	**3,692**	**102**	**16,085**	**20,675**	**422,211**	**442,886**
Net foreign exchange exposure:							
31 December 2021	**(22)**	**(1)**	**1**	**43**	**21**		
31 December 2020	**(3)**	**(1)**	**2**	**47**	**45**		

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2. Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to fluctuating market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to fluctuating market interest rates. The Bank is exposed to the effects of changes in current interest rates on the market based on the risk of changes in interest rates on cash flows. As a result of such changes, interest margins may increase. However, they may reduce profit or result in a loss in the event of unexpected movements. Interest rates are based on market rates so that the Bank regularly re-sets prices.

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

In EUR thousand	**Interest-bearing**	**Non-interest-bearing**	**Total**
Cash and deposit accounts with central banks	-	181,041	181,041
Financial assets at amortised cost			-
Loans and advances to banks	12,473	25,040	37,513
Loans and advances to customers	150,047	-	150,047
Securities	53,747	-	53,747
Other financial assets	-	89	89
Financial assets at FVOCI			-
Securities	33,723	195	33,918
Financial assets held for trading			-
Securities for trading	103	265	368
Derivatives held for risk protection	-	-	-
Other assets	-	2,759	2,759
Total financial assets	**250,093**	**209,389**	**459,482**
Financial liabilities at amortised cost			
Banks and central banks deposits	2,486	-	2,486
Customer deposits	122,575	307,311	429,886
Loans to non-bank customers	4,146	-	4,146
Derivative financial liabilities as a hedging instrument	-	-	-
Other liabilities	-	5,365	5,365
Subordinated debt	1,002	-	1,002
Total financial liabilities	**130,208**	**312,677**	**442,885**
Interest rate risk exposure:			
31 December 2021	**119,885**	**(103,288)**	**16,597**
31 December 2020	**118,549**	**(106,009)**	**12,540**

5. RISK MANAGEMENT (Continued)

5.3. Market risk (Continued)

5.3.2. Interest rate risk (Continued)

The Bank is financed and it grants placements at fixed interest rate. Loans to corporate customers are granted at the following interest rates:

- Short-term loans at a fixed interest rate: 2.50% - 8.00%
- Long-term loans at a fixed interest rate: 4.00% - 10.00%

Lending interest rates applied to loans to individuals in 2021 are as follows:

Loan type	Interest rate
Cash loans	5.50% - 11.00%
Student loans	7.50%
Loans for tourism development	7.50%
Micro loans	13.00%
Loans to pensioners	6.50% - 9.50%
Special-purpose car loans	9.90%

Passive interest rates applied to the deposits of corporate customers in 2021 were as follows:

Deposit type	Interest rate
Short-term deposits	0.25% - 1.00%
Long-term deposits	1.00% - 2.90%

Passive interest rates applied to the deposits of retail customers in 2021 were as follows:

Deposit type	Interest rate
Demand deposits	-
Time deposits in EUR:	
- 3 months	0.40% - 0.60%
- 6 months	0.80% - 1.00%
- 12 months	1.30% - 1.50%
- 24 months	1.80% - 2.00%
- 36 months	2.10% - 2.50%
Time deposits in foreign currencies:	
- 6 months	0.20%
- 12 months	0.40%
- 24 months	0.60%

5. RISK MANAGEMENT (Continued)

5.4. Liquidity risk

Liquidity risk is the risk of the Bank being unable to provide cash to settle liabilities upon maturity, or the risk that the Bank will have to obtain funds at reasonable prices and in a timely manner to be able to settle its matured liabilities.

The matching and controlled mismatching between the maturities and interest rates of assets and of liabilities are fundamental to the management of the Bank. It is uncommon for banks to have completed matching since business transactions are often made for indefinite term and are of different types. A mismatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability of the Bank to obtain sources of funding upon maturity of liabilities at an acceptable cost are an important factor in assessing the liquidity of the Bank and its exposure to changes in interest rates and foreign exchange rates. Liquidity requirements to support calls on guarantees, i.e. active letters of credit, are considerably less than the amount of the commitments because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments for approved loans with extended maturities does not necessarily represent future cash requirements since many of these commitments will expire or terminate without being funded.

The Bank is exposed to daily calls on its available cash resources which influence the available cash held on the current accounts or as deposits. The Bank does not have to maintain the cash resources level in order to meet all potential requirements, estimating that the minimum level of reinvestments of maturing funds can be reliably predicted.

The structure of assets and liabilities as of 31 December 2021 indicates a maturity mismatch of the remaining maturity period of assets and liabilities within a maturity period between one and five years. The Bank's liquidity as its ability to settle due liabilities in a timely manner depends on the balance sheet structure, on one hand, and on the compliance between asset inflows and outflows, on the other hand.

The resulting negative GAPs are predominantly the result of a high level of demand deposits, on one hand, and granted loans and purchased securities for longer terms, on the other hand. The Bank is prepared to assume such a gap risk only due to the fact that there is a developed secondary market for all securities in the Bank's portfolio. Thus, purchased securities are treated as secondary liquidity reserves.

As disclosed in Note 25.2, the Bank concluded a Contract on the Limit for Using Borrowings in case of Endangered Liquidity Position in 2020 in the amount of EUR 5 million, with a maturity date of up to one year from the date of funds' disbursement. The Contract is an additional level of the liquidity reserve in case of the endangered liquidity position.

5. RISK MANAGEMENT (Continued)

5.4. Liquidity risk (Continued)

The remaining expected maturity matching of financial assets and liabilities as of 31 December 2021 is as

In EUR thousand	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Cash and deposit accounts with central banks	169,290	-	-	-	11,751	-	181,041
Financial assets at amortised cost							-
Loans and advances to banks	32,408	-	4,721	-	442	-	37,571
Loans and advances to customers	7,464	25,625	13,786	14,102	20,980	76,132	158,089
Securities	-	702	-	-	26,156	27,487	54,345
Other financial assets	118	-	-	-	-	-	118
Financial assets at FVOCI							-
Securities	7,054	5,823	7,011	5,954	5,721	2,355	33,918
Financial assets held for trading							-
Securities for trading	-	-	-	-	368	-	368
Derivatives held for risk protection	-	-	-	-	-	-	-
Other assets	631	720	1,250	238	110	-	2,949
Total financial assets	**216,965**	**32,870**	**26,768**	**20,294**	**65,528**	**105,974**	**468,399**
Financial liabilities at amortized cost							
Deposits of customers	61,077	28,047	58,575	28,553	196,325	59,795	**432,372**
Loans to non-bank customers	-	104	68	317	2,121	1,536	**4,146**
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	**-**
Other liabilities	3,472	584	125	230	954	-	**5,365**
Subordinated debt	-	-	2	-	-	1,000	**1,002**
Total financial liabilities	**64,549**	**28,735**	**58,770**	**29,100**	**199,401**	**62,331**	**442,886**
Maturity GAP							
31 December 2021	152,416	4,135	(32,002)	(8,806)	(133,873)	43,644	25,514
Cumulative GAP	152,416	156,551	124,549	115,743	(18,130)	25,514	
% of the total source of assets	**32.5%**	**33.4%**	**26.6%**	**24.7%**	**-3.9%**	**5.4%**	
31 December 2020	70,345	4,894	(15,378)	1,010	(75,362)	27,031	12,540
Cumulative GAP	70,345	75,239	59,861	60,871	(14,491)	12,540	
% of the total source of assets	**24.3%**	**25.9%**	**20.6%**	**21.0%**	**-5.0%**	**4.3%**	

follows.

5. RISK MANAGEMENT (Continued)

5.4. Liquidity risk (Continued)

Based on the experiential method, the Bank designed Methodology for Determining the Stable Level of Demand Deposits, i.e. it performed a more adequate redistribution of demand deposits, according to which the cumulative GAP covers all negative GAPs in other time intervals. Maturities of financial liabilities according to the remaining maturity (undiscounted cash flows) are as follows:

In EUR thousand

31 December 2021	**On demand**	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities at *amortized cost*							
Customers' deposits	310,166	6,535	17,878	11,598	26,220	59,974	**432,371**
Loans to non-bank customers	-	-	104	385	2,121	1,536	**4,146**
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	**-**
Other liabilities	3,472	584	125	230	955	-	**5,366**
Subordinated debt	-	-	2	-	-	1,000	**1,002**
Total financial liabilities	**313,638**	**7,119**	**18,109**	**12,213**	**29,296**	**62,510**	**442,885**

31 December 2020	**On demand**	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities at *amortized cost*							
Customers' deposits	206,988	8,736	19	37,273	25,740	4,117	282,873
Loans to non-bank customers	-	-	21	157	1,768	1,126	3,072
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	-
Other liabilities	1,954	262	36	156	602	-	3,010
Subordinated debt	-	-	-	-	-	1,002	1,002
Total financial liabilities	**208,942**	**8,998**	**76**	**37,586**	**28,110**	**6,245**	**289,957**

5. RISK MANAGEMENT (Continued)

5.5. Fair value of financial assets and liabilities

Comparison between the fair and carrying values of financial assets

In EUR thousand	Carrying value		Fair value	
	2021	**2020**	**2021**	**2020**
Cash and deposit accounts with central banks	181,041	78,179	181,041	78,179
Financial assets at amortized cost				
Loans and advances to banks	37,513	25,305	37,513	25,305
Loans and advances to customers	150,047	101,529	150,047	101,529
Securities	53,747	48,570	50,735	48,215
Other financial assets	89	37	89	37
Financial assets at FVOCI				
Securities	33,918	41,670	33,918	41,670
Financial assets held for trading				
Securities for trading	368	551	368	551
Derivatives held for risk protection	-	-	-	-
Other assets	2,759	6,645	2,759	6,645
Total financial assets	**459,482**	**302,486**	**456,470**	**302,131**
Financial liabilities at *amortized cost*				
Customers' deposits	432,371	282,873	432,371	282,873
Loans to non-bank customers	4,146	3,072	4,146	3,072
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	5,366	3,010	5,366	3,010
Subordinated debt	1,002	1,002	1,002	1,002
Total financial liabilities	**442,885**	**289,957**	**442,885**	**289,957**

There are no available market prices for a certain part of the Bank's financial instruments. In circumstances when no market prices are available, the fair value is estimated using cash flow discounting models or other models. Changes in the assumptions underlying the estimates, including discount rates and estimated cash flows, significantly affect the estimates. Therefore, the estimated fair values may differ from those obtained during the actual sale of a financial instrument.

In estimating the fair value of financial instruments for which such a value can be determined, the following methods and assumptions have been applied:

Loans and advances to banks

Advances to other banks include interbank placements and positions in the collection process. The fair value of fixed interest rate placements and overnight deposits approximates the carrying amount of these financial assets stated at the balance sheet date.

5. RISK MANAGEMENT (Continued)

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

Loans and advances to customers

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

The Bank's management believes that the Bank's interest rates do not deviate significantly from the prevailing market interest rates in the banking sector of Montenegro and accordingly, the fair value of loans is calculated for clients as the present value of future cash flows discounted by applying current market rates, i.e. weighted average interest rates for the banking sector, and it does not deviate significantly from the stated carrying amounts of loans at the balance sheet date. According to the management, the amounts in the financial statements reflect a realistic value that is the most reliable and useful for the purposes of financial reporting in the given circumstances.

Securities

Bonds are valued at fair value based on market prices. As of 31 December 2021, the market prices of bonds measured at fair value in the Bank's portfolio were available.

Financial liabilities

As regards demand deposits, as well as deposits with a remaining maturity of less than one year, it is assumed that the estimated fair value does not deviate significantly from the book values. According to the management, the Bank's interest rates are adjusted to current market interest rates and accordingly, the amounts in the financial statements reflect the realistic value which in the given circumstances most accurately reflects the fair value of fixed interest rate deposits with a remaining maturity of more than one year.

The fair value of variable interest rate borrowings is assumed to be approximate to the carrying amount of these liabilities at the reporting date.

5.5.1. Fair value hierarchy

The applicable accounting regulations in Montenegro, as well as the application of IFRS 13, require the disclosure of fair value measurements according to the following hierarchical levels:

- quoted prices (unadjusted) on an active market for the same assets or the same liabilities (level 1);
- information other than quoted prices included in level 1, which is based on available market data for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices) (level 2),
- information on an asset or a liability that is not based on available market data (level 3).

5. RISK MANAGEMENT (Continued)

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

5.5.1. Fair value hierarchy (Continued)

The fair value of financial instruments traded in an active market is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined using various evaluation techniques. The Bank applies various methods and makes assumptions based on market conditions prevailing at the balance sheet date. These methods include quoted market prices or quoted prices for similar instruments and estimated discounted cash flow values.

In EUR thousand

31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at fair value through other comprehensive income				
Securities	33,918	-	-	**33,918**
Financial assets held for trading				
Securities for trading	368	-	-	**368**
Derivatives held as a hedging instrument	-	-	-	**-**
Total assets	**34,286**	**-**	**-**	**34,286**
Derivative financial liabilities as a hedging instrument	-	-	-	**-**
Total liabilities	**-**	**-**	**-**	**-**

31 December 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at fair value through other comprehensive income				
Securities	41,670	-	-	**41,670**
Financial assets held for trading				
Securities for trading	551	-	-	**551**
Derivatives held as a hedging instrument	-	11	-	**11**
Total assets	**42,221**	**11**	**-**	**42,232**
Derivative financial liabilities as a hedging instrument	-	-	-	**-**
Total liabilities	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.6. Capital management

The capital management objective is:

- compliance with regulatory regulations,
- protection of the Bank's ability to continue as a going concern in order to be able to provide shareholder payments and compensations to other owners. And
- provision of capital to support the Bank's further development.

The Bank's management controls capital adequacy using the methodology and limits prescribed by the Central Bank of Montenegro according to the Decision on Capital Adequacy ("Official Gazette of Montenegro", no. 38/11, 55/12 and 82/17). In accordance with the regulations, the Bank submits quarterly reports on the capital position and structure to the Central Bank of Montenegro. The Bank's own funds consist of stake capital and supplementary capital. The sum of the main elements of own funds, less the sum of deductible items, represents the stake capital of the Bank.
The main elements of the Bank's own funds:

- paid-in share capital at nominal value, excluding cumulative preference shares;
- collected issuance premiums;
- reserves for estimated losses upon regulatory requirement, allocated in accordance with the decision prescribing minimum standards for credit risk management in banks;
- reserves made and charged to profit after tax (legal. statutory and other reserves);
- retained earnings from previous years;
- the amount of profit in the current year if the General Meeting of Shareholders has made a decision to be included in the stake capital of the Bank.

Deductible items in the calculation of the Bank's stake capital:

- losses from previous years;
- loss from the current year;
- intangible assets in the form of goodwill, licenses, patents, trademarks and concessions;
- a nominal amount of acquired own shares, excluding cumulative preference shares;
- unrealised loss from value adjustments of financial assets available for sale, at fair value;
- a positive difference between the amount of accrued provisions for potential losses and the sum of the impairment allowance for balance sheet assets and provisions for off-balance sheet items;
- the amount of the exceeded investment limit in property and fixed assets, determined by a separate regulation of the Central Bank.

A sum of number additional elements of own funds, less the sum of deductible items, represents the Bank's supplementary capital.

Additional elements of own funds that are included in the Bank's supplementary capital:

- a nominal amount of paid-in preference cumulative shares;
- collected issuance premiums based on cumulative priority shares;
- the amount of general reserves of up to 1.25% of total risk-weighted assets;
- subordinated debt for which the conditions from the CBM Decision on Capital Adequacy are met;
- hybrid instruments for which the conditions from the CBM Decision on capital adequacy are met;
- revaluation reserves for property owned by the Bank.

5. RISK MANAGEMENT (Continued)

5.6. Capital management (Continued)

Deductible items in the calculation of supplementary capital:

- acquired own preference cumulative shares;
- receivables and contingent liabilities secured by hybrid instruments or a subordinated debt of the Bank up to the amount in which these instruments are included in supplementary capital.

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain a minimum capital adequacy ratio of 10%. The Bank is obliged to harmonize the scope of its operations with the prescribed indicators, i.e. to harmonize the scope and structure of its risk-weighted placements with the Law on Banks and the regulations of the Central Bank of Montenegro. As of 31 December 2021, the solvency ratio calculated by the Bank amounted to 19.58% (2020: 21.57%). The Bank 's compliance with regulatory indicators is provided in Note 30.

5. RISK MANAGEMENT (Continued)

1.1. Sensitivity analyses

5.7.1. Foreign exchange risk sensitivity analysis

Apart from an analysis of the Bank's foreign currency receivables and payables, the foreign exchange risk management also includes a foreign exchange risk sensitivity analysis. A scenario of exchange rate changes ranging from +10% to -10% in comparison to EUR is provided below.

In EUR thousand	**Total**	**Foreign currency amount**	**10%**	**-10%**
Cash and deposit accounts with central banks	181,041	201	20	(20)
Financial assets at amortized cost				
Loans and advances to banks	37,513	20,153	2,015	(2,015)
Loans and advances to customers	150,047	-	-	-
Securities	53,747	-	-	-
Other financial assets	89	-	-	-
Financial assets at FVOCI				
Securities	33,918	-	-	-
Financial assets held for trading				
Securities for trading	368	-	-	-
Other assets	2,759	342	34	(34)
Total financial assets	**459,482**	**20,696**	**2,069**	**(2,069)**
Financial liabilities carried at amortised cost				
Deposits due to banks and central banks	2,486	-	-	
Customers' deposits	429,886	19,018	1,902	(1,902)
Loans to non-bank customers	4,146	-	-	-
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	5,365	1,657	166	(166)
Subordinated debt	1,002	-	-	-
Total financial liabilities	**442,885**	**20,675**	**2,068**	**(2,068)**
Net foreign currency exposure:				
31 December 2021			**1**	**(1)**
31 December 2020			**5**	**(5)**

As of 31 December 2021, provided that all other parameters remain unchanged by the change in the EUR exchange rate against other currencies by + 10% and -10%, the Bank's profit would decrease or increase by EUR 1 thousand (31 December 2020: EUR 5 thousand). The reason for the Bank's low exposure to changes in foreign exchange rates is the fact that the largest amount of the Bank's receivables and payables are denominated in EUR, and that the Bank's openness (open position) to foreign exchange risk is reduced through derivatives used for hedging against foreign exchange risk. The open position is monitored and closed on a daily basis.

5. RISK MANAGEMENT (Continued)

1.2. Sensitivity analyses

5.7.2. Interest rate risk sensitivity analysis

During the interest rate risk management, the Bank performs sensitivity analysis of changes in receivables and payables with variable interest rates. The effects of changes in variable interest rates on receivables and payables denominated in EUR ranging from +0.4% p.p. to -0.4% p.p. are presented below.

In EUR thousand	**Total**	**Interest bearing**	**+ 0.4%**	**- 0.4%**
Cash and deposit accounts with central banks	181,041	-	-	-
Financial assets at amortized cost				
Loans and advances to banks	37,513	12,473	50	(50)
Loans and advances to customers	150,047	150,047	600	(600)
Securities	53,747	53,747	215	(215)
Other financial assets	89	-	-	-
Financial assets at FVOCI				
Securities	33,918	33,723	135	(135)
Financial assets held for trading				
Securities for trading	368	103	-	-
Derivatives held for risk protection	-	-	-	-
Other assets	2,759	-	-	-
Total financial assets	**459,482**	**250,093**	**1,000**	**(1,000)**
Financial liabilities carried at amortised cost				
Deposits due to banks and central banks	2,486	2,486	10	(10)
Customers' deposits	429,886	122,533	490	(490)
Loans to non-bank customers	4,146	4,146	17	(17)
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	5,365	-	-	-
Subordinated debt	1,002	1,002	4	(4)
Total financial liabilities	**442.886**	**130,167**	**521**	**(521)**
Interest rate risk exposure:				
31 December 2021			**479**	**(479)**
31 December 2020			**474**	**(474)**

Provided that all other parameters are unchanged, an increase or a decrease in the variable interest rate on receivables and payables denominated in EUR by 0.4 p.p. would result in an increase and/or a decrease in the Bank's profit by EUR 479 thousand.

6. INTEREST INCOME AND EXPENSES

6.1. Interest income and similar income

In EUR thousand	2021	2020
Deposits with foreign banks	41	12
Loans to		
State	478	59
Companies	4,014	3,108
Individuals	312	260
	4,804	**3,427**
Securities		
at amortised cost	1,549	1,161
at fair value through other comprehensive income	765	870
at fair value through profit or loss	3	8
	2,317	**2,039**
Loan fee income	164	132
Total	**7,326**	**5,610**

6.2. Income from interest on impaired placements

In EUR thousand	2021	2020
Loans		
impaired placements to companies	375	190
impaired placements to individuals	7	10
Total	**382**	**200**

6.3. Interest expense and similar expenses

In EUR thousand	2021	2020
Deposits of		
foreign banks	120	73
companies	1,291	899
individuals	528	168
	1,939	**1,140**
Loans and other borrowings	46	57
Subordinated debt	5	5
Expenses from interest on leased assets	14	11
Total	**2,004**	**1,213**

7. FEE AND COMMISSION INCOME AND EXPENSES

1.1. Fee and Commission Income

In EUR thousand	2021	2020
International payment transactions	4,041	2,581
Payment operations and cash management	1,205	1,384
VISA and MC card operations	581	378
Domestic payment transactions	359	257
Custody and brokerage operations	104	127
E-banking	168	116
Fees for issued guarantees	146	142
Other fees and commissions	198	139
Total	**6,802**	**5,124**

7.2. Fee and commission expenses

In EUR thousand	2021	2020
Deposit insurance premium fees	278	1,257
Fees and commissions payable to the Central Bank	488	396
VISA and MC card operations	300	249
International payment transactions	394	299
Custody and brokerage operations	35	17
Expenses for securities	64	51
E-banking	108	99
Other fees and commissions	17	29
Total	**1,684**	**2,397**

In 2021, there was a significant reduction in the expenditure of deposit insurance premiums due to changes in the Methodology for calculating insurance premiums in the part of the base in such a way that the base no longer consists of all deposits but only guaranteed deposits of the credit institution.

8. NET INCOME FROM DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

In EUR thousand	2021	2020
Securities at FVOCI	146	31
Financial instruments at amortised cost	-	50
Total	**146**	**81**

9. NET LOSSES ON FINANCIAL INSTRUMENTS HELD FOR TRADING

In EUR thousand	2021	2020
Equity instruments	79	(74)
Debt instruments	-	7
Total	**79**	**(67)**

10. NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

In EUR thousand	2021	2020
Realised foreign exchange differences – operations with customers	2,357	1,241
Value adjustment between assets and liabilities	89	(206)
Total	**2,446**	**1,035**

11. OTHER INCOME

In EUR thousand	2021	2020
Income from collection of written-off loans	5	4
Investment property valuation	(74)	-
Dividends	4	-
Sundry income	1	1
Rental income	9	8
Total	**(55)**	**13**

12. EMPLOYEE BENEFITS

In EUR thousand	2021	2020
Net salaries	1,127	972
Payroll taxes, surtaxes and contributions	709	667
Remunerations to members of the Board of Directors	93	71
Travel and subsistence expenses	10	7
Fees for occasional jobs	22	25
Employee training	5	4
Total	**1,966**	**1,746**

13. DEPRECIATION AND AMORTISATION CHARGES

In EUR thousand	2021	2020
Property, plant and equipment (Note 22)	216	175
Leased assets (Note 22)	170	113
Leased assets – investment property (Note 21)	14	14
Intangible assets (Note 23)	179	171
Total	**579**	**473**

14. GENERAL AND ADMINISTRATIVE COSTS

In EUR thousand	2021	2020
Representative office costs - Dubai	418	284
Marketing and sponsorships	155	68
Maintenance of IT equipment	251	214
Lease and maintenance of business premises	102	73
Intellectual services	399	185
Entertainment	42	9
Telecommunications	93	95
Security	66	58
Other	28	28
Water supply, electricity, fuel and utilities	60	52
Insurance	36	38
Membership fees	42	54
Travel and accommodation expenses	5	11
Legal fees and court expenses	34	121
Money transportation	8	10
Other taxes	17	11
Office material	11	7
Board of Directors	12	2
Donations	6	9
Total	**1,785**	**1,329**

15. IMPAIRMENT EXPENSES OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

In EUR thousand	2021	2020
Loans and advances to banks	40	6
Loans and advances to customers	2,621	1,989
Securities at amortised cost	102	340
Securities at FVOCI	29	118
Off-balance sheet items exposed to credit risk	109	71
Other assets	275	38
Total	**3,176**	**2,562**

15. IMPAIRMENT EXPENSES OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Movements in impairment and provision accounts

The accounts of impairment allowances include all items of financial and non-financial assets, other than intangible assets, plant, equipment and investment property (disclosed in Notes 22-24), as items of calculated provisions for potential losses and long-term employee benefits. The calculation of the impairment of financial assets and off-balance sheet items exposed to credit risk is based on IFRS 9: *Financial instruments*, of other assets on IAS 36: *Impairment of Assets*, whereas provisions for long-term employee benefits are based on IAS 19: *Employee Benefits.* The Bank did not have provisions based on IAS 37: *Provisions, Contingent Liabilities and Contingent Assets.*

Movements on accounts of impairment and provisions during 2021 were as follows:

	Loans and advances to banks	Loans and advances to customers	Securities - AC	Securities – FVOCI	Off-balance sheet items	Other assets	Retirement benefits	Provisions for litigation	Total
Balance as of 31 December 2020	**18**	**5,226**	**605**	**345**	**400**	**1,361**	**2**	**-**	**7,957**
Charge for the year	53	12,703	132	315	959	588	1	15	14,766
Reversal during the year	(13)	(10,083)	(30)	(286)	(850)	(313)	-	-	(11,575)
Interest income reduction on impaired placements	-	219	-	-	-	-	-	-	219
Write-off of receivables	-	(23)	-	-	-	-	-	-	(23)
Reclassification	-	-	(109)	109	-	-	-	-	-
Balance as of 31 December 2021	**58**	**8,042**	**598**	**483**	**509**	**1,636**	**3**	**15**	**11,344**

16. INCOME TAXES

16.1. Income tax components

In EUR thousand	2021	2020
Calculated current income tax	551	180
Calculated deferred income tax	(22)	15
Total	**529**	**195**

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

In EUR thousand	2021	2020
Result in the income statement before tax	5,860	2,240
Capital gains	(132)	(39)
Depreciation expense in the income statement	579	473
Depreciation expense for tax purposes	(603)	(593)
Tax effect of expenses and income not recognised for tax purposes, net	291	17
The amount of taxable profit	**5,995**	**2,098**
Capital gains	132	39
Tax base	**6,127**	**2,137**
Income tax (9%)	551	192
Deferred tax expense/income	(22)	15
Reduction of tax liability based on early payment	-	(11)
Total cost of income tax	**529**	**196**
Effective tax rate	**9.03%**	**8.75%**

16. INCOME TAXES (Continued)

16.3. Deferred income tax

Movements on accounts of deferred income taxes in 2021 are provided below:

In EUR thousand	Deferred tax assets – equity securities at FVOCI	Deferred tax assets – acquired assets	Deferred tax assets – temporary differences arising from the expense recognition for tax purposes	Deferred tax liabilities - temporary differences arising from depreciation calculation	Deferred tax liabilities - debt securities at FVOCI
Balance as of 31 December 2020	**35**	**111**	**5**	**(78)**	**(35)**
Deferred tax income / (expense) for the period	-	23	-	(1)	-
Deferred other tax result for the period	-	-	-	-	74
Balance as of 31 December 2021	**35**	**134**	**5**	**(79)**	**39**

Deferred tax liabilities are income taxes payable in future periods against taxable temporary differences. Deferred tax assets are income taxes recoverable in future periods, which are related to: a) deductible temporary differences; b) unused tax losses carried forward to the next period; c) unused tax credit carried forward to the next period.

Temporary differences are differences between the carrying amount of an asset or a liability stated in the balance sheet and their tax base. They can be:

- *Taxable temporary differences* – their result will be taxable amounts during the determination of taxable profit (or tax loss) of future periods when the carrying amount of an asset or a liability is recovered or settled;
- *Deductible temporary differences* – their result will be amounts that can be deducted during the determination of taxable profit (or tax loss) when the carrying amount of an asset or a liability is recovered or settled.

The Bank does not have unused tax losses or tax credit carried forward to the next period.

17. CASH AND DEPOSIT ACCOUNTS WITH CENTRAL BANKS

In EUR thousand

	31/12/2021	31/12/2020
Cash on hand:		
- in EUR	44	105
- in foreign currency	-	-
Cash in vault:		
- in EUR	12,681	11,479
- in foreign currency	202	288
Cash at ATMs		
Gyro account	144,611	52,716
Reserve requirement with the Central Bank of Montenegro	23,503	13,591
Total	**181,041**	**78,179**

For the purpose of compiling the Separate Statement of Cash Flows, the table below includes cash and deposit accounts with central banks and funds on correspondent accounts with foreign banks:

	31/12/2021	31/12/2020
Cash on hand:		
- in EUR	44	105
- in foreign currency	-	-
Cash in vault:		
- in EUR	12,681	11,479
- in foreign currency	202	288
Cash at ATMs	-	-
Gyro account	144,611	52,716
Reserve requirement with the Central Bank of Montenegro	23,503	13,591
Loans and advances to banks (Note 18.1)	32,408	24,881
Total cash and cash equivalents	**213,449**	**103,060**

As of 31 December 2021, the Bank's obligatory reserves were set aside in accordance with the Decision of the Central Bank of Montenegro on Obligatory Reserves of Banks to be held with the Central Bank of Montenegro ("Official Gazette of Montenegro", no. 88/17, 43/20) (hereinafter "the Decision"), stipulating that banks calculate the obligatory reserve applying the following rates:

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

On 11 May 2020 the Central Bank of Montenegro passed a Decision on Amendments to the Decision of the Central Bank of Montenegro on Obligatory Reserves of Banks to be held with the Central Bank of Montenegro, based on which the rates of the required reserve have been reduced from 7.5% and 6.5% to 5.5% and 4.5%. The Bank sets aside calculated required reserve to the account of the required reserve in the county and/or accounts of the Central Bank of Montenegro abroad. The required reserve is set aside in EUR.

17. CASH AND DEPOSIT ACCOUNTS WITH CENTRAL BANKS (Continued)

As of 31 December 2021, the Central Bank pays to the Bank on a monthly basis, up to the eighth day of the month for the preceding month, a fee on 50% of the funds of the required reserve calculated at the EONIA rate minus 10 basis points per annum, whereas the rate cannot be less than zero.

The Bank may use up to 50% of allocated reserve requirements to maintain daily liquidity. The Bank does not pay a fee for the used amount of the required reserve that is returned on the same day. The Bank is obliged to pay a monthly fee on the amount of required reserve funds that it does not return on the same day at the rate determined by a special regulation of the Central Bank of Montenegro. In 2021 the Bank did not use the required reserve to maintain daily liquidity.

18. FINANCIAL ASSETS AT AMORTIZED COST

18.1. Loans and advances to banks

In EUR thousand	**31/12/2021**	**31/12/2020**
Correspondent accounts with foreign banks	32,408	24,881
Term funds with foreign banks	5,163	442
	37,571	**25,323**
Impairment (Note 15)	(58)	(18)
Total	**37,513**	**25,305**

Gross balances on accounts with foreign banks:

31/12/2021	**12m PD**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating					
Aaa - Aa	0%-0.22%	12,109	-	-	12,109
A	0.06%	1,060	-	-	1,060
Baa	0.16%	8,652	-	-	8,652
Ba	0.84%	777	-	-	777
B	3.22%	14,952	-	-	14,952
Caa	9.73%	11	-	-	11
Individually observed		10	-	-	10
Total		**37,571**	**-**	**-**	**37,571**

31/12/2020	**12m PD**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating					
Aaa - Aa	0%-0.22%	2,873	-	-	2,873
A	0.06%	4,776	-	-	4,776
Baa	0.17%	11,510	-	-	11,510
Ba	0.86%	3,296	-	-	3,296
B	3.24%	2,811	-	-	2,811
Caa	9.61%	47	-	-	47
Individually observed		10	-	-	10
Total		**25,323**	**-**	**-**	**25,323**

18. FINANCIAL ASSETS AT AMORTIZED COST (Continued)

18.2. Loans and advances to customers

In EUR thousand	**31/12/2021**	**31/12/2020**
Loans		
- Government of Montenegro	13,388	15,000
- privately owned companies	136,083	85,794
- individuals	6,405	4,978
- other - entrepreneurs and non-governmental organizations	176	237
	156,052	**106,009**
Interest receivables		
Accruals and deferrals		
- loan interest	2,268	1,078
- loan fees	(231)	(332)
Impairment		
- Impairment of loans (Note 15)	(7,345)	(4,703)
- Impairment of interest (Note 15)	(697)	(523)
Total loans and advances to customers	**150,047**	**101,529**

Short-term loans to companies are mostly granted for working capital with a term of one month to 12 months, while long-term loans are approved for a period of 12 to 240 months and mainly relate to companies from hotel management, trade, mining and quarrying, energy, service and other sectors.

Retail loans include cash loans, housing loans, tourism loans, pensioner loans and micro loans approved for a period of 12 to 240 months.

Detailed information on the Bank's loan portfolio is disclosed in Note 5.2.4.

6.1. Securities

	31/12/2021	**31/12/2020**
Debt securities		
Government bonds of Montenegro	54,345	40,662
Bonds of foreign governments	-	4,861
Corporate bonds	-	3,652
Impairments of debt securities (Note 15)	(598)	(605)
Total	**53,747**	**48,570**

All bonds at amortized cost are Eurobonds with maturities from April 2025 to October 2029 and an annual fixed interest rate of 2.55-3.375%.

18. FINANCIAL ASSETS AT AMORTIZED COST (Continued)

6.2. Securities (Continued)

As noted in Note 3.8.4, in 2021 the Bank reclassified a portion of the portfolio of at fair value through other comprehensive income to the at amortized cost portfolio as well as the portion of the securities at amortised cost portfolio to the portfolio at fair value through other comprehensive income.

As at 30 April 2021, bonds with a gross carrying amount of EUR 8,328 thousand were reclassified from at amortized cost to at fair value through other comprehensive income. The market value of reclassified bonds at the time of reclassification was EUR 8,269 thousand. On 30 April 2021, bonds with a gross carrying amount of EUR 14,053 thousand at amortized cost were reclassified to bonds at fair value through profit or loss. The market value of these reclassified bonds at the time of reclassification was EUR 13,254 thousand. These reclassifications did not have an impact on the measurement of expected credit losses, but did affect their presentation (reclassification from other reserves within equity to position in assets for reclassification from at fair value to amortized cost and reclassification from assets to other reserves within equity for reclassification from at amortized cost to at fair value through other total equity.

Reclassification effects on other comprehensive income are presented separately under the Cash Flow Statement.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH COMPREHENSIVE INCOME

19.1. Securities

In EUR thousand	**31/12/2021**	**31/12/2020**
Debt securities		
Government bonds of Montenegro	25,984	38,964
Bonds of foreign governments	6,191	1,588
Corporate bonds	1,548	923
Treasury bills	-	-
	33,723	**41,475**
Equity securities (FVOCI)		
Equity investment in subsidiaries	195	195
Total	**33,918**	**41,670**
Impairments of debt securities (Note 15)	(483)	(345)

Bonds in the Bank's portfolio at fair value through other comprehensive income are Eurobonds (corporate and government) with a fixed annual interest rate of 2.55-4.75%. Government bonds have maturities from April 2023 to October 2029 and corporate bonds have maturities from November 2025 to November 2040.

20. FINANCIAL ASSETS HELD FOR TRADING

20.1. Securities

In EUR thousand	**31/12/2021**	**31/12/2020**
Debt securities	103	102
Equity securities	265	449
Total	**368**	**551**

The bonds held for trading are government bonds with an annual fixed interest rate of 3% and a maturity of 2024.

21. INVESTMENT PROPERTY

	2021	**2020**
Cost		
Balance as of 1 January	201	159
Additions	97	-
Effects of IFRS 16 application as 1 January 2020	-	42
Reduction to net realizable value	(72)	-
Balance as of 31 December	**226**	**201**
Allowance for impairment		
Balance as of 1 January	14	-
Depreciation (Note 13)	14	14
Balance as of 31 December	**28**	**14**
Carrying value as of 31 December	**198**	**187**

22. PROPERTY. PLANT AND EQUIPMENT

In EUR thousand	Buildings	Equipment and other assets	Right to use assets: Buildings – business premises	Right to use assets: cars	Construction in progress	Total
Cost						
Balance as of 1 January 2020	2,839	1,470	228	19	102	4,658
Additions	-	443	391	-	445	1,279
Transfers to intangible assets	-	-	-	-	(87)	(87)
Transfers	-	-	(30)	-	(448)	(478)
Decrease-write-offs	-	(49)	-	-	-	(49)
Balance as of 31 December 2020	**2,839**	**1,864**	**589**	**19**	**12**	**5,323**
Additions	-	-	994	20	747	1,761
Transfers to intangible assets	-	-	-	-	(36)	(36)
Decrease-write-offs	-	-	(46)	(5)	-	(51)
Transfers	-	117	-	-	(117)	-
Balance as of 31 December 2021	**2,839**	**1,981**	**1,537**	**34**	**606**	**6,997**
Accumulated depreciation						
Balance as of 1 January 2020	(136)	(1,017)	-	-	-	(1,153)
Depreciation (Note 13)	(28)	(146)	(107)	(6)	-	(287)
Write-off and disposal	-	49	-	-	-	49
Balance as of 31 December 2020	**(164)**	**(1,114)**	**(107)**	**(6)**	**-**	**(1,391)**
Depreciation (Note 13)	(28)	(126)	(220)	(12)	-	(386)
Write-off and disposal	-	-	-	4	-	4
Balance as of 31 December 2021	**(192)**	**(1,240)**	**(327)**	**(14)**	**-**	**(1,773)**
Net book value as of						
- 31 December 2021	**2,647**	**741**	**1,210**	**20**	**606**	**5,224**
- 31 December 2020	**2,675**	**750**	**482**	**13**	**12**	**3,932**

As of 31 December 2021, the Bank has no pledged assets that serve as an instrument to secure the repayment of loans and other liabilities.

23. INTANGIBLE ASSETS

Intangible assets mainly include licenses and software. The following overview shows movements on intangible assets during 2021 and 2020:

In EUR thousand	2021	2020
Cost		
Balance as of 1 January	1,450	1,363
Transfers from property, plant and equipment	36	87
Write-off	-	-
Balance as of 31 December	**1,486**	**1,450**
Accumulated amortization		
Balance as of 1 January	1,032	861
Amortization (Note 13)	179	171
Write-off	-	-
Balance as of 31 December	**1,211**	**1,032**
Carrying value as of 31 December	**275**	**418**

24. OTHER ASSETS

	31/12/2021	31/12/2020
Repossessed assets	2,308	2,547
Trade receivables	51	46
Receivables for card operations	1,251	935
Unallocated payments	202	4,429
Prepaid expenses	721	377
Receivables for payment operations and cash management	485	672
Other receivables	49	186
Total	**5,067**	**9,192**

25. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

25.1. Deposits of banks and central banks and customer deposits

In EUR thousand	**31/12/2021**	**31/12/2020**
Deposits of banks and central banks		
Demand deposits		-
Short-term deposits	2,486	-
	2,486	**-**
Demand deposits		
- privately owned companies	226,434	131,111
- other financial institutions that are not banks	1,106	227
- other: regulatory agencies, non-profit organisations and entrepreneurs	103	155
- individuals	78,518	75,336
	306,203	**206,829**
Short-term deposits		
- privately owned companies	1,526	13,752
- other financial institutions that are not banks	-	-
- other: regulatory agencies, non-profit organisations and entrepreneurs	-	-
- individuals	1,534	717
	3,060	**14,469**
Long-term deposits		
- privately owned companies	77,705	41,633
- other financial institutions that are not banks	3,005	-
- other: regulatory agencies, non-profit organisations and entrepreneurs	-	-
- individuals	38,805	19,603
	119,515	**61,236**
Interest on deposits	1,108	339
Total	**429,886**	**282,873**

Interest is not charged on demand deposits of individuals. Interest is also not charged for companies, public and other organizations, unless otherwise agreed with the client. Deposits are termed for a period of 3 to 36 months with an interest rate of 0.40% -2.50%.

25. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST (Continued)

25.2. Loans to non-bank customers

	31/12/2021	31/12/2020
Ministry of Finance and Social Welfare - CEB program	1,329	-
Investment and Development Fund A.D. Podgorica	2,817	3,072
	4,146	**3,072**
Maturity by year		
Up to 1 year	671	178
Up to 2 years	608	505
Up to 3 years	588	452
Up to 4 years	545	427
Up to 5 years	463	384
Over 5 years	1,271	1,126
Total	**4,146**	**3,072**

Liabilities for loans and borrowings as of 31 December 2021 in the amount of EUR 2,817 thousand (31 December 2020: EUR 3,072 thousand) are related to liabilities to the Investment and Development Fund of Montenegro a.d. Podgorica for several long-term loans. The interest rate ranges from 1% to 4%. The maturity is from 5 to 14 years. The Bank has no obligation to meet financial indicators for these loans.

During 2021, the Ministry of Finance and Social Welfare of the Government of Montenegro, in cooperation with the CEB (Council of Europe Development Bank) launched a program to stimulate economic recovery from the negative effects of the Covid-19 pandemic. In accordance with the program, the Bank provides 50% of funds for loans at market interest rates, while the Ministry of Finance and Social Welfare provides the remaining 50% of funds at an interest rate of 0.00%. The program excludes certain activities, and funding is provided for a period of up to 9 years (which includes a grace period of up to 2 years). The program can finance investment loans and working capital loans.

In order to secure additional sources in case of endangered liquidity, the Bank signed a Contract on the Limit for Using Borrowings in case of Endangered Bank's Liquidity with Alta banka a.d. Belgrade on 1 September 2020 in the amount of EUR 5 million and with a maturity of up to one year from the date of funds disbursement. As of 31 December 2021, the Bank did not withdraw proceeds from this credit facility.

26. OTHER LIABILITIES

In EUR thousand	**31/12/2021**	**31/12/2020**
Custody operations	778	1,476
Lease liabilities - IFRS 16	1,341	531
Trade payables	246	150
Brokerage operations	156	75
Advances received	1,315	109
Liabilities from unallocated payments	1,295	1
Payment operations and cash management	-	546
Other liabilities	235	122
Total	**5,365**	**3,010**

27. SUBORDINATED DEBT

As of 31 December 2021, a portion of the Bank's subordinated debt in the amount of EUR 1,002 thousand (31 December 2020: EUR 1,002 thousand) relates to funds received from SDS Management DMCC, where one amount is EUR 751 thousand at an interest rate of 0.50% and a maturity date of 24 August 2027 and another amount of EUR 251 thousand at an interest rate of 0.50% and a maturity date of 3 June 2027 (assumed from NER Holding LTD pursuant to the Assignment Agreement).

28. SHARE CAPITAL

As of 31 December 2021, the Bank's share capital consists of 23,954 thousand of ordinary shares (31 December 2020: 23,954 ordinary shares) of a nominal value of EUR 0.50605821 (31 December 2020: EUR 0.50605821). The Law on Banks ("Official Gazette of Montenegro‟ no. 17/08, 44/10, 40/11 and 73/17) stipulates a minimum amount of Bank’s cash capital in the amount of EUR 5 million.

The ownership structure of the Bank as at 31 December 2021 and 2020 was as follows:

Shareholder	**No. of shares**	**In EUR thousand**	**No. of shares**	**In EUR thousand**
Sigma Delta Holdings doo	21,606,260	10,934	21,606,260	10,934
Sigma Delta Investments doo	2,288,200	1,158	2,288,200	1,158
Seriatos Gerasimos	20,000	10	20,000	10
Saveljić Tijana	15,000	8	15,000	8
Aleksić Milutin	8,000	4	8,000	4
Others	16,654	8	16,654	8
Total	**23,954,114**	**12,122**	**23,954,114**	**12,122**

29. OFF-BALANCE SHEET ITEMS

In EUR thousand	**31/12/2021**	**31/12/2020**
Off-balance sheet items exposed to credit risk		
Irrevocable loan liabilities – undrawn credit facilities	7,741	4,039
Irrevocable documentary letters of credit issued for payment abroad	-	-
Issued payment guarantees	8,515	9,052
Issued performance guarantees	1,455	2,647
	17,711	**15,738**
Other off-balance sheet items		
Custody assets	111,925	103,181
Collateral for receivables	175,901	115,452
Payment operations and cash management	127,098	84,076
Other	455	2,313
	415,379	**305,022**
Total	**433,090**	**320,760**
Provisions for expected credit losses on off-balance sheet items (Note 15)	**(509)**	**(400)**

30. COMPLIANCE WITH REGULATIONS OF CENTRAL BANK OF MONTENEGRO

In accordance with the regulations of the Central Bank of Montenegro, the Bank is required to maintain a minimum capital adequacy ratio of 10%. The Bank is required to comply its operations within the prescribed parameters, i.e. to comply the volume and structure of risk-weighted placements with the Law on Banks and the regulations of the Central Bank of Montenegro.

Indicator	**2021**	**2020**	**Regulatory limit**
Stake capital	15,785	12,122	≥ 5,000
Bank's own funds	16,785	16,076	≥ 5,000
Bank’s solvency ratio	19.58%	21.57%	≥ 10%
Daily liquidity ratio as of 31 December	3.62	2.43	≥ 0.9
Decade liquidity ratio as of 31 December	3.67	2.52	≥ 1
The Bank's exposure to a single person or group of related parties	23.35%	23.02%	≤ 25% SSB
Sum of large exposures	239.21%	244.92%	≤ 800% SSB
Total exposure to persons related to the Bank	6.18%	6.42%	≤ 200% SSB
Total exposure to the Bank's employee	0.17%	0.30%	≤ 1% SSB
Total exposure to a member of the Board of Directors, Audit Committee or Executive Officer	0.63%	0.54%	≤ 2% SSB
Total exposure to shareholders that have qualified interest in the Bank, including the exposure to legal entities controlled by these shareholders	0.61%	0.47%	≤ 20% SSB
Total exposure to shareholders that do not have qualified interest in the Bank, including the exposure to legal entities controlled by these shareholders	0.29%	2.39%	≤ 10% SSB

31. RELATED PARTY TRANSACTIONS

The Law on Banks ("Official Gazette of Montenegro" no. 17/08, br. 44/10, 40/11 and 73/17) stipulates that persons that appoint at least one representative in the Board of Directors or a similar body have a significant influence on the Bank's operations either through ownership of shares, based on shareholders' consent, or in any other manner. In accordance with the Law on Banks, transactions with related parties are shown in the following tables:

Customer deposits	**31/12/2021**	**31/12/2020**
retail	947	886
corporate:		
Sigma Delta Holdings doo Podgorica	43	52
Golden Estate doo Podgorica	224	27
First Financial Holdings doo Podgorica	3	1
Adriatic Properties doo Budva	-	2,154
Nova Pobjeda doo Podgorica	1	247
Epidaurus Hoteli and SPA D.O.O.	3	5
Portokali Adriatic doo Podgorica	-	10
Sigma Delta Investments doo	-	141
SDS Management DMCC Dubai	64	207
SDS Gulf limited	-	52
Adriatic Yachting Servises doo Budva	-	63
Portal Press doo Podgorica	1	4
Media - Nea doo Podgorica	-	1
Dnevne novine doo Podgorica	-	9
Novine doo Podgorica	-	-
Adriatic Procurement doo Budva	-	-
Vires doo Podgorica	636	190
Novi Tender Oglasi doo	3	29
Monterock Internacional limited UAE	492	13,374
Ebenus Events Managements LLC	1	68
RMR Europe Investments LTD Cyprus	4	4
Benaturayou Limited Gibraltar	5	7
Nightsapphire Resorts LTD Cyprus	1	-
Pure Angel doo Budva	-	111
Seven Hills Holdings Limited	-	-
RMR Innovative Recycling Internacional	1	395
Kalerosi services LTD	42	46
RMR Blue Essence Investment LTD Cyprus	-	1
Mystic Quartz resorts LTD Cyprus	-	50
Innovative Recycling S.A. Switzerland	-	3
Ocean Jasper resorts LTD Cyprus	1	-
RMR Star Bright Investment LTD Cyprus	1	-
Pure Larimar resorts LTD Cyprus	1	-
Tiger Eye resorts LTD Cyprus	1	-
Diceto LTD Cyprus	1	-
Tabathar LTD Cyprus	1	-
Bailegon LTD Cyprus	1	-
Nammos Restaurant London Limited UK	25	-
NARDO LTD Cyprus	1	-
DELRIO LTD Cyprus	1	-
MRINLON2SUB LTD Cyprus	1	-
Maferiosa LTD Cyprus	27	-
Maferiosa Hellas Greece	1	-
Filinimo LTD Cyprus	1	
Monte London limited UK	-	1
Total client deposits	**2,535**	**18,138**

Subordinated debt		
SDS Management DMCC Dubai	1,002	1,002

31. RELATED PARTY TRANSACTIONS (Continued)

Loans and advances to customers	**31/12/2021**	**31/12/2020**
retail	316	361
corporate:		
Golden Estate doo Podgorica	4,400	4,400
Adriatic Properties doo Budva	-	-
Nova Pobjeda doo Podgorica	68	-
Adriatic Yachting Servises doo Budva	-	-
Portokali Adriatic doo Podgorica	200	-
Portal Press doo Podgorica	20	-
Monterock Internacional limited UAE	45,334	4,340
Total loans and advances to customers	**50,338**	**9,101**

Guarantees	**31/12/2021**	**31/12/2020**
corporate:		
Adriatic Properties doo Budva	-	7
Nova Pobjeda doo Podgorica	18	10
Adriatic Yachting Servises doo Budva	-	10
Innovative Recycling S.A. Switzerland	434	450
Total guarantees	**452**	**477**

Unused loan amount	**31/12/2021**	**31/12/2020**
corporate:		
Nova Pobjeda doo Podgorica	50	50
Total unused loan amount	**50**	**50**

Payment operations and cash management	**31/12/2021**	**31/12/2020**
corporate:		
Monterock Internacional limited UAE	9,950	9,950
Morsino LTD 6051 Lamaca	8,886	-
Nightsapphire Resorts LTD Cyprus	8,179	7,299
RMR Innovative Recycling Internacional	100	100
Ocean Jasper resorts LTD Cyprus	12,264	3,459
RMR Star Bright Investment LTD Cyprus	1,756	1,006
RMR Blue Essence Investment LTD Cyprus	5,253	6,077
Mystic Quartz resorts LTD Cyprus	110	110
Pure Larimar resorts LTD Cyprus	8,370	5,606
Victo LTD 6051 Lamaca	759	-
Tabathar LTD Cyprus	5,698	-
Tiger Eye resorts LTD Cyprus	2,980	2,980
Total payment operations and cash management	**64,305**	**36,587**

Interest income	**2021**	**2020**
individuals	16	15
legal entities:		
Golden Estate doo Podgorica	92	87
Adriatic Properties doo Budva	-	205
Portokali Adriatic doo Podgorica	1	-
Portal Press doo Podgorica	1	-
Nova Pobjeda doo Podgorica	-	12
Monterock Internacional limited UAE	45	12
	155	**331**

31. RELATED PARTY TRANSACTIONS (Continued)

Fee income	**2021**	**2020**
individuals	-	-
legal entities:		
Golden Estate doo Podgorica	4	5
Adriatic Properties doo Budva	-	60
Nova Pobjeda doo Podgorica	1	1
Monterock Internacional limited UAE	18	-
Innovative Recycling S.A. Switzerland	-	2
	23	**68**

Fee income from payment operations and cash management	**2021**	**2020**
individuals	-	-
legal entities:		
Adriatic Properties doo Budva	-	171
Nightsapphire Resorts LTD Cyprus	74	76
RMR Innovative Recycling Internacional	1	1
Ocean Jasper resorts LTD Cyprus	77	27
RMR Star Bright Investment LTD Cyprus	11	6
RMR Blue Essence Investment LTD Cyprus	62	53
Mystic Quartz resorts LTD Cyprus	1	1
Morsino LTD Cyprus	44	-
Monterock Internacional limited UAE	34	-
Victo LTD Cyprus	1	-
Tabathar LTD Cyprus	39	-
Pure Larimar resorts LTD Cyprus	77	53
Tiger Eye resorts LTD Cyprus	28	31
	449	**419**
Total income from interest, fees and commissions	**627**	**818**

Interest and fee expenses:	**2021**	**2020**
individuals		-
legal entities:		
SDS Management DMCC Dubai	5	5
	5	**5**
Net income	**622**	**813**

Remunerations to the management and the Board of Directors for gross salaries and compensations in 2021 amount to EUR 318 thousand (2020: EUR 297 thousand).

32. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the annual net profit of Bank's shareholders by the weighted average number of ordinary shares that were outstanding during the period.

	2021	2020
Net profit for the year (*in EUR thousand*)	5,331	2,045
No. of ordinary shares at year's end	23,954,114	23,954,114
	23,954,114	23,954,114
Weighted average number of shares at year's end		
Basic earnings per share in EUR	**0.2226**	**0.0854**
Diluted earnings per share in EUR	**0.2226**	**0.0854**

33. LITIGATIONS

As of 31 December 2021, the Bank participates as a defendant in several lawsuits instituted by natural persons, demanding invalidation or admission and/or execution. Therefore, they are not focused on compensation for damages and accordingly, no amount of the claim has been determined (2020: EUR no amount of the claim was determined).

As of 31 December 2020, the Bank's management deems that no negative outcomes will arise from the said disputes and thus, the Bank has not provided for them, except with respect to one dispute with a damage claim amounting to EUR 15 thousand, which has been provided for in full (2020: EUR 0).

In addition, the Bank participates as a plaintiff in several litigations against legal and natural persons for the purpose of collecting receivables in the total amount of EUR 2,435 thousand (2020: EUR 2,242 thousand).

34. EXCHANGE RATES

The official exchange rates used in the translation of the balance sheet components denominated in foreign currencies into EUR as of 31 December 2021 and 2020 were as follows:

Currency	31/12/2021	31/12/2020
USD	1,13340	1,22810
CHF	1,03630	1,08570
GBP	0,83930	0,90307
CAD	1,44810	1,57010
HKD	8,83990	9,52100
CNY	7,22300	8,01340
HRK	7,52110	7,54600
AED	4,16009	4,51345

35. EVENTS AFTER THE REPORTING DATE

Covid-19 Pandemic

As stated in Note 2.8, at the time of compiling the financial statements the Covid-19 pandemic was still ongoing, with associated uncertainties. These events did not affect the Bank's ability to continue as a going concern in the foreseeable future, therefore the Bank continues to use the going concern basis in preparing and presenting its financial statements.

The war between Russia and Ukraine

In February 2022, after the balance sheet date and before the adoption of these financial statements, a war broke out between Ukraine and Russia. As a result, there has been a sharp rise in prices in the markets for raw materials, fuels and energy, while a global shortage and rise in food prices are expected. The volatility of exchange rates in the FX market has increased significantly, making it difficult to assess future trends in market prices and key macroeconomic indicators.

From the very beginning, the Bank has continuously monitored and analysed the development of the situation and its impact on business operations and the Bank's ability to operate continuously. The Bank has specifically analysed the impact of the conflict on the Bank's exposures to these countries and to clients whose operations are closely related to these markets. In addition, the Bank has analysed the impact that the conflict may have on the quality of the Bank's loan portfolio. All measures have been taken to minimize risks to the Bank's operations.

Considering the existing information related to current events, the Bank assessed that there is no significant impact of this conflict on the financial statements for the current year and its ability to continue to operate continuously in the foreseeable future.

New regulations

As of 1 January 2022, new banking regulations have been effective, more precisely the Law on Credit Institutions and accompanying bylaws, which aims to approximate the current banking regulations in the European Union. Compliance with the requirements of these regulations has led to changes in the corporate governance system:

Instead of the Board of Directors, the Supervisory Board was introduced, in the following composition:

Name	Supervisory Board
Alfredo Longo	President
Danijela Jović	Member
Ronald K. Noble	Member
Josip Pecirep	Member
Masroor Ul Haq	Member

Instead of the Bank's Management, the Management Board was introduced, in the following composition:

Name	Board of Directors
Miloš Pavlović	President
Veselin Vuković	Member
Nikola Vujošević	Member

35. EVENTS AFTER THE REPORTING DATE (Continued)

The new regulation introduced the application of the principles of the Basel III agreement regarding capital adequacy and changes in the field of liquidity risk monitoring, in line with the practice in the European Union. In the part of calculation of risk-weighted assets and risk liabilities, the application of preferential weight for exposures of clients belonging to the category of small and medium enterprises was introduced, but, on the other hand, special weights for high-risk exposures (speculative financing and project financing) were introduced. Risk weights were not explicitly defined for these types of exposure to previous regulator decisions.

In accordance with Article 134 of the Law on Credit Institutions, the Bank is obliged to meet the following capital requirements at all times:

- Common equity Tier 1 capital ratio of 4.5%;
- Tier 1 capital ratio of 6%;
- Capital adequacy ratio of the Bank of 8%.

In addition to this, the Bank is obliged to maintain the following buffers in the form of regular share capital:

- The capital conservation buffer of 2.5% of the total amount of risk exposure;
- Countercyclical capital buffer, ranging from 0% to 2.5% of the total amount of risk exposure;
- Structural systemic risk buffer, in the amount of at least 1% of the exposure in Montenegro or another country to which the structural systemic risk buffer is applied;
- Structural systemic risk buffer, in the amount of at least 1% of the exposure in Montenegro or another country to which the structural systemic risk buffer is applied;
- Buffer for other systemically significant credit institutions (OSV credit institutions), since the Bank is designated as OSV credit institution, amounts to 2% of the total amount of risk exposure.

The amount of the buffer is determined by special regulations of the Central Bank of Montenegro.

In the area of liquidity risk management, a new liquidity coverage ratio (LCR) was introduced, which correlates the Bank's qualifying liquid assets and estimated net liquidity outflows in the next 30 days in a stress scenario.

In addition to the above, the Bank's management believes that there are no other significant events after the reporting date that would affect the individual financial statements for 2021.

Signed on behalf of Universal Capital Bank A.D. Podgorica on 30 March 2022:

Miloš Pavlović President of the Management Board	Veselin Vuković Member of the Management Board	Nikola Vujošević Member of the Management Board

Lana Kalezić
Head of Finance and Accounting

35. EVENTS AFTER THE REPORTING DATE (Continued)

The new regulation introduced the application of the principles of the Basel III agreement regarding capital adequacy and changes in the field of liquidity risk monitoring, in line with the practice in the European Union. In the part of calculation of risk-weighted assets and risk liabilities, the application of preferential weight for exposures of clients belonging to the category of small and medium enterprises was introduced, but, on the other hand, special weights for high-risk exposures (speculative financing and project financing) were introduced. Risk weights were not explicitly defined for these types of exposure to previous regulator decisions.

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- Tier 1 capital ratio of 6%;
- Capital adequacy ratio of the Bank of 8%.

In addition to this, the Bank is obliged to maintain the following buffers in the form of regular share capital:

- The capital conservation buffer of 2.5% of the total amount of risk exposure;
- Countercyclical capital buffer, ranging from 0% to 2.5% of the total amount of risk exposure;
- Structural systemic risk buffer, in the amount of at least 1% of the exposure in Montenegro or another country to which the structural systemic risk buffer is applied;
- Structural systemic risk buffer, in the amount of at least 1% of the exposure in Montenegro or another country to which the structural systemic risk buffer is applied;
- Buffer for other systemically significant credit institutions (OSV credit institutions), since the Bank is designated as OSV credit institution, amounts to 2% of the total amount of risk exposure.

The amount of the buffer is determined by special regulations of the Central Bank of Montenegro.

In the area of liquidity risk management, a new liquidity coverage ratio (LCR) was introduced, which correlates the Bank's qualifying liquid assets and estimated net liquidity outflows in the next 30 days in a stress scenario.

In addition to the above, the Bank's management believes that there are no other significant events after the reporting date that would affect the individual financial statements for 2021.

Signed on behalf of Universal Capital Bank A.D. Podgorica on 30 March 2022:

Miloš Pavlović President of the Management Board	Veselin Vuković Member of the Management Board	Nikola Vujošević Member of the Management Board

Lana Kalezić
Head of Finance and Accounting

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