UNIVERSAL CAPITAL BANK A.D. PODGORICA

Separate Financial Statements for the Year Ended 31 December 2022

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 separate financial statements of "Universal Capital Bank" a.d. Podgorica (hereinafter "the Bank"), which comprise the separate balance sheet as of 31 December 2022 and the separate income statement, the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as of 31 December 2022, and its separate financial performance and its separate cash flows for the year then ended in accordance with the International Financial Reporting Standards.

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 Separate 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 separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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 separate 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 2022 amounted to EUR 161,408 thousand (EUR 158,089 thousand as of 31 December 2021), while the total amount of the allowance for impairment of these receivables amounted to EUR 9,178 thousand as of 31 December 2022 (EUR 8,042 thousand as of 31 December 2021). 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 29, 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 and include estimates and other complex areas, 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 29 to the separate 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 sample-based 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 analysis 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 separate 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 2022.

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 2022, but does not include the separate financial statements and our auditor's report thereon. Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 separate financial statements, in our opinion:

- The information provided in the Annual Management Report for the year ended 31 December 2022, is consistent, in all material respects, with the separate financial statements of the Bank as of and for the year ended 31 December 2022;
- The Annual Management Report for the year ended 31 December 2022 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 Separate Financial Statements

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

In preparing the separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 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 ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 Separate 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 separate 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, 18 April 2023

Društvo za reviziju BDO d.o.o. Podgorica

Milovan Popovic
Certified Auditor

Vesko Knezevic
Executive Director/Certified Auditor

Goran Knezevic
Certified Auditor

Radonjić Đorđe

Djordje Radonjic
Certified Auditor

SEPARATE INCOME STATEMENT
For the year ended 31 December 2022

in thousand EUR	Note	2022	2021
Interest and similar income	3.1, 6.1.	7,970	7,326
Interest income on impaired placements	3.1, 6.2.	404	382
Interest and similar expenses	3.1, 6.3.	(2,745)	(2,004)
Net interest income		**5,628**	**5,705**
Fee and commission income	3.2, 7.1.	7,405	6,802
Fee and commission expenses	3.2, 7.2.	(1,763)	(1,684)
Net fee and commission income		**5,642**	**5,118**
Net gains on derecognition of financial instruments not measured at fair value through profit or loss	8	26	146
Net losses on financial instruments held for trade	3.3, 9	31	79
Net foreign exchange gains	3.4, 10	1,027	2,446
Net losses/gains from derecognition of other assets	22	(615)	10
Other income/expenses	11	33	(55)
Staff costs	12	(2,040)	(1,966)
Depreciation/amortization charge	13	(613)	(579)
General and administrative costs	14	(2,131)	(1,785)
Net losses from the impairment of financial instruments not measured at fair value through profit or loss	15	(720)	(3,176)
Provisions		(25)	(15)
Other expenses		(101)	(68)
Profit before tax		**6,142**	**5,860**
Income tax	16	(930)	(529)
NET PROFIT		**5,212**	**5,331**

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 2023:

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

SEPARATE BALANCE SHEET

As of 31 December 2022

In thousand EUR	Note	31 December 2022	31 December 2021	1 January 2021
ASSETS				
Cash and deposits held with the central banks	17	194,323	181,041	78,179
Financial assets at amortized cost				
Loans and receivables from banks	18.1.	28,986	37,513	25,305
Loans and receivables from clients	18.2.	152,230	150,047	101,529
Securities	18.3.	58,311	53,747	48,570
Other financial assets		38	89	37
Financial assets at fair value through other comprehensive income				
Securities	19.1	29,930	33,918	41,670
Financial assets held for trade				
Securities	19.2	479	368	551
Hedge derivatives		-	-	11
Investments in subsidiaries according to the equity method	20	947	-	-
Investment property	21	114	198	187
Property, Plant and Equipment	22	4,369	5,224	3,932
Intangible assets	23	247	275	418
Deferred tax assets	16	924	214	151
Other assets	24	4,037	5,067	9,192
Total assets		**474,937**	**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.	436,333	429,886	282,873
Borrowings from clients other than banks	25.2.	4,899	4,146	3,072
Hedge derivative financial liabilities		-	-	-
Reserves		343	527	402
Current tax liabilities		957	563	192
Deferred tax liabilities	16	153	79	112
Other liabilities	26	6,253	5,365	3,010
Subordinated debt	27	-	1,002	1,002
Total liabilities		**448,938**	**444,054**	**290,663**
EQUITY				
Share capital	28	13,124	12,122	12,122
Retained earnings		11,893	6,947	4,902
Profit for the current year		5,212	5,331	2,045
Other reserves		(4,231)	(753)	-
Total equity		**25,998**	**23,647**	**19,069**
Total equity and liabilities		**474,937**	**467,701**	**309,732**
Off-balance sheet items	29	**461,195**	**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 2022

In thousand EUR	Share capital	Retained earnings	Other reserves	Total
Balance as of 1 January 2021	**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	-	-	(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**
Share issuance	1,002	-	-	1,002
Result of the period	-	5,212	-	5,212
Effects of fair value changes of securities measured through other comprehensive income, net	-	-	(3,863)	(3,863)
Effects of impairment reclassification of investments in a subsidiary due to changes in an accounting policy	-	(385)	385	-
Balance as of 31 December 2022	**13,124**	**17,105**	**(4,231)**	**25,998**

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Lana Kalezić
Head of Finance and Accounting

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

in thousand EUR	2022	2021
PROFIT FOR THE PERIOD	**5,212**	**5,331**
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	-	-
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	(4,144)	(827)
Tax related to other comprehensive income	666	74
Total other comprehensive income	**(3,478)**	**(753)**
TOTAL COMPREHENSIVE INCOME OF THE PERIOD	**1,734**	**4,578**

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Lana Kalezić
Head of Finance and Accounting

Universal Capital Bank AD
UCB
PODGORICA

SEPARATE CASH FLOW STATEMENT
For the year ended 31 December 2022

in thousand EUR	31 December 2022	31 December 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and similar receipts	8,757	7,732
Interest and similar outflows	(2,266)	(1,225)
Fee and commission receipts	7,489	7,017
Fees and commissions paid	(1,763)	(1,693)
Payments to employees and suppliers	(4,510)	(3,909)
Inflows / (outflows) from loans and other assets	2,726	(50,744)
Inflows / (outflows) from deposits and other liabilities	4,466	150,001
Tax paid	(630)	(269)
Other inflows/(outflows)	84	169
Net cash from operating activities	14,353	107,079
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,146)	(816)
Purchase of intangible assets	(83)	(36)
Securities	(6,491)	642
Net cash used in investing activities	(7,720)	(210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	750	1,074
Issuance of ordinary shares	1,002	-
Net cash from financing activities	**1,752**	**1,074**
Effects of FX gains/losses on cash and cash equivalents	1,027	2,446
Net increase in cash and cash equivalents	**9,412**	**110,389**
Cash and cash equivalents at the beginning of the year	**213,449**	**103,060**
Cash and cash equivalents at the end of the year (Note 17)	**222,861**	**213,449**

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 2023:

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President of the Management Board

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Member of the Management Board

Lana Kalezić
Head of Finance and Accounting

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
31 December 2022

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 Dragojevica 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 Credit Institutions, 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.

The Bank may perform other activities in accordance with the law based on a prior approval from the Central Bank.

As of 31 December 2022, 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 82 employees (31 December 2021: 80 employees).

1 CORPORATE INFORMATION (Continued)

The Bank has two subsidiaries with a 100% of equity interest:

- Portokali Adriatic d.o.o. Podgorica, whose main activity is the retail sale of fruit and vegetables in specialised stores; and
- Universal Capital Bank Financial Service in Dubai (hereinafter „UCBFS"), whose main activity is negotiating loans and investment transactions between UCB and clients from the UAE and the MENAT region, as well as consulting about financial products and loans.

On 1 January 2022 a new banking regulation came into force, i.e. the Law on Credit Institutions and accompanying by-laws, aimed at harmonising the Montenegrin legislation with the applicable EU banking legislation. The harmonisation of the aforesaid legislation resulted in changes in the corporate governance system, based on which the bodies of a credit institution are as follows:

1. Shareholders Assembly;
2. Supervisory Board; and
3. Board of Directors.

Therefore, the Bank appointed the members of the Supervisory and Management Boards, for which the Central Bank of Montenegro issued approvals in earlier Decisions adopted by its Shareholders Assembly and/or the Board of Directors.

As of 31 December 2022, the members of the Bank's Supervisory Board were as follows:

First and last name	Position	Decision no.
Alfredo Longo	Chairman of the Supervisory Board	03-6551-6/2021 of 10 December 2021
Danijela Jović	SB member	03-6551-7/2021 of 10 December 2021
Ronald K. Noble	SB member	03-6551-10/2021 of 10 December 2021
Josip Pecirep	SB member	03-6551-9 /2021 of 10 December 2021
Masroor Ul Haq	SB member	03-6551-8/2021 of 10 December 2021

As of 31 December 2022, the members of the Bank's Board of Directors were as follows:

First and last name	Position	Decision no.
Miloš Pavlović	Chairman of the Board of Directors	03-6550-8/2021 10 December 2021
Nikola Vujošević	BoD member	03-6551-9/2021 of 10 December 2021
Veselin Vuković	BoD member	03-6550-10/2021 of 10 December 2021

As of 31 December 2022, the members of the Bank's Audit Committee were as follows:

First and last name	Position
Mina Jovanović	Chairman
Goran Bencun	Member
Lazar Mišurović	Member

The Bank's internal auditor as of 31 December 2022 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 accompanying financial statements for the year ended 31 December 2022 have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Board, and regulations of the Central Bank of Montenegro governing the financial reporting of banks.

The Bank is required to keep books of account, prepare accounting records, measure assets and liabilities and prepare and publish financial statements in accordance with the Law on Credit Institutions ("Official Gazette of Montenegro", no. 72/19, 82/20 8/21), regulations adopted based on the aforesaid law and the International Accounting Standards and International Financial Reporting Standards (IASs/IFRSs). Additionally, the Bank is required to apply the International Accounting Standards and International Financial Reporting Standards from the date set by the International Accounting Standards Board (IASB) as the date of their application, unless the Central Bank of Montenegro does not set another date for certain IASs/IFRSs as the commencement date of their application.

The Bank's financial statements have been prepared in accordance with the Decision on the Contents, Deadlines and Manner of Preparing and Submitting Financial Statements of Banks ("Official Gazette of Montenegro", no. 128/20).

The financial statements prepared as of and for the year ended 31 December 2022 are the first financial statements that the Bank prepared in accordance with the International Financial Reporting Standards. The effects of the first-time adoption of the International Financial Reporting Standards are disclosed in Note 2.10.

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3, related to accounting, banking and tax regulations of Montenegro.

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 that the Bank's Board of Directors 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

2.5.1 Application of New Standards and Amendments to Existing Standards in Effect in the Current Period

The following amendments to the existing standards, which have been issued by the IASB, are effective for the first time for the financial year beginning on or after 1 January 2022 and as such are applicable to the Bank's accompanying statements:

- Amendments to IFRS 3 "Business Combinations" updating a Reference to the Conceptual Framework in IFRS. The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
- Amendments to IAS 16 "Property, Plant and Equipment" - Proceeds before Intended Use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such samples, together with the costs of producing them, in profit or loss.
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts — Cost of Fulfilling a Contract. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and material) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- Annual Improvements to IFRSs, 2018–2020 Cycle, make amendments to the following standards:

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

2.5. Changes in Accounting Policies and Disclosures (Continued)

2.5.1 Application of New Standards and Amendments to Existing Standards in Effect in the Current Period (Continued)

- IFRS 1 "First-time Adoption of International Financial Reporting Standards" – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
- IFRS 9 "Financial Instruments" – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- IFRS 16 "Leases", Illustrative Example 13 – The amendment removes the illustration of payments from the lessor relating to leasehold improvements in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. As currently drafted, this example is not clear as to why such payments are not a lease incentive.
- IAS 41 "Agriculture" – This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 "Fair Value Measurement".

The application of the above-mentioned amendments to the existing standards did not result in substantial changes to the accounting policies and did not have an impact on the Bank's accompanying financial statements.

2.5.2 New Standards and Amendments to Existing Standards That Have Been Published but Are Not Yet Effective

There are a number of standards, amendments to standards, and interpretations that have been issued by the IASB that are effective in future accounting periods. They have not been early adopted by the Bank and the Bank intends to adopt them when they become effective.

- IFRS 17 "Insurance Contracts" (effective for annual reporting periods beginning on or after 1 January 2023) and subsequent amendments to IFRS 17 which address concerns and implementation challenges that were identified after IFRS 17 was published in 2017 (effective for annual reporting periods beginning on or after 1 January 2023). IFRS 17 supersedes IFRS 4 "Insurance Contracts" as of 1 January 2023.
- Amendments to IFRS 4 – Extension of the Temporary Exemption from Applying IFRS 9 (effective for annual reporting periods beginning on or after 1 January 2023).
- Amendment to IFRS 17 "Insurance Contracts" - Initial Application of IFRS 17 and IFRS 9 - Comparative Information. An entity that elects to apply the amendment applies it when it first applies IFRS 17.
- Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 - Disclosure of Accounting Policies (effective for annual reporting periods beginning on or after 1 January 2023).

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

2.5. Changes in Accounting Policies and Disclosures (Continued)

2.5.2 New Standards and Amendments to Existing Standards That Have Been Published but Are Not Yet Effective (Continued)

- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Accounting Estimates (effective for annual reporting periods beginning on or after 1 January 2023). The amendments clarify the difference between the changes in accounting estimates and changes in accounting policies and correction of errors.
- Amendments to IAS 12 "Deferred Taxes" – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023).
- Amendments to IFRS 16 "Leases" - Lease Liability in a Sale and Leaseback (effective for annual reporting periods beginning on or after 1 January 2024).
- Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2024).
- Amendments to IAS 1 "Presentation of Financial Statements" - Non-current Liabilities with Covenants (effective for annual reporting periods beginning on or after 1 January 2024).

The Bank is currently assessing the impact of these new accounting standards and amendments. The Bank's management does not expect that above-mentioned standards and amendments to the existing standards will have a material impact on the Bank's financial statements in the period of their first application.

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. This entails the compliance with the liquidity principle (the Bank's ability to meet its due cash liabilities at all times) and the solvency principle (the Bank's permanent ability to meet its liabilities).

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 2022. An Inventory Count Report was adopted at a meeting of the Board of Directors held on 28 February 2023.

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.

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

2.8. Covid-19 Pandemic (Continued)

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).

In 2022, 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 2022, 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.

This had positive effects on the Bank's operations in almost all segments and the Bank continued to operate successfully in 2022.

2.9. Impact of the Russian-Ukrainian Conflict

After the outbreak of the Russian-Ukrainian war on 24 February 2022, the Bank undertook certain measures to minimize the provision of banking services to Russian citizens. International restrictive measures, which the Bank fully implements in accordance with decisions of the Government of Montenegro, contributed the most to this. Trade and all inflows and outflows with the Russian Federation are minimized. The Bank does not provide international payment services to Russian citizens unless they have a residence card of one of the EU members in accordance with the decisions of the Government of Montenegro.

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

2.9. Impact of the Russian-Ukrainian Conflict (Continued)

The Central Bank of Montenegro adopted a Decision on Temporary Measures to Mitigate a Negative Impact of the COVID-19 Pandemic and the Ukrainian Conflict on the Financial system", which excludes 100% of unrealized losses (calculated as a difference in the market value of debt financial instruments - FVTOCI on 24 February 2022 and their market value on the reporting date, which are included in other comprehensive income).

2.10. Comparative Figures and First-Time Adoption of IFRS

The Law on Credit Institutions, which came into force on 1 January 2022, stipulates that the Bank is required to keep books of account, prepare accounting records, measure assets and liabilities and prepare and publish financial statements in accordance with this law, regulations adopted based on the aforesaid law and the International Accounting Standards and International Financial Reporting Standards (IASs/IFRSs). Additionally, the Bank is required to apply the International Accounting Standards and International Financial Reporting Standards from the date set by the International Accounting Standards Board (IASB) as the date of their application, unless the Central Bank of Montenegro does not set another date for certain IASs/IFRSs as the commencement date of their application.

Taking into consideration that the Bank used to prepare financial statements in previous periods based on the Law on Accounting and the regulations of the Central Bank of Montenegro governing financial reporting of banks, which rely upon the International Accounting Standards and International Financial Reporting Standards, the first-time adoption of the International Financial Reporting Standards did not result in the implementation of new standards that would have a material effect on the Bank’s financial statements.

Accordingly, the estimates and policies applied in the current period are consistent with the estimates and policies applied in accordance with the previous regulations. In order to comply with the provisions of the new Law on Credit Institutions and regulations of the Central Bank of Montenegro and prepare financial statements in accordance with IFRSs:

- The Bank presented the opening balance sheet as of 1 January 2021. Given that the first-time adoption of IFRSs did not result in the implementation of new standards and changes in accounting policies and estimates, there were no adjustments and changes to the comparative figures presented in previous periods.
- The Bank acknowledged that there were no changes in the disclosed capital amounts as of 1 January 2021 and 31 December 2021, as well as in the net result for the year ended 31 December 2021, in order to be adjusted to IFRSs, since the estimates used as of 1 January 2021 and 31 December 2021 are consistent with those applied as of the same dates in line with previously used regulations.
- The Bank estimated that the presentation of the Balance Sheet, Income Statement, Statement of Other Comprehensive Income and Statement of Cash Flows, which is defined by the Decision on Statements submitted to the Central Bank of Montenegro (“Official Gazette of Montenegro”, no. 128/20), complies with IFRS requirements and accordingly, it did not change the presentation of comparative figures as of 1 January 2021 and as of and for the year ended 31 December 2021.

Comparative figures in these financial statements include the comparative figures contained in the financial statements for the year ended 31 December 2021.

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

2.11. Consolidation

These financial statements represent separate financial statements of the Bank. In accordance with Article 313 of the Law on Credit Institutions ("Official Gazette of Montenegro" No. 72/19, 82/20 and 8/21), consolidated financial statements of the banking group do not include subordinate members of the group whose balance sheet accounts for less than 1% of the balance sheet of higher-level member of the group. Since the Bank has control over two subordinate entities as of 31 December 2022, out of which, one meets the condition from Article 313 of the Law on Credit Institutions, the Bank uses the right to exemption from consolidation for that entity.

Subordinate members of the banking group and their share in Bank's assets as of 31 December 2021:

Name	Share in Bank's assets	% of share	Main activity
Portokali Adriatic d.o.o. Podgorica	0.04%	100%	Retail sale of fruit and vegetables in specialised stores
Universal Capital Bank Financial Service, Dubai	0.16%	100%	Consultancy on financial products and loans

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied during the preparation of the financial statements for the year ended 31 December 2022 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Interest Income and Expense (Continued)

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.

Fee and commission 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. Fee 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 from financial instruments held for trading includes profit less losses based on financial assets and financial liabilities held for trade, including all realized and unrealized changes in fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.5. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 65/01, 12/02, 80/04, 40/08, 86/09, 40/11, 14/12, 61/13, 055/16, 146/21 and 152/22). Income tax rates are progressive for taxable income and they amount:

- Up to EUR 100,000.00: 9%;
- To EUR 100,0000.01 – 1,500,000.00: EUR 9,000.00 + 12% on an amount over EUR 100,000.01; and
- To an amount over EUR 1,500,000.01: EUR 177,000.00 + 15% on an amount exceeding EUR 1,500,000.01.

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.

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 state and municipal tax regulations.

3.6.2. Transfer Pricing

Montenegro introduced more detailed rules on transfer pricing based on amendments to the Corporate Income Tax Law ("Official Gazette of Montenegro", no. 65/2001, 12/2002, 80/2004, 40/2008, 86/2009, 40/2011, 14/2012, 61/2013, 55/2016, 146/2021, 152/2022) from January 2022, 61/2013 55/2016, 146/2021, 152/2022).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Taxes and Contributions (Continued)

3.6.2. Transfer Pricing (Continued)

On 2 November 2022, the Ministry of Finance of Montenegro published a *Guidance on a More Specific Transfer Pricing Method for Transactions* ("Official Gazette of Montenegro", no. 121/22 of 2 November 2022, hereinafter "the Guidance "). The Guidance stipulates a transfer pricing method of transactions and the content of transfer pricing documentation.

The Corporate Income Tax Law (Article 38c) prescribes the preparation of summarised transfer pricing documentation if a taxpayer conducted transactions with a related party that do not exceed EUR 75,000 in the year for which the tax return is submitted.

As regards intercompany loans, the Law prescribes the application of arm's length interest rates, stipulated by the Ministry of Finance, or general rules on transaction pricing using the arm's length principle (by applying one of the prescribed methods).

Transfer pricing documentation should be submitted by large taxpayers along with a tax return (other taxpayers are required to have transfer pricing documentation when submitting a tax return). The deadline for submitting the tax return is three months from the expiration of the period for which tax is calculated. Until 2007 the deadline for submitting (i.e. having) transfer pricing documentation was 30 June of the current year for the previous year (30 June 2023 for FY 2022).

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 estimated and reported to key personnel of management bodies;
- 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 bodies 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.

The Bank did not reclassify securities in 2022.

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; and
- 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 2022, the Bank wrote off financial assets with a total gross carrying amount of EUR 43 thousand. Collection of previously written off financial assets during 2022 amounted to EUR 10 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 2022 is presented in Note 5.

3.8.8. Impairment of Financial Assets

Pursuant to the applicable Decision on Minimum Risk Management Standards in Credit Institutions ("Official Gazette of Montenegro", no. 134/21), credit institutions are required to assess 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)

3.8.7.1. 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)

3.8.7.1. 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). These industries recovered considerably in 2022;
- 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.

The Bank opted to keep 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.

Individually significant receivables

Individually significant receivables are considered to be a total gross exposure of the Bank to one party or a group of related parties that is higher than EUR 200,000 in corporate, retail and entrepreneurs' segments.

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 instruments of the low credit risk from a market participants' perspective considering all the terms of financial instruments.

3.8.7.2. 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.
- The lifetime PD of an exposure on the reporting date is higher than its lifetime PD at initial recognition by more than 200%;
- A reduction in total capital in the last 12 months by more than 50% in relation to the previous comparative period or capital is negative (except for newly founded companies);
- A company operates with a loss and has negative working capital (except in case of newly founded companies);
- A reduction of total income by more than 50% in the last 12 months, except in cases when the previous turnover is a result of a one-off event, and
- An increase in the net financial debt / EBITDA ratio by more than 100% compared to the previous accounting period, provided that it exceeds 10.

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)

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, with exposure amounts exceeding the materiality threshold;
- financial problems of the debtor reflected in the deterioration of the following comprehensively observed indicators:
- a) company’s capital is negative,
- b) the company does not generate income or a decrease in income is higher than 70% compared to the previous comparative period,
- c) the customer has a negative net result
- demand for payment under guarantee
- certainty that bankruptcy proceedings will be initiated against the debtor;
- reorganization procedure;
- Debt collection through activation of collateral;
- Restructuring labelled as non-performing,
- Contract termination, bankruptcy or liquidation, POCI
- Clients with current solvency D or E.
- There are other qualitative factors that indicate objective impairment evidence - assessment of uncertainty for the purpose of settling debtor’s liabilities.

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.

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)

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:

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

where:

$N_{[t-1,\,t)}^{i \rightarrow default}$ - 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:

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

*Note: 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.

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 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. 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:

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

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: $\left(\frac{EAD - \max\{0, \text{effective value of collateral}\}}{EAD}\right)$. 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).

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)

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.

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

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

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 (Continued)

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.

3.8.7.3. 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)

3.8.7.4. Provisions

Pursuant to the applicable Decision on Minimum Risk Management Standards in Credit Institutions ("Official Gazette of Montenegro", no. 134/21), 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 2022 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 (%)	
	2022	2021
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, 055/16, 146/21 and 152/22), 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 Board of Directors 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 Board of Directors believes that the total value of tangible and intangible assets as at 31 December 2022 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 Investments of Credit Institutions 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, 82/17 and 72/19), total investments of a credit institution in real estate and fixed assets must not exceed the credit institution’s regular stake capital. Exceptionally, a credit institution may have investments in real estate and fixed assets exceeding the regular stake capital, if the following conditions are met:

- the amount of investment in real estate and fixed assets exceeding the amount of regular stake capital is treated by a credit institution as a deduction item in the calculation of the credit institution’s regular stake capital;
- after the deduction of the credit institution’s regular stake capital in accordance with point 1) hereof, the amount of regulatory capital and the credit institution’s capital adequacy ratio 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 credit institution, in the process of reorganization of the debtor in accordance with the regulations governing bankruptcy or execution procedure for the settlement of claims, the credit institution 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 retirement benefits after fulfilling the conditions, as assessed by the Bank's Board of Directors, 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.

3.17. Investments in Subsidiaries according to the Equity Method

The bank recognizes subsidiaries according to the equity method in line with IAS 27. These investments are initially recognised at (historical) cost. The cost convention entails that equity investment in a subsidiary is recorded at the value paid for the acquisition of such investment, which is stated at cost every year unless it is impaired, when the carrying value needs to be reduced to the recoverable value and an impairment loss is recognised simultaneously. According to the cost method, movements in the equity of a subsidiary (arising from the result or revaluation reserves) does not affect the measurement of equity interest in the separate financial statements of the parent company. Income from equity investments in a subsidiary is only recognised in case it is decided to distribute profit as dividends.

3.18. Related Party Transactions

Parties related to the Bank are as follows:

1) Bank's shareholders that have a 5% or more of interest in the Bank’s equity or shares and a voting right;
2) Members of the Supervisory Board or the Board of Directors and procurators of the Bank;
3) Persons responsible for the operation of control functions, an authorised person for anti-money laundering, a person responsible for business transactions with corporate customers, a person responsible for business transactions with retail customers:
4) Other persons that have signed an employment contract with the Bank, whose provisions indicate a notable influence of those persons on the operations of the credit institution, i.e. provisions that prescribe a reward for the performance of such persons under specific criteria that differ from the terms and conditions for persons that have concluded standard employment contracts, but who are not persons referred to under previous items;
5) A legal entity in which the Bank, a member of the Supervisory Board or the Board of Directors or a procurator of the Bank have a significant influence;
6) A legal entity whose member of its governing body is also a member of the Supervisory Board or the Board of Directors or a procurator of the Bank;
7) A legal entity whose member of its governing body has a 10% or more of shares of the Bank and a voting right;
8) A member of a governing body of a company which is, directly or indirectly, the parent company or a subsidiary of the Bank;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Related Party Transactions (Continued)

9) A person who acts on behalf of the persons referred to under items 1 to 7 of this paragraph in connection with transactions that would result in or increase the Bank's exposure;
10) A person that is a related party to the persons referred to under items 1 to 8;
11) A member of the immediate family of natural persons referred to under items 1 to 8.

A member of the immediate family of a person is considered:

1) A spouse or a person with whom the aforesaid person lives in a union that is equal to marriage according to the law;
2) Children and adopted children of that person and the person referred to under the previous item;
3) A person who does not have full business capacity and who is under guardianship of the aforesaid person.

Business transactions with related parties are specified under the Procedure for Identifying, Recording and Monitoring Related Parties in Order to Assess Large Exposures and Bank's Related Parties. The Procedure regulates the concept of related parties and parties related to the Bank, authorizations and responsibilities regarding regular identification and records of related persons, as well as all parties related to the Bank and business operations and transactions with them.

Identifying possible connections among these parties is an integral part of the Bank's loan approval and monitoring process. Related parties are identified when establishing a business contact with the Client. The Sales Department – Retail and Corporate Customers is required to collect information and credible documentation about related parties. The client submits to the Bank a Statement of Related Parties listing its related parties. The Sales Department – Retail and Corporate Customers monitors Groups of related parties in terms of their exposure and in terms of doing business with them, and reports about it at least on a quarterly basis to the ALCO, the Board of Directors and the Supervisory Board of the Bank.

As part of the Department for Risk Supervision, Measurement and Reporting, the Credit Analysis is required to review and verify established groups of related parties and identify additional connecting factors (both in terms of a control relationship and economic interconnection/interdependence), and redefine related party groups accordingly.

The Sales Department – Retail and Corporate Customers and the Department for Risk Supervision, Measurement and Reporting monitor Bank's related parties in terms of their exposure and doing business with them, and report about it at least quarterly to the ALCO, the Management Board and the Supervisory Board of the Bank. The information about doing business with parties related to the Bank has to be made available to all employees who may conduct business transactions with these parties. The Bank's Board of Directors, along with the consent from the Supervisory Board, decides on conducting business transactions with parties related to the Bank.

When observing potential transactions with related parties, the attention is focused on the purpose of the relationship, not only to the legal form.

3.19. Outsourcing Policy

The Bank has adopted the Outsourcing Policy, which defines the processes for introducing new products and operational risks arising from activities that the Bank has entrusted to third parties.

Outsourcing risk management is done through a multi-level evaluation of service providers and regular annual monitoring of the quality of outsourced critical activities.

4. ACCOUNTING POLICIES AND ASSUMPTIONS

The Bank's Board of Directors 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.

The Bank's Board of Directors 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. Useful Lives of Intangible Assets, Property, Plant and Equipment

Determining the useful lives 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. Litigations

The Bank 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)

4.7. Lease Assessments

4.7.1. Assessment of an 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 Board of Directors 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

Pursuant to the Decision of the Central Bank of Montenegro (CBM), the Bank is particularly exposed or may be exposed to the following risks when performing its business operations:

1. Credit risk and risks associated with credit risk:
    - Credit risk in the narrower sense;
    - Counterparty risk;
    - Dilution risk;
    - Currency induced credit risk;
    - Interest induced credit risk;
    - Concentration risk;
    - Residual risk;
    - Securitisation credit risk;
    - Country risk;
    - Credit valuation adjustment (CVA) risk; and
    - Settlement/delivery risk.

2. Market risks:
    - Currency risk;
    - Position risk;
    - Commodity risk; and
    - IRRBB risk.

3. Operational risks:
    - Operational risk;
    - Outsourcing risk;
    - Risk associated with new product development; and
    - Model risk

5 RISK MANAGEMENT (Continued)

5.1. Introduction (Continued)

4. Liquidity risk:
    - Liquidity risk

5. Other risks:
    - Risk of high financial leverage;
    - Reputational risk;
    - Strategic risk; and
    - Risk of business and macroeconomic environment (influence of external factors).

All identified risks, as well as risks that the Bank considers significant, are given below:

Significant risks	***Not significant risks***
The risks below are assessed as significant: 1. Credit risk in the narrower sense; 2. Country risk; 3. Residual risk; 4. Concentration risk; 5. Counterparty risk; 6. Currency risk; 7. Operational risk; 8. Country risk; 9. Residual risk; 10. IRRBB risk; and 11. Liquidity risk.	The risks below were assessed, but they are not material: 1. Currency induced credit risk; 2. Interest induced credit risk; 3. Outsourcing risk; 4. Risk associated with new product development; 5. Model risk; 6. Reputational risk; and 7. Strategic risk.

The main responsibility of the Bank is to identify, assess, mitigate and monitor risks. Therefore, an adequate organizational structure has been established and risk identification, assessment, management, monitoring and reporting processes have been defined.

The credit risk management policy at Universal Capital Bank defines credit risk management roles and responsibilities in the bank, a general risk assessment, eligible borrowers and types of credit exposures, organizational principles of credit transactions, principles involved in credit operations (transactions), credit exposure monitoring, monitoring of loan processing, an early warning system, intensified monitoring of credit exposures, treatment of non-performing loans, restructuring of credit exposures, provisions for credit losses and write-off of exposures, portfolio management, risks associated with credit risk as well as reporting requirements. The policy also specifies adequate job descriptions in all organisational units, Boards and decision-making and supervisory bodies, decision-making authorisations, as well as procedures and guidelines for the respective operational areas to assist in the implementation of the policy and ensure that the policy objectives are fully accomplished at all levels.

5 RISK MANAGEMENT (Continued)

5.1. Introduction (Continued)

For the purpose of appropriate liquidity risk management, the Bank adheres to the following principles:

- Liquidity risk identification, measurement, mitigation and monitoring are regularly performed for all currencies (denominated in EUR);
- An analysis of liquidity factors and stability or volatility of deposits is based on historical data; and
- Liquidity risk is managed responsibly, conservatively and in accordance with the Bank's Risk Management Strategy and Liquidity Risk Management Policy, the regulator's requirements regarding liquidity risk management and by maximally observing the liquidity risk management and supervision principles proposed by the Basel Committee on Banking Supervision.

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.

5.2. Credit Risk

The Bank is exposed to credit risk, which is a risk of customers that will be unable to pay their liabilities to the Bank in full and on time. Credit risk is identified as the most significant risk in the Bank's portfolio.

Sales operations are separated from risk supervision and business support activities. The separation involves all levels, including Bank's Board of Directors.

The term credit risk applies to all risk subtypes listed below within the group credit risk and risks associated with credit risk:

- Credit risk in the narrower sense;
- Counterparty risk and credit valuation adjustment risk (CVA risk);
- Currency-induced credit risk;
- Interest-induced credit risk;
- Country risk;
- Residual risk;
- Concentration risk; and
- Securitization risk.

The policy for managing credit risk and risks associated with credit risk at the Bank governs credit risk in the narrower sense (typical credit risk - risk associated with a client's credit exposure), as well as country risk, residual risk, currency-induced credit risk and interest-induced credit risk. The Bank is not exposed to other risks from the group.

5 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

The following principles denote the Bank's approach to credit risk management:

- Detailed analysis of borrowing capacities of bank customers;
- Carefully documenting credit risk analyses and processes involved in credit operations, ensuring that the performed analyses can be understood by third parties with adequate knowledge;
- Avoiding overindebtedness of bank clients;
- Building a personal and long-term relationship with a client and maintaining regular contact;
- Systematic monitoring of credit exposure repayment;
- Systematic monitoring of repayment delays;
- Systematic collection from collateral in case of default;
- Implementation of carefully designed and well-documented processes;
- Application of the "four-eyes" principle; and
- Investing in well-trained and highly motivated staff.

The Bank measures, manages, monitors and reports on the concentration risk to which it is exposed and tries to identify concentration risks when planning new activities, especially those arising from new products and markets. The bank constantly assesses and adjusts its business and strategic goals in order for the bank's exposure to concentration risk to be harmonised with its risk appetite defined under the RAF and RAS.

The Bank has specified in its Concentration Risk Management Policy the indicators that it monitors during concentration risk management and the limits and techniques it uses to mitigate the risk.

Country risk represents the probability of loss for the Bank due to the impossibility of collecting receivables from parties outside of Montenegro, for political, social and economic reasons in the country in which the borrower’s head office or place of residence is located.
The Bank assesses the country risk exposure for all countries in which the head offices and/or places of residence of Bank’s debtors are located.

The calculation of the total exposure to a borrower’s country includes loans, shares, debt securities, capital investments, funds on correspondent accounts, financial derivatives, guarantees and other unconditional off-balance sheet liabilities.

The Bank needs to classify all debtors’ countries under one of the following risk categories:

- no risk countries;
- low risk countries;
- medium risk countries; and
- high risk countries.

A borrower’s country for which no country risk exists is classified as a no-risk country.

A borrower’s country for which country risk exists, but the collection of bank’s receivables are not endangered, is either classified as a low-risk or medium-risk country depending on the country’s risk level.

5 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

A borrower's country in which the collection of receivables is endangered or actual problems regarding the collection of receivables exist is classified as a high-risk country.

The Department for Risk Supervision, Measurement and Reporting monitors the ratings of the countries in which the head offices and/or places of residence of Bank's debtors are located in accordance with the long-term credit rating methodology of Standard & Poor's. The Department classifies countries according to a risk level based on these ratings, and defines exposure limits accordingly.

The ratings of the countries in which the head offices and/or places of residence of Bank's debtors are located are monitored at least quarterly when assessing the country's risk exposure. Rarely, in case of changes and events in the borrower's country based on which it needs to be classified as a high-risk country, the Bank is required to do so immediately after such events have occurred.

Residual risk is the possibility of negative effects on the bank's financial result and capital since credit risk mitigation techniques are less effective than expected or their application has an insufficient effect on reducing the risks to which the bank is exposed, whereby it is structured through two main elements:

1. Risk of secondary sources of collection - value of collaterals, corrective factors on the value of collaterals, risk of collection upon default status (post-default collection or enforced collection, etc.), and
2. Inadequacy of the receivables collection system through the achieved time dynamics of receivables collection (reduction in the fair value of receivables, including the value of collaterals due to the slowness and inefficiency of the collection system).

The collateral catalogue specifies that the Bank will endeavour to provide first-class or adequate collaterals. Since the Bank's portfolio contains a considerable amount of receivables secured by first-class collaterals, special attention was paid to adequate collaterals during the implementation of credit risk mitigation techniques.

Adequate sureties and guarantees, as well as mortgages or fiduciaries in favour of the Bank on immovable property used as residential or commercial premises, are considered adequate instruments for securing the collection of receivables, if the following conditions are met:

- a placement has been approved in accordance with the stable and safe banking principles;
- immovable property is free of real and legal encumbrances (encumbrances and restrictions);
- the Bank has priority when it comes to the order of the collection of receivables;
- the objectively assessed value of the real estate is in accordance with the minimum percentages specified in the Collateral Catalogue;
- immovable property can be sold within a period that does not jeopardize the Bank's liquidity;
- real estate is insured against the occurrence of harmful events (fires, floods, etc.) over the useful life of the placement, and the insurance policy is endorsed by the Bank.

5 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

Currency and interest induced credit risk

As part of its credit risk management, the Bank is particularly required to assess the exposure to and manage:

- Interest induced credit risk; and
- Currency induced credit risk.

Interest induced credit risk is the risk of loss arising from exposures linked to variable interest rates.

Currency induced credit risk is the risk of loss arising from exposures denominated in or linked to a foreign currency.

As part of currency/interest induced credit risk management, the Bank will carry out the following activities:

- identification of debtors that are the reason for a significant exposure to these risks;
- an impact assessment of a significant increase in the amount of debt repayment in the event of considerable negative fluctuations in interest rates/exchange rates on the debtor's creditworthiness;
- estimate of impairment and provisions for exposures that are subject to these risks in case of changes in exchange rates or interest rates;
- linking the credit exposure to the reference hedging instrument used by the credit institution, if applicable; and
- carrying out stress resistance tests.

The Bank's current exposure to currency induced and interest induced credit risks is at a minimum level taking into account the size of the foreign currency exposures portfolio and/or the size of the variable interest rate exposures portfolio. Thus, the Bank does not identify them as significant risks during a regular annual risk count carried out for the purpose of identifying significant risks.

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 Board of Directors 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.

5 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

Currency and Interest Induced Credit Risk (Continued)

5.2.1. Credit risk management (Continued)

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

Credit exposures under intensive monitoring are exposures where an increase in default risk has been identified, i.e. if they are categorized as increased credit risk exposures.
A credit exposure is classified as an increased credit risk exposure if it meets one of the following conditions:

- A customer has been continuously (for the last three months) in arrears for over 30 days, but less than 90 days;
- The client's account has been blocked for more than 30 days in the last 3 months;
- Irregular settlement of tax liabilities - the client is on the lists of major tax debtors published by the tax administration;
- The customer has related parties that are in default with the Bank;
- Restructured credit exposures that do not have a default status;
- Multiple restructured credit exposures that are not in arrears; and
- Other reasons.

The Bank defines and implements a procedure that ensures intensified monitoring/management of all credit exposures that meet one or more of the aforesaid indicators.

Accordingly, the Bank creates an adequate watch list.

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 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

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 2022		31 December 2021	
I Overview of assets	Gross	Net	Gross	Net
Cash and deposit accounts with central banks	194,323	181,323	181,041	181,041
Loans and advances to banks	29,028	28,986	37,571	37,513
Loans and advances to customers	161,408	152,230	158,089	150,047
Securities	89,331	87,748	88,631	87,182
Other financial assets	82	38	118	89
Other assets	2,044	1,854	2,949	2,759
	476,216	**465,658**	**468,399**	**458,999**
II Off-balance sheet items				
Irrevocable commitments	6,265	6,095	7,741	7,451
Payment guarantees	9,862	9,738	8,515	8,482
Performance guarantees	1,206	1,199	1,455	1,269
	17,333	**17,032**	**17,711**	**17,202**
Total (I+II)	**493,549**	**482,690**	**486,110**	**476,201**

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 and securities

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 2022	Gross S1	Gross S2	Gross S3	Total	ECL S1	ECL S2	ECL S3	Total ECL	Net
Cash loans	1,358	850	433	**2,641**	25	108	419	552	**2,088**
Housing loans	307	-	204	**511**	1	-	35	36	**475**
Credit cards	662	29	20	**710**	2	4	17	23	**687**
Other	1,037	586	322	**1,945**	41	65	322	428	**1,518**
Loans to retail customers	3,364	1,465	979	**5,808**	70	177	793	1,040	**4,768**
Large and medium-sized enterprises	89,769	45,142	8,745	**143,656**	879	963	5,272	7,114	**136,541**
State	9,346	-	-	**9,346**	101	-	-	101	**9,245**
Other	441	50	-	**491**	6	-	-	6	**485**
Loans to corporate customers	**99,556**	**45,192**	**8,745**	**153,493**	**986**	**964**	**5,272**	**7,222**	**146,271**
Total loans and receivables to customers	**102,920**	**46,657**	**9,724**	**159,301**	**1,055**	**1,140**	**6,066**	**8,261**	**151,039**
Loans to banks	**29,021**	**-**	**-**	**29,021**	**35**	**-**	**-**	**-**	**28,986**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

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

Securities – staging

An overview of gross exposures and the calculated impairment of advances' principal (ECL – expected credit losses) by stages for securities:

31 December 2022	Gross S1	Gross S2	Gross S3	Total	ECL S1	ECL S2	ECL S3	Total ECL	Net
Ministry of Finance of Montenegro	58,221	-	-	**58,221**	604	-	-	604	**57,617**
Securities at amortised cost	**58,221**	**-**	**-**	**58,221**	**604**	**-**	**-**	**604**	**57,617**
Ministry of Finance of Montenegro	22,702	-	-	**22,702**	295			295	**22,407**
Egypt Govern Cairo, Egypt	-	2,081	-	**2,081**		90	-	90	**1,991**
Pemex-PetroleosMexicanos Mexico City		900	-	**900**	-	73	-	73	**827**
Republic of Albania, Tirana	937	-	-	**937**	8	-	-	-	**937**
Sava Re dd Ljubljana	378	-	-	**378**	-	-	-	-	**378**
Republic of Turkey	2,524	-	-	**2,524**	20	-	-	20	**2,504**
***Securities at FVTOCI**	**26,541**	**2,981**	**-**	**29,522**	**323**	**163**	**-**	**486**	**29,036**
Total securities at amortised cost and FVTOCI	**84,762**	**2,981**	**-**	**87,743**	**927**	**163**	**-**	**1,090**	**86,653**

*An allowance for impairment of securities measured at FVTOCI is recorded under equity and amounts to EUR 486 thousand as of 31 December 2022.

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

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

Loans and advances to banks and customers – staging

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 and receivables 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 and securities (Continued)

Securities – staging

31 December 2021	Gross S1	Gross S2	Gross S3	Total	ECL S1	ECL S2	ECL S3	Total ECL	Net
Ministry of Finance of Montenegro	53,643	-	-	**53,643**	590	-	-	590	**53,053**
Securities at amortised cost	53,643	-	-	53,643	590	-	-	590	53,053
Ministry of Finance of Montenegro	25,625	-	-	**25,625**	290	-	-	290	25,335
Egypt Govern Cairo, Egypt	-	2,422	-	**2,422**	-	118	-	118	2,304
Pemex-PetroleosMexicanos, Mexico City	-	1,016	-	**1,016**	-	37	-	37	979
Republic of Albania, Tirana	1,048	-	-	**1,048**	8	-	-	8	1,040
Sava Re dd, Ljubljana	378	-	-	**378**					378
Republic of Turkey	2,524	-	-	**2,524**	20	-	-	20	2,504
***Securities at FVTOCI**	**29,575**	**3,438**		**33,013**	**318**	**155**	**-**	**473**	32,540
Total securities at amortised cost and FVTOCI	**83,218**	**3,438**		**86,656**	**908**	**155**	**-**	**1,063**	**85,593**

* An allowance for impairment of securities measured at FVTOCI is recorded under equity and amounts to EUR 473 thousand as of 31 December 2021.

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 2022	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	732	626	-	-	-	**1,358**
Housing loans	87	220	-	-	-	**307**
Credit cards	-	547	114	-	-	**661**
Other	994	43	-	-	-	**1,037**
Loans to retail customers	**1,813**	**1,437**	**114**	**-**	**-**	**3,364**
Large and medium-sized enterprises	82,413	7,356	-	-	-	**89,769**
State	9,346	-	-	-	-	**9,346**
Other	441	-	-	-	-	**441**
Loans to corporate customers	**92,200**	**7,356**	**-**	**-**	**-**	**99,556**
Total loans to customers, out of which:	**94,013**	**8,793**	**114**	**-**	**-**	**102,920**
Restructured	**10**	**19**	**-**	**-**	**-**	**29**
Loans to banks	**29,021**	**-**	**-**	**-**	**-**	**29,021**

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**

The bank realized all cash flows from the purchased securities in a timely manner, without a delay.

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 2022	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	597	84	140	28	-	**850**
Housing loans	-	-	-	-	-	**-**
Credit cards	-	19	7	2	-	**29**
Other	-	514	72	-	-	**586**
Loans to retail customers	**597**	**618**	**220**	**30**	**-**	**1,465**
Large and medium-sized enterprises	25,707	19,435	-	-	-	**45,142**
State	-	-	-	-	-	**-**
Other	50	-	-	-	-	**50**
Loans to corporate customers	**25,757**	**19,435**	**-**	**-**	**-**	**45,192**
Total loans to customers, out of which:	**26,354**	**20,052**	**220**	**31**	**-**	**46,657**
Restructured	**20,703**	**16,638**	**12**	**11**	**-**	**37,364**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

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	**-**	**-**	**-**	**-**	**-**	**-**

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 2022	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	6	4	4	4	414	**433**
Housing loans	-	177	-	-	27	**204**
Credit cards	-	2	-	-	18	**20**
Other	-	-	-	-	322	**322**
Loans to retail customers	**6**	**184**	**4**	**4**	**780**	**979**
Large and medium-sized enterprises	1,419	2,309	290	1,463	3,264	**8,745**
State	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Loans to corporate customers	**1,419**	**2,309**	**290**	**1,463**	**3,264**	**8,745**
Total loans to customers, out of which:	**1,426**	**2,492**	**294**	**1,467**	**4,044**	**9,724**
Restructured	**1,419**	**1,335**	**294**	**1,463**	**2,432**	**6,943**
Loans to banks	**-**	**-**	**-**	**-**	**-**	**-**

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	**-**	**-**	**-**	**-**	**-**	**-**

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 2022	Gross loan	Impairment	Stage 3	Restructured Stage 3	Impairment Stage 3	Share Stage 3	Collateral for Stage 3
Cash loans	2,641	552	433	236	419	16.38%	946
Housing loans	511	36	204	201	36	39.91%	340
Credit cards	710	23	20	-	17	2.82%	3
Other	1,945	428	322	322	322	16.56%	903
Loans to retail customers	**5,808**	**1,040**	**979**	**759**	**793**	**16.85%**	**2,192**
Large and medium-sized enterprises	143,656	7,114	8,745	6,183	5,272	6.09%	8,636
State	9,346	101	-	-	-	0.00%	-
Other	491	6	-	-	-	0.00%	-
Loans to corporate customers	**153,493**	**7,222**	**8,745**	**6,183**	**5,272**	**5.70%**	**8,636**
Total loans to customers	**159,301**	**8,261**	**9,724**	**6,942**	**6,066**	**6.10%**	**10,828**
Loans to banks	**29,021**	**35**	**-**	**-**	**-**	**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 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)

An overview of movements in loans and advances to customers by stages in 2022 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 2021	**102,137**	**36,180**	**17,735**	**156,052**
New advances	33,228	5,083	955	**39,266**
Reduction / Advance repayment	(18,591)	(7,482)	(9,945)	**(36,018)**
Transition to Stage 1	157	(157)	-	**-**
Transition to Stage 2	(13,938)	14,114	(176)	**-**
Transition to Stage 3	(108)	(1,082)	1,190	**-**
Balance as of 31 December 2022	**102,920**	**46,657**	**9,724**	**159,301**

In EUR thousand	Stage 1	Stage 2	Stage 3	Total
Balance as of 31 December 2021	**814**	**1,451**	**5,080**	**7,345**
New advances	673	554	445	**1,672**
Reduction / Advance repayment	(288)	(707)	(645)	**(1,640)**
Transition to Stage 1	(94)	(83)	1,069	**892**
Transition to Stage 2	19	(19)	-	**-**
Transition to Stage 3	(70)	95	(25)	**-**
New advances	(3)	(150)	153	**-**
Balance as of 31 December 2022	**1,055**	**1,140**	**6,066**	**8,261**

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 2022 the Bank restructured loans in the amount EUR 19,559 thousand, out of which the amount of EUR 19,499 thousand (2021: EUR 14,647 thousand) is related to corporate customers, the amount of 60 thousand (2021: EUR 75 thousand) refers to retail customers.

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 2022	Restructured advances	S1	S2	S3	Restructured advances	ECL S1	ECL S2	ECL S3	Share of restructured advances	Share of restructured advances
Cash loans	297	4	56	236	242	-	5	236	11.23%	373
Housing loans	207	7	-	201	33	-	-	33	40.55%	340
Credit cards	-	-	-	-	-	-	-	-	0.00%	-
Other	367	18	26	322	322	-	-	322	18.85%	1,239
Loans to retail customers	**871**	**29**	**82**	**759**	**596**	**-**	**5**	**591**	**14.99%**	**1,952**
Large and medium-sized enterprises	43,466	-	37,283	6,183	3,685	-	195	3,490	30.26%	46,966
State	-	-	-	-	-	-	-	-	0.00%	-
Other	-	-	-	-	-	-	-	-	0.00%	-
Loans to corporate customers	**43,466**	**-**	**37,283**	**6,183**	**3,685**	**-**	**195**	**3,490**	**30.26%**	**46,966**
Total loans to customers	**44,336**	**29**	**37,365**	**6,942**	**4,282**	**-**	**201**	**4,081**	**27.83%**	**48,918**
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 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)

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 2022	**Montenegro**	**EU**	**Europe - other**	**Other**	**Total**	**Montenegro**	**EU**	**Europe - other**	**Other**	**Total**
Retail customers	**2,901**	**121**	**1,557**	**249**	**4,830**	**966**	**6**	**3**	**3**	**979**
Cash loans	2,080	6	122	-	**2,208**	430	-	3	-	**433**
Housing loans	231	77	-	-	**308**	204	-	-	-	**204**
Credit cards	220	39	183	249	**691**	11	6	-	3	**20**
Other	371	-	1,252	-	**1,623**	322	-	-	-	**322**
Corporate customers	**71,096**	**-**	**3,708**	**69,944**	**144,748**	**7,098**	**1,500**	**147**	**-**	**8,745**
Banks and financial activities	1,593	-	-	-	**1,593**	-	-	-	-	**-**
State, public and local self-government	19,346	-	-	-	**19,346**	-	-	-	-	**-**
Construction	4,057	-	200	-	**4,257**	350	-	-	-	**350**
Information and communication	4,225	-	-	-	**4,225**	-	-	-	-	**-**
Other	1,046	-	1,250	1	**2,297**	1,356	-	-	-	**1,356**
Mining	1,073	-	-	-	**1,073**	329	-	-	-	**329**
Traffic and logistics	4,564	-	-	-	**4,564**	926	-	-	-	**926**
Professional, scientific and technical activities	1,566	-	2,258	9,192	**13,016**	14	1,500	147	-	**1,661**
Trade	5,394	-	-	11,950	**17,344**	2,363	-	-	-	**2,363**
Artistic, entertainment and recreational activities	4,055	-	-	-	**4,055**	695	-	-	-	**695**
Services	24,175	-	-	48,801	**72,976**	1,066	-	-	-	**1,066**
Loans to banks	**-**	**17,146**	**6,295**	**5,580**	**29,021**	**-**	**-**	**-**	**-**	**-**
Securities	**80,923**	**378**	**3,461**	**2,981**	**87,743**	**-**	**-**	**-**	**-**	**-**

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*				
31.12.2021	**Montenegro**	**EU**	**Europe - other**	**Other**	**Total**	**Montenegro**	**EU**	**Europe - other**	**Other**	**Total**
Retail customers	**2,745**	**681**	**1,795**	**136**	**5,356**	**1,010**	**1**	**3**	**34**	**1,048**
Cash loans	1,714	-	22	-	**1,736**	486	-	3	-	**489**
Housing loans	488	80	-	-	**568**	27	-	-	-	**27**
Credit cards	209	36	76	136	**456**	15	1	-	34	**50**
Other	334	565	1,697	-	**2,596**	482	-	-	-	**482**
Corporate customers	**65,470**	**-**	**593**	**66,897**	**132,960**	**14,987**	**1,500**	**200**	**4,853**	**16,687**
Banks and financial activities	2,202	-	-	-	**2,202**	-	-	-	-	**-**
State, public and local self-government	17,707	-	-	-	**17,707**	-	-	-	-	**-**
Construction	10,499		200	-	**10,699**	694	-	-	-	**694**
Information and communication	2,056	-	-	-	**2,056**	-	-	-	-	**-**
Other	893	-	-	-	**893**	1,367	-	-	-	**1,367**
Mining	1,000	-	-	-	**1,000**	359	-	-	-	**359**
Traffic and logistics	618	-	-	-	**618**	811	-	-	-	**811**
Professional, scientific and technical activities	2,831	-	393	9,192	**12,415**	4,414	1,500	200	4,852	**6,113**
Trade	4,628	-	-	11,751	**16,379**	1,388	-	-	1	**1,388**
Artistic, entertainment and recreational activities	5,135	-	-	-	**5,135**	1,772	-	-	-	**1,772**
Services	17,901	-	-	45,954	**63,855**	4,182	-	-	-	**4,182**
Loans to banks	**-**	**7,545**	**22,619**	**7,407**	**37,571**	**-**	**-**	**-**	**-**	**-**
Securities	**79,268**	**378**	**3,572**	**3,438**	**86,656**	**-**	**-**	**-**	**-**	**-**

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 2022	State, public administration and local self-government	Banks and financial activities	Professional, scientific and technical activities	Service activities	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	-	29,028	-	-	-	-	-	-	-	-	-	-	29,028
Loans and advances to customers	19,346	1,593	14,676	74,042	19,707	4,750	4,607	4,225	1,403	5,490	3,654	5,808	159,301
Securities	58,221	-	-	-	-	-	-	-	-	-	-	-	58,221
Other financial assets	-	-	-	-	-	-	-	-	-	-	82	-	82
Financial assets at FVOCI													
Securities	28,244	378	-	-	900	-	-	-	-	-	-	-	29,522
Financial assets held for trading													
Securities	425	-	-	43	-	-	-	-	-	-	-	-	468
Other assets	-	-	-	-	-	-	-	-	-	-	2,044	-	2,044
Total	**106,236**	**30,999**	**14,676**	**74,085**	**20,607**	**4,750**	**4,607**	**4,225**	**1,403**	**5,490**	**5,780**	**5,808**	**278,666**

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 2021	State, public administration and local self-government	Banks and financial activities	Professional, scientific and technical activities	Service activities	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	53,643	-	-	-	-	-	-	-	-	-	-	-	53,643
Other financial assets	-	-	-	-	-	-	-	-	-	-	66	-	66
Financial assets at FVOCI													
Securities	32,178	521	-	196	1,016	-	-	-	-	-	-	-	33,190
Financial assets at FVTPL													
Securities	100	-	-	265	-	-	-	-	-	-	-	-	365
Other assets	-	-	-	-	-	-	-	-	-	-	2,949	-	2,949
Total	**104,332**	**40,294**	**18,529**	**68,500**	**18,783**	**6,907**	**11,393**	**2,056**	**1,359**	**1,429**	**5,275**	**6,405**	**283,836**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

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

Loans secured by collaterals

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 2022	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**
Cash loans	73	67	-	**140**	557	-	-	**557**	334	-	14	**348**
Housing loans	223	77	-	**300**	-	-	-	**-**	177	-	-	**177**
Credit cards	-	585	-	**585**	-	4	-	**4**	-	3	-	**3**
Other	89	-	924	**1,012**	585	-	-	**585**	322	-	-	**322**
Loans to retail customers	**385**	**729**	**924**	**2,037**	**1,142**	**4**	**-**	**1,146**	**833**	**3**	**14**	**850**
Large and medium-sized enterprises	11,235	55,343	279	**66,858**	3,567	36,710	13	**40,291**	3,949	540	95	**4,584**
State	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**
Other	420	-	-	**420**	50	-	-	**50**	-	-	-	**-**
Loans to corporate customers	**11,655**	**55,343**	**279**	**67,278**	**3,617**	**36,710**	**13**	**40,341**	**3,949**	**540**	**95**	**4,584**
Total loans to customers	**12,040**	**56,072**	**1,203**	**69,315**	**4,759**	**36,714**	**13**	**41,486**	**4,782**	**543**	**109**	**5,434**
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 collaterals (Continued)

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)

5.2.5. Off-balance sheet items

In EUR thousand

31 December 2022	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
Up to 1 year	2,640	980	-	3,620
From 1 to 5 years	3,625	10,088	-	13,713
Total	**6,265**	**11,068**	**-**	**17,333**

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**

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

31 December 2022	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
Exposure				
Stage 1	4,520	7,000	-	11,520
Stage 2	1,683	3,494	-	5,177
Stage 3	61	574	-	635
Total	**6,265**	**11,068**	**-**	**17,333**
Provision for off-balance				
Stage 1	65	43	-	108
Stage 2	102	17	-	119
Stage 3	3	71	-	74
Total	**170**	**131**	**-**	**301**
Net	**6,095**	**10,937**		**17,032**

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.5. Off-balance sheet items (Continued)

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	**7,450**	**9,751**		**17,201**

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.

Foreign exchange, position and commodity risks belong to the group of market risks, which are defined as risks of losses on financial instruments stated in the Bank's balance sheet and off-balance sheet records and resulting from negative movements in market prices.

5.3.1. Foreign exchange risk

The bank is exposed to **foreign exchange risk,** which is the risk of loss resulting from changes in exchange rates and/or changes in the price of gold.
Foreign exchange risk represents the risk of negative effects on the Bank's financial result arising from changes in exchange rates, which includes:

- **Foreign exchange risk of the Bank’s income statement**

The foreign exchange risk of the Bank's income statement is measured on the basis of the Bank's ODP. This Policy sets the overall limits for the Bank for ODP. Exchange rate changes can directly affect the Bank's income statement if it has significant foreign exchange positions. Thus, the risk of losses due to changes in the exchange rate is reduced by closing foreign exchange positions.

5. RISK MANAGEMENT (Continued)

5.3. Market Risk (Continued)

5.3.1. Foreign exchange risk (Continued)

- **Capital adequacy foreign exchange risk**

The capital adequacy foreign exchange risk occurs if the currency of the Bank's capital differs from the currency in which the Bank reports most of its assets. In such a case, the depreciation of the local currency could result in a significant deterioration of the capital adequacy and the Bank would have higher risk-weighted assets compared to stable capital in the local currency.

The occurrence of capital adequacy foreign exchange risk is **unlikely**, since the Bank keeps its capital and a majority (almost all) of its assets in the local/functional currency (EUR).

The bank endeavours to **maintain a closed foreign exchange position** and takes care that the open foreign exchange position is within the conservative limit at all times. Derivatives can only be used for hedging purposes, i.e. closing Bank's positions, as well as for liquidity purposes.
The following general rules apply at the Bank level:

- The currency in which the Bank acquires financial assets determines the currency in which loans are granted to customers, and vice versa. The Bank is required to maintain a balance between assets and liabilities denominated in a certain currency within the limits prescribed in this Policy in order to protect itself against foreign exchange fluctuations. If this is not possible, financial instruments are used to their available extent to close the existing mismatch; and
- If the Bank conducts its business operations in local and foreign currencies, it has to monitor its exposure to exchange rate changes on a daily basis in order to maintain open positions within the required limit.

The Bank identifies, measures, monitors, supervises and reports on the risk arising from changes in the exchange rate and factors affecting it.
Asset management is separated from risk supervision and business support activities, and it includes all organisational units, including the Board of Directors.

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 2022 is presented below:

In EUR thousand	**USD**	**GBP**	**CHF**	**Other**	**Total**
Foreign currency assets	486	3,648	105	8,035	20,274
Foreign currency liabilities	743	3,648	105	8,006	12,502
Net open position					
31 December 2022	**(257)**	**-**	**-**	**29**	**(228)**
31 December 2021	**(22)**	**(1)**	**1**	**43**	**21**
% of stake capital					
31 December 2022	**-1.25%**	**0.00%**	**0.00%**	**0.14%**	**-1.10%**
31 December 2021	**-0.14%**	**-0.01%**	**0.01%**	**0.27%**	**0.13%**

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 2022 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	51	32	64	13	160	194,163	**194,323**
Financial assets at amortised cost							
Loans and advances to banks	400	3,616	41	8,022	12,079	16,907	**28,986**
Loans and advances to customers	-	-	-	-	-	152,230	**152,230**
Securities	-	-	-	-	-	58,311	**58,311**
Financial assets at FVOCI	-	-	-	-	-	38	**38**
Securities							
Financial assets held for trading	-	-	-	-	-	29,930	**29,930**
Securities for trading						479	**479**
Derivatives held for risk protection	-	-	-	-	-	-	**-**
Other assets	35	-	-	-	35	1,819	**1,854**
Total financial assets	**486**	**3,648**	**105**	**8,035**	**12,274**	**453,877**	**466,151**
Financial liabilities at amortised cost							
Customer deposits	457	3,648	105	7,516	11,726	424,607	**436,333**
Loans to non-bank customers						4,899	**4,899**
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	**-**
Other liabilities	286	-	-	490	776	5,477	**6,253**
Subordinated debt	-	-	-	-	-	-	**-**
Total financial liabilities	**743**	**3,648**	**105**	**8,006**	**12,502**	**434,983**	**447,485**
Net foreign exchange exposure:							
31 December 2022	**(257)**	**-**	**-**	**29**	**(228)**		
31 December 2021	**(22)**	**(1)**	**1**	**43**	**21**		

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 2022:

In EUR thousand	**Interest-bearing**	**Non-interest-bearing**	**Total**
Cash and deposit accounts with central banks	-	194,323	194,323
Financial assets at amortised cost			-
Loans and advances to banks	15,816	13,170	28,986
Loans and advances to customers	152,230	-	152,230
Securities	58,311	-	58,311
Other financial assets	-	38	38
Financial assets at FVOCI			-
Securities	29,930	-	29,930
Financial assets held for trading			-
Securities for trading	435	44	479
Derivatives held for risk protection	-	-	-
Other assets	-	1,854	1,854
Total financial assets	**256,722**	**209,429**	**466,151**
Financial liabilities at amortised cost			
Banks and central banks deposits	-	-	-
Customer deposits	134,450	301,883	436,333
Loans to non-bank customers	4,899	-	4,899
Derivative financial liabilities as a hedging instrument	-	-	-
Other liabilities	-	6,253	6,253
Subordinated debt	-	-	-
Total financial liabilities	**139,349**	**308,136**	**447,485**
Interest rate risk exposure:			
31 December 2022	**117,373**	**(98,707)**	**18,666**
31 December 2021	**119,885**	**(103,288)**	**16,597**

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 retail customers in 2022 were 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 2022 were as follows:

Deposit type	Interest rate
Short-term deposits	0.00% [1]- 1.50%
Long-term deposits	0.00% - 2.50%

Passive interest rates applied to the deposits of retail customers in 2022 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%

[1] 0,00% is related to cash collaterals

5. RISK MANAGEMENT (Continued)

5.4. Liquidity Risk

The Bank is exposed to liquidity risk, i.e. the risk of negative effects on the Bank's financial result and capital resulting from the Bank's inability to settle its due liabilities without unacceptable loss. Thus, liquidity risk is defined as a risk that the bank will not be able to provide sufficient funds for the settlement of its liabilities when they mature, or a risk that the bank will have to provide funds for the settlement of its liabilities at a cost higher than the usual one. Therefore, liquidity risk is categorized into the following sub-categories:

- Liquidity risk of financing sources; and
- Market liquidity risk

The liquidity risk of financing sources represents the impossibility of renewing existing sources of funds and/or collecting new sources in the short term, at an acceptable price (existing deposits will not be renewed, a new (fresh) source of financing cannot be obtained, or it can be provided at a less favourable cost, etc.). The most important sub-category of liquidity risk of funding sources is a structural liquidity risk, which arises from a significant maturity mismatch between Bank's assets and liabilities, i.e. its future inflows and outflows. It is a consequence of an inappropriate policy of a maturity transformation of assets.

Market liquidity risk represents the impossibility of converting certain forms of assets into liquid assets (cash) on the financial market quickly, easily and with minimum value losses. Therefore, market liquidity risk represents the risk of not being able to sell financial instruments at an acceptable price and within the required period. A difficult conversion of assets into cash can result from both external (systemic) risk factors such as, for example, insufficient market depth and/or market liquidity, and internal factors related to the Bank itself (e.g. illiquid assets in the Bank's portfolio).
Therefore, the Bank takes into account all key sources of liquidity risk to which it could be exposed: the risk of loss of financing by retail and corporate customers, intraday liquidity risk, concentration risk of financing sources (diversification of financing sources), currency liquidity risk, market liquidity risk, liquidity risk of off-balance sheet items, etc. All details about key liquidity risk sources are included in a Bank's separate by-law – the Internal Liquidity Adequacy Assessment Process Methodology (ILAAP).

In addition to the Risk Management Strategy, liquidity risk management is stipulated by the following corporate by-laws:

- Internal Liquidity Adequacy Assessment Policy (ILAAP Policy);
- Liquidity risk management policy;
- Internal Liquidity Adequacy Assessment Process Methodology (ILAAP Methodology);
- Action plan in unforeseen circumstances - liquidity crisis; and
- The methodology for determining the stable level of demand deposits, etc.

The Bank adjusts its operations taking liquidity risk into account to the applicable legislation and corporate liquidity risk management policy. The bank manages liquidity reserves on a daily basis ensuring that all customers' requirements are met.

The bank manages liquidity risk using the following ratios:

- Daily regulatory liquidity ratio;
- Decade regulatory liquidity ratio;
- Gap liquidity analysis;
- Liquidity coverage ratio (LCR); and
- Concentration of the source of financing.

5. RISK MANAGEMENT (Continued)

5.4. Liquidity Risk (Continued)

The remaining expected maturity matching of financial assets and liabilities as of 31 December 2022:

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	182,448	-	-	-	11,875	-	194,323
Financial assets at amortised cost							-
Loans and advances to banks	24,576	3,926	-	484	-	-	28,986
Loans and advances to customers	3,660	22,556	14,505	19,392	76,844	15,273	152,230
Securities	-	-	5,016	-	36,590	16,705	58,311
Other financial assets	38	-	-	-	-	-	38
Financial assets at FVOCI							-
Securities	-	-	2,853	80	20,761	6,236	29,930
Financial assets held for trading							-
Securities for trading	-	-	-	-	479	-	479
Derivatives held for risk protection	-	-	-	-	-	-	-
Other assets	465	237	1,202	101	155	-	2,160
Total financial assets	**211,187**	**26,719**	**23,576**	**20,057**	**146,704**	**38,214**	**466,457**
Financial liabilities at amortized cost							
Deposits of customers	73,039	64,976	41,639	34,150	220,748	1,781	**436,333**
Loans to non-bank customers	39	103	58	276	2,801	1,622	**4,899**
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	**-**
Other liabilities	5,752	1,118	23	158	159	-	**7,210**
Subordinated debt	-	-	-	-	-	-	**-**
Total financial liabilities	**78,830**	**66,197**	**41,720**	**34,584**	**223,708**	**3,403**	**448,442**
Maturity GAP							
31 December 2022	132,357	(39,478)	(19,144)	(14,527)	(77,004)	34,811	18,015
Cumulative GAP	132,357	92,879	74,735	60,208	(16,796)	18,015	
% of the total source of assets	**29.5%**	**20.7%**	**16.7%**	**13.4%**	**-3.7%**	**4.0%**	
31 December 2021	152,416	4,135	(32,002)	(8,806)	(133,873)	43,644	24,951
Cumulative GAP	152,416	155,988	123,986	115,180	(18,693)	24,951	
% of the total source of assets	**34.4%**	**35.2%**	**28.0%**	**26.0%**	**-4.2%**	**5.6%**	

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 2022**	**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	302,180	20,190	17,249	19,438	75,495	1,781	**436,333**
Loans to non-bank customers	39	103	58	276	2,801	1,622	**4,899**
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	**-**
Other liabilities	5,752	967	174	158	159	-	**7,210**
Subordinated debt	-	-	-	-	-	-	**-**
Total financial liabilities	**307,971**	**21,260**	**17,481**	**19,872**	**78,45**	**3,403**	**448,442**

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	687	230	955	-	**5,928**
Subordinated debt	-	-	2	-	-	1,000	**1,002**
Total financial liabilities	**313,638**	**7,119**	**18,671**	**12,213**	**29,296**	**62,510**	**443,447**

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	
	2022	**2021**	**2022**	**2021**
Cash and deposit accounts with central banks	194,323	181,041	194,323	181,041
Financial assets at amortized cost				
Loans and advances to banks	28,986	37,513	28,986	37,513
Loans and advances to customers	152,230	150,047	152,230	150,047
Securities	58,311	53,747	44,267	50,735
Other financial assets	38	89	38	89
Financial assets at FVOCI				
Securities	29,930	33,918	29,930	33,918
Financial assets held for trading				
Securities for trading	479	368	479	368
Derivatives held for risk protection	-	-	-	-
Other assets	1,854	2,759	1,854	2,759
Total financial assets	**466,151**	**459,482**	**452,107**	**456,470**
Financial liabilities at *amortized cost*				
Customers' deposits	436,333	432,371	436,333	432,371
Loans to non-bank customers	4,899	4,146	4,899	4,146
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	6,253	5,366	6,253	5,366
Subordinated debt	-	1,002	-	1,002
Total financial liabilities	**447,485**	**442,885**	**447,485**	**442,885**

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 Board of Directors 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 Board of Directors, 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 2022, 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 Board of Directors, 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 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVTOCI				
Securities	29,930	-	-	**29,930**
Financial assets held for trading				
Securities for trading	479	-	-	**479**
Derivatives held as a hedging instrument	-	-	-	**-**
Total assets	**30,409**	**-**	**-**	**30,409**
Derivative financial liabilities as a hedging instrument	-	-	-	**-**
Total liabilities	**-**	**-**	**-**	**-**

31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVTOCI				
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	**-**	**-**	**-**	**-**

5. RISK MANAGEMENT (Continued)

5.5. Fair Value of Financial Assets and Liabilities (Continued)

5.5.1. Fair value hierarchy (Continued)

Fair value hierarchy of financial instruments not measured at fair value

The estimated fair value of financial instruments not measured at fair value, according to the fair value hierarchy, is provided in the following table:

31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets:				
Cash and deposit accounts with central banks	194,323	-	-	194,323
Financial assets at amortized cost				
Loans and advances to banks	28,986	-	-	28,986
Loans and advances to customers			152,230	152,230
Securities	58,311	-	-	58,311
Other financial assets	-	-	38	38
Other assets	-	-	4,037	4,037
Total	**281,620**		**156,305**	**376,614**

31 December 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets:				
Cash and deposit accounts with central banks	181,041	-	-	181,041
Financial assets at amortized cost				
Loans and advances to banks	37,513	-	-	37,513
Loans and advances to customers	-	-	150,047	150,047
Securities	53,747	-	-	53,747
Other financial assets	-	-	89	89
Other assets	-	-	5,067	5,067
Total	**372,301**		**155,203**	**427,504**

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 Board of Directors controls capital adequacy using the methodology and limits prescribed by the Central Bank of Montenegro according to the Decision on Capital Adequacy of Credit Institutions ("Official Gazette of Montenegro", no. 128/20, 140/21 and 144/22). In accordance with the regulations, the Bank submits quarterly reports on the capital position and structure to the Central Bank of Montenegro.

The capital adequacy ratio is calculated as follows:

- Common Tier 1 capital adequacy ratio is calculated as a ratio between common Tier 1 equity of a credit institution and the total risk exposure in percentages;
- Tier 1 capital adequacy ratio is calculated as a ratio between Tier 1 equity of a credit institution and the total risk exposure in percentages;
- Total capital adequacy ratio is calculated as a ratio between regulatory capital of a credit institution and the total risk exposure in percentages.

Regulatory capital (own funds) of the Bank consists of a sum of Tier 1 capital and Tier 2 capital. Tier 1 capital includes common equity Tier 1 capital (CET1) and additional Tier 1 capital (AT1).

Tier 1 capital of the Bank's common equity Tier 1 capital consists of:

- 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;

5. RISK MANAGEMENT (Continued)

5.6. Capital Management (Continued)

- the amount of the exceeded investment limit in property and fixed assets, determined by a separate regulation of the Central Bank.
- Additional Valuation Adjustment (AVA) (the Bank applies the Simplified approach for determining AVA in line with Article 110 of the OAK). Under this approach, AVA is determined as 0.1% of a sum of absolute values of assets measured at fair value (the Bank does not have liabilities measured at fair value).

A sum of additional elements of Tier 2 capital, less the sum of deductible items, represents the Bank's supplementary capital.

Additional elements of own funds that can be 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.

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 required at all times to meet the following capital requirements stipulated under Article 134 of the Law on Credit Institutions ("Official Gazette of Montenegro", no. 72/19, 82/20 and 8/21):

- Common equity Tier adequacy ratio of 4.5%;
- Tier 1 capital adequacy ratio of 6%; and
- Total capital adequacy ratio of 8%.

The Bank is obliged to harmonize the scope of its operations with the prescribed ratios, i.e. to harmonize the scope and structure of its risk-weighted placements with the Law on Credit Institutions and the regulations of the Central Bank of Montenegro. As of 31 December 2022, the total capital adequacy ratio calculated by the Bank amounted to 28.24% (2021: 19.58%). The Bank's compliance with statutory ratios is provided in Note 30.

5. RISK MANAGEMENT (Continued)

5.7. 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	194,323	160	16	(16)
Financial assets at amortized cost				
Loans and advances to banks	28,986	12,079	1,208	(1,208)
Loans and advances to customers	152,230	-	-	-
Securities	58,311	-	-	-
Other financial assets	38	-	-	-
Financial assets at FVTOCI				
Securities	29,930	-	-	-
Financial assets held for trading				
Securities for trading	479	-	-	-
Other assets	1,854	35	4	(4)
Total financial assets	**466,151**	**12,274**	**1,228**	**(1,228)**
Financial liabilities carried at amortised cost				
Deposits due to banks and central banks	-	-	-	
Customers' deposits	436,333	11,726	1,173	(1,173)
Loans to non-bank customers	4,899	-	-	-
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	6,253	776	78	(78)
Subordinated debt	-	-	-	-
Total financial liabilities	**447,485**	**12,502**	**2,251**	**(1,251)**
Net foreign currency exposure:				
31 December 2022			**(23)**	**23**
31 December 2021			**1**	**(1)**

As of 31 December 2022, 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 23 thousand (31 December 2021: EUR 1 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)

5.7. Sensitivity Analyses (Continued)

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	194,323	-	-	-
Financial assets at amortized cost				
Loans and advances to banks	28,986	15,816	63	(63)
Loans and advances to customers	152,230	152,230	609	(609)
Securities	58,311	58,311	233	(233)
Other financial assets	38	-	-	-
Financial assets at FVOCI				
Securities	29,930	29,930	120	(120)
Financial assets held for trading				
Securities for trading	479	435	2	(2)
Derivatives held for risk protection	-	-	-	-
Other assets	1,854	-	-	-
Total financial assets	**466,151**	**256,722**	**1,027**	**(1,027)**
Financial liabilities carried at amortised cost				
Deposits due to banks and central banks	-	-	-	-
Customers' deposits	436,333	134,450	538	(538)
Loans to non-bank customers	4,899	4,899	20	(20)
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	6,253	-	-	-
Subordinated debt	-	-	-	-
Total financial liabilities	**447.485**	**139,349**	**558**	**(558)**
Interest rate risk exposure:				
31 December 2022			**469**	**(469)**
31 December 2021			**479**	**(479)**

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 469 thousand.

6. INTEREST INCOME AND EXPENSES

6.1. Interest income and similar income

In EUR thousand	2022	2021
Deposits with foreign banks	59	41
Loans to		
State	431	478
Companies	4,494	4,014
Individuals	370	312
	5,295	**4,804**
Securities		
at amortised cost	2,194	1,549
at fair value through other comprehensive income	233	765
at fair value through profit or loss	-	3
	2,427	**2,317**
Loan fee income	189	164
Total	**7,970**	**7,326**

6.2. Income from interest on impaired placements

In EUR thousand	2022	2021
Loans		
impaired placements to companies	397	375
impaired placements to individuals	7	7
Total	**404**	**382**

6.3. Interest expense and similar expenses

In EUR thousand	2022	2021
Deposits of		
foreign banks	30	120
companies	1,565	1,291
individuals	62	528
	1,657	**1,939**
Loans and other borrowings	308	46
Subordinated debt	780	5
Expenses from interest on leased assets	-	14
Total	**2,745**	**2,004**

7. FEE AND COMMISSION INCOME AND EXPENSES

7.1. Fee and Commission Income

In EUR thousand	2022	2021
International payment transactions	3,761	4,041
Payment operations and cash management	1,717	1,205
VISA and MC card operations	684	581
Domestic payment transactions	614	359
Custody and brokerage operations	114	104
E-banking	152	168
Fees for issued guarantees	150	146
Other fees and commissions	213	198
Total	**7,405**	**6,802**

7.2. Fee and commission expenses

In EUR thousand	2022	2021
Deposit insurance premium fees	287	278
Fees and commissions payable to the Central Bank	556	488
VISA and MC card operations	340	300
International payment transactions	377	394
Custody and brokerage operations	28	35
Expenses for securities	64	64
E-banking	109	108
Other fees and commissions	2	17
Total	**1,763**	**1,684**

Expenses from fees and commissions to the Central Bank of Montenegro increased in 2022 due to the imposing of a fee for the Resolution Fund by the regulator.

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

In EUR thousand	2022	2021
Securities at FVOCI	26	146
Financial instruments at amortised cost	-	-
Total	**26**	**146**

9. NET LOSSES/GAINS FROM FINANCIAL INSTRUMENTS HELD FOR TRADING

In EUR thousand	**2022**	**2021**
Equity instruments	38	79
Debt instruments	(7)	-
Total	**31**	**79**

10. NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

In EUR thousand	**2022**	**2021**
Realised foreign exchange differences – operations with customers	1,013	2,357
Value adjustment between assets and liabilities	14	89
Total	**1,027**	**2,446**

11. OTHER INCOME/EXPENSES

In EUR thousand	**2022**	**2021**
Income from collection of written-off loans	11	5
Investment property valuation	13	(74)
Dividends	-	4
Sundry income	-	1
Rental income	9	9
Total	**33**	**(55)**

12. EMPLOYEE BENEFITS

In EUR thousand	**2022**	**2021**
Net salaries	1,306	1,127
Payroll taxes, surtaxes and contributions	550	709
Remunerations to members of the Board of Directors	115	93
Travel and subsistence expenses	25	10
Fees for occasional jobs	26	22
Employee training	14	5
Other employee benefits	4	-
Total	**2,040**	**1,966**

13. DEPRECIATION AND AMORTISATION CHARGES

In EUR thousand	**2022**	**2021**
Property, plant and equipment (Note 22)	211	216
Leased assets (Note 22)	249	170
Leased assets – investment property (Note 21)	13	14
Intangible assets (Note 23)	140	179
Total	**613**	**579**

14. GENERAL AND ADMINISTRATIVE COSTS

In EUR thousand	**2022**	**2021**
Representative office costs - Dubai	529	418
Marketing and sponsorships	154	155
Maintenance of IT equipment	295	251
Lease and maintenance of business premises	170	102
Intellectual services	480	399
Entertainment	22	42
Telecommunications	132	93
Security	79	66
Other	32	28
Water supply, electricity, fuel and utilities	61	60
Insurance	44	36
Membership fees	25	42
Travel and accommodation expenses	15	5
Legal fees and court expenses	39	34
Money transportation	9	8
Other taxes	7	17
Office material	17	11
Board of Directors	-	12
Donations	21	6
Total	**2,131**	**1,785**

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

In EUR thousand	**2022**	**2021**
Loans and advances to banks	(16)	40
Loans and advances to customers	828	2,621
Securities at amortised cost	14	102
Securities at FVOCI	10	29
Off-balance sheet items exposed to credit risk	(208)	109
Other assets	92	275
Total	**720**	**3,176**

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 2022 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 2021	**58**	**8,042**	**598**	**483**	**509**	**1,636**	**3**	**15**	**11,344**
Charge for the year	40	9,286	54	171	1,572	200	-	25	11,348
Reversal during the year	(56)	(8,458)	(40)	(161)	(1,780)	(108)	(1)	-	(10,604)
Interest income reduction on impaired placements	-	351	-	-	-	-	-	-	351
Write-off of receivables	-	(43)	-	-	-	-	-	-	(43)
Reclassification	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2022	**42**	**9,178**	**612**	**493**	**301**	**1,728**	**2**	**40**	**12,396**

16. INCOME TAXES

16.1. Income tax components

In EUR thousand	2022	2021
Calculated current income tax	935	551
Calculated deferred income tax	(5)	(22)
Total	**930**	**529**

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	2022	2021
Result in the income statement before tax	6,142	5,860
Capital gains	(43)	(132)
Depreciation expense in the income statement	613	579
Depreciation expense for tax purposes	(739)	(603)
Tax effect of expenses and income not recognised for tax purposes, net	754	291
The amount of taxable profit	**6,727**	**5,995**
Capital gains	43	132
Tax base	**6,770**	**6,127**
Income tax (9%)	968	551
Deferred tax expense/income	(5)	(22)
Reduction of tax liability based on early payment	(33)	-
Total cost of income tax	**930**	**529**
Effective tax rate	**15.14%**	**9.03%**

16. INCOME TAXES (Continued)

16.3. Deferred Income Tax

Movements on accounts of deferred income taxes in 2022 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 2021	**35**	**134**	**5**	**(79)**	**39**
Deferred tax income / (expense) for the period	-	72	8	(74)	-
Deferred other tax result for the period	(35)	-	-	-	666
Balance as of 31 December 2022	**-**	**206**	**13**	**(153)**	**706**

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	**31/12/2022**	**31/12/2021**
Cash on hand*:*		
- in EUR	51	44
- in foreign currency	1	-
Cash in vault*:*	-	-
- in EUR	11,592	12,681
- in foreign currency	158	202
Cash at ATMs	-	-
Gyro account	158,772	144,611
Reserve requirement with the Central Bank of Montenegro	23,749	23,503
Total	**194,323**	**181,041**

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:

	31/12/2022	**31/12/2021**
Cash on hand:		
- in EUR	51	44
- in foreign currency	1	-
Cash in vault:		
- in EUR	11,592	12,681
- in foreign currency	158	202
Cash at ATMs	-	-
Gyro account	158,772	144,611
Reserve requirement with the Central Bank of Montenegro	23,749	23,503
Loans and advances to banks (Note 18.1)	28,538	32,408
Total cash and cash equivalents	**222,861**	**213,449**

As of 31 December 2022, the Bank's reserve requirement was set aside in accordance with the Central Bank of Montenegro's Decision on Reserve Requirements of Credit Institutions with the Central Bank of Montenegro ("Official Gazette of Montenegro", no. 88/17, 43/20 and 19/22) (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.

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 2022, 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 2022 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	**31/12/2022**	**31/12/2021**
Correspondent accounts with foreign banks	24,596	32,408
Term funds with foreign banks	4,425	5,163
	29,021	**37,571**
Accruals and deferrals	7	-
Impairment (Note 15)	(42)	(58)
Total	**28,986**	**37,513**

Gross balances on accounts with foreign banks:

31/12/2022	**12m PD**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Credit rating					
Aaa - Aa	0%-0.22%	10,442	-	-	10,442
A	0.06%	990	-	-	990
Baa	0.16%	7,764	-	-	7,764
Ba	0.84%	732	-	-	732
B	3.22%	9,082	-	-	9,082
Caa	9.73%	11	-	-	11
Individually observed		-	-	-	-
Total		**29,021**	**-**	**-**	**29,021**

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**

18. FINANCIAL ASSETS AT AMORTIZED COST (Continued)

18.2. Loans and advances to customers

In EUR thousand	31 December 2022	31 December 2021
Loans		
- Government of Montenegro	19,346	13,388
- privately owned companies	133,475	136,083
- individuals	5,844	6,405
- other - entrepreneurs and non-governmental organizations	635	176
	159,300	**156,052**
Interest receivables		
Accruals and deferrals		
- loan interest	2,324	2,268
- loan fees	(216)	(231)
Impairment		
- Impairment of loans (Note 15)	(8,262)	(7,345)
- Impairment of interest (Note 15)	(916)	(697)
Total loans and advances to customers	**152,230**	**150,047**

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 public administration and defence, companies from hotel management, transport and storage, trade, construction, arts and entertainment, etc.

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.

18.3. Securities

	31 December 2022	31 December 2021
Debt securities		
Government bonds of Montenegro	53,996	54,345
Bonds of foreign governments	-	-
Corporate bonds	-	-
Treasury bills	4,926	
Impairments of debt securities (Note 15)	(611)	(598)
Total	**58,311**	**53,747**

All bonds at amortized cost are Eurobonds with maturities from April 2023 to October 2029 and an annual fixed interest rate of 0%-3.38%.

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

19.1. Securities at fair value through other comprehensive income

In EUR thousand	31 December 2022	31 December 2021
Debt securities		
Government bonds of Montenegro	23,945	25,984
Bonds of foreign governments	4,445	6,191
Corporate bonds	1,540	1,548
Treasury bills	-	-
	29,930	**33,723**
Equity securities (FVOCI)		
Equity investment in subsidiaries (Note 20)	-	195
Total	**29,930**	**33,918**
Impairments of debt securities (Note 15)	(493)	(483)

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 2039.

Unrealised losses from the reduction to the fair value of securities as of 31 March 2022 amount to EUR 4,231 thousand and are stated under other reserves (Note 28).

19.2 Securities held for trading

In EUR thousand	31/12/2022	31/12/2021
Debt securities	435	103
Equity securities	44	265
Total	**479**	**368**

Bonds held for trading are government bonds at an annual fixed interest rate ranging from 0% to 3% and the maturity period of April 2025.

20. INVESTMENTS IN SUBSIDIARIES ACCORDING TO THE EQUITY METHOD

Investments in subsidiaries according to the equity method include investments in the following legal entities:

In EUR thousand	31/12/2022	31/12/2021
Universal Capital Bank Financial Service, Dubai	752	-
Portokali Adriatic d.o.o. Podgorica	195	-
Total	**947**	**-**

Having obtained approval from the Central Bank of Montenegro, the Bank established the legal entity Universal Capital Bank Financial Service headquartered in Dubai on 1 April 2022, which will provide consultancy on financial products and services.

The related party Portokali Adriatic d.o.o. Podgorica was founded in 2015 and investments in this legal entity over previous years were classified as securities at fair value through other comprehensive income (Note 19.1.). The Bank reclassified this investment, so the investment in the subsidiary Portokali Adriatic d.o.o. Podgorica in 2022 is classified as an investment in subsidiaries according to the equity method (2021: financial assets at fair value through other comprehensive income). The Bank recorded previously recognised investment impairment under retained earnings.

21. INVESTMENT PROPERTY

	2022	2021
Cost		
Balance as of 1 January	226	201
Additions	-	97
Decrease	(124)	
Reduction to net realizable value	(12)	(72)
Balance as of 31 December	**114**	**226**
Allowance for impairment		
Balance as of 1 January	28	14
Transfers	(42)	-
Depreciation (Note 13)	14	14
Balance as of 31 December	**-**	**28**
Carrying value as of 31 December	**114**	**198**

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 2021	2,839	1,864	589	19	12	5,323
Additions	-	-	994	20	747	1,761
Transfers to intangible assets	-	-	-	-	(36)	(36)
Transfers	-	-	(46)	-	-	(46)
Decrease - write-offs	-	117	-	(5)	(117)	(5)
Balance as of 31 December 2021	**2,839**	**1,981**	**1,537**	**34**	**606**	**6,997**
Additions – IFRS 16	-	-	-	47	-	47
Additions	-	-	-	-	1,210	2,159
Transfers to intangible assets	-	-	-	-	(107)	(107)
Decrease - write-offs	-	(325)	(1,023)	(14)	-	(1,382)
Transfers	512	437	-	-	(949)	-
Derecognition of fixed assets	-	(20)	-	-	(716)	(716)
Balance as of 31 December 2022	**3,351**	**2,073**	**514**	**67**	**44**	**6,049**
Accumulated depreciation						
Balance as of 1 January 2021	(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)**
Depreciation (Note 13)	(29)	(182)	(242)	(7)	-	(460)
Write-off and disposal	-	264	275	14	-	553
Balance as of 31 December 2022	**(221)**	**(1,158)**	**(294)**	**(7)**	**-**	**(1,680)**
Net book value as of:						
- 31 December 2022	**3,130**	**915**	**220**	**60**	**44**	**4,369**
- 31 December 2021	**2,647**	**741**	**1,210**	**20**	**606**	**5,224**

As of 31 December 2022, the Bank has no pledged assets that serve as an instrument to secure the repayment of loans and other liabilities.

22. PROPERTY, PLANT AND EQUIPMENT (Continued)

Net losses/gains from the derecognition of other assets in the amount of EUR 615 thousand are mainly related to the net loss from the derecognition of the investment in the representative office. In 2022, the Bank stopped recognizing investments in the refurbishment of the business premises in Dubai since the Bank started the process of closing the representative branch. The Bank recognised an expense in the amount of EUR 716 thousand based on the aforesaid, which is stated as a net loss from the derecognition of other assets. Consequently, the Bank stopped recognising lease in accordance with IFRS 16, whereby right-of-use assets were decreased in the amount of EUR 1,023 thousand and a net gain from the derecognition of assets in the amount of EUR 145 thousand was recorded.

23. INTANGIBLE ASSETS

Intangible assets mainly include licenses and software. The following overview shows movements on intangible assets during 2022 and 2021:

In EUR thousand	**2022**	**2021**
Cost		
Balance as of 1 January	1,486	1,450
Transfers from property, plant and equipment	108	36
Preparation	4	
Write-off	-	-
Balance as of 31 December	**1,598**	**1,486**
Accumulated amortization		
Balance as of 1 January	1,211	1,032
Amortization (Note 13)	140	179
Write-off	-	-
Balance as of 31 December	**1,351**	**1,211**
Carrying value as of 31 December	**247**	**275**

24. OTHER ASSETS

	31/12/2022	**31/12/2021**
Repossessed assets	2,183	2,308
Trade receivables	89	51
Receivables for card operations	1,201	1,251
Unallocated payments	(3)	202
Prepaid expenses	237	721
Receivables for payment operations and cash management	327	485
Other receivables	3	49
Total	**4,037**	**5,067**

25. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

25.1. Deposits of banks and central banks and customer deposits

In EUR thousand	**31/12/2022**	**31/12/2021**
Deposits of banks and central banks		
Demand deposits	-	-
Short-term deposits	-	2,486
	-	**2,486**
Demand deposits		
- privately owned companies	209,849	226,418
- Montenegrin Government	4,468	1,089
- other financial institutions that are not banks	82	76
- public services of local self-government units	30	-
- other: regulatory agencies, non-profit organisations and entrepreneurs	94	102
- individuals	87,362	78,518
	301,885	**306,203**
Short-term deposits		
- privately owned companies	223	1,526
- other financial institutions that are not banks	-	-
- other: regulatory agencies, non-profit organisations and entrepreneurs	-	-
- individuals	2,652	1,534
	2,875	**3,060**
Long-term deposits		
- privately owned companies	89,922	77,710
- other financial institutions that are not banks	3,000	3,000
- other: regulatory agencies, non-profit organisations and entrepreneurs	-	-
- individuals	37,077	38,805
	129,999	**119,515**
Interest on deposits	1,574	1,108
Total	**436,333**	**432,372**

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

	31/12/2022	31/12/2021
Ministry of Finance and Social Welfare - CEB program	2,532	1,329
Investment and Development Fund A.D. Podgorica	2,367	2,817
	4,899	**4,146**
Maturity by year		
Up to 1 year	477	671
Up to 2 years	770	608
Up to 3 years	730	588
Up to 4 years	648	545
Up to 5 years	652	463
Over 5 years	1,622	1,271
Total	**4,899**	**4,146**

Liabilities for loans and borrowings as of 31 December 2022 in the amount of EUR 2,367 thousand (31 December 2021: EUR 2,817 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 3%. The maturity is from 7 to 14 years. The Bank has no obligation to meet financial indicators for these loans.

In 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 2022, the Bank did not withdraw proceeds from this credit facility.

26. OTHER LIABILITIES

In EUR thousand	**31/12/2022**	**31/12/2021**
Custody operations	564	778
Lease liabilities - IFRS 16	290	1,341
Trade payables	235	246
Brokerage operations	99	156
Advances received	2,684	1,315
Liabilities from unallocated payments	1,434	1,294
Other liabilities	947	235
Total	**6,253**	**5,365**

27. SUBORDINATED DEBT

As of 31 December 2022, the Bank did not have a subordinated debt (31 December 2021: EUR 1,002 thousand), since it converted the subordinated debt of SDS Management DMCC in the amount of EUR 1,002 thousand into share capital on 14 March 2022 (Note 28).

28. EQUITY

Bank's equity is comprised of:

	2022	**2021**
Issued capital - ordinary shares (a)	13,124	12,122
Accumulated gain	12,529	7,583
Effects of the application of IFRS 9	(636)	(636)
Other reserves (b)	(4,231)	(753)
Profit for the year	5,212	5,331
Total	**25,998**	**23,647**

a) As of 31 December 2022, the Bank's share capital consists of 25,934 thousand of ordinary shares (31 December 2021: 23,954 ordinary shares) of a nominal value of EUR 0.50605821 (31 December 2021: EUR 0.50605821). The Law on Credit Institutions ("Official Gazette of Montenegro" no. 72/19, 82/20 and 8/21) stipulates a minimum amount of Bank's cash capital in the amount of EUR 7,500 thousand.

28. EQUITY (Continued)

The Bank's ownership structure as of 31 December 2022 and 2021 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
SDS MANAGEMENT DMCC (Note 27)	1,980,532	1,002	-	-
Seriatos Gerasimos	20,000	10	20,000	10
Saveljić Tijana	15,000	8	15,000	8
Others	24,654	12	24,654	12
Total	**25,934,646**	**13,124**	**23,954,114**	**12,122**

b) Other reserves

Other reserves refer to revaluation reserves formed as a result of adjusting the value of debt instruments with the market value.

Movements in the *revaluation reserves of debt instruments* measured through other comprehensive income:

	31/12/2022	31/12/2021
Opening balance as of 1 January	(753)	0
Increase in revaluation reserves	(4,144)	(827)
Decrease based on deferred taxes	666	74
Balance as of	**(4,231)**	**(753)**

29. OFF-BALANCE SHEET ITEMS

In EUR thousand	31/12/2022	31/12/2021
Off-balance sheet items exposed to credit risk		
Irrevocable loan liabilities – undrawn credit facilities	6,265	7,741
Irrevocable documentary letters of credit issued for payment abroad	-	-
Issued payment guarantees	9,862	8,515
Issued performance guarantees	1,206	1,455
	17,333	**17,711**
Other off-balance sheet items		
Custody assets	95,731	111,925
Collateral for receivables	187,721	175,901
Payment operations and cash management	160,045	127,098
Other	365	455
	443,862	**415,379**
Total	**461,195**	**433,090**
Provisions for expected credit losses on off-balance sheet items (Note 15)	**(301)**	**(509)**

30. COMPLIANCE WITH REGULATIONS OF CENTRAL BANK OF MONTENEGRO

Pursuant to the Decision on Capital Adequacy passed by the Central Bank of Montenegro ("Official Gazette of Montenegro" no. 128/20 and 140/21), credit institutions are required at all times to meet the following capital requirements stipulated under Article 134 of the Law on Credit Institutions ("Official Gazette of Montenegro" no. 72/19, 82/20 and 8/21):

- Common equity Tier adequacy ratio of 4.5%;
- Tier 1 capital adequacy ratio of 6%; and
- Total capital adequacy ratio of 8%.

The Bank is required to adjust its scope of work with the prescribed ratios, i.e. to adjust the scope and structure of its risk-weighted placements with the Law on Credit Institutions and the regulations of the Central Bank of Montenegro.

Ratio	2022	Statutory limit
Common equity Tier adequacy ratio (CET1)	28.24%	≥ 4.5%
Tier 1 capital adequacy ratio (Tier1)	28.24%	≥ 6%
Total capital adequacy ratio (TCR)	28.24%	≥ 8%
Financial leverage ratio	4.27%	≥ 3%
Liquid coverage ratio	287%	≥ 100%
Daily liquidity ratio as of 31 December	3.63	≥ 0.9
Decade liquidity ratio as of 31 December	3.65	≥ 1
The Bank's exposure to a single person or group of related parties	20.34%	≤ 25%
Exposure to Bank's related parties after applying credit risk mitigation techniques	7.53%	≤ 25%

31. RELATED PARTY TRANSACTIONS

The Law on Credit Institutions ("Official Gazette of Montenegro," no. 72/19, 82/20 and 8/21) stipulates that persons that appoint at least one representative in the Supervisory Board 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 Credit Institutions, transactions with related parties are shown in the following tables:

Customer deposits	**31/12/2022**	**31/12/2021**
retail	869	947
corporate:		
Sigma Delta Holdings doo Podgorica	35	43
Golden Estate doo Podgorica	458	278
First Financial Holdings doo Podgorica	-	3
Adriatic Properties doo Budva	84	-
Nova Pobjeda doo Podgorica	11	1
Epidaurus Hoteli and SPA D.O.O.	5	3
Portokali Adriatic doo Podgorica	3	-
Sigma Delta Investments doo	422	-
SDS Management DMCC Dubai	82	139
SDS Gulf limited	126	-
Adriatic Yachting Servises doo Budva	-	-
Portal Press doo Podgorica	1	1
Media - Nea doo Podgorica	1	-
Dnevne novine doo Podgorica	-	-
Novine doo Podgorica	-	-
Adriatic Procurement doo Budva	-	-
Vires doo Podgorica	9	636
Novi Tender Oglasi doo	1	3
Monterock Internacional limited UAE	2,370	497
Ebenus Events Managements LLC	45	1
RMR Europe Investments LTD Cyprus	40	4
Benaturayou Limited Gibraltar	30	5
Nightsapphire Resorts LTD Cyprus	1	1
Pure Angel doo Budva	46	-
Seven Hills Holdings Limited	5	-
RMR Innovative Recycling Internacional	62	1
Kalerosi services LTD	37	42
RMR Blue Essence Investment LTD Cyprus	1	-
Mystic Quartz resorts LTD Cyprus	-	-
Innovative Recycling S.A. Switzerland	1	-
Ocean Jasper resorts LTD Cyprus	1	1
RMR Star Bright Investment LTD Cyprus	-	1
Pure Larimar resorts LTD Cyprus	4	1
Tiger Eye resorts LTD Cyprus	2	1
Diceto LTD Cyprus	1	1
Tabathar LTD Cyprus	1	1
Bailegon LTD Cyprus	1	1
Nammos Restaurant London Limited UK	7	163
NARDO LTD Cyprus	1	1
DELRIO LTD Cyprus	1	1
MRINLON2SUB LTD Cyprus	1	1
Maferiosa LTD Cyprus	3	27
Maferiosa Hellas Greece	25	1
Filinimo LTD Cyprus	-	1
Monte London limited UK	32	-
First Seafront Estate doo for production, trade and services	1	-
Acquis Solutions DMCC	1	-
Durmitor Hotel and Villas	184	-
Monterock Investments - M - RINIT1	183	-
Victo LTD	1	-

31. RELATED PARTY TRANSACTIONS (Continued)

One Mykonos – FZCO	15	-
Benestar Property S.A.	23	-
Monterock Hotel Management - FZCO	211	-
Total client deposits	**5,445**	**2,807**

Subordinated debt		
SDS Management DMCC Dubai	-	1,002

Loans and advances to customers	**31/12/2022**	**31/12/2021**
retail	287	316
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	160	200
Portal Press doo Podgorica	14	20
Monterock Internacional limited UAE	45,334	45,334
Total loans and advances to customers	**50,19**	**50,338**

Guarantees	**31/12/2022**	**31/12/2021**
corporate customers:		
Adriatic Properties doo Budva	44	-
Nova Pobjeda doo Podgorica	67	18
Durmitor Hotel and Villas doo Zabljak	1,000	-
Innovative Recycling S.A. Switzerland	450	434
Total guarantees	**1,561**	**452**

Unused loan amount	**31/12/2022**	**31/12/2021**
corporate customers:		
Nova Pobjeda doo Podgorica	50	50
Total unused loan amount	**50**	**50**

Payment operations and cash management	**31/12/2022**	**31/12/2021**
corporate customers:		
Monterock Internacional limited UAE	21,150	9,950
Morsino LTD 6051 Lamaca	8,938	8,886
Nightsapphire Resorts LTD Cyprus	7,848	8,179
RMR Innovative Recycling Internacional	100	100
Ocean Jasper resorts LTD Cyprus	12,652	12,264
RMR Star Bright Investment LTD Cyprus	1,756	1,756
RMR Blue Essence Investment LTD Cyprus	5,253	5,253
Mystic Quartz resorts LTD Cyprus	110	110
Pure Larimar resorts LTD Cyprus	-	8,370
Victo LTD 6051 Lamaca	2,648	759
Tabathar LTD Cyprus	5,698	5,698
Tiger Eye resorts LTD Cyprus	2,506	2,980
Nardo LTD 6051 Larnaca	1,416	-
Total payment operations and cash management	**70,075**	**64,305**

31. RELATED PARTY TRANSACTIONS (Continued)

Interest income	**2022**	**2021**
retail customers:	16	16
corporate customers:		
Golden Estate doo Podgorica	85	92
Adriatic Properties doo Budva	-	-
Portokali Adriatic doo Podgorica	5	1
Portal Press doo Podgorica	1	1
Nova Pobjeda doo Podgorica	-	-
Monterock Internacional limited UAE	1,547	1,252
Total interest income	**1,654**	**1,362**

Fee and commission income from local and international payment transactions	**2022**	**2021**
retail customers:	-	-
corporate customers:		
Golden Estate doo Podgorica	2	4
Adriatic Properties doo Budva	2	-
Nova Pobjeda doo Podgorica	5	1
Monterock Internacional limited UAE	17	18
Benestar Property S.A. Greece	2	-
Damesin LTD Cyprus	3	-
Nammos Restaurant London Limited UK	1	-
Nova Pobjeda doo Podgorica	5	-
Monterock Assets LTD Cyprus	1	-
Pure Larimar resorts LTD Cyprus	2	-
Maferiosa Hellas Greece	1	-
Portokali Adriatic doo	1	-
SDS Management DMCC Dubai	2	-
SDS Gulf limited	1	-
Others	7	-
	52	**23**

Guarantees fee income	**2022**	**2021**
corporate customers:		
Nova Pobjeda doo Podgorica	2	-
Adriatic Properties doo Budva	1	1
Durmitor Hotel and Villas doo Zabljak	17	-
Innovative Recycling S.A. Switzerland	1	3
	21	**4**

Foreign exchange gains	**2022**	**2021**
corporate customers:		
Monterock Internacional limited UAE	5	6
Monte London limited UK	2	14
Nammos Restaurant London Limited UK	17	9
SDS Gulf limited	6	8
SDS Management DMCC Dubai	1	15
Adriatic Properties doo Budva	-	7
Total foreign exchange gains	**31**	**59**

31. RELATED PARTY TRANSACTIONS (Continued)

Income from payment operations and cash management	**2022**	**2021**
retail customers:	-	-
corporate customers:		
Nightsapphire Resorts LTD Cyprus	94	74
RMR Innovative Recycling Internacional	1	1
Ocean Jasper resorts LTD Cyprus	138	77
RMR Star Bright Investment LTD Cyprus	-	11
RMR Blue Essence Investment LTD Cyprus	58	62
Mystic Quartz resorts LTD Cyprus	-	1
Morsino LTD Cyprus	94	44
Monterock Internacional limited UAE	238	34
Pure Larimar resorts LTD Cyprus	79	77
Victo LTD Cyprus	24	1
Tabathar LTD Cyprus	60	39
Tiger Eye resorts LTD Cyprus	35	28
RMR Star Bright Investment LTD Cyprus	11	-
RMR Star Bright Investment LTD Cyprus	9	-
Mystic Quartz resorts LTD Cyprus	2	-
Nardo LTD	1	3
	844	**449**

Interest and fee and commission expenses	**2022**	**2021**
retail customers:	-	-
corporate customers:		
SDS Management DMCC Dubai	-	5
	-	**5**

Net income	**2,602**	**1,892**

Remunerations to the Board of Directors and Supervisory Board for gross salaries and compensations in 2022 amount to EUR 412 thousand (2021: EUR 318 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.

	2022	**2021**
Net profit for the year (*in EUR thousand*)	5,212	5,331
No. of ordinary shares at year's end	25,934,646	23,954,114
Weighted average number of shares at year's end	24,944,380	23,954,114
Basic earnings per share in EUR	**0.2010**	**0.2226**
Diluted earnings per share in EUR	**0.2089**	**0.2226**

33. LITIGATIONS

As of 31 December 2022, 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 2022, the Board of Directors deems that a negative outcome may arise from the aforesaid disputes and thus, a provision in the amount of EUR 25 thousand was made, which makes total provisions at the end of 2022 in the amount of EUR 40 thousand.

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 1,566 thousand (2021: EUR 2,435 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 2022 and 2021 were as follows:

Currency	31/12/2022	31/12/2021
USD	1.06660	1.13340
CHF	0.98470	1.03630
GBP	0.88693	0.83930
CAD	1.44400	1.44810
HKD	8.31628	8.83990
CNY	7.35819	7.22300
HRK	7.53648	7.52110
AED	3.93000	4.16009

35. EVENTS AFTER THE REPORTING DATE

The Bank's Board of Directors deems that there were no significant events after the reporting date which would affect the separate financial statements for the year ended 31 December 2022.

Signed on behalf of Universal Capital Bank A.D. Podgorica on 30 March 2023:

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 the Finance and Accounting Department

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