



ADRIATIC BANK A.D. PODGORICA

**Financial Statements for the Year Ended
31 December 2020**

and

Independent Auditor's Report

CONTENT

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 5
FINANCIAL STATEMENTS	
Income statement	6
Statement of Other Comprehensive Income	7
Balance Sheet	8
Statement of Changes in Equity	9
Cash Flow Statement	10
Notes to the Financial Statements	11 - 70
MANAGEMENT REPORT	1 - 26

*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 2020 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 2020, 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
<p>1. Adequacy of the impairment of loans and off-balance sheet items Notes 3.8, 10, 13.2 and 22 to the financial statements</p>	<p>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.</p> <p>Our audit procedures included the following:</p> <ul style="list-style-type: none">• 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. <p>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 2020.</p>

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 2020 amounted to EUR 28,701 thousand (EUR 10,377 thousand as of 31 December 2019), while the total amount of the allowance for impairment of these receivables amounted to EUR 611 thousand as of 31 December 2020 (EUR 334 thousand as of 31 December 2019). 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.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements (Continued)

Other Matters

The financial statements of the Bank as of and for the year ended 31 December 2019 were audited by another auditor, who expressed an unqualified opinion on these financial statements in his/her report dated 27 April 2020.

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.

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.



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)

- 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.

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.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements (Continued)

Report on Other Legal and Regulatory Requirements

Management of the Bank is responsible for the preparation and fair presentation of the accompanying Annual Management Report in accordance with the requirements of the Law on Accounting. Pursuant to the Law on Audit, our responsibility is to express an opinion on the consistency of the Company's Annual Management Report for the year ended 31 December 2020 with the audited financial statements for the same year. Our procedures in this regard were only limited to the assessment of the consistency of financial information disclosed in the Annual Management Report with the audited financial statements.

In our opinion, financial information disclosed in the Bank's Annual Management Report for the year ended 31 December 2020 is consistent, in all material respects, with the audited financial statements of the Company as of and for the year ended 31 December 2020.

Podgorica, 15 April 2021



Milovan Popovic
Certified Auditor

ADRIATIC BANK A.D. PODGORICA

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

In EUR thousand	Note	2020	2019
Interest income and similar income	3.1, 5.1	1,259	896
Interest income on impaired placements	3.1, 5.1	13	20
Interest expenses and similar expenses	3.1, 5.2	(255)	(172)
NET INTEREST INCOME		1,017	744
Fee and commission income	3.1, 6.1	820	201
Fee and commission expenses	3.1, 6.2	(379)	(282)
NET FEE AND COMMISSION INCOME/(EXPENSES)		441	(81)
Foreign exchange gains, net		350	3
Net gains/losses from derecognition of other assets		(5)	-
Other income		3	-
Employee costs	8	(1,240)	(1,123)
General and administrative expenses	9	(783)	(720)
Depreciation and amortisation charges	10	(327)	(249)
Provisions		(4)	-
Other expenses		(1)	(4)
Net impairment gains/losses of financial instruments not measured at fair value through profit or loss	3.8, 10	(435)	(33)
OPERATING LOSS		(984)	(1,463)
Income taxes	3.4, 11.1	-	10
NET LOSS		(984)	(1,453)

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

Podgorica, 31 March 2021

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



 Djordje Lukic
 CEO


 Miroslav Vukovic
 Head of Accounting and Financial Controlling

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from 1 January to 31 December 2020
(In EUR thousand)

	Note	<u>2020</u>	<u>2019</u>
Net loss		<u>(984)</u>	<u>(1,453)</u>
Total other comprehensive income for the year		<u>(984)</u>	<u>(1,453)</u>
TOTAL OTHER COMPREHENSIVE INCOME		<u><u>(984)</u></u>	<u><u>(1,453)</u></u>

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

Podgorica, 31 March 2021

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



Djordje Lukic
CEO





Miroslav Vukovic
Head of Accounting and Financial Controlling

BALANCE SHEET AS OF 31 DECEMBER 2020

In EUR thousand	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash balances and deposit accounts with central banks	3.6, 12	22,054	9,533
Financial assets at amortized cost		59,505	15,455
Loans and receivables from banks	3.6, 13.1	6,256	3,401
Loans and receivables from customers	3.7, 13.2	28,090	10,043
Securities	3.7, 13.3	25,149	2,001
Other financial assets		10	10
Property, plant and equipment	3.9, 3.10, 14	1,067	217
Intangible assets	3.9, 3.10, 15	121	237
Other assets	16	279	94
TOTAL ASSETS		83,026	25,536
LIABILITIES			
Financial liabilities at amortized cost		72,560	19,364
Deposits from customers	17.1	71,701	18,885
Borrowings from other clients	17.2	859	479
Reserves	18	205	147
Deferred tax liabilities	11.2	2	2
Other liabilities	19	888	167
TOTAL LIABILITIES		73,655	19,680
EQUITY			
Share capital	20	16,480	11,980
Accumulated losses		(6,125)	(4,671)
Current year losses		(984)	(1,453)
TOTAL EQUITY		9,371	5,856
TOTAL EQUITY AND LIABILITIES		83,026	25,536
OFF-BALANCE SHEET ITEMS	22	43,129	19,579


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

Podgorica, 31 March 2021

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



 Djordje Lukic
 CEO


 Miroslav Vukovic
 Head of Accounting and Financial Controlling

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

In EUR thousand	Share capital	Accumulated losses	TOTAL
Balance as of 1 January 2019	<u>11,980</u>	<u>(4,671)</u>	<u>7,309</u>
Loss for the year	-	(1,453)	(1,453)
Balance as of 31 December 2019	<u>11,980</u>	<u>(6,124)</u>	<u>5,856</u>
Share issuance	4,500	-	4,500
Other	-	(1)	(1)
Loss for the year	-	(984)	(984)
Balance as of 31 December 2020	<u>16,480</u>	<u>(7,109)</u>	<u>9,371</u>

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

Podgorica, 31 March 2021

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



Djordje Lukic
CEO




Miroslav Vukovic
Head of Accounting and Financial Controlling

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

In EUR thousand	2020	2019
Cash flows from operating activities		
Interest and similar receipts	1,091	873
Interest and similar outflows	(220)	(145)
Fee and commission receipts	783	201
Fees and commissions paid	(379)	(282)
Payments to employees and suppliers	(2,108)	(1,809)
Outflows from increases in loans and other assets	(18,335)	2,446
Inflows from deposits and other liabilities	52,782	586
Net cash inflows/(outflows) from operating activities	33,614	1,870
Cash flows from investing activities		
Purchase of property and equipment	(312)	(2)
Purchase of intangible assets	(21)	(1)
Treasury bills and bonds	(23,060)	-
Receipts from the sale of tangible and long-term assets	1	-
Net cash inflows/(outflows) from investing activities	(23,392)	(3)
Cash flows from financing activities		
Issue of share capital	4,500	-
Inflow (outflow) from borrowings	380	421
Outflows from lease liabilities - principal	(73)	-
Net cash inflows from financing activities	4,807	421
Effects of FX gains/losses	350	3
Net increase in cash and cash equivalents	15,379	2,291
Cash and cash equivalents at the beginning of the year	12,949	10,658
Cash and cash equivalents at the end of the year (Notes 12 and 13.1)	28,328	12,949

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

Podgorica, 31 March 2021

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



 Djordje Lukic
 CEO


 Miroslav Vukovic
 Head of Accounting and Financial Controlling

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.

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.

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

As at 31 December 2020, the Bank consisted of a Head Office, headquartered in Podgorica, and a branch at Cetinjska 9/1, Podgorica.

As at 31 December 2020, the Bank had 35 employees (31 December 2019: 30 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 2020, with respect to the format of presentation of financial statements. Additionally, the application of IFRS 16 – Leases was postponed to 1 January 2020 in accordance with the letter of the Central Bank of Montenegro no. 03-105-1/2019, dated 9 January 2019.

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 be 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.

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. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)**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 receivables
- 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

The achieved results may depart from these estimates.

2.3. Going Concern

The accompanying financial statements as of 31 December 2020 and for the year ended 31 December 2019 have been prepared in accordance with the going concern principle.

The Bank's income statement for the year ended 31 December 2020 presents a loss in the amount of EUR 984 thousand, while the total accumulated loss on that day amounts to EUR 7,109 thousand, which is in accordance with the Bank's business plan. The capital adequacy ratio as of 31 December 2020 amounts to 26.30%, whereas 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.

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 2020.

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 2019.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.2. Foreign Exchange Translation**

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.

3.3. Lease

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.

First-time Adoption of IFRS 16

The first-time adoption of IFRS 16 "Leases" for the banking sector of Montenegro was postponed for 1 January 2020 in accordance with the notification of the Central Bank of Montenegro No. 03-105-1/2019 of 9 January 2019.

The Bank estimated the impact of the standard on the lease contract of business premises which was valid as of 1 January 2020 by using the retrospective approach in accordance with paragraph C5(b), whereby comparative figures will not be adjusted. The discount rate used is the Bank's incremental borrowing rate. Efekti primjene standard na dan 01.01.2020.godine su prikazani u tabeli koja slijedi:

	1 January 2020
Right-of-use assets	62
Short-term lease liabilities	63
Long-term lease liabilities	-
Profit/Equity	<u>(1)</u>

As of 1 January 2020, the Bank recognised right-of-use assets and short-term lease liabilities in the amount of EUR 62 thousand and it did not record an adjustment to equity as the effect of the first-time adoption of the standard.

The Bank measured the effects of applying the Standard on 1 January 2020, with the exception of a lease contract whose term is less than 12 months. In accordance with the amended requirements of IFRS 16, only the lease contract for the head office building of the Bank is included in its scope and the actual effects are:

- Effect on the balance sheet: increase in assets and liabilities in amount of EUR 62 thousand,
- Effect on the equity: negative effect of EUR 1 thousand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 carryforward 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 carryback 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.

3.5. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Financial Assets****3.7.1. Classification**

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

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.

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.

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.

Bank has defined its business model as "hold to collect", i.e. the holding of financial assets for the collection of contractual cash flows. The Bank's portfolio is observed as a whole given its size, having in mind the fact that the Bank's business model is the same for the entire portfolio. Reclassification of financial assets under IFRS 9 is only required when an entity changes its business model for financial asset management and it is not allowed for financial liabilities; therefore, reclassification is expected to be very rare. In the area of classification and measurement, the Bank did not find any significant risk that would require the Bank that it should measure a part of its loan portfolio at fair value through profit and loss, given the contractual characteristics of the cash flow of financial instruments in the Bank's portfolio (SPPI test).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Financial Assets (Continued)****3.7.2. Measurement and Recognition**

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

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

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

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

Subsequent Measurement

Assets classified under assets measured at amortized cost

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

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

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

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

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

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

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

3.7.3. Derecognition

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.8. Provisions and Impairment Allowance of Irrecoverable Receivables*****Calculation of impairment of financial assets and provision for off-balance sheet items***

Pursuant to the Decision 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 assess 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. Additionally, the Bank is obliged to determine an internal methodology for the classification, measurement and impairment of assets in accordance with International Financial Reporting Standard 9 (IFRS 9).

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). 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 2014 to 31 December 2019.

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:

- Internal rating movements:
 - Classification of the client into the next, worse classification category in accordance with the Central Bank of Montenegro Decision.
- Proper settlement of liabilities:
 - Significant material delay of 30 or more days
 - Restructuring due to financial difficulties, if the borrower is in delay of 30 to 60 days.
 - Blocked accounts by the Bank or other creditors for more than 30 days
- Debtor's behaviour and other:
 - Intervention resulting from an issued guarantee or other off-balance sheet exposures,
 - Undelivered contractual security instruments within the deadlines in accordance with the contracts.

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;
- Restructuring due to financial difficulties, if the borrower is in delay for more than 60 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

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 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.

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 categories:

- category A (good assets) – items which are estimated to be fully collected in accordance with the agreement;
- category B (assets with a special note) - with subgroups B1 and B2, for items 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;
- category C (sub-standard assets) – with subgroups C1 and C2, for items for which there is high probability of loss due to the clearly identified weaknesses that affect collectability;
- category D (doubtful assets) – items whose full collection is highly unlikely taking into consideration the creditworthiness of the borrower and value and quality of the collateral realisation;
- category E (loss) – items that are fully irrecoverable or will be collectible in an insignificant amount.

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:

Risk category	31 December 2020		31 December 2019	
	% 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 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.

The positive difference between the calculated provisions for potential losses and the sum of impairment allowances for balance sheet items and provisions for off-balance sheet items represents the required reserve for estimated 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.

	<u>Rate in %</u>
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.

	<u>Rate in %</u>
Intangible assets	20.0-33.3

3.10. Impairment of Tangible and Intangible Assets

On 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.11. 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.

3.12. 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 2020 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.

3.13. 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.

3.14. 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)**3.15. 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.

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 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 policies, 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.

4. FINANCIAL INSTRUMENTS (Continued)**4.2. Credit Risk (Continued)**

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.

4.2.1. 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 Central Bank of Montenegro Decision, the Bank is obliged to carry out a quarterly impairment assessment (for balance sheet items), i.e. an estimate of a probable loss (for off-balance sheet items) regarding all balance sheet and off-balance sheet items that are exposed to credit risk. 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 2020		31 December 2019	
	Gross	Net	Gross	Net
Balance sheet items				
Cash and deposit accounts with central banks	22,054	22,054	9,533	9,533
Loans and receivables from banks	6,274	6,256	3,416	3,401
Loans and receivables from clients	28,702	28,090	10,377	10,043
Securities	25,262	25,149	2,010	2,001
Other financial assets	10	10	10	10
Other assets	279	279	95	95
	82,581	81,838	25,440	25,082
Off balance sheet items				
Payment guarantees	544	507	510	472
Performance guaranties	5,359	5,322	340	338
Other guaranties	100	95	100	95
Undrawn credit facilities	3,209	3,194	414	413
	9,212	9,118	1,364	1,318
Maximum credit risk exposure	91,793	90,956	26,804	26,400

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 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 AND SECURITIES

31 December 2019	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment allowance	Net
Loans and advances to banks	3,416	-	-	3,416	(15)	-	-	(15)	3,401
Housing and mortgage loans	1,452	-	36	1,488	(3)	-	(14)	(17)	1,471
Cash loans	833	66	49	948	(10)	(6)	(32)	(48)	900
Consumer loans	30	3	-	33	(1)	-	-	(1)	32
Overdrafts	9	-	-	9	-	-	-	-	9
Cards – retail customers	4	-	-	4	-	-	-	-	4
Private SME loans	1,839	670	33	2,542	(9)	(18)	(3)	(30)	2,512
Loans to state companies	-	-	-	-	-	-	-	-	-
Loans to public administration	-	-	-	-	-	-	-	-	-
Loans to large private companies	3,422	1,596	335	5,353	(127)	(91)	(20)	(238)	5,115
Loans and advances to customers	7,589	2,335	453	10,377	(150)	(115)	(69)	(334)	10,043
Securities	2,010	-	-	2,010	(9)	-	-	(9)	2,001
Total	13,015	2,335	453	15,803	(174)	(115)	(69)	(358)	15,445

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

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	6,274	-	-	-	-	6,274
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	-	-	-	-

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	6,274	-	-	-	-	6,274
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)

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

31 December 2019	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	3,416	-	-	-	-	3,416
Housing and mortgage loans	1,452	-	-	-	-	1,452
Cash loans	813	20	-	-	-	833
Consumer loans	28	2	-	-	-	30
Overdrafts	9	-	-	-	-	9
Cards – retail customers	4	-	-	-	-	4
Private SME loans	1,597	242	-	-	-	1,839
Loans to state companies	-	-	-	-	-	-
Loans to public administration	-	-	-	-	-	-
Loans to large private companies	2,913	509	-	-	-	3,422
Loans and advances to customers,	6,816	773	-	-	-	7,589
Out of which: restructured:	-	-	-	-	-	-

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

31 December 2019	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	45	-	21	-	-	66
Consumer loans	-	2	1	-	-	3
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	-	85	408	177	-	670
Loans to state companies	-	-	-	-	-	-
Loans to public administration	-	-	-	-	-	-
Loans to large private companies	1,098	498	-	-	-	1,596
Loans and advances to customers,	1,143	585	430	177	-	2,335
Out of which: restructured:	-	-	-	-	-	-

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

31 December 2019	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	-	-	-	-	69	69
Cash loans	-	4	-	-	45	49
Consumer loans	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	-	-	-	-	-	-
Loans to state companies	-	-	-	-	-	-
Loans to public administration	-	-	-	-	-	-
Loans to large private companies	-	-	-	-	335	335
Loans and advances to customers,	-	4	-	-	449	453
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 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%
31 December 2019	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	3,416	15	-	-	-	-	0%
Housing and mortgage loans	1,488	17	36	14	-	-	2%
Cash loans	948	48	49	32	-	-	5%
Consumer loans	33	1	-	-	-	-	0%
Overdrafts	9	-	-	-	-	-	0%
Cards – retail customers	4	-	-	-	-	-	0%
Private SME loans	2,543	30	33	3	-	-	1%
Loans to state companies	-	-	-	-	-	-	0%
Loans to large private companies	5,352	238	335	20	-	-	6%
Loans and advances to customers	10,377	334	453	69	-	-	4%

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 31/12/2019	New S3 customers	Reduction in S3 customers	Other changes	Gross as of 31/12/2020	Net as of 31/12/2020
Loans and advances to banks	-	-	-	-	-	-
Housing and mortgage loans	36	170	18	-	187	142
Cash loans	49	31	5	-	76	26
Consumer loans	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Cards – retail customers	-	-	-	-	-	-
Private SME loans	33	223	7	-	249	246
Loans to state companies	-	-	-	-	-	-
Loans to large private companies	335	-	335	-	-	-
Loans and advances to customers	453	424	365	-	512	414

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	748	15	597	154	1,514	(47)	1,467
Cash loans	52	12	1,076	-	1,140	(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	(134)	6,359
Loans to state-owned enterprises	498	-	-	-	498	-	498
Loans to public administration	-	-	-	4,997	4,997	(23)	4,974
Loans to large private companies	2,202	265	9,112	2,421	14,001	(306)	13,695
Cards – retail customers	-	-	4	-	4	-	4
	5,035	801	15,265	7,798	28,701	(611)	28,090
Loans and advances to banks	-	-	6,274	-	6,274	(18)	6,256
31 December 2020	5,035	801	21,539	7,798	34,975	(629)	34,346
Housing and mortgage loans	643	-	824	22	1,489	(17)	1,472
Cash loans	96	-	852	-	948	(48)	900
Consumer loans	-	1	31	-	32	(1)	31
Overdrafts	-	-	9	-	9	-	9
Loans to medium and small private enterprises	873	383	1,076	210	2,542	(30)	2,512
Loans to state-owned enterprises	-	-	-	-	-	-	-
Loans to public administration	-	-	-	-	-	-	-
Loans to large private companies	549	-	4,469	336	5,353	(238)	5,115
Cards – retail customers	-	-	4	-	4	-	4
	2,161	384	7,265	568	10,377	(334)	10,043
Loans and advances to banks	-	-	3,416	-	3,416	(15)	3,401
31 December 2019	2,161	384	10,681	568	13,793	(349)	13,444

As of December 31 2020, 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	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
Consumer loans	-	1	-	-	-	-	-	1
Loans to medium and small private enterprises	3	380	-	-	-	-	-	383
31 December 2019	3	381	-	-	-	-	-	384

b) Fair value of collaterals

	31 December 2020	31 December 2019
Deposits	3,231	657
Mortgages	27,027	16,017
Pledges	3,410	1,310
Insurance policies	212	218
Total	33,880	18,202

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:

- extended the principal or interest maturity,
- decreased the interest rate on the loan approved,
- decreased the debt amount, principal or interest, or
- 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 2020, the Bank had one restructured loan of a total credit exposure of EUR 271 thousand.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

c) Restructured loans and advances (Continued)

Pursuant to the Decision on Temporary Measures for Mitigating Negative Effects of the Covid-19 Pandemic on the Financial System ("Official Gazette", no. 80/20 dated 4 August 2020, no. 105/20 dated 29 October 2020), the Bank approved a moratorium or other restructuring measures to its customers that are greatly affected by the pandemic. According to the Decision, the Bank approved facilities for 8 corporate customers and one retail customer. The facilities are related to the moratorium approval and a prolonged repayment of placements with a grace period.

A total exposure of these placements amounts to EUR 1,654 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 and Stage 2.

MORATORIUM for the tourism and agriculture, forestry and fishery sectors:

Classification	Level 1	Level 2	Level 3
B1	-	507	-
Total	-	507	-

RESTRUCTURED LOANS for the tourism and agriculture, forestry and fishery sectors referred to under item 4 of the applicable Decision on temporary measures:

Classification	Level 1	Level 2	Level 3
B1	-	318	-
B2	-	520	-
Total	-	838	-

OTHER RESTRUCTURED LOANS referred to under item 5 of the Decision on temporary measures:

Classification	Level 1	Level 2	Level 3
B1	-	172	-
C1	-	-	137
Total	-	172	137

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	Azerbaijan	Serbia	Macedonia	USA	China	EU	Total
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
Loans and advances to banks	-	1,132	433	-	995	-	-	-	841	3,401
Loans and advances to customers	9,445	-	-	3	14	1	-	-	580	10,043
31 December 2019	9,445	1,132	433	3	1,009	1	-	-	1,421	13,444

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	Processing industry	Electricity supply	Water supply	Construction	Trade	Traffic	Hospitality industry	Administration	ICT	Real estate	Public admin.	Sport	Services	Agriculture	Retail	Total
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
Loans and advances to banks	3,401	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,401
Loans and advances to customers	-	464	545	257	433	1,472	270	2,524	137	443	352	-	-	731	-	2,415	10,043
31 December 2019	3,401	464	545	257	433	1,472	270	2,524	137	443	352	-	-	731	-	2,415	13,444

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Quality of Financial Placements (Continued)

LOANS AND ADVANCES TO CUSTOMERS WITH COLLATERALS

31 December 2020	S1 customers				S2 customers				S3 customers			
	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
31 December 2019	S1 customers				S2 customers				S3 customers			
	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total	Property	Deposits	Other collaterals	Total
Housing and mortgage loans	1,336	28	-	1,364	-	-	-	-	29	-	-	29
Cash loans	6	88	23	117	-	22	-	22	-	-	-	-
Consumer loans	-	-	-	-	-	1	-	1	-	-	-	-
Overdrafts	-	-	-	-	-	-	-	-	-	-	-	-
Cards - retail	-	-	-	-	-	-	-	-	-	-	-	-
SME loans	1,705	2	-	1,707	378	-	-	378	33	-	-	33
Loans to state companies	-	-	-	-	-	-	-	-	-	-	-	-
Loans to large private companies	1,219	250	138	1,607	999	-	400	1,399	330	-	-	330
Loans and advances to customers	4,266	368	161	4,795	1,377	23	400	1,800	392	-	-	392

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	1.653	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
Up to one year	309	730	1.039
From 1 to 2 years	100	155	255
Over 2 years	4	20	24
31 December 2019	413	905	1.318

4. FINANCIAL INSTRUMENTS (continued)**4.3. Market Risk**

The Bank is exposed to market risks. Market risks arise from open positions due to changes in interest rates and 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:

<i>In thousands of EUR</i>	USD	CHF	GBP	Other	Total
Assets in foreign currencies	3,425	6	11	246	3,688
Liabilities in foreign currencies	3,419	-	-	245	3,664
Net open position:					
- 31 December 2020	6	6	11	1	24
- 31 December 2019	14	3	2	-	19
% of the core capital:					
- 31 December 2020	0.07%	0.07%	0.12%	0.01%	
- 31 December 2019	0.26%	0.05%	0.04%	-	
Aggregate open position:					
- 31 December 2020	24				
- 31 December 2019	19				

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.

	Total	Amount in foreign currency	In thousands of EUR Change in exchange rates	
			10%	-10%
ASSETS				
Cash balances and deposits with central banks	22,054	64	6	(6)
Loans and receivables to banks	6,274	3,624	362	(362)
Total assets	28,328	3,688	369	(369)
LIABILITIES				
Deposits of the clients	71,701	3,664	366	(366)
Total liabilities	71,701	3,664	366	(366)
Net currency risk exposure:				
- 31 December 2020			2	(2)
- 31 December 2019			3	(3)

As of 31 December 2020, 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 3 thousand (31 December 2019: EUR 3 thousand). The cause of the small 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.

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.

ADRIATIC BANK A.D. PODGORICA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
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 2020:

In thousands of EUR	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash balances and deposits with central banks	19,660	2,394	22,054
Loans and receivables from banks	6,256	-	6,256
Loans and receivables from clients	28,090		28,090
Investment securities	25,149		25,149
Other financial assets	-	10	10
Other assets	100	179	279
Total assets	79,255	2,583	81,838
LIABILITIES			
Deposits due to clients and banks	32,875	38,826	71,701
Borrowings from other clients	859	-	859
Other liabilities	-	888	888
Total liabilities	33,734	39,714	73,448
Interest rate GAP:			
- 31 December 2020	45,521	(37,131)	8,390
- 31 December 2019	7,765	(2,136)	5,629

Interest rate GAP as of 31 December 2020 is presented in the following table:

In thousands of EUR

Interest sensitive assets	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Total
Cash balances and deposits with central banks	19,660	-	-	-	-	19,660
Loans and receivables from banks	6,256	-	-	-	-	6,256
Interest bearing securities	-	4,573	-	-	20,576	25,149
Loans and receivables from clients	1,898	1,009	6,714	5,985	12,484	28,090
Other assets	100	-	-	-	-	100
Total	27,914	5,582	6,714	5,985	33,060	79,255
% total interest-bearing assets	35.22%	7.04%	8.47%	7.55%	41.72%	100%
Interest sensitive liabilities						
Interest-bearing deposit	13,359	9,507	1,279	6,703	2,027	32,875
Interest-bearing liabilities	9	19	53	136	642	859
Total	13,368	9,526	1,332	6,839	2,669	33,734
% interest bearing liabilities	39.63%	28.24%	3.95%	20.27%	7.91%	100%
Interest rate GAP:						
- 31 December 2020	14,546	(3,944)	5,382	(854)	30,391	45,521
- 31 December 2019	3,486	(322)	1,032	963	2,606	7,765
Cumulative GAP:						
- 31 December 2020	14,546	10,602	15,984	15,130	45,521	
- 31 December 2019	3,486	3,164	4,196	5,159	7,765	

4. FINANCIAL INSTRUMENTS (continued)
4.4. Liquidity risk

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

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

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 2020, 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.

ADRIATIC BANK A.D. PODGORICA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
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

	<u>Up to a month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 6 months</u>	<u>From 6 to 12 months</u>	<u>From 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
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:							
Receivables from banks	6.276	-	-	-	-	-	6.276
Receivables from clients	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
Interest receivables, 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 amortized cost:							
Deposits of clients	14.817	23.317	13.099	8.039	12.299	10	71.581
Borrowings from other clients	9	19	53	136	642	-	859
Interest liabilities, prepayments, accruals*	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							
- 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%	

*Interest 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:							
Receivables from banks	6,276	-	-	-	-	-	6,276
Receivables from clients	1,608	1,007	6,711	5,971	12,603	798	28,698
Securities	-	25,003	-	-	-	-	25,003
Other financial assets	10	-	-	-	-	-	10
Interest receivables, 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 of clients	18,552	27,900	4,781	8,039	12,299	10	71,581
Borrowings from other clients	9	19	53	136	642	-	859
Interest liabilities, prepayments, accruals*	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	
% of total funds							
- 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%	

*Interest 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.

ADRIATIC BANK A.D. PODGORICA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
4. FINANCIAL INSTRUMENTS (continued)
4.4. Liquidity risk (continued)

The remaining contractual maturity matching of financial assets and liabilities as of 31 December 2019 is as follows

In thousands of EUR

	<u>Up to a month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 6 months</u>	<u>From 6 to 12 months</u>	<u>From 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Cash and cash equivalents:							
Cash and cash equivalents	8,059	-	-	-	-	-	8,059
Mandatory reserve	737	-	-	-	738	-	1,475
Financial assets at amortized cost:							
Receivables from banks	3,416	-	-	-	-	-	3,416
Receivables from clients	861	969	2,061	2,734	2,835	903	10,363
Securities	-	-	-	2,000	-	-	2,000
Other financial assets	10	-	-	-	-	-	10
Interest receivables, prepayments and accruals and impairments*	37	-	-	1	(371)	-	(333)
Total	13,083	969	2,061	4,734	3,573	903	25,323
Financial liabilities at amortized cost:							
Deposits of clients	12,045	1,273	1,050	1,700	2,720	10	18,798
Borrowings from other clients	9	18	28	65	359	-	479
Interest liabilities, prepayments, accruals*	9	38	10	15	12	1	85
Other liabilities:	167	-	-	-	2	-	169
Total	12,221	1,291	1,078	1,765	3,081	10	19,446
Maturity GAP:							
- 31 December 2019	862	(322)	983	2,969	492	893	5,877
- 31 December 2018	(684)	367	1,508	(227)	4,945	1,106	7,015
Cumulative GAP:							
- 31 December 2019	862	540	1,523	4,492	4,984	5,877	
- 31 December 2018	(684)	(317)	1,191	964	5,909	7,015	
% of total funds:							
- 31 December 2019	4.43%	2.78%	7.83%	23.10%	25.63%	30.22%	
- 31 December 2018	-3.70%	-1.72%	6.45%	5.22%	32.00%	37.99%	

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

4. FINANCIAL INSTRUMENTS (continued)

4.4. Liquidity risk (continued)

When calculating maturity and cumulative gaps, interest receivables, interest 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.

ADRIATIC BANK A.D. PODGORICA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
4. FINANCIAL INSTRUMENTS (continued)
4.6. Fair Value of Financial Assets and Liabilities

As of 31 December 2020, the Bank has no financial assets initially classified at fair value. Fair value of financial assets and liabilities as of 31 December 2020 is as follows:

In thousands of EUR

	Carrying Value		Fair Value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Financial assets				
Cash and other deposits to CBM	22,054	9,533	22,054	9,533
Loans and receivables to banks	6,274	3,401	6,274	3,401
Loans and receivables to clients	28,090	10,043	28,090	10,043
Securities	25,149	2,001	25,149	2,001
Other financial assets	10	10	10	10
Other assets	279	94	279	94
Financial liabilities				
Deposits due to clients	71,701	18,885	71,701	18,885
Borrowing from other clients	859	479	859	479
Other liabilities	888	167	888	167

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

	Stage 1	Stage 2	Stage 3	Total
31 December 2020				
Financial assets:				
Cash and other deposits to CBM	-	22,054	-	22,054
Loans and receivables to banks	-	6,256	-	6,256
Loans and receivables to clients	-	-	28,090	28,090
Securities at amortised cost	25,149	-	-	25,149
Other financial assets	-	10	-	10
Other assets	-	-	279	279
Total	25,149	28,320	28,369	81,838
31 December 2019				
Financial assets:				
Cash and other deposits to CBM	-	9,533	-	9,533
Loans and receivables to banks	-	3,401	-	3,401
Loans and receivables to clients	-	-	10,043	10,043
Securities at amortised cost	2,001	-	-	2,001
Other financial assets	-	10	-	10
Other assets	-	-	94	94
Total	2,001	12,944	10,137	25,082

4. FINANCIAL INSTRUMENTS (continued)

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

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

a) *Loans and Receivables from Banks*

Loans and receivables from 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 Receivables from Clients*

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

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 clients 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 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 2020, the capital adequacy ratio calculated by the Bank for statutory financial statements equalled 26.30%.

5. INTEREST INCOME, INTEREST EXPENSES AND SIMILAR INCOME

5.1. Interest Income

In thousands of EUR	2020	2019
Loans to:		
- privately-owned companies	756	561
- Government of Montenegro	16	-
- state-owned companies	10	19
- entrepreneurs	5	8
- retail clients	157	169
	<u>944</u>	<u>757</u>
Loan origination fee income	59	59
Interest income on impaired financial assets (Note 13.2)	13	20
	<u>1,016</u>	<u>836</u>
Securities:		
Securities at amortized cost	256	80
	<u>256</u>	<u>80</u>
	<u>1,272</u>	<u>916</u>

5.2. Interest Expenses

In thousands of EUR	2020	2019
Assets on the account of:		
- International banks	-	1
	<u>-</u>	<u>1</u>
Deposits:		
- IRF	44	44
- state owned companies	-	10
- privately-owned companies	20	1
- insurance companies	-	1
- retail clients	167	109
	<u>231</u>	<u>165</u>
Lease - IFRS 16:		
- Capital Plaza (head office and branch)	13	-
	<u>13</u>	<u>-</u>
Borrowings:		
- IRF	11	6
	<u>11</u>	<u>6</u>
	<u>255</u>	<u>172</u>

6. FEE AND COMMISSION INCOME AND EXPENSES**6.1. Fee and Commission Income**

In thousands of EUR	<u>2020</u>	<u>2019</u>
Domestic payments	269	60
International payments	70	56
E-banking	368	31
Approved guarantees	53	9
Cards	57	39
Other	3	6
	<u>820</u>	<u>201</u>

6.2. Fee and Commission Expenses

In thousands of EUR	<u>2020</u>	<u>2019</u>
Fees and commissions payable to the Central Bank	56	40
Fees and commissions for international payment transactions	104	51
Deposit protection premium fees	125	100
Fees and commissions for card business	80	77
Fees and commissions for e-banking	14	14
	<u>379</u>	<u>282</u>

7. PERSONNEL EXPENSES

In thousands of EUR	<u>2020</u>	<u>2019</u>
Net salaries	638	629
Remunerations to Board of Directors members	134	-
Taxes and contributions on salaries	430	432
Other employee benefits. net	1	1
Service contract	-	1
Business travel costs and per diems	30	11
Provision for unused vacations (Note 18)	31	(3)
Provisions for severance pay (note 18)	(25)	50
Employee training costs	1	2
	<u>1,240</u>	<u>1,123</u>

ADRIATIC BANK A.D. PODGORICA**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020****8. GENERAL AND ADMINISTRATIVE EXPENSES**

In thousands of EUR	2020	2019
Rental costs	23	118
Security services	23	31
Electricity, utilities and fuel costs	14	17
Cleaning services	11	9
License costs and software maintenance	219	247
Objects, equipment, IT equipment, ATM maintenance costs	29	13
Legal fees	54	44
Insurance costs	15	14
External control expenses	151	129
Consultant fees	29	8
Phone charges	12	13
Communication network costs	30	18
Office supplies	11	4
Entertainment costs	6	5
Advertising and marketing	71	15
Membership fees	16	16
Subscription costs	15	13
Vehicle maintenance and registration costs	2	2
Costs related to securities	25	-
Write-off of plastics for the cards	16	-
Miscellaneous expenses	11	4
	783	720

9. DEPRECIATION AND AMORTIZATION

In thousands of EUR	2020	2019
Property and equipment (Note 14)	112	116
Intangible assets (Note 15)	137	133
Right-of-use assets (Note 14)	78	-
	327	249

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

In thousands EUR	2020	2019
Net increase of provisions impairment losses for:		
- loans and advances to clients (note 13.2)	280	5
- loans and advances to banks (note 13.1)	3	5
- securities (note 13.3)	104	2
- approved guarantees (note 22)	34	21
- Approved unused loans (note 22)	14	-
	435	33

11. INCOME TAXES**11.1. Components of Income Tax**

In thousands of EUR	2020	2019
Deferred income taxes	-	(10)
	-	(10)

In thousands of EUR	2020	2019
Profit before tax	(984)	(1,463)
Income tax at Law rate of 9%	(75)	(116)
Unrecognized tax asset on tax losses	75	116
Effects of different treatment on fixed assets for tax purposes	-	10
Income tax in income statement	-	10
Effective tax rate	0.00%	-0.69%

The tax rate used in 2020, 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 2019	-	(2)	(2)
Increase in deferred tax liability based on temporary differences between accounting and tax values of property, equipment and intangible assets	-	-	-
Balance as of 31 December 2020	-	(2)	(2)

Deferred tax assets amounting to EUR 75 thousand after tax loss carry forward from 2020 has not been recognized (for 2018, EUR 116 thousand). In accordance with the Law on Corporate Income Tax of Montenegro, tax losses can be used to up to the end of 2025 (for 2019 up to 2024).

ADRIATIC BANK A.D. PODGORICA**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020****12. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS**

In thousand EUR	31 December 2020	31 December 2019
Cash on hand:		
- in EUR	1,203	782
- in foreign currencies	64	155
Gyro account:		
- in EUR	18,571	7,061
Obligatory reserves held with the Central Bank of Montenegro	2,180	1,475
Other	36	60
	22,054	9,533

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 2020, 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 RECEIVABLES FROM BANKS**

In thousand EUR	31 December 2020	31 December 2019
Correspondent accounts with foreign banks	5,289	3,416
Time deposits with foreign banks	814	-
Accounts with local banks	171	-
Impairment loss	(18)	(15)
	6,256	3,401

As of 31 December 2020, the Bank has an open account with the following foreign banks: VTB Moscow, SberBank Bosnia and Herzegovina, AIK Bank Serbia and KT Bank Germany, Transkapital bank Russia, Kentbank DD Croatia, Yinzhou Bank China, Intercapital Securities Croatia and The Reserve Trust Company USA. Deposits placed in banks abroad as at 31 December 2019 fully represent a vista deposits with negative interest calculated on the balances exceeding certain limits. Limits for the balances over which negative interest is calculated are for SberBank Bosnia and Herzegovina and VTB Moscow EUR 500 thousand, for KT Bank Germany EUR 1,000 thousand while for the balances placed with AIK Bank Serbia negative interest is not charged. VTB Moscow calculates positive interest on the balance in rubles.

Time deposits with foreign banks in the amount of EUR 814 thousand (USD 1,000 thousand) relate to a deposit with SberBank Bosnia and Herzegovina at an interest rate of 0.07% with a term of 15 days.

13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

ADRIATIC BANK A.D. PODGORICA**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020****13.1. LOANS AND RECEIVABLES FROM BANKS (continued)**

As at 31 December 2020, the Bank has 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 at 31 December 2020 amount to EUR 171 thousand and represent avista deposits.

In accordance to IFRS9, Bank calculated impairment on loans and receivables from banks in amount of EUR 18 thousand.

Movements on impairment losses for loans and receivables from banks

In thousand EUR	Balance as of 31 December 2019	Impairment during the year	Reversal of impairment during the year	Balance as of 31 December 2020
Impairment losses for loans and receivables from banks	15	47	(44)	18

13.2. LOANS AND RECEIVABLES FROM CUSTOMERS

In thousand EUR	31 December 2020	31 December 2019
Matured loans:		
- privately-owned companies	3,425	2,340
- entrepreneurs	93	-
- retail customers	200	130
Short-term loans:		
- privately-owned companies	5,142	2,980
- privately-owned companies non-residents	1,499	580
- retail costumers	9	38
Long-term loans:		
-privately-owned companies	9,827	1,871
-state-owned companies	500	-
- Government of Montenegro, Ministry of Finance	5,000	-
- privately-owned companies non-residents	500	-
- entrepreneurs	-	113
- retail customers	2,499	2,308
- cards retail	4	4
	28,698	10,364
Interest receivables:		
- loans	40	22
Accruals and prepayments:		
- interest on loans	63	28
- loan origination fees	(100)	(37)
	3	13
Total	28,701	10,377
Minus:		
Impairment losses on loans	(611)	(334)
Total	28,090	10,043

13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

ADRIATIC BANK A.D. PODGORICA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
13.2. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Movements of loans and receivables during 2020 is shown in the table below:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Gross loans and receivables from clients 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 receivables from clients 31 December 2019	23,713	4,476	512	28,701

Movements in impairment of loans and receivables by risk levels during 2020 are shown in the table below:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
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 14 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 2% to 11.45% per annum.

Movements on the impairment balances are shown below:

Balance on 1 January 2019	347
Impairments (note 10)	361
Reversal of impairment for the year (note 10)	(357)
Interest accrued on impaired receivables (note 5.1)	(17)
Balance on 31 December 2019	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

13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)

13.2. LOANS AND RECEIVABLES FROM 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 2020	31 December 2019
Montenegro	26,084	9,479
Azerbaijan	-	3
Macedonia	-	1
Serbia	514	14
Russia	4	-
USA	202	-
EU	1,286	546
	28,090	10,043

The concentration of loans and receivables from customers per industry was as follows:

In thousand EUR	31 December 2020	31 December 2019
State administration	4,977	-
Trade	4,046	1,473
Construction	2,897	433
Manufacturing	2,038	464
Accommodation and nutrition services	3,185	2,523
Electricity supply	1,779	545
Water supply	803	257
Traffic and storage	327	270
Information and communication	1,546	443
Other service activities	713	731
Real estate	213	352
Professional, scientific and technical activities	1,897	137
Agriculture	614	-
Sport	492	-
Retail	2,563	2,415
	28,090	10,043

ADRIATIC BANK A.D. PODGORICA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
13. FINANCIAL ASSETS AT AMORTIZED COSTS (continued)
13.3. SECURITIES

As at 31 December 2020 the portfolio of the securities valued at amortized cost amounts to EUR 25,149 thousand and consists of the followings:

In thousand EUR	31 December 2020	31 December 2019
Long-term debt instruments – bonds of the Ministry of Finance of the Government of Montenegro	-	2,000
Long-term debt instruments – EUR bonds of the Ministry of Finance of the Government of Montenegro	25,003	-
Unamortized premium / discount	(255)	-
Interest receivable	514	10
Allowance for impairment of securities	(113)	(9)
	25,149	2,001

The maturity of the securities is presented in the table below:

	Amount due within 1 year	Amount due in over 1 year	Annual interest rate	Maturity date
Long - term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro XS MNE 2021	4,573	-	5.750%	10.03.2021
Long - term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro XS MNE 2025	-	10,930	3.375%	21.04.2025
Long - term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro XS MNE 2027	-	3,000	2.875%	16.12.2027
Long - term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro XS MNE 2029	-	6,500	2.550%	03.10.2029
	4,573	20,430		

In accordance to IFRS 9, Bank calculated impairment losses on securities valued at amortized cost.

Movements on allowance accounts of securities

In thousand	Balance as of 31 December 2019	Additions	Balance as of 31 December 2020
Allowance for impairment of securities	9	104	113

14. PROPERTY, PLANT AND EQUIPMENT

Movements on property and equipment and other assets during 2020 are presented in the following table:

a) Property, plant and equipment

In thousand EUR	Leasehold improvements	Equipment and other assets	Total
Cost			
Balance as at 1 January 2019	97	565	662
Additions	2	-	2
Balance as at 31 December 2019	99	565	664
Additions	68	242	310
Decreases	(99)	(14)	(113)
Balance as at 31 December 2020	68	793	861
Allowance for impairment			
Balance as at 1 January 2019	85	245	330
Depreciation (Note 9)	14	103	117
Balance as at 31 December 2019	99	348	447
Depreciation (Note 9)	3	109	112
Decreases	(99)	(9)	(108)
Balance as at 31 December 2020	3	448	451
Carrying value:			
- 31 December 2020	65	345	410
- 31 December 2019	-	217	217

As at 31 December 2020, the Bank does not have own property under collateral agreements for insuring the repayment of loans and other liabilities.

As at 31 December 2020, the value of property, plant and equipment and right-of-use assets (note 14 b) amounts to EUR 1,067 thousand (2019: EUR 217 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 lease agreements as of 31 December 2020 are shown in the table below:

Right-of-use assets (in thousands of EUR)

	Business premises
Balance as of 1 January 2020	62
Additions	692
Depreciation	(78)
Termination of the asset contract	(62)
Termination of contract accumulated depreciation	43
Balance as of 31 December 2020	657

Lease liabilities (in thousands of EUR)

	Business premises
Balance as of 1 January 2020	63
Additions	693
Interest expense	13
Termination of contract	(18)
Lease payments	(88)
Balance as of 31 December 2020 (note 19)	663

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

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

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Maturities of lease liabilities	5	10	15	30	260	343	663
Total	5	10	15	30	260	343	663

15. INTANGIBLE ASSETS

Intangible assets are mostly comprised of licenses and software. The movements on intangible assets in the 2020 were as follows:

In thousand EUR	31 December 2020	31 December 2019
Cost		
Balance as at 1 January	620	619
Additions during the period	21	1
	641	620
Accumulated Amortization		
Balance as at 1 January	383	250
Amortization (Note 9)	137	133
	520	383
Net Book Value as at 31 December	121	237

Intangible assets in the amount of EUR 121 consist of: computer programs (software) in the amount of EUR 70 thousand and other intangible assets in the amount of EUR 51 thousand. Other intangible assets mainly consist of Visa International license in the amount (current value) of EUR of 46 thousand.

16. OTHER ASSETS

In thousand EUR	31 December 2020	31 December 2019
Prepaid expenses	192	50
Receivables from the Tax Administration	9	13
Inventories of plastic cards	15	17
Receivables from funds (maternity leave)	17	8
Receivables from employees	3	1
Payment transaction fees receivables	43	5
	279	94

17. FINANCIAL LIABILITIES AT AMORTIZED COST

17.1. DEPOSITS BY CUSTOMERS

In thousand EUR	31 December 2020	31 December 2019
Demand deposits:		
- privately-owned companies	28,015	9,953
- state-owned companies	4	22
- other financial companies	-	7
- IRF	1,009	74
- entrepreneurs	162	72
- non-profit organizations	52	2
- retail costumers	20,747	1,663
	49,989	11,793
Short-term deposits:		
- privately-owned company	7,616	300
- retail companies	3,888	1,016
	11,504	1,316
Long-term deposits:		
- privately-owned companies	3,213	180
- IRF	2,000	2,000
- retail costumers	4,875	3,510
	10,088	5,690
	71,581	18,799
<i>Interest and other liabilities</i>		
Accrued interest	120	86
	120	86
	71,701	18,885

On demand deposits for retail clients no interest rate is applied, while interest rates on sight deposit for private costumers up to 0.15%. Short-term and long-term deposits for retail customers in EUR have been deposited with interest rates ranging from 0.94% do 3.1% per annum, while for corporate clients ranging from 0.1% to 2.2%.

ADRIATIC BANK A.D. PODGORICA**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020****17. FINANCIAL LIABILITIES AT AMORTIZED COST (continued)****17.2. LOANS FROM THE CUSTOMERS WHICH ARE NOT BANKS**

Liabilities for borrowed funds from other clients represent liabilities towards domestic creditors and relate to borrowed funds from the Investment Development Fund approved to the Bank for financing projects by the Fund, whereby the Bank charges its margin for the takeover of credit risk. These liabilities as at 31 December 2020 consist of one credit debt towards the Fund in amount of EUR 859 thousand.

					<i>In thousand EUR</i>
					Balance as at 31 December 2020
Approved amount	Approval date	Maturity date	Interest rate		
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

					<i>In thousand EUR</i>
					Balance as at 31 December 2019
Approved amount	Approval date	Maturity date	Interest rate		
84	19.09.2017	30.09.2021	1,50%		37
360	25.12.2018	31.03.2024	1,50%		298
100	12.08.2018	31.08.2024	1,50%		94
50	05.09.2019	30.09.2024	1,50%		50
1.094					479

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 2020	31 December 2019
Provisions for employee benefits	41	66
Provisions for unused holidays	66	35
Provisions on approved guarantees	80	45
Provisions on approved, unused credit lines	15	1
Provisions for litigation	3	-
	205	147

ADRIATIC BANK A.D. PODGORICA**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020****19. OTHER LIABILITIES**

In thousand EUR	31 December 2020	31 December 2019
Lease liabilities (note 14 b)	663	-
Liabilities to domestic suppliers	24	120
Liabilities to foreign suppliers	3	4
Accrued liabilities	191	40
Other liabilities	7	3
	888	167

20. CAPITAL

As of 31 December 2020, the Bank's share capital was comprised of 299,511,761 ordinary shares, with nominal value per share of EUR 0.04. During 2020, there was an increase in share capital in the total amount of EUR 4,500 thousand, of which EUR 2,500 thousand on 10 April and EUR 2,000 thousand on 30 December 2020. The Capital Market Commission recorded the last capital increase on 30 December 2020, while this change was recorded in the CRPS on 4 February 2021.

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

Name of the person/company	31 December 2020		
	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%

The ownership structure of the Bank as at 31 December 2019 is as follows:

Name of the person/company	31 December 2019		
	No of shares	In EUR	% ownership
Azmont Investments d.o.o., Herceg Novi	299,511,761	11,980,470,44	100%
	299,511,761	11,980,470,44	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 2020 amounted to 26.30% (31 December 2019: 42.24%).

As of 31 December 2020, the own funds of the Bank are above prescribed minimum of EUR 5,000 thousand and amount to EUR 8,849 thousand (31 December 2019: EUR 5,472 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 5 million.

ADRIATIC BANK A.D. PODGORICA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
21. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO (continued)

As of 31 December 2020, the Bank's capital is above the regulatory minimum.

No.	DESCRIPTION	Prescribed limits	2020	2019
1	Solvency ratio	Minimum 10 %	26.30%	42.24%
2	The largest exposure of the bank to one person or group of related parties	Maximum 25% of the Bank's own funds	22.40%	20.60%
3	Exposure to related parties	Maximum 200% of the Bank's own funds	7.75%	6.82%
4	The sum of large exposures	Maximum 800% of the bank's own funds	190.81%	93.77%
5	Total capital 000 EUR	Minimum EUR 5 million	9,371	5,856
6	Own funds 000 EUR	Minimum EUR 5 million	8,849	5,472
7	Minimum liquidity ratio	0.9 on a daily basis / 1 on a decimal level	3,54	3,29
8	Total risk-weighted assets and other risks 000 EUR			
8.1.	Risk weighted assets		31,853	11,224
8.2.	Required capital for market risks		-	-
8.3.	Capital required for operational risk		100	107
8.4.	Capital required for country risk		261	151
8.5.	Capital required for other risks		535	511
8.6.	Total open foreign exchange position		24	19

22. OFF-BALANCE SHEET ITEMS

In thousand EUR	31 December 2020	31 December 2019
Risk weighted off-balance sheet assets		
Irrevocable commitments to grant loans	3,209	414
Issued guarantees	6,003	950
	9,212	1,364
Other off-balance items		
Off-balance sheet interest	38	12
Collaterals on receivables	33,879	18,203
	43,129	19,579
In thousand EUR	31 December 2020	31 December 2019
Provisions for off-balance sheet items		
Provisions for irrevocable commitments to grant loans	15	1
Provisions for issued guarantees	79	45
	94	46

ADRIATIC BANK A.D. PODGORICA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
22. OFF-BALANCE SHEET ITEMS (continued)

Balance as of 1 January 2019	25
Impairment during the year	100
Reversal of impairment during the year	(80)
Balance as of 31 December 2019	45
Impairment during the year	124
Reversal of impairment during the year	(75)
Balance as of 31 December 2020	94

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 2020	31 December 2019
<i>Other assets:</i>		
- Employee and management	100	-
	100	-
<i>Loans and receivables from clients:</i>		
- retail loans - employees	323	302
- cards – employees	4	4
- Adriatic capital management LLC	202	-
	529	306
Total receivables:	629	306
<u>Payables</u>		
<i>Demand deposits</i>		
<i>Avista deposits:</i>		
- Azmont investments*	-	36
- ADC*	-	3
- retail deposits – employees and management	258	103
<i>Term deposits:</i>		
- retail deposits – employees	200	385
Liabilities for accrued interest on deposits	2	4
Other payables		
Trade payables – Azmont investments*	-	101
Total payables	460	632
Receivables/(payables), net	169	(326)

* Legal entities no longer related parties as of 31 December 2020 due to the change of ownership on 15 January 2020.

ADRIATIC BANK A.D. PODGORICA**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020****23. RELATED PARTY TRANSACTIONS (continued)**

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 2020 there is EUR 7 thousand of off-balance sheet exposure that relates to employees approved and unused limit for credit card.

Income and expenses arising from transactions with related parties during 2020 and 2019 are as follows:

In thousand EUR	31 December 2020	31 December 2019
<i>Interest income:</i>		
- Adriatic Capital Management LLC	6	-
- employees and management	25	19
Total income:	31	19
<i>Interest expense:</i>		
- employees and management	3	9
Total expenses:	3	9
Income, net	28	10
	31 December 2020	31 December 2019
<i>Fees and commissions income:</i>		
- employees and management	1	-
Total income:	1	-
	31 December 2020	31 December 2019
<i>Net FX gains</i>		
<i>FX gains:</i>		
- retail – employees and management	5	-
Total income:	5	-
<i>Net FX losses:</i>		
- Adriatic Capital LLC	4	-
Total expenses:	4	-
Income, net	1	-

Remuneration to senior management based on gross salaries and allowances in 2020 amounts to EUR 421 thousand (2019, EUR 246 thousand).

24. LITIGATIONS

As at 31 December 2020 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 AIK banka Belgrade, 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 80% 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, in the opinion of the Central Bank, the agreements on the issuance and use of credit cards do not contain in a clear and concise manner the elements prescribed by Article 16 of the Law on Consumer Loans. The legal sector believes that the dispute will be resolved in favour of the Bank with a probability of 80%.

24. LITIGATIONS (continued)

In addition, the Bank also conducts more proceedings against legal and physical persons for the collection of receivables in the total amount of EUR 93 thousand.

25. EFFECT OF THE COVID-19 PANDEMIC

In early 2020, an epidemic caused by COVID-19 developed which was declared by the World Health Organization as a public health threat of international importance. The virus has spread globally and affects all sectors of the economy.

As a result of COVID-19, the Bank has taken all necessary measures to protect the health and safety of its employees, customers and business partners. All business activities are carried out in accordance with the preventive measures against virus spread and the state of emergency that has been introduced. In that sense, it was possible that all services could be provided to clients both through online channels and through a branch, which all enabled unhindered communication with the Bank's clients.

Since the adoption of temporary measures to protect citizens from the virus in March 2020, the Central Bank of Montenegro has prescribed several temporary measures to mitigate the negative effects of the epidemic of infectious disease COVID 19 on the financial system, among which the most important are as follows:

- delay in repayment of obligations for loan users (hereinafter "moratorium"),
- restructuring of loans granted to loan beneficiaries from the tourism sector and the agriculture, forestry and fishery sector,
- interest rate subsidies during the grace period given during the reprogramming of existing special-purpose loans for tourism and catering,
- and other relief, all in order to mitigate the effects of the pandemic and preserve the stability of the financial system.

The reduction of the negative effects of the crisis was significantly contributed by the moratorium on loan repayment for all loan users who wish to do so, first for 90 days with an extension of the repayment period for the moratorium, and then an additional 90 days for clients that requested that, and for which the Bank assessed that their financial situation was negatively affected by the COVID 19 pandemic. The moratorium included the temporary suspension of all loan payments. During the moratorium, the bank was not allowed to charge default interest on overdue receivables, initiate enforcement proceedings, initiate forced collection or reclassify the loan to a lower classification group. Subsequently, in August 2020, a new measure came into force relating only to the relevant group of clients from sensitive industries affected by the COVID-19 pandemic, which provided for the obligation to approve a moratorium at the request of clients from the tourism, agriculture, forestry and fisheries sectors, with a duration of no later than 31 August 2021 and extension of the repayment period for the time spent in the moratorium, unless otherwise agreed with the clients. The users of loans from sensitive industries who on 31 December 2019 did not have a delay in loan repayment for more than 90 days, and the loan on that day was not classified in the category of non-performing assets had the right to use this measure had. The August 2020 measure was supplemented in October 2020 by requiring natural persons who lost their jobs or had their earnings reduced due to the effects of the COVID 19 virus pandemic to be granted a 6-month moratorium upon request and proportionally extend the repayment period or change the structure of the repayment plan unless otherwise agreed with the client. The right to use this measure belongs to natural persons who as of 31 December 2019 did not have a delay in repayment of the loan for more than 90 days, and the loan on that day was not classified in the category of non-performing assets. The measure from August 2020 stipulates that a bank that, at the request of a borrower from sensitive industries, grants one or more benefits to the borrower during the period of validity of the measure may treat the loan as a loan from classification group "A".

For loans from other activities, due to the restructuring, the Bank may consider the loan as a newly approved loan if the borrower:

- had no delays in repayment of the loan for more than 90 days at 31 December 2019 and the loan was not classified as non-performing and the loan was not restructured in 2020
- the borrower can prove that his financial position has deteriorated or will deteriorate due to the negative impact of the infectious disease COVID 19 epidemic
- the bank estimates that after the restructuring, the creditworthiness of the borrower will be improved.

For a review of restructured loans under this CBM measure see note 4.2.4. The measure from October 2020 enables the restructuring loans to individuals if the borrower's salary has been reduced by at least 10% after 31 March 2020 as a result of COVID 19.

25. EFFECT OF THE COVID-19 PANDEMIC (continued)

The bank offered a range of support measures to clients affected by COVID-19, such as a moratorium as well as the granting of liquidity loans. Measures of delay in repayment of liabilities were approved in accordance with the decisions of the Central Bank of Montenegro, with the consequent extension of the maturity of placements.

The effects resulting from the implementation of the Decision on Interim Measures for Mitigating the Negative Impacts of the COVID 19 Epidemic on the Financial System, which introduced a delay in the repayment of debtors' liabilities on the present value of cash flows of affected financial assets, are not recorded in the financial statements in accordance with local regulations due to not being material. The highest impact on the calculation of the expected credit loss was reflected through the change of stage for clients operating in the pandemic-affected industries in Stage 2.

The Bank has taken into account the impact of COVID-19 in preparing the financial statements as at 31 December 2020. The impact of COVID-19 resulted in the application of further judgments and the inclusion of pandemic-specific estimates and assumptions.

It is expected that the pandemic will slow down in the coming period, which would enable the normalization of the activities of economic entities, as well as the stabilization of economic conditions and markets. Based on available information and assessment of the implementation of plans, management believes that the current situation will not affect the decline in business activities of the Bank, but may have potential effects on cash flows primarily from operating activities, and thus the Bank's liquidity, especially by the end of 2021. but not to the extent that it jeopardizes the continuation of the Bank's operations in the coming period.

26. EARNINGS PER SHARE

Earnings per share are calculated by dividing the annual net profit belonging to shareholders by the weighted average number of ordinary shares that were outstanding during the period.

	<u>2020</u>	<u>2019</u>
Net loss (in EUR thousand)	(984)	(1,453)
Average weighted number of shares	<u>345,025,460</u>	<u>299,511,761</u>
Earnings (loss) per share in EUR	<u>(0.003)</u>	<u>(0.005)</u>

27. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of the statement of financial position components denominated in foreign currencies into EUR as at 31 December 2020 and 2019 were as follows:

	<u>31 December 2020</u>	<u>31 December 2019</u>
USD	0.8143	0.8937
CHF	0.9211	0.9199
GBP	1.1073	1.1736
RUB	0.0109	-

28. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the balance sheet date that would be required to be disclosed in the financial statements.

29. GENERAL INFORMATION ON THE BANK

In accordance with the Decision on the Content, Deadlines and Manner of Preparation and Submission of Financial Statements of Banks ("Official Gazette of Montenegro" no. 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: office@nadriaticbank.com

The Bank has a head office and one branch as of 31 December 2020.

Number of employees as at 31 December 2020 was 30 (31 December 2019– 30 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	Information on Residence	Address (street name 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 Kanan street 653, Modiin Maca
4. member	Đorđe Lukić	Montenegro	Bulevar Džordža Vašingtona 108, Podgorica
5. member	Ana Ivanović	Montenegro	II crnogorskog bataljona br 2E, Podgorica

As of 31 December 2020, the Bank was wholly-owned by the company Adriatic Capital LLC, USA.


The auditing company that audited the 2019 financial statements: BDO d.o.o., Bulevar Svetog Petra Cetinjskog 149, 81000 Podgorica, Montenegro.

Book value of the shares on 31 December 2020 was EUR 0.04 per share.

There were no payments of dividends in 2020.


Djordje Lukic
CEO




Miroslav Vukovic
Head of Accounting and Financial Controlling



ADRIATIC BANK

MANAGEMENT REPORT
ADRIATIC BANK A.D., Podgorica
FOR 2020

Marcht, 2021

Contents:

1.	STATEMENT ON APPLICATION OF CORPORATE MANAGEMENT CODE	3
2.	GENERAL INFORMATION	4
2.1.	Registration and activity of the Bank	4
2.2.	Organization and employees	4
2.3.	Personnel qualification structure	5
2.4.	Organizational structure of the Bank.....	6
3.	PERFORMANCE OF THE BANK IN 2020	7
4.	REGULATORY REQUIREMENTS IN 2020	8
5.	BALANCE SHEET FOR 2020	9
5.1.	Balance Sheet of the Bank on 31 December 2020.....	9
5.2.	Loans to the clients on 31 December 2020	10
5.3.	Equity and liabilities of the bank on 31 December 2020.....	11
5.4.	Changes on equity up to to 31 st of December 2020	12
5.5.	Bank's off-balance records.....	13
6.	INCOME STATEMENT FOR 2020	14
6.1.	Income Statement	14
6.2.	Interest income and expenses	14
6.3.	Fee and commissions income and expenses.....	15
6.4.	Operating expenses.....	16
7.	MEASURES FOR ENVIRONMENTAL PROTECTION	17
8.	PLANNED FUTURE DEVELOPMENT	17
9.	RESEARCH AND DEVELOPMENT ACTIVITIES	19
10.	REDEMPTION OF OWN SHARES INFORMATION.....	19
11.	BUSINESS UNITS.....	19
12.	POCRUCIAL FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION ASSESSMENT	19
13.	RISK MANAGEMENT	19
14.	CAPITAL ADEQUACY	26

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, Adriatic 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 Adriatic bank AD Podgorica. In the management part, Adriatic 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.

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.

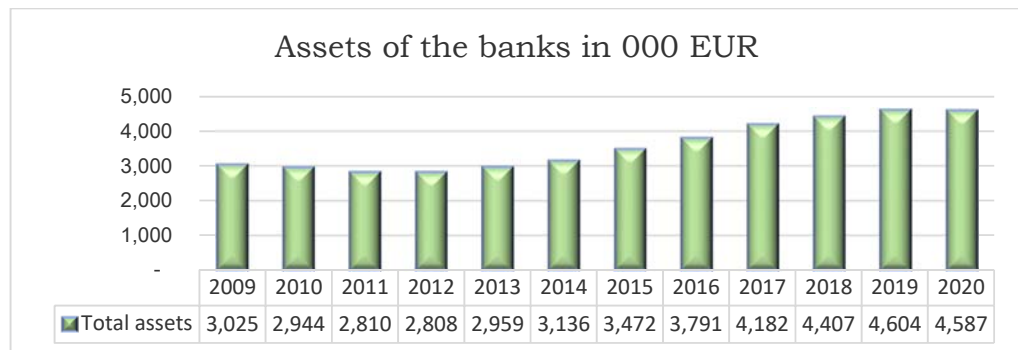
On 15th of January 2020, change of ownership of the Bank was preforme and 100% ownership was transferred from the seller Azmont Investment DOO, Herceg Novi, on the buyer Adriatic Capital LLC, United States of America.

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

Table 1 - Market share of the bank on December 31, 2020

31.12.2020				
Bank	Assets	Loans	Deposit	Equity
Banking sector (in 000 EUR)	4.586.510	2.804.468	3.368.119	589.496
Adriatic bank AD (in 000 EUR)	83.026	28.090	71.701	9.371
% of share	1.81%	1.00%	2.13%	1.59%

Graph 1 – Assets of the banking sector for the period 2010 - 2020



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 2020, with the absorption capacity of potential risks from operations. The level of own funds at 31 December 2020 was EUR 8.849 thousands (31 December 2019: EUR 5.472 thousands). During 2020, the Bank was recapitalized in the total amount of EUR 4.5 million.

As at 31 December 2020, 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.

21. 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 registered 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 registered 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 registered in Central Registry of Business Entities as Adriatic Bank A.D., Podgorica.

22. 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	Ana Ivanović	06.12.1981	Montenegro
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 usiness 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

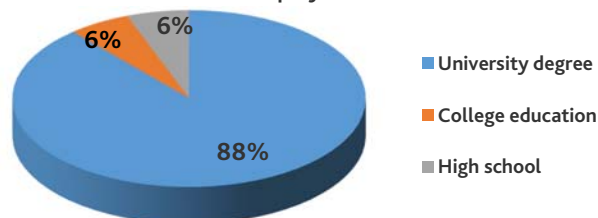
23. Personnel qualification structure

On 31 December 2020 the Bank had 35 employees, with the following structure:

- University degree 31 employees or 88%,
- College education 2 employees or 6%,
- High school 2 employees or 6%.

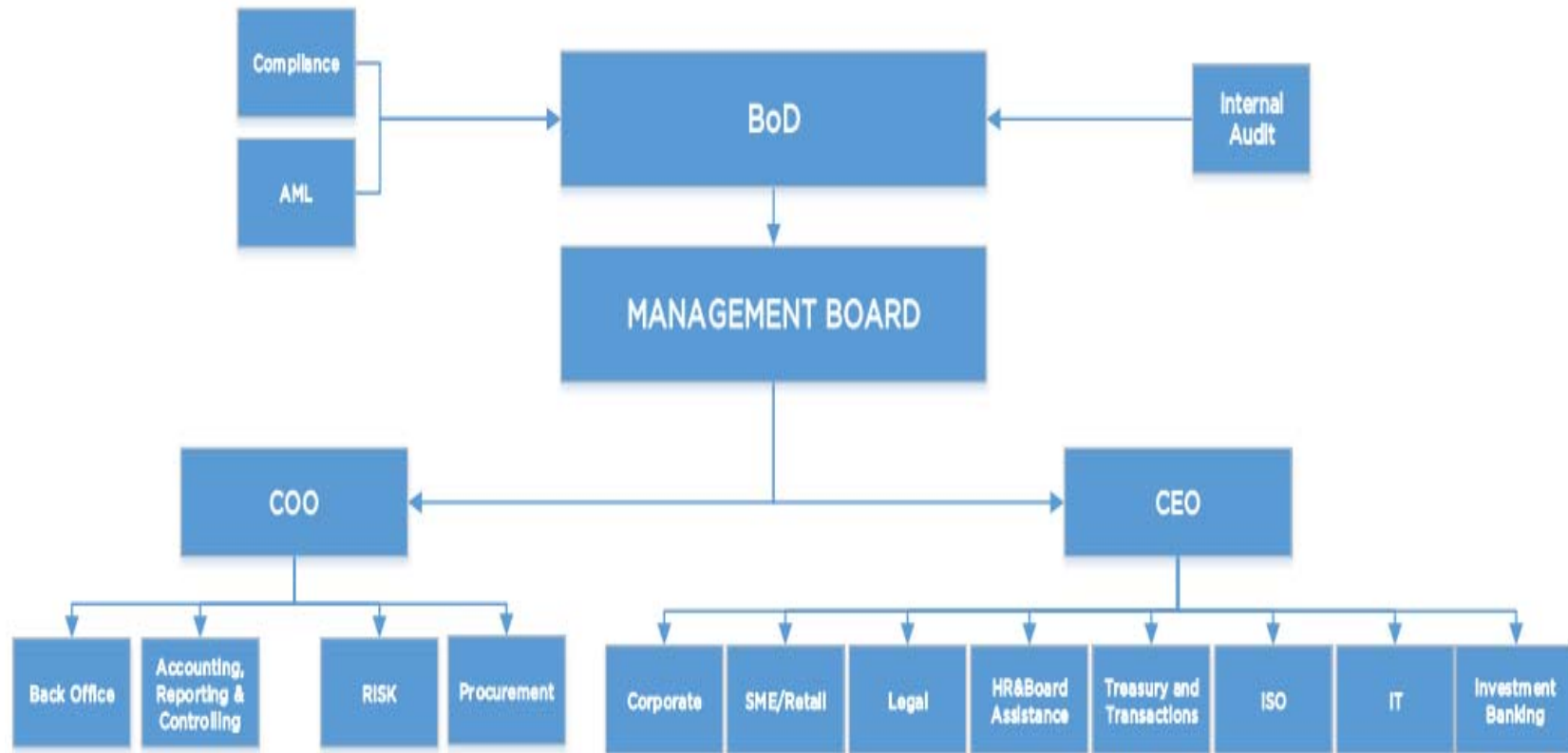
Graph 2. – Personnel structure

Qualification structure of the employees in 2020



24. Organizational structure of the Bank

Graph 3 – Organizational chart



3. PERFORMANCE OF THE BANK IN 2020

Table 6.- Performance indicators in 2020 (in 000 EUR)

DESCRIPTION	2020	2019	Change %
1	2	3	4
BALANCE SHEET ASSETS	83.026	25.536	225.13%
GROSS LOANS	28.698	10.363	176.93%
Retail loans	2.712	2.479	9.40%
Corporate loans	25.986	7.884	229.60%
Gross Investment securities at amortized cost	25.262	2.010	1156.82%
DEPOSITS	71.701	18.885	279.67%
Retail deposits	29.614	6.272	372.16%
Corporate deposits	42.087	12.613	233.68%
Total equity	9.371	5.856	60.02%
LOSS FROM OPERATIONS AFTER TAX	(984)	(1.453)	-32.25%
PROFITABILITY RATIOS IN %			
ROA - financial result/ balance sheet assets %	(1.19)	(5.69)	-79.16%
ROE – financial result/ total equity %	(10.50)	(24.80)	-57.66%
NET INTEREST INCOME	1.017	744	36.74%
NET FEE AND COMMISSION INCOME	441	(81)	-641.36%
NUMBER OF EMPLOYEES	35	30	16.67%
Assets per employess in 000 EUR	2.372	851	178.69%
OPERATING EXPENSES	(2.351)	(2.095)	12.22%
INDICATORS			
CAPITAL ADEQUACY %	26.30	42.24	-37.74%
LIQUIDITY RATIOS %	3.54	3.29	7.60%
CASH in 000 EUR	28.328	12.949	118.77%
Interest income/ Interest bearing assets %	2,35	7.60	-69.05%
Interest income/ Total assets %	1.53	3.59	-57.29%
Interest expenses/ Interest bearing liabilities %	0.35	0.89	-60.50%
Operating expenses/ Total expenses %	68.50	81.02	-15.45%
Liquid assests/ Deposits %	36.86	64.58	-49.93%
Liquid assests/ Total assets %	31.82	47.76	-31.40%
Liquid assests/ Short-term liabilities %	44,13	96.88	-54.45%

4. REGULATORY REQUIREMENTS IN 2020

Table 7.- Regulatory requirements on 31 December 2020

No.	DESCRIPTION	LIMIT	31.12.2020
1	Capital Adequacy Ratio	min. 10 %	26.30%
3	Exposure to the related parties to the Bank	max. 200%	7.75%
4	Sum of big exposures	max. 800%	190.81%
5	Total equity in 000 EUR	min 5 mil	9.371
6	Own funds in 000 EUR	min 5 mil	8.849
7	Total risk assets and other risks in 000 EUR		
7.1.	Risk weighted assets		31.853
7.2.	Capital need for market risk		-
7.3.	Capital need for operating risk		100
7.4.	Capital need for country risk		261
7.5.	Capital need for other risks		535
7.6.	Open FX position		24

5. BALANCE SHEET FOR 2020
5.1. Balance Sheet of the Bank on 31 December 2020
Table 8. – Assets of the Bank on 31 December 2020 in 000 EUR

ASSETS	31 December 2020	31 December 2019	Index (2020/2019)
ASSETS			
Cash and cash on the accounts with Central bank	22.054	9.533	2.31
Loans and receivables form banks	6.256	3.401	1.84
Loans and receivables form clients	28.090	10.043	2.80
Investments securities held to maturity	25.149	2.001	12.57
Other financial receivables	10	10	1.00
Property, plant and equipment	410	217	1.89
Right of use	657	-	
Intangible assets	121	237	0.51
Other receivables	279	94	2.97
TOTAL ASSETS	83.026	25.536	3.25
LIABILITIES			
Deposits of the banks			
Deposits of the clients	71.701	18.885	3.80
Borrowings from other clients	859	479	1.79
Long-term lease liabilities	663	-	
Provisions	205	147	1.39
Deferred tax liabilities	2	2	1.00
Other liabilities	225	167	1.35
TOTAL LIABILITIES	73.655	19.680	3.74
EQUITY			
Share Capital	16.480	11.980	1.38
Retained earnings	(7.038)	(6.053)	1.16
IFRS9 implementation effects	(71)	(71)	1.00
TOTAL EQUITY	9.371	5.856	1.60
TOTAL EQUITY AND LIABILITIES	83.026	25.536	3.25
OFF-BALANCE	43.129	19.579	2.20

Total assets of the Bank in 2020 amounted EUR 83.026 thousands.

Loans to the clients amounted EUR 28.090 thousands and loan portfolio represents 34% of total Bank's assets. Achieved growth of 180% compared to the last year is a result of significant increase of activity after transfer of ownership was realized (sale transaction was performed on 15th of January 2020).

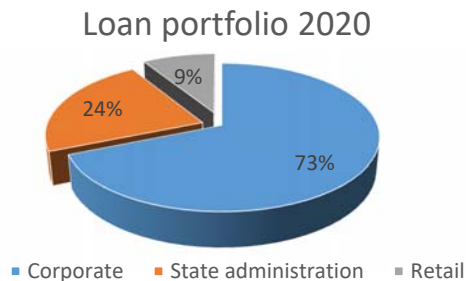
As at 31 December 2020 the portfolio of the securities held to maturity and valued at amortized cost amounts EUR 25.149 thousands (30% of total Bank assets). This consists of the following:

Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	25.003
Premium/duscount	(255)
Interest receivables	514
Impairment of securities	(113)
	25.149

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 (34%).

5.2. Loans to the clients on 31 December 2020
Table 9.- Net loans to the clients on 31 December 2020 in 000 EUR

NO.	DESCRIPTION	31 December 2020.	31 December 2019.	Index
I	LOANS TO THE CLIENTS	28.701	10.377	2.77
1	Corporate	20.992	7.895	2.66
2	State administration	4.997	-	-
3	Retail	2.712	2.482	1.09
II	impairment	(611)	(334)	1.83
I+II	NET LOANS	28.090	10.043	2.80

Graph 4.- Loans to the clients - 2020


Total loans to the clients, on 31 December 2020, amounted EUR 28.090 thousands (31 December 2019: EUR 10.043 thousands), of which retail loans amounted EUR 2.563 thousands, and corporate loans were EUR 20.552 thousands and state administration EUR 4.975 thousands.

Table 10.- Portfolio overview on 31 December 2020 in 000 EUR

Type of loan	2020	% share	2019	% share
Balance sheet item (gross)				
Loans and receivables form banks	6.274	10%	3.416	22%
Short term loans to clients	6.650	11%	3.598	23%
Long term loans to clients	18.330	30%	4.296	27%
Overdue loans	3.718	6%	2.470	16%
Interest receivables and prepayments	3	0%	13	0%
Securities at amortized cost	25.262	42%	2.010	13%
Total balance sheet exposure to credit risk	60.237	100%	15.803	100%
Off-balance sheet items (gross)				
Performance guarantees	6.003	65%	950	70%
Undrawn loans	3.209	35%	414	30%
Total off-balance sheet exposure to credit risk	9.212	100%	1.364	100%
Total exposure to credit risk	69.449		17.167	

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

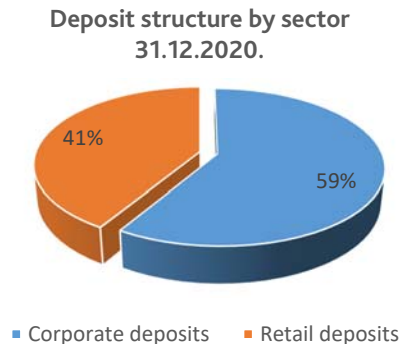
Table 11 - Overview of total portfolio by holders on 31 December 2020 in 000 EUR

Type of loan	2020	% share	2019	% share
Banks, non-resident	6.103	10%	3.416	22%
Banks, resident	171	0%	-	0%
Government of Montenegro - Ministry of Finance	5.000	8%	-	-
State - owned companies	500	1%	-	0%
Privately owned companies	18.397	31%	7.200	46%
Privately owned companies – non-residents	1.999	3%	582	4%
Entrepreneurs	93	0%	113	1%
Individuals, residents	2.682	4%	2.460	16%
Individual, non-residents	26	0%	18	0%
Individuals, cards - residents	4	0%	4	0%
Government Bonds	25.262	42%	2.010	13%
Total credit risk exposures	60.237	100%	15.803	100%

5.3. Equity and liabilities of the bank on 31 December 2020

In the equity and liabilities structure total deposits of the clients, with accrued interest on 31 December 2020, represents 86% and amounts EUR 71.703 thousands (2019: EUR 18.885 thousands).

Graph 5.- Deposit structure by sector 31 December 2020



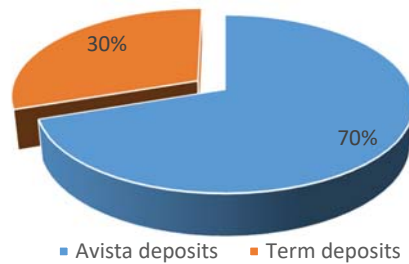
Deposit structure by sector at the end of 2020 shows that retail deposits represents 41% of total deposits, or EUR 29,614 thousands (2019: EUR 6,272 thousands).

Corporate deposits are 59% of total deposits of the Bank, or EUR 42,089 thousands (2019: EUR 12.614 thousands).

The higher participation of the corporate deposits is the result due to change of the bank's strategy. Intensification of deposit collection activities are to provide diversification of funding sources and self-financing model. The attraction of corporate deposits, in this operational phase of the Bank, is much more realistic than retail, but retail deposits recorded growth.

Graph 6.- Deposit structure on 31.12.2020 by type

Deposit structure 31.12.2020.

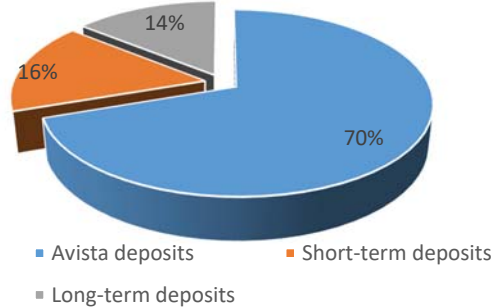


Avista deposits at the end of 2020 amounts EUR 49.988 thousands (2019: EUR 11.794 thousands) or 70% of total deposits, while term deposits are EUR 29.614 thousands (2019: EUR 7.091 thousands) or 30% of total Bank's deposits .

Interest rates offered by the Bank on term deposits are higher than average passive interest rates on the market. Deposit contraction in Bank is still high.

Graph 7.- Maturity structure of deposits on 31.12.2020

Maturity structure of dposits on 31.12.2020.



Maturity structure of deposits at the end of 2020, shows that long-term deposits represents only 14% of total deposits, or EUR 10.175 thousands (2019: EUR 5.766 thousands).

Short-term and a vista deposits are 86% of total deposit portfolio of the Bank, or EUR 61.528 thousands (2019: EUR 13.119 thousands).

5.4. Changes on equity up to to 31st of December 2020

As of 31 December 2020, the Bank's share capital was comprised of 412.011.761 ordinary shares, with nominal value per share of EUR 0,04.

Table 12 - The ownership structure of the Bank as at 31 December 2020

Name of the person/company	31 December 2020		
	No. of shares	In EUR	% share
Adriatic Capital LLC, Wilmington, Delaware, United States of America	412.011.761	16.480.470,44	100%
	412.011.761	16.480.470,44	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 31 December 2020 amounted 26,30%.

As of 31 December 2020, the own funds of the Bank are above prescribed minimum of EUR 5.000 thousands and amount EUR 8.849 thousands (2019: EUR 5.472 thousands).

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 31 December 2020 the Bank's capital is the above regulatory minimum.

Table 13.- Changes on equity

Positions	Share Capital	Accumulated loss	Effects of IFRS application	TOTAL
Balance on 31 December 2018	11.980	(4.600)	(71)	7.309
Loss of current period	-	(1.453)	-	(1.453)
Balance on 31 December 2019	11.980	(6.053)	(71)	5.856
Issue of shares	4.500	-	-	4.500
Other	-	(1)	-	(1)
Loss of current period	-	(984)	-	(984)
Balance on 31 December 2020	16.480	(7.038)	(71)	9.371

5.5. Bank's off-balance records

Off-balance records of the Bank as at 31 December 2020 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 December 2020	31 December 2019
Contingent liabilities of the Bank	9.212	1.364
Irrevocable commitments to grant loans	3.209	414
Guarantees	6.003	950
- <i>issued payment guarantees</i>	544	510
- <i>issued performance guarantees</i>	5.359	340
- <i>other guarantees</i>	100	100
Other off-balance items	33.917	18.215
Collaterals on receivables	33.879	18.203
Accrued interest	38	12
Total	43.129	19,579

Off-balance sheet exposure of the Bank on December 31, 2020 amounts EUR 9.212 thousands, of which EUR 3.209 thousands (35%) represents unused approved loans and EUR 6.003 thousands (65%) represents approved guarantees.

6. INCOME STATEMENT FOR 2020

6.1. Income Statement

Table 15.- Income Statement

In thousands EUR:	2020.	2019.	Index (2020/2019)
Interest income	1,259	896	1.41
Interest income on impaired loans	13	20	0.65
Interest expenses	(255)	(172)	1.48
NET INTEREST INCOME	1,017	744	1.37
Fee and commission income	820	201	4.09
Fee and commission expenses	(379)	(282)	1.34
NET FEE AND COMMISSION INCOME	441	(81)	(5.41)
Net FX result	350	3	116.67
Net gain/losses from other asset derecognition	(5)	-	-
Personal expenses	(1,240)	(1,123)	1.10
Other administrative expenses	(782)	(720)	1.09
Depreciation	(327)	(249)	1.31
Other costs	(2)	(4)	0.67
Other income	3	-	-
Impairment losses	(435)	(33)	13.18
Provision	(4)	-	-
OPERATING PROFIT	(984)	(1,463)	0.67
Income tax	-	10	-
NET PROFIT	(984)	(1,453)	0.68

6.2. Interest income and expenses

Table 16.- Interest income and expenses in 000 EUR

Interest income and expenses	2020.	2019.
Interest income		
Loans:		
- state owned companies	10	19
- privately owned companies	756	561
- državna uprava	16	-
- entrepreneurs	5	8
- individuals	156	169
- interest income on impaired loans	13	20
	956	777
Loan origination fees	59	59
Interest on HTM securities	256	80
Total interest income	1,272	916
Interest expenses		
-International banks	-	1
	-	1
Deposits:		
-Government of Montenegro	44	44
- state owned companies	-	10
- privately owned companies	20	1
- insurance companies	-	1
- individuals	168	109
	231	165
- IRF borrowings	11	6
- Long-term lease of Capital Plaza	13	-
Total interest expenses	255	172
Net interest income	1,017	744

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 2020, there is an evident increase in interest income on bonds as a result of a significant increase in investment in this type of assets.

6.3. Fee and commissions income and expenses

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

Fee and commissions income and expenses	2020.	2019.
Fee and commissions income		
Guarantee fees	53	9
Payment transactions - domestic	269	60
Payment transactions - international	70	56
E-banking fees	368	31
Cards	57	39
Other	3	5
Total fee and commissions income	820	201
Fee and commissions expenses:		
Central bank fees	56	40
International payment fees	104	51
Deposit protection Fund fees	125	100
E-banking fees	14	14
Cards processing fees	24	24
MasterCard fees	56	53
Total fee and commissions expenses	379	282
Net fee and commission income	441	(81)

The realized income from fees in 2020 represents the beginning of positive business in this segment, unlike previous years in which a loss was recorded. Almost 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 have increased, as well as the costs of premiums for the Deposit Protection Fund, because average deposits were higher in 2020.

6.4. Operating expenses
Table 18.- Operating expenses in 000 EUR

Operating expenses	2020.	2019.
Personnel expenses		
Net salaries	771	629
Taxes, contributions and surtax on salaries	430	432
Other payments to employees	1	1
Temporary contracts	-	1
Provision for unused annual leave	31	(3)
Provisions for severance payments	(25)	50
Travel expenses and per diem	30	11
Training expenses	1	2
Total personnel expenses	1.240	1.123
Other administrative expenses		
Rent	23	118
Audit expenses (CBM and external audit)	151	129
Security	23	31
Advertasing and marketing	71	15
Legal cost	54	44
Licenses and SW maintenance	219	247
Maintenance of facilities, equipment, IT equipment, ATMs	29	13
Vehicle maintenance and registration	2	2
Consulting fees	29	8
Electricity and fuel	14	17
Office supplies	11	4
Communication network	30	18
Subscriptions	15	13
Phone charges	12	13
Membership fees for Bank Association	15	16
Insurance	15	14
Representation	6	5
Cleaning	11	9
Securities expenses	25	-
Writte-off of plastic for cards	16	-
Other Costs	11	5
Total administrative expenses	783	721
Depreciation	327	249
TOTAL OPERATING EXPENSES	2.350	2,093

Operating and other expenses in 2020 amounted EUR 2.350 thousands out of which EUR 1.240 thousands, or 53% are related to staff costs (2019: EUR 1.123 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 2021-2023:

Table 19.- Planned profit and loss (2021-2023)

Projected Profit and Loss				
	Actual	Budgeted		
In TEUR	2020	2021	2022	2023
Interest income	1.272	2.529	3.525	4.630
Interest expenses	(255)	(314)	(570)	(714)
Net interest income	1.017	2.216	2.956	3.915
Fee and commission income	820	1.406	1.786	2.332
Fee and commission expenses	(379)	(627)	(795)	(899)
Net fee and commission income	441	779	991	1.433
Net FX gains/(losses)	350	-	-	-
Impairment losses	(435)	(348)	(409)	(528)
Net banking income	1.373	2.647	3.538	4.820
Salaries, wages and other personal expenses	(1.240)	(1.381)	(1.463)	(1.465)
Depreciation expenses	(327)	(366)	(365)	(357)
Other expenses	(790)	(802)	(854)	(888)
Total OPEX	(2.357)	(2.548)	(2.682)	(2.711)
Profit/(loss) before tax	(984)	99	856	2.110
Income tax 9%	-	-	-	-
Profit/(loss) after tax	(984)	99	856	2,110

Period considered by this business plan assumes continuous work on increasing 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.

Table 20 – Planned balance sheet for the period 2020 to 2023

Projected Balance Sheet				
	Actual	Budgeted		
In TEUR	31.12.2020	31.12.2021	31.12.2022	31.12.2023
Assets				
Cash and cash equivalents	26.130	9.939	14.719	18.833
Obligatory reserve	2.180	3.255	4.178	5.466
Securities	25.149	23.234	23.269	23.299
Loans due from other clients(net)	28.090	37.733	52.227	71.299
Intangible assets	121	252	256	195
Property, plant & equipment	410	425	450	359
Right of use	657	737	760	577
Other assets	289	361	397	437
Total assets	83.026	75.936	96.258	120.465
Liabilities				
Deposits due to customers	71.701	59.884	75.962	99.381
Borrowings	859	5.643	8.889	7.631
Long-term lease liabilities	663	775	848	711
Other liabilities	432	435	504	578
Total liabilities	73.655	66.737	86.203	108.300
Equity				
Share capital	16.480	16.480	16.480	16.480
Current year profit/(loss)	(984)	99	856	2.110
Accumulated result	(6.125)	(7.380)	(7.282)	(6.425)
Total equity	9.371	9.199	10.055	12.165
Total liability and equity	83.026	75.936	96.258	120.465

Table 21 – Other important indicators for the period 2020 to 2023

Balance Sheet	Dec.20	Dec.21	Dec.22	Dec.23
Interest bearing assets	53.239	60.967	75.496	94.598
Interest bearing liabilities	72.560	65.527	84.851	107.011
Share of Interest bearing in total assets	64%	80%	78%	79%
Share of Interest bearing in total liabilities	87%	86%	88%	89%
Interest income	916	3.04	3.772	4.251
Interest expenses	-172	-265	-326	-356
Loan/Deposit ratio (L/D ratio)	73%	93%	89%	88%
CIR (cost/Income ratio)	-162%	-85%	-68%	-51%
ROE	-11%	1%	9%	17%

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 2020, the Bank did not redeem its own shares.

11. BUSINESS UNITS

During 2020, 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 headings 5 i 6 THE BALANCE SHEET AND THE INCOME STATEMENT, it can be concluded that at the end of the business year 2020, 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.

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 2020 amounts EUR 28.698 thousands while off-balance sheet exposure was EUR 9.212 thousands, and all exposures were classified in the table below:

Table 22 – Exposures and impairments on 31.12.2020

No.	DESCRIPTION	31.12.2020		31.12.2019	
	Category	Exposure	Impairments	Exposure	Impairments
I	Balance	28.698	611	10.377	334
1	A	20.870	182	5.722	36
2	B	7.333	335	4.202	229
3	C	208	63	367	34
4	D	4	3	-	-
5	E	283	28	86	35
II	Off-Balance	9.212	95	1.364	46

On 31st December 2020, impairments are calculated in accordance to IFRS9 and for balance sheet exposures it amounts EUR 611 thousand, and off-balance exposures it is EUR 95 thousand.

Market Risk

The Bank currently does have and is not planing to have a trading book and on 31st December 2020, 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 2020 was low, with net open position amounted EUR 24 thousand. Long position balance in foreign currency on 31st December 2020, amounted to EUR 3.688 thousands and EUR 3.664 thousands of short 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 2020:

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	19.660	2.394	22.054
Loans and receivables from banks	6.256	-	6.256
Loans and receivables from clients	28.090		28.090
Investment securities	25.149		25.149
Other financial assets	-	10	10
Other assets	100	179	279
Total assets	79.255	2.583	81.838
LIABILITIES			
Deposits from clients	32.875	38.826	71.701
Borrowings from others	859	-	859
Other liabilities	-	888	888
Total liabilities	33.734	39.714	73.448
Exposure to interest rate risk:			
- 31 December 2020	45.521	(37.731)	8.390
- 31 December 2019	7.765	(2.136)	5.629

Exposure to interest rate risk on 31st December 2020 is shown in the table below:

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	25.916	-	-	-	-	25.916
Interest-bearing securities	-	4.573	-	-	20.576	25.149
Loans and receivables from clients	1.898	1.009	6.714	5.985	12.484	28.090
Other assets	100	-	-	-	-	100
Total	27.914	5.582	6.714	5.985	33.060	79.255

% total interest bearing assets	35,22 %	7,04 %	8.47%	7.55%	41,72 %	100%
Interest sensitive liabilities						
Interest-bearing deposits	13.359	9.507	1.279	6703	2.027	32.875
Interest-bearing borrowings	9	19	53	136	642	859
Total	13.368	9.526	1.332	6.839	2.669	33.734
% total interest bearing liabilities	39.63%	28.24%	3.95%	20.27%	7.91%	100%
Interest rate GAP:						
- 31 December 2020	14.546	(3.944)	5.382	(854)	30.391	45.521
- 31 December 2019	3.486	(322)	1.032	963	2.606	7.765
Cumulative GAP:						
- 31 December 2020	14.546	10.602	15.984	15.130	45.521	
- 31 December 2019	3.486	3.164	4.196	5.159	7.765	

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 2020 amount EUR 9.212 thousands.

As of 31st December 2020, 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).

Calculation of daily liquidity ratio on 31 December 2020 is shown in the following table:

Table 25 – Liquidity ratio on 31 December 2020

No.	DESCRIPTION	AMOUNT In TEUR
I	Liquid assets/receivables(claims)	26.425
1	Cash	1.304
2	Assets on the account in Central Bank of Montenegro	18.571
3	Other cash claims	(1)
4	Assets on the accounts in domestic banks (Avista deposits)	172
5	Assets in the agents of payment system	-
6	Assets on the accounts in international banks(Avista deposits)	5.289
7	Required reserve in the Central Bank of Montenegro (according to the current decision)	1.090
II	Marured liabilities for loans and borrowings	7.459
1	Due liabilities based on loans received	-
2	Due liabilities based on interest rates and fees	-
3	Due liabilities based on term deposits	-
4	20% Avista deposits	7.005
5	10% approved but unused, irrevocable credit obligations (credit lines)	321
6	Other due liabilities	133
	SUFICIT / DEFICIT (I - II)	18.966
	Liquidity ratio (I / II)	3.54

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. 2020	30.09. 2020	30.06. 2020	31.03. 2020	31.12. 2019
Liquid assets	26.427	10.144	12.721	17.433	12.212
Total assets	83.026	44.943	37.674	31.794	25.536
Short-term liabilities	59.887	33.400	27.868	22.317	16.427
Liquid assets / Total assets	31.83%	22.57%	33.77%	54.83%	47.82%
Liquid assets / Short-term liabilities	44.13%	30.37%	45.65%	78.12%	74.34%
Daily liquidity ratio	3.54%	2.13%	2.87%	6.06%	3.29%
Loan to Deposit ratio	40.09%	55.76%	63.45%	48.79%	55.11%

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:							
Cash and cash equivalents	19.875	-	-	-	-	-	19.875
Obligatory reserve	1.090	-	-	-	1.089	-	2.179
Financial assets valued at amortized cost:							-
Receivables from banks	6.276	-	-	-	-	-	6.276
Receivables from customers	1.607	1.007	6.711	5.972	12.603	798	28.698
HTM securities	-	4.573	-	-	10.930	9.500	25.003
Other financial assets	10	-	-	-	-	-	10
Interest receivables, accruals, prepayments and impairments*	85	147	-	-	(709)	(4)	(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 valued at amortized cost:							
Deposits of clients	14.817	23.317	13.099	8.039	12.299	10	71.581
Borrowings	9	19	53	136	642	-	859
Interest liabilities, accruals and prepayments*	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 GAPS							
- 31 December 2020	14.304	(17.763)	(6.441)	(2.220)	11.104	10.020	9.004
- 31 December 2019	862	(322)	983	2.969	492	893	5.877
Cummulative GAP:							
- 31 December 2020	14.304	(3.459)	(9.900)	(12.120)	(1.016)	9.004	
- 31 December 2019	862	540	1.523	4.492	4.984	5.877	
% of total liability							
- 31 December 2020	19,50%	-4,71 %	-13,50%	-16,52	-1,38 %	12,27 %	
- 31 December 2019	4.43%	2.78%	7.83%	23.10%	25.63%	30.22%	

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.

1. 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 2020

		u 000 EUR
	Issued share capital	16.480
	Retained earnings - effects of implementation of IFRS9	(71)
	Losses from the previous years	6.055
	Loss for the current year	984
	Intangible asset	121
	Positive difference between the amount of regulatory provisions for potential losses and impairments for balances and off-balances sheet items	400

On 31 December 2020, deductible items on the Bank's own funds are related to:

- Accumulated losses from previous years EUR 6.055 thousands,
- Actual loss from the current year of EUR 984 thousands,
- The book value of intangible assets of the Bank at December 31, 2020 in the amount of EUR 121 thousands,
- Positive difference between the amount of regulatory provisions for potential losses and impairments for balances and off-balances sheet items in the amount of EUR 400 thousands.

During 2020, the Bank was recapitalized in the total amount of EUR 4.5 million, of which EUR 2.5 million in the first and EUR 2 million in the fourth quarter of 2020.

Risk weighted assets calculated in accordance to the Decision on Capital Adequacy for the banks, on December 31, 2020 amounted EUR 31.895 thousands.

In accordance to Decision on Capital Adequacy for the banks, which is applicable on 31 December 2020, Bank is obliged to keep Capital Adequacy Ratio on a level of at least 10%.

Capital Adequacy Ratio of the Bank on 31 December 2020 was **26,30%** and it is above prescribe limit of 10%.



Djordje Lukic
CEO




Miroslav Vukovic
Head of Accounting and Financial Controlling



BDO d.o.o. Podgorica

Bulevar Svetog Petra Cetinjskog 149

81000 Podgorica

Montenegro

Tel: +382 20 228 449

Fax: +382 20 228 449

www.bdo.co.me

BDO d.o.o. Podgorica, privredno društvo osnovano u Crnoj Gori, je članica BDO International Limited, kompanije sa ograničenom odgovornošću sa sjedištem u Velikoj Britaniji i dio je međunarodne BDO mreže firmi članica.

BDO je brend ime za BDO mrežu i za svaku BDO firmu članicu.

BDO d.o.o. Podgorica, a limited liability company incorporated in Montenegro, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO member firms.

