ADRIATIC BANK A.D. PODGORICA

Financial Statements for the Year Ended 31 December 2022

and

Independent Auditor's Report

CONTENTS

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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 Adriatic bank AD, Podgorica

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2022, and its financial performance and its 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 Financial Statements* section of our report. We are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Montenegro, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Adriatic bank AD, Podgorica (Continued)

Report on the Audit of the Financial Statements (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, 11, 14.2 and 23 to the financial statements**	
The measurement of costs of the impairment of loans and provisions for off-balance sheet items is deemed to be a key audit matter since the determination of assumptions for expected credit losses requires a significant level of professional judgement by the Bank's management. Receivables for loans and placements to debtors as of 31 December 2022 amounted to EUR 64,794 thousand (EUR 52,017 thousand as of 31 December 2021), while the total amount of the allowance for impairment of these receivables amounted to EUR 3,505 thousand as of 31 December 2022 (EUR 1,851 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, 11, 14.2 and 23, as well as estimates and assumptions of expected outcomes in impairment scenarios for individually assessed placements. Possible outcomes are based on discounted cash flows by the effective interest rate for individually assessed placements and include valuation 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, 11, 14.2 and 23.	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 that includes the assumptions used in ECL models applied in the allocation to credit quality levels. Testing the assumptions applied to determine a twelve-month and multi-annual probability of default (PD and mPD) and the determination of these probabilities, including the verification of the application of the forward-looking component. Verification of the method applied to obtain the probability of losses based on the impossibility of collecting receivables (LGD); • Collection and detailed testing of evidence based on samples corroborating the assumptions used for impairment costs of loans and provisions for off-balance sheet exposures, including the verification of the applied CCF, the measurement of collaterals, used hair-cuts 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 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 Adriatic bank AD, Podgorica (Continued)

Report on the Audit of the Financial Statements (Continued)

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

- The information provided in the Annual Business Report for the year ended 31 December 2021, is consistent, in all material respects, with the financial statements of the Bank as of and for the year ended 31 December 2022;
- The Annual Business 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 Company 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 Adriatic bank AD, Podgorica (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Adriatic bank AD, Podgorica (Continued)

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

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

Podgorica, 4 April 2023

Milovan Popovic
Certified Auditor

Goran Knezevic
Certified Auditor

Radonjic Đorđe

Djordje Radonjic
Certified Auditor

Vesko Knezevic
Executive Director/Certified Auditor

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

In EUR thousand	Note	2022	2021
Interest income and similar income	3.1, 5.1	6.743	3.547
Interest income on impaired placements	3.1, 5.1	203	115
Interest expenses and similar expenses	3.1, 5.2	(968)	(488)
NET INTEREST INCOME		**5.978**	**3.174**
Fee and commission income	3.1, 6.1	7.654	5.183
Fee and commission expenses	3.1, 6.2	(2.042)	(1.240)
NET FEE AND COMMISSION INCOME/(EXPENSES)		**5.612**	**3.943**
Foreign Exchange gains, net	7	3.517	1.364
Net gains/losses from derecognition od other assets		-	-
Other income		8	-
Employee costs	8	(2.876)	(2.036)
General and administrative expenses	9	(2.270)	(1.099)
Depreciation and amortization charges	10	(239)	(288)
Provisions		(1)	(8)
Other expenses		(2)	(5)
Net impairment gains/losses od financial instruments not measured at fair value through profit or loss	3.8, 11	(1.957)	(1.633)
OPERATING PROFIT (LOSS)		**7.770**	**3.412**
Income taxes	3.4, 12.1	(654)	5
OPERATING PROFIT (LOSS)		**7.116**	**3.417**

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

Podgorica, 24. March 2023

Approved by signed on behalf of Adriatic bank A.D., Podgorica:

Đorđe Lukić	Enesa Bekteši	Miroslav Vuković
President of the Management Board	Member of the Management Board	Head of Accounting, Reporting and Controling division

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from 1 January to 31 december 2022
(In EUR thousand)

	Note	2022	2021
Net profit (loss)		**7.116**	**3.417**
Effects of changes in value of securities measured through other comprehensive income		(6.376)	194
Effects based on taxes relating to other comprehensive income of the period		949	(6)
Total other comprehensive income for the year		**(5.427)**	**188**
TOTAL OTHER COMPREHENSIVE INCOME		**1.689**	**3.605**

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

Podgorica, 24 March 2023

Approved by and signed on behalf of Adriatic bank A.D., Podgorica:

Đorđe Lukić	Enesa Bekteši	Miroslav Vuković
President of the Managemnt Board	Member of the Management Board	Head od Accounting, Reporting and Controlling division

BALANCE SHEET AS OF 31 DECEMBER 2022 In EUR thousand	Note	31 December 2022	31 December 2021	1 January 2021
ASSETS				
Cash and cash balances and deposit accounts with central banks	3.6, 13	250.517	111.816	22.054
Financial assets at amortized cost		**232.369**	**127.052**	**59.505**
Loans and placements to banks	3.6, 14.1	25.606	14.278	6.256
Loans and placements to customers	3.7, 14.2	64.794	52.017	28.090
Securities	3.7, 14.3	141.958	60.729	25.149
Other financial assets		11	28	10
Financial assets at fair value through other comprehensive income		**36.629**	**42.596**	**-**
Securities	3.7. 14.3	36.629	42.596	-
Property, plant and equipment	3.9, 3.10, 15	1.688	1.037	1.067
Intangible assets	3.9, 3.10, 16	79	101	121
Current tax assets	12	943	6	-
Other assets	17	458	357	279
TOTAL ASSETS		**522.683**	**282.965**	**83.026**
LIABLITIES				
Financial liabilities at amortized cost		**499.763**	**267.551**	**72.560**
Deposits due to customers	18.1	496.587	265.579	71.701
Borrowings from customers other than banks	18.2	3.176	1.972	859
Reserves	19	436	252	205
Current tax liabilities	12	648	-	-
Deferred tax liabilities	12.2	3	9	2
Other liabilities	20	4.668	2.177	888
TOTAL LIABLITIES		**505.518**	**269.989**	**73.655**
EQUITI				
Share capital	21	11.945	9.445	16.480
Retained loss		3.343	(74)	(6.125)
Profit/(Loss) for the year		7.116	3.417	(984)
Other reserves		(5.239)	188	-
TOTAL EQUITY		**17.165**	**12.976**	**9.371**
TOTAL EQUITY AND LIABILITIES		**522.683**	**282.965**	**83.026**
OFF-BALANCE SHEET ITEMS	23	**153.148**	**95.449**	**43.129**

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

Podgorica, 24. March 2023

Approved by and signed on behalf of Adriatic bank A.D. Podgorica:

Đorđe Lukić
President of the Management Board

Enesa Bekteši
Member of the Management Board

Miroslav Vuković
Head of Accounting, Reporting and Controlling division

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

In EUR thousand	Share capital	Accumulated profit/loss	Other reserves	TOTAL
Balance as of 1 January 2021	**16.480**	**(7.109)**	**-**	**9.371**
Share issuance	-	-	-	-
Effects of changes in value of securities measured through other comprehensive income	-	-	188	188
Reduce of capital to cover accumulated loss	(7.035)	7.035	-	-
Profit for the year	-	3.417		3.417
Balance as of 31 December 2021	**9.445**	**3.343**	**188**	**12.976**
Share issuance	2.500	-	-	2.500
Effects of changes in value of securities measured through other comprehensive income	-	-	(5.427)	(5.427)
Profit of the year	-	7.116	-	7.116
Balance as of 31 December 2022	**11.945**	**10.459**	**(5.239)**	**17.165**

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

Podgorica, 24 March 2023

Approved and signed on behalf of Adriatic bank A.D., Podgorica:

Đorđe Lukić	Enesa Bekteši	Miroslav Vuković
President of the Management Board	Member of the Management Board	Head of Accounting, Reporting and Controlling division

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

In EUR thousand	2022	2021
Cash flows from operating activities		
Interest and similar receipts	7.069	3.416
Interest and similar outflows	(770)	(347)
Free and commission receipts	7.589	5.135
Free and commissions paid	(2.035)	(1.240)
Payments to employees and suppliers	(3.344)	(2.369)
Outflows from increases in loans and other assets	(23.337)	(25.295)
Inflows from deposits and other liabilities	231.364	194.220
Net cash inflows/(outflows) from operating activities	**216.536**	**173.520**
Cash flows from investing activities		
Purchase of property and equipment	(681)	(158)
Purchase of intangible assets	(22)	(80)
Treasury bills and bonds	(81.728)	(77.893)
Receipts from the sale of tangible and long-term assets	-	-
Net cash inflows/(outflows) from investing activities	**(82.431)**	**(78.131)**
Cash flows from financing activities		
Ordinary share issue	2.500	-
Inflow (outflow) from borrowings	1.204	1.113
Outflows from lease liabilities - principal	(76)	(59)
Net cash inflows from financing activities	**3.628**	**1.054**
Effects of FX gains/losses	**3.517**	**1.364**
Net increases in cash and cash equivalents	141.250	97.807
Cash and cash equivalents at the beginning of the year	126.138	28.328
Cash and cash equivalents at the end of the year (Notes 13 and 14.1)	**267.388**	**126.135**

Notes on the following pages are in integral part of these financial statements

Podgorica, 24 March 2023

Approved and signed on behalf of Adriatic bank A.D., Podgorica:

Đorđe Lukić	Enesa Bekteši	Miroslav Vuković
President of the Management Board	Member of the Management Board	Head of Accounting, Reporting and Controlling division

1. BANK'S INCORPORATION AND ACTIVITY

Adriatic bank A.D. Podgorica (hereinafter "the Bank") was founded in 2016 by obtaining a license from the Central Bank of Montenegro. Pursuant to Article 44, paragraph 2, point 7, of the Law on Central Bank ("Official Gazette of Montenegro", no. 40/10, 46/10, 6/13 and 70/17) and Article 23, paragraph 2, of the Law on Banks ("Official Gazette of Montenegro", no. 17/08, 44/10 and 40/11), the Council of the Central Bank of Montenegro adopted a decision on issuing a banking license to the Bank at its session held on 26 February 2016.

The Bank was registered in the Central Registry of Business Entities in Podgorica under registration number 4-0009471 on 13 April 2016 as Azmont Banka AD Podgorica. The Bank was registered as Nova Banka A.D. Podgorica in the Central Registry of Business Entities in Podgorica, under registration number 4-0009471/003, on 9 September 2016. Finally, the Bank was registered as Adriatic bank A.D. Podgorica in the Central Registry of Business Entities in Podgorica, under registration number 4-0009471/012, on 5 March 2020.

The Bank was founded by Azmont Investments d.o.o. Herceg Novi, which has been operating in Montenegro since 2012 with the aim of building a luxurious tourist complex "Portonovi" in Kumbor, the Municipality of Herceg Novi. On 15 January 2020, 299,511,761 of Bank's ordinary shares were purchased and thus, all shares owned by Azmont Investment DOO, headquartered in Kumbor, Herceg Novi, were transferred to the buyer Adriatic Capital LLC, headquartered in Wilmington, Delaware, USA.

The Bank's activity includes loan, deposit and guarantee transactions, as well as foreign-exchange transactions, depot operations, treasury services, issuance, processing and recording of payment instruments. On 12 March 2021 the Bank received the license for performing investment banking services from the Capital Market Commission.

The Bank's head office is in Podgorica, at Bulevar Dzordza Vasingtona 98/8.

As of 31 December 2022, the Bank consisted of a Head Office, located in Podgorica, and a branch at Cetinjska 9/1 in Podgorica and another Branch in Tivat.

The Bank's governing bodies:

- Shareholders Assembly,
- Supervisory Board
- Board of Directors.

The working body of the Supervisory Board is the Risk and Audit Committee, while the working bodies of the Board of Directors include the Credit Committee, the ALCO Committee, the Information System Development and Management Committee, the Operational Risk Management Committee and the Risky Customers Monitoring Committee. The Bank obtained necessary approvals from the Central Bank of Montenegro for the members of the Supervisory Bord and the Bord of Directors.

As of 31 December 2022, the Bank had 58 employees (31 December 2021: 45 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the 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 2.8.

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

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

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.

The official currency in Montenegro, as well as the Bank's functional and reporting currency, is EUR. Unless otherwise indicated, all amounts are stated in thousands of EUR.

2.2. 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:
    - 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.

2.3. 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.

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

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

- 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).
- 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.

2.4. Impact of the Russian-Ukrainian Conflict

Since early March 2022, there has been increased instability in global financial and commodity markets due to the escalation of the conflict in Ukraine, which was accompanied by imposing sanctions on certain Russian companies and individuals. As of 31 December 2022, the Bank’s exposure to Russian banks amounted to EUR 69 thousand (31 December 2021: 1,977 thousand), and there were no restrictions on the disposal of these assets during the year. The exposure arising from the loans extended to Russian citizens is 90% covered with cash collaterals and the Bank did not record a notable outflow of deposits of Russian citizens in 2022.

The Bank’s management is assessing the direct and indirect consequences of the Russian-Ukrainian conflict on the Bank’s business operations.

2.5. Use of Estimates

The presentation of financial statements requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the presented values of assets and liabilities, as well as the disclosure of contingent liabilities and receivables as of the date of the preparation of the financial statements, and the income and expenses arising during the accounting 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 most significant estimates and assumptions are related to the following:

- Impairment of Financial Assets

Based on a credit risk assessment, all instruments are classified under level 1 (no significant credit risk changes since the date of the initial recognition of an asset), level 2 (a significant credit risk change since a loan was approved) and level 3 (impaired assets – non-performing customers). For the purpose of analysing significant credit risk changes, the Bank identified a number of indicators used for assessments and for comparison with the balance during the initial recognition of a financial instrument in line with IFRS 9. The Bank also identified a number of indicators in order to identify non-performing assets (level 3). Depending on the level of a single instrument, expected credit losses are calculated over the next 12 months for level 1 and expected credit losses over the useful life are calculated for levels 2 and 3.

The Methodology for Impairment of Financial Assets is described in more detail in Note 3.8.

- Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or other factors. Adequacy of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

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

2.5. Use of Estimates (Continued)

- Provisions for Retirement Benefits and Unused Days of Annual Leave

The cost of long-term employee benefits is determined based on internal calculations using actuarial assumptions: discount rates, future salary growth in line with the inflation rate and advancement, as well as salary growth based on past work, and changes in the number of employees who acquire the right to be paid a benefit. Given the long-term nature of these plans, estimates are subject to significant uncertainty. The bank also calculates provisions for unused annual leaves on the basis of the remaining annual leave days as of the balance sheet date and the amount of the employee's salary cost.

- Provisions for Litigations

The Bank's management assesses the provision for an outflow of funds needed for litigations by estimating the probability that the outflow will actually occur based on the contractual or legal obligation from past periods.

- Revenue from Escrow Deposit Fees

Income from the fees for opening escrow accounts based on an economic citizenship is recognised under fee and commission income in accordance with the estimated retention time of these deposits in Bank's accounts.

- Deferred Tax Assets/Liabilities

A 15% rate was used to calculate deferred tax assets/liabilities, since the Bank's profit is mainly subject to this rate.

- Fair Value of Financial Instruments

The fair value of financial instruments traded on an active market is based on quoted market prices. The fair value of financial instruments that are not quoted on an active market is determined using valuation techniques.

The actual results may differ from these estimates.

2.6. Going Concern

The accompanying financial statements as of 31 December 2022 and for the year ended 31 December 2021 have been prepared in accordance with the going concern principle.

The Bank's income statement for the year ended 31 December 2022 presents profit in the amount of EUR 7,116 million, while the total accumulated profit on that day amounts to EUR 10,549 million, which is in accordance with the Bank's business plan.

The Bank envisaged the accomplishment of positive results in the upcoming years in its business plan. The capital adequacy ratio as of 31 December 2022 was 21.56%, while the prescribed minimum is 8%, which entails that the Bank maintains a very strong capital position.

A daily liquidity ratio as of 31 December 2022 was 5.76, which is significantly below the stipulated minimum of 0.9 (Notes 4.7. and 22).

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 31 January 2023.

2.8. 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.

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

2.8. Comparative Figures and First-Time Adoption of IFRS (Continued)

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.

The Bank does not have controlling power over any entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest and Fee Income and Expenses

Interest Income and Expenses

Interest income and expenses are calculated on an accrual basis and in accordance with the terms and conditions stipulated by contracts between the Bank and customers. Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that equalises the present value (discounted value) of expected inflows and outflows over the contracted loan validity period, i.e. accurately discounts future cash flows over the expected life of a financial instrument to:

- Gross carrying amount of a financial asset or
- Amortized cost of a financial liability.

When calculating the effective interest rate for financial instruments, except for purchased or approved impaired loans, the Bank considers all contractual terms and conditions, but not ECL, in estimating future cash flows. For purchased or approved impaired financial assets, the adjusted effective interest rate is calculated taking into account expected cash flows, including ECL.

When calculating the effective interest rate, transaction costs and any fees charged or paid, which are part of the effective interest rate, are taken into account. Transaction costs are incremental costs that can be directly attributed to the issue or disposal of a financial asset or financial liability.

The amortized cost of a financial asset or financial liability is the amount by which the financial asset or financial liability is measured at the time of initial recognition decreased by principal repayments and increased or decreased by the cumulative amortization, calculated using the effective interest rate, differences between the initial amount and the amount at maturity, and for financial assets, adjusted for the expected credit loss.

The gross carrying amount of a financial asset is the amortized cost of the financial asset before deducting the expected credit loss.

The effective interest rate for financial assets and liabilities is calculated at initial recognition of the financial asset or liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (if the asset is not impaired) or the amortized cost of the liability. For floating-rate-financial instruments, the effective interest rate changes due to periodic cash flow assessments to reflect market movements in interest rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Interest and Fee Income and Expenses (Continued)

Interest Income and Expenses (Continued)

For financial assets that have become impaired after the initial recognition, interest income is calculated using the effective interest rate method on the amortized cost of the financial asset. If the financial asset is no longer impaired, interest income is recalculated on a gross basis, i.e. interest is calculated by applying the effective interest rate to the gross carrying amount of the financial asset.

For financial assets that are impaired at the time of initial recognition, interest income is calculated by applying the adjusted interest rate to the amortized cost of the financial asset. Interest income calculation is not returned to the gross basis even after the credit risk improves.

The fees for approved loans are deferred and amortized as interest income on a straight-line basis over the loan term. The fee deferral on a straight-line basis does not materially differ from the effective interest rate method.

Fee and Commission Income and Expenses

Fee and commission income and expenses arising from the provision or usage of banking services are recognised in the income statement when they occur, i.e. when the service was provided or received.

Fee and commission income and expenses that are a part of the effective interest rate on financial assets and liabilities are accrued and recognized as a part of the effective interest rate.

Fee and commission income and expenses also include fees on issuing guarantees and letters of credit by the Bank, domestic and international payments and transactions in foreign currencies, intermediary and other Bank’s services.

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into EUR at the official exchange rate at the date of each transaction.

Assets and liabilities denominated in a foreign currency are translated into EUR by applying the official exchange rate prevailing at the statement of financial position date. 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.

Commitments and contingent liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing at the statement of financial position date.

Foreign exchange differences are translated each business day and a monthly effect of foreign exchange differences is a sum of daily effects.

3.3. Leases

On the date of the contract conclusion the Bank estimates whether the contract is a lease contract, i.e. whether it contains lease elements. A contract constitutes a lease contract, i.e. contains lease elements, if it assigns the controlling right to use certain assets during a particular period for a fee.

On the lease commencement date, the Bank recognises right-of-use assets and lease liabilities. The exemption of lease recognition is related to lease contracts whose term is less than 12 months and contracts on the lease of low value assets. Right-of-use assets are initially recognised at cost that includes:

- The amount of an initially measured lease liability (IFRS 16, paragraph 26),
- All lease payments on the date or before the first day of the lease term, less all received lease incentives,
- All initial direct costs incurred by the Bank as the lease beneficiary, and
- An assessment of costs that the Bank will incur during the disassembly and removal of the leased assets, the reinstatement of the location containing the assets or brining the assets to the condition determined by the terms of the lease contract.

Right-of-use assets are depreciated over the lease contract term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

On the lease commencement date, the Bank recognises the lease liability at the present value of all lease payments that were not made on that date. These payments are discounted using the interest rate contained in the lease if such an interest rate can be easily determined. If it cannot be easily determined, the Bank's incremental borrowing interest rate is applied.

3.4. Taxes and Contributions

Income Taxes

Current Income Taxes

Income taxes are calculated and paid in conformity with the Law on Corporate Income Tax ("Official Gazette of Montenegro", no. 80/2004, 40/2008, 86/2009, 14/2012, 61/2013, 55/2016, 146/2021 and 152/2022).

A taxable profit is determined based upon the income stated in its statutory income statement following certain adjustments to its income and expenses performed in a manner defined by the tax regulations. Income tax expense is calculated using progressive rates on taxable profit of legal entities in Montenegro in line with the Corporate Income Tax Law, as follows:

- a tax rate of 9% is calculated for a tax base of up to 100,000.00 EUR;
- a tax rate of 12% is calculated for a tax base from 100,000.01 EUR to 1,500,000.00 EUR;
- a tax rate of 15% is calculated for a tax base over 1,500,000.01 EUR.

Capital losses may be set off against capital gains earned in the same year. In case there are outstanding capital losses even after the set-off of capital losses against capital gains earned in the same year, these outstanding losses are available for carry forward in the ensuing 5 years.

Montenegrin tax regulations do not envisage that any tax losses of the current period may be used to recover taxes paid within a specific carry back period. However, any current year losses reported in the annual corporate income tax returns may be carried forward and used to reduce or eliminate taxes to be paid in future accounting periods, but only for an ensuing period of a maximum of five 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 carrying values in the financial statements. The currently-enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for 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.

Deferred taxes related with to the re-estimation of the fair value of investments available-for-sale are calculated and accounted for directly against or in favour of capital and at the same time are recorded in the income statement along with deferred profits or losses.

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.

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Taxes and Contributions (Continued)

Income taxes (Continued)

Transfer Pricing (Continued)

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).

Taxes, Contributions and Other Duties not Related to Operating Result

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

3.5. Earnings per Share

The Bank calculates and discloses earning per share in accordance with IAS 33. Basic earnings per share is calculated by dividing profit attributable to the Bank's shareholders by the weighted average number of ordinary shares for the period. The Bank has no dilutive potential ordinary shares such as convertible debt and share options.

3.6. Cash and Cash Equivalents

Cash and cash equivalents relate to cash in hand (in EUR and foreign currencies), cash in the treasury (in EUR and foreign currencies), deposits with the Central bank of Montenegro, including the required reserve and funds in the accounts held with other banks in the country and abroad, as well as other high liquid assets with a three-month maturity.

Cash and cash equivalents are measured at amortized cost in the balance sheet.

3.6.1. Statutory Reserve

The calculation, the allocation and the use of mandatory reserves with the Central Bank of Montenegro is prescribed by the Decision on the mandatory reserve with the Central Bank of Montenegro ("Official Gazette of Montenegro", no. 19/22) became effective, based on which the mandatory reserve is calculated by applying a 5.5% rate to the base comprising demand deposits and deposits with a maturity of up to 365 days, i.e. up to 366 days; 4.5% to the base comprising deposits with maturities exceeding 365 days, i.e. over 366 days. A 5.5% rate is applied to deposits with a contracted maturity over 365 days, i.e. 366 days, which have a clause allowing deposit redemption within a period shorter than 365 days, i.e. shorter than 366 days.

The calculated mandatory reserve of the bank is allocated to the account of the obligatory reserve in the country and / or to the accounts of the Central Bank abroad and cannot be separated and held in another form. Banks can use up to 50% of allocated funds of the reserve requirement to maintain daily liquidity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Assets

3.7.1. Classification

IFRS 9 addresses three major parts of accounting for financial instruments: classification and measurement, impairment and hedging

The classification of financial assets at initial recognition is performed in accordance with the adopted business model and the result of the test of the characteristics of the contractual cash flows.

Classification categories in line with IFRS 9 are the following:

- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income (FVOCI) and
- financial assets measured at fair value through profit or loss (FVTPL).

The Bank classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss, on the basis of:

a) Bank’s business model for financial asset management,
b) the characteristics of contractual cash flows.

Business models for financial asset management

The business model is determined by the key management of the Bank, at a level that reflects how groups of financial assets are managed together and not for an individual financial instrument. The business model refers to the way in which the Bank manages financial assets in order to generate cash flows and determines whether cash flows will result from the collection of contracted cash flows, the sale of financial assets or both. If cash flows are realized in a manner different from the Bank's expectations at the date the Bank estimates the business model, this is not considered a prior period error and it does not change the classification of the remaining financial assets held in that business model. When assessing the business model for newly acquired financial assets, the Bank must consider information about the manner in which cash flows have been realized in the past, together with all other relevant information.

1. Hold-to-collect business model

The financial resources held under this model are managed in order to realize cash flows by collecting contracted payments during the life of the instrument. When determining whether cash flows will be realized by collecting contracted cash flows from financial assets, it is necessary to take into account: frequency, value and time of sales in previous periods, reasons for these sales and expectations related to future sales. Although the objective of the Bank's business model may be to hold financial assets to collect contracted cash flows, the Bank does not have to hold these instruments to maturity. Therefore, within this business model, there may be a sale of financial assets or it is expected that the sale will take place in the future. The sale of assets due to increased credit risk is not in conflict with this model, and credit risk management activities aimed at minimizing potential credit losses due to loan deterioration are an integral part of this business model.

2. Hold-to-collect-and-sell business model

The Bank may hold financial assets in a business model whose objective is achieved by collecting contracted cash flows and selling financial assets. Compared to the previous model, this business model includes a higher frequency and value of sales.

3. Other business models

Financial assets are measured at fair value through profit or loss if not held within the previous two models. In the business model that results in measuring at fair value through the income statement, financial assets are managed with the aim of realizing cash flows by selling assets. Decisions are made on a fair value basis and the funds are managed to realize those fair values, so that the goal in this case will result in active buying and selling, while the collection of contracted cash flows will be secondary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Assets (Continued)

3.7.1. Classification (Continued)

Characteristics of contractual cash flows

The Bank classifies a financial asset on the basis of the characteristics of its contracted cash flows if the financial asset is held in a business model that is intended to hold funds to collect contracted cash flows or within a business model that is achieved by collecting contracted cash flows and selling funds. Therefore, the Bank should determine whether the agreed cash flows of the financial asset are exclusively payments of principal and interest on the outstanding amount of principal. In the loan agreement, the most important elements of interest are the time value of money and credit risk, although interest may also include compensation for other lending risks (liquidity risk), administrative costs, profit margin, etc. The principal is the fair value of the financial asset at initial recognition.

The time value of money is an interest element that provides compensation only for the passage of time, so that the element of time value of money does not provide compensation for other risks associated with holding a financial asset. In order to assess whether compensation is provided only for the passage of time, judgments are applied and relevant factors are considered, such as the currency in which the financial asset is stated and the period in which the interest rate is determined.

Financial assets measured at amortised cost

Financial assets should be measured at amortised cost if the following conditions are met:

a) financial assets are held within a business model whose objective is to hold business assets in order to collect contractual cash flows and
b) the contractual terms envisage the sole payment of principal and interest.

This business model may include a certain level of financial instrument sales, but they are very rare.

Financial assets measured at fair value through other comprehensive income

Financial assets should be measured at fair value through other comprehensive income if the following conditions are met:

a) financial assets are held within a business model whose objective is fulfilled by collecting contractual cash flows and selling financial assets and
b) the contractual terms envisage the sole payment of principal and interest.

For this business model whose objective is to collect contractual cash flows and sell financial assets, it is typical to include more sales and sales of higher value than the previous model.

Financial assets measured at fair value through profit or loss

Financial assets should be measured at fair value through profit or loss they are not measured at amortized cost or at fair value through other comprehensive income.

This business model includes:

a) asset management in order to achieve cash flows from sales;
b) portfolio management, whose performance is evaluated on the basis of fair value estimates;
c) a portfolio that fulfils the condition of being held for sale.

The Bank reclassifies financial assets when it changes a business model while the reclassification of financial liabilities is not performed.

The Bank holds loans and placements, as well as a part of the portfolio of bonds purchased before 1 November 2021, in order to collect contracted cash flows - "hold to collect". Part of the portfolio of bonds purchased after November 1, 2021 is held by the Bank for the purpose of collecting contracted cash flows and for sale, so these assets are classified at fair value through other comprehensive income (FVOCI). Reclassification of financial assets under IFRS 9 is only required when an entity changes its business model for financial asset management and it is not allowed for financial liabilities; therefore, reclassification is expected to be very rare. In the area of classification and measurement, the Bank did not find any significant risk that would require the Bank that it should measure a part of its loan portfolio at fair value through profit and loss, given the contractual characteristics of the cash flow of financial instruments in the Bank's portfolio (SPPI test).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Assets (Continued)

3.7.2. Measurement and Recognition

The Bank recognizes a financial asset in its financial statements when it becomes one of the counterparties in the instrument itself.

At initial recognition, the Bank measures a financial asset at fair value adjusted for transaction costs that can be directly attributed to the acquisition or issuance of a financial asset.

In accordance with IFRS 9, financial assets are subsequently measured at amortized cost or at fair value. In case of fair value measurement, gains and losses are fully recognized in the income statement (fair value through profit or loss) or in other comprehensive income (fair value through other comprehensive income).

The transaction price - i.e. the fair value of the compensation paid or received for a financial instrument - is usually the best evidence of the fair value for a financial instrument at initial recognition. However, there may be cases in which the Bank can determine that the fair value at initial recognition is different from the transaction price. In that case, the Bank recognizes gain or loss at initial recognition as the difference between fair value at initial recognition and transaction price.

Subsequent Measurement

Assets classified under assets measured at amortized cost

The amortised cost represents the amount at which a financial asset is measured at initial recognition with an increase or a decrease in accumulated amortization using the effective interest rate method for all differences between the initial amount and the amount at maturity, less any payments and adjustments based on the calculated expected credit losses. Impairment losses are recognized in the income statement.

The initial effective interest rate for IFRS 9 is the rate that accurately discounts estimated future cash outflows or inflows over the expected life of a financial asset or financial liability to the gross book value of the financial asset or to the amortized cost of the financial liability.

Assets classified under assets measured at fair value through other comprehensive income

For assets measured at fair value through other comprehensive income, interest income, expected credit losses and gains, i.e. foreign exchange gains or losses, are recognized under profit and loss account. Other gains or losses related to re-measurement of the instrument at fair value are recognized in other comprehensive income. At the time of derecognition, the cumulative gain/loss recognized in other comprehensive income is reclassified from equity to profit and loss account.

Equity instruments not held for trading the Bank may initially irrevocably classify as assets measured at fair value through other comprehensive income. Dividend for these instruments is recognised in profit or loss, with all other gains/losses are recognised in other comprehensive income. Upon derecognition, amounts recognized in other comprehensive income are not reclassified to profit or loss.

Assets classified under assets measured at fair value through profit or loss

If a financial instrument is measured at fair value through profit or loss after initial recognition, the difference between the carrying value and fair value, if any, is immediately recognized through profit or loss.

3.7.3. Derecognition

The Bank ceases to recognize financial assets only when the contracting rights on cash flows arising from financial assets expire, or if it transfers the financial assets and thus transfers substantially all the risks and rewards of ownership.

Recognition of financial liabilities ceases when the liability is settled i.e. when the debt was paid, cancelled or expired. Derecognition of the carrying amount of financial liabilities based on the debt/equity swap is recorded by issuing share capital in the amount equivalent to the market value of the Bank's shares on the Montenegro Stock Exchange.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Provisions and Impairment Allowance of Irrecoverable Receivables

Calculation of Impairment of Financial Assets and Provision for Off-balance Sheet Items

Pursuant to the Decision on Classification and Calculation Criteria and Method of Provisions for Potential Credit Losses of Credit Institutions ("Official Gazette of Montenegro", no. 127/20 of 29 December 2020 and 140/21 of 30 December 2021), the Bank is required to assess balance sheet assets and off-balance sheet items, based on which it is exposed to credit risk, at least on a quarterly basis for impairment (items of balance sheet assets) and for the probability of loss (off-balance sheet items). The Bank's risk-weighted assets comprise loans, advances, interest, fees, deposits held with banks, advances and other risk-weighted balance sheet assets, as well as off-balance sheet items: guarantees, credit obligations, sureties, letters of credit and other off-balance sheet items standing as the Bank’s contingent liabilities.

For the purpose of estimating the impairment of balance sheet items or estimating probable loss for off-balance sheet items, the Bank has adopted the Methodology for the Calculation of Allowance for Impairment in accordance with IFRS9. The starting point in the Methodology is historical migration matrices. The Bank created a time series of data (at least five years). The matrices are related to the entire portfolio, and probabilities of default (PDs) are calculated by observing annual migrations of clients from the rating categories A, B1 and B2 to the default category (by number) for the period from 31 January 2017 to 31 December 2022.

At the initial recognition of financial instruments, impairment is recognised in the amount that equals expected 12-month credit losses (financial instruments under Level 1).

The total expected loss will be recognized for all instruments whose credit risk has increased after the initial recognition. Therefore, impairment is recognized in the amount equal to expected credit losses over the life of the asset if the credit risk for that financial instrument has increased significantly since initial recognition or objective evidence of impairment has been identified (financial assets under Levels 2 and 3).

Based on a credit risk assessment, all instruments are classified under:

Level 1: No significant changes in credit risk since the date of initial recognition of the asset (expected credit losses for the next 12 months are calculated),

Level 2: A significant change in credit risk since the loan was granted (expected credit losses are calculated over the useful life),

Level 3: Impaired assets (non-performing clients, expected credit losses are calculated over the useful life).

For the purpose of an analysis, the Bank identified a set of criteria that it uses for the assessment and comparison with the situation at the moment of the initial recognition of a financial instrument in accordance with IFRS 9 and this Methodology. Identification of one or more listed criteria may indicate that there has been a significant increase in credit risk:

- Classification of the client into the next, worse classification category or sub-category
- Significant material delay of 30 to 90 days,
- Restructuring due to financial difficulties,
- Blocked accounts by the Bank or other creditors for more than 30 days.
- Intervention resulting from an issued guarantee or other off-balance sheet exposures,
- Undelivered contractual security instruments within the deadlines in accordance with the contracts.

A significant increase in credit risk for the segment of exposure to countries and financial institutions was identified as a decline of 3 rating categories, observed in relation to the rating scale of reputable external rating agencies (Moody's, Fitch, S&P).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Provisions and Impairment Allowance of Irrecoverable Receivables (Continued)

Calculation of Impairment of Financial Assets and Provision for Off-balance Sheet Items (Continued)

The Bank also identified a list of indicators aimed at identifying non-performing assets:

- Classification of clients under C, D and E classification categories,
- Significant material delay of 90 and more days,
- Blocked accounts by the Bank or other creditors for more than 90 days in continuity if the debtor is in delay for 30 or more days,
- New restructuring due to financial difficulties,
- Unilateral termination of the contract by the Bank,
- Removal of the client from the Commercial Court Register,
- The designation of bankruptcy or liquidation from the Commercial Court Register,
- Death of a client.

The calculation of an allowance for impairment in accordance with the Methodology for the exposures under Level 3 is estimated for:

- all exposures with an identified default status;
- all financial instruments that meet the definition of POCI in accordance with IFRS 9;
- all exposures for which the Bank has defined an individual approach taking into account the specificity of the financial asset.

The Bank assesses the impairment of balance sheet assets and a probable loss of off-balance sheet items on an individual basis for:

- financial instruments under Level 3, which exceed the materiality threshold of EUR 300,000;
- financial instruments which exceed the materiality threshold of EUR 300,000 for retail and corporate customers if the Bank has information on expected cash flows to be used to assess expected credit losses more adequately.

The Bank assesses the impairment of balance sheet assets and a probable loss of off-balance sheet items on an individual basis based on a number of possible collection scenarios during an estimate of expected future cash flows based on which expected credit losses are defined.

When calculating the amount of impairment of balance sheet assets and a probable loss of off-balance sheet items on an individual basis, the Bank takes into account cash flows from primary sources, as well as cash flows from collateral realization through several scenarios that are applicable to the particular receivable. Scenarios that bank takes into consideration are the realization of collateral, restructuring and rescheduling, bankruptcy, sale of receivables, settlement and everything else that the Bank considers relevant.

For all other exposures under Level 3 collective impairment approach is used depending on the number of days in delay.

For the debtors that are in arrears for up to three years, expected credit losses are calculated by comparing the aggregate gross book value of all instruments in a certain group with the weighted average of realized value resulting from the following scenarios:

- with a probability of 85% scenario of repayment out of all available collaterals discounted by the weighted average initial effective interest rate, and taking into account the amount of repayment of outstanding excluding repayment from collateral (1-LGD unsecured)
- with a probability of 10% of settlement scenario in the amount of 5% gross book value
- with a probability of 5% of the sale of receivables in amount of 2% of gross book value.

For the debtors that are in arrears for over three years, expected credit losses are calculated by comparing the aggregate gross book value of all instruments in a certain group with the weighted average of realized value resulting from the following scenarios:

- with a probability of 85% scenario of repayment from all available collaterals
- with a probability of 10% of settlement scenario in the amount of 5% gross book value
- with a probability of 5% of the sale of receivables in the amount of 2% of gross book value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Provisions and Impairment Allowance of Irrecoverable Receivables (Continued)

Calculation of Impairment of Financial Assets and Provision for Off-balance Sheet Items (Continued)

The Bank calculates impairment on a quarterly basis in accordance with the Methodology for the Calculation of an Allowance for Impairment according to IFRS 9 in the amount that equals expected credit losses over the useful life, if the financial instrument belongs to Level 2 or Level 3, i.e. at the amount equal to the expected twelve-month credit losses for all financial instruments under Level 1.

The Bank charges the calculated amount of the impairment of balance sheet items to expenses and credits it to the impairment of those asset items. The Bank charges the calculated amount of the probable loss arising from off-balance sheet items to expenses and credits it to the provisions for losses on off-balance sheet items.

Pursuant to the Decision on Classification and Calculation Criteria and Method of Provisions for Potential Credit Losses of Credit Institutions ("Official Gazette of Montenegro", no. 127/20 of 29 December 2020 and 140/21 of 30 December 2021), the Bank is required to classify on a monthly basis balance sheet assets and off-balance sheet items, based on which it is exposed to credit risk, and to calculate provisions for estimated losses. The Decision defines the criteria for the classification of assets and off-balance sheet items, as well as the method for determining the provision for potential losses.

Calculation of Provision for Potential Losses

According to the Decision, loans and other risk exposed assets are classified under the following classification groups:

- group A (good assets) – which classifies loans strongly corroborated by evidence that they will be fully collected in line with the contractual terms and conditions;
- group B (assets with a special note) with subgroups B1 and B2, for loans for which there is a low probability of loss, but which require special attention, as the potential risk, if not adequately monitored, could result in less collectability;
- group C (sub-standard assets) – with subgroups C1 and C2, for loans for which there is high probability of loss due to the clearly identified weaknesses that affect collectability;
- group D (doubtful assets) – loans whose full collection is highly unlikely taking into consideration the creditworthiness of the borrower and value and quality of the collateral realisation;
- group E (loss) – – loans that are fully irrecoverable or will be collectible in an insignificant amount.

The classification of off-balance sheet items on the basis of which the credit institution is exposed to credit risk is performed by applying the criteria used in the classification of loans. The classification of the contracted but unused loan is performed if the Bank is irrevocably obliged to fulfil the outstanding obligations under that loan arrangement.

Based on the classification of the items of assets and off-balance sheet items, on a monthly basis, the Bank calculates provisions for potential losses by applying the percentages in the following table:

	As of 31 December 2022		As of 31 December 2021	
Risk category	**% Provisions**	**Days of delay**	**% Provisions**	**Days of delay**
A	0,5	<30	0,5	<30
B1	2	31-60	2	31-60
B2	7	61-90	7	61-90
C1	20	91-150	20	91-150
C2	40	151-270	40	151-270
D	70	271-365	70	271-365
E	100	>365	100	>365

The Bank is required to determine the difference between the amount of calculated provisions for potential losses, calculated in accordance with the above table, and the sum of impairment allowances for balance sheet items and provisions for off-balance sheet items calculated in accordance with the provisions of the Decision stipulating the method for evaluation of financial assets by applying IFRS 9 at contract level.

The positive difference between the amount of calculated provisions for estimated and potential losses and the sum of the amount of impairment for balance sheet assets and the probable loss for off-balance sheet items represents the required or shortfall amounts of reserves for estimated and potential losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Property, Plant and Equipment and Intangible Assets

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. The cost includes expenditure that is directly attributable to the acquisition of the items.

Cost represents the price billed by suppliers together with all costs incurred in bringing new fixed assets into functional use.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Leasehold improvements are depreciated in accordance with the validity period of the lease agreement. The calculation of depreciation begins when the assets are put into use.

	Rate in %
Property	3.3
Computer equipment	20.0
Furniture and other equipment	15.0
Air-conditioning system	10.0
Vehicles	15.0

Depreciation period starts from the first day of the month following the month when the asset is put into use. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the income statement under other income / (expenses).

Intangible Assets

Intangible assets are stated at cost less accumulated amortization and impairment losses. Amortization is recognized in the income statement by a straight-line method over the estimated useful life.

	Rate in %
Intangible assets	20.0-33.3

3.10. Impairment of Tangible and Intangible Assets

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

Loss on impairment of assets is recognized as an expense in the current period and is recorded under other operating expenses. If subsequently an impairment loss recognized in previous years does not exist or has decreased, the value of the asset is increased to the revised estimate of its recoverable amount, but so that the increased value at which the asset is stated does not exceed the carrying value prior to identification of the loss due to the impairment of assets.

3.11. Acquired Assets

Acquired assets are assets that become Bank’s property by assuming collaterals for placements secured by such assets. The ownership of acquired assets is obtained in an enforcement procedure, a bankruptcy or liquidation proceeding or a pre-pack sale, or by signing a bilateral agreement with a debtor or other type of transfer of collaterals to the credit institution. Acquired assets may include financial and non-financial assets and should include all collaterals acquired regardless of their accounting classification.

The Bank initially recognises assumed collaterals at the value determined during the acquisition procedure, i.e. at the lower value of the net book value of receivables and the market value of collaterals less cost of sales. Acquired assets are subsequently measured at the lower of the book and market value of the assets.

Pursuant to the Decision on Minimum Investment Standards of Credit Institutions in Real Estate and Fixed Assets ("Official Gazette of Montenegro", no. 126/20 dated 25 December 2020), total investments of a credit institution in real estate and fixed assets must not exceed the regular stake capital of the credit institution.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Acquired Assets (Continued)

A credit institution can rarely have investments in real estate and fixed assets that exceed the amount of the regular stake capital if the following conditions are met:

1) the credit institution treats the investment amount in real estate and fixed assets exceeding the regular stake capital as a deductible item when calculating its regular stake capital;
2) after reducing the regular stake capital of the credit institution as referred to under item 1), the amount of the regular capital and total capital adequacy ratio of the credit institution exceed the statutory limit.

When calculating total investments in real estate and fixed assets, a credit institution should include in the calculation the value (minimum in the below-mentioned percentages) of repossessed property following the foreclosure during debt restructuring, a bankruptcy procedure, liquidation of a credit institution’s debtor, a pre-pack administration of a debtor in accordance with regulations governing bankruptcy, or during an enforcement procedure for the purpose of settling the receivables:

1) 0% if no more than four years have passed since the acquisition of the repossessed property;
2) 30% if more than four years, but not more than five years, have passed since the acquisition of the repossessed property;
3) 50% if more than five years, but not more than six years, have passed since the acquisition of the repossessed property;
4) 75% if more than six years have passed since the acquisition of the repossessed property.

As of 31 December 2022, the Bank did not have any acquired assets.

3.12. Accruals and Deferrals

Prepaid, i.e. invoiced costs and expenses are deferred and included in expenses in proportion to the period to which they relate.

Income from the current period that could not be invoiced, and for which the costs incurred in the current period are accrued, and are reported as receivables when invoiced.

Deferred income and accrued costs of the current period, for which a document has not been received or when a payment obligation occurs in the future period, are reported in accruals and deferred income.

3.13. Inventories

Inventories are measured at cost at the time of acquisition. The FIFO method is used to value inventory consumption.

Small inventory, packaging, car tires, work uniforms and other materials at the time of actual commissioning are charged to the costs of the accounting period in the total amount of 100%.

3.14. Equity

The share capital of the Bank represents the amount of cash paid by shareholders for all ordinary shares. The Bank's share capital consists of ordinary shares and is recorded as a separate item in the balance sheet.

Dividends on shares are recorded as a liability in the period in which the decision on their payment is made. Dividends declared for the year after the balance sheet date are disclosed in the note on events after the balance sheet date.

In accordance with IFRS, equity is not assessed. In accordance with the regulations of the Central Bank of Montenegro, the capital adequacy of the Bank is calculated quarterly.

For internal needs, the Bank calculates the capital adequacy ratio on a monthly basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events when it is likely that the Bank will be required to settle the obligation and when the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the outflows required to settle the obligations.

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

3.16. Employee Benefits

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.

Retirement Benefits or Other Long-Term Employee Benefits

In accordance with the Collective Bargaining Agreement (“Official Gazette of Montenegro” no. 150/22), the Bank is under obligation to pay retirement benefits to an employee upon his/her regular retirement in the amount of three net minimum salaries. The right to claim these benefits is usually conditioned with the remaining working age until retirement and/or completion of the minimum years of service. Expected costs of these benefits are recognized at the start of the employment.

The Bank made a provision in the financial statements as of 31 December 2022 for retirement benefits based on an estimated present value of assets to be used for retirement benefits payable to employees upon the fulfilment of the retirement criteria.

Remuneration Policy

On 25 February 2022 the Bank adopted a Remuneration Policy, which represents a framework and fundamental document that defines all types of employee benefits and remunerations at the Bank.

3.17. Financial Liabilities

Financial liabilities are recognized initially at fair value less transaction costs. Financial liabilities are subsequently recorded at amortized cost applying the effective interest rate method. The difference between the proceeds (less the transaction costs) and the redemption value is recognized in the income statement in the period of the borrowings are used by applying the effective interest rate method.

3.18. Financial Guarantees

In the normal course of business, the Bank gives financial guarantees, consisting of guarantees, performance guarantees and promissory notes. Financial guarantees are initially recognized in the financial statements at fair value, with the proceeds received. Subsequent measurement of the bank's liabilities, for each guarantee is made by the greater amount comparing the amortized premium and the best estimate of the cost required to settle the obligation that may arise as a result of guaranties.

Any increase in liabilities arising from financial guarantees is transferred to the income statement. The received fee is recognized in the income statement on a straight-line method, throughout the life of the guarantee.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19. Fair Value

Fair Value of Financial Instruments

Determining the fair value of financial assets and liabilities for which there is no observable market price requires the use of various valuation techniques. For financial instruments which are not traded often and which have low price transparency, fair value is less objective and requires a certain degree of variation in assessing which depends on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting a particular instrument.

According to the Bank's management assessment, the carrying amount of financial assets and financial liabilities disclosed in the financial statements approximates the fair value on the balance sheet date, since all of financial assets and financial liabilities have arisen since the operational start of the Bank, which is relatively short period.

The principles of measuring the fair value of financial instruments aim to regulate the measurement of:

- financial assets that require measurement at fair value in accordance with International Accounting Standards and International Financial Reporting Standards;
- financial assets that do not require fair value measurement in accordance with International Accounting Standards and International Financial Reporting Standards for presentation in the Bank's financial statements, but which require disclosure of the fair value of those instruments.

The key term in the whole measurement process is "fair value" - this is the price (value) that would be obtained for the sale of assets or the price (value) that would be paid for the transfer of liabilities in regular transactions between market participants on the valuation day.

In applying IFRS 13, the Bank adheres to the following order of activities:

a) Determine whether a particular financial instrument is measured at fair value - this activity involves identifying the characteristics of the instrument, the unit of measure and the market and market participants,
b) Choose the appropriate approach (method) and valuation techniques - market (quoted prices in an active market), revenue (discounted cash flow) and cost (replacement cost)),
c) Define inputs for measuring fair value - classification of the instrument by levels (level 1 - quoted prices for an identical instrument in an active market, level 2 - quoted prices for a similar instrument in an active market, level 3 - discounted cash flow),
d) Measure fair value
e) Disclose information on fair value measurement.

3.20. Management and Safekeeping of Client Funds (Custody)

The Bank provides management and custody services to legal entities and individuals and invests clients' funds in various financial instruments on their behalf. As these assets are not assets of the Bank, they are not recognized in the financial statements, unlike cash received from these clients which is presented within the Bank's liabilities. Based on the services from these operations, the Bank recognizes fee income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21. Related Party Transactions

For the purpose of these financial statements, legal entities are treated as related parties if one legal entity has the ability to control another legal entity or exerts significant influence on financial and business decisions of another entity, which is defined in IAS 24 "Related Party Disclosures ".

Relationships between the Bank and its related parties are regulated on a contractual basis. Balances of receivables and payables on the reporting date, as well as transactions during the reporting periods with related parties, are disclosed separately (Note 27).

When a credit institution provides or uses services of parties related to the credit institution, it must not provide services to those parties under terms and conditions that are more favourable than the terms and conditions under which it provides those services to other parties, nor must it use services of parties related to the credit institution under terms and conditions that are more unfavourable than the terms and conditions under which other parties would provide those services to the credit institution.

Parties related to a credit institution are as follows:

1. Shareholders of a credit institution that have a 5% or more of interest in the credit institution's equity or shares and a voting right;
2. Members of the Supervisory Board or the Board of Directors and procurators of credit institutions;
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 a credit institution, 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 a credit institution, a member of the Supervisory Board or the Board of Directors or a procurator of the credit institution 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 a credit institution;
7. A legal entity whose member of its governing body has a 10% or more of shares of a credit institution 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 a credit institution;
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 credit institution'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.

Conducting business transactions with parties related to a credit institution is governed by the Central Bank of Montenegro.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22. Outsourcing

The outsourcing policy defines the main principles and conditions for hiring persons outside the Bank to do the work for the Bank, outsourcing risk management rules, as well as requirements for data and documentation access, Bank's supervision and a minimum content of a contract signed with a service provider. Outsourcing is defined as any arrangement with a service provider, based on which the service provider provides a process, service or activity to the Bank, which the Bank would do on its own if the outsourcing had not been performed.

Before it makes a decision on outsourcing or changing a service provider, the Bank makes plans about outsourcing by:

- defining business requirements in relation to outsourcing;
- identifying, assessing, decreasing, preventing and managing actual or potential conflicts of interest;
- defining a business continuity plan in connection with outsourcing activities;
- assessing the criticality and importance of the work that is to be outsourced;
- conducting due diligence of the service provider.

When outsourcing its activities, the Bank is required to establish additional criteria in order to identify, assess and manage any outsourcing risks and other important elements, before making a final decision on the outsourcing.

The Bank is also required to monitor whether the provision and quality of the outsourced services are in line with the contract and whether the service provider complies with national and international standards. The head of the organisational unit that initiates outsourcing a service provider needs to identify in a timely manner and regularly reports about potential risks. They also need to ensure at all times that outsourced arrangements, particularly those regarding critical and important tasks, meet the outsourcing performance and quality standards defined by Bank's corporate by-laws.

All heads of organisational units that initiate outsourcing service providers on an annual basis are required to submit a Quality Control Report on Provided Services to the Authorised Person for Operational Risk, and to report any operational risks to the aforesaid person in case of identification of any anomalies classified as operational risk.

The policy creator (Procurement and Logistics Department) is required to submit a Quality Control Report on Provided Services on an annual basis to the Board of Directors.

The Bank keeps thorough and up-to-date records of all its outsourced activities, in which the information on both provided critical and important and non-critical and not so important outsourced activities is entered.

4. FINANCIAL INSTRUMENTS

4.1. Risk Management

The Bank identifies risks that it is or might be exposed to in its operations. It determines the significance of all the identified risks, based on a comprehensive assessment of risks associated with Bank's specific tasks, products, activities and processes. The Bank has separated transaction contracting from risk control and business support by clearly specifying risk management competencies and responsibilities in its separate risk management policies.

The Bank is mostly exposed to credit risk in its operations and thus the greatest focus is placed on the management and continuous development and improvement of credit risk management, but it does not neglect the impact of other risks to which the Bank is exposed in its operations, such as liquidity risk, operational risk, market risk, country risk, concentration risk and other risks that the Bank is exposed to when doing business.

The Risk Management Strategy is a comprehensive general document regulating the Bank's risk management area. The Strategy aims to establish a general framework for conservative and continuous management of risks that the Bank is exposed to or may be exposed to in performing its business operations. For the purpose of more efficient risk management at operational level, the Bank has developed specific risk management policies and procedures that are designed to identify and analyse risks, define adequate risk management limits and controls and monitor the Bank's exposure to each individual risk. According to the Law on Credit Institutions, the Bank is obliged to review the adequacy of the adopted risk management policies and procedures periodically, but at least once a year.

The Supervisory Board approved the following risk management policies:

- Credit Policy
- Risk appetite
- Credit Risk Management Policy
- Operational Risk Management Policy
- Country Risk Management Policy
- Liquidity Risk Management Policy
- Market Risk Management Policy
- Policy for Interest Rate Risk Management from Non-tradable Positions
- Policy for Interest Rate Risk Management from the Banking Book and Market Risk Management
- Concentration Risk Management Policy
- ICAAP Policy

A strategy, policies and procedures are used to define the main risk assumption and management principles: establishing clear risk management rules; collecting complete, timely and accurate data relevant to risk management and providing adequate data processing and storage capacities; making business decisions based on qualitative and quantitative analyses; using a large number of risk measurement and identification methods; risk management comprehensiveness; risk management effectiveness; risk management cyclicality.

The Bank's risk appetite entails defining a maximum acceptable risk level ensuring that the total risk level complies with the expectations of all stakeholders.

The Bank identifies non-performing loans (NPL) and non-performing exposures (NPE) in accordance with the criteria defined in the Credit Risk Management Policy. Credit risk monitoring and supervision entail introducing control mechanisms in the form of thresholds for indicators for monitoring credit risk by the Bank, which are defined by the Risk Management Department, and monitoring the compliance with the set thresholds for those indicators. The Bank has also defined the procedures/measures that have to be followed if the indicators reach values higher than the thresholds for the green zone.

The Supervisory Board has an overall responsibility for establishing and overseeing the risk management framework.

The Risk Management Division is responsible for monitoring the Bank's exposure to certain risks, which is reported monthly to the Board of Directors and the Supervisory Board.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk

Credit Risk

Credit risk represents the possibility of the occurrence of negative effects on the financial result and capital of the Bank due to unsettled liabilities of the Bank's debtors. Bank approves loans in accordance with its business strategy, aligning the maturities of loans approved and the interest rate policy with the purpose of the loan and debtor's creditworthiness.

The Credit Risk Management Policy is based on the Bank's statutory obligation stipulated by the Law on Credit Institutions and by-laws, but also on generally accepted international credit risk management principles and positive credit risk assessment practices.

The aim of the policy is to successfully implement the Credit Policy and Risk Management Strategy in order to identify more accurately the areas in which the following is identified: credit risk sources, identification methods, methods and timeframes for credit risk measurement, limits and procedures for controlling individual and total credit risk exposures paying attention to the size of the Bank and the complexity of products, the method and the dynamics of reporting to and informing the Supervisory Board and the Board of Directors on the credit risk management, as well as the methods and timelines for subsequent credit risk management quality assurance.

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

Credit risk management consists of all aspects of a risk assessment before the approval of placements, as well as placement monitoring until final repayment.

The Bank has separated transaction contracting from risk control and business support by clearly specifying credit risk management competencies and responsibilities in its Credit Risk Management Policy.

A credit risk decision-making process is a part of a comprehensive risk management system. The approval procedure for individual exposures includes a proposal from the Department for Asset Management and Payment Transactions / Department for Retail Customers and SMEs / Department for Corporate Customers. The Risk Management Department provides its position / opinion on the placement approval submitted to the competent body for making a decision on the placement approval. The Credit Committee decides on all types of placements granted to individual parties or groups of related parties.

The Bank introduced an early warning system in order to determine in a timely manner and at an early stage the deterioration of the credit quality of both retail and corporate customers, and keep records on increased credit risk exposures. The Bank has defined qualitative and quantitative early warning indicators that it uses to monitor credit risk exposure at the level of individual exposures.

The Bank monitors the overall structure and quality of the loan portfolio, i.e. credit risk arising from the overall portfolio, as well as the risks related to individual loans and transaction. Loans that become overdue or are classified under one of the categories of non-performing assets are specially treated. Risk monitoring is done in such a way to ensure that appropriate measures are undertaken in a timely manner to reduce credit risk in case the borrower's creditworthiness deteriorates.

For the purpose of implementing restructuring measures, the Bank tries to detect indications of potential future financial difficulties at an early stage. In this regard, an assessment of the debtor's financial position is not only limited to exposures with obvious signs of financial difficulties, but also to exposures based on which the borrower does not face apparent financial difficulties, but for which market conditions have significantly changed so that they could affect the debtor's repayment ability.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

Risks Associated with Credit Risk

Residual Risk

When assessing internal capital adequacy, the Bank conducts an impact analysis of residual risk, starting from the assumption that the collaterals received are impaired.

Country Risk

The Bank assesses the risk exposure of countries in which its borrowers have head offices/residence. The Bank ranks countries using long-term credit rating of a debtor's country, determined by internationally recognized external institutions. According to the rating assigned by internationally recognized rating agencies, the Bank classifies each of the countries under one of four risk categories. Country risk management is governed by Bank's corporate by-laws.

Interest-induced and Currency-induced Credit Risk

The Bank has introduced appropriate management systems related to loss risks arising from fluctuating interest rate exposures (interest-induced credit risk) and from exposures denominated in or linked to foreign currencies (currency-induced credit risk), which entail managing these risks at the level of individual exposures and the overall portfolio. The management of these risks is defined in more detail by corporate credit risk by-laws.

Concentration Risk

The Bank has introduced an identification system for a timely and comprehensive analysis of all factors in order to identify concentration risk that the Bank is or might be exposed to in its operations. Concentration risk is measured/assessed by adequately estimating the identified concentration risk exposure to individuals, a group of related parties, an industry or a product. The concentration risk management is governed by corporate by-laws.

4.2.1. Credit Risk Management

Credit risk management covers two main aspects of credit activities:

1.) Previous risk assessment to be assumed – based on a prior analysis formalized by the creation of a credit file approved by the competent body;
2.) Regular monitoring of placements or the assumed risk. After the placement is approved, the Bank is exposed to risks that are constantly evolving depending on the client's standing or other internal or external factors. Therefore, it is necessary to regularly monitor risks in order to protect Bank's interests.

The Bank has established a system for monitoring placements at individual and portfolio level, as well as a system for adequate provisioning and extracting impairment allowances for credit risk. In this way, potentially non-performing loans are identified on time and timely collection actions can be assumed.

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 an irrevocable written undertaking that the Bank 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. Documentary and commercial letters of credit, which represent a written undertaking of the Bank on behalf of a customer authorizing a third party to draw bills of exchange with the Bank up to the amount agreed under specific terms, are secured by the underlying deliveries of goods that they relate to and therefore, they carry less risk than direct borrowings.

4.2.2. Provisions for Impairment Losses in Accordance with IFRS 9

Pursuant to the Decision on Classification and Calculation Criteria and Method of Provisions for Potential Credit Losses of Credit Institutions ("Official Gazette of Montenegro", no. 127/20 of 29 December 2020 and 140/21 of 30 December 2021), the Bank is required to assess balance sheet assets and off-balance sheet items, based on which it is exposed to credit risk, at least on a quarterly basis for impairment (items of balance sheet assets) and for the probability of loss (off-balance sheet items). For the purpose of estimating the impairment of balance sheet items and a probable loss for off-balance sheet items, the Bank has adopted the Methodology for the Calculation of Impairment Allowance in accordance with IFRS 9.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.2. Provisions for Impairment Losses in Accordance with IFRS 9 (Continued)

The Bank calculates impairment on a quarterly basis based on the Methodology for the Calculation of Impairment Allowance in accordance with IFRS 9 in the amount equal to the expected credit losses over the useful life of the asset, if the credit risk for that financial instrument has significantly increased since initial recognition or there is identified objective evidence of impairment (financial assets under Levels 2 and 3), and at the amount equal to the expected twelve-month credit losses for all financial instruments in which credit risk has not significantly increased since the initial recognition (financial assets under Level 1).

For analysis purposes, the Bank identified a set of criteria that it uses to assess and compare to with the situation at the moment of the initial recognition of a financial instrument in accordance with IFRS 9 and this Methodology. Identification of one or more listed criteria, may indicate that there has been a significant increase in credit risk.

4.2.3. Credit Risk Reporting

The Bank has introduced a credit risk reporting system in order to support a decision-making process. Credit risk reporting includes regulatory and internal reporting. Regulatory reporting implies monthly and quarterly submission of credit exposure forms to the Central Bank of Montenegro defined by the Decision on Reports submitted to the Central Bank of Montenegro. Regulatory reporting is carried out by the Department for Accounting, Controlling and Reporting and the Risk Management Department of the Bank.

Internal reporting entails regular communication (reporting) between the Risk Management Department and organisational units assuming risks and monthly reporting to the Board of Directors and the Audit and Risk Committee, i.e. quarterly reporting to the Supervisory Board of the Bank.

4.2.3. Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items

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

In EUR thousand	31 December 2022		31 December 2021	
	Gross	Net	Gross	Net
Balance sheet items				
Cash and deposit accounts with central banks	250,520	250,517	111,816	111,816
Loans and placements to credit institutions	25,708	25,606	14,319	14,278
Loans and placements to customers	68,299	64,794	53,868	52,017
Securities at amortised cost	142,358	141,958	60,987	60,729
Securities at fair value through other comprehensive income	36,629	36,629	42,596	42,596
Other financial assets	11	11	28	28
Deferred financial assets	943	943	6	6
Other assets	524	458	396	357
	524,992	**520,916**	**284,016**	**281,827**
Off balance sheet items				
Payment guarantees	3,622	3,406	1,358	1,283
Performance guaranties	8,650	8,600	6,408	6,372
Other guaranties	427	422	302	297
Undrawn credit facilities	5,219	5,199	2,197	2,171
	17,918	**17,627**	**10,265**	**10,123**
Maximum credit risk exposure	**542,910**	**538,543**	**294,281**	**291,950**

In accordance with the limits stipulated by the Central Bank of Montenegro, the concentration of loans is subject to continuous monitoring.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.3. Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items (Continued)

Exposure to credit risk is partly overseen by obtaining the collaterals and guarantees from legal entities and individuals. Collateral use and management are one of the main components of credit risk management. Apart from taking into consideration the borrower's financial position, collaterals are considered a very important component for determining credit risk exposure because the exposure to credit risk is partially controlled by obtaining security instruments and guarantees from legal entities and individuals.

Types of collaterals are as follows:

- deposits;
- property mortgages;
- pledges on equipment, securities, inventories, vehicles and receivables;
- bills of exchange;
- authorizations;
- garnishments and injunctions;
- guarantors and endorsers;
- guarantees and sureties;
- insurance policies.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements

LOANS AND ADVANCES TO BANKS AND CUSTOMERS

31 December 2022	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Loans and advances to banks	**25,641**	**67**	**-**	**25,708**	**(97)**	**(5)**	**-**	**(102)**	**25,606**
Housing and mortgage loans	12,012	117	144	12,273	(58)	(1)	(19)	(78)	12,195
Cash loans	2,590	35	36	2,661	(35)	(3)	(31)	(69)	2,592
Consumer loans	47	-	-	47	(1)	-	-	(1)	46
Overdrafts	2	2	-	4	-	-	-	-	4
Cards – retail customers	89	-	-	89	-	-	-	-	89
Private SME loans	22,552	12,733	8,903	44,188	(242)	(642)	(2,154)	(3,038)	41,150
Loans to state companies	3,712	-	489	4,202	(17)	-	(99)	(116)	4,086
Loans to large private companies	4,123	713	-	4,835	(33)	(171)	-	(204)	4,632
Loans and advances to customers	**45,127**	**13,600**	**9,572**	**68,299**	**(386)**	**(817)**	**(2,303)**	**(3,506)**	**64,794**
Total	**70,768**	**13,667**	**9,572**	**94,007**	**(483)**	**(822)**	**(2,303)**	**(3,608)**	**90,400**

LOANS AND ADVANCES TO BANKS AND CUSTOMERS

31 December 2021	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Loans and advances to banks	**14,319**	**-**	**-**	**14,319**	**(41)**	**-**	**-**	**(41)**	**14,278**
Housing and mortgage loans	7,097	30	146	7,273	(13)	(1)	(19)	(33)	7,240
Cash loans	894	31	47	972	(28)	(3)	(39)	(70)	902
Consumer loans	52	1	2	55	(2)	(1)	(1)	(4)	51
Overdrafts	3	-	-	3	-	-	-	-	3
Cards – retail customers	6	-	-	6	-	-	-	-	6
Private SME loans	8,506	4,421	236	13,163	(224)	(142)	(79)	(445)	12,718
Loans to state companies	4,901	514	-	5,415	(23)	(71)	-	(94)	5,321
Loans to large private companies	22,280	2,935	1,766	26,981	(521)	(278)	(406)	(1,205)	25,776
Loans and advances to customers	**43,739**	**7,932**	**2,197**	**53,868**	**(811)**	**(496)**	**(544)**	**(1,851)**	**52,017**
Total	**58,058**	**7,932**	**2,197**	**68,187**	**(852)**	**(496)**	**(544)**	**(1,892)**	**66,295**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

SECURITIES

31 December 2022	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Securities at amortised cost	**142,358**	**-**	**-**	**142,358**	**(400)**	**-**	**-**	**(400)**	**141,958**
Treasury bills	11,823			11,823	(53)			(53)	11,770
Eurobonds - Montenegro	68,695			68,695	(307)			(307)	68,388
Eurobonds - Non-residents	61,840			61,840	(40)			(40)	61,800
*** Securities at fair value through other comprehensive income**	**36,629**	**-**	**-**	**36,629**	**-**	**-**	**-**	**-**	**36,629**
Eurobonds - Montenegro	22,758			22,758					22,758
Eurobonds - Non-residents	13,871			13,871					13,871
Total	**178,987**	**-**	**-**	**178,987**	**(400)**	**-**	**-**	**(400)**	**178,587**

* Allowance for impairment of securities at fair value through other comprehensive income is recognized under equity and amounts to EUR 104 as of 31 December 2022.

31 December 2021	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Securities at amortised cost	**60,848**	**-**	**-**	**60,848**	**(258)**	**-**	**-**	**(258)**	**60,590**
Treasury bills									
Eurobonds - Montenegro	50,387			50,387	(225)			(225)	50,162
Eurobonds - Non-residents	10,461			10,461	(33)			(33)	10,428
*** Securities at fair value through other comprehensive income**	**42,753**	**-**	**-**	**42,753**		**-**	**-**		**42,753**
Eurobonds - Montenegro	27,347			27,347					27,347
Eurobonds - Non-residents	15,388			15,388					15,388
Total	**103,583**	**-**	**-**	**103,583**	**(258)**	**-**	**-**	**(258)**	**103,325**

* Allowance for impairment of securities at fair value through other comprehensive income is recognized under equity and amounts to EUR 124 as of 31 December 2021.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

OFF-BALANCE SHEET ITEMS

31 December 2022	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Off-balance sheet items	**16,880**	**822**	**216**	**17,918**	**(198)**	**(21)**	**(73)**	**(291)**	**17,627**
Guarantees	11,755	727	216	12,699	(178)	(20)	(73)	(270)	12,428
Undrawn credit facilities	5,125	95	0	5,219	(20)	(0)	(0)	(20)	5,199
Total	**16,880**	**822**	**216**	**17,918**	**(198)**	**(21)**	**(73)**	**(291)**	**17,627**

OFF-BALANCE SHEET ITEMS

31 December 2021	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Off-balance sheet items	**9,130**	**925**	**215**	**10,270**	**(55)**	**(25)**	**(62)**	**(142)**	**10,128**
Guarantees	7,266	602	200	8,068	(41)	(16)	(59)	(116)	7,952
Undrawn credit facilities	1,864	323	15	2,202	(14)	(9)	(3)	(26)	2,176
Total	**9,130**	**625**	**215**	**10,270**	**(55)**	**(25)**	**(62)**	**(142)**	**10,128**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

LOANS AND ADVANCES TO BANKS AND CUSTOMERS BY DAYS PAST DUE - STAGE 1

31 December 2022	Not past due	Past due up to 30 days	From 31-60 days	From 61-90 days	Past due over 90 days	Total
Loans and advances to banks	25,641	-	-	-	-	25,641
Housing and mortgage loans	11,120	892	-	-	-	12,012
Cash loans	2,497	93	-	-	-	2,590
Consumer loans	38	10	-	-	-	48
Overdrafts	2	-	-	-	-	2
Cards – retail customers	87	2	-	-	-	89
Private SME loans	19,979	2,573	-	-	-	22,552
Loans to state companies	3,712	-	-	-	-	3,712
Loans to large private companies	4,123 -	-	-	-	-	4,123
Loans and advances to customers,	**41,558**	**3,570**	**-**	**-**	**-**	**45,128**
out of which: restructured:	**-**	**-**	**-**	**-**	**-**	**-**

LOANS AND ADVANCES TO BANKS AND CUSTOMERS BY DAYS PAST DUE - STAGE 2

31 December 2022	Not past due	Past due up to 30 days	From 31-60 days	From 61-90 days	Past due over 90 days	Total
Loans and advances to banks	67	-	-	-	-	67
Housing and mortgage loans	117	-	-	-	-	117
Cash loans	19	-	6	10	-	35
Consumer loans	-	-	-	-	-	-
Overdrafts	-	2	-	-	-	2
Cards – retail customers	-	-	-	-	-	-
Private SME loans	6,997	4,974	670	92	-	12,733
Loans to state companies	-	-	-	-	-	-
Loans to large private companies	713	-	-	-	-	713
Loans and advances to customers,	**7,846**	**4,976**	**676**	**102**	**-**	**13,600**
out of which: restructured:	**1,244**	**561**	**504**	**58**	**-**	**2,367**

LOANS AND ADVANCES TO BANKS AND CUSTOMERS BY DAYS PAST DUE - STAGE 3

31 December 2022	Not past due	Past due up to 30 days	From 31-60 days	From 61-90 days	Past due over 90 days	Total
Loans and advances to banks	-	-	-	-	-	-
Housing and mortgage loans	27	108	-	-	9	144
Cash loans	4	2	3	-	26	35
Consumer loans	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	7,562	207	-	-	1,134	8,903
Loans to state companies	489	-	-	-	-	489
Loans to large private companies	-	-	-	-	-	-
Loans and advances to customers,	**8,082**	**317**	**3**	**-**	**1,169**	**9,571**
out of which: restructured:	**1,792**	**108**	**3**	**-**	**-**	**1,903**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

LOANS AND ADVANCES TO BANKS AND CUSTOMERS BY DAYS PAST DUE - STAGE 1

31 December 2021	Not past due	Past due up to 30 days	From 31-60 days	From 61-90 days	Past due over 90 days	Total
Loans and advances to banks	**14,319**	**-**	**-**	**-**	**-**	**14,319**
Housing and mortgage loans	7,097	-	-	-	-	7,097
Cash loans	871	23	-	-	-	894
Consumer loans	52	-	-	-	-	52
Overdrafts	3	-	-	-	-	3
Cards – retail customers	6	-	-	-	-	6
Private SME loans	7,781	725	-	-	-	8,506
Loans to state companies	-	4,901	-	-	-	4,901
Loans to large private companies	18,333	3,947	-	-	-	22,280
Loans and advances to customers,	**34,143**	**9,596**	**-**	**-**	**-**	**43,739**
out of which: restructured:						

LOANS AND ADVANCES TO BANKS AND CUSTOMERS BY DAYS PAST DUE - STAGE 2

31 December 2021	Not past due	Past due up to 30 days	From 31-60 days	From 61-90 days	Past due over 90 days	Total
Loans and advances to banks	**-**	**-**	**-**	**-**	**-**	**-**
Housing and mortgage loans	30	-	-	-	-	30
Cash loans	12	-	19	-	-	31
Consumer loans	-	-	-	1	-	1
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	3,564	656	201	-	-	4,421
Loans to state companies	-	-	-	514	-	514
Loans to large private companies	1,239	1,500	196	-	-	2,935
Loans and advances to customers,	**4,845**	**2,156**	**416**	**515**	**-**	**7,932**
out of which: restructured:	**784**	**1,864**	**-**	**-**	**-**	**2,648**

LOANS AND ADVANCES TO BANKS AND CUSTOMERS BY DAYS PAST DUE - STAGE 3

31 December 2021	Not past due	Past due up to 30 days	From 31-60 days	From 61-90 days	Past due over 90 days	Total
Loans and advances to banks	**-**	**-**	**-**	**-**	**-**	**-**
Housing and mortgage loans	133	-	-	-	13	146
Cash loans	13	4	-	-	31	47
Consumer loans	2	-	-	-	-	2
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	5	76	16	-	139	236
Loans to state companies	-	-	-	-	-	-
Loans to large private companies	501	-	759	-	506	1,766
Loans and advances to customers,	**654**	**80**	**775**	**-**	**689**	**2,197**
out of which: restructured:	**5**	**-**	**-**	**-**	**-**	**5**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

SECURITIES BY DAYS PAST DUE

The total amount of securities as of 31 December 2021 and 31 December 2022 was classified under STAGE 1 and no days past due were identified.

OFF-BALANCE SHEET ITEMS

31 December 2022	Not past due	Past due up to 30 days	From 31-60 days	From 61-90 days	Past due over 90 days	Total
Off-balance sheet items	**17,044**	**495**	**363**	**-**	**16**	**17,918**
Guarantees	12,259	61	363	-	16	12,699
Undrawn credit facilities	4,785	434	0	-	-	5,219
Total	**17,044**	**495**	**363**	**-**	**16**	**17,918**

OFF-BALANCE SHEET ITEMS

31 December 2021	Not past due	Past due up to 30 days	From 31-60 days	From 61-90 days	Past due over 90 days	Total
Off-balance sheet items	**9,837**	**428**	**-**	**-**	**-**	**10,265**
Guarantees	7,794	275	-	-	-	8,068
Undrawn credit facilities	2,043	153	-	-	-	2,197
Total	**9,837**	**428**	**-**	**-**	**-**	**10,265**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

SHARE OF NON-PERFORMING LOANS AND ADVANCES TO BANKS AND CUSTOMERS – STAGE 3 IN TOTAL LOANS

31 December 2022	Gross exposure	Impairment allowance	S3 advances	Impairment allowance S3	Restructured S3 advances	Impairment allowance restructured S3 advances	Share of S3 advances in gross exposure
Loans and advances to banks	**25,708**	**102**	**-**	**-**	**-**	**-**	**0%**
Housing and mortgage loans	12,273	78	144	19	108	13	1%
Cash loans	2,661	69	36	31	3	2	1%
Consumer loans	47	1	-	-	-	-	0%
Overdrafts	4	-	-	-	-	-	0%
Cards – retail customers	89	-	-	-	-	-	0%
Private SME loans	44,188	3,038	8,903	2,154	1,303	307	20%
Loans to state companies	4,202	116	489	99	489	99	12%
Loans to large private companies	4,835	204	-	-	-	-	0%
Loans and advances to customers	**68,299**	**3,505**	**9,571**	**2,303**	**1,903**	**421**	**14%**

31 December 2021	Gross exposure	Impairment allowance	S3 advances	Impairment allowance S3	Restructured S3 advances	Impairment allowance restructured S3 advances	Share of S3 advances in gross exposure
Loans and advances to banks	**14,319**	**41**	**-**	**-**	**-**	**-**	**0%**
Housing and mortgage loans	7,273	33	146	19	-	-	2%
Cash loans	972	70	47	39	5	3	5%
Consumer loans	55	4	2	1	-	-	4%
Overdrafts	3	-	-	-	-	-	0%
Cards – retail customers	6	-	-	-	-	-	0%
Private SME loans	13,163	445	236	79	-	-	2%
Loans to state companies	5,415	94	-	-	-	-	0%
Loans to large private companies	26,981	1,205	1,766	406	-	-	7%
Loans and advances to customers	**53,868**	**1,851**	**2,197**	**544**	**5**	**3**	**4%**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

SHARE OF NON-PERFORMING LOANS AND ADVANCES TO BANKS AND CUSTOMERS – STAGE 3 IN TOTAL LOANS (Continued)

	Gross as of 31/12/2021	New S3 customers	Reduction in S3 customers	Other changes	Gross as of 31/12/2022	Net as of 31/12/2022
Loans and advances to banks	-	-	-	-	-	-
Housing and mortgage loans	146	27	29	-	144	125
Cash loans	47	2	13	-	36	5
Consumer loans	2	-	2	-	-	-
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	236	7,552	651	1,766	8,903	6,749
Loans to state companies	-	489	-	-	489	390
Loans to large private companies	1,766	-	-	(1,766)	-	-
Loans and advances to customers	**2,197**	**8,070**	**695**	**-**	**9,572**	**7,269**

	Gross as of 31/12/2020	New S3 customers	Reduction in S3 customers	Other changes	Gross as of 31/12/2021	Net as of 31/12/2021
Loans and advances to banks	-	-	-	-	-	-
Housing and mortgage loans	187	-	41	-	146	127
Cash loans	75	-	28	-	47	7
Consumer loans	-	2	-	-	2	1
Overdrafts	1	-	1	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	249	245	258	-	236	154
Loans to state enterprises	-	-	-	-	-	-
Loans to large private companies	-	2,336	570	-	1,766	1,360
Loans and advances to customers	**512**	**2,583**	**898**	**-**	**2,197**	**1,649**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

SHARE OF NON-PERFORMING OFF-BALANCE SHEET EXPOSURES – STAGE 3 IN TOTAL OFF-BALANCE SHEET EXPOSURES

	Gross as of 31/12/2021	New S3 custome rs	Reduction in S3 customers	Other changes	Gross as of 31/12/2022	Net as of 31/12/2022
Off-balance sheet items	**200**	**16**	**-**	**-**	**216**	**143**
Guarantees	200	16	-	-	216	143
Undrawn credit facilities	-	-	-	-	-	-
Total	**200**	**16**	**-**	**-**	**216**	**143**

	Gross as of 31/12/2020	New S3 custome rs	Reduction in S3 customers	Other changes	Gross as of 31/12/2021	Net as of 31/12/2021
Off-balance sheet items	**-**	**200**	**-**	**-**	**200**	**141**
Guarantees	-	200	-	-	200	141
Undrawn credit facilities	-	-	-	-	-	-
Total	**-**	**200**	**-**	**-**	**200**	**141**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

The quality of loans and advances to banks and customers exposed to credit risk is as follows:

	Neither impaired nor past due	Not impaired but past due	Collectively assessed	Individually assessed	Total gross	Total allowance	Total net
Housing and mortgage loans	-	-	12,164	108	12,272	78	12,194
Cash loans	-	-	2,661	-	2,661	69	2,592
Consumer loans	-	-	47	-	47	1	46
Overdrafts	-	-	4	-	4	-	4
Loans to medium and small private enterprises	-	-	35,242	8,946	44,188	3,038	41,150
Loans to state-owned enterprises	-	-	-	4,202	4,202	116	4,086
Loans to large private companies	-	-	4,123	713	4,836	204	4,632
Cards – retail customers	-	-	89	0	89	-	89
Loans and placements to banks	-	-	25,708	-	25,708	102	25,606
Off-balance sheet assets	31	-	17,702	-	17,702	291	17,411
31 December 2022	**31**	**-**	**97,740**	**13,969**	**111,709**	**3,899**	**107,810**
Housing and mortgage loans	-	-	7,127	146	7,273	33	7,240
Cash loans	-	-	972	-	972	70	902
Consumer loans	-	-	55	-	55	4	51
Overdrafts	-	-	3	-	3	-	3
Loans to medium and small private enterprises	-	-	13,037	126	13,163	445	12,718
Loans to state-owned enterprises	-	-	-	5,415	5,415	94	5,321
Loans to large private companies	-	-	23,415	3,566	26,981	1,205	25,776
Cards – retail customers	-	-	6	-	6	-	6
Loans and placements to banks	-	-	14,319	-	14,319	41	14,278
Off-balance sheet assets	-	-	10,065	200	10,265	142	10,123
31 December 2021	**-**	**-**	**68,999**	**9,453**	**78,452**	**2,034**	**76,418**

As of 31 December 2022, neither past-due nor impaired financial assets include placements with no delay in payment.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

a) Loans and placements past due but not impaired

In its portfolio, the Bank did not identify past due but not impaired loans and placements.

b) Fair value of collaterals

	31 December 2022	31 December 2021
Deposits	16,270	14,827
Mortgages	108,013	63,550
Pledges	3,656	3,629
Insurance policies	228	216
Total	**128,167**	**82,222**

Property used as collateral is residential premises, houses and apartment buildings, business premises, industrial buildings, construction and other land depending on its location and future use.

Generally Accepted Valuation Approaches

There are three generally accepted approaches to the valuation of assets (intangible and tangible assets) and capital that are defined within the International Valuation Standards:

- Market approach;
- Income approach and
- Cost approach.

The most frequently applied market approach is based on a direct comparison of selling prices and/or offered prices on the market for properties with similar characteristics. The market approach is based on the principle of substitution, which assumes that an informed buyer will not pay more for a particular asset than he would pay for an asset with the same or similar characteristics. In the event that the valuation report analyses the prices offered on the market for property that is similar to the property that is the subject of the valuation, it is necessary to calculate an additional correction for the difference between the offered and realized prices on the market in the analysis.

The income approach to valuation is based on the principle of anticipation. In accordance with this principle, a typical investor/buyer in the market will invest only in those assets from which he expects future inflows, i.e. future benefits.

The cost approach is based on the principle of substitution, based on the assumption that a rational buyer will not pay a higher price for a specific property than it would be necessary to acquire a new property that would have the same use value as the assessed property. The cost approach is used in cases where there is not enough data for the reliable application of the income and market approach, i.e. when the subject is the assessment of specific characteristics and there is no active market for such assets and reliable comparable data for assets of similar characteristics and usefulness.

As a rule, the Bank uses the market approach to estimate the value of collateral.

Methods of valuation of tangible assets that serve as collateral

Before deciding which valuation method is applicable for a specific tangible asset that is the subject of valuation, the authorized valuer is obliged to perform the following:

- identification of the subject of valuation and all rights and obligations related to the subject of valuation, along with a list of sources of data and documentation on the basis of which the assessment is carried out;
- analysis of property and legal documentation and all rights, forms of ownership and scope of shares in the subject of valuation. On the basis of the performed analysis, the authorized valuer should state the limitations concerning the property and legal relations and the way of using the material assets in question, which are of importance and may have an impact on the estimated value of the subject asset.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

b) Fair Value of Collateral (Continued)

Methods of valuation of tangible assets that serve as collateral (Continued)

Based on the analysis performed in this way, the authorised valuer applies one or more generally accepted approaches:

I. within the market approach– comparable transactions method

The first step in the application of **comparable transactions method** is the identification of the asset that is the subject of valuation and its characteristics such as: location, size, age, quality, purpose. In the next phase, information is collected on the completed transactions and/or offered prices of identical or comparable assets, which have similar characteristics, as well as the asset that is the subject of the assessment. In the event that the valuation report analyses the prices offered on the market for the property, it is necessary to take into account the correction related to the difference between the prices offered on the market and the realized purchase prices. Data obtained by collecting on the market rarely relate to assets that are identical to the asset being assessed. Accordingly, it is necessary to make corrections that will minimise the differences between the value of transactions of comparable assets and the value of the asset that is the subject of the valuation:

- age, area, structure, technical characteristics;
- Restrictions on the use of the subject of valuation in the planned use and purpose (expropriation, restitution, conversion, repurposing, etc.).
- limitations of the subject of valuation (technical, property or legal limitations);
- micro location, as well as regulatory and/or economic environment;
- specific conditions in comparables, if they exist;
- degree of marketability;
- qualitative characteristics.

In situations where there is insufficient data on adequate comparable assets and when there are significant differences between the comparable assets and the subject of the valuation, the authorized appraiser cannot rely only on the valuation using comparable transactions methods within the framework of the market approach. In that case, the authorised appraiser is obliged to verify the obtained result by applying other possible approaches and methods.

II. within the income approach - the direct capitalisation method, the discounted cash flow method and/or the residual method

The direct capitalization method is most often used in assessing the value of property that is owned for the purpose of generating benefits, i.e. generating cash flows, in a situation where the subject asset has reached a stable level of net operating income and when there is a sufficient number of properties with comparable income on the market. expenditures, physical and locational characteristics and future expectations. This method is used by the authorised appraiser in the process of assessing the value of business facilities, facilities that are leased, etc. The economic benefit from the ownership of such property is reflected through the present value of the profit that the owner of the building would realise if he were to lease it during its useful life. In the process of applying this method, it is necessary for the authorised appraiser to determine the unique net operating income from the sale of property and to capitalise it by applying the capitalisation rate.

Appraised value = Net operating income generated from the lease/Capitalisation rate

The discounted cash flow method ("DCF method") is a method within the income approach of valuation that is most often applied in the process of property valuation, and less often for equipment valuation. The DCF method defines the property value as an amount equal to the present value of the future benefits that will pass to the owner of the property that is the subject of the valuation. The basic assumption for the application of DCF methods in the valuation procedure of tangible assets is their useful life and the authorised appraiser performs the valuation under the assumption of their continuous use. Bearing in mind that the economic useful life of the assets is time-limited, it is necessary for the authorised appraiser to discount the cash flow that he projects in the estimated average remaining useful life of the subject assets during which the assets are in use. In addition to the economic life, the authorised appraiser can also project cash flows based on the known term of the lease. At the end of the economic useful life, the property in question still has a certain value (terminal or liquidation value) that the authorised appraiser must also calculate, while at the end of the lease term, the authorised appraiser should calculate the residual value of the property.

The residual method is most often used to assess the value of development projects, and in the assessment procedure, the authorised appraiser starts from the development potential of the location - land, respecting the principle of the best possible use. On the basis of the development potential of the subject of the appraisal, the authorised appraiser projects the future benefit that a potential investor would have from such a location and/or the construction of a new building at such a location.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

b) Fair Value of Collateral (Continued)

Methods of valuation of tangible assets that serve as collateral (Continued)

III. within the cost approach – replacement cost method and reproduction cost method.

The replacement cost method in the valuation of tangible assets starts from the identification of the current costs of replacing the property that is the subject of the valuation with a new property of similar characteristics, and then subtracting the loss of value caused by physical, functional and economic (external) obsolescence.

The reproduction cost method is based on the same principle as the method of amortized replacement costs, i.e. on the principle of substitution, with the fact that it is based on the current cost of reproducing a new replica of the material asset in question with identical characteristics and utility on the valuation date.

The Bank avoids the cost approach to the valuation of collateral, which is used in cases where there is not enough data for the reliable application of the income and market approach, i.e. when the subject of the valuation is specific characteristics and there is no active market for such assets and reliable comparable data for assets with similar characteristics and intended use.

c) Restructured loans and placements

Restructuring is considered a concession by a credit institution towards a debtor who has difficulties in meeting his financial obligations or is likely to have them. Such a concession relates to one of the following measures:

- changing the conditions of the debtor's obligation, if such a change would not have been approved if the debtor had not had difficulties in fulfilling his financial obligations;
- full or partial refinancing of the debtor's obligation, if such refinancing would not have been approved if the debtor had not had difficulties in meeting his financial obligations.

An exposure is not treated as restructured if the client is not or would not be in financial difficulty. In this sense, the Bank treats and designates clients who do not meet this criterion, i.e., are not in financial difficulties, and have a request for changes to contractual conditions due to commercial needs, as Business changes to contractual conditions. Changes due to reasons that clearly indicate the deterioration of the financial condition are treated and marked as restructured.

Exposure relates to balance sheet assets and off-balance sheet items.

The management of restructured exposures is part of the credit risk management process, therefore there is full compliance with the general principles established in the Credit Risk Management Policy.

Financial difficulties of the debtor

The estimate of financial difficulties is assessed at the customer level, taking into account all exposures to the customer and not taking into account collateral or any guarantees issued by the customer or a third party.
It is considered that the creditworthiness of the customer has deteriorated when one of the following criteria is met:

- there was a delay in the settlement of due liabilities by the customer for more than 30 days during the three months before the change or refinancing
- there would be a delay in the settlement of due liabilities by the customer for more than 30 days without the approval of restructuring measures,
- blocking of the customer's account
- the customer is on the Watch list.

For the purposes of implementing restructuring measures, the Bank tries to detect indications of possible future financial difficulties at an early stage. In this regard, the assessment of the debtor's financial condition is not limited only to exposures with obvious signs of financial difficulties, but also to exposures in respect of which the debtor is not facing obvious financial difficulties, but for which market conditions have changed significantly so that they could affect the debtor's ability to repay, such as loans with a one-time repayment of the principal, the repayment of which depends on the sale of real estate or loans in foreign currency.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

c) Restructured loans and placements (Continued)

When approving restructuring measures for performing exposures, the Bank assesses whether these measures lead to the need to reclassify these exposures as non-performing exposures.

When assessing whether the restructured exposures should be classified as non-performing, an assessment is made:

- whether the exposures are supported by inadequate repayment plans (initial or subsequent, as the case may be) that include, among other things, repeated defaults on the repayment plan, changes to the repayment plan to avoid default, or reliance of the repayment plan on expectations that do not support macroeconomic forecasts or clear assumptions on the debtor's ability to repay or willingness to pay;
- whether the exposures include contractual conditions that delay the regular repayment of the annuity (instalment) of the specified exposure, thus making it difficult to assess the correct classification of the exposure.

The Bank classifies exposures in the category of non-performing restructured exposures:

1) which before the restructuring met the conditions to be classified in the category of non-performing,
2) exposures that were classified as non-performing at the time of restructuring,
3) restructured exposures classified as non-performing,
4) restructured exposures from the category of non-performing that were classified into the category of performing in accordance with the conditions for such exposures, and for which the Bank gave additional benefits to the debtor during the trial period, i.e. if the debtor settles the liabilities arising from that receivable with a delay of more than 30 days,
5) which at the time of restructuring were classified in the performing category, for which the Bank gave additional benefits to the debtor after the second restructuring.

The Bank distinguishes between short-term and long-term restructuring measures. Short-term restructuring measures are aimed at solving temporary problems, while long-term measures must be taken if the customer’s financial situation requires a medium to long-term improvement. The Bank is considering the application of restructuring measures for a maximum period of two years (one year in the case of financing projects and construction of commercial real estate) if the debtor is in a situation caused by an event that caused temporary difficulties, the debtor was fulfilling his contractual obligations before the event, and the debtor is clearly demonstrated his willingness to cooperate with the Bank.

The following are the measures that the Bank approves for debtors due to the deterioration of their creditworthiness:

1) Paying interest only;
2) Reduced payments;
3) Period of delay / moratorium on payment;
4) Unpaid due liabilities/interest capitalization;
5) Interest rate reduction;
6) Extension of maturity/duration;
7) Additional collateral;
8) Sale based on agreement;
9) Rescheduled repayment;
10) Currency conversion;
11) Refinancing/new lines of credit;
12) Debt consolidation.
13) Paying interest only

As of 31 December 2022, the Bank has seventeen restructured loans with a total exposure of EUR 4,274 thousand.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

c) Restructured loans and placements (Continued)

Restructuring due to the consequences of COVID 19

In accordance with the Decision on Interim Measures for Mitigating the Negative Impacts of the COVID 19 Infectious Disease Epidemic on the Financial System, the Bank has approved a moratorium or other restructuring measures for clients most affected by the pandemic. In accordance with the Decision, the Bank approved benefits of which there were 3 for legal entities and 1 for natural persons as of 31 December 2022 (as of 31 December 2021, 4 for legal entities and 1 for natural persons).

As of 31 December 2022, a total exposure of these placements amounts to EUR 362 thousand (31 December 2021: EUR 522 thousand). Pursuant to the Decision, the above-mentioned exposures are not treated as restructured. However, the Bank has classified them in B1 category and worse classification categories, both Stage 2 and Stage 3.

RESTRUCTURED LOANS referred to under 4 of the current Decision on Temporary Measures

Classification	**Level 1**	**Level 2**	**Level 3**
B1	-	67	-
B2	-	137	-
C1			-
Total	**-**	**204**	**-**

RESTRUCTURED LOANS referred to under 5 of the current Decision on Temporary Measures

Classification	**Level 1**	**Level 2**	**Level 3**
B1	-	50	-
C1	-	-	108
Total	**-**	**50**	**108**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

d) Concentration per geographic regions

Concentration per geographic regions of the Bank's net credit risk exposure to loans and placements to customers and banks is presented in the following table:

In EUR thousand	Montenegro	Russia	Bosnia and Herzegovina	Switzerland	Serbia	USA	China	EU	Total
Loans and placements to banks	3,149	63	2,817	4,593	2,561	12	8,603	3,808	25,606
Loans and placements to customers	50,759	5,809	(6)	-	2,642	1,759	250	3,581	4,794
Securities held to maturity	80,158	-	-	-	2,044	-	57,689	2,067	141,958
Securities at fair value through other comprehensive income	22,759	-	-	-	-	-	13,870		36,629
31 December 2022	**156,825**	**5,872**	**2,811**	**4,593**	**7,246**	**1,771**	**80,412**	**9,456**	**268,987**
Loans and placements to banks	1,322	1,966	14	2,047	483	3,048	-	5,398	14,278
Loans and placements to customers	42,249	5,008	-	-	2,319	928	1,513	-	52,017
Securities held to maturity	50,163	-	-	-	2,049		6,302	2,076	60,590
Securities at fair value through other comprehensive income	27,347	-	-	-	-	-	15,388	-	42,735
31 December 2021	**121,081**	**6,974**	**14**	**2,047**	**4,851**	**3,976**	**23,203**	**7,474**	**169,620**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

e) Concentration per industry

Concentration per industry of the Bank`s net credit risk exposure to loans and placements to customers and banks is presented in the following table:

In EUR thousand	Finance sector	Proce-ssing industry	Electri-city supply	Water supply	Constructi on	Trade	Traffic	Hospitality industry	Administr ation	ICT	Real estate	Public admin.	Sport	Services	Agriculture	Retail	Total
Loans and placements to banks	25,606	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,606
Loans and placements to customers	4,153	1,140	2,373	2,224	11,995	5,965	1,337	5,753	4,514	2,517	1,548	3,696	-	2,234	418	14,927	64,794
31 December 2022	**29,759**	**1,140**	**2,373**	**2,224**	**11,995**	**5,965**	**1,337**	**5,753**	**4,514**	**2,517**	**1,548**	**3,696**	**-**	**2,234**	**418**	**14,927**	**90,400**
Loans and placements to banks	14,278	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,278
Loans and placements to customers	2,650	1,775	1,653	2,064	8,719	5,394	1,236	5,526	3,457	2,169	2,388	4,879	493	889	523	8,202	52,017
31 December 2021	**16,928**	**1,775**	**1,653**	**2,064**	**8,719**	**5,394**	**1,236**	**5,526**	**3,457**	**2,169**	**2,388**	**4,879**	**493**	**889**	**523**	**8,202**	**66,295**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

LOANS AND PLACEMENTS TO CUSTOMERS WITH COLLATERALS

	S1				S2				S3			
31 December 2022	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**
Housing and mortgage loans	34,711	3,811	212	38,734	245	-	-	245	131	-	38	168
Cash loans	-	3,757	47	3,805	87	-	-	87	-	-	-	-
Consumer loans	-	-	-	-	-	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-	-	-	-	-	-
Cards - retail	-	244	-	244	-	-	-	-	-	-	-	-
SME loans	48,972	4,114	131	53,217	16,765	2,694	1,297	20,756	5,312	1,650	2,159	9,121
Loans to state companies	-	-	-	-	-	-	-	-	1,246	-	-	1,246
Loans to large private companies	-	-	-	-	545	-	-	545	-	-	-	-
Loans and placements to customers	**83,683**	**11,926**	**390**	**95,999**	**17,642**	**2,694**	**1,297**	**21,633**	**6,688**	**1,650**	**2,197**	**10,535**

	S1				S2				S3			
31 December 2021	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**
Housing and mortgage loans	24,376	4,411	319	29,106	68	-	38	106	56	-	-	56
Cash loans	53	78	35	166	-	-	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-	-	-	-	-	-
Cards - retail	-	30	-	30	-	-	-	-	-	-	-	-
SME loans	14,854	6,703	131	21,688	6,552	2,360	294	9,206	666	-	-	666
Loans to state companies	-	-	-	-	1,137	-	-	1,137	-	-	-	-
Loans to large private companies	12,102	854	-	12,956	1,936	391	1,004	3,331	1,750		2,024	3,774
Loans and placements to customers	**51,385**	**12,076**	**485**	**63,946**	**9,693**	**2,751**	**1,336**	**13,780**	**2,472**	**-**	**2,024**	**4,496**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.5. Off-Balance Sheet Items

Maturities of off-balance sheet items exposing the Bank to credit risk were as follows:

	Undrawn credit facilities	Guarantees	Total
Up to one year	1,600	3,953	5,553
From 1 to 2 years	1,376	4,046	5,422
Over 2 years	2,243	4,700	6,943
31 December 2022	**5,219**	**12,699**	**17,918**
Up to one year	1,322	2,300	3,622
From 1 to 2 years	83	2,463	2,546
Over 2 years	791	3,305	4,096
31 December 2021	**2,197**	**8,068**	**10,265**

Risks Associated with Credit Risk

Country Risk

The bank measures the risk exposure of the country where its debtors have their headquarters/residence. Country risk management is regulated by internal acts.

Realized values of indicators as of 31 December 2022:

Exposure to low-risk countries with a weighting of 50% is 55.02%.
Exposure to low-risk countries with a weighting of 100% is 54.33%.
Exposure to medium risk countries with a weighting of 150% is 0.00%.
Exposure to medium risk countries with a weight of 200% is 36.76%.

The achieved results as of 31 December 2022 are within the internally prescribed limits, except for exposure to medium risk countries with a weighting of 200%.

Interest-induced credit risk and currency-induced credit risk

The Bank has established appropriate risk management systems for losses arising from exposures linked to variable interest rates (interest-induced credit risk) and losses arising from exposures denominated in or linked to foreign currency (currency-induced risk), which imply the management of these risks at the level of individual exposure but also at the level of the overall portfolio. The management of these risks is regulated in more detail by internal acts related to credit risk.

Realized values of indicators as of 31 December 2022:

The ratio of gross exposures related to variable interest rates/Total gross value of exposure, excluding exposure to the financial and government sectors, is 0.00%.

The ratio of gross exposures denominated in foreign currency or linked to foreign currency/Total gross value of exposure, excluding exposure to the financial and government sectors, is 0.00%.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk and Risks Associated with Credit Risk (Continued)

4.2.5. Off-Balance Sheet Items (Continued)

Concentration Risk

The Bank has established an identification system that includes a timely and comprehensive analysis of all factors in order to identify the risk of concentration to which the Bank is exposed or may be exposed in its operations. Concentration risk management is regulated by internal acts.

Realised values of indicators as of 31 December 2022:

Exposure to one person or a group of related persons amounts to 19.57%.

The sector concentration indicator is 1.46%.

The achieved values are within the internally prescribed limits.

4.3. Market risk

The Bank is exposed to market risks. Market risks arise from open positions due to changes in foreign currency exchange rates.

The Bank has identified activities that expose it to market risks: placement of funds, acquisition of funds and currency transactions, demarcated and prescribed clear responsibilities in this process. Organizational units in charge of assuming market risk are obliged to act in accordance with the standards prescribed by internal acts. On the other hand, the control and monitoring of exposure to market risks is reserved for the Risk Control Function, which identified criteria and mechanisms for monitoring exposure in accordance with prescribed limits.

4.3.1. Foreign Currency Risk

Currency risk management is defined with Risk Management Strategy and Interest rate management Policy from banking book and market risks. Those documents define the way in which the bank identifies, measures, controls, mitigates and monitors the currency risk. Measuring the currency risk is performed applying GAP analysis for currency risk, while the control system established by limiting long, short and net positions individually by currencies and aggregately, as well as by applying the VAR analysis and stress testing. The Treasury Department reports the amount and character of currency update to the risk management on a daily basis. Risk Management Department reports on a monthly basis to Asset and Liability Committee on all important aspects of the management of foreign exchange risk.

The foreign exchange indicator, which represents the ratio of the total value (long or short) of the net open position and the Bank's regulatory capital, as of 31 December 2022 achieved a value of 0.57%.

The Bank's financial position and cash flows are exposed to the effects of the changes in foreign currency exchange rates. Currency risk exposure is continuously monitored and reconciled with the limits prescribed by the Central Bank of Montenegro.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Foreign Currency Risk (Continued)

The Bank's exposure to foreign currency risk is presented in the following table:

In thousands of EUR	USD	CHF	GBP	Other	Total
Assets in foreign currencies	10,959	246	538	1,285	13,028
Liabilities in foreign currencies	10,905	245	542	1,286	12,978
Net open position:					
- 31 December 2022	**54**	**1**	**(4)**	**(1)**	**50**
- 31 December 2021	**(125)**	**9**	**(129)**	**36**	**(209)**
% of the core capital:					
- 31 December 2022	**0.34%**	**0.01%**	**-0.03%**	**-0.01%**	
- 31 December 2021	**-1.30%**	**0.09%**	**-1.34%**	**0.37%**	
Aggregate open position:					
- 31 December 2022	**50**				
- 31 December 2021	**(209)**				

Management of currency risk exposure, apart from analysis of Bank's assets and liabilities denominated in foreign currencies, includes a sensitivity analysis on the exchange rate change. The scenario of the fluctuation in exchange rate in the range of + 10% to -10% compared to the EUR is presented in the following table.

		In thousands of EUR Change in exchange rates	
	Amount in Foreign currency	**10%**	**-10%**
ASSETS			
Cash balances and deposits with central banks	360	36	(36)
Loans and placements to banks	5,892	589	(589)
Securities	6,776	678	(678)
Total assets	**13,028**	**1,303**	**(1,303)**
Liabilities			
Custody operations	564	56	(56)
Deposits due to customers	12,415	1,241	(1,241)
Total liabilities	**12,979**	**1,297**	**(1,297)**
Net currency risk exposure:			
- 31 December 2022		**6**	**(6)**
- 31 December 2021		**(21)**	**21**

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Foreign Currency Risk (Continued)

As of 31 December 2022, assuming that all other parameters remain the same, the change in the exchange rate of EUR against other currencies by + 10% or -10%, the Bank's profit would decrease, or increase in the amount of EUR 6 thousand (31 December 2021: EUR 21 thousand). The cause of the moderate exposure of the Bank to change in foreign exchange rate is the fact that most of the assets and liabilities are denominated in EUR and that Bank intends to keep on the same level asset and liability side in foreign currency, including the use of currency swaps, i.e., agreements on the purchase of foreign currencies as hedge instruments.

4.3.2. Interest Rate Risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank assumes exposure to the effects of fluctuations in the prevailing levels of market interest rates on cash flows. Interest margins may increase as a result of such changes; however, these may reduce profit or give rise to losses in instances of unexpected fluctuations. Interest rates are based on market rates and the Bank performs regular repricing.

In accordance with the Decision on Minimum Standards for Risk Management, Article 81, point 2, it is stated that the provisions of Article 78 of the above-mentioned Decision shall apply from 1 January 2023. The Bank was not obliged to calculate the EVE indicators on 31 December 2022.

The following table presents the Bank’s interest bearing and non-interest-bearing assets and liabilities as of 31 December 2022:

In thousands of EUR	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with central banks	242,075	8,422	250,517
Loans and placements to banks	25,606	-	25,606
Loans and placements to customers	64,794	-	64,794
Securities at amortised value	141,958	-	141,958
Securities at fair value through other comprehensible income	36,629		36,629
Other financial assets	-	11	11
Current tax assets	-	943	943
Other assets	99	359	458
Total assets	**511,161**	**9,755**	**520,916**
LIABILITIES			
Deposits due to customers and banks	161,461	335,126	496,587
Borrowings from customers other than banks	645	2,531	3,176
Other liabilities	-	4,668	4,668
Total liabilities	**162,106**	**342,325**	**504,431**
Interest rate GAP:			
- 31 December 2022	**349,055**	**(332,570)**	**16,485**
- 31 December 2021	**209,379**	**(197,280)**	**12,099**

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Interest Rate Risk (Continued)

Interest rate GAP as of 31 December 2022 is presented in the following table:

In EUR thousand

Interest sensitive assets	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Total
Cash balances and deposits with central banks	242,075	-	-	-	-	242,075
Loans and placements to banks	25,606	-	-	-	-	25,606
Securities at amortised cost	-	13,952	37,415	11,770	78,821	141,958
Securities at fair value through other comprehensive income	-	-	-	-	36,629	36,629
Loans and placements to customers	4,849	4,477	2,892	18,399	34,177	64,794
Other assets	99	-	-	-	-	99
Total	**272,529**	**18,429**	**40,307**	**30,169**	**149,627**	**511,161**
% of total interest-bearing assets	53,34%	3,59%	7,85%	5,88%	29,14%	100,00%
Interest sensitive liabilities						
Interest-bearing deposits	118,042	9,055	5,018	6,107	23,239	161,461
Interest-bearing loans of customers other than banks	16	15	36	82	496	645
Total	**118,058**	**9,070**	**5,054**	**6,189**	**23,735**	**162,106**
% of interest-bearing liabilities	72,83%	5,60%	3,12%	3,82%	14,64%	100,00%
Interest rate GAP:						
- 31 December 2022	**154,571**	**9,359**	**35,253**	**23,980**	**125,892**	**349,055**
- 31 December 2021	**105,440**	**(2,563)**	**613**	**4,899**	**100,990**	**209,379**
	105,440	(2,563)	613	4,899	100,990	209,379
Cumulative GAP:						
- 31 December 2022	**154,571**	**163,930**	**199,183**	**223,163**	**349,055**	
- 31 December 2021	**105,440**	**102,877**	**103,490**	**108,389**	**209,379**	

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk

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

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

In order to ensure that the components of liquid assets included in the liquidity buffer are adequately diversified at all times, the Decision on Liquidity Risk Management establishes appropriate limits.

The Bank fulfils its business obligations from the following sources:

- Current cash flows
- Inflows from the sale of liquid instruments
- Borrowed funds from the market

For the purposes of calculating the indicator of liquid coverage, the credit institution uses the market value of its liquid assets. The market value of liquid assets is reduced, where prescribed, by corrective factors in accordance with the Decision on Liquidity Risk Management.

LCR - Basel III short-term liquidity coverage ratio that shows whether the Bank has enough high-quality assets to cover liquidity needs in the event of a stressful liquidity scenario for 30 days and as of 31 December 2022 was 1.015%.
The set internal limit of highly liquid assets/net cash outflow is a minimum of 110%.

The Bank ensures the currency compatibility of its liquid assets with the currency distribution of its net outflows based on liquidity, and ensures that, at the request of the Central Bank, the currency mismatch is limited by establishing a limit for the participation of net outflows based on liquidity in a certain currency that can be covered during periods of stress by holding liquid assets which is not expressed in that currency.

The maturities of assets and liabilities and the ability of the Bank to obtain sources of funding upon maturity of liabilities at an acceptable cost are an important factor in assessing the liquidity of the Bank and its exposure to changes in interest rates and foreign exchange rates.

As of 31 December 2022, the Bank has managed the liquidity risk in accordance with the adopted Strategy for risk management. To measure liquidity risk, the Bank uses the GAP analysis. Beside liquidity risk monitoring on a daily basis, it is monitored for a 10-days and monthly period through a set of reports prepared for Central Bank of Montenegro as well for Asset and Liability Committee generated by Treasury Department.

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

The remaining contractual maturity matching of financial assets and liabilities as of 31 December 2022 is as follows:

In EUR thousand

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and cash equivalents:							
Cash and cash equivalents	238,268	-	-	-	-	-	238.268
Mandatory reserve	6,126	-	-	-	6,126	-	12.252
Financial assets at amortized cost:							
Placements to banks	16,864	3,143	-	3,200	-	-	23.207
Placements to customers	4,849	4,477	2,892	18,399	37,322	2,881	70.820
Securities	-	14,000	37,594	12,000	22,342	58,895	144.831
Other financial assets	11	-	-	-	-	-	11
Interest receivables, prepayments and accruals and impairments*	(992)	(209)	(283)	(891)	(685)	(3,440)	(6.500)
Financial assets at fair value through other comprehensive income:							
Securities	-	-	-	-	13,500	31,500	45.000
Interest receivables, prepayments and accruals and impairments*	-	-	-	-	(801)	(7,571)	(8.372)
Other assets	199	1	36	9	3	26	274
Securities							
Total	**266,317**	**21,621**	**40,522**	**33,608**	**79,293**	**93,302**	**534.663**
Financial liabilities at amortized cost:							
Deposits to customers	331,041	37,733	98,007	6,107	22,476	763	496.127
Borrowings from customers other than banks	16	15	36	82	1,519	1,508	3.176
Interest liabilities, accruals and deferred income*	29	35	35	76	278	7	460
Other liabilities	2,845	616	45	45	360	203	4.114
Total	**333,902**	**38,364**	**98,088**	**6,234**	**24,355**	**2,474**	**503.417**
Maturity GAP							
- 31 December 2022	**(67,585)**	**(16,743)**	**(57,566)**	**27,374**	**54,938**	**90,828**	**31.246**
- 31 December 2021	**16,291**	**(28,280)**	**(83,273)**	**5,268**	**19,039**	**87,684**	**16.729**
Cumulative GAP:							
- 31 December 2022	**(67,585)**	**(84,328)**	**(141,894)**	**(114,520)**	**(59,582)**	**31,246**	
- 31 December 2021	**16,291**	**(11,989)**	**(95,261)**	**(89,993)**	**(70,955)**	**16,729**	
% of total funds source							
- 31 December 2022	**-13.43%**	**-16.75%**	**-28.19%**	**-22.75%**	**-11.84%**	**6.21%**	
- 31 December 2021	**6.05%**	**-4.45%**	**-35,36%**	**-33.40%**	**-26.34%**	**6.21%**	

*Interests receivable, accruals and allowances are presented separately and do not form a sum in the table for maturity matching of financial assets and financial liabilities according to the remaining contractual maturity, in accordance with the reporting to the CBM.

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

The expected contractual maturity matching of financial assets and liabilities as of 31 December 2022 is as follows:

In EUR thousand

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and cash equivalents:							
Cash and cash equivalents	238,268	-	-	-	-	-	238,268
Mandatory reserve	6,126	-	-	-	6,126	-	12,252
Financial assets at amortized cost:							
Placements to banks	16,864	3,143	-	3,200	-	-	23,207
Placements to customers	4,849	4,477	2,892	18,399	37,322	2,881	70,820
Securities	-	44,000	32,594	-	38,342	29,895	144,831
Other financial assets	11	-	-	-	-	-	11
Interest receivables, prepayments and accruals and impairments *	143	(48)	(179)	(230)	656	(6,842)	(6,500)
Financial assets at fair value through other comprehensive income:							
Securities	-	45,000	-	-	-	-	45,000
Interest receivables, prepayments and accruals and impairments	-	(8,372)	-	-	-	-	(8,372)
Other assets	199	1	36	9	3	26	274
Total	**266,317**	**96,621**	**35,522**	**21,608**	**81,793**	**32,802**	**534,663**
Financial liabilities at amortized cost:							
Deposits due to customers	222,195	136,549	35,655	11,922	89,042	764	496,127
Borrowings from other customers	16	15	36	82	1,519	1,508	3,176
Interest liabilities, accruals, deferred income*	29	35	35	76	278	7	460
Other liabilities	2,845	616	45	45	360	203	4,114
Total	**225,056**	**137,180**	**35,736**	**12,049**	**90,921**	**2,474**	**503,417**
Maturity GAP							
- 31 December 2022	**41,261**	**(40,559)**	**(214)**	**9,559**	**(9,128)**	**30,327**	**31,246**
- 31 December 2021	**38,613**	**(38,166)**	**1,000**	**2,169**	**(2,571)**	**15,684**	**16,729**
Cumulative GAP:							
- 31 December 2022	**41,261**	**702**	**488**	**10,047**	**919**	**31,246**	
- 31 December 2021	**38,613**	**447**	**1,447**	**3,616**	**1,045**	**16,729**	
% of total funds source							
- 31 December 2022	**8.20%**	**0.14%**	**0.10%**	**2.00%**	**0.18%**	**6.21%**	
- 31 December 2021	**14.33%**	**0.17%**	**0.54%**	**1.34%**	**0.39%**	**6.21%**	

*Interests receivable, accruals and allowances are presented separately and do not form a sum in the table for maturity matching of financial assets and financial liabilities according to the remaining contractual maturity, in accordance with the reporting to the CBM.

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

The remaining contractual maturity matching of financial assets and liabilities as of 31 December 2021 is as follows:

In EUR thousand

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and cash equivalents:							
Cash and cash equivalents	105,596	-	-	-	-	-	105.596
Mandatory reserve	3,110	-	-	-	-	3,110	6.220
Financial assets at amortized cost:							-
Placements to banks	12,860	1,059	-	400	-	-	14.319
Placements to customers	3,767	3,035	5,029	18,514	22,246	1,292	53.883
Securities	-	-	-	-	18,823	42,070	60.893
Other financial assets	28						28
Interest receivables, prepayments and accruals and impairments *	123	-	-	-	753	(2,947)	(2.071)
Financial assets at fair value through other comprehensive income:							
Securities	-	-	-	-	3,000	42,000	45.000
Interest receivables, prepayments and accruals and impairments	-	-	-	-	9	(2,413)	(2.404)
Other assets	161	-	5	5	9	25	205
Total	**125,522**	**4,094**	**5,034**	**18,919**	**44,078**	**88,497**	**286.144**
Financial liabilities at amortized cost:							
Deposits due to customers	108,129	31,973	88,115	13,483	23,604	13	265.317
Borrowings from other customers, other than banks	20	40	61	132	1,150	569	1.972
Interest liabilities, accruals, deferred income *	14	31	30	54	133	1	263
Other liabilities	1,082	361	131	36	285	231	2.126
Total	**109,231**	**32,374**	**88,307**	**13,651**	**25,039**	**813**	**269.415**
Maturity GAP							
- 31 December 2021	**16,291**	**(28,280)**	**(83,273)**	**5,268**	**19,039**	**87,684**	**16.729**
- 31 December 2020	**14,304**	**(17,763)**	**(6,441)**	**(2,220)**	**11,104**	**10,020**	**9.004**
Cumulative GAP:							
- 31 December 2021	**16,291**	**(11,989)**	**(95,261)**	**(89,993)**	**(70,955)**	**16,729**	
- 31 December 2020	**14,304**	**(3,459)**	**(9,900)**	**(12,120)**	**(1,016)**	**9,004**	
% of total funds source							
- 31 December 2021	**6.05%**	**-4.45%**	**-35.36%**	**-33.40%**	**-26.,34%**	**6.21%**	
- 31 December 2020	**19.50%**	**-4,71%**	**-13.50%**	**-16,52%**	**-1.38%**	**12.27%**	

*Interests receivable, accruals and allowances are presented separately and do not form a sum in the table for maturity matching of financial assets and financial liabilities according to the remaining contractual maturity, in accordance with the reporting to the CBM.

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk (Continued)

The expected contractual maturity matching of financial assets and liabilities as of 31 December 2021 is as follows:

In EUR thousand

	Up to a month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and cash equivalents:							
Cash and cash equivalents	105,596	-	-	-	-	-	105.596
Mandatory reserve	3,110	-	-	-	-	3,110	6.220
Financial assets at amortized cost:							-
Placements to banks	12,860	1,059	-	400	-	-	14.319
Placements to customers	3,767	3,035	5,029	18,514	22,246	1,292	53.883
Securities	-	1,000	24,823	-	23,000	12,070	60.893
Other financial assets	28	-	-	-	-	-	28
Interest receivables, prepayments and accruals and impairments *	123	-	-	-	753	(2,947)	(2.071)
Financial assets at fair value through other comprehensive income:							
Securities	-	30,247	14,753	-	-	-	45.000
Interest receivables, prepayments and accruals and impairments		373	(2,777)				(2.404)
Other assets	161	-	5	5	9	25	205
Total	**125,522**	**35,341**	**44,610**	**18,919**	**45,255**	**16,497**	**286.144**
Financial liabilities at amortized cost:							
Deposits due to customers	85,807	73,106	43,418	16,582	46,391	13	265.317
Borrowings from other customers	20	40	61	132	1,150	569	1.972
Interest liabilities, accruals, deferred income*	14	31	30	54	133	1	263
Other liabilities	1,081	361	131	36	284	231	2.124
Total	**86,909**	**73,507**	**43,610**	**16,750**	**47,826**	**813**	**269.415**
Maturity GAP							
- 31 December 2021	**38,613**	**(38,166)**	**1,000**	**2,169**	**(2,571)**	**15,684**	**16.729**
- 31 December 2020	**10,279**	**(1,918)**	**1,874**	**(2,234)**	**482**	**520**	**9.004**
Cumulative GAP:							
- 31 December 2021	**38,613**	**447**	**1,447**	**3,616**	**1,045**	**16,729**	
- 31 December 2020	**10,279**	**8,361**	**10,235**	**8,001**	**8,483**	**9,004**	
% of total funds source							
- 31 December 2021	**14.33%**	**0,.17%**	**0.54%**	**1.,34%**	**0.39%**	**6.21%**	
- 31 December 2020	**14.01%**	**11,40%**	**13.95%**	**10.91%**	**11.56%**	**12.27%**	

*Interests receivable, accruals and allowances are presented separately and do not form a sum in the table for maturity matching of financial assets and financial liabilities according to the remaining contractual maturity, in accordance with the reporting to the CBM

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity risk (Continued)

When calculating maturity and cumulative gaps, interest receivables, interest payables, prepayments and accruals are not taken into account. Bearing in mind that the table shows cash inflows and cash outflows, impairments, prepayments and accruals, could have negative impact on individual maturity periods and that is why this position is excluded.

Liquidity of the Bank, as its ability to settle matured liabilities on time, depends on balance sheet structure and on maturity of inflows and outflows.

4.5. Operational risk

Operational risk is the risk of possible negative effects on the financial result and the Bank's equity due to omissions (intentional and unintentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, and the occurrence of unpredicted external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Legal risk is the risk when the Bank may incur losses that may arise due to non-compliance and violation of laws and other regulations, conduct of unlawful actions, actions that are not in accordance with the agreed terms, non-implementation of recommendations and good banking practice, as well as ethical standards.

The Bank has adopted a set of operational risk management documents: Operational Risk Management Policy, Operational Risk Data Collection Procedure, and Procedure for allocating operating loss provisions, Risk Assessment and Control Self-Assessment Process, Scenario Analysis Process, and Continuous Supervision Procedures.

In accordance with the Capital Adequacy Decision, the Bank uses simplified method to calculate the required capital for operational risk.

The Operational Risk Management Committee reports quarterly to the Board of Directors on the activities undertaken to manage operational risk.

The annual gross loss incurred based on operational risk as of 31 December 2022 amounted to EUR 28 thousand. The Bank implemented measures to reduce exposure to risk, and the total net loss for the aforementioned events amounts to a total of EUR 4 thousand.

4. FINANCIAL INSTRUMENTS (Continued)

4.6. Fair Value of Financial Assets and Liabilities

As of 31 December 2022, the Bank has no financial assets initially classified at fair value, which relate to securities acquired since November 2022. Fair value of financial assets and liabilities as of 31 December 2022 is as follow:

In EUR thousand

	Carrying Value		Fair Value	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Financial assets				
Cash and other deposits to CBM	250,517	111,816	250,517	111,816
Loans and placements to banks	25,606	14,278	25,606	14,278
Loans and placements to customers	64,794	52,017	64,794	52,017
Securities at amortised cost	141,958	60,729	141,958	60,729
Securities at fair value through other comprehensive income	36,629	42,596	36,629	42,596
Other financial assets	11	28	11	28
Current tax assets	943	6	943	6
Other assets	458	357	458	357
Financial liabilities				
Deposits due to customers	496,587	265,579	496,587	265,579
Borrowing from customers other than banks	3,176	1,972	3,176	1,972
Other liabilities	4,668	2,117	4,668	2,117

Financial assets that are not measured at fair value, according to the fair value hierarchy, are given in the following table:

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Financial assets:				
Cash and other deposits to CBM	-	250,517	-	250,517
Loans and placements to banks	-	25,606	-	25,606
Loans and placements to customers	-	-	64,794	64,794
Securities at amortised cost	141,958	-	-	141,958
Other financial assets	-	11	-	11
Current tax assets	-	-	943	943
Other assets	-	-	458	458
Total	**141,958**	**276,134**	**66,195**	**484287**

4. FINANCIAL INSTRUMENTS (Continued)

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

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Financial assets:				
Cash and other deposits to CBM	-	111,816	-	111,816
Loans and placements to banks	-	14,278	-	14,278
Loans and placements to customers	-	-	52,017	52,017
Securities at amortised cost	60,729	-	-	60,729
Other financial assets	-	28	-	28
Current tax assets	-	-	6	6
Other assets	-	-	357	357
Total	**60,729**	**126,122**	**52,380**	**239,231**

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

a) Loans and Placements to Banks

Loans and placements to banks include inter-bank loans and placements and items in the course of collection.

The fair values of floating rate investments and overnight deposits approximate their carrying amounts at the statement of financial position date.

b) Loans and Placements to Customers

In order to determine the fair value of loans and placements to customers with fixed interest rate measured at amortized cost, the Bank compared the its interest rates on loans and placements to customers 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.

As the Bank's management states, the Bank's interest rates do not differ significantly from prevailing market interest rates in the banking sector of Montenegro, which means that the fair value of loans to customers calculated as the present value of future cash flows, discounted using the current market rates, i.e. the average weighted interest rates of the banking sector, does not deviate significantly from the carrying value of the loan as at the statement of financial position preparation date.

d) *Deposits*

For demand deposits and deposits with a remaining maturity of less than one year, it is assumed that the estimated fair value does not significantly differ from their carrying amounts.

The estimated fair values of interest-bearing deposits at fixed interest rates with remaining contractual maturities of over a year, without quoted market prices, are based on discounted cash flows using interest rates for new debts with similar remaining maturities. According to the Bank's management, the Bank's interest rates are harmonized with the current market rates and the amounts stated in the financial statements represent the fair value which accurately reflects the fair value of these financial instruments, under the current circumstances.

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Capital Risk Management (Continued)

The Bank's capital management objectives are:

- to comply with the capital requirements set by the regulator;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and ensure benefits for other stakeholders; and
- to maintain a strong capital base to support further growth of its business.

The Bank's management controls capital adequacy by applying the methodology and limits prescribed by the Central Bank of Montenegro ("Official Gazette of Montenegro", no. 3128/20 and 140/21). In accordance with the regulations, the Bank submits quarterly reports on the balance and structure of capital to the Central Bank of Montenegro.

The Bank's own funds are comprised of:

- Tier 1 capital;
- Tier 2 capital.

Tier 1 capital consists of:

- Common Equity Tier 1 capital (CET 1)
- Supplementary capital (CET 2)

Common Equity Tier 1 capital (CET 1) consists of the paid-in share capital amounting to EUR 11,945 thousand:

- increased by retained earnings from previous years in the amount of EUR 3,343 thousand and recognized profit of the current year that meets the conditions for recognition in the amount of EUR 2,505 thousand and other prudential adjustments in the amount of EUR 4,553 thousand*;

- and reduced by the losses arising from the re-valuation of securities at fair value through other comprehensive income in accordance with IFRS 9 in the amount of EUR 5,239 thousand, valuation adjustment due to the requirement for prudential valuation (AVA) according to the simplified approach in the amount of EUR 37 thousand, intangible assets in the amount of EUR 37 thousand and shortfall reserves in the amount of EUR 1,026 thousand.

The amount of own funds must be equal to or greater than:

a) minimum financial portion of initial capital amounting to EUR 7,500 thousand, as stipulated by the Law on Credit Institutions,
b) 8% of the total capital ratio (Common Equity Tier 1 capital ratio (CET1) - min 4.5%, Tier one capital ratio - min 6%),
c) total amount of required capital for all risks.

Risk-weighted assets are comprised of items of assets and loan equivalents of off-balance sheet items exposed to risk. The loan equivalents of off-balance sheet assets are computed by multiplying the carrying value of off-balance sheet items with the prescribed conversion factors. Total risk-weighted assets are comprised of assets and loan equivalents of off-balance sheet items exposed to risk (the Bank's risk-weighted assets) classified in certain categories and multiplied by adequate prescribed risk weights.

In accordance with the requirements of the Central Bank of Montenegro, the Bank is under obligation to maintain a minimum capital adequacy ratio of 8%. The Bank is required to adjust the extent of its business with the prescribed parameters i.e., to maintain the volume and structure of its risk assets in compliance with the Law on Credit Institutions and regulations of the Central Bank of Montenegro. As of 31 December 2022, the capital adequacy ratio calculated by the Bank for statutory financial statements equalled 21.56%.

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Capital Risk Management (Continued)

* Other prudential adjustments to the presentation represent the amount of unrealized losses on the last day of the month (31 December 2022), which are calculated as the difference between the market value of securities at fair value through other comprehensive income in accordance with IFRS 9 on the last day of the month and their market value as of 24 February 2022. In accordance with the Decision on Temporary Measures to Mitigate the Negative Effects of the Epidemic of the Infectious Disease Covid 19 and the situation in Ukraine on the financial system ("Official Gazette of Montenegro", no. 135/22), until 30 June 2023, the credit institution may exclude 100% of the amount of unrealized losses, determined after the entry into force of this decision, when valuing debt financial instruments available for sale in accordance with IFRS 9, which are included in the total comprehensive income, from the calculation of the items of regular basic capital.

The combined buffer requirement is the Tier 1 capital required to meet the capital conservation buffer requirement, plus the following buffers, as applicable:

- Countercyclical capital buffer,
- Capital buffer for globally systemically important credit institutions,
- Capital buffer for other systemically important credit institutions,
- Systemic risk buffer

The combined buffer applied to the credit institution was 2.63% as of 31 December 2022, and the buffers that make it up had the following values:

ITEM	**Amount in %**
Capital conservation buffer	0.63%
Countercyclical capital buffer (specific rate)	0.00%
Systemic risk buffer	1.50%
Capital buffer for globally systemically important credit institutions	
Capital buffer for other systemically important credit institutions	0.50%
Combined buffer	**2.63%**

5. INTEREST INCOME, INTEREST EXPENSES AND SIMILAR INCOME

5.1. Interest Income

In EUR thousand	2022	2021
Deposits with:		
- foreign banks	69	11
Loans to:		
- privately-owned companies	1,939	1,491
- financial institutions	21	-
- Government of Montenegro	150	172
- state-owned companies	6	25
- entrepreneurs	2	4
- retail clients	615	308
	2,734	**2,000**
Loan origination fee income	169	108
Interest income on impaired financial assets (Note 14.2)	203	115
	3,105	**2,223**
Securities:		
Securities at amortised cost	2,595	1,319
Securities at fair value through other comprehensive income	1,177	109
	3,772	**1,428**
	6,946	**3,662**

5.2. Interest Expenses

In thousands of EUR	2022	2021
Securities:		
- Securities at fair value through other comprehensive income	54	-
	54	-
Deposits:		
- IRF	62	60
- state owned companies	5	2
- privately-owned companies	207	159
- retail clients	602	227
	876	**448**
Lease - IFRS 16:		
- Capital Plaza (head office and branch)	28	25
	28	**25**
Borrowings:		
- IRF	10	13
	10	**14**
	968	**488**

6. FEE AND COMMISSION INCOME AND EXPENSES

6.1. Fee and Commission Income

In EUR thousand	2022	2021
Domestic payments	2,382	1,407
International payments	4,489	3,439
Approved guarantees	119	63
Cards	482	247
Investment banking	140	15
Other	42	12
	7,654	**5,183**

6.2. Fee and Commission Expenses

In EUR thousand	2022	2021
Fees and commissions payable to the Central Bank	295	311
Fees and commissions for international payment transactions	674	625
Deposit protection premium fees	300	127
Fees and commissions for card business	253	153
Fees and commissions for e-banking	24	14
Investment banking	48	4
Contribution to the rehabilitation of banks	130	-
Brokerage fee	318	6
	2,042	**1,240**

7. NET FX GAINS

In EUR thousand	2022	2021
Realized foreign exchange gains, net	3,373	1,474
Unrealized foreign exchange gains, net	144	(110)
	3,517	**1,364**

8. PERSONNEL EXPENSES

In EUR thousand	2022	2021
Net salaries	1,847	1,162
Remunerations to Board of Directors members	149	194
Taxes and contributions on salaries	788	657
Other employee benefits, net	3	-
Service contract	3	11
Business travel costs and per diems	45	14
Provision for unused vacations (Note 18)	11	(6)
Provisions for retirement benefits (Note 18)	(3)	(1)
Employee training costs	33	5
	2,876	**2,036**

9. GENERAL AND ADMINISTRATIVE EXPENSES

In EUR thousand	2022	2021
Rental costs	55	27
Security services	22	9
Electricity, utilities and fuel costs	22	13
Cleaning services	16	12
License costs and software maintenance	219	209
Objects, equipment, IT equipment, ATM maintenance costs	99	89
Legal fees	3	54
Insurance costs	21	16
External control expenses	292	178
Consultant fees	685	202
Phone charges	12	12
Communication network costs	45	43
Office supplies	24	14
Entertainment costs	19	10
Advertising and marketing	172	76
Membership fees	16	16
Subscription costs	57	38
Vehicle maintenance and registration costs	6	2
Securities-related costs	105	53
Investment banking license costs	-	16
Miscellaneous expenses	380	10
	2,270	**1,099**

10. DEPRECIATION AND AMORTIZATION

In EUR thousand	2022	2021
Property and equipment (Note 15)	108	121
Intangible assets (Note 16)	45	97
Right-of-use assets (Note 15)	86	69
	239	**288**

11. NET IMPAIRMENT LOSSES/GAINS ON FINANCIAL ASSETS WHICH ARE NOT VALUED THROUGH PROFIT OR LOSS

In EUR thousand	2022	2021
Net increase of provisions for:		
- loans and placements to customers (note 14.2)	1.678	1.255
- loans and placements to banks (note 14.1)	20	-
- loans and placements due from banks (note 14.1)	(36)	23
- securities (note 14.3)	121	269
- approved guarantees (note 20)	153	37
- approved unutilized loans (note 20)	(6)	11
- fees (note 18)	27	37
- other assets	-	1
	1,957	**1,633**

The changes in allowance for impairment disclosed in Notes 14.1, 14.2, 14.3,20 do not include the unwinding effects.

12. INCOME TAXES

12.1. Components of Income Tax

In EUR thousand	2022	2021
Current income tax	(648)	-
Deferred income taxes	(6)	5
	(654)	**5**

In EUR thousand	2022	2021
Pre-tax profit	**7,770**	**3,412**
Income tax calculated at a statutory tax rate	(1,118)	327
Recognised/Unrecognized tax credit on tax losses	494	(327)
Tax effects of expenses that are not recognized for tax purposes	(24)	-
	(648)	**-**
Effects of different treatment to fixed assets for tax purposes	(6)	5
Deferred income tax	**(6)**	5
Tax reported in the income statement	**(654)**	**5**
Effective tax rate	**8.42%**	**-0.16%**

The tax rates for 2022 are progressive and are applied to the taxable profit of companies in Montenegro, in accordance with the Corporate Tax Law, as follows:

- for the tax base up to EUR 100,000.00, tax is calculated at the rate of 9%;
- for the tax base from EUR 100,000.01 to EUR 1,500,000.00, tax is calculated at the rate of 12%;
- for the tax base over EUR 1,500,000.01, tax is calculated at the rate of 15%.

12.2. Deferred Tax

In EUR thousand	Tax asset	Tax liability	Net asset/ (liability)
Balance as of 31 December 2021	**6**	**(9)**	**(3)**
Tax liability based on temporary difference between book and tax value of property, equipment and intangible assets	(3)	-	(3)
Accrued tax liability as a result of recorded unrealized gains on securities at fair value through other comprehensive income	940	6	946
Balance as of 31 December 2022	**943**	**(3)**	**940**

The deferred tax asset in the amount of EUR 494 thousand based on the tax loss carried forward from previous years was used to reduce the tax base. In accordance with the Corporate Income Tax of Montenegro, losses arising from business transactions, except for those resulting from capital gains and losses, can be transferred to the profit account from future accounting periods, but not longer than five years.

13. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In EUR thousand	31 December 2022	31 December 2021
Cash on hand:		
- in EUR	1,984	1,690
- in foreign currencies	285	96
Gyro account:		
- in EUR	235,878	102,249
Obligatory reserves held with the Central Bank of Montenegro	12,251	6,219
Funds in the collection process	72	1,538
Other	47	24
	250,517	**111,816**

On the overnight deposits on transaction account with the Central Bank of Montenegro, ECB Deposit facility interest rate is applied and reduced by 10 basis points, on an annual basis, by applying a rate of not higher than zero to the balance at the beginning of the next business day in RTGS system.

As of 31 December 2022, the Bank's obligatory reserves were set aside in accordance with the Decision of the Central Bank of Montenegro on Obligatory Reserves of Credit Institutions to be held with the Central Bank of Montenegro (Official Gazette of Montenegro no. 88/17), 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, i.e. 366 days;
- 4.5% to the base comprised of deposits with maturities of over a year i.e., 365 days, i.e. over 366 days.

The rate of 5.5% is also applied to deposits with contractually defined maturities of over a year i.e., 365/366 days with contractual clause on early withdrawal option.

The obligatory reserve is to be calculated by applying the aforesaid rates to the average amount of deposits during the previous month, two days before the expiry of the maintenance period.

The Bank sets aside the calculated reserves to the obligatory reserve accounts held with the Central Bank of Montenegro in the country and/or abroad. Pursuant to the Decision, 50% of the obligatory reserve is interest bearing asset the Central Bank pays the fee calculated at an annual rate equal to €STR (euro short-term rate) minus 10 basis points per annum, but this rate cannot be less than zero. The obligatory reserve is held in EUR.

14. FINANCIAL ASSETS AT AMORTIZED COST

14.1. LOANS AND PLACEMENTS TO BANKS

In EUR thousand	31 December 2022	31 December 2021
Correspondent accounts with foreign banks	16,194	11,527
Time deposits with foreign banks	6,344	1,458
Accounts with local banks	670	1,334
Loans to financial institutions	2,500	-
Allowance for impairment	(102)	(41)
	25,606	**14,278**

Time deposits with foreign banks in the amount of EUR 6,344 thousand relate to deposits with Raiffeisen bank Austria DD Croatia in the amount of EUR 2,344 thousand (USD 2,500 thousand), at an interest rate of 3.70% with a term of 30 days, deposit with Raiffeisen bank Austria DD Croatia in the amount of EUR 800 thousand at an interest rate of 1.0% with a term of 45 days, deposit with Asa banka DD BiH in the amount of EUR 2,800 thousand at an interest rate of 1.0% with a term of 365 days and to a deposit with Aik Banka AD Srbija in the amount of EUR 400 thousand, at a rate of 0.00%, with a term of 12 months.

As of 31 December 2022, the Bank has opened custody and cash accounts for trading and custody of securities with the following domestic banks: Hipotekarna banka and Erste banka. Deposits with domestic banks as of 31 December 2022 amount to EUR 673 thousand (31 December 2021: EUR 1,334 thousand) and represent avista deposits.

In accordance with the requirements of IFRS 9, the Bank calculated the allowance for loans and placements to banks in the amount of EUR 102 thousand.

Movements on allowance accounts of loans and placements to banks:

	Balance as of 31 December 2021	Impairment during the year	Reversal of impairment during the year	Balance as of 31 December 2022
Change in the allowance for impairment of loans and placements to banks	41	61	-	102

14. FINANCIAL ASSETS AT AMORTIZED COST (Continued)

14.2. LOANS AND PLACEMENTS TO CUSTOMERS

In EUR thousand	31 December 2022	31 December 2021
Matured loans:		
- privately-owned companies	6,638	4,217
- non-resident companies	500	-
- state-owned companies	-	509
- entrepreneurs	35	62
- retail customers	473	86
Short-term loans:		
- privately-owned companies	8,229	17,085
- privately-owned companies non-residents	352	2,120
- retail customers	1,518	5
Long-term loans:		
-privately-owned companies	27,991	13,540
-state-owned companies	495	-
- Government of Montenegro, Ministry of Finance	3,713	4,902
- privately-owned companies non-residents	4,824	3,153
- retail customers	13,056	8,204
- other financial institutions	500	-
	68,324	**53,883**
Interest receivables:		
- loans	63	54
Accruals and prepayments:		
- interest on loans	162	110
- loan origination fees	(250)	(179)
	(25)	**(15)**
Total	**68,299**	**53,868**
Minus:		
Impairment losses on loans	**(3,505)**	**(1,851)**
Total	**64,794**	**52,017**

14. FINANCIAL ASSETS AT AMORTIZED COSTS (Continued)

14.2. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

The tables below present the movement of loans and placements to customers by Stages in 2022 and 2021, for the principal amounts of receivables and expected credit losses.
The change in loans and placements by risk levels is shown in the table below:

	Stage 1	Stage 2	Stage 3	Total
Gross loans and placements to customers as of 31 December 2021	**43,739**	**7,932**	**2,197**	**53,868**
New receivables	35,949	10,634	4,582	51,165
Decrease/repayment of receivables	(27,651)	(7,783)	(1,301)	(36,735)
Moved to stage 1	1,310	(1,310)	-	-
Moved to stage 2	(7,121)	7,154	(33)	-
Moved to stage 3	(1,099)	(3,027)	4,126	-
Other movements				-
Gross loans and placements to customers as of 31 December 2022	**45,128**	**13,600**	**9,571**	**68,300**

	Stage 1	Stage 2	Stage 3	Total
Gross loans and placements to customers as of 31 December 2020	**23,713**	**4,476**	**512**	**28,701**
New receivables	37,098	3,838	2	40,938
Decrease/repayment of receivables	(11,779)	(3,141)	(852)	(15,771)
Moved to stage 1	1,326	(1,326)	-	-
Moved to stage 2	(6,614)	6,660	(46)	-
Moved to stage 3	(5)	(2,576)	2,581	-
Other movements	-	-	-	-
Gross loans and placements to customers as of 31 December 2021	**43,739**	**7,932**	**2,197**	**53,868**

Movements in allowance for impairment by risk levels are shown in the table below:

	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment, 31 December 2021	**811**	**495**	**545**	**1,851**
New receivables	462	585	734	1,781
Decrease/repayment of receivables	(576)	(491)	343	(724)
Moved to stage 1	3	(7)	-	(4)
Moved to stage 2	(242)	602	(31)	329
Moved to stage 3	(73)	(367)	734	294
Other movements	-	-	(24)	(24)
Allowance for impairment, 31 December 2022	**386**	**817**	**2,302**	**3,505**

14. FINANCIAL ASSETS AT AMORTIZED COSTS (Continued)

14.2. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment, 31 December 2020	**309**	**204**	**98**	**611**
New receivables	781	163	1	945
Decrease/repayment of receivables	(140)	53	(85)	(172)
Moved to stage 1				
Moved to stage 2	8	(50)	-	(42)
Moved to stage 3	(146)	389	(14)	229
Other movements	(1)	(264)	545	280
New receivables	-	-	-	-
Allowance for impairment, 31 December 2021	**811**	**495**	**545**	**1,851**

Short-term loans to corporate entities are mostly approved for working capital with interest rate between 2.7% to 10% p.a. Long-term loans are granted for a period of 13 to 120 months mostly for the legal entities performing trading and manufacturing accommodation industry, engineering. Short-term and long-term loans to corporate entities are mostly approved at a nominal interest rate of 2.3% to 7% per annum.

Short-term retail loans are granted for a period of one month to 12 months with annual interest rate ranging from 3.5% to 9.95% per annum. Long-term loans to retail customers include cash loans, housing loans, adaptation loans, consumer loans and other types of loans, maturing within 15 to 300 months with an interest rate ranging from 4.5% to 11.45%.

Movements on the impairment balances are shown below:

Balance on 1 January 2021	**611**
Impairments (note 11)	1,994
Reversal of impairment for the year (note 11)	(739)
Interest accrued on impaired receivables (note 5.1)	(15)
Balance on 31 December 2021	**1,851**
Impairments (note 11)	4,555
Reversal of impairment for the year (note 11)	(2.877)
Interest accrued on impaired receivables (note 5.1)	(24)
Balance on 31 December 2022	**3,505**

14. FINANCIAL ASSETS AT AMORTIZED COSTS (Continued)

14.2. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

The geographical concentration of loans to customers in the Bank's loan portfolio relates to clients domiciled in the territory of Montenegro.

In EUR thousand	31 December 2022	31 December 2021
Montenegro	50,759	42,249
Serbia	2,642	2,319
Russia	5,809	5,008
USA	1,759	928
EU	250	1,513
Other	3,575	-
	64,794	**52,017**

The concentration of loans and placements to customers per industry was as follows:

In EUR thousand	31 December 2022	31 December 2021
State administration	3,696	4,879
Trade	5,965	5,394
Construction	11,995	8,719
Manufacturing	1,140	1,775
Accommodation and nutrition services	5,753	5,526
Electricity supply	2,373	1,653
Water supply	2,224	2,064
Traffic and storage	1,337	1,236
Information and communication	2,517	2,169
Professional, scientific and technical activities	4,514	3,457
Other service activities	2,234	889
Real estate	1,548	2,388
Professional, scientific and technical activities	4,153	2,650
Agriculture	418	523
Sport	-	493
Retail	14,927	8,202
	64,794	**52,017**

14. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

14.3. SECURITIES

As of 31 December 2022, the portfolio of the securities valued at amortized cost amounts to EUR 141,958 thousand and consists of the followings:

In EUR thousand	31 December 2022	31 December 2021
Treasury bills	12,000	-
Long-term debt instruments – EUR bonds of the Ministry of Finance of the Government of Montenegro	71,225	51,000
Long-term debt instruments – EUR bonds – non-residents	61,606	9,893
Unamortized premium / discount	(3,266)	(1,086)
Unamortized premium / discount – non-residents	55	424
Interest receivable	738	756
Allowance for impairment of securities	(400)	(258)
	141,958	**60,729**

Movements on allowance accounts of securities at amortised cost:

In EUR thousand	Balance as of 31 December 2021	Impairment for the year	Reversal of impairment for the year	Balance as of 31 December 2022
Change in the allowance of impairment of securities	258	142	-	400

Treasury bills of the Ministry of Finance of Montenegro in the nominal amount of EUR 12,000 thousand relate to bills with a term of up to 6 months with a realised discount rate of 3.25 to 3.95%.

Eurobonds of the Ministry of Finance of the Government of Montenegro in the nominal amount of EUR 71,225 thousand (2021: EUR 51,000 thousand) re bonds with maturity in the period from 2025 to 2029, with a coupon interest rate of 3.375% for the series that matures in 2025, 2.875% for the series maturing in 2027 and 2.55% for the series maturing in 2029.

Eurobonds of non-residents in the nominal amount of EUR 61,606 thousand (2021: EUR 9,893 thousand) relate to bonds with a maturity in the period from 2024 to 2032 with an interest rate ranging from 1.13% to 5.25%.

As at 31 December 2022, the balance of securities is valued through other total results in the amount of EUR 36,629 thousand and consists of the following:

In EUR thousand	31 December 2022	31 December 2021
Long - term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro at FVOCI	30,000	30,000
Long - term debt instruments - Eurobonds - non - residents at FVOCI	15,000	15,000
Unamortized premium / discount FVOCI MNE	(7,353)	(2,764)
Non-depreciated premium / discount - non-residents of FVOCI	(1,158)	360
Interest receivable	140	-
	36,629	**42,596**

14. FINANCIAL ASSETS AT AMORTIZED COSTS (Continued)

14.3. SECURITIES (Continued)

Eurobonds of the Ministry of Finance of the Government of Montenegro in the nominal amount of EUR 30,000 thousand (2021: EUR 30,000 thousand) are bonds maturing in the period from 2027 to 2029, with a coupon interest rate of 2.875% for the maturing series 2027 and 2.55% for the series due in 2029.

Eurobonds of non-residents (EFSF and EU) in the nominal amount of EUR 15,000 (2021: EUR 15,000) relate to bonds with a maturity in the period from 2025 to 2031 with an interest rate ranging from 0% to 0.50%.

In accordance with the requirements of IFRS 9, the Bank has calculated the allowance for impairment for securities that are measured at amortized cost and through other comprehensive income.

In July 2022, the Bank pledged securities - bonds issued by the state of Montenegro and held in a custody account with Crnogorska Komercijalna Banka AD, which is the pledgee, with a nominal value of EUR 5,000 thousand and a validity period of 24 months.

Change in the allowance account for securities valued at amortized cost:

In EUR thousand	**Balance as of 31 December 2021**	**Increase/ (Decrease)**	**Balance as of 31 December 2022**
Allowance for impairment of securities at amortised cost	124	(20)	104

15. PROPERTY, PLANT AND EQUIPMENT

Movements on property and equipment and other assets during 2022 are presented in the following table:

In EUR thousand	Leasehold improvements	Construction in progress	Furniture and other equipment	Total
Cost				
Balance as of 1 January 2021	**68**	**-**	**793**	**861**
Additions	-	132	28	160
Decreases	-	-	-	-
Balance as of 31 December 2021	**68**	**132**	**821**	**1,021**
	-	**-**	**-**	**-**
Additions	60	369	270	699
Decreases	-	-	(1)	(1)
	-	-	-	-
Balance as of 31 December 2022	**128**	**501**	**1,090**	**1,719**
Accumulated depreciation	-	-	-	-
Balance as of 1 January 2021	3	-	448	451
Depreciation (Note 10)	7	-	114	121
Decreases	-	-	-	-
Balance as of 31 December 2021	**10**	**-**	**562**	**572**
Depreciation (Note 10)	9	-	99	108
Decreases	-	-	(1)	(1)
Balance as of 31 December 2022	**19**	**-**	**660**	**679**
Carrying value:				
- 31 December 2022	**109**	**501**	**430**	**1,040**
- 31 December 2021	**58**	**132**	**259**	**449**

As of 31 December 2022, the Bank does not have own property under collateral agreements for insuring the repayment of loans and other liabilities.

As of 31 December 2022, the value of property, plant and equipment and right-of-use assets (note 15 b) amounts to EUR 1,688 thousand (2021: EUR 1,037 thousand).

15. PROPERTY, PLANT AND EQUIPMENT (continued)

a) Right-of-use assets

Lease agreements relate to the leasing of business and residential premises. The Bank has treated the leased business premises as of 1 January 2020 in accordance with the requirements of the new IFRS 16, as well as the business premises it has leased after moving to a new location.

,
Assets with the right of use and long-term liabilities under business premises lease agreements are shown in the table below:

Right-of-use assets (in thousands of EUR)	**2022**	**2021**
Balance as of 1 January	**588**	**657**
Additions	146	-
Depreciation	(86)	(69)
Termination of the asset contract	-	-
Termination of contract accumulated depreciation	-	-
Balance as of 31 December	**648**	**588**

Lease liabilities (in thousands of EUR)	**2022**	**2021**
Balance as of 1 January	**604**	**663**
Additions	146	-
Interest expense	28	25
Termination of contract	-	-
Lease payments	**(103)**	**(84)**
Balance as of 31 December	**675**	**604**

On 31 March 2020, the Bank concluded a contract on the lease of business and commercial space with the lessor Capital Plaza d.o.o., Podgorica for a period of 10 years.

The analysis of the maturity of liabilities in accordance with IFRS 16, paragraph 58 is presented in the table below:

	Up to 1 month	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Maturities of lease liabilities	6	13	20	40	350	246	675
Total	**6**	**13**	**20**	**40**	**350**	**246**	**675**

16. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the 2022 were as follows:

In EUR thousand	31 December 2022	31 December 2021
Cost		
Balance as of 1 January	719	641
Additions during the period	23	78
	742	**719**
Accumulated Amortization		
Balance as at 1 January	618	520
Amortization (Note 10)	45	97
	663	**618**
Net Book Value as at 31 December	**79**	**101**

Intangible assets in the amount of EUR 79 thousand consist of: computer programs (software) in the amount of EUR 67 thousand and other intangible assets in the amount of EUR 12 thousand.

17. OTHER ASSETS

In EUR thousand	31 December 2022	31 December 2021
Prepaid expenses	316	282
Receivables from the Tax Administration	-	1
Inventories of plastic cards	8	13
Receivables from funds (maternity leave)	1	1
Receivables from employees	5	5
Payment transaction fees receivables	165	93
Other receivables	28	1
	(65)	(39)
	458	**357**

Movements on allowance accounts of other assets:

In EUR thousand	Balance as of 31 December 2021	Impairment for the year	Reversal of impairment for the year	Balance as of 31 December 2022
Change in allowance for impairment	39	54	(28)	65

18. FINANCIAL LIABILITIES AT AMORTIZED COST

18.1. CUSTOMER DEPOSITS

In EUR thousand	31 December 2022	31 December 2021
Demand deposits:		
- privately-owned companies	103,716	60,693
- state-owned companies	8	7
- IRF	557	962
- entrepreneurs	233	158
- non–profit organizations	47	110
- other financial institutions	92	-
- retail costumers	346,810	155,774
	451,463	**217,704**
Short-term deposits:		
- privately-owned company	192	7,574
- IRF	3,000	-
- retail costumers	1,291	876
	4,483	**8,450**
Long-term deposits:		
- privately-owned company	13,749	9,759
- state-owned companies	632	-
- IRF	-	3,000
- insurance companies	-	200
- retail costumers	25,802	26,204
	40,183	**39,163**
	496,129	**265,317**
Interest and other liabilities		
Accrued interest	458	262
	458	**262**
	496,587	**265,579**

Interest is not calculated on demand deposits of individuals and legal entities. Short-term and long-term term deposits of individuals in EUR are deposited with an interest rate ranging from 0.2% to 3.1% per year, while for legal entities it ranges from 0.2% to 2.5%.

18. FINANCIAL LIABILITIES AT AMORTIZED COST (Continued)

18.2. BORROWINGS FROM CUSTOMERS OTHER THAN BANKS

Liabilities for non-bank borrowings represent liabilities to domestic creditors and relate to borrowings from the Investment and Development Fund (IRF) granted to the Bank to finance projects approved by the IRF, with the Bank charging its margin for borrowing risks as well as funds from the Ministry of Finance to support micro, small and medium enterprises and entrepreneurs affected by the Covid-19 pandemic. These liabilities as of 31 December 2022 consist of borrowings from the IRF and the Ministry of Finance in the amount of EUR 3,176 thousand.

In EUR thousand

Creditor	Approved amount	Approval date	Maturity date	Interest rate	Balance as at 31 December 2022
IRF	360	25.12.2018	31.03.2024	1.50%	96
IRF	100	12.08.2018	31.08.2024	1.50%	36
IRF	50	05.09.2019	30.09.2024	1.50%	18
IRF	495	11.03.2022	31.03.2032	1.50%	495
Ministry of Finance of Montenegro	2,532	08.07.2021	08.07.2030	0.00%	2,531
	5.440				**3,176**

In EUR thousand

Creditor	Approved amount	Approval date	Maturity date	Interest rate	Balance as at 31 December 2021
IRF	360	25.12.2018	31.03.2024	1.50%	160
IRF	100	12.08.2018	31.08.2024	1.50%	55
IRF	50	05.09.2019	30.09.2024	1.50%	28
IRF	500	31.07.2020	30.06.2024	2.50%	400
Ministry of Finance of Montenegro	4.430	08.07.2021	08.07.2030	0.00%	1.329
	5,440				**1,972**

The maturity of the principal by years is presented in the tables for liquidity risk (note 4.4). The Bank does not have established covenants for credit arrangements.

19. PROVISIONS

In EUR thousand	**31 December 2022**	**31 December 2021**
Provisions for employee benefits (Note 8)	38	41
Provisions for unused holidays (Note 8)	71	60
Provisions for litigation	7	9
Other provisions	30	-
Off-balance sheet items		
Provisions on approved guarantees	270	116
Provisions on approved, unused credit lines	20	26
	436	**252**

19. PROVISIONS (Continued)

Movements in provisions **in 2022** are presented in the following table:

	Retirement benefits	Unused holidays	Litigation	Off-balance sheet items	Other	Total
Opening balance	41	60	9	142	-	252
Increase	-	11	-	355	30	396
Decrease	(3)	-	(2)	(207)	-	(212)
Utilised amount	-	-	-	-	-	-
Balance as of 31 December 2022	**38**	**71**	**7**	**290**	**30**	**436**

Movements in provisions **in 2021** are presented in the following table:

	Retirement benefits	Unused holidays	Litigation	Off-balance sheet items	Other	Total
Opening balance	41	66	3	95	-	205
Increase	-	-	6	241	-	247
Decrease	-	(6)	-	(193)	-	(199)
Utilised amount	-	-	-	-	-	-
Balance as of 31 December 2022	41	60	9	142	-	252

20. OTHER LIABILITIES

In EUR thousand	31 December 2022	31 December 2021
Custody obligations	1,175	52
Liabilities based on undistributed inflows	1,041	511
Lease liabilities (note 15 b)	675	604
Domestic trade payables	80	51
Foreign trade payables	372	6
Deferred income	432	381
Accrued expenses	729	555
Other liabilities	164	17
	4,668	**2,177**

21. CAPITAL

The Bank's capital is comprised of:

	31 December 2022	31 December 2021
Share capital – ordinary shares (a)	11,945	9,445
Accumulated profit/loss (b)	3,343	(74)
Revaluation reserves (c)	(5,240)	188
Profit for the year	7,116	3,417
Balance as of	**17,165**	**12,976**

a) As of 31 December 2022, the Bank's share capital consists of 298,625,000 ordinary shares, each with a nominal value of EUR 0.04. In the course of 2022, there was an increase in the share capital in the total amount of EUR 2,500 thousand. The Capital Market Commission recorded the last capital increase on 13 December 2022, while this change was registered with the CRPS on 23 December 2022.

The ownership structure of the Bank as at 31 December 2022 is as follows:

	31 December 2022		
Name of the person/company	**No of shares**	**In EUR**	**% ownership**
Adriatic Capital LLC, Wilmington, Delaware, USA	298,625,000	11,945,000,00	100%
	298,625,000	**11,945,000,00**	**100%**

The ownership structure of the Bank as at 31 December 2021 is as follows:

	31 December 2021		
Name of the person/company	**No of shares**	**In EUR**	**% ownership**
Adriatic Capital LLC, Wilmington, Delaware, USA	236,125,000	9,445,000,00	100%
	236,125,000	**9,445,000,00**	**100%**

b) The accumulated result includes the accumulated undistributed profit from previous years that resulted from the difference between income and expenses. Profit from the current period represents the difference between income and expenses less income tax, increased or decreased by the gain or loss on the basis of deferred taxes.

	31 December 2022
Accumulated losses from prior years	(7,035)
Accumulated loss coverage from capital	7,035
Profit for the year	3,417
Effects of first-time application of IFRS 9	(74)
Accumulated result	3,343
Profit for the year	7,116
Total	10,459

21. CAPITAL (Continued)

c) Revaluation reserves were created as a result of reconciling the value of debt instruments with the market value.

Changes in *revaluation reserves of debt instruments* at other comprehensive income are presented as follows:

	31 December 2022	31 December 2021
Opening balance as of 1 January	188	-
Increase in revaluation reserves	(6,377)	194
Decreases based on deferred taxes	949	(6)
Balance as of	**5,240**	**188**

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

In accordance with the regulations of the Central Bank of Montenegro, the Bank is required to maintain a minimum total capital adequacy ratio of 8%. The Bank is required to comply its operations within the prescribed parameters, i.e., to comply the volume and structure of risk-weighted assets with the Law on Credit Institutions (Official Gazette of Montenegro" no. 72/19, 82/20 and 8/21) and the regulations of the Central Bank of Montenegro.

The Bank's total capital adequacy ratio was 21.56% as of 31 December 2022.

As of 31 December 2022, the own funds of the Bank are above prescribed minimum of EUR 7,500 thousand and amount to EUR 15,966 thousand (31 December 2021: EUR 9,614 thousand).

The Law on Credit Institutions (Official Gazette of Montenegro" no. 72/19, 82/20 and 8/21) defines the initial amount of the bank's capital, which cannot be lower than 7.5 million.

As of 31 December 2022, the Bank's capital is above the regulatory minimum.

No.	DESCRIPTION	31 December 2022
1	Regulatory capital	15.966
2	Tier 1 capital	15.966
3	Common Equity Tier 1 (CET 1)	15.966
4	Common Equity Tier 1 capital ratio (CET1) - min 4.5%	21.56%
5	Tier 1 capital ratio (Tier 1) - min 6%	21.56%
6	Total capital ratio (TCR) - min 8%	21.56%
7	Financial leverage ratio – min 3%	3.00%
7	Total amount of risk exposure	70.048
8	The sum of the Bank's large exposures to one person or a group of related persons	243.85%
9	Amounts of risk-weighted exposure to credit risk, counterparty credit risk and free delivery	70.048
10	The total amount of exposure to position, currency and commodity risk	-
11	The total amount of exposure to operational risk	6.846
12	The total amount of risk exposure for adjustment to credit valuation (CVA)	-
13	Liquid coverage ratio (%)	1015%
14	Minimum liquidity indicator	5.76
15	Total open foreign exchange position	47

As of 31 December 2022, the Bank has no exposure to a single person or group of related parties that exceeds 25% of its own funds, which is in accordance with Article 10 of the Decision on Large Exposures of Credit Institutions, which defines that exposure to a single person or group of related parties must not exceed 25% of own funds.

23. OFF-BALANCE SHEET ITEMS

In EUR thousand	31 December 2022	31 December 2021
Risk weighted off-balance sheet assets		
Irrevocable commitments to grant loans	5,219	2,197
Issued guarantees	12,699	8,068
	17,918	**10,265**
Other off-balance sheet items		
Off-balance sheet interest	119	37
Collaterals on receivables	122,642	82,222
Current contracts for foreign exchange transactions	-	(28)
Other items of the bank's off-balance sheet exposure	12,469	2,954
	153,148	**95,450**

24. RELATED PARTY TRANSACTIONS

Parties related to the Bank are the Bank's shareholders, management representatives and Bank employees.

In EUR thousand	31 December 2022	31 December 2021
Other assets:		
- Employees and management	99	99
	99	**99**
Loans and placements to customers:		
- retail loans - employees and management	1,768	320
- cards – employees	1	7
- West Summit Investment LP	1,200	372
- Adriatic capital management LLC	558	556
- 2098963 Ontario LLC	103	-
	3,629	**1,255**
Total receivables:	**3,728**	**1,354**
Payables		
Demand deposits		
Avista deposits:		
- retail deposits – employees and management	949	1,303
- Adriatic Capital LLC	3	10
- West Summit Investment LP	1	-
- Twenty4 Enterprises Limited	371	-
- 2098963 Ontario Inc	10	-
- Texas Global Financial Services	3	-
Term deposits:	**1,337**	**1,313**
- retail deposits – employees and shareholders	13,009	15,145
- Adriatic Capital Management LLC	354	-
	13,363	**15,145**
Other payables:		
-custody operations – employees and management	266	-
- custody operations - Twenty4 Enterprises Limited	1	-
- Foreign trade payables - Adriatic Capital LLC	298	150
Liabilities for accrued interest on deposits	20	2
Accrued interest liabilities on deposits - Adriatic Capital LLC	1	1
	586	**3**
Approved unused credit:		
- Employees and management	17	98
- 2098963 Ontario LLC	1,097	-
	1,114	**98**
Total payables:	**16,399**	**16,709**
Receivables/(payables), net	**(12,671)**	**(15,355)**

Loans to employees are related to short-term and long-term loans with interest rates in the range of 4.50% to 6.95% per annum. As 31 December 2022 there is EUR 1,114 thousand of off-balance sheet exposure that relates to employees approved and unused limit for credit cards and approved unused loans.

24. RELATED PARTY TRANSACTIONS (Continued)

Income and expenses arising from transactions with related parties during 2022 and 2021 are as follows:

In EUR thousand

	31 December 2022	31 December 2021
Interest income:		
- Adriatic Capital Management LLC	20	18
- West Summit Investment LP	26	2
- employees and management	1	-
Total income:	72	18
Interest expenses:	**119**	**38**
- Adriatic Capital Management LLC	8	6
- employees and management	384	34
Costs of management and administrative services:		
- Adriatic Capital LLC	362	150
Total expenses:	**754**	**190**
Income/(expenses), net	**(635)**	**(152)**

In EUR thousand

	31 December 2022	31 December 2021
Fees and commissions income:		
- Adriatic Capital Management LLC	3	1
- West Summit Investment LP	1	-
- Texas Global Financial Services	3	-
- Twenty4 Enterprises Limited	5	-
- employees and management	27	5
Total income:	**39**	**6**

In EUR thousand

	31 December 2022	31 December 2021
Net FX gains		
FX gains:		
- retail – employees and management	427	21
- Twenty4 Enterprises Limited	1.216	-
- 2098963 Ontario Inc	3	-
Total income:	**1.646**	**21**
Net FX losses:		
- retail – employees and management	536	29
- Twenty4 Enterprises Limited	1.244	-
- 2098963 Ontario Inc	2	-
Total expenses:	**1.782**	**29**
Income/(expenses), net	**(136)**	**(8)**

Remuneration to senior management based on gross salaries and allowances in 2022 amounts to EUR 1,431 thousand (2021, EUR 788 thousand).

25. LITIGATION

As of 31 December 2022, there are two misdemeanour proceedings against the Bank initiated by the Central Bank of Montenegro. The first dispute was initiated because the Bank did not submit data on open transaction accounts to the CBCG for 9 transaction accounts of non-resident legal entities, i.e. the Central Register of Transaction Accounts, as required by Article 65 paragraph 3 of the Law on Payment Transactions. No hearing was held. The Bank's chance of success in the dispute is 50%. The second procedure was initiated by the CBCG in the domain of violations of the Law on Prevention of Money Laundering and Financing of Terrorism. The Bank's chance of success in the dispute is 50%.

In addition to the above, the Bank is conducting several proceedings against legal entities and natural persons for the purpose of collecting claims in the total amount of EUR 533 thousand (2021: EUR 147 thousand) and three procedures for foreclosure - mortgages, with the aim of collecting receivables in the total amount of EUR 128 thousand.

26. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the annual net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	2022	**2021**
Net gain/loss (in thousand EUR)	7,115	3,417
Weighted average number of shares	237,220,890	403,337,893
Earnings/(loss) per share in EUR	**0.030**	**0.008**

27. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of the statement of financial position components denominated in foreign currencies into EUR as at 31 December 2022 were as follows:

	31 December 2022	**31 December 2021**
USD	0.9375	0.8823
CHF	1.0155	0.9650
GBP	1.1275	1.1915
RUB	0.0132	0.0118

28. EVENTS AFTER THE REPORTING PERIOD

The Bank performed a preliminary calculation of the effects of transfer prices on interest on loans granted by the Bank to related parties, interest on deposits received from related parties, administration and management costs and income from fees from related parties. For the calculation of the "arm's length" interest, the officially published statutory default interest rate for 2022 of 8% was used, since the Ministry of Finance adopted the Rulebook on the amount of the interest rate calculated on financial instruments between related parties for the year 2023 ("Official Gazette of Montenegro, no. 142/22) in which the interest rate is prescribed in accordance with the " arm's length" principle of 3.98%, which cannot be used for the calculation of transfer prices for the year 2022. For other transactions, the Bank will use the Comparable Price Method. Based on the preliminary calculation, the Bank's management does not expect that the effects of the final calculation of transfer prices can be material. The Bank did not present the aforementioned effects in these financial statements, bearing in mind the fact that it is in accordance with the provisions of the Corporate Income Tax Law ("Official Gazette of Montenegro" no. 65/01, 12/02, 80/04, no. 40/08, 86/09, 40/11, 14/12, 61/13 55/16, 146/21, 152/22), the Bank is obliged to submit to the Tax Administration the tax return and accompanying forms together with the documents on transfer prices within 180 days from the date of expiry of the period for which the tax liability is determined. The effects of adjustments determined based on the Transfer Pricing Report will be taken into account when compiling and submitting the final tax return for 2022.

28. EVENTS AFTER THE REPORTING PERIOD (Continued)

The Bank did not prepare a preliminary analysis of the impact of transfer pricing on income tax and the determined effects are not materially significant.

Bearing in mind the Decision of the Central Bank of Montenegro to extend the application of the new definition of default status, starting from 1 April 2023, the Bank undertook timely activities to prepare for the implementation of the aforementioned regulatory requirement.

Apart from the above, there were no other significant events that need to be disclosed in the financial statements for the year ended 31 December 2022.

29. GENERAL INFORMATION ON THE BANK

In accordance with the Decision on the Content, Deadlines and Manner of Preparation and Submission of Financial Statements of Banks ("Official Gazette of Montenegro" no. 34/22) all information on the Bank is presented below:

Bank's registered name:	Adriatic bank AD, Podgorica;
Registered address:	Bulevar Dzordza Vasingtona 98/8, 81000 Podgorica;
Bank's ID number:	03087158
Telephone/Fax:	+ 382 (0)20 680 951
Web page:	http://www.adriaticbank.com
Email address:	

The Bank has a head office and 2 branches as of 31 December 2022.

Number of employees as at 31 December 2022 was 58 (31 December 2021 – 45 employees).

Gyro account: 907-58001-38

On 30 November 2015 the request for issuing the banking licence to Adriatic banka AD Podgorica, was submitted to Central Bank of Montenegro.
Adriatic banka AD is registered with the Central Registry of Business Entities under number 4-0009471.
Central Bank of Montenegro on 26 February 2016 issued a permit for the operation of the Bank.
Adriatic banka AD Podgorica commenced operations on 8 June 2016.

Information on the president and members of the Supervisory Board and Board of Directors is presented below:

Supervisory Board	**First and last name**	**Residence Country**	**Address (street and number)**
1. Chairman	Fraser Eliot Marcus	USA	Ridge Road 4254, Dallas
2. Member	Wolfgang Mitterberger	Vienna, Austria	Haymogasse 53 A,A-1230
3. Member	Aleksandar Obradovic	Belgrade, Republic of Serbia	Vaska Pope 16
Board of Directors	**First and last name**	**Residence Country**	**Address (street and number)**
1. Chairman	Djordje Lukic	Podgorica, Montenegro	Bulevar Dzordza Vasingtona 108, Podgorica
2. Member	Enesa Bektesi	Podgorica, Montenegro	Bulevar Knjaza Danila Petrovica 1 - 3
3. Member	Andrija Djuraskovic	Kotor, Montenegro	Muo 12

29. GENERAL INFORMATION ON THE BANK (Continued)

As of 31 December 2022, the Bank was wholly-owned by the company Adriatic Capital LLC, USA.

The auditing company that audited the 2022 financial statements: BDO d.o.o, Bulevar Svetog Petra Cetinjskog 149, 81000 Podgorica, Montenegro.

Book value of the shares on 31 December 2022 was EUR 0.04 per share.

There were no payments of dividends in 2022.

Đorđe Lukić	Enesa Bekteši	Miroslav Vuković
President of the Management Board	Member of the Management Board	Head of Accounting, Reporting and Controlling division

MANAGEMENT REPORT
ADRIATIC BANK AD, Podgorica

for the year 2022

March, 2023

The content:

1. STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

In accordance with the Companies Act ("Official Gazette of Montenegro" No. 65/20 - 146/21), Adriatic Bank AD, Podgorica acquired the status of a legal entity on the day of registration as a joint stock company. As a joint-stock company, Adraitic Bank AD, Podgorica regulates the mutual relations of all interested entities in accordance with its Articles of Association and Statute.

The Bank's bodies are the Shareholders' Meeting, the Supervisory Board and the Management Board. The roles of the Bank's bodies are defined by the Law on Credit Institutions and the Statute of Adraitic Bank AD, Podgorica. In terms of management, Adraitic Bank AD, Podgorica, applies the best international corporate management practices.

First of all, the Law on Credit Institutions ("Official Gazette of Montenegro", no. 72/19, 82/20, 8/21) as well as the Statute of Adriatic Bank AD, Podgorica, define the relations between the Assembly, the Supervisory Board and the Management Board.

Corporate governance is established in the following way:
- that the legal framework of Montenegro and good business practice be respected in all segments of corporate management;
- to set principles within that framework that are flexible and give room to the Board of Directors to manage and manage the Bank in the best way possible and achieve the set goals;
- that all mutual relations of interested parties in the functioning of the Bank are clearly differentiated, that there are no overlaps or gaps in responsibilities and competences, and that a balance of responsibilities and obligations, i.e. rights and competences, is established for all interested parties;
- that the relations between all interested parties are set up so that the common interest of all prevails, that is, the interest of the Bank in relation to their individual interests;
- to fully, efficiently and effectively carry out all functions of management and leadership of the Bank, i.e. to manage the Bank in a way that leads to the achievement of set goals and objectives.

In the application of the rules of corporate governance, the aforementioned acts, as well as other internal acts of the Bank, have been implemented, and there are no deviations in the application of them.

In order to ensure the reliability and objectivity of accounting statements and reports, the Department for Accounting, Reporting and Controlling, in its instructions, prescribes internal accounting controls that ensure that all changes are accurately recorded and that the business books are up-to-date and mutually agreed upon. Accounting controls are implemented within the main banking application, in accordance with appropriate accounting standards. Through the operational risk management system (risk self-assessment and control process and scenario analysis process), the Bank determines potential operational risk events and, based on the evaluation of the event, defines the measures that need to be taken to prevent eventual operational risk events. On a semi-annual basis, the Bank implements the process of permanent supervision of sensitive procedures and sensitive accounts. On the basis of the permanent supervision carried out, the Bank defines the introduction of additional controls for sensitive processes, as well as activities that would eliminate the anomalies determined by the permanent supervision of sensitive accounts. The internal audit within the framework of audits provided for in the annual work plan reviews the accuracy, timeliness and reliability of accounting and financial reports and records. The internal audit controls the suitability, validity and accuracy of data and information that are publicly disclosed in accordance with the regulations of the Central Bank.

The sole shareholder of the Bank is a company: ADRIATIC CAPITAL LLC, from Delaware, United States of America . The owners of this company are natural persons: Alexander Shnaider with a share of 80% and David Glenn Genetsov with a share of 20% . The sole shareholder of the Bank has the powers of the assembly of the joint stock company and makes all decisions in writing and keeps a record of the decisions made in the company's decision book. Shares vote for shareholders, are regular (ordinary), with the right to vote, indivisible and with equal rights. In addition to ordinary shares with voting rights, the Bank can (but has not yet) issued preferred shares without voting rights, in accordance with a special act and positive regulations.

A shareholder of the Bank, who owns ordinary shares, has the following rights:

1. the right to attend the shareholders' meeting,
2. the right to manage in proportion to the participation in the capital of this class of shares,
3. the right to dispose of shares, in accordance with positive regulations,
4. right of pre-emption to purchase shares of new issues,
5. the right to free shares in the event of an increase in the basic capital from the Bank's funds, with restrictions established by the Law,
6. the right to a dividend, after distribution to the owners of preferred shares, when the Bank's Assembly decides to pay the dividend,
7. the right to deliver, upon personal request, a copy of the balance sheet and the balance sheet, as well as the report of the external auditor,
8. the right to inspect, at least 20 days before the holding of the Shareholders' Assembly, as well as at the Assembly itself, the financial reports, including the reports of the external auditor,
9. the right to a proportionate part of the property in case of liquidation of the Bank,
10. and other rights, in accordance with positive regulations.

1 STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE (Continued)

The decision of the Shareholders' Assembly on the issue of shares regulates the rights of buyers of each class and series of shares individually. The procedure for replacing one class of shares with another, as well as convertible bonds with shares, is regulated by the Decision on the issuance of shares, which is adopted by the Shareholders' Assembly based on current regulations. Regarding the acquisition of its own shares, the bank applies the provisions of Articles 178 and 179 of Law of credit institutions.

The Bank's management bodies are the Supervisory Board, which performs the function of supervising the Bank's operations, and the Board of Directors, which performs the executive function and is responsible for the day-to-day management of the Bank and its representation. The supervisory board has three or five members.

The Shareholders' Assembly of the Bank makes a decision on the number of members of the Supervisory Board and elects the members of the Supervisory Board individually for a period of four years, with the fact that the member whose mandate expires can be reappointed. The mandate of the member of the Supervisory Board ends:

1) at the end of the period for which he was appointed;
2) when he ceases to meet the requirements for membership in the Supervisory Board in accordance with positive regulations;
3) by submitting a resignation;
4) by dismissal by the shareholders' assembly;
5) by revoking the approval to perform the function of a member of the supervisory board by the CBCG.

The Management Board of the Bank consists of at least three members appointed by the Supervisory Board for a period of no longer than four years, with the fact that the member whose mandate expires may be reappointed. The President and members of the Management Board are appointed by the Supervisory Board. The Supervisory Board decides on the number of members of the Bank's Management Board. The mandate of a member of the Board of Directors ends:

1) at the end of the period for which he was appointed;
2) when he ceases to meet the requirements for membership in the Board of Directors in accordance with positive regulations;
3) by submitting a resignation;
4) dismissal by the supervisory board;
5) by revoking the approval to perform the function of a member of the Board of Directors by the CBCG.

2. GENERAL INFORMATION

Adriatic Bank AD, Podgorica (up to 5th of March 2020 under name Nova banka) was formed in 2016 by Azmont Investment DOO.

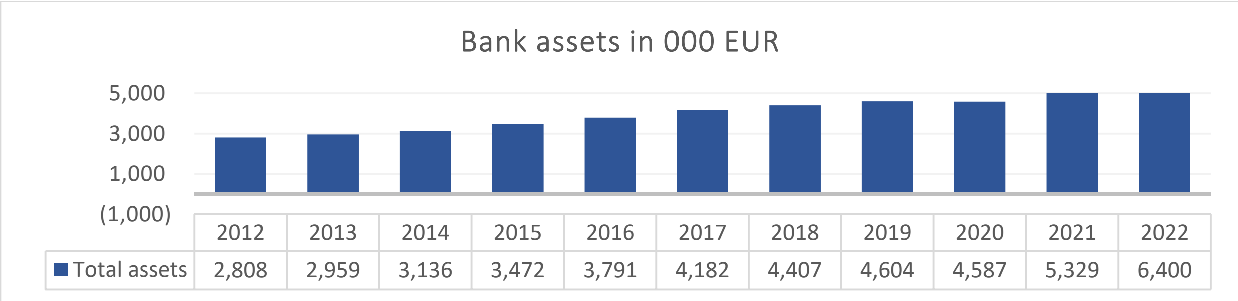
On 15th of January 2020, change of ownership of the Bank was preforme and 100% ownership was transferred from the seller Azmont Investment DOO, Herceg Novi, on the buyer Adriatic Capital LLC, United States of America.

The Bank's headquarters are in Podgorica, Bulevar Dzhorja Washingotna no. 98/8.

Table 1 - Market share of the Bank on 31 December 2022

	31/12/2022			
The bank	**Assets**	**Loans**	**Deposits**	**Capital**
Banking sector (000 EUR)	6.400.482	3.140.985	5.210.661	674.629
Adriatic bank AD (000 EUR)	522.683	64.794	496.587	17.165
Participation in (%)	8,17%	2,06%	9,53%	2,54%

Chart 1 - Assets of the banking sector from 2012 to 2022



In order to better position itself on the banking market, the bank took care of the quality of personnel resources, the offer of products and services and the development of the information system.

Adraitic Bank AD, Podgorica is a bank whose capital level enabled stable and safe operations during 2022, with the ability to absorb potential business risks. As of December 31, 2022, the level of the Bank's own funds is above the prescribed minimum of EUR 7.500 thousand and amounts to EUR 15.966 thousand (2021: EUR 9.614 thousand). During 2022, there was an increase in the share capital in the total amount of EUR 2.500 thousand. The Capital Market Commission recorded the last capital increase on December 13, 2022, while this change was registered with the Central Register of the Commercial court on December 23, 2022.

As of December 31, 2022, the Bank consists of a Head Office with headquarters in Podgorica at the address: Boulevard Dzordz Vashington no. 98/8, with one branch in Podgorica at the address: Cetinjska 9/1, and another in Tivat, at the address: Porto Montenegro.

2.1. Registration and activity of the Bank

Adriatic bank AD, Podgorica (hereinafter: "the Bank") was established in 2016 with the issuance of an operating license by the Central Bank of Montenegro. On the basis of Article 44, paragraph 2, point 7 of the Law on the Central Bank (Official Gazette of Montenegro No. 40/10, 46/10, 6/13 and 70/17) and Article 23, paragraph 2 of the Law on Banks (Official Gazette CG Nos. 17/08, 44/10 and 40/11) The Council of the Central Bank of Montenegro, at the session held on February 26, 2016, issued a decision granting the license to the Bank.

Activity of the Bank includes loan, deposit and guarantee activities, as well as foreign-exchange transactions, treasury services, issuance, processing and recording of payment instruments.

Bank is registred in Central Registry of Business Entities in Podgorica, under registration number 4-0009471 on 13th of April 2016 as Azmont Bank AD Podgorica. Under the registration number 4-0009471/003 on 9th of September 2016. Bank is registred to the Commercial Court in Podgorica as Nova Banka A.D., Podgorica. Under the registration number 4-0009471/012 on 5th of March Bank is registred in Central Registry of Business Entities as Adriatic Bank A.D., Podgorica.

2. GENERAL INFORMATION (Continued)

2.2. Organization and employees

a) Supervisory Board of the Bank

Table 2.- Supervisory Board of the Bank

Position	Name	Date of Birth	Residence information
1. President	Fraser Eliot Marcus	09.09.1954	USA
2. Member	Wolfgang Mitterberger	22.10.1966	Austria
3. Member	Aleksandar Obradovic	30.10.1974	Serbia

b) The Management Board of the Bank

Table 3.- Management Board of the Bank

Name	Function	On the position starting from
Đorđe Lukić	President of the Board of Directors	01.01.2022
Enesa Bekteši	Board member	01.01.2022
Andrija Đurašković	Board member	01.01.2022

c) Members of Asset and Liability Committee (ALCO)

Table 4.- ALCO Board members

Name	Function
Enesa Bekteši	President
Đorđe Lukić	Member
Miroslav Vukovic	Member
Maya Barada	Member
Mirza Redzepagic	Member
Miloš Globarević	Member
Nikola Marinovic	Member

d) Members of the Risk and Audit Committee

Table 5.- Members of the Risk and Audit Committee

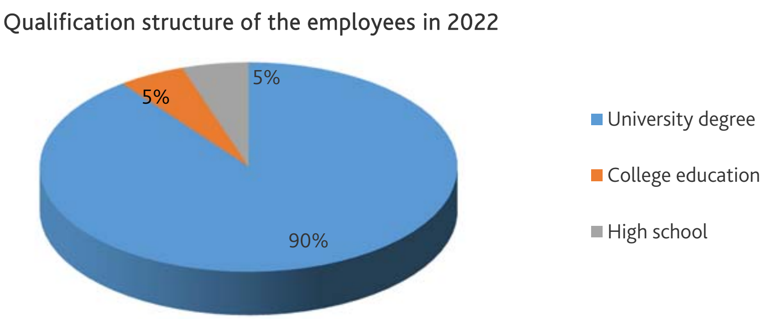
Name	Function
Bassem Snaije	President
Fraser Eliot Marcus	Member
Wolfgang Mitterberger	Member

2.3. Personnel structure of employees

On 31st December the Bank had 58 employees with the following qualification structure:

- University degree education, 52 workers or 90%,
- College education, 3 workers or 5%,
- High school education, 3 workers or 5% .

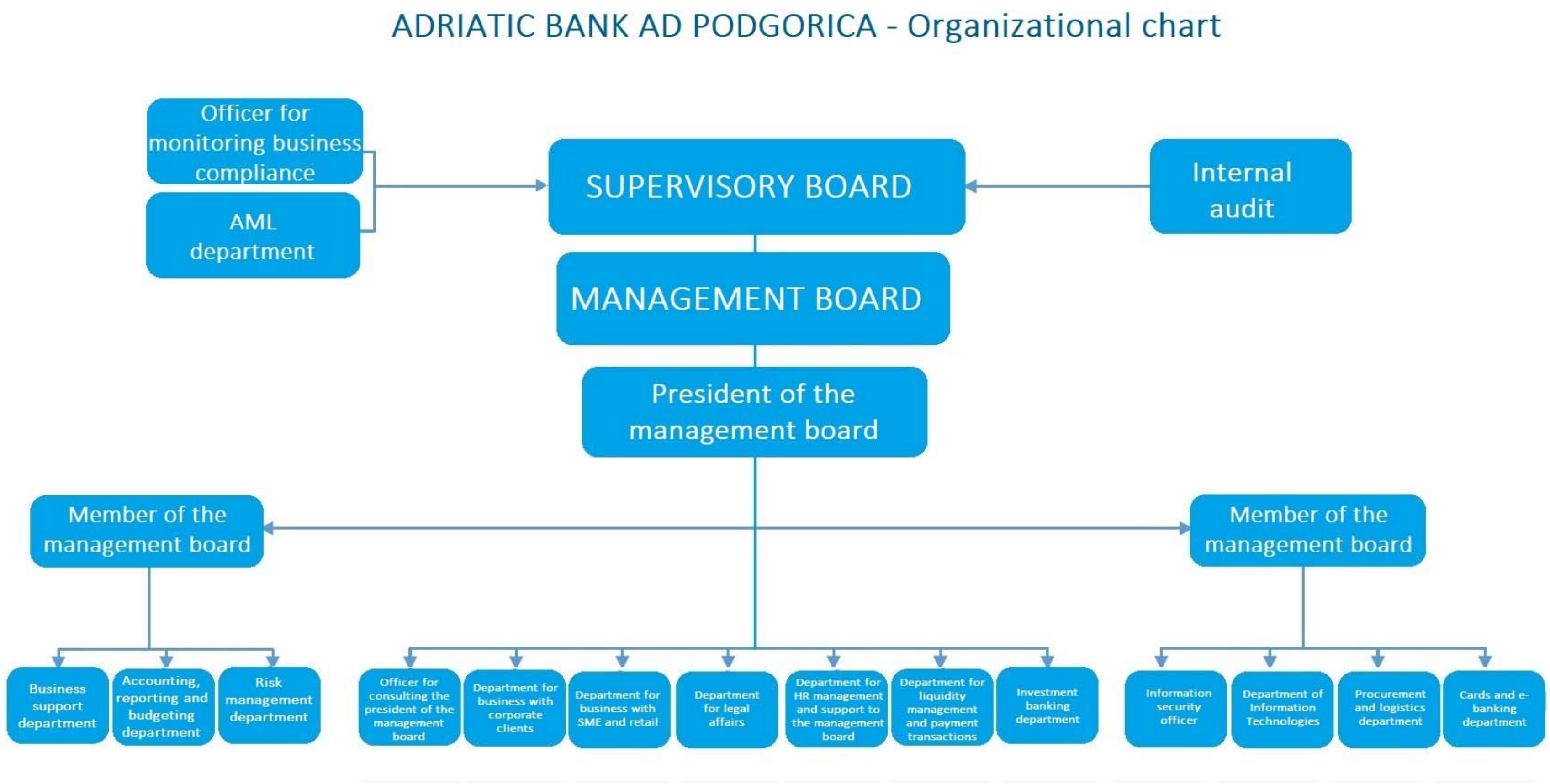
Graph 2. - Structure of employees



2. GENERAL INFORMATION (Continued)

2.4. Organizational structure of the Bank

Chart 3 – Organizational structure of the bank



3. PERFORMANCE OF THE BANK IN 2022

Table 6.- Business indicators in 2022 in 000 EUR

DESCRIPTION	in 2022	in 2021	Change %
1	2	3	4
BALANCE SHEET ASSETS	**522.683**	**282.965**	**84,72%**
GROSS LOANS	**70.824**	**53.883**	**31,44%**
Retail loans	15.047	8.295	81,39%
Corporate loans	55.777	45.588	22,35%
Gross Investment securities at amortized cost	**142.358**	**60.987**	**133,42%**
Gross Investment securities at fair value	**36.629**	**42.596**	**-**
DEPOSITS	**496.587**	**265.579**	**86,98%**
Retail deposits	374.125	183.019	104,42%
Corporate deposits	122.463	82.560	48,33%
Total equity	**17.165**	**12.976**	**32,28%**
LOSS FROM OPERATIONS AFTER TAX	7.116	3.417	108,25%
PROFITABILITY RATIOS IN %			
ROA - financial result/ balance sheet assets %	**1.36**	**1.21**	12,74%
ROE – financial result/ total equity %	**41.46**	**26.33**	57,43%
NET INTEREST INCOME	5.977	3.174	88,32%
NET FEE AND COMMISSION INCOME	5.612	3.943	42,33%
NUMBER OF EMPLOYEES	58	45	28,89%
Assets per employess in 000 EUR	9.012	6.288	43,31%
OPERATING EXPENSES	(5.383)	(3.423)	57,27%
INDICATORS			
CAPITAL ADEQUACY %	**21.56**	**16.27**	32,51%
LIQUIDITY RATIOS %	**5.76**	**7.48**	-23,06%
CASH in 000 EUR	**267.388**	**126.134**	111,99%
Interest income/ Interest bearing assets %	2,89	2,34	23,73%
Interest income/ Total assets %	1,33	1,29	2,69%
Interest expenses/ Interest bearing liabilities %	0,19	0,18	6,24%
Operating expenses/ Total expenses %	52,01	50,33	3,34%
Liquid assests/ Deposits %	52,61	45,77	14,94%
Liquid assests/ Total assets %	49,98	42,96	16,35%
Liquid assests/ Short-term liabilities %	57,30	55,03	4,12%

4. REGULATORY REQUIREMENTS IN 2022

Table 7.- Prescribed business indicators on 31st December 2022

No.	DESCRIPTION	31.12.2022
1	Regulatory capital	15.966
2	Share capital (Tier 1)	15.966
3	Common equity (CET 1)	15.966
4	Common equity ratio (CET1) - min 4.5%	21,56%
5	Core capital ratio (Tier 1) - min 6%	21,56%
6	Total capital ratio (TCR) - min 8%	21,56%
7	Total amount of risk exposure	70.048
8	The sum of the bank's large exposures to one person or a group of related persons	243,85%
9	Amounts to risk-weighted exposure to credit risk, counterparty credit risk and free delivery	70.048
10	The total amount of exposure to position, currency and commodity risk	-
11	The total amount of exposure to operational risk	6.846
12	Total Risk Exposure Amount for Credit Valuation Adjustment (CVA)	-
13	Liquid coverage ratio (%)	1,015%
14	Minimum liquidity indicator	5,76%
15	Total open foreign exchange position	47

5. BALANCE SHEET FOR THE YEAR 2022

5.1. Balance sheet of the Bank as of 31st December 2022

Table 8 - Bank's assets on 31st December 2022 in TEUR

ASSETS OF THE BANK	December 31, 2022	December 31, 2021	Index (2022/2021)
ASSETS			
Cash and deposit accounts with Central bank	250.517	111.816	2.24
Loans and receivables from banks	25.606	14.278	1.79
Loans and receivables from clients	64.794	52.017	1.25
Investments securities held to maturity	141.958	60.729	2.34
Investment securities held at fair value	36.629	42.596	-
Other financial receivables	11	28	0.38
Property, plant and equipment	1.039	449	2.31
Right of use	649	588	-
Intangible assets	79	101	0.78
Deferred tax assets	943	6	-
Other receivables	460	357	1.29
TOTAL ASSETS	**522.683**	**282.965**	**1.85**
LIABILITIES			
Deposits of the clients	496.587	265.579	1.87
Borrowings from other clients	3.176	1.972	1.61
Obligations for long-term leases	675	605	1.12
Reserves	436	252	1.73
Current tax obligations	648	-	
Deferred tax liabilities	3	9	0.33
Other **liabilities**	3.993	1.572	2.54
TOTAL LIABILITIES	**505.518**	**269.989**	**1.87**
EQUITY			
Share capital	11.945	9.445	1.26
Retained earnings	10.530	3.414	3.08
IFRS9 implementation effects	(71)	(71)	1.00
Other reserves	(5.239)	188	-
TOTAL EQUITY	17.165	12.976	1.32
TOTAL EQUITY AND LIABILIES	**522.683**	**282.965**	**1.85**
OFF-BALANCE SHEET	**153.148**	**95.449**	**1.60**

The Bank's balance sheet assets in 2022 amounted to EUR 522.683 thousand. Loans to clients were EUR 64.794 thousand and the loan portfolio makes up 12% of the Bank's total assets. A growth of 25% compared to the previous year was achieved.

As of December 31, 2022, securities at amortized value amount to EUR 141.958 thousand (27% of the Bank's total assets) and securities held at fair value amount to EUR 36.629 thousand (7% of the Bank's total assets) and consist of the following:

Investments securities held to maturity	144.831
Investment securities held at fair value	45.000
Premium/duscount	(11.722)
Interest receivables	877
Impairment of securities	(400)
	178.586

Except loans to the clients, cash and deposit accounts with central banks, as well as claims from banks (53%) make up a significant share of assets.

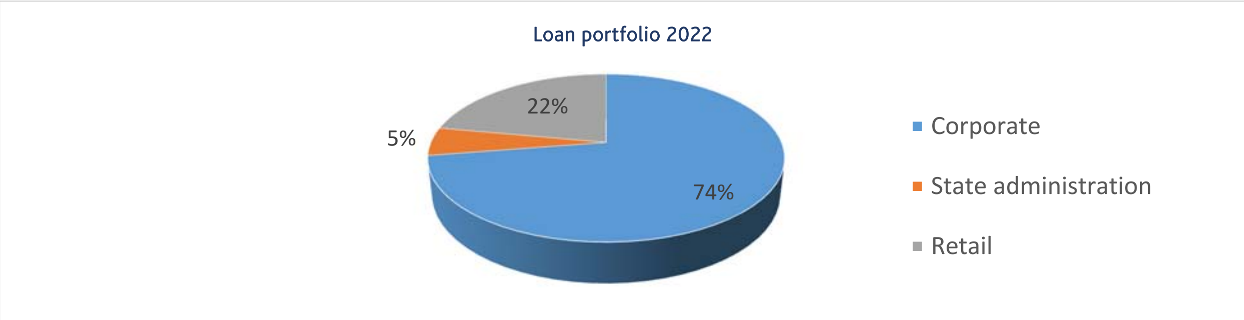
5. BALANCE SHEET FOR THE YEAR 2022 (Continued)

5.2. Loans given to clients on December 31, 2022

Table 9. - Loans to clients on 31st December 2022 in TEUR

No.	DESCRIPTION	December 31, 2022	December 31, 2021	Index
I	**LOANS TO THE CLIENTS**	**68.299**	**53.868**	**1,27**
1	Corporate	49.513	40.658	1,22
2	State administration	3.712	4.901	-
3	Retail	15.074	8.309	1,81
II	**Impairment**	**(3.505)**	**(1.851)**	**1,89**
I+II	**NET LOANS**	**64.794**	**52.017**	**1,25**

Graph 4.- Loans to clients - 2022



Total loans to the Bank's clients, as of December 31, 2022, amount to EUR 64.794 thousand (December 31, 2021: EUR 52.017 thousand), of which EUR 15.074 thousand are loans to individuals, EUR 49.513 thousand to the corporate and SME and EUR 3.712 thousand to the state administration.

Table 10 - Overview of the Bank's placement until 31st December 2022 in TEUR

Type of loan	in 2022	% participation	in 2021	% participation
Balance sheet item (gross)				
Loans and receivables from banks	25.708	9%	14.319	8%
Short-term loans to clients	10.099	4%	19.210	11%
Long-term credit loans to clients	50.578	19%	29.799	17%
Overdue loans	7.647	3%	4.874	3%
Interest receivables and prepaymets	(25)	0%	(15)	0%
Securities at amortized cost	142.358	52%	60.987	36%
Securities at fair value	36.629	13%	42.596	25%
Total balance sheet exposure to credit risk	**272.994**	**100%**	**171.770**	**100%**
Off-balance sheet items (gross)				
Performance guarantees	12.699	71%	8.068	79%
Undrawn loans	5.219	29%	2.197	21%
Total off-balance sheet exposure to credit risk	**17.918**	**100%**	**10.265**	**100%**
Total exposure to credit risk	**290.912**		**182.035**	

In the Bank's placement structure, the dominant share is long-term loans, primarily long-term loans for corporate.

5. BALANCE SHEET FOR THE YEAR 2022 (Continued)

5.2. Loans given to clients on December 31, 2022 (Continued)

Table 11 - Overview of total exposure by holders on 31st December 2022 in TEUR:

Type of loan	in 2022	% participation	in 2021	% participation
Banks, non-residents	22.629	8,3%	12.985	7,6%
Banks, residents	3.079	1,1%	1.334	0,8%
Other financial institutions	503	0,2%	-	0,0%
Government of Montenegro - Ministry of Finance	3.712	1,4%	4.901	2,9%
State-owned companies	489	0,2%	514	0,3%
Privately owned companies	42.782	15,7%	34.800	20,3%
Privately owned companies, non-residents	5.703	2,1%	5.283	3,1%
Entrepreneurs	35	0,0%	62	0,0%
Individuals, residents	5.548	2,0%	3.268	1,9%
Individuals, non-residents	9.437	3,5%	5.034	2,9%
Cards for individuals, residents	2	0,0%	6	0,0%
Cards for individuals, non-residents	87	0,0%	-	0,0%
Government bonds and EU bonds	178.987	65,6%	103.583	60,3%
Total credit risk exposures	**272.994**	**100%**	**171.770**	**100%**

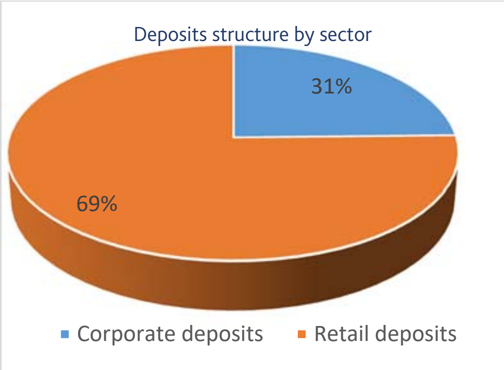
5.3. Liabilities of the Bank on 31st December 2022

In the structure of liabilities, the total deposits of customers, with the calculated unpaid related interest as of December 31, 2022, participate with 95% and amount to EUR 496.587 thousand (2021: EUR 265.579 thousand).

5. **BALANCE SHEET FOR THE YEAR 2022 (Continued)**

5.3. **Liabilities of the Bank on 31st December 2022(Continued)**

Chart 5 - Sector structure of deposits on 31st December 2022

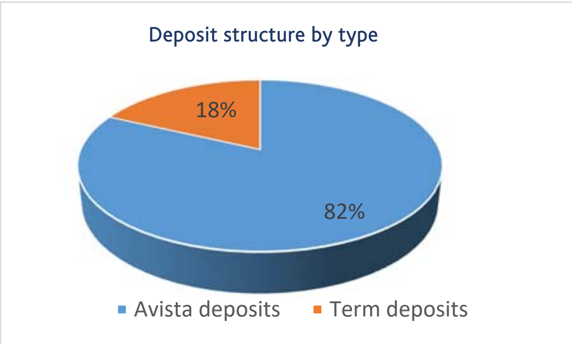


Deposit structure by sector at the end of 2022 shows that retail deposits represents 75% of total deposits, or EUR 374.124 thousands (2021: EUR 183.019 thousands).

Corporate deposits are 25% of total deposits of the Bank, or EUR 122.463 thousands (2021: EUR 82.560 thousands).

The higher participation of the retail deposits is the result of the economic citizenship program. Intensify deposit collection activities to ensure diversification of funding sources and the self-financing model.

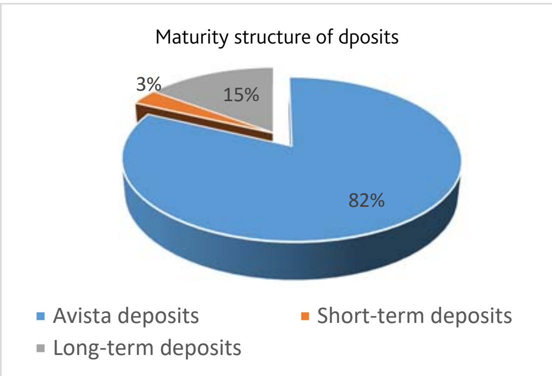
Chart 6 - Structure of deposits on 31st December 2022 by type



Avista deposits at the end of 2022 amounts EUR 451.463 thousands (2021: EUR 217.704 thousands) or 91% of total deposits, while term deposits are EUR 45.124 thousands (2021: EUR 47.875 thousands) or 9% of total Bank's deposits.

Interest rates offered by the Bank on term deposits are higher than average pasive interest rates on the market.

Graph 7 - Maturity structure of deposits on 31st December 2022



Maturity structure of deposits at the end of 2022 shows that long-term deposits represents only 15% of total deposits, or EUR 40.633 thousands (2021: EUR 39.415 thousands).

Short-term and avista deposits represent 85% of total deposit portfolio of the Bank, or EUR 455.954 thousands (2021: EUR 226.164 thousands).

5. BALANCE SHEET FOR THE YEAR 2022 (Continued)

5.4. Changes in capital until 31st December 2022.

As of 31st December 2022, the share capital of the Bank consists of 298.625.000 ordinary shares, each with a nominal value of EUR 0,04.

Table 12 - Ownership structure of the Bank as of 31st December 2022

	31st December 2022		
Name of the person/company	**No. of shares**	**in EUR**	**% share**
Adriatic Capital LLC, Wilmington, Delaware, United States of America	298.625.000	11.945.000,00	100%
	298.625.000	**11.945.000,00**	**100%**

In accordance with the regulations of the Central Bank of Montenegro, the Bank must at all times have an amount of capital that is adequate to the type, volume and complexity of the operations it performs and the risks to which it is exposed or could be exposed in its operations. The bank is obliged to meet the following capital requirements at all times:

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

The regulatory capital of a credit institution must not be less than the amount of minimum initial capital required at the time of issuing the license for the credit institution. The Law on Credit Institutions ("Official Gazette of Montenegro" No. 72/19, 82/20 and 8/21) defines the initial amount of bank capital, which cannot be lower than 7,5 million.

The bank is obliged to harmonize the scope of its operations with the prescribed indicators, i.e. to harmonize the scope and structure of its risky placements with the Law on Credit Institutions (Official Gazette of the Republic of Montenegro No. 72/19, 82/20 and 8/21) and regulations of the Central Bank Montenegro.

The Bank's total capital adequacy ratio was 21,56% as of 31st December 2022.

As of 31st December 2022, the level of the Bank's own funds is above the prescribed minimum of EUR 7.500 thousand and amounts to EUR 15.966 thousand (December 31, 2021, EUR 9.614 thousand).

On 31st December 2022, the Bank's capital is above the prescribed minimum.

Table 13 - Changes on equity

Positions	Share capital	Accumulated loss	Effects of applying IFRS9	IN TOTAL
Balance on 31st December **2020**	**16.480**	**(7.109)**	**-**	**9.371**
Decrease of equity	(7.035)	7.035	-	-
Profit of the current year	-	3.417	-	3.417
The effects of changes in the fair value of securities and the values measured through other comprehensive income	-	-	**188**	188
Balance on 31st December **2021**	**9.445**	**3.343**	**188**	**12.976**
Issue of shares	2.500		**-**	2.500
Profit of the current year	-	7.116	-	7.116
The effects of changes in the fair value of securities and the values measured through other comprehensive income	-	-	(5.427)	(5.427)
Balance on 31st December **2022**	**11.945**	**10.459**	**(5.240)**	**17.165**

5. BALANCE SHEET FOR THE YEAR 2022 (Continued)

5.5. Bank's off-balance sheet records

The bank's off-balance sheet records as of December 31, 2022 consist of the Bank's potential liabilities and the rest of the off-balance sheet, which refers to the records of received collateral for credit claims and the bank's potential liabilities.

Table 14 .- Off-balance records of the Bank

In thousands of EUR	December 31, 2022	December 31, 2021
Potential liabilities of the Bank	**17.918**	**10.265**
Irrevocable obligations for granting loans	**5.219**	**2.197**
Guarantees issued	**12.699**	**8.068**
- Issued payable guarantees	3.622	1.358
- issued performance guarantees	8.650	6.408
- other guarantees	427	302
Other off-balance items from which liabilities do not arise	**135.230**	**85.185**
Collaterals on receivables	122.642	82.222
Accrued interest	119	37
Current contracts for foreign exchange transactions	-	(28)
Other items of the bank's off-balance sheet exposure	12.469	2.954
Total	**153.148**	**95.449**

The Bank's off-balance sheet exposure on 31st December 2022 is EUR 17.918 thousand, of which EUR 5.219 thousand (29%) represent approved unused loans, while EUR 12.699 thousand (71%) represent approved guarantees.

6. INCOME STATEMENT FOR 2022

6.1. Income statement for 2022

Table 15.- Income statement

In thousands of EUR:	in 2022	in 2021	Index (2022/2021)
Interest income	6.743	3.547	190%
Interest income on impaired loans	203	115	176%
Interest expenses	(968)	(488)	198%
NET INTEREST INCOME	**5.977**	**3.174**	**188%**
Fee and commission income	7.654	5.183	148%
Fee and commission expenses	(2.042)	(1.240)	165%
NET FEE AND COMMISSION INCOME	**5.612**	**3.943**	**142%**
Net FX result	3.517	1.364	258%
Net gain/loss on derecognition of other assets	-	-	0%
Personal expenses	(2.876)	(2.036)	141%
General and administrative expenses	(2.270)	(1.099)	206%
Depreciation	(239)	(288)	83%
Other expenses	(3)	(5)	-102%
Other income	8	-	0%
Impairment losses	(1.957)	(1.633)	120%
Reservation costs	-	(8)	0%
OPERATING PROFIT	**7.771**	**3.412**	**228%**
Income tax	(654)	5	-13086%
NET PROFIT	**7.116**	**3.417**	**208%**

6. INCOME STATEMENT FOR 2022 (Continued)

6.2. Income and expenses from interest

Table 16.- Interest income and expenses in EUR 000

Interest income and expenses	in 2022	in 2021
Interest income		
Deposits at:		
- foreign banks	69	10
Credits:		
- privately owned companies	1.939	1.491
- financial institutions	21	
- Government of Montenegro	150	172
- state-owned companies	6	25
- entrepreneurs	2	4
- individuals	615	308
- interest income on impaired loans	203	115
	3.006	**2.125**
Loan approval fees	169	108
Interest on HTM securities held to maturity	2.595	1.319
Interest on HTM securities held at fair value	1.177	109
Total interest income	**6.946**	**3.661**
Interest expense		
Securities:		
Interest on HTM securities held at fair value	54	-
	54	**-**
Deposits:		
- Government of Montenegro	62	60
- state-owned companies	5	2
- privately owned companies	207	159
- insurance companies		-
- individuals	602	227
	876	**448**
- Loans Investment and development fund (IRF borrowings)	10	13
- Long-term lease of Capital Plaza	28	25
Total interest expense	**968**	**488**
Net interest income	**5.977**	**3.174**

From the overview of interest income, it can be seen that the largest share per holder is the interest income of privately owned companies and natural persons, which is understandable given the structure of the Bank's portfolio. In the course of 2022, an increase in income from interest on bonds is also evident as a result of a significant increase in investment in this form of assets.

6.3. Fee income and expenses

Table 17.- Income and expenses from fees in TEUR

Fee and commissions income and expenses	in 2022	in 2021
Fee and commissions income:		
Payment transactions - domestic	2.382	1.407
Payment transactions - international	4.489	3.439
Approved guarantees	119	63
Cards	482	247
Investment banking	140	15
Other	43	11
Total fee and commissions income	**7.654**	**5.184**
Fee and commissions expenses:		
Central bank fees	295	311
International payment services	674	625
Deposit protection Fund fees	300	127
Card processing fees	253	153
E-banking fees	24	14
Investment banking	48	4
Contribution to the rehabilitation of banks	130	-
Other	319	6
Total fee and commissions expenses	**2.042**	**1.240**
Net fee and commission income	**5.612**	**3.943**

The realized net profit from fees during 2022 represents the continuation of positive business in this segment. All types of fee income recorded growth this year, especially payments, card services and investment banking. From the review, it is concluded that the costs of fees for the Deposit Protection Fund have increased due to the increase in the level of deposits, as well as fees for investment banking and other fees. The contribution to the rehabilitation of banks is an expenditure introduced by the regulator in 2022, while fees for overnight balances were abolished during the year, which reduced this expenditure compared to the previous year.

6. INCOME STATEMENT FOR 2022 (Continued)

6.4. Operating expenses

Table 18.- Operating expenses in TEUR

Operating expenses	in 2022	in 2021
Personnel expenses		
Net salaries	1.995	1.356
Taxes, surcharges and contributions on earnings	788	657
Other payments to employees	3	-
Temporary contracts	3	11
Reservation costs for unused annual leave	11	(6)
Provision costs for severance pay	(3)	(1)
Travel expenses and daily allowances	45	14
Employee training expenses	33	4
Total personnel expenses	**2,876**	**2,036**
Other administrative expenses		
Rent	55	27
Audit expenses (CBM and external audit)	292	178
Security	22	9
Advertising and marketing	172	76
Legal expenses	3	54
Licenses and SW maintenance	219	209
Maintenance of facilities, equipment, IT equipment, ATMs	99	90
Vehicle maintenance and registration	6	2
Consulting fees	685	202
Electricity, and utility services	22	13
Office Supplies	24	14
Communication network	45	43
Subscription	57	38
Phone	12	12
Membership contribution to the bank Association	16	16
Insurance	21	16
Representation	19	10
Cleaning	16	12
Securities expenses	105	53
Investment banking license costs	-	16
Other expenses	380	9
Total other administrative costs	**2.270**	**1.099**
Depreciation	**239**	**288**
Total operating expenses	**5.383**	**3.423**

Operating and other business expenses in 2022 amount to EUR 5.383 thousand, of which EUR 2.876 thousand, i.e. 53% represent employee expenses (2021: EUR 3.423 thousand).

7. ENVIRONMENTAL PROTECTION MEASURES

Adriatic Bank AD conducts its policy in an environmentally conscious and committed manner, in accordance with the Law on the Environment ("Official Gazette of Montenegro", no. 52/16, 79/19 and 73/19), the Law on Environmental Impact Assessment (" Official Gazette of the Republic of Montenegro", No. 75/18) and the Law on Strategic Environmental Impact Assessment (Official Gazette of the Republic of Montenegro", No. 80/05, Official Gazette of Montenegro", No. 73/10, 40/ 11, 59/11, 52/16).

In accordance with Article 9 of the Law on the Environment, the Bank performs the following activities to ensure environmental protection:

- Sustainable use of natural resources, goods and energy;
- Introduction of more energy efficient technologies and use of renewable natural resources;
- Use of products, processes, technologies that are less harmful to the environment;
- Take measures to prevent and eliminate the consequences of endangering and harm to the environment
- Other measures in accordance with the law.

According to the criteria defined by the Law, the Bank is not recognized as a polluter and therefore does not pay any fines or penalties. Also, in the foreseeable future, he is not planning any project that could have a negative impact on the environment.

In accordance with the Law on Environmental Impact Assessment, if a specific project or business activity planned by the bank can or will have an impact on the environment, the approval of the competent authority on the impact assessment report or the decision that an impact assessment is not required will be provided. to the environment.

8. PLANNED FUTURE DEVELOPMENT

In accordance with the adopted budget of the Bank, the following projection of the financial result for the period 2023-2025 was made:

Table 19.- Planned income statement for the period 2023-2025:

Projected Profit and Loss				
	Actual	Budgeted		
in TEUR	**31.12.2022**	**31.12.2023**	**31.12.2024**	**31.12.2025**
Interest income	6.946	8.934	9.761	11.373
Interest expense	(968)	(584)	(618)	(633)
Net interest income	**5.977**	**8.350**	**9.144**	**10.741**
Fee and commission income	7.654	6.914	7.971	9.350
Fee and commission expenses	(2.042)	(2.095)	(2.388)	(2.818)
Net fee income	**5.612**	**4.820**	**5.583**	**6.533**
Net FX gains/(losses)	3.517	1.200	1.200	1.200
Impairment losses	(1.957)	(1.972)	(1.759)	(2.070)
Net banking income	**13.149**	**12.398**	**14.167**	**16.403**
Salaries, wages and other personal expenses	(2.876)	(3.043)	(3.505)	(3.807)
Depreciation expenses	(239)	(520)	(860)	(990)
Other expenses	(2.264)	(2.601)	(2.901)	(3.177)
Total OPEX	**(5.379)**	**(6.165)**	**(7.266)**	**(7.975)**
Profit/(loss) before tax	**7.771**	**6.233**	**6.901**	**8.428**
Income tax	654	887	987	1.216
Profit/(loss) after tax	**7.116**	**5.346**	**5.914**	**7.212**

The period covered by the plan implies continuous work on expanding the client base. The plan is to establish close business relations with clients, to understand their business activities and financial needs, so that we can support them in their business requirements - loans for liquidity, loans for fixed assets, guarantees, letters of credit, etc.

Table 20 - Planned balance sheet for the period 2023 to 2025:

Projected Balance Sheet				
	Acutal	Budgeted		
in TEUR	**31.12.2022**	**31.12.2023**	**31.12.2024**	**31.12.2025**
Assets				
Cash and cash equivalents	261.392	52.967	72.712	115.949
Obligatory reserve	12.251	13.985	15.773	18.549
Investments securities held to maturity	141.958	130.648	131.194	146.239
Investment securities held at fair value	36.629	38.018	39.052	26.610
Loans due from other clients (net)	67.274	78.644	89.307	102.398
Intangible assets	79	1.432	1.702	1.542
Property, plant & equipment	1.039	1.083	896	873
Right of use	649	987	1.034	806
Other assets	1.413	1.514	1.525	1.613
Total assets	**522.683**	**319.280**	**353.196**	**414.581**
Liabilities				
Deposits due to customers	496.587	289.380	316.904	370.900
Borrowings	3.175	2.845	2.393	1.978
Long-term lease liabilities	675	1.065	1.121	889
Other obligations	5.081	2.907	3.082	3.205
Total liabilities	**505.519**	**296.198**	**323.500**	**376.973**
Equity				
Share capital	11.945	11.945	11.945	11.945
Current year profit /(loss)	7.116	5.346	5.914	7.212
Other reserves	(5.239)	(4.180)	(3.480)	(2.780)
Accumulated result	3.343	9.972	15.317	21.231
Total equtiy	**17.165**	**23.082**	**29.696**	**37.608**
Total liability and equity	**522.683**	**319.280**	**353.196**	**414.581**

Table 21 - Other important indicators for the period 2023 to 2025:

Balance Sheet	Dec. 22	Dec. 23	Dec. 24	Dec. 25
Interest-bearing assets	112.004	127.241	141.410	145.062
Interest-bearing liabilities	499.763	292.225	319.297	372.878
Share of interest-bearing assets in total assets	21%	40%	40%	35%
Share of interest-bearing liabilities in total liabilities	96%	92%	90%	90%
Interest income	6.946	8.934	9.761	11.373
Interest expense	(968)	(584)	(618)	(633)
Loans/deposits (L/D ratio)	21%	40%	40%	35%
CIR (cost/income ratio)	46%	47%	49%	46%
ROE	41%	23%	20%	19%

9. DATA ON RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank's research and development activities mainly relate to research and analysis of the banking market and other analyzes required for decision-making, as well as business and development plans that serve to achieve the Bank's strategic goals.

The key values and guarantee of the achievement of the declared business goals of the Bank are its employees who possess the necessary qualifications and IT-technological basis for high-quality performance of banking operations. In this regard, continuous education, professional training and improvement of employees' skills are permanent goals of the Bank.

10. INFORMATION ON THE BUYOUT OF OWN SHARES, OR SHARES

During 2022, the Bank did not redeem its own shares.

11. BUSINESS UNITS

As of December 31, 2022, the Bank consists of a Head Office with headquarters in Podgorica and two branches, one of which is located at Cetinjska 9/1, Podgorica, and the other in Tivat.

12. DATA ON FINANCIAL INSTRUMENTS SIGNIFICANT FOR ASSESSING THE FINANCIAL POSITION AND BUSINESS SUCCESS

Based on the information contained under the hedings 5 i 6 THE BALANCE SHEET AND THE INCOME STATEMENT, it can be concluded that at the end of the business year 2022, the following financial instruments are crucial for assessing the Bank's financial position:

- Cash and funds with the CBCG;
- Loans and receivables from banks;
- Loans and receivables from clients;
- Securities;
- Client deposits;
- Borrowed funds;
- Equity.

13. OBJECTIVES, METHODS AND POLICIES OF RISK MANAGEMENT

In its operations, the Bank is most exposed to credit risk, and thus the biggest focus is on the management and continuous development and improvement of credit risk management, but the impact of other risks to which the Bank is exposed in its operations, such as liquidity risk, operational risk, market risk, is not neglected. risk, country risk and the like.

The risk management strategy is a comprehensive general document regulating the area of risk management in the Bank. In order to manage risks more efficiently, at the operational level, the Bank has developed special policies and procedures for risk management that are designed to identify and analyze risks, to define appropriate limits and controls for risk management, as well as to monitor the Bank's exposure to certain risks. Policies and procedures for risk management are subject to regular control in order to adequately respond to changes in the market, products and services.

The Supervisory Board has overall responsibility for establishing and overseeing the risk management framework. The Supervisory Board established an Asset and Liability Management Committee (ALCO), a Credit Committee and a Risk and Audit Committee.

The risk management department is responsible for monitoring the Bank's exposure to certain risks, which is reported monthly to the Management and Supervisory Board.

Credit risk

Credit risk represents the possibility of negative effects on the Bank's financial results and capital due to the debtor's failure to fulfill its obligations to the Bank. The bank approves loans in accordance with its business policy, harmonizing the maturity dates of approved loans and the policy of interest rates with the purpose of the loan and the creditworthiness of the debtor.

The credit risk management policy is based on the Bank's legal obligation prescribed by the Law on Credit Institutions and by-laws, but also on generally accepted international principles for credit risk management and positive practices for credit risk assessment.

The goal of the policy is the successful implementation of the Credit Policy and Risk Management Strategy in a way that will determine as precisely as possible the areas in which credit risk sources are identified, methods for identification, methods and time frames for measuring credit risk, limits and procedures for controlling individual and total exposure to credit risk while respecting the size of the Bank and the complexity of the product, the manner and dynamics of reporting and informing the Supervisory and Board of Directors about credit risk management, as well as the methods and time frames of the subsequent quality control of credit risk management.

Specifically, credit risk management covers two main aspects of credit activities:

1.) Preliminary assessment of the risk that is assumed - through a preliminary analysis, which is formalized by creating a credit file, which is approved by the competent authorities;
2.) Regular monitoring of the placement, that is, the assumed risk. After the placement is approved, the Bank is exposed to risks that constantly evolve depending on the client's condition or other internal or external factors. Therefore, it is necessary to regularly monitor risks with the aim of protecting the interests of the Bank.

Credit risk management includes all aspects of risk assessment before approving the placement, as well as monitoring the placement until final repayment. Management of exposure to credit risk is carried out by regular analysis of the ability of loan beneficiaries and potential loan beneficiaries to repay obligations based on interest and principal.

The bank has established a system for monitoring placements at the individual and portfolio level, as well as a system for adequate provisioning and allocation of value corrections for credit risk. In this way, potentially problematic loans are identified in time and enables collection activities to be undertaken in a timely manner. In accordance with the limits prescribed by the Central Bank of Montenegro, the branch concentration of loans, as well as the concentration of exposure of the largest debtors, are subject to continuous monitoring.

13. OBJECTIVES, METHODS AND POLICIES OF RISK MANAGEMENT (Continued)

Credit risk (Continued)

Assumed and potential obligations based on the loan

The primary purpose of these instruments is to ensure that funds are available to the client as required. Guarantees and activated letters of credit represent the Bank's irrevocable guarantees that it will make payment in the event that the client cannot fulfill its obligations to third parties, and therefore carry the same credit risk as loans. Documentary and commercial letters of credit - which represent a written statement of the Bank's obligation assumed on behalf of the client, and which authorizes a third party to draw bills of exchange with the Bank up to the amount agreed upon by special terms - are secured by the basic delivery of the goods to which they refer, and therefore carry a smaller risk than a direct loan.

The credit portfolio at the end of 2022 amounts to EUR 70.799 thousand, while the off-balance sheet exposure is EUR 17.918 thousand, and the classification of these claims is given in the table below.

Table 22 - Overview of exposure and value corrections as of December 31, 2022:

No.	DESCRIPTION	In 2022		In 2021	
	Category	Exposure	Impairments	Exposure	Impairments
I	**Balance**	**70.799**	**3.525**	**53.868**	**1.851**
1	A	33.409	156	29.849	273
2	B	27.835	1.082	21.843	1.048
3	C	8.386	1.272	2005	491
4	D	-	-	-	-
5	E	1.169	1.014	171	39
II	**Off-balance**	**17.918**	**291**	**10.265**	**142**

On 31st December 2022, value adjustments were calculated in accordance with IFRS 9 and for balance sheet exposures amount to EUR 3.525 thousand, while for off-balance sheet exposures amount to EUR 291 thousand.

Market risks

The bank currently does not have and does not plan to have a trading book, and it is stated that, as of December 31, 2022, Adriatic bank is not exposed to market risk, except in the part of market risk that is limited to foreign exchange risk.

Foreign exchange risk

Foreign exchange risk management is defined by the Risk Management Strategy and the Interest Rate Risk Management Policy from the banking book and market risks. These acts define the way in which the bank identifies, measures, controls, mitigates and supervises foreign exchange risk. Foreign exchange risk is measured using the GAP analysis for foreign exchange risk, while control is established through a system of limiting long, short and net positions individually by currency and aggregated. On a daily basis, the Asset Management Department monitors and manages currency positions, taking into account the amount and character of currency positions. The Risk Management Department reports to the Asset and Liability Management Committee on important aspects of foreign exchange risk management on a monthly basis.

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

The Bank's exposure to the risk of currency exchange rate changes on December 31, 2022 was low, with a total open position of EUR 50 thousand. The balance of the long position in foreign currency, in the euro equivalent, as of December 31, 2022, was EUR 13.028 thousand and the short position was EUR 12.978 thousand.

Risk of interest rate changes

Interest rate risk management from the banking book is defined by the risk management strategy and the policy for managing the interest rate risk from the banking book and market risks. The risk of changes in interest rates represents the risk that the future cash flows of the financial instrument will be subject to fluctuations due to changing interest rates on the market. Fair value interest risk represents the risk that the value of a financial instrument will be subject to fluctuations due to fluctuating interest rates on the market. 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 consequence of such changes, there may be an increase in interest margins, however, they may reduce profits or lead to losses in case of unexpected developments. Interest rates are based on market rates, so the Bank regularly re-determines prices.

13. OBJECTIVES, METHODS AND POLICIES OF RISK MANAGEMENT (Continued)

Risk of interest rate changes Continued)

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

Table 23 - Interest-bearing and non-interest-bearing assets and liabilities of the Bank:

In TEUR	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and deposit accounts with central banks	244.391	6.126	250.517
Loans and receivables from banks	25.606	-	25.606
Loans and receivables from clients	64.794	-	64.794
Securities at amortized value	141.958	-	141.958
Securities at fair value through other comprehensive income	36.629	-	36.629
Other financial assets	-	11	11
Deferred tax assets	-	943	943
Other assets	99	359	458
Total assets	**513.477**	**7.439**	**520.916**
LIABILITIES			
Deposits from clients	161.461	335.126	496.587
Borrowing from others	645	2.531	3.176
Other liabilities	-	4.668	4.668
Total liabilities	**162.106**	**342.325**	**504.431**
Exposure to interest rade risk:			
- 31st December 2022	**351.371**	**(334.886)**	**16.485**
- 31st December 2021	**209.379**	**-197.280**	**12.099**

The exposure to the risk of changes in interest rates on31st December 2022 is shown in the following table:

Table 24 - Risk of interest rate changes:

In TEUR	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Total
Interest sensitive assets						
Interest-bearing deposits in other institutions	244.391	-	-	-	-	244.391
Loans and receivables from banks	25.606	-	-	-	-	25.606
Securities at amortized value	-	13.952	37.415	11.770	78.821	141.958
Securities at fair value through other comprehensive income	-	-	-	-	36.629	36.629
Loans and receivables from clients	4.849	4.477	2.892	18.399	34.177	64.794
Other assets	99	-	-	-	-	99
Total	**274.945**	**18.429**	**40.307**	**30.169**	**149.627**	**513.477**
% of total interest-bearing assets	**53,55%**	**3,59%**	**7,85%**	**5,88%**	**29,14%**	**100%**
Interest-sensitive liabilities						
Interest-bearing deposits	118.042	9.055	5.018	6.107	23.239	161.461
Interest-bearing borrowings	16	15	36	82	496	645
Total	**118.058**	**9.070**	**5.054**	**6.189**	**23.735**	**162.106**
% of total interest-bearing liabilities	**72,83%**	**5,60%**	**3,12%**	**3,82%**	**14,64%**	**100%**
Interest rate GAP:						
- 31st December 2022	**156.887**	**9.359**	**35.253**	**23.980**	**125.892**	**351.371**
- 31st December 2021	**105.440**	**(2.563)**	**613**	**4.899**	**99.661**	**208.050**
Cumulative GAP:						
- 31st December 2022	**156.887**	**166.246**	**201.499**	**225.479**	**351.371**	
- 31st December 2021	**105.440**	**102.877**	**103.490**	**108.389**	**208.050**	

Liquidity risk

Liquidity risk represents the risk that the Bank will not be able to provide sufficient funds to settle obligations when they are due, or the risk that the Bank will have to provide funds at a reasonable price and in a timely manner to settle due obligations.

Compliance and controlled mismatch of maturities and interest rates based on assets and liabilities are of great importance for the Bank's management. It is not usual for the Bank to have a completely harmonized position, since business transactions often have an indefinite maturity and are of different types. A mismatched position potentially increases profitability, but also increases the risk of loss.

Maturity of assets and liabilities and the Bank's ability to provide sources of funds at acceptable costs when liabilities are due are an important factor in assessing the Bank's liquidity and its exposure to changes in interest rates and exchange rates.

Liquidity needs to cover guarantees and assumed obligations at the end of 2022 amount to EUR 17.918 thousand.

13. OBJECTIVES, METHODS AND POLICIES OF RISK MANAGEMENT (Continued)

Liquidity risk Continued)

As of December 31, 2022, the Bank managed liquidity risk in accordance with the adopted Risk Management Strategy, Liquidity Risk Management Policy and other acts regulating liquidity risk management. The Bank uses GAP analysis to measure liquidity risk. In addition to daily monitoring, liquidity risk is monitored on a ten-day and monthly basis through the reporting system of the supervisor and the Asset and Liability Management Committee.

According to the CBCG methodology, the ratio of receivables, liquid assets (cash, giro account, checks, funds on accounts with domestic banks, funds with payment agents, funds on accounts with foreign banks - demand deposits and mandatory reserve) and due obligations (obligations for loans received, obligations for interest and fees, obligations for term deposits, 20% of demand deposits, 10% of approved and unused irrevocable credit obligations - credit lines, other due obligations.

The calculation of the daily liquidity indicator on 31st December 2022 is shown in the following table:

Table 25 - Liquidity indicator on 31st December 2022:

No.	DESCRIPTION	in TEUR
I	**Liquid assets/receivables (claims)**	**261.259**
1	Cash	2.316
2	Assets on the account in Central Bank of Montenegro	235.879
3	Other cash claims	(1)
4	Assets on the accounts in domestic banks (Avista deposits)	670
5	Assets in the agents of payment system	75
6	Assets on the accounts in international banks(Avista deposits)	16.194
7	Required reserve in the Central Bank of Montenegro (according to the current decision)	6.126
II	**Marured liabilities for loans and borrowings**	**45.397**
1	Due liabilities based on loans received	-
2	Due liabilities based on intrest rates and fees	1
3	Due liabilities based on term deposits	-
4	20% Avista deposits	42.837
5	10% approved but unused, irrevocable credit obligations (credit lines)	522
6	Other due liabilities	2.037
	SUFICIT / DEFICIT (I - II)	**215.862**
	Liquidity ratio (I / II)	**5,76**

The bank is exposed to daily withdrawal requests from clients, which affect available funds from current accounts and deposits. The bank does not need to maintain the level of funds in order to meet all potential demands, estimating that the minimum level of reinvestment of due funds can be predicted with certainty.

Other indicators of the bank's liquidity by quarter are given in the table:

Table 26 - Liquidity ratios:

Description	31.12.2022	30.9.2022	30.6.2022	31.03.2022	31.12.2021
Liquid assets	261.259	177.881	164.392	127.555	121.566
Total assets	522.683	372.398	347.632	306.371	282.966
Short-term liabilities	410.196	332.629	312.752	272.452	220.904
Liquid assets/total assets	**49,98%**	**47,77%**	**47,29%**	**41,63%**	**42,96%**
Liquid assets/short-term liabilities	**63,69%**	**53,48%**	**52,56%**	**46,82%**	**55,03%**
Daily liquidity ratio	**5,76%**	**5,38%**	**6,09%**	**6,29%**	**7,48%**
Loan to deposit ratio	**14,26%**	**19,73%**	**19,62%**	**19,94%**	**20,29%**

13. OBJECTIVES, METHODS AND POLICIES OF RISK MANAGEMENT (Continued)

Liquidity risk Continued)

Table 27 – Matching of financial assets and liabilities according to expected maturity:

In TEUR	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and deposit accounts with central banks:							
Cash and cash equivalents	238.268	-	-	-	-	-	238.268
Funds set aside as mandatory reserves	6.126	-	-	-	6.126	-	12.252
Financial assets valued at amortized cost:							
receivables from banks	16.864	3.143	-	3.200	-	-	23.207
receivables from customers	4.849	4.477	2.892	18.399	37.322	2.881	70.820
Securities helt to maturity at amortized cost	-	44.000	32.594	-	38.342	29.895	144.831
Other financial assets	11	-	-	-	-	-	11
Interest receivables, accruals, prepayments and impairments*	143	(48)	(179)	(230)	656	(6.842)	(6.500)
Financial assets at fair value measured through other comprehensive income							
Securities at fair value measured through other comprehensive income	-	45.000	-	-	-	-	45.000
Interest receivables, accruals *	-	(8.372)	-	-	-	-	(8.372)
Other assets	**199**	**1**	**36**	**9**	**3**	**26**	**274**
Total	**266.317**	**96.621**	**35.522**	**21.608**	**81.793**	**32.802**	**534.663**
Financial liabilities that are stated at amortized value:							
Deposits from clients and banks	222.195	136.549	35.655	11.922	89.042	764	496.127
Loans from the investment development fund	16	15	36	82	1.519	1.508	3.176
Interest and accruals*	29	35	35	76	278	7	460
Other obligations	**2.845**	**616**	**45**	**45**	**360**	**203**	**4.114**
In total	**225.056**	**137.180**	**35.736**	**12.049**	**90.921**	**2.474**	**503.417**
Deadline mismatch							
- December 31, 2022	**41.261**	**(40.559)**	**(214)**	**9.559**	**(9.128)**	**30.328**	
- December 31, 2021	**38.613**	**(38.166)**	**1.000**	**2.169**	**(2.571)**	**15.684**	
Cumulative GAP:							
- December 31, 2022	**41.261**	**702**	**488**	**10.047**	**919**	**31.247**	
- December 31, 2021	**38.613**	**447**	**1.447**	**3.616**	**1.045**	**16.729**	
% of the total source of funds							
- December 31, 2022	**8,20%**	**0,14%**	**0,10%**	**2,00%**	**0,18%**	**6,21%**	
- December 31, 2021	**14,33%**	**0,17%**	**0,54%**	**1,34%**	**0,39%**	**6,21%**	

***Interest receivables, accruals and impairments are presented separately and do not form a sum in presented table for maturity adjustment of financial assets and liabilities according to the remaining agreed maturity, in accordance with reporting to the CBoM.**

Operational risk

Operational risk management in the Bank is carried out in accordance with the Operational Risk Management Policy as well as relevant procedures, where the method of identification, assessment and mastering is precisely defined, i.e. monitoring, management and proposing measures to eliminate exposure and consequences arising from exposure to operational risks. .

Measurement, that is, assessment of operational risk is carried out through quantitative and/or qualitative assessment of identified operational risk. In doing so, the Bank identifies operational risks , classifying them by measuring the possible financial impact and frequency of events that can cause losses.

In order to manage operational risk as efficiently as possible, organizational units are obliged to submit reports on adverse events and identified operational risks for the reporting period.

In the process of identifying the sources of operational risk, the Bank shall take particular care to identify the risks arising from:

- inadequate information and other systems in the Bank;
- business interruptions and system failures (for example: failures related to information technology, telecommunication problems, work interruptions, etc.);
- impossibility of adequate integration or sustainability of information and other systems, in case of status changes of the Bank;
- illegal and inadequate behavior of bank employees, such as attempts at embezzlement, money laundering, unauthorized access to client accounts, misuse of confidential information, providing false or incorrect information about the state of the bank, lack of promptness in the execution of tasks, errors in data entry, non-compliance with good business practices in work, etc.;
- engagement of persons from outside the Bank to perform tasks for the Bank;
- actions or inactions that may cause legal and other disputes against the Bank (legal risk);
- external illegal actions, such as theft, unauthorized transfer of funds, unauthorized access to the database, illegal acquisition of Bank documents, etc.;
- events that cannot be predicted, such as natural and other disasters, terrorism, etc.

The record of events implies the systematic collection and analysis of data on operational risks in the Bank's operations that have led to losses. Pursuant to the Operational Risk Management Policy, in 2022 the Bank carried out risk self-assessment and control processes and scenario analysis.

14. CAPITAL ADEQUACY

Own funds

The bank is obliged to publicly disclose information and data related to the amount of its own funds, namely:

1) summary information containing the main characteristics of all items that are included in the calculation of own funds and its elements;
2) the amount of the basic capital, with special public disclosure of all items included in the basic capital and deductible items;
3) the total amount of supplementary capital;
4) deductions from the basic and supplementary capital, i
5) total own funds, less deductible items.

Table 28 - overview of the Bank's regulatory capital 31st December 2022 year in 000 EUR:

No.	DESCRIPTION OF POSITION	Amount
1=1.1+1.2	**REGULATORY CAPITAL**	**15.966**
1.1 = 1.1.1+1.1.2	**SHARE CAPITAL (Tier 1)**	**15.966**
1.1.1	**ORDINARY SHARE CAPITAL (CET 1)**	**15.966**
1.1.1.1	**Equity instruments that are recognized as regular core capital**	**11.945**
1.1.1.1.1	capital instruments paid	11.945
1.1.1.2	**Undistributed (retained) profit**	**5.848**
1.1.1.2.1	Undistributed (retained) profit from previous years	3.343
1.1.1.2.2	recognized profit or loss (current year)	2.505
1.1.1.2.2.1	profit or loss belonging to the owners of the parent company (item 22 from BU)	7.116
1.1.1.2.2.2	(–) the amount of profit realized during the current year or profit realized at the end of the current year that does not meet the requirements for recognition	4.610
1.1.1.3	**Accumulated other comprehensive income (total other result) - FVOCI**	**-5.239**
1.1.1.3.2.	gains or losses arising from the revaluation of available-for-sale instruments determined in accordance with IFRS 9	-5.239
1.1.1.4	**Other reserves**	
1.1.1.5	**Reserves for general banking risks**	
1.1.1.6	**Adjustments of regular core capital due to prudential filters**	**4.517**
1.1.1.6.5	(–) valuation adjustments due to prudential valuation requirements (AVA)	37
1.1.1.6.5.1	(–) valuation adjustments calculated according to the simple approach	37
1.1.1.6.6	other prudential adjustments	4.553
1.1.1.8	**(–) Other intangible assets**	**79**
1.1.1.24	**(–) Positive difference between the amount of the calculated provisions for potential losses and the sum of the amount of the value correction for balance sheet assets and provisions for off-balance sheet items classified as good assets**	**881**
1.1.1.25	**(–) Positive difference between the amount of calculated provisions for potential losses and the sum of the amount of value correction for balance sheet assets and provisions for off-balance sheet items classified as non-performing exposures to which the deduction from the regular core capital from Article 18 point 13 of the Decision on Capital Adequacy is not applied credit institutions (established before the application of that decision)**	**145**
1.1.2	**ADDITIONAL SHARE CAPITAL (AT1)**	
1.1.2.1	**Equity instruments recognized as additional core capital**	
1.1.2.3	**(–) Instruments of additional core capital of entities of the financial sector if the credit institution does not have a significant investment in those entities**	
1.1.2.4	**(–) Additional core capital instruments of financial sector entities if the credit institution has a significant investment in those entities**	
1.1.2.5	**(–) Deduction from supplementary capital items that exceed supplementary capital**	
1.1.2.6	**Deduction from items of additional share capital exceeding additional share capital (deducted from regular share capital)**	
1.1.2.7	**(–) Additional deductions from the additional basic capital in accordance with Article 2 of the Decision**	
1.1.2.8	**Transitional adjustments for additional core capital instruments that continue to be recognized in accordance with Article 504 of the Decision on Capital Adequacy of Credit Institutions**	
1.1.2.9	**Other elements or deductions from additional share capital**	
1.2	**ADDITIONAL CAPITAL (Tier 2)**	
1.2.1	**Equity instruments recognized as supplementary capital**	
1.2.3	**(–) Reciprocal mutual investments in supplementary capital**	
1.2.5	**(–) Additional capital instruments of financial sector entities if the credit institution has a significant investment**	
1.2.7	**(–) Additional deductions from supplementary capital in accordance with Article 2 of the Decision**	
1.2.8	**Transitional adjustments for supplementary capital instruments that continue to be recognized in accordance with Article 504 of the Decision on Capital Adequacy of Credit Institutions**	
1.2.9	**Other elements or deductions from supplementary capital**	

The Bank's own funds, i.e. Regulatory capital, consist of:

- Basic capital (Tier 1);
- Additional Capital (Tier 2).

The basic capital (Tier 1) consists of:

- Regular core capital (CET 1)
- Additional capital (CET 2)

Regular share capital (CET 1) consists of paid-in share capital in the amount of EUR 11.945 thousand

- increased by undistributed profit from previous years in the amount of EUR 3.343 thousand and recognized profit of the current year that meets the conditions for recognition in the amount of EUR 2.505 thousand and other prudential adjustments in the amount of EUR 4.553 thousand;

- and reduced by losses arising from the re-valuation of securities which are valued at fair value through other comprehensive income in accordance with IFRS 9 in the amount of EUR 5.239 thousand, valuation adjustment due to the requirement for prudential valuation (AVA) according to the simple approach in the amount of EUR 37 thousand, intangible investments in the amount of EUR 37 thousand and missing reserves in the amount of EUR 1.026 thousand.

The amount of own funds must always be equal to or greater than:

a) the minimum monetary part of the basic capital in the amount of EUR 7.500 thousand, as prescribed by the Law on Credit Institutions,
b) 8%, which must be the minimum total capital ratio (Coefficient of regular capital (CET1) - min 4.5%, Coefficient of core capital (Tier 1) - min 6%),
c) of the total amount of required capital for all risks.

Risky assets consist of asset items and credit equivalents of the Bank's off-balance sheet assets that are exposed to risk. Credit equivalents of off-balance sheet assets represent the amount that is the result of multiplying the book value of off-balance sheet assets with prescribed conversion factors. Total risk-weighted assets are the sum of balance sheet assets and credit equivalents of off-balance sheet assets exposed to risk (the Bank's risk assets), classified into specific categories and multiplied by the corresponding prescribed risk weights.

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain a minimum level of capital adequacy, expressed by the capital adequacy ratio of 8%. The bank is obliged to harmonize the volume of its operations with the prescribed indicators, that is, to harmonize the volume and structure of its risky placements with the Law on Credit Institutions and the regulations of the Central Bank of Montenegro. As of December 31, 2022, the total capital ratio calculated by the Bank in the financial statements is 21,56%.

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* other prudential adjustments to the presentation represent the amount of unrealized losses on the last day of the month (December 31, 2022), which are calculated as the difference between the market value of securities that is valued at fair value through other comprehensive income in accordance with IFRS 9 on the last day in per month and their market value on February 24, 2022. In accordance with the Decision on temporary measures to mitigate the negative effects of the epidemic of the infectious disease covid 19 and the situation in Ukraine on the financial system ("Official Gazette of Montenegro", No 135/22), until June 30, 2023, the credit institution may exclude 100% of the amount of unrealized losses, determined after the entry into force of this decision, when valuing debt financial instruments available for sale in accordance with IFRS 9, which are included in the total other result, from the calculation of the items of regular basic capital.

Đorđe Lukić	Enesa Bekteši	Miroslav Vuković
President of the Board of Directors	Board member	Head of Accounting and Financial Controlling

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