ADRIATIC BANK A.D. PODGORICA

Financial Statements for the Year Ended 31 December 2021

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of 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 2021 and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of 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, 10, 13.2 and 22 to the financial statements	
The measurement of costs of the impairment of loans and provisions for off-balance sheet items is deemed to be a key audit matter since the determination of assumptions for expected credit losses requires a significant level of professional judgement by the Bank's management. Receivables for loans and placements to debtors as of 31 December 2021 amounted to EUR 52,017 thousand (EUR 28,090 thousand as of 31 December 2020), while the total amount of the allowance for impairment of these receivables amounted to EUR 1,851 thousand as of 31 December 2021 (EUR 611 thousand as of 31 December 2020). These provisions for losses constitute the best management's estimate of expected credit losses for the credit portfolio on the balance sheet date. Key areas of judgement include the interpretation of impairment requirements in accordance with International Financial Reporting Standard 9: Financial Instruments, which is reflected in the Bank's expected credit loss model, the identification of exposures where there has been a significant increase in credit risk (for which the expected credit loss is calculated over the life of the financial instrument), the parameters and assumptions used in the expected credit loss model, such as the counterparty's financial position and expected future cash flows, as disclosed in Notes 3.8, 10, 13.2 and 22, as well as estimates and assumptions of expected outcomes in impairment scenarios for individually assessed placements. Possible outcomes are based on discounted cash flows 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, 10, 13.2 and 22 to the financial statements.	Based on our risk assessment and knowledge of the banking sector operations, we examined the costs of impairment of loans and provisions for off-balance sheet items and we estimated the applied methodology, as well as the assumptions used, in accordance with the description of the key audit matter. Our audit procedures included the following: • An estimate of key controls related to the assumptions used in expected credit loss (ECL) models to assess credit risk associated with the exposure and expected future cash flows of the customer; • Collection and detailed testing of evidence corroborating the assumptions used in ECL models applied in a stage allocation, assumptions applied to obtain twelve-month and lifetime probability of default (PD) and methods used to obtain the probability of loss given default (LGD); • Collection and detailed testing of evidence corroborating appropriate determination of assumptions related to impairment costs of loans and provisions for off-balance sheet exposures, including the measurement of collaterals and assumptions of future cash flows for individually assessed exposures on loan impairment; • An estimate of key movements in a high-risk portfolio from the prior period in relation to industry standards and historical data; • An estimate of adequacy of certain management's decisions in comparison to certain macro projections applied in ECL models; • An evaluation of applied methodologies using our knowledge and experience of the industry; • An assessment of accuracy and completeness of disclosure in the financial statements. Based on the audit procedures applied, we did not identify any significant findings in terms of the adequacy of the impairment of loan placements and provisions for off-balance sheet exposures as of 31 December 2021.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of 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 2021, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

In respect of the Annual 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 2021; and
- The Annual Business Report for the year ended 31 December 2021 has been prepared in accordance with the provisions of the Law on Accounting.

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

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the 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, 31 March 2022

Milovan Popović
Certified Auditor.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

In EUR thousand	Note	2021	2020
Interest income and similar income	3.1, 5.1	3,547	1,259
Interest income on impaired placements	3.1, 5.1	115	13
Interest expenses and similar expenses	3.1, 5.2	(488)	(255)
NET INTEREST INCOME		**3,174**	**1,017**
Fee and commission income	3.1, 6.1	5,183	820
Fee and commission expenses	3.1, 6.2	(1,240)	(379)
NET FEE AND COMMISSION INCOME/(EXPENSES)		**3,943**	**441**
Foreign exchange gains, net		1,364	350
Net gains/losses from derecognition of other assets		-	(5)
Other income		-	3
Employee costs	7	(2,036)	(1,240)
General and administrative expenses	8	(1,099)	(783)
Depreciation and amortisation charges	9	(288)	(327)
Provisions		(8)	(4)
Other expenses		(5)	(1)
Net impairment gains/losses of financial instruments not measured at fair value through profit or loss	3.8, 10	(1,633)	(435)
OPERATING PROFIT (LOSS)		**3,412**	**(984)**
Income taxes	3.4, 11.1	5	-
OPERATING PROFIT (LOSS)		**3,417**	**(984)**

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

Podgorica, 25 March 2022

Approved by 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

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from 1 January to 31 December 2021
(In EUR thousand)

	Note	2021	2020
Net profit (loss)		**3,417**	**(984)**
Effects of changes in value of securities measured through other comprehensive income		194	-
Effects based on taxes relating to other comprehensive income of the period		(6)	
Total other comprehensive income for the year		**188**	**-**
TOTAL OTHER COMPREHENSIVE INCOME		**3,605**	**(984)**

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

BALANCE SHEET AS OF 31 DECEMBER 2021

In EUR thousand	Note	31 December 2021	31 December 2020
ASSETS			
Cash and cash balances and deposit accounts with central banks	3.6, 12	111,816	22,054
Financial assets at amortized cost		**127,052**	**59,505**
Loans and placements to banks	3.6, 13.1	14,278	6,256
Loans and placements to customers	3.7, 13.2	52,017	28,090
Securities	3.7, 13.3	60,729	25,149
Other financial assets		28	10
Financial assets at fair value through other comprehensive income		**42,596**	**-**
Securities	3.7. 13.3	42,596	-
Property, plant and equipment	3.9, 3.10, 14	1,037	1,067
Intangible assets	3.9, 3.10, 15	101	121
Current tax assets	11	6	-
Other assets	16	357	279
TOTAL ASSETS		**282,965**	**83,026**
LIABLITIES			
Financial liabilities at amortized cost		**267,551**	**72,560**
Deposits due to customers	17.1	265,579	71,701
Borrowings from customers other than banks	17.2	1,972	859
Reserves	18	252	205
Deferred tax liabilities	11.2	9	2
Other liabilities	19	2,177	888
TOTAL LIABLITIES		**269,989**	**73,655**
EQUITY			
Share capital	20	9,445	16,480
Retained loss		(74)	(6,125)
Profit/(Loss) for the year		3,417	(984)
Other reserves		188	-
TOTAL EQUITY		**12,976**	**9,371**
TOTAL EQUITY AND LIABILITIES		**282,965**	**83,026**
OFF-BALANCE SHEET ITEMS	22	**95,449**	**43,129**

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President of the Management Board	Member of the Management Board	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 2020	11,980	(6,124)	-	5,856
Share issuance	4,500			4,500
Other		(1)		(1)
Loss for the year	-	(984)		(984)
Balance as of 31 December 2020	**16,480**	**(7,109)**	**-**	**9,371**
Share issuance	-	-	-	-
Effects of changes in value of securities measured through other comprehensive income	-	-	188	188
Reduction 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**

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Podgorica, 25 March 2022

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Đorđe Lukić
President of the Management Board

Enesa Bekteši
Member of the Management Board

Miroslav Vuković
Head of Accounting, Reporting and Controlling division

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

In EUR thousand	2021	2020
Cash flows from operating activities		
Interest and similar receipts	3.416	1.091
Interest and similar outflows	(347)	(220)
Fee and commission receipts	5.135	783
Fees and commissions paid	(1.240)	(379)
Payments to employees and suppliers	(2.369)	(2.108)
Outflows from increases in loans and other assets	(25.295)	(18.335)
Inflows from deposits and other liabilities	194.220	52.782
Net cash inflows/(outflows) from operating activities	**173.520**	**33.614**
Cash flows from investing activities		
Purchase of property and equipment	(158)	(312)
Purchase of intangible assets	(80)	(21)
Treasury bills and bonds	(77.893)	(23.060)
Receipts from the sale of tangible and long-term assets	-	1
Net cash inflows/(outflows) from investing activities	**(78.131)**	**(23.392)**
Cash flows from financing activities		
Ordinary share issue	-	4.500
Inflow (outflow) from borrowings	1.113	380
Outflows from lease liabilities - principal	(59)	(73)
Net cash inflows from financing activities	**1.054**	**4.807**
Effects of FX gains/losses	**1.364**	**350**
Net increase in cash and cash equivalents	97.807	15.379
Cash and cash equivalents at the beginning of the year	28.328	12.949
Cash and cash equivalents at the end of the year (Notes 12 and 13.1)	**126.135**	**28.328**

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

Podgorica, 25 March 2022

Approved by 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 Džordža Vašingtona 98/8.

As of 31 December 2021, the Bank consisted of a Head Office, headquartered in Podgorica, and a branch at Cetinjska 9/1, Podgorica.

As at 31 December 2021, the Bank had 45 employees (31 December 2020: 35 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Bank is required to maintain records and prepare financial statements in accordance with the Law on Accounting ("Official Gazette of Montenegro", no. 52/2016), which implies the application of International Financial Reporting Standards, and decisions of the Central Bank of Montenegro governing financial reporting of banks and the Law on Banks ("Official Gazette of Montenegro", no. 17/08, 44/10, 40/11, 73/17).

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. 15/2012, 18/2013 and 24/2018).

During the preparation of these financial statements, the Bank applied policies complying with the regulations of the Central Bank of Montenegro but deviating from the requirements of IFRS and IAS, applied as of 31 December 2021, with respect to the format of presentation of financial statements.

According to the Law on Accounting of Montenegro, International Accounting Standards ("IASs") and International Financial Reporting Standards ("IFRSs") published by the International Accounting Standards Board, have to translated by the competent authority of Montenegro, which is authorised to translate and publish these standards by the International Federation of Accountants (IFAC). Accordingly, only IFRSs and IASs officially translated and published by the Institute of Certified Accountants of Montenegro can be applied. The latest official translation has been published for a part of IASs that have been applied since 1 January 2009, i.e. a part of IFRSs applied since 1 January 2013, which only includes the basic text of standards and interpretations, but it excludes the basis for conclusions, illustrative examples, application guidance, comments, opinions and other explanatory material. Additionally, the said translation does not include a translation of the Basis of Preparation and Presentation of Financial Statements. Moreover, changes and improvements of IASs after 1 January 2009, i.e. of IFRSs after 1 January 2013, have neither been translated nor published.

Taking into consideration the effects the departures of the accounting regulations of Montenegro from IFRSs and IASs may have to the presentation of the financial statements of the Bank, the accompanying financial statements differ in that part and depart from IFRSs and IASs and cannot be treated as financial statements in conformity with IFRS and IAS.

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.

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

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

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. 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 on loans and placements
- Impairment on loans and advances to banks
- Impairment on securities at amortised cost
- Provisions for losses on off-balance sheet items
- Useful lives of intangible assets, property and equipment
- Provisions for retirement benefits and unused days of annual leave
- Provisions for litigations
- Revenue from escrow deposit fees

The achieved results may depart from these estimates.

2.3. Going Concern

The accompanying financial statements as of 31 December 2021 and for the year ended 31 December 2020 have been prepared in accordance with the going concern principle.

The Bank’s income statement for the year ended 31 December 2021 presents profit in the amount of EUR 3.17 million, while the total accumulated profit on that day amounts to EUR 3,343 thousand, which is in accordance with the Bank’s business plan.

The capital adequacy ratio as of 31 December 2021 is 16.27% while the prescribed minimum is 10% (Notes 4.7. and 21).

On 15 January 2020, the Bank’s owner was changed, which consequently resulted in a transfer of 100% equity investment from the seller Azmont Investment DOO, headquartered in Kumbor, Herceg Novi, to the buyer Adriatic Capital LLC, headquartered in Wilmington, Delaware, USA. According to the budget adopted for the next three years, a profitability increase and a positive result are planned from 2021. Additionally, Bank’s recapitalisation was performed by the new owner in April and December 2020 in the total amount of EUR 4,500 thousand. In December 2021, a reduction of capital in the amount of EUR 7,035 thousand was made to cover losses from previous years.

2.4. Reconciliation of Outstanding Balances with their Counterparties

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

2.5. Comparative figures

Comparative figures in these financial statements include the comparative figures from the financial statements of the Bank for the year ended 31 December 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest and Fee Income and Expenses

Interest Income and Expenses

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that accurately discounts future cash flows over the expected life of the 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.

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.

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.

Transactions denominated in foreign currencies are translated into EUR at the official exchange rate prevailing on the Interbank Market, at the date of each transaction.

Assets and liabilities denominated in a foreign currency are translated into EUR by applying the official exchange rate, as determined on the Interbank Market, 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 on the Interbank Market, at the statement of financial position date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amortised over the lease contract term.

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 tax

Current Income Tax

Income taxes are calculated and paid in conformity with the Law on Corporate Income Tax (“Official Gazette of Montenegro”, No. 80/2004, 40/2008, 86/2009, 14/2012, 61/2013 and 55/2016).

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 the straight-line rate of 9% on taxable income.

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.

Taxes, contributions and other duties not related to operating results

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 40/10, 46/10, 06/13, 70/17, 88/17 and 43/20) 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 one year, i.e. up to 365 days, 4.5% - to the base comprising deposits with maturities exceeding one year, i.e. over 365 days. A 5.5% rate is applied to deposits with over the 1-year, or 365 days maturity range with clauses allowing early deposit redemption i.e. redemption within the period shorter than 365 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.

3.7. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Assets (Continued)

3.7.1. Classification (Continued)

1. Business model: hold to collect

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. Business model: collection of contracted cash flows and sale of financial assets

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.

Characteristics of contracted 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 amortized cost

Financial assets should be measured at amortized 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Assets (Continued)

3.7.1. Classification (Continued)

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).

3.7.2. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Assets (Continued)

3.7.2. Measurement and Recognition (Continued)

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.

3.8. Provisions and Impairment Allowance of Irrecoverable Receivables

Calculation of impairment of financial assets and provision for off-balance sheet items

Pursuant to the Decision of the Central Bank of Montenegro on the Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro", no. 22/12, 55/12, 57/13, 44/17, 82/17, 86/18 and 42/19), the Bank is obligated to assess balance sheet assets and off-balance sheet items for impairment at least on a quarterly basis, i.e. to access the probability of loss (for 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 IFRS 9. The Methodology has been complied with the Guideline of the Central Bank of Montenegro on the Use of the Expected Credit Loss Model. Since the Bank does not have the appropriate time series of its data (at least five years) in accordance with the Central Bank of Montenegro Guidelines, it may use external data or a combination of its own and external data. The starting point in the Methodology is historical migration matrices at the level of the entire banking sector of Montenegro (generated from the Regulatory Credit Register of the Central bank of Montenegro).

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 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 2016 to 31 December 2020.

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).

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,
- 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 50,000;
- financial instruments which exceed the materiality threshold of EUR 50,000 for retail and corporate customers if the Bank has information on expected cash flows to be used to assess expected credit losses more adequately.

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 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.

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 Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" no. 22/12, 55/12, 57/13, 44/17, 82/17, 86/18 and 42/19), Bank is obliged to classify on a monthly basis balance sheet assets and off-balance sheet items by 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 exposures to central governments, central banks, public sector entities, multilateral development banks and international organizations, which in accordance with the Decision on Capital Adequacy are assigned a credit risk weight of 0%, exposure to institutions with original or remaining maturity of up to three months, exposure in the form of government bonds, as well as loans whose base classification has a rating of 1, 2 or 3 and is estimated to be fully collectable in accordance with the contract (on maturity or by 30 days in arrears);
- 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:

	31 December 2021		31 December 2020	
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	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 review 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. Prepayments and accrued income

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.

3.12. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. 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.

3.14. 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.

3.15. 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. 14/14), 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 2021 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.

3.16. 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.

3.17. 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)

3.18. 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) e) Disclose information on fair value measurement.

3.19. 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.

4. FINANCIAL INSTRUMENTS

4.1. Risk Management

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, etc.

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 Banks, the Bank is obliged to review the adequacy of the adopted risk management policies and procedures periodically, but at least once a year.

The Board of Directors adopted the following risk management policies:

- Credit Policy
- Credit Risk Management Policy
- Operational Risk Management Policy
- Country Risk Management Policy
- Liquidity Risk Management Policy
- Policy for Interest Rate Risk Management from the Banking Book and Market Risk Management
- ICAAP Policy

In addition to the policies, the Board of Directors has adopted other internal documents (procedures, methodologies) that more closely address certain areas of risk management and monitoring.

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

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

4.2. 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 Banks 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 Board of Directors and the Bank's management 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.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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 undertaken.

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

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" 22/12, 55/12, 57/13, 44/17, 82/17, 86/18 and 42/19), the Bank is obliged to assess impairment (for balance sheet assets) or for probable loss for on-balance sheet and off-balance sheet items on the basis of which it is exposed to credit risk, at least once a quarter.). . 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.

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. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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 2021		31 December 2020	
	Gross	Net	Gross	Net
Balance sheet items				
Cash and deposit accounts with central banks	111,816	111,816	22,054	22,054
Loans and placements to banks	14,319	14,278	6,274	6,256
Loans and placements to customers	53,868	52,017	28,702	28,090
Securities at amortised cost	60,987	60,729	25,262	25,149
Securities at fair value through other comprehensive income	42,596	42,596	-	-
Other financial assets	28	28	10	10
Current financial assets	6	6	-	-
Other assets	396	357	279	279
	284,016	**281,827**	**82,581**	**81,838**
Off balance sheet items				
Payment guarantees	1,358	1,283	544	507
Performance guaranties	6,408	6,372	5,359	5,322
Other guaranties	302	297	100	95
Undrawn credit facilities	2,197	2,171	3,209	3,194
	10,265	**10,123**	**9,212**	**9,118**
Maximum credit risk exposure	**294,281**	**291,950**	**91,793**	**90,956**

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

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 (Continued)

4.2.4. Quality of Financial Placements

LOANS AND ADVANCES TO BANKS AND CUSTOMERS AND SECURITIES

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**
Securities at amortised cost	**60,987**	**-**	**-**	**60,987**	**(258)**	**-**	**-**	**(258)**	**60,729**
***Securities at fair value through other comprehensive income**	**42,596**	**-**	**-**	**42,596**	**-**	**-**	**-**	**-**	**42,596**
Total	**161,641**	**7,932**	**2,197**	**171,770**	**(1,296)**	**(496)**	**(544)**	**(2,150)**	**169,620**

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Quality of Financial Placements

LOANS AND ADVANCES TO BANKS AND CUSTOMERS AND SECURITIES

31 December 2020	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Loans and advances to banks	**6,274**	**-**	**-**	**6,274**	**(18)**	**-**	**-**	**(18)**	**6,256**
Housing and mortgage loans	1,327	-	187	1,514	(2)	-	(45)	(47)	1,467
Cash loans	999	65	76	1,140	(43)	(6)	(50)	(99)	1,040
Consumer loans	43	3	-	46	(1)	(1)	-	(2)	44
Overdrafts	9	-	-	9	-	-	-	-	9
Cards – retail customers	4	-	-	4	-	-	-	-	4
Private SME loans	5,024	1,219	249	6,492	(98)	(33)	(3)	(134)	6,358
Loans to state companies	498	-	-	498	-	-	-	-	498
Loans to public administration	4,997	-	-	4,997	(23)	-	-	(23)	4,974
Loans to large private companies	10,812	3,189	-	14,001	(142)	(164)	-	(306)	13,696
Loans and advances to customers	**23,713**	**4,476**	**512**	**28,701**	**(309)**	**(204)**	**(98)**	**(611)**	**28,090**
Securities	**25,262**	**-**	**-**	**25,262**	**(113)**	**-**	**-**	**(113)**	**25,149**
Total	**55,249**	**4,476**	**512**	**60,237**	**(440)**	**(204)**	**(98)**	**(742)**	**59,495**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. 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 (Continued)

4.2.4. Quality of Financial Placements (Continued)

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

31 December 2020	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	**6,274**	**-**	**-**	**-**	**-**	**6,274**
Housing and mortgage loans	1,312	15	-	-	-	1,327
Cash loans	968	31	-	-	-	999
Consumer loans	43	-	-	-	-	43
Overdrafts	9	-	-	-	-	9
Cards – retail customers	4	-	-	-	-	4
Private SME loans	4,239	785	-	-	-	5,024
Loans to state companies	498	-	-	-	-	498
Loans to public administration	4,997	-	-	-	-	4,997
Loans to large private companies	8,541	2,271	-	-	-	10,812
Loans and advances to customers,	**20,611**	**3,102**	**-**	**-**	**-**	**23,713**
Out of which: restructured:	**-**	**-**	**-**	**-**	**-**	**-**

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

31 December 2020	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	-	-	-	-	-	-
Cash loans	29	17	19	-	-	65
Consumer loans	-	1	2	-	-	3
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	897	235	87	-	-	1,219
Loans to state companies	-	-	-	-	-	-
Loans to public administration	-	-	-	-	-	-
Loans to large private companies	2,416	270	-	503	-	3,189
Loans and advances to customers,	**3,342**	**523**	**108**	**503**	**-**	**4,476**
Out of which: restructured:	**-**	**271**	**-**	**-**	**-**	**271**

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

31 December 2020	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	137	33	-	-	17	187
Cash loans	10	2	5	-	59	76
Consumer loans	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	-	-	-	-	249	249
Loans to state companies	-	-	-	-	-	-
Loans to public administration	-	-	-	-	-	-
Loans to large private companies	-	-	-	-	-	-
Loans and advances to customers,	**147**	**35**	**5**	**-**	**325**	**512**
Out of which: restructured:	**-**	**-**	**-**	**-**	**-**	**-**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. 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 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%**

31 December 2020	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	**6.274**	**18**	**-**	**-**	**-**	**-**	**0%**
Housing and mortgage loans	1,514	47	187	45	-	-	12%
Cash loans	1,140	99	76	50	-	-	7%
Consumer loans	46	2	-	-	-	-	0%
Overdrafts	9	-	-	-	-	-	0%
Cards – retail customers	4	-	-	-	-	-	0%
Private SME loans	6,492	134	249	3	-	-	4%
Loans to state companies	5,495	23	-	-	-	-	0%
Loans to large private companies	14,001	306	-	-	-	-	0%
Loans and advances to customers	**28,701**	**611**	**512**	**98**	**-**	**-**	**2%**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. 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 31/12/2020	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	158
Loans to state companies	-	-	-	-	-	-
Loans to large private companies	-	2,336	570	-	1,766	1,360
Loans and advances to customers	**512**	**2,583**	**898**	**-**	**2,197**	**1,653**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. 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	-	-	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**
Housing and mortgage loans	748	15	597	154	1,514	47	1,467
Cash loans	51	12	1,076	-	1,139	99	1,040
Consumer loans	1	-	45	-	46	2	44
Overdrafts	-	-	9	-	9	-	9
Loans to medium and small private enterprises	1,535	509	4,422	26	6,492	133	6,359
Loans to state-owned enterprises	498	-	-	4,997	5,495	23	5,473
Loans to large private companies	2,202	265	9,112	2,421	14,000	305	13,695
Cards – retail customers	-	-	4	-	4	-	4
Loans and placements to banks	-	-	6,274	0	6,274	18	6,256
Off-balance sheet assets	558	-	8,454	200	9,212	95	9,117
31 December 2020	**5,593**	**801**	**29,993**	**7,798**	**44,185**	**722**	**43,464**

As of 31 December 2021, neither past-due nor impaired financial assets include placements with no delay in payment.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

a) Loans and placements past-due but not impaired

	Up to 30 days past-due	From 31 to 60 days past due	From 61 to 90 days past due	From 91 to 180 days past due	From 181 to 365 days past due	From 1 to 5 years past due	Over 5 years past due	Total
Housing and mortgage loans	-	-	-	-	-	-	-	-
Cash loans	-	-	-	-	-	-	-	-
Loans to medium and small private enterprises	-	-	-	-	-	-	-	-
Loans to large private companies	-	-	-	-	-	-	-	-
31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Housing and mortgage loans	15	-	-	-	-	-	-	15
Cash loans	12	-	-	-	-	-	-	12
Loans to medium and small private enterprises	287	-	-	-	-	222	-	509
Loans to large private companies	265	-	-	-	-	-	-	265
31 December 2020	**579**	**-**	**-**	**-**	**-**	**222**	**-**	**801**

Fair value of collaterals

	31 December 2021	31 December 2020
Deposits	14,827	3,231
Mortgages	63,550	27,027
Pledges	3,629	3,410
Insurance policies	216	212
Total	**82,222**	**33,880**

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.

c) Restructured loans and advances

The Bank can restructure a loan due to the deterioration in the borrower's creditworthiness if it has:

a. extended the principal or interest maturity,
b. decreased the interest rate on the loan approved,
c. decreased the debt amount, principal or interest, or
d. made other concessions to facilitate the borrower's financial position.

Upon restructuring of the loan, the Bank performs financial analysis of the borrower and assesses its capacities to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is restructured.

As of 31 December 2021, the Bank had seven restructured loan of a total credit exposure of EUR 2.653 thousand.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

c) Restructured loans and advances (Continued)

In accordance with the Decision on Interim Measures for Mitigating the Negative Impacts of the COVID 19 Infectious Disease Epidemic on the Financial System (Official Gazette of Montenegro, No. 138/21 of 29 December 2021), the Bank approved a moratorium or other restructuring measures on clients measures affected by the pandemic. In accordance with the Decision, the Bank approved benefits which on 31 December 2021 were 4 for legal entities and 1 for individuals.

A total exposure of these placements amounts to EUR 522 thousand. Pursuant to the Decision, the said exposures are not treated as restructured. However, the Bank has classified them under 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	-	103	-
B2	-	193	-
C1			12
Total	**-**	**296**	**12**

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

Classification	Level 1	Level 2	Level 3
B1	-	71	-
C1	-	-	143
Total	**-**	**71**	**143**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. 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 advances 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 advances to banks	1,322	1,966	14	2,047	483	3,048	-	5,398	14,278
Loans and advances to customers	42,249	5,008	-	-	2,319	928	-	1,513	52,017
31 December 2021	**43,571**	**6,974**	**14**	**2,047**	**2,802**	**3,976**	**-**	**6,911**	**66,295**
Loans and advances to banks	170	1,602	866	-	1,071	1,246	248	1,053	6,256
Loans and advances to customers	26,084	4	-	-	514	202	-	1,286	28,090
31 December 2020	**26,254**	**1,606**	**866**	**-**	**1,585**	**1,448**	**248**	**2,339**	**34,346**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. 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 advances to customers and banks is presented in the following table:

In EUR thousand	Finance sector	Proce-ssing industry	Electri-city supply	Water supply	Constru-ction	Trade	Traffic	Hospita-lity industry	Admini-stration	ICT	Real estate	Public admin.	Sport	Services	Agricu-lture	Retail	Total
Loans and advances to banks	14,278	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,278
Loans and advances 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**
Loans and advances to banks	6,256	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,256
Loans and advances to customers	-	2,038	1,779	803	2,897	4,046	327	3,185	1,897	1,546	213	4,977	492	713	614	2,563	28,090
31 December 2020	**6,256**	**2,038**	**1,779**	**803**	**2,897**	**4,046**	**327**	**3,185**	**1,897**	**1,546**	**213**	**4,977**	**492**	**713**	**614**	**2,563**	**34,346**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

LOANS AND ADVANCES TO CUSTOMERS WITH COLLATERALS

	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 advances to customers	**51,385**	**12,076**	**485**	**63,946**	**9,693**	**2,751**	**1,336**	**13,780**	**2,472**	**-**	**2,024**	**4,496**

	S1 customers				**S1 customers**				**S1 customers**			
31 December 2020	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**	**Property**	**Deposits**	**Other collaterals**	**Total**
Housing and mortgage loans	3,335	8	143	3,486	-	-	-	-	125	-	38	163
Cash loans	53	121	31	205	-	22	-	22	-	-	-	-
Consumer loans	-	3	-	3	-	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-	-	-	-	-	-
Cards - retail	-	3	-	3	-	-	-	-	-	-	-	-
SME loans	6,507	2,164	294	8,965	3,675	-	-	3,675	1,243	-	-	1,243
Loans to state companies	1,137	-	-	1,137	-	-	-	-	-	-	-	-
Loans to large private companies	8,100	526	2,116	10,742	2,851	384	1,001	4,236	-	-	-	-
Loans and advances to customers	**19,132**	**2,825**	**2,584**	**24,541**	**6,526**	**406**	**1,001**	**7,933**	**1,368**	**-**	**38**	**1,406**

4. FINANCIAL INSTRUMENTS (Continued)

4.2. 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	1,322	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**
Up to one year	1,653	792	2,445
From 1 to 2 years	255	2,668	2,923
Over 2 years	1,301	2,543	3,843
31 December 2020	**3,209**	**6,003**	**9,211**

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.

4.3.1. 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. On a daily basis Treasury Department reports to the risk management the amount and character of currency update. 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 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.

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	14,342	10	35	233	14,620
Liabilities in foreign currencies	14,467	1	164	197	14,829
Net open position:					
- 31 December 2021	**(125)**	**9**	**(129)**	**36**	**(209)**
- 31 December 2020	**6**	**6**	**11**	**1**	**24**
% of the core capital:					
- 31 December 2021	**-1.30%**	**0.09%**	**-1.34%**	**0.37%**	
- 31 December 2020	**0.07%**	**0.05%**	**0.12%**	**0.01%**	
Aggregate open position:					
- 31 December 2021	(209)				
- 31 December 2020	24				

4. FINANCIAL INSTRUMENTS (continued)

4.3. Market Risk (continued)

4.3.1. Currency Risk (continued)

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	181	18	(18)
Loans and placements to banks	5,839	584	(584)
Securities at fair value through other comprehensive income	2,124	212	(212)
Other assets in other currencies	17	2	(2)
Agreements on the purchase of foreign currencies and other off-balance sheet accounts for foreign exchange	6,459	646	(646)
Total assets	**16,420**	**1,462**	**(1,462)**
Liabilities			
Deposits due to customers	14,829	1,483	(1,483)
Total liabilities	**14,829**	**1,483**	**(1,483)**
Net currency risk exposure:			
- 31 December 2021		**(21)**	**21**
- 31 December 2020		**2**	**(2)**

As of 31 December 2021, 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 increase or decrease in the amount of EUR 21 thousand (31 December 2020: EUR 2 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.

4. FINANCIAL INSTRUMENTS (continued)

4.3. Market Risk (continued)

4.3.2. Interest Rate Risk (continued)

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

In thousands of EUR	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with central banks	108,706	3,110	111,816
Loans and placements to banks	14,278	-	14,278
Loans and placements to customers	52,017	-	52,017
Securities held to maturity	60,729	-	60,729
Securities at fair value through other comprehensible income	42,596	-	42,596
Other financial assets	-	28	28
Current tax assets	-	6	6
Other assets	100	257	357
Total assets	**278,426**	**3,401**	**281,827**
LIABILITIES			
Deposits due to customers and banks	68,404	197,175	265,579
Borrowings from customers other than banks	643	1,329	1,972
Other liabilities	-	2,177	2,177
Total liabilities	**69,047**	**200,681**	**269,728**
Interest rate GAP:			
- 31 December 2021	**209,379**	**(197,280)**	**12,099**
- 31 December 2020	**45,521**	**(37,131)**	**8,390**

4. FINANCIAL INSTRUMENTS (continued)

4.3. Market Risk (continued)

4.3.2. Interest Rate Risk (continued)

Interest rate GAP as of 31 December 2021 is presented in the following table:

In thousands of EUR

	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Total
Interest sensitive assets						
Cash balances and deposits with central banks	108,706	-	-	-	-	108,706
Loans and placements to banks	14,278	-	-	-	-	14,278
Securities at amortised cost	-	-	-	-	60,729	60,729
Securities at fair value through other comprehensive income	-	-	-	-	42,596	42,596
Loans and placements to customers	3,767	3,035	5,029	18,514	21,672	52,017
Other assets	100	-	-	-	-	100
Total	**126,851**	**3,035**	**5,029**	**18,514**	**124,997**	**278,426**
% total interest-bearing assets	45,56%	1,09%	1,81%	6,65%	44,89%	100,00%
Interest sensitive liabilities						
Interest-bearing deposits	21,391	5,558	4,355	13,483	23,617	68,404
Interest-bearing loans of customers other than banks	20	40	61	132	390	643
Total	**21,411**	**5,598**	**4,416**	**13,615**	**24,007**	**69,047**
% of interest bearing liabilities	31.01%	8.11%	6.40%	19.72%	34.77%	100.00%
Interest rate GAP:						
- 31 December 2021	**105,440**	**(2,563)**	**613**	**4,899**	**100,990**	**209,379**
- 31 December 2020	**14,546**	**(3,944)**	**5,382**	**(854)**	**30,391**	**45,521**
Cumulative GAP:						
- 31 December 2021	**105,440**	**102,877**	**103,490**	**108,389**	**209,379**	
- 31 December 2020	**14,546**	**10,602**	**15,984**	**15,130**	**45,521**	

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.

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 2021, 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 2021 is as follows:

In thousands of EUR

	Up to a mont	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
Interests receivable, 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
Interests receivable, 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 to customers	108,129	31,973	88,115	13,483	23,604	13	265,317
Borrowings from customers other than banks	20	40	61	132	1,150	569	1,972
Interest liabilities, accruals and 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**	
% od 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 thousands of EUR	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
Interests receivable, 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
Interests receivable, 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)

The remaining contractual maturity matching of financial assets and liabilities as of 31 December 2020 is as follows:

In thousands of EUR	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	19,875	-	-	-	-	-	19,875
Mandatory reserve	1,090	-	-	-	1,089	-	2,179
Financial assets at amortized cost:							
Placements to banks	6,276	-	-	-	-	-	6,276
Placements to customers	1,898	1,009	6,714	5,985	12,294	798	28,698
Securities	-	4,573	-	-	10,930	9,500	25,003
Other financial assets	10	-	-	-	-	-	10
Interests receivable, prepayments and accruals and impairments*	85	219	-	-	(396)	(389)	(481)
Other assets	171	27	44	5	11	32	290
Total	**29,320**	**5,609**	**6,758**	**5,990**	**24,324**	**10,330**	**82,331**
Financial liabilities at amortised cost:							
Deposits due to customers and banks	14,817	23,317	13,099	8,039	12,299	10	71,581
Borrowings from customers other than bans	9	19	53	136	642	-	859
Interest liabilities, accruals and deferred income*	4	53	15	19	28	1	120
Other liabilities	190	36	47	35	279	300	887
Total	**15,016**	**23,372**	**13,199**	**8,210**	**13,220**	**310**	**73,327**
Maturity GAP							
- 31 December 2020	**14,304**	**(17,763)**	**(6,441)**	**(2,220)**	**11,104**	**10,020**	**9,004**
- 31 December 2019	**832**	**(322)**	**983**	**2,969**	**492**	**893**	**5,877**
Cumulative GAP:							
- 31 December 2020	**14,304**	**(3,459)**	**(9,900)**	**(12,120)**	**(1,016)**	**9,004**	
- 31 December 2019	**832**	**540**	**1,523**	**4,492**	**4,984**	**5,877**	
% of total funds sources							
- 31 December 2020	**19.50%**	**-4.71%**	**-13.50%**	**-16.52%**	**-1.38%**	**12.27%**	
- 31 December 2019	**4.43%**	**2.78%**	**7.84%**	**23.10%**	**25.63%**	**30.22%**	

*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 2020 is as follows:

In thousands of EUR	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	19,875	-	-	-	-	-	19,875
Mandatory reserve	1,090	-	-	-	1,089	-	2,179
Financial assets at amortized cost:							
Placements to banks	6,276	-	-	-	-	-	6,276
Placements to customers	1,608	1,007	6,711	5,971	12,603	798	28,698
Securities	-	25,003	-	-	-	-	25,003
Other financial assets	10	-	-	-	-	-	10
Interests receivable, prepayments and accruals and impairments*	85	147	-	-	(709)	(4)	(481)
Other assets	171	27	44	5	11	32	290
Total	**29,030**	**26,037**	**6,755**	**5,976**	**13,703**	**830**	**82,331**
Financial liabilities at amortized cost:							
Deposits due to customers and banks	18,552	27,900	4,781	8,039	12,299	10	71,581
Borrowings from customers other than banks	9	19	53	136	642	-	859
Interest liabilities and accruals and deferred income*	4	53	15	19	28	1	120
Other liabilities	190	36	47	35	279	300	887
Total	**18,751**	**27,955**	**4,881**	**8,210**	**13,221**	**310**	**73,327**
Maturity GAP							
- 31 December 2020	**10,279**	**(1,918)**	**1,874**	**(2,234)**	**482**	**520**	**9,004**
- 31 December 2019	**862**	**(322)**	**983**	**2,969**	**492**	**893**	**5,877**
Cumulative GAP:							
- 31 December 2020	**10,279**	**8,361**	**10,235**	**8,001**	**8,483**	**9,004**	
- 31 December 2019	**862**	**540**	**1,523**	**4,492**	**4,984**	**5,877**	
% od of total funds source							
- 31 December 2020	**14.01%**	**11.40%**	**13.95%**	**10.91%**	**11.56%**	**12.27%**	
- 31 December 2019	**4.43%**	**2.78%**	**7.83%**	**23.10%**	**25.63%**	**30.22%**	

*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, interests receivable, interest payable, 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.

4. FINANCIAL INSTRUMENTS (continued)

4.6. Fair Value of Financial Assets and Liabilities

As of 31 December 2021, the Bank has no financial assets initially classified at fair value, which relate to securities acquired since November 2021. Fair value of financial assets and liabilities as of 31 December 2021 is as follows:

In thousands of EUR	**Carrying Value**		**Fair Value**	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**
Financial assets				
Cash and other deposits to CBM	111,816	22,054	111,816	22,054
Loans and placements to banks	14,278	6,256	14,278	6,256
Loans and placements to customers	52,017	28,090	52,017	28,090
Securities at amortised cost	60,729	25,149	60,729	25,149
Securities at fair value through other comprehensive income	42,596	-	42,596	-
Other financial assets	28	10	28	10
Current tax assets	6	-	6	-
Other assets	357	279	357	279
Financial liabilities				
Deposits due to customers	265,579	71,701	265,579	71,701
Borrowing from customers other than banks	1,972	859	1,972	859
Other liabilities	2,177	888	2,177	888

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

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**

4. FINANCIAL INSTRUMENTS (continued)

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

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Financial assets:				
Cash and other deposits to CBM	-	22,054	-	22,054
Loans and placements to banks	-	6,256	-	6,256
Loans and placements to customers	-	-	28,090	28,090
Securities at amortised cost	25,149	-	-	25,149
Other financial assets	-	-	-	-
Current tax assets	-	10	-	10
Other assets	-	-	-	-
Cash and other deposits to CBM	-	-	279	279
Total	**25,149**	**28,320**	**28,369**	**81,838**

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 advances 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 advances 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

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. 38/11, 55/12 and 82/17). 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 (paid-in share capital, retained earnings from prior years, decreased for accumulated losses and effects of IFRS9 implementation on 1 January 2018);
- decreased for intangible assets and
- missing reserves for credit losses.

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

a) minimum financial portion of initial capital amounting to EUR 7.5 million, as required by Law on Banks,
b) 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 10%. 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 Banks and regulations of the Central Bank of Montenegro. As of 31 December 2021, the capital adequacy ratio calculated by the Bank for statutory financial statements equalled 16.27%.

5. INTEREST INCOME, INTEREST EXPENSES AND SIMILAR INCOME

5.1. Interest Income

In thousands of EUR	2021	2020
Deposits with:		
- foreign banks	11	-
Loans to:		
- privately-owned companies	1,491	756
- Government of Montenegro	172	16
- state-owned companies	25	10
- entrepreneurs	4	5
- retail clients	308	157
	2,000	944
Loan origination fee income	108	59
Interest income on impaired financial assets (Note 13.2)	115	13
	2,223	**1,016**
Securities:		
Securities at amortised cost	1,319	256
Securities at fair value through other comprehensive income	109	-
	1,428	**256**
	3,662	**1,272**

5.2. Interest Expenses

In thousands of EUR	2021	2020
Deposits:		
- IRF	60	44
- state owned companies	2	-
- privately-owned companies	159	20
- retail clients	227	167
	448	**231**
Lease - IFRS 16:		
- Capital Plaza (head office and branch)	25	13
	25	**13**
Borrowings:		
- IRF	14	11
	14	**11**
	488	**255**

6. FEE AND COMMISSION INCOME AND EXPENSES

6.1. Fee and Commission Income

In thousands of EUR	2021	2020
Domestic payments	1,215	269
International payments	884	70
E-banking	2,747	368
Approved guarantees	63	53
Cards	247	57
Investment banking	15	-
Other	11	3
	5,183	**820**

6.2. Fee and Commission Expenses

In thousands of EUR	2021	2020
Fees and commissions payable to the Central Bank	311	56
Fees and commissions for international payment transactions	625	104
Deposit protection premium fees	127	125
Fees and commissions for card business	153	80
Fees and commissions for e-banking	14	14
Investment banking	4	-
Other	5	-
	1,240	**379**

7. PERSONNEL EXPENSES

In thousands of EUR	2021	2020
Net salaries	1,162	638
Remunerations to Board of Directors members	194	134
Taxes and contributions on salaries	657	430
Other employee benefits. net	-	1
Service contract	11	-
Business travel costs and per diems	14	30
Provision for unused vacations (Note 18)	(6)	31
Provisions for retirement benefits (Note 18)	(1)	(25)
Employee training costs	4	1
	2,036	**1,240**

8. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of EUR	2021	2020
Rental costs	27	23
Security services	9	23
Electricity, utilities and fuel costs	13	14
Cleaning services	12	11
License costs and software maintenance	209	219
Objects, equipment, IT equipment, ATM maintenance costs	89	29
Legal fees	54	54
Insurance costs	16	15
External control expenses	178	151
Consultant fees	202	29
Phone charges	12	12
Communication network costs	43	30
Office supplies	14	11
Entertainment costs	10	6
Advertising and marketing	76	71
Membership fees	16	16
Subscription costs	38	15
Vehicle maintenance and registration costs	2	2
Securities-related costs	53	25
Investment banking license costs	16	-
Write-off of plastics for the cards	-	16
Miscellaneous expenses	9	11
	1,099	**783**

9. DEPRECIATION AND AMORTIZATION

In thousands of EUR	2021	2020
Property and equipment (Note 14)	121	112
Intangible assets (Note 15)	97	137
Right-of-use assets (Note 14)	69	78
	288	**327**

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

In thousands EUR	2021	2020
Net increase of provisions impairment losses for:	1,255	280
- loans and advances to customers (note 13.2)	23	3
- loans and advances to banks (note 13.1)	269	104
- securities (note 13.3)	37	34
- approved guarantees (note 22)	11	14
- fees	37	-
- other assets	1	-
	1,633	**435**

11. INCOME TAXES

11.1. Components of Income Tax

In thousands of EUR	2021	2020
Deferred income taxes	5	-
	5	**-**

In thousands of EUR	2021	2020
Profit before tax	**3,412**	**(984)**
Income tax at Law rate of 9%	327	(75)
Recognised/Unrecognized tax asset on tax losses	(327)	75
Effects of different treatment on fixed assets for tax purposes	5	-
Income tax in income statement	**5**	**-**
Effective tax rate	**0.15%**	**0.00%**

The tax rate used in 2021, equals 9% and is applied to the taxable profit of legal entities in Montenegro in accordance with the Corporate Income Tax Law.

11.2. Deferred Tax

In thousands of EUR	Tax asset	Tax liability	Net asset/ (liability)
Balance as of 31 December 2020	**-**	**(2)**	**(2)**
Tax liability based on temporary difference between book and tax value of property, equipment and intangible assets	3	2	5
Accrued tax liability as a result of recorded unrealized gains on securities at fair value through other comprehensive income	3	(9)	(6)
Balance as of 31 December 2021	**6**	**(9)**	**(3)**

Deferred tax assets amounting to EUR 327 thousand after tax loss carry forward from 2021 has not been recognized (for 2020 EUR 75 thousand). In accordance with the Law on Corporate Income Tax of Montenegro, tax losses can be used to up to the end of 2026 (for 2020 up to 2025).

12. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In thousand EUR	31 December 2021	31 December 2020
Cash on hand:		
- in EUR	1,690	1,203
- in foreign currencies	96	64
Gyro account:	-	-
- in EUR	102,249	18,571
Obligatory reserves held with the Central Bank of Montenegro	6,219	2,180
Funds in the collection process	1,538	-
Other	26	36
	111,816	**22,054**

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

- 5,5% to the base comprised of demand deposits and deposits maturing within a year i.e., 365 days, and term deposits with maturity over one year if there is no clause on early withdrawal option,
- 4,5% to the base comprised of deposits with maturities of over a year i.e., 365 days, containing clause on the impossibility of cancellation of the contract before the set deadline

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

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 Central Bank pays the fee calculated at an annual rate equal to EONIA (Euro Overnight Index Average) minus 10 basis points, but this rate cannot be less than zero, up to the eighth day of the month for the preceding month. The obligatory reserve is held in EUR.

13. FINANCIAL ASSETS AT AMORTIZED COSTS

13.1. LOANS AND PLACEMENTS TO BANKS

In thousand EUR	31 December 2021	31 December 2020
Correspondent accounts with foreign banks	11,527	5,289
Time deposits with foreign banks	1,458	814
Accounts with local banks	1,334	171
Impairment loss	(41)	(18)
	14,278	**6,256**

13. FINANCIAL ASSETS AT AMORTIZED COST (continued)

13.1. LOANS AND PLACEMENTS TO BANKS (continued)

As of 31 December 2021, the Bank has an account with the following foreign banks and payment institutions and brokers: The Reserve Trust Company USA, Landesbank Baden-Württemberg Germany, Incore Bank AG Switzerland, KT Bank AG Germany, Raiffeisenbank Austria DD Croatia, VTB Bank Russia, Transkapitalbank Russia, Aik Bank AD Serbia, Intercapital securities Croatia, European Merchant Bank UAB, Kentbank DD Croatia, Alta Bank Serbia, Nurol Bank Turkey, Axis Capital Markets Limited Great Britain, Aktif Bank Turkey, Alfa Bank Russia, Sberbank Russia , Sberbank BH D.D Bosnia and Herzegovina, BSI Group llc USA. Deposits with banks abroad as of 31 December 2021 amount to EUR 11,526 thousand and represent avista deposits on which negative interest is charged. Limits for the balance on the account above which negative interest is calculated are EUR 1,000 thousand for SberBank Bosnia and Herzegovina and for KT Bank Germany, while for interest on deposit funds with AIK Bank Serbia no negative interest is calculated. VTB Moscow calculates positive interest on the balance in rubles.

The limit for the balance on the account above which negative interest is calculated with KT Bank is for amounts over EUR 1 million, with Incore Bank negative interest is calculated for amounts up to EUR 5 million of 0.75% and over EUR 5 million of 1% while in CHF currency negative interest is calculated on amounts up to EUR 2 million of 0.75% and for amounts over EUR 2 million of 1%. At Kent Bank and European Merchant Bank, negative interest is calculated on the entire amount of funds.

Positive interest in RUB currency is calculated on the balance of funds with SberBank Moscow, Alfa Bank Moscow, Trasnkapital Bank Moscow, VTB Bank Moscow.

Time deposits with foreign banks in the amount of EUR 1,458 thousand relate to deposits with Raiffeisenbank Austria DD Croatia in the amount of EUR 1,058 thousand (USD 1,200 thousand), at an interest rate of 0.04% with a term of 30-60 days and on deposit with Aik Bank AD Serbia in the amount of EUR 400 thousand, at an interest rate of 0.00% with a term of 12 months.

As of 31 December 2021, 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 2021 amount to 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 41 thousand.

Movements on allowance accounts of loans and placements to banks:

In thousand EUR	**Balance as of 31 December 2020**	**Impairment during the year**	**Reversal of impairment during the year**	**Balance as of 31 December 2021**
Change in the value adjustment of cash	18	23	-	41

13. FINANCIAL ASSETS AT AMORTIZED COST (continued)

13.2. LOANS AND PLACEMENTS TO CUSTOMERS

In thousand EUR	31 December 2021	31 December 2020
Matured loans:		
- privately-owned companies	4,217	3,425
- state-owned companies	509	-
- entrepreneurs	62	93
- retail customers	86	200
Short-term loans:		
- privately-owned companies	17,085	5,142
- privately-owned companies non-residents	2,120	1,499
- retail costumers	5	9
Long-term loans:		
-privately-owned companies	13,540	9,827
-state-owned companies	-	500
- Government of Montenegro, Ministry of Finance	4,902	5,000
- privately-owned companies non-residents	3,153	500
- entrepreneurs	-	-
- retail customers	8,204	2,499
- cards retail	-	4
	53,883	**28,698**
Interests receivable:		
- loans	54	40
Accruals and prepayments:		
- interest on loans	110	63
- loan origination fees	(179)	(100)
	(15)	**3**
Total	**53,868**	**28,701**
Minus:		
Impairment losses on loans	**(1,851)**	**(611)**
Total	**52,017**	**28,090**

13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

13.2. LOANS AND PLACEMENTS TO CUSTOMERS (continued)

The tables below present the movement of loans and placements to customers by Stages in 2021 and 2020, for the principal amounts of receivables and expected credit losses.

Movements of loans and placements is shown in the table below:

	Stage 1	Stage 2	Stage 3	Total
Gross loans and v 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 31 December 2021	**43,739**	**7,932**	**2,197**	**53,868**

	Stage 1	Stage 2	Stage 3	Total
Gross loans and placements to customers 31 December 2019	**7,589**	**2,335**	**453**	**10,377**
New receivables	24,227	400	-	24.627
Decrease/repayment of receivables	(4,260)	(1,949)	(94)	(6.303)
Moved to stage 1	19	(19)	-	-
Moved to stage 2	(3,661)	3,932	(271)	-
Moved to stage 3	(201)	(223)	424	-
Other movements	-	-	-	-
Gross loans and placements to customers 31 December 2020	**23,713**	**4,476**	**512**	**28,701**

Movements in impairment of loans and placements by risk levels are shown in the table below:

	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment, 31 December 2020	**309**	**204**	**98,43**	**611**
New receivables	781	163	1	945
Decrease/repayment of receivables	(140)	53	(85)	(172)
Moved to stage 1	8	(50)	-	(42)
Moved to stage 2	(146)	389	(14)	229
Moved to stage 3	(1)	(264)	545	280
Other movements	-	-	-	-
Allowance for impairment, 31 December 2021	**811**	**495**	**545**	**1.851**

13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

13.2. LOANS AND PLACEMENTS TO CUSTOMERS (continued)

	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment, 31 December 2019	**150**	**115**	**69**	**334**
New receivables	324	37	-	361
Decrease/repayment of receivables	(56)	(98)	(10)	(164)
Moved to stage 1	-	(3)	-	(3)
Moved to stage 2	(104)	153	(19)	30
Moved to stage 3	(5)	-	61	56
Other movements	-	-	(3)	(3)
Allowance for impairment, 31 December 2020	**309**	**204**	**98**	**611**

Short-term loans to corporate entities are mostly approved for working capital with interest rate between 2.7% to 9% 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 4% to 10% per annum.

Short-term retail loans are granted for a period of one month to 12 months with annual interest rate ranging from 2% to 11.45%. 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% to 11.45% per annum.

Movements on the impairment balances are shown below:

Balance on 1 January 2020	**334**
Impairments (note 10)	702
Reversal of impairment for the year (note 10)	(422)
Interest accrued on impaired receivables (note 5.1)	(3)
Balance on 31 December 2020	**611**
Impairments (note 10)	1.994
Reversal of impairment for the year (note 10)	(739)
Interest accrued on impaired receivables (note 5.1)	(15)
Balance on 31 December 2021	**1.851**

13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

13.2. 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 thousand EUR	31 December 2021	31 December 2020
Montenegro	42,249	26.084
Serbia	2,319	514
Russia	5,008	4
USA	928	202
EU	1,513	1,286
	52,017	**28,090**

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

In thousand EUR	31 December 2021	31 December 2020
State administration	4,879	4,977
Trade	5,394	4,046
Construction	8,719	2,897
Manufacturing	1,775	2,038
Accommodation and nutrition services	5,526	3,185
Electricity supply	1,653	1,779
Water supply	2,064	803
Traffic and storage	1,236	327
Information and communication	2,169	1,546
Professional, scientific and technical activities	3,457	1,897
Other service activities	889	713
Real estate	2,388	213
Professional, scientific and technical activities	2,650	-
Agriculture	523	614
Sport	493	492
Retail	8,202	2,563
	52,017	**28,090**

13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

13.3. SECURITIES

As of 31 December 2021 the portfolio of the securities valued at amortized cost amounts to EUR 60,729 thousand and consists of the followings:

In thousand EUR	31 December 2021	31 December 2020
Long-term debt instruments – EUR bonds of the Ministry of Finance of the Government of Montenegro	51,000	25,003
Long-term debt instruments – EUR bonds – non-residents	9,893	-
Unamortized premium / discount	(1,086)	(255)
Unamortized premium / discount – non-residents	424	-
Interest receivable	756	514
Allowance for impairment of securities	(258)	(113)
	60,729	**25,149**

Eurobonds of the Ministry of Finance of the Government of Montenegro in the nominal amount of EUR 51,000 thousand (2020: EUR 25,003 thousand) are 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.

In March 2021, bonds with a nominal value of EUR 4,573 were issued and collected by the Ministry of Finance of the Government of Montenegro, which the bank had in its portfolio as of 31 December 2020.

Eurobonds of non-residents in the nominal amount of EUR 9,893 thousand (2020: EUR 0) 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 2021, the balance of securities is valued through other total results in the amount of EUR 42,596 thousand and consists of the following:

In thousand EUR	31 December 2021	31 December 2020
Long - term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro at FVOCI	30,000	-
Long - term debt instruments - Eurobonds - non - residents at FVOCI	15,000	-
Unamortized premium / discount FVOCI MNE	(2,764)	-
Non-depreciated premium / discount - non-residents of FVOCI	360	-
	42,596	**-**

Eurobonds of the Ministry of Finance of the Government of Montenegro in the nominal amount of EUR 30,000 thousand (2020: EUR 0) 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 (2020: EUR 0) refer 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 securities that are measured at amortized cost and through other comprehensive income.

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

In thousand of EUR	Balance as of 31 December 2020	Additions	Balance as of 31 December 2021
Allowance for impairment of securities at amortised cost	113	145	258

13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

13.3. SECURITIES (continued)

Movements on allowance accounts of securities measured through other comprehensive income:

In thousand of EUR	Balance as of 31 December 2020	Additions	Balance as of 31 December 2021
A llowance for impairment of securities measured through other comprehensive income	-	124	124

14. PROPERTY, PLANT AND EQUIPMENT

Movements on property and equipment and other assets during 2021 are presented in the following table:

Property, plant and equipment

In thousand EUR	Leasehold improvements	Construction in progress	Furniture and other equipment	Total
Cost				
Balance as of 1 January 2020	**99**	**-**	**565**	**664**
Additions	68	-	242	310
Decreases	(99)	-	(14)	(113)
Balance as of 31 December 2020	**68**	**-**	**793**	**861**
Additions	-	132	28	160
Reductions	-	-	-	-
Balance as of 31 December 2021	**68**	**132**	**821**	**1.021**
Accumulated depreciation				
Balance as of 1 January 2020	99	-	348	447
Depreciation (Note 9)	3	-	109	112
Decreases	(99)	-	(9)	(108)
Balance as of 31 December 2020	**3**	**-**	**448**	**451**
Depreciation (Note 9)	7	-	114	121
Decreases	-	-	-	-
Balance as of 31 December 2021	**10**	**-**	**562**	**572**
Carrying value:				
- 31 December 2021	**58**	**132**	**259**	**449**
- 31 December 2020	**65**	**-**	**345**	**410**

As of 31 December 2021, the Bank does not have own property under collateral agreements for insuring the repayment of loans and other liabilities.

As of 31 December 2021, the value of property, plant and equipment and right-of-use assets (note 14 b) amounts to EUR 1,037 thousand (2020: EUR 1,067 thousand).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

b) 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)	**2021**	**2020**
Balance as of 1 January	**657**	**62**
Additions	-	692
Depreciation	(69)	(78)
Termination of the asset contract	-	(62)
Termination of contract accumulated depreciation	-	43
Balance as of 31 December	**588**	**657**

Lease liabilities (in thousands of EUR)	**2021**	**2020**
Balance as of 1 January	**663**	**63**
Additions	-	693
Interest expense	25	13
Termination of contract	-	(18)
Lease payments	**(84)**	**(88)**
Balance as of 31 December	**604**	**663**

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	12	36	36	284	230	604
Total	**6**	**12**	**36**	**36**	**284**	**230**	**604**

15. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the 2021 were as follows:

In thousand EUR	31 December 2021	31 December 2020
Cost		
Balance as of 1 January	641	620
Additions during the period	78	21
	719	**641**
Accumulated Amortization		
Balance as at 1 January	520	383
Amortization (Note 9)	97	137
	618	**520**
Net Book Value as at 31 December	**101**	**121**

Intangible assets in the amount of EUR 101 thousand consist of: computer programs (software) in the amount of EUR 79 thousand and other intangible assets in the amount of EUR 22 thousand. Other intangible assets mainly consist of Visa International license in the amount (current value) of EUR of 20 thousand.

16. OTHER ASSETS

In thousand EUR	31 December 2021	31 December 2020
Prepaid expenses	282	192
Receivables from the Tax Administration	1	9
Inventories of plastic cards	13	15
Receivables from funds (maternity leave)	1	17
Receivables from employees	5	3
Payment transaction fees receivables	54	43
Other receivables	1	-
	357	**279**

17. FINANCIAL LIABILITIES AT AMORTIZED COST

17.1. DEPOSITS DUE TO CUSTOMERS

In thousand EUR	31 December 2021	31 December 2020
Demand deposits:		
- privately-owned companies	60,693	28,015
- state-owned companies	7	4
- IRF	962	1,009
- entrepreneurs	158	162
- non–profit organizations	110	52
- retail costumers	155,774	20,747
	217,704	**49,989**
Short-term deposits:		
- privately-owned company	7,574	7,616
- retail companies	876	3,888
	8,450	**11,504**
Long-term deposits:		
- privately-owned companies	9,759	3,213
- IRF	3,000	2,000
- insurance companies	200	-
- retail costumers	26,204	4,875
	39,163	**10,088**
	265,317	**71,581**
Interest and other liabilities		
Accrued interest	262	120
	262	**120**
	265,579	**71,701**

On demand deposits for retail clients no interest rate is applied, while interest rates on sight deposit for private costumers up to 0.20%. Short-term and long-term deposits for retail customers in EUR have been deposited with interest rates ranging from 0.2% do 3.2% per annum, while for corporate clients ranging from 0.1% to 2.5%.

17. FINANCIAL LIABILITIES AT AMORTIZED COST (continued)

17.2. 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 and Social Welfare to support micro, small and medium enterprises and entrepreneurs affected by the Covid-19 pandemic. These liabilities as of 31 December 2021 consist of borrowings from the IRF and the Ministry of Finance and Social Welfare in the amount of EUR 1,972 thousand.

In thousand EUR

Approved amount	Approval date	Maturity date	Interest rate	Balance as at 31 December 2021
360	25.12.2018	31.03.2024	1.50%	160
100	12.08.2018	31.08.2024	1.50%	55
50	05.09.2019	30.09.2024	1.50%	28
500	31.07.2020	30.06.2024	2.50%	400
4.430	08.07.2021	08.07.2030	0.00%	1.329
5.440				**1.972**

In thousand EUR

Approved amount	Approval date	Maturity date	Interest rate	Balance as at 31 December 2020
84	19.09.2017	30.09.2021	1.50%	16
360	25.12.2018	31.03.2024	1.50%	230
100	12.08.2018	31.08.2024	1.50%	74
50	05.09.2019	30.09.2024	1.50%	39
500	31.07.2020	30.06.2024	2.50%	500
1.094				**859**

The maturity of the principal by years is presented in the tables for liquidity risk (note 4.4).

18. PROVISIONS

In thousand EUR	31 December 2021	31 December 2020
Provisions for employee benefits	41	41
Provisions for unused holidays	60	66
Provisions on approved guarantees	116	80
Provisions on approved, unused credit lines	26	15
Provisions for litigation	9	3
	252	**205**

19. OTHER LIABILITIES

In thousand EUR	31 December 2021	31 December 2020
Lease liabilities (note 14 b)	604	663
Liabilities based on undistributed inflows	511	3
Deferred income	381	48
Liabilities to suppliers	57	27
Custody obligations	52	-
Other liabilities	572	147
	2,177	**888**

20. CAPITAL

As of 31 December 2021, the share capital of the Bank consists of 236,125,000 ordinary shares, with an individual nominal value of EUR 0.04. During 2021, there was a decrease in share capital in the total amount of EUR 7,035 thousand to cover the accumulated loss. The Capital Market Commission recorded the last capital reduction on 13 December2021, but the change has not yet been registered with the CRPS.

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%**

The ownership structure of the Bank as at 31 December 2020 is as follows:

	31 December 2020		
Name of the person/company	**No of shares**	**In EUR**	**% ownership**
Adriatic Capital LLC, Wilmington, Delaware, USA	412,011,761	16,480,470,44	100%
	412,011,761	**16,480,470,44**	**100%**

21. 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 capital adequacy ratio of 10%. The Bank is required to comply its operations within the prescribed parameters, i.e., to comply the volume and structure of risky assets with the Law on Banks ("Official Gazette of Montenegro" no. 17/08, 44/10, 40/11, 73/17) and the regulations of the Central Bank of Montenegro.

The Bank's solvency ratio as at 31 December 2021 amounted to 16.27% (31 December 2020: 26.30%).

As of 31 December 2021, the own funds of the Bank are above prescribed minimum of EUR 7,500 thousand and amount to EUR 9,614 thousand (31 December 2020: EUR 8,849 thousand).

The Law on banks ("Off. Gazette of Montenegro" no. 17/2008, 44/2010, 40/2011 and 073/2017) defines the minimum amount of banks capital in the amount of EUR 7.5 million.

As of 31 December 2021, the Bank's capital is above the regulatory minimum.

No.	DESCRIPTION	Prescribed limits	2021	2020
1	Solvency ratio	Minimum 10 %	16.27%	26.30%
2	The largest exposure of the bank to one person or group of related parties	Maximum 25% of the Bank's own funds	31.53%	22.40%
3	Exposure to related parties	Maximum 200% of the Bank's own funds	11.32%	7.75%
4	The sum of large exposures	Maximum 800% of the bank's own funds	350.07%	190.81%
5	Total capital 000 EUR	Minimum EUR 5 million	12.976	9.371
6	Own funds 000 EUR	Minimum EUR 5 million	9.614	8.849
7	Minimum liquidity ratio	0.9 on a daily basis / 1 on a decimal level	7.48	3.54
8	Total risk-weighted assets and other risks 000 EUR			
8.1.	Risk weighted assets		55,973	31,853
8.2.	Required capital for market risks		25	-
8.3.	Capital required for operational risk		168	100
8.4.	Capital required for country risk		751	261
8.5.	Capital required for other risks		442	535
8.6.	Total open foreign exchange position		254	24

As of 31 December 2021, the Bank has an exposure to one financial institution in the amount exceeding 25% of its own funds, which is not in accordance with Article 58 of the Law on Banks, which defines that exposure to one person or group of related parties may not be more than 25% of own funds.

The excess of exposure is due to the cash inflow on 31 December 2021 from a country that is in a different time zone from Montenegro and happened after the end of working hours in Montenegro. The Bank's management reacted immediately and took the necessary actions to bring the indicators in line with the prescribed limits. On 4 January 2022 (the first working day), the exposure to this person was adjusted in accordance with the legally defined limits.

22. OFF-BALANCE SHEET ITEMS

In thousand EUR	31 December 2021	31 December 2020
Risk weighted off-balance sheet assets		
Irrevocable commitments to grant loans	2,197	3,209
Issued guarantees	8,068	6,003
	10,265	**9,212**
Other off-balance items		
Off-balance sheet interest	37	38
Collaterals on receivables	81,935	33,879
Current contracts for foreign exchange transactions	(28)	-
Other items of the bank's off-balance sheet exposure	2,954	-
	95,450	**43,129**

In thousand EUR	31 December 2021	31 December 2020
Provisions for off-balance sheet items		
Provisions for irrevocable commitments to grant loans	26	15
Provisions for issued guarantees	116	79
	142	**94**

Balance as of 1 January 2020	**45**
Impairment during the year	124
Reversal of impairment during the year	(75)
Balance as of 31 December 2020	**94**
Impairment during the year	241
Reversal of impairment during the year	(193)
Balance as of 31 December 2021	**142**

23. RELATED PARTY TRANSACTIONS

The related parties include the parent bank and the Bank's shareholders, representatives of the management and the Bank's staff.

In thousand EUR	31 December 2021	31 December 2020
Other assets:		
- Employee and management	99	100
	99	**100**
Loans and placements to customers:		
- retail loans - employees	320	323
- cards – employees	7	4
- West Summit Investment LP	372	-
- Adriatic capital management LLC	556	202
	1,255	**529**
Total receivables:	**1,354**	**629**
Payables		
Demand deposits		
Avista deposits:		
- Adriatic Capital LLC	10	-
- retail deposits – employees and management	1,303	258
Term deposits:	**1,313**	**258**
- retail deposits – employees and shareholders	15,145	200
	15,145	**200**
Other payables		
Liabilities for accrued interest on deposits	2	2
Accrued interest liabilities on deposits - Adriatic Capital LLC	1	-
	3	**2**
Total payables:	**16,461**	**460**
Receivables/(payables), net	**(15,107)**	**169**

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.

On 31 December 2021 there is EUR 101 thousand of off-balance sheet exposure that relates to employees approved and unused limit for credit cards and approved unused loans.

23. RELATED PARTY TRANSACTIONS (continued)

Income and expenses arising from transactions with related parties during 2021 and 2020 are as follows:

In thousand EUR	31 December 2021	31 December 2020
Interest income:		
- Adriatic Capital Management LLC	18	6
- West Summit Investment LP	2	
- employees and management	18	25
Total income:	**38**	**31**
Fees and commissions income:		
- Adriatic Capital Management LLC	6	-
- employees and management	34	3
Total expenses:	**40**	**3**
Income/(expenses), net	**(2)**	**28**

In thousand EUR	31 December 2021	31 December 2020
Fees and commissions income:		
- Adriatic Capital Management LLC	1	-
- employees and management	5	1
Total income:	**6**	**1**

In thousand EUR	31 December 2021	31 December 2020
Net FX gains		
FX gains:		
- retail – employees and management	21	5
Total income:	**21**	**5**
Net FX losses:		
- retail – employees and management	29	-
- Adriatic Capital LLC	-	4
Total expenses:	**29**	**4**
Income/(expenses), net	**(8)**	**1**

Remuneration to senior management based on gross salaries and allowances in 2021 amounts to EUR 788 thousand (2020, EUR 421 thousand).

24. LITIGATION

As at 31 December 2021 there are two court cases against the Bank, initiated by the Central Bank of Montenegro. The first dispute was initiated because the Bank placed funds exceeding the prescribed exposures limit with certain foreign banks, thus acting contrary to the provisions of Article 58 of the Law on Banks, which stipulates that the Bank's total exposure to one person or group of related parties may not exceed 25% of own funds. The outcome cannot be predicted with certainty, but the legal department is of the opinion that the probability is 50% that the dispute will be resolved in favour of the bank. The Bank has made a provision for potential losses in this court case in the amount of EUR 3 thousand. The second case was initiated because the Bank did not submit data on open transaction accounts of the CBM, i.e. the Central Registry of Transaction Accounts, for 9 transaction accounts of non-resident legal entities by the end of working hours, which was obligatory pursuant to Article 65 paragraph 3 of the Law on Payment Operations.

In addition, the Bank conducts several proceedings against legal entities and individuals for the collection of receivables in the total amount of EUR 147 thousand (2020: EUR 93 thousand) and two foreclosure procedures *in the total amount of EUR 60 thousand.*

25. 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.

	2021	**2020**
Net gain/loss (in thousand EUR)	3,417	(984)
Weighted average number of shares	403,337,893	345,025,460
Earnings/(loss) per share in EUR	**0.008**	**(0.003)**

26. 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 2021 and 2020 were as follows:

	31 December 2021	**31 December 2020**
USD	0.8823	0.8143
CHF	0.9650	0.9211
GBP	1.1915	1.1073
RUB	0.0118	0.0109

27. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2022, the Law on Credit Institutions ("Official Gazette of Montenegro", No. 072/19 of 26 December 2019, 082/20 of 6 August 2020, 008/21 of 26 January 2021) entered into force on, which stipulates the application of new banking standards aimed at strengthening capital requirements for banks, establishing a framework for new regulatory requirements related to liquidity, as well as additional capital requirements for financial institutions of systemic importance.

At the beginning of March 2022, there was increased instability in the world financial and commodity markets due to the escalation of the conflict in Ukraine, which was accompanied by the introduction of sanctions against certain Russian companies and individuals. The Bank's management is in the process of considering the direct and indirect consequences of the Russian-Ukrainian conflict on the Bank's operations.
As of 31 December 2021, the Bank had an exposure to Russian banks in the amount of EUR 1,977 thousand and during 2022 there were no restrictions on the disposal of these funds. Exposure on the basis of loans to Russian citizens is 90% covered by cash collateral, and the Bank did not record a significant outflow of deposits of Russian citizens in 2022.

Until the date of issue of these financial statements, there were no consequences for the Bank's operations, however, future effects cannot be predicted with reasonable certainty. The Bank's management constantly monitors and assesses the potential effects of the new situation and takes all necessary measures to ensure the stability of the Bank's operations.

27. EVENTS AFTER THE REPORTING PERIOD (Continued)

Apart from the above, there were no other significant events after the balance sheet date that could have an impact on the financial position and results of operations presented in the financial statements for the year ended 31 December 2021.

28. 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. 15/2012, 18/2013 and 24/2018) general information on the Bank is presented below:

Bank's registered name:	Adriatic bank AD, Podgorica;
Registered address:	Bulevar Džordža vašingtona br.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 one branch as of 31 December 2021.

Number of employees as at 31 December 2021 was 45 (31 December 2020– 35 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 Board of Directors is presented below:

	Name and surname	Residence Country	Address (street and number)
1. President	Fraser Eliot Marcus	USA	Ridge Road 4254, Dallas
2. member	Bassem Snaije	France	Rue Pradier 24, Paris
3. member	Uzi Shaya	Israel	Har Knanan street 653, Modiin Maca
4. member	Đorđe Lukić	Montenegro	Bulevar Džordža Vašingtona 108, Podgorica
5. member	Wolfgang Mitterberger	Vienna, Austria	Haymogasse 53 A,A-1230

As of 31 December 2021, the Bank was wholly-owned by the company Adriatic Capital LLC, USA.

The auditing company that audited the 2021 financial statements: BDO d.o.o., Bulevar Svetog Petra Cetinjskog 149, 81000 Podgorica, Montenegro.

Book value of the shares on 31 December 2021 was EUR 0.04 per share.

There were no payments of dividends in 2021.

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 A.D., Podgorica
FOR 2021

March, 2022

1. STATEMENT ON APPLICATION OF CORPORATE MANAGEMENT CODE

In accordance with the Companies Act (“Official Gazette of Montenegro” no. 65/2020), on the date of registration, Adriatic Bank AD Podgorica acquired the status of a legal entity as a joint-stock company. As a joint-stock company , Adraitic Bank AD Podgorica regulates the mutual relations of all interested parties in accordance with its Founding Act and Statute.

The bodies of the Bank are the Bank's Assembly, the Board of Directors and the Executive Director. The roles of the Bank's bodies are defined by the Law on Banks and the Statute of Adraitic bank AD Podgorica. In the management part, Adraitic bank AD Podgorica, applies the best international corporate governance practices.

In the first place, the Law on Banks ("Official Gazette of Montenegro", no. 17/08, 44/10, 40/11, 73/17) and the Statute of Adriatic bank AD Podgorica defines relations between the Assembly, the Board of Directors and Executive Director.

Corporate governance is established in the following ways :

- that in all segments of corporate governance, Montenegro-s legal framework and good business practice are respected;
- In that context, it sets out principles that are flexible and give space to the Board of Directors to manage the Bank in the best way and achieve the set goals;
- To ensure that all mutual relations of stakeholders in the functioning of the Bank are clearly differentiated, that there are no overlaps or gaps in responsibilities and competencies, and that responsibilities and obligations are balanced, as well as rights and competencies;
- that the relations between all interested parties are set up so that the common interest has a priority, ie the interest of the Bank in relation to their individual interests;
- To fully, efficiently and effectively execute all the functions in managing the Bank, and to manage the Bank in a manner that leads to the achievement of the set goals and tasks.

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

In order to ensure the reliability and objectivity of accounting statements and reports, the Accounting, reporting and controlling department with its instructions prescribes the internal accounting controls which ensure that all changes are accurately recorded and that main books are kept up to date and reconciled. Accounting controls are implemented within the main banking application and in accordance with the relevant accounting standards. Through the operational risk management system (risk self-assessment process and control and scenario analysis), the Bank identifies potential operational risk events and based on the event assessment defines the measures that need to be taken to prevent possible operational risk events. At the semi-annual level, the Bank conducts a process of permanent supervision of sensitive procedures and sensitive accounts. Based on the conducted permanent supervision, the Bank defines the introduction of additional controls for sensitive processes, as well as activities that would eliminate anomalies determined by the implementation of permanent supervision of sensitive accounts. The internal audit within the audit envisaged by the annual work plan examines the accuracy, timeliness and reliability of accounting and financial reports and records. Internal audit conducts the control of the suitability, validity and accuracy of data and information that are publicly aggregated in accordance with the regulations of the Central Bank.

The only shareholder of the Bank is company: ADRIATIC CAPITAL LLC, from Delaware, United States, the owners of this company are private individuals: Mr. Alexander Shnaider with a share of 80% and Mr. David Glenn Genecov with a share of 20%. The shareholder of the Bank has the authority of the assembly of joint stock company and makes all the decisions in written and keeps records of maden decisions in the book of decisions of the company. Shares are voted on shareholders, they are regular (ordinary), with the right to vote, indivisible and with equal rights. In addition to regular shares with voting rights, the Bank may (but still does not) issue preferred shares without voting rights, in accordance with a special act and positive regulations.

The shareholder of the Bank, who owns the regular shares, has the following rights:

1. the right to attend the session of the general meeting of shareholders,
2. the propotional right to manage the participation in the capital of this class of shares,
3. the right to dispose of shares, in accordance with positive regulations
4. the right to preemptive purchase of shares of new issues,
5. the right on free shares in case of increase of share capital from the Bank's funds, with restrictions determined by the Law,
6. the right to dividend after distribution to the owners of preferred shares, when the General Meeting of the Bank decides that the dividend is paid,
7. the right to submit, based on personal request, copies of the Balance sheet and Income statement, as well as the report of the external auditor,
8. the right to inspect, at least 20 days before the general meeting of shareholders, as well as at the general meeting, the financial statements, including the reports of the external auditor,
9. the right to a proportionate share of assets in the event of liquidation of the Bank,
10. and other rights, in accordance with positive regulations.

The decision of the general meeting of shareholders on the issue of shares regulates in more detail the rights of buyers of each class and series of shares individually. The procedure for exchanging one class of shares for another, as well as convertible bonds with shares, is regulated by the Decision on the issue of shares, adopted by the general meeting of shareholders on the basis of applicable regulations. In regard to the acquisition of own shares, the Bank applies the regulations of Articles no. 178 and no. 179 of the Law of credit institutions.

1. STATEMENT ON APPLICATION OF CORPORATE MANAGEMENT CODE (Continued)

The Bank's menagement 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 managing the Bank on a daily basis and representing it. The Supervisory board has three or five members.

The General meeting of shareholders of the Bank decides on the number of Supervisory board’s members and elects its members individually for a period of four years but that the expired member may be reappointed. The mandate of the Supervisory board’s member ends with:

1. upon the expiration of the period for which he was appointed;
2. when it ceases to meet the conditions for membership in the Supervisory board in accordance with the positive regulations;
3. by resigning;
4. dismissal by the general meeting of shareholders;
5. by revoking the approval for performing the function of member of the Supervisory board by the CBoM.

The Board of directors of the Bank consists of at least three members appointed by the Supervisory board for a period not exceeding four years but that the expired member 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 Board of directors. The mandate of the Management Board’s member end with:

1. upon the expiration of the period for which he was appointed;
2. when it ceases to meet the conditions for membership in the Board of directors in accordance with the positive regulations;
3. by resigning;
4. dismissal by Supervisory board;
5. by revoking the approval for performing the function of member of the Board director by the CBoM.

2. GENERAL INFORMATION

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

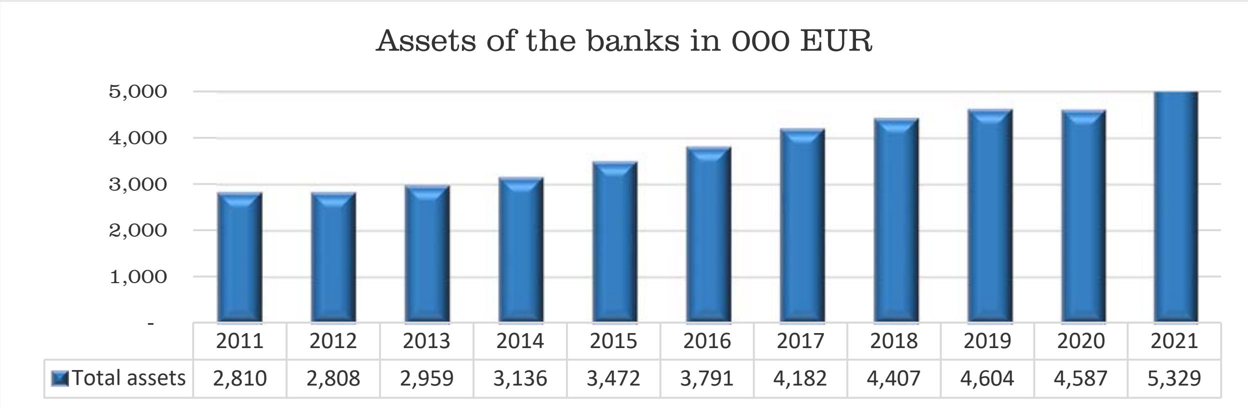
On 15th of January 2020, change of ownership of the Bank was preforme and 100% ownership was transferred from the seller Azmont Investment DOO, Herceg Novi, on the buyer Adriatic Capital LLC, United States of America.

The Bank is headquartered in Podgorica, Bulevar Džordža Vašingotna no. 98/8.

Table 1 - Market share of the bank on December 31, 2021

	31.12.2021			
Bank	**Assets**	**Loans**	**Deposit**	**Equity**
Banking sector (in 000 EUR)	5.328.574	2.858.047	4.193.326	614.335
Adriatic bank AD (in 000 EUR)	282.965	52.017	265.579	12.976
% of share	5,31%	1,82%	6,33%	2,11%

Graph 1 – Assets of the banking sector for the period 2011 - 2021



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

Adraitic bank AD Podgorica is the bank with the level of capital that provided the basis for a stable slight growth and safe operations during 2021, with the absorption capacity of potential risks from operations. The level of own funds at 31st December 2021 was EUR 9.614 thousands (31 December 2020: EUR 8.849 thousands). During 2021, the Bank made a reduction of share capital in the total amount of EUR 7.035 million in order to cover losses from previous years.

As at 31st December 2021, the Bank is consisted of headquarter in Podgorica on address: Bulevar Džordža Vašingtona no. 98/8, and one branch office on address: Cetinjska 9/1, Podgorica.

2.1. Registration and activity of the Bank

Adriatic bank A.D., Podgorica (hereinafter: the “Bank”) has been founded in 2016 by issuing the license form the Central bank of Montenegro. In accordance to article 44, paragraph 2, point 7 on Law on Central Bank ("Official Gazette of Montenegro", no. 40/10, 46/10 i 6/13) and article 23, paragraph 2 Law on Banks ("Official Gazette of Montenegro", no. 17/08, 44/10 i 40/11) Council of the Central Bank of Montenegro, on the meeting held on 26th on February 2016, issued a decision to issue the banking 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) Board of directors

Table 2.- Board of directors of the bank

Position	Name	Date of birth	Residence
1. President	Fraser Eliot Marcus	09.09.1954	United States
2. Member	Bassem Snaije	01.03.1958	France
3. Member	Uzi Shaya	17.07.1960	Israel
4. Member	Wolfgang Mitterberger	22.10.1966	Austrija
5. Member	Đorđe Lukić	16.06.1981	Montenegro

b) Executive management of the Bank

Table 3.- Executive directors of the Bank

Name	Position	On the position starting from
Đorđe Lukić	Chief Executive Officer	09.03.2020
Enesa Bekteši	Executive Director for business support	09.03.2020

c) Members of Asset and Liability Committee (ALCO)

Table 4.- Members of ALCO

Name	Position
Enesa Bekteši	President
Đorđe Lukić	Member
Miroslav Vuković	Member
Maja Barada	Member
Mirza Redžepagić	Member

d) Members of Audit Committee

Table 5.- Members of Audit Committee

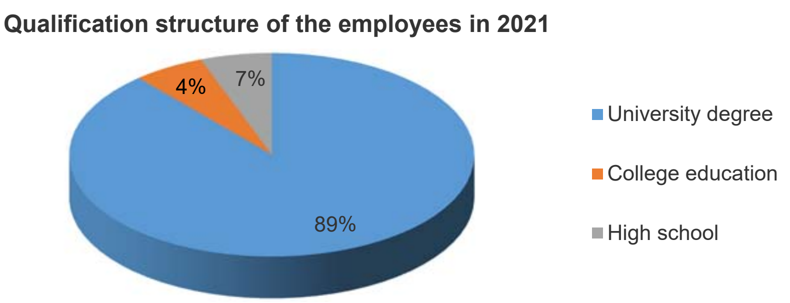
Name	Position
Bassem Snaije	President
Fraser Eliot Marcus	Member
Maja Barada	Member

2.3. Personnel qualification structure

On 31st December 2021 the Bank had 45 employees, with the following structure:

- University degree 40 employees or 89%,
- College education 3 employees or 7%,
- High school 2 employees or 4%.

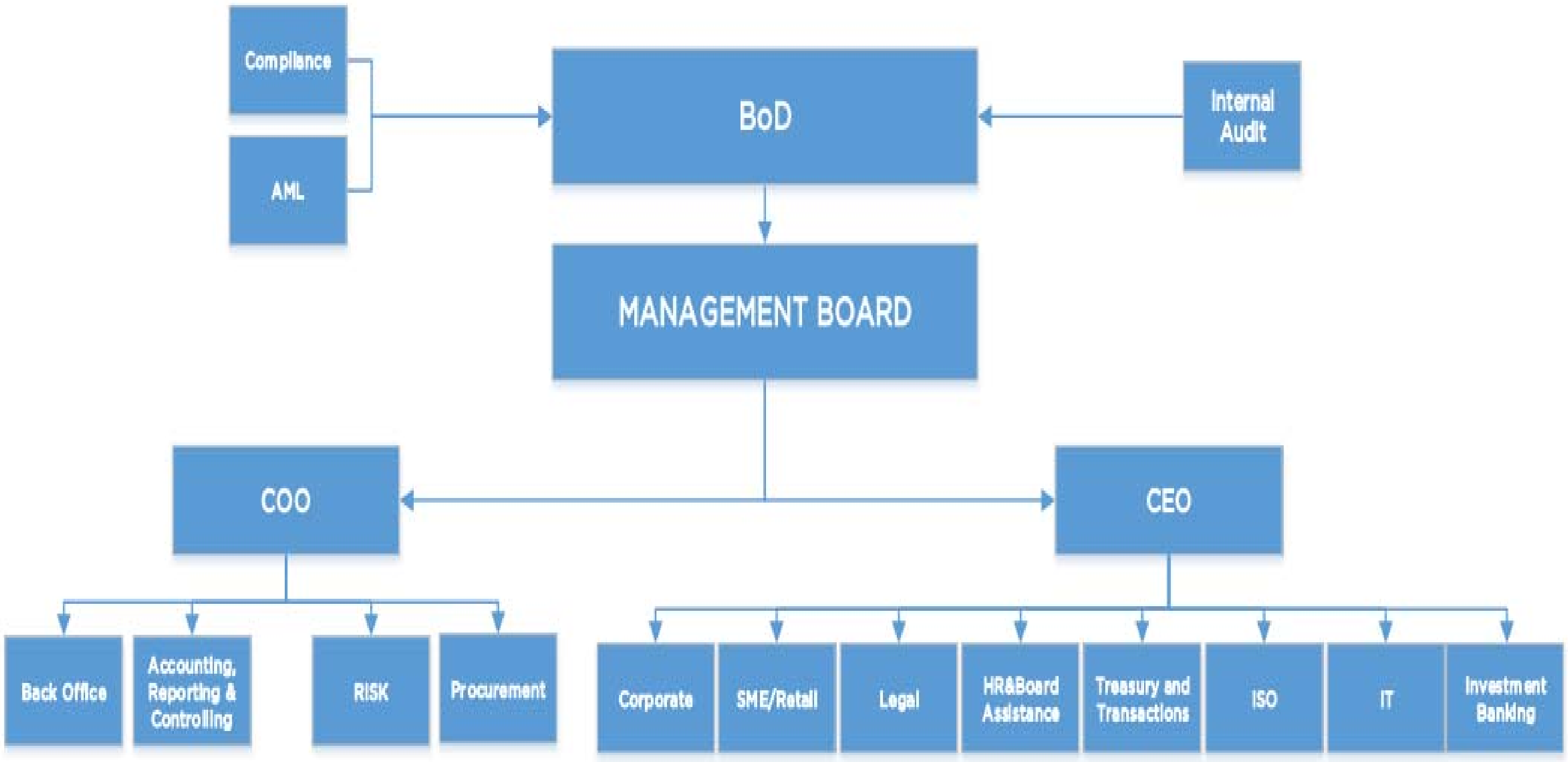
Graph 2. – Personnel structure



2. GENERAL INFORMATION (Continued)

2.4. Organizational structure of the Bank

Graph 3 – Organizational chart



3. PERFORMANCE OF THE BANK IN 2021

Table 6.- Performance indicators in 2021 in 000 EUR

OPIS	2021	2020	Promjena %
1	2	3	4
BALANCE SHEET ASSETS	**282.965**	**83.026**	**240,81%**
GROSS LOANS	**53.883**	**28.698**	**87,76%**
Retail loans	8.295	2.712	205,86%
Corporate loans	45.588	25.986	75,43%
Gross Investment securities at amortized cost	**60.987**	**25.262**	**141,42%**
Gross Investment securities at fair value	**42.596**	**-**	**-**
DEPOSITS	**265.579**	**71.701**	**270,40%**
Retail deposits	183.019	29.614	518,02%
Corporate deposits	82.560	42.087	96,17%
Total equity	**12.976**	**9.371**	**38,47%**
LOSS FROM OPERATIONS AFTER TAX	3.417	(984)	-
PROFITABILITY RATIOS IN %			
ROA - financial result/ balance sheet assets %	**1,21**	**(1,19)**	**-**
ROE – financial result/ total equity %	**26,33**	**(10,50)**	**-**
NET INTEREST INCOME	3.174	1.017	212,09%
NET FEE AND COMMISSION INCOME	3.943	441	794,10%
NUMBER OF EMPLOYEES	45	35	28,57%
Assets per employess in 000 EUR	6.288	2.372	165,08%
OPERATING EXPENSES	(3.423)	(2.351)	45,60%
INDICATORS			
CAPITAL ADEQUACY %	**16,27**	**26,30**	(38,14%)
LIQUIDITY RATIOS %	**7,48**	**3,54**	111,30%
CASH in 000 EUR	**126.134**	**28.328**	345,26%
Interest income/ Interest bearing assets %	2,34	2,35	(0,75%)
Interest income/ Total assets %	1,29	1,53	(15,52%)
Interest expenses/ Interest bearing liabilities %	0,18	0,35	(48,03%)
Operating expenses/ Total expenses %	50,33	68,50	(26,54%)
Liquid assests/ Deposits %	45,77	36,86	24,19%
Liquid assests/ Total assets %	42,96	31,82	35,00%
Liquid assests/ Short-term liabilities %	55,03	44,13	20,61%

4. REGULATORY REQUIREMENTS IN 2021

Table 7.- Regulatory requirements on 31st December 2021

No.	DESCRIPTION	LIMIT	31.12.2021
1	Capital Adequacy Ratio	min. 10 %	16,27%
2	Total exposure to one or to group of related parties	max.. 25% of the own funds	31,53%
3	Exposure to the related parties to the Bank	max. 200%	11,32%
4	Sum of big exposures	max. 800%	350,07%
5	Total equity in 000 EUR	min 5 mil	12.976
6	Own funds in 000 EUR	min 5 mil	9.614
7	Minimum liquidity ratio	0.9 on a daily basis 1 at the decade	7,48
8	Total risk assets and other risks in 000 EUR		
8.1.	Risk weighted assets		55.973
8.2.	Capital need for market risk		25
8.3.	Capital need for operating risk		168
8.4.	Capital need for country risk		751
8.5.	Capital need for other risks		442
8.6.	Open FX position		254

5. BALANCE SHEET FOR 2021

5.1. Balance Sheet of the Bank on 31st December 2021

Table 8. – Assets of the Bank on 31st December 2021 in 000 EUR

ASSETS	31-Dec-21	31-Dec-20	Index (2021/2020)
ASSETS			
Cash and cash on the accounts with Central bank	111.816	22.054	5,07
Loans and receivables form banks	14.278	6.258	2,28
Loans and receivables form clients	52.017	28.089	1,85
Investments securities held to maturity	60.729	25.149	2,41
Investment securities held at fair value	42.596	-	-
Other financial receivables	28	10	2,8
Property, plant and equipment	449	410	1,1
Right of use	588	657	-
Intangible assets	101	121	0,83
Deferred tax assets	6	-	-
Other receivables	357	279	1,28
TOTAL ASSETS	**282.965**	**83.026**	**3,41**
LIABILITIES			
Deposits of the clients	265.579	71.701	3,7
Borrowings from other clients	1972	859	2,3
Long-term lease liabilities	605	663	0,91
Provisions	252	205	1,23
Deferred tax liabilities	9	2	4,5
Other liabilities	1572	225	6,99
TOTAL LIABILITIES	**269.989**	**73.655**	**3,67**
EQUITY			
Share Capital	9.445	16.480	0,57
Retained earnings	3.414	(-7.038)	(-0,49)
IFRS9 implementation effects	(-71)	(-71)	1
Other reserves	188	-	-
TOTAL EQUITY	12.976	9.371	1,38
TOTAL EQUITY AND LIABILIES	**282.965**	**83.026**	**3,41**
OFF-BALANCE	**95.450**	**43.129**	**2,14**

Total assets of the Bank in 2021 amounted to EUR 282.965 thousands. Loans to the clients amounted EUR 52.017 thousands and loan portfolio represents 18% of total Bank's assets. Achieved growth of 85% compared to the last year.
As at 31st December 2021 the portfolio of the securities held to maturity and valued at amortized cost amounts EUR 60.729 thousands (21% of total Bank assets) and portfolio of **securities held at fair value amounts to** EUR 42.596 thousands (15% of total Bank assets). Portfolio of securities is presented as follow:

Investments securities held to maturity	60.894
Investment securities held at fair value	45.000
Premium/duscount	(3.067)
Interest receivables	756
Impairment of securities	(258)
	103.325

Except loans to the clients, significant part of the assets of the Bank are cash and deposit accounts with central banks, as well as receivables from banks (45%).

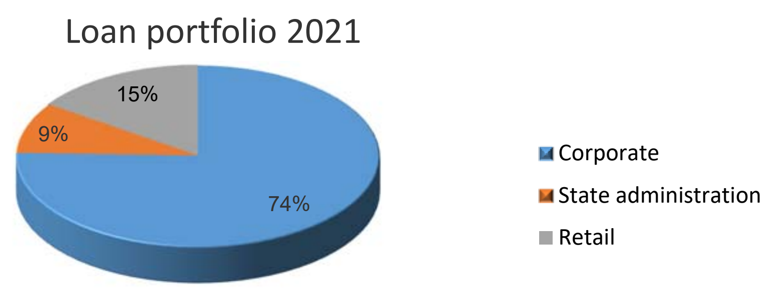
5. BALANCE SHEET FOR 2021 (Continued)

5.2. Loans to the clients on 31st December 2021

Table 9.- Net loans to the clients on 31st December 2021 in 000 EUR

NO.	DESCRIPTION	31 December 2021.	31 December 2020.	Index
I	**LOANS TO THE CLIENTS**	**53.868**	**28.701**	**1,88**
1	Corporate	40.658	20.992	1,94
2	State administration	4.901	4.997	-
3	Retail	8.309	2.712	3,06
II	**Impairment**	**(1.851)**	**(611)**	**3,03**
I+II	**NET LOANS**	**52.017**	**28.090**	**1,85**

Graph 4.- Loans to the clients - 2021



Total loans to the clients on 31st December 2021 amounted EUR 52.017 thousands (31st December 2020: EUR 28.090 thousands), of which reatail loans amounted EUR 8.309 thousands, corporate loans were EUR 40.658 thousands and state administration EUR 4.901 thousands.

Table 10.- Portfolio overview on 31st December 2021 in 000 EUR

Type of loan	2021	% share	2020	% share
Balance sheet item (gross)				
Loans and receivables form banks	14.319	8%	6.274	10%
Short term loans to clients	19.210	11%	6.650	11%
Long term loans to clients	29.799	17%	18.330	30%
Overdue loans	4.874	3%	3.718	6%
Interest receivables and prepayments	(15)	0%	3	0%
Securities at amortized cost	60.987	36%	25.262	42%
Securities at fair value	42.596	25%	-	-
Total balance sheet exposure to credit risk	**171.770**	**100%**	**60.237**	**100%**
Off-balance sheet items (gross)				
Performance guarantees	8.068	65%	6003	65%
Undrawn loans	2.197	35%	3209	35%
Total off-balance sheet exposure to credit risk	**10.265**	**100%**	**9.212**	**100%**
Total exposure to credit risk	**182.035**		**69.449**	

In the Bank placement structure, the most dominant is the participation of long-term loans, primarily corporate long-term loans

5. BALANCE SHEET FOR 2021 (Continued)

5.2. Loans to the clients on 31st December 2021 (Continued)

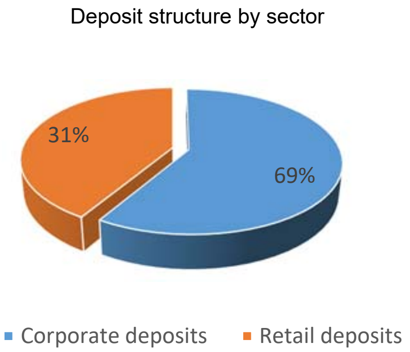
Table 11 - Overview of total portfolio by holders on 31st December 2021 in 000 EUR

Type of loan	2021	% share	2020	% share
Banks, non-residents	12.985	8%	6.103	10%
Banks, residents	1.334	1%	171	-
Government of Montenegro - Ministry of Finance	4.901	3%	5.000	8%
State - owned companies	514	-	500	1%
Privately owned companies	34.800	20%	18.397	31%
Privately owned companies – non-residents	5.283	3%	1.999	3%
Entrepreneurs	62	-	93	-
Individuals, residents	3.268	2%	2.682	4%
Individuals, non-residents	5.034	3%	26	-
Individuals, cards - residents	6	-	4	-
Government bonds and EU bonds	103.583	60%	25.262	42%
Total credit risk exposures	**171.770**	**100%**	**60.237**	**100%**

5.3. Equity and liabilities of the bank on 31st December 2021

In the equity and liabilities structure total deposits of the clients, with accrued interest on 31st December 2021, represent 94% and amount EUR 265.579 thousands (2020: EUR 71.701 thousands).

Graph 5.- Deposit structure by sector on 31st December 2021



Deposit structure by sector at the end of 2021 shows that retail deposits represents 69% of total deposits, or EUR 183.019 thousands (2020: EUR 29.614 thousands).

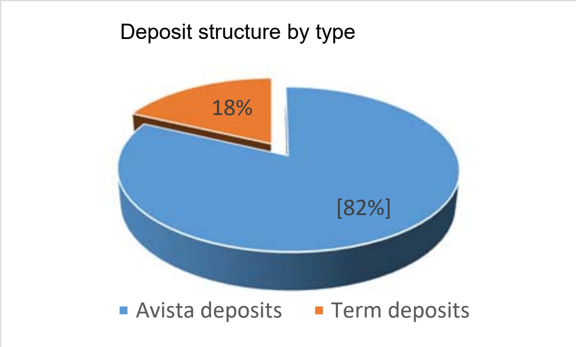
Corporate deposits are 31% of total deposits of the Bank, or EUR 82.560 thousands (2020: EUR 42.089 thousands).

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.

5. BALANCE SHEET FOR 2021 (Continued)

5.3. Equity and liabilities of the bank on 31st December 2021 (Continued)

Grraph 6.- Deposite structure by type on 31st December 2021

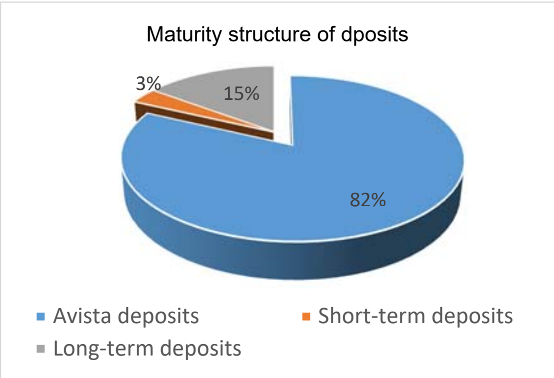


Avista deposits at the end of 2021 amounts EUR 217.704 thousands (2020: EUR 49.988 thousands) or 82% of total deposits, while term deposits are EUR 47.875 thousands (2020: EUR 29.614 thousands) or 18% of total Bank's deposits.

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

Deposit contraction in Bank is still high.

Graph 7.- Maturity structure of deposits on 31st December 2021



Maturity structure of deposits at the end of 2021, shows that long-term deposits represents only 15% of total deposits, or EUR 39.415 thousands (2020: EUR 10.175 thousands).

Short-term and avista deposits represent 85% of total deposit portfolio of the Bank, or EUR 226.164 thousands (2020: EUR 61.528 thousands).

5.4. Changes on equity up to to 31st of December 2021

As of 31st December 2021, the Bank's share capital was comprised of 236.125.000 ordinary shares, with nominal value per share of EUR 0,04.

Table 12 - The ownership structure of the Bank as at 31st December 2021:

	31st December 2021		
Name of the person/company	**No. of shares**	**In EUR**	**% share**
Adriatic Capital LLC, Wilmington, Delaware, United States of America	236.125.000	9.445.000,00	100%
	236.125.000	**9.445.000,00**	**100%**

In accordance with the regulations of the Central Bank of Montenegro, the Bank is required to maintain a minimum capital adequacy ratio of 10%. The Bank is required to comply its operations within the prescribed parameters, to comply the volume and structure of risky assets with the Law on Banks ("Official Gazette of Montenegro", no. 17/08, 44/10, 40/11,73/17) and the regulations of the Central Bank of Montenegro.

The Bank's solvency ratio as at 31st December 2021 amounted 16.27%.

As of 31st December 2021, the own funds of the Bank are above prescribed minimum of EUR 5.000 thousands and amount EUR 9.614 thousands (2020: EUR 8.849 thousands).

5. BALANCE SHEET FOR 2021 (Continued)

5.4. Changes on equity up to to 31st of December 2021 (Continued)

The Law on Banks („Official Gazette of Montenegro", no. 17/2008, 44/2010, 40/2011 i 73/2017) defines the minimum amount of bank capital in the amount of EUR 5 million.

On 31st December 2021 the Bank's capital is the above regulatory minimum.

Table 13.- Changes on equity

Positions	Share Capital	Accumulated profit (loss)	Other reserves	TOTAL
Balance on 31st December 2019	**11.980**	**(6.124)**	**-**	**5.856**
Issue of shares	4.500	-	-	4.500
Other	-	(1)	-	(1)
Loss of current year	-	(984)	-	(984)
Balance on 31st December 2020	**16.480**	**(7.109)**	**(-)**	**9.371**
Effects of changes in the fair value of securities measured through other comprehensive income	**-**	**-**	**188**	**188**
Decrease of equity	(7.035)	7.035	-	-
Profit of current year	-	3.417	-	3.417
Balance on 31st December 2021	**9.445**	**3.343**	**188**	**12.976**

5.5. Bank's off-balance records

Off-balance records of the Bank as at 31st December 2021 consists of the contingent liabilities of the Bank and the rest off-balance sheet relating to the records of received collateral for loan receivables and contingent liabilities of the bank.

Table 14 .- Off-balance records of the Bank

In thousands EUR	31-Dec-21	31-Dec-20
Contingent liabilities of the Bank	**10.265**	**9.212**
Irrevocable commitments to grant loans	**2.197**	**3.209**
Guarantees	**8.068**	**6.003**
- *issued payment guarantees*	1.358	544
- *issued performance guarantees*	6.408	5.359
- *other guarantees*	302	100
Other off-balance items from which liabilities do not arise	**85.185**	**33.917**
Collaterals on receivables	82.222	33.879
Accrued interest	37	38
Current contracts for foreign exchange transactions	-28	-
Other items of the bank's off-balance sheet exposure	2.954	-
Total	**95.450**	**43.129**

Off-balance sheet exposure of the Bank on 31st December 2021 amounts EUR 10.265 thousands, of which EUR 2.197 thousands (21%) represents unused approved loans and EUR 8.068 thousands (79%) represents approved guarantees.

6. INCOME STATEMENT FOR 2021

6.1. Income Statement

Table 15.- Income Statement

In thousands EUR:	2021.	2020.	Index (2021/2020)
Interest income	3.547	1.259	2,82
Interest income on impaired loans	115	13	8,85
Interest expenses	(488)	(255)	1,91
NET INTEREST INCOME	**3.174**	**1.017**	**3,12**
Fee and commission income	5.183	820	6,32
Fee and commission expenses	(1.240)	(379)	3,27
NET FEE AND COMMISSION INCOME	**3.943**	**441**	**8,94**
Net FX result	1.364	350	3,9
Net gain/losses from other asset derecognition	-	(5)	-
Personal expenses	(2.036)	(1.240)	1,64
Other administrative expenses	(1.099)	(782)	1,41
Depreciation	(288)	(327)	0,88
Other costs	(5)	(2)	2,33
Other income	-	3	-
Impairment losses	(1.633)	(435)	3,75
Provision	(8)	(4)	2
OPERATING PROFIT	**3.412**	**(984)**	**(3,47)**
Income tax	5	-	-
NET PROFIT	**3.417**	**(984)**	**(3,47)**

6 INCOME STATEMENT FOR 2021 (Continued(

6.2. Interest income and expenses

Table 16.- Interest income and expenses in 000 EUR

Interest income and expenses	2021.	2020.
Interest income		
Deposits in other banks:		
- foreign banks	10	-
Loans:		
- privately owned companies	1.491	756
- public loans	172	16
- state owned companies	25	10
- entrepreneurs	4	5
- individuals	308	156
- interest income on impaired loans	116	13
	2.126	**956**
Loan origination fees	108	59
Interest on HTM securities held to maturity	1.319	256
Interest on HTM securities held at fair value	109	-
Total interest income	**3.662**	**1.272**
Interest expenses		
Deposits:		
-Government of Montenegro	60	44
- state owned companies	2	-
- privately owned companies	159	20
- individuals	227	168
	448	**231**
- IRF borrowings	14	11
- Long-term lease of Capital Plaza	25	13
Total interest expenses	**487**	**255**
Net interest income	**3.175**	**1.017**

From the interest income details we can see that the highest share in income by holder is related to interest income from privately owned companies and individuals, which is understandable having in mind Bank's portfolio structure. During 2021, there is an evident increase in interest income on bonds as a result of a significant increase in investment in this type of assets.

6 INCOME STATEMENT FOR 2021 (Continued(

6.3. Fee and commissions income and expenses

Table 17.- Fee and commissions income and expenses in 000 EUR

Fee and commissions income and expenses	2021.	2020.
Fee and commissions income		
Guarantee fees	63	53
Payment transactions - domestic	1.215	269
Payment transactions - international	884	70
E-banking fees	2.748	368
Cards	247	57
Investment banking	15	-
Other	11	3
Total fee and commissions income	**5.183**	**820**
Fee and commissions expenses:		
Central bank fees	311	56
International payment fees	626	104
Deposit protection Fund fees	127	125
E-banking fees	14	14
Cards processing fees	24	24
MasterCard / Visa fees	129	56
Investment banking	4	-
Other	5	-
Total fee and commissions expenses	**1.240**	**379**
Net fee and commission income	**3.943**	**441**

The realized income from fees in 2021 represents the continuation of positive business in this segment. All types of fee income recorded growth this year, especially domestic payments and e-banking. Based on the review above, it is concluded that the costs of fees for international payment services and settlement accounts have increased, as well as the costs of CBoM's overnight accounts fees, because overnight accounts increased in 2021.

6 INCOME STATEMENT FOR 2021 (Continued(

6.4. Operating expenses

Table 18.- Operating expenses in 000 EUR

Operating expenses	2021.	2020.
Personnel expenses		
Net salaries	1.356	771
Taxes, contributions and surtax on salaries	657	430
Other payments to employees	-	1
Temporary contracts	11	-
Provision for unused annual leave	-6	31
Provisions for severance payments	-1	-25
Travel expenses and per diem	14	30
Training expenses	4	1
Total personnel expenses	**2.036**	**1.240**
Other administrative expenses		
Rent	27	23
Audit expenses (CBM and external audit)	178	151
Security	9	23
Advertasing and marketing	76	71
Legal cost	54	54
Licenses and SW maintenance	209	219
Maintenance of facilities, equipment, IT equipment, ATMs	90	29
Vehicle maintenance and registration	2	2
Consulting fees	202	29
Electricity, fuel and communal services	13	14
Office supplies	14	11
Communication network	43	30
Subscriptions	38	15
Phone charges	12	12
Membership fees for Bank Association	16	15
Insurance	16	15
Representation	10	6
Cleaning	12	11
Securities expenses	53	25
Writte-off of plastic for cards	-	16
Investment banking license costs	16	-
Other Costs	9	11
Total administrative expenses	1.099	**783**
Depreciation	288	**327**
TOTAL OPERATING EXPENSES	**3.423**	**2.350**

Operating and other expenses in 2021 amounted EUR 3.423 thousands out of which EUR 2.036 thousands, or 59% are related to staff costs (2020: EUR 1.240 thousands).

7. MEASURES FOR ENVIRONMENTAL PROTECTION

Adriatic bank AD keeps its policy environmentally conscious and committed, in accordance with the Law on Environment ("Official Gazette of Montenegro", no. 052/16 od 09.08.2016), Law on Environmental Impact Assessment ("Official Gazette of Montenegro", no. 075/18 od 23.11.2018) and the Law on Strategic Environmental Assessment ("Official Gazette of Montenegro", no. 080/05 od 28.12.2005, "Official Gazette of Montenegro", no. 073/10 of 10.12.2010, 040/11 of 08.08.2011, 059/11 of 14.12.2011, 052/16 of 09.08.2016).

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

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

In accordance with the criteria defined by the Law, the Bank is not recognized as a pollutant and, on this basis, does not pay any penalties. In the foreseeable future, it does not plan any project that could have a negative impact on the environment.

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

8. PLANNED FUTURE DEVELOPMENT

In accordance to adopted budget of the Bank, the following projection of the financial results is made for the period 2022-2024:

Table 19.- Planned profit and loss (2022-2024)

Projected Profit and Loss				
	Actual	**Budgeted**		
In TEUR	**2021**	**2022**	**2023**	**2024**
Interest income	3.662	6.677	8.261	9.590
Interest expenses	(488)	(846)	(655)	(734)
Net interest income	**3.174**	**5.831**	**7.607**	**8.857**
Fee and commission income	5.183	7.239	8.840	10.664
Fee and commission expenses	(1.240)	(2.225)	(2.419)	(2.799)
Net fee and commission income	**3.943**	**5.014**	**6.420**	**7.865**
Net FX gains/(losses)	1.364	780	624	437
Impairment losses	(1.633)	(1.995)	(1.747)	(1.806)
Net banking income	**6.848**	**9.631**	**12.904**	**15.352**
Salaries, wages and other personal expenses	(2.036)	(2.301)	(2.957)	(3.543)
Depreciation expenses	(288)	(432)	(598)	(643)
Other expenses	(1.112)	(1.511)	(1.719)	(1.876)
Total OPEX	**(3.436)**	**(4.243)**	**(5.273)**	**(6.062)**
Profit/(loss) before tax	**3.412**	**5.388**	**7.631**	**9.290**
Income tax 9%	5	(148)	(687)	(836)
Profit/(loss) after tax	**3.417**	**5.240**	**6.944**	**8.454**

Period considered by this business plan assumes continuous work on increasiung client base. Plan is to realize close business relations with our clients, to understand their business activities and financial needs, in order to be able to support them in their business requests – for for liquidity loans, loans for fixed assets, guarantees, letters of credit, etc.

8. PLANNED FUTURE DEVELOPMENT (Continued)

Table 20 – Planned balance sheet for the period 2022 to 2024

Projected Balance Sheet				
	Actual	Budgeted		
In TEUR	**31.12.2021**	**31.12.2022**	**31.12.2023**	**31.12.2024**
Assets				
Cash and cash equivalents	119.875	67.515	84.271	85.715
Obligatory reserve	6.219	11.442	13.657	16.362
Securities	103.325	113.330	125.634	136.031
Loans due from other clients (net)	52.017	73.014	94.389	121.540
Intangible assets	101	1.170	1.224	1.127
Property, plant & equipment	449	978	964	797
Right of use	588	1.153	953	752
Other assets	391	514	525	613
Total assets	**282.965**	**269.116**	**321.617**	**362.938**
Liabilities				
Deposits due to customers	265.579	244.117	290.327	324.049
Borrowings	1.972	4.819	4.245	3.481
Long-term lease liabilities	604	1.185	999	804
Other liabilities	1.833	1.096	1.204	1.306
Total liabilities	**269.989**	**251.217**	**296.774**	**329.641**
Equity				
Share capital	9.445	9.445	9.445	9.445
Current year profit/(loss)	3.417	5.240	6.944	8.454
Other reserve	188	-	-	-
Accumulated result	(74)	3.214	8.454	15.398
Total equity	**12.976**	**17.899**	**24.843**	**33.297**
Total liability and equity	**282.965**	**269.116**	**321.617**	**362.938**

Table 21 – Other important indicators for the period 2022 to 2024

Balance Sheet	Dec.21	Dec.22	Dec.23	Dec.24
Interest bearing assets	160.428	195.651	232.016	272.531
Interest bearing liabilities	267.551	248.936	294.571	327.530
Share of Interest bearing in total assets	57%	73%	72%	75%
Share of Interest bearing in total liabilities	95%	93%	92%	90%
Interest income	3.662	6.677	8.261	9.590
Interest expenses	(488)	(846)	(655)	(734)
Loan/Deposit ratio (L/D ratio)	58%	75%	75%	79%
CIR (cost/Income ratio)	48%	39%	38%	36%
ROE	26%	29%	28%	25%

9. RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank's research and development activities are predominantly related to banking market research and analysis and other analyzes necessary for decision making, as well as business and development plans that serve the Bank's strategic goals.

The key values and guarantee of achievement of the declared business goals of the Bank are its employees who possess the necessary qualifications and information-technology knowledge for performing banking operations. In this regard, continuous education, professional development and improvement of employees' skills are the Bank's permanent goal.

10. REDEMPTION OF OWN SHARES INFORMATION

During 2021, the Bank did not redeem its own shares.

11. BUSINESS UNITS

During 2021 the Bank conducted its business activities at its headquarters in Podgorica, Bulevar Džordža Vašingtona no. 98/8, as well as at one of the Bank’s branches on the address Cetinjska 9/1, Podgorica.

12. POCRUCIAL FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION ASSESSMENT

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 2021, the following financial instruments are crucial for assessing the Bank's financial position:

- Cash and funds with the CBM;
- Bank loans and receivables;
- Loans and receivables from clients;
- Securities;
- Customer deposits;
- Borrowed funds;
- Equity.

13. RISK MANAGEMENT

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 and etc.

The Risk Management Strategy is a comprehensive general document regulating the Bank's risk management area. 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, to define limits and controls required for risk management and to monitor the Bank’s exposure to each individual risk. The risk management policies and procedures are subject to regular review in order to allow adequate response to the changes in the market, products and services.

The Board of Directors has overall responsibility for establishing and overseeing the risk management framework. The Board of Directors established the Assets and Liabilities Management Committee (ALCO), the Credit Committee and the Audit Committee.

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

13 RISK MANAGEMENT (Continued)

Credit risk

Credit risk represents possible negative effects on financial result and capital of the Bank due to unsettled liabilities of the Bank's debtors. Bank approves loans in accordance to its business policies, aligning the maturities of loans approved and interest rate policy with the purpose of the loan and credit ability of the debtor. Credit Risk Management Policy is based on requirements prescribed in Law on banks and by-laws, but also on other generally accepted international credit risk management principles and positive credit risk assessment practices.

The aim of Credit Risk Management Policy is to successfully implement the Credit Policy and Risk Management Strategy in a more precise way to define areas in which credit risk sources will be identified, identification methods, methods and time frames for credit risk measurement, limits and procedures for controlling individual and total exposure to credit risk with respect to the size of the Bank and the complexity of the products, the manner and the dynamics of reporting and informing of Board of Directors and the Management Board of the Bank on credit risk management, as well as the methods and timelines for subsequent quality assurance of credit risk management.

Credit risk management is covered by two major aspects of credit activity:

1.) Previous risk assessment to be taken - a previous analysis, formalized by creating a credit file, approved by the competent bodies,
2.) Regular monitoring of placement, i.e. risk taken. After the placement is approved, the Bank is exposed to risks that are constantly evolving 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 Bank's interests.

Credit risk management is consisted of all aspects of risk assessment prior to approval of placement, as well as tracking placement up to final repayment.

Management of exposure to credit risk is performed by regular analysis of the ability of the borrower and potential borrowers to repay their interest and principal liabilities.

The Bank has established a system for monitoring of exposures at individual and portfolio level, as well as a system for adequate provisioning and allocation of impairments. In this way, potentially problematic loans are identified on time and allows timely takeover activities for repayment.

In accordance with the limits stipulated by the Central Bank of Montenegro, the concentration of loans as well as the exposure concentration of the largest debtors are subject of continuous monitoring.

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 irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, and therefore carry the same credit risk as loans. Documentary and commercial letters of credit, which represent written undertakings of the Bank on behalf of a customer authorizing a third party to draw bills of exchange on the Bank up to the amount agreed under specific terms are secured by the underlying deliveries of goods that they relate to and therefore carry less risk than loans.

Loan portfolio at the end of 2021 amounts EUR 53.383 thousands while off-balance sheet exposure was EUR 10.265 thousands, and all exposures were classified in the table below:

Table 22 – Exposures and impairments on 31.12.2021

No.	DESCRIPTION	31.12.2021		31.12.2020	
	Category	Exposure	Impairments	Exposure	Impairments
I	**Balance**	**53.868**	**1.851**	**28.698**	**611**
1	A	29.849	273	20.870	182
2	B	21.843	1.048	7.333	335
3	C	2.005	491	208	63
4	D	-	-	4	3
5	E	171	39	283	28
II	**Off-Balance**	**10.265**	**142**	**9.212**	**95**

On 31st December 2021, impairments are calculated in aaccordance to IFRS9 and for balance sheet exposures it amounts EUR 1.851 thousands and off-balance exposure amounts to EUR 142 thousands.

13 RISK MANAGEMENT (Continued)

Market Risk

The Bank currently does have and is not planing to have a trading book and on 31st December 2021, Adriatic Bank is not exposed to market risk except in the part of the market risk that is limited to foreign exchange risk.

Currency Risk

Currency risk management is defined with Risk Management Strategy and Interest Rate Risk of the Banking Book and Market Risk Management Policy. 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. On a daily basis Treasury Department monitors and manages foreign currency positions taking care of their amount and characteristics. Risk Management Division reports on a monthly basis to Asset and Liability Committee on all important aspects of the management of foreign exchange risk.

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.

Exposure of the Bank to the currency risk on 31st December 2021 was low, with net open position amounted EUR 209 thousand. Short position balance in foreign currency on 31st December 2021 amounted to EUR 14.620 thousands and EUR 14.829 thousands of long positions in the euro counter value.

Interest Rate Risk

Bank interest rate risk management is defined by the Risk Management Strategy and Interest Rate Risk of the Banking Book and Market Risk Management Policy. 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.

The following table presents the level of interest bearing and non-interest bearing assets and liabilities of the Bank on 31st December 2021:

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

In TEUR	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash balances and deposits with central banks	108.706	3.110	111.816
Loans and receivables from banks	14.278	-	14.278
Loans and receivables from clients	52.017	-	52.017
Investment in securities	103.325		103.325
Other financial assets	-	28	28
Deffered tax assets	-	6	6
Other assets	100	257	357
Total assets	**278.426**	**3.401**	**281.827**
LIABILITIES			
Deposits from clients	68.404	197.175	265.579
Borrowings from others	643	1.329	1.972
Other liabilities	-	2.177	2.177
Total liabilities	**69.047**	**200.681**	**269.728**
Exposure to interest rate risk:			
- 31 December 2021	**209.379**	**(197.280)**	**12.099**
- 31 December 2020	**45.521**	**(37.131)**	**8.390**

Exposure to interest rate risk on 31st December 2021 is shown in the table below:

13 RISK MANAGEMENT (Continued)

Interest Rate Risk (Continued)

Table 24 – The risk of interest rate changes

In 000 EUR	Up to one 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, other institutions	122.984	-	-	-	-	122.984
Interest-bearing securities	-	-	-	-	103.325	103.325
Loans and receivables from clients	3.767	3.035	5.029	18.514	21.672	52.017
Other assets	100	-	-	-	-	100
Total	**126.851**	**3.035**	**5.029**	**18.514**	**124.997**	**278.426**
% total interest bearing assets	**45,56%**	**1,09%**	**1,81%**	**6,65%**	**44,89%**	**100,00%**
Interest sensitive liabilities						
Interest-bearing deposits	21.391	5.558	4.355	13.483	23.617	68.404
Interest-bearing borrowings	20	40	61	132	1.719	1.972
Total	**21.411**	**5.598**	**4.416**	**13.615**	**25.336**	**70.376**
% total interest bearing liabilities	**30,42%**	**7,95%**	**6,27%**	**19,35%**	**36,00%**	**100,00%**
Interest rate GAP:						
- 31 December 2021	**105.440**	**(2.563)**	**613**	**4.899**	**99.661**	**208.050**
- 31 December 2020	**14.546**	**(3.944)**	**5.382**	**-854**	**30.391**	**45.521**
Cumulative GAP:						
- 31 December 2021	**105.440**	**102.877**	**103.490**	**108.389**	**208.050**	
- 31 December 2020	**14.546**	**10.602**	**15.984**	**15.130**	**45.521**	

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.

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

Liquidity requirements to support calls on guarantees and contingent liabilities in 2021 amount EUR 10.265 thousands.

As of 31st December 2021, the Bank has managed the liquidity risk in accordance with the adopted Risk Management Strategy, Liquidity risk policy and other internal procedures regulating liquidity 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 supervisor as well for Asset and Liability Committee.

According to the Central Bank of Montenegro methodology liquidity ratio is calculated comparing receivables, liquid assets (cash, bank accounts domestic and foreign banks, assets in the agents of payment system – mandatory reserve) with due liabilities (loans received, liabilities for fees and interest, liabilities for term deposits and 20% of avista deposits, 10% approved but unused, irrevocable credit obligations - credit lines, and other due liabilities.

13 RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Calculation of daily liquidity ratio on 31st December 2021 is shown in the following table:

Table 25 – Liquidity ratio on 31st December 2021

No.	DESCRIPTION	AMOUNT in TEUR
I	**Liquid assets/receivables(claims)**	**121.566**
1	Cash	1.809
2	Assets on the account in Central Bank of Montenegro	102.249
3	Other cash claims	-
4	Assets on the accounts in domestic banks (Avista deposits)	1.334
5	Assets in the agents of payment system	1.538
6	Assets on the accounts in international banks(Avista deposits)	11.526
7	Required reserve in the Central Bank of Montenegro (according to the current decision)	3.110
II	**Marured liabilities for loans and borrowings**	**16.243**
1	Due liabilities based on loans received	-
2	Due liabilities based on intrest rates and fees	-
3	Due liabilities based on term deposits	-
4	20% Avista deposits	15.131
5	10% approved but unused, irrevocable credit obligations (credit lines)	220
6	Other due liabilities	892
	SUFICIT / DEFICIT (I - II)	**105.323**
	Liquidity ratio (I / II)	**7,48**

The Bank is exposed to daily calls on its available cash resources which influence the available cash held on the current accounts or as deposits. The Bank does not maintain cash to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

Other liquidity ratios of the Bank on the quarterly bases are presented below:

Table 26 – Liquidity ratios

Description	31.12.2021	30.9.2021	30.6.2021	31.03.2021	31.12.2020
Liquid assets	121.566	68.845	53.103	39.062	26.427
Total assets	282.965	179.361	135.142	107.096	83.026
Short-term liabilities	220.904	137.798	97.210	81.936	59.887
Liquid assets / Total assets	**42,96%**	**38,38%**	**39,29%**	**36,47%**	**31,83%**
Liquid assets / Short-term liabilities	**55,03%**	**49,96%**	**54,63%**	**47,67%**	**44,13%**
Daily liquidity ratio	**7,48%**	**4,65%**	**4,94%**	**3,56%**	**3,54%**
Loan to Deposit ratio	**20,29%**	**28,41%**	**33,05%**	**34,54%**	**40,02%**

13 RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Table 27 – Maturity matching of financial assets and liabilities

In thousands EUR	Up to one 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:							
Gotovina i gotovisnki ekvivalenti	105.596	-	-	-	-	-	105.596
Sredstva izdvojene obavezne rezerve	3.110	-	-	-	-	3.110	6.220
Financial assets valued at amortized cost:							
Receivables from banks	12.860	1.059	-	400	-	-	14.319
Receivables from customers	3.767	3.035	5.029	18.514	22.246	1.292	53.883
Securities helt to maturity at amortized cost	-	1.000	24.823	-	23.000	12.070	60.893
Other financial assets	28	-	-	-	-	-	28
Interest receivables, accruals, prepayments and impairments*	123	-	-	-	753	(2.947)	(2.071)
Financial assets at fair value measured through other comprehensive income							-
Securities at fair value measured through other comprehensive income		30.247	14.753				45.000
Interest receivables, accruals *		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 valued at amportized cost:							
Deposits of clients	85.807	73.106	43.418	16.582	46.391	13	265.317
Borrowings	20	40	61	132	1.150	569	1.972
Interest liabilities, accruals and prepayments*	14	31	30	54	133	1	263
Other liabilities	1.081	361	131	36	284	231	2.124
Ukupno	**86.909**	**73.507**	**43.610**	**16.750**	**47.826**	**813**	**269.415**
Maturity GAPs							
- 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**
Cummulative 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 liability							
- 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%**	

**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.*

13 RISK MANAGEMENT (Continued)

Operating Risk

Operational risk management at the Bank is fully regulated by Operational Risk Policy and other relevant procedures, which precisely defines method of identification, assessment and monitoring, management, and giving proposals of measures for the elimination of exposure and consequences arising from operational risk exposure.

The measurement or assessment of operational risk is done through quantitative and / or qualitative assessment of identified operational risk. In addition, Bank is performing identification of operational risks, classifying them according to priority by measuring the potential financial impact and frequency of events that can result in losses.

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

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

- inadequate information and other systems in the Bank;
- Business interruption and fault in the system (for example, faults related to the information technology, telecommunications, interruptions in the work etc.);
- inability of adequate integration or sustainability of information and other systems, in case of status changes of the Bank;
- unproper treatment of employees in the Bank, as well as attempts of fraud, money laundering, unauthorized access to client accounts, misuse of confidential information, giving false or misleading information about the status of the Bank, delays in carrying out tasks, errors in data entry, failure to comply with good business practices, etc;
- involvement of people outside the Bank to perform the jobs for the Bank;
- acts or omissions which may cause court and other proceedings against the Bank (legal risk);
- Foreign illegal acts such as theft, unauthorized transfer of funds, unauthorized entry into a database, illegally obtaining documents of the Bank;
- events that can not be predicted, such as natural and other disasters, terrorism, etc.

Operational risk events records includes the systematic collection and analysis of operational risk in the Bank's operations that led to the losses. According to the Operational Risk Management Policy, the Bank has carried out processes of risk self-assessment and control and scenario of analysis.

14. CAPITAL ADEQUACY

Own Funds

The Bank is required to publicly disclose information and data relating to the amount of own funds, including:

1) a summary comprising the main characteristics of all items which are included in the calculation of its own funds and its elements;
2) the amount of capital, with special public disclosure of all items included in the share capital and deductibles;
3) the total amount of additional capital;
4) deductions from Tier I and Tier II capital, and
5) the total own funds, reduced by the deductions.

Table 28 – Own Funds for 2021 in 000 EUR

I	Own Funds	10.383
	Issued share capital	9.445
	Retained earnings from previous years - effects of IFRS9	-71
	Profit in the current year (if the conditions from Article 4 of the Decision on Capital adequacy are met)	1.009
II	Deducation in calculation of Tier I capital	769
	Losses from the previous years	3
	Loss for the current year	-
	Intangible asset	101
	Positive diference between the amount of regulatory provisions for potential losess and imairments for balances and off-balances sheet items	665
III(I-II)	Tier I capital	9.614

On 31st December 2021, deductible items on the Bank's own funds are related to:

- Accumulated losses from previous years EUR 3 thousands,
- The book value of intangible assets of the Bank at 31st December 2021 in the amount of EUR 101 thousands,
- Positive **diference** between the amount of regulatory provisions for potential losess and impairments for balances and off-balances sheet items in the amount of EUR 665 thousands.

During 2021, the Bank made a reduction of share capital in the total amount of EUR 7.035 million in order to cover losses from previous years.

Risk weighted assets calculated in accordance to the Decision on Capital Adequacy for the banks, on December 31st, 2021 amounted EUR 55.973 thousands.

In accordance to Decision on Capital Adequacy for the banks, which is applicable on 31st December 2021, Bank is obliged to keep Capital Adequacy Ratio on a level of at least 10%.

Capital Adequacy Ratio of the Bank on 31st December 2021 was **16,27%** and it is above prescribe limit of 10%.

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

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