ANNUAL
REPORT

2021

HIPOTEKARNA
BANKA
Vama posvećena

CONTENT

1 FROM THE EXTERNAL AUDITOR'S REPORT

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hipotekarna banka AD, Podgorica

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hipotekarna banka AD, Podgorica (Continued)

Key Audit Matters (Continued)

Key audit matter	Audit procedures applied
1. Adequacy of the impairment of loans and off-balance sheet items Notes 3.8.8, 5.2, 7, 17.2, 23 to the financial statements	
The measurement of costs of the impairment of loans and provisions for off-balance sheet items is deemed to be a key audit matter since the determination of assumptions for expected credit losses requires a significant level of professional judgement by the Bank's management. Receivables for loans and placements to debtors as of 31 December 2021 amounted to EUR 238,173 thousand (EUR 229,963 thousand as of 31 December 2020), while the total amount of the allowance for impairment of these receivables amounted to EUR 16,444 thousand as of 31 December 2021 (EUR 14,568 thousand as of 31 December 2020). These provisions for losses constitute the best management's estimate of expected credit losses for the credit portfolio as of the balance sheet date. Key areas of judgement include the interpretation of impairment requirements in accordance with International Financial Reporting Standard 9: Financial Instruments, which is reflected in the Bank's expected credit loss model, the identification of exposures where there has been a significant increase in credit risk (for which the expected credit loss is calculated over the life of the financial instrument), the parameters and assumptions used in the expected credit loss model, such as the counterparty's financial position and expected future cash flows, as disclosed in Notes 3.8.8, 5.2, 7, 17.2, 23, as well as estimates and assumptions of expected outcomes in impairment scenarios for individually assessed placements. Possible outcomes are based on cash flows discounted by the effective interest rate for individually assessed placements. The assessment includes relevant data, such as impairment indicators, probabilities of relevant scenarios for expected future cash flows and cash flow forecasts, including the foreclosure of collateral. The Bank's management disclosed additional information in Notes 3.8.8, 5.2, 7, 17.2, 23 to the financial statements.	Based on our risk assessment and knowledge of the banking sector operations, we examined the costs of impairment of loans and provisions for off-balance sheet items and we estimated the applied methodology, as well as the assumptions used, in accordance with the description of the key audit matter. Our audit procedures included the following: • An estimate of key controls related to the assumptions used in expected credit loss (ECL) models to assess credit risk associated with the exposure and expected future cash flows of the customer; • Collection and detailed testing of evidence corroborating the assumptions used in ECL models applied in the allocation of credit quality levels. Testing assumptions applied to obtain twelve-month and multi-annual probability of default (PD and mPD) and determination of these probabilities, including a review of the application of the forward-looking component. A review of the method used to obtain the probability of loss given default (LGD); • Collection and detailed testing of evidence corroborating the applied assumptions related to impairment costs of loans and provisions for off-balance sheet exposures, including a review of the applied CCF, the measurement of collaterals, used haircuts and expected collection periods and assumptions of future cash flows for individually assessed exposures on loan impairment; • An estimate of key movements in a high-risk portfolio from the prior period in relation to industry standards and historical data; • An estimate of adequacy of certain management's decisions in comparison to certain macro projections applied in ECL models; • An evaluation of applied methodologies using our knowledge and experience of the industry; • An assessment of accuracy and completeness of disclosure in the financial statements. Based on the audit procedures applied, we did not identify any significant findings in terms of the adequacy of the impairment of loan placements and provisions for off-balance sheet exposures as of 31 December 2021.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hipotekarna banka AD, Podgorica (Continued)

Other Matters

The financial statements of the Bank as of and for the year ended 31 December 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements on 20 May 2021.

Other Information Contained in the Bank's Annual Management Report

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hipotekarna banka AD, Podgorica (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hipotekarna banka AD, Podgorica (Continued)

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

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

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

Podgorica, 20 April 2022

Društvo za reviziju BDO d.o.o. Podgorica

Milovan Popovic
Certified Auditor

INCOME STATEMENT
For the period from 1 January to 31 December 2021

	Notes	2021	2020
		(in EUR thousand)	
Interest income and similar income	3.1, 6	17,643	18,239
Interest income on impaired loans		342	-
Interest expenses and similar expenses	3.1, 6	(3,180)	(3,200)
NET INTEREST INCOME		**14,805**	**15,039**
Fee and commission income	3.2, 9	15,584	12,821
Fee and commission expenses	3.2, 9	(9,675)	(7,893)
NET FEE AND COMMISSION INCOME		**5,909**	**4,928**
Net gains/losses from the derecognition of financial instruments not measured at fair value through profit or loss		192	212
Net gains/losses arising from financial instruments held for trading		272	153
Net foreign exchange gains		531	461
Net gains/losses from the derecognition of other assets		237	152
Other income	13	236	645
Employee expenses	10	(5,969)	(5,551)
Amortisation/depreciation expenses	12	(2,381)	(2,542)
General and administrative expenses	11	(7,173)	(6,069)
Net gains/losses from the depreciation of financial instruments not measured at fair value through profit or loss	3.14, 7	(1,363)	(3,518)
Provisions	3.14, 8	(234)	(6)
Other expenses	14	(213)	(70)
OPERATING PROFIT		**4,849**	**3,834**
Income tax	3.6, 15	(465)	(346)
NET PROFIT		**4,384**	**3,488**
Earnings per share	**32**	**0.43**	**0.36**

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

These financial statements were approved by the Board of Directors of Hipotekarna banka A.D. Podgorica on 31 January 2022 in Podgorica.

Approved by and signed on behalf of Hipotekarna banka A.D. Podgorica:

Member of the Management Board
Jelena Vuletić

Member of the Management Board
Ana Golubović

Member of the Management Board
Nikola Špadijer

Member of the Management Board
Nataša Lakić

President of the Management Board
Esad Zaimović

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from 1 January to 31 December 2021

	Note	2021	2020
			(In EUR thousand)
Net profit		**4,384**	**3,488**
Total other comprehensive income			
Effects of value changes of securities measured at fair value through other comprehensive income		(2,768)	(2,051)
Income tax arising from other comprehensive income items		266	186
Total other comprehensive income for the year		**(2,502)**	**(1,865)**
TOTAL OTHER COMPREHENSIVE INCOME		**1,882**	**1,623**

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HIPOTEKARNA BANKA A.D. PODGORICA

BALANCE SHEET
As of 31 December 2021

	Notes	31 December 2021	(In EUR thousand) 31 December 2020
ASSETS			
Cash balances and deposit accounts with central banks	3.7, 16	**235,881**	**163,390**
Financial assets at amortized cost		**271,117**	**240,348**
Loans and receivables from banks	3.8.3, 17.1	43,893	22,060
Loans and receivables from clients	3.8.3, 17.2	221,729	215,395
Securities	17,3	3,552	1,107
Other financial assets		1,943	1,786
Financial assets at fair value through other comprehensive income		**139,886**	**128,150**
Securities	18.1	139,886	128,150
Financial assets held for trading		**7,465**	**-**
Securities	18.2	7,465	-
Equity investments in associates and joint ventures		**-**	**-**
Property, plant and equipment	3.10, 19	**4,809**	**6,214**
Intangible assets	3.10, 20	**1,996**	**2,019**
Deferred tax assets	15c	**284**	**27**
Other assets	21	**2,293**	**2,433**
TOTAL ASSETS		**663,731**	**542,581**
LIABILITIES			
Financial liabilities at amortized cost		**573,036**	**451,662**
Deposits due to banks and central banks	22.1	1,714	1,214
Deposits due to customers	22.2	548,259	428,346
Borrowings to clients other than banks	22.3	22,667	22,048
Other financial liabilities		396	54
Reserves	23	**1,127**	**1,453**
Current tax liabilities		**464**	**342**
Deferred tax liabilities	15c	**-**	**23**
Other liabilities	24	**16,528**	**13,301**
Subordinated debt	26	**17,232**	**22,256**
TOTAL EQUITY AND LIABILITIES		**608,387**	**489,037**
EQUITY			
Share capital	25	52,362	16,006
Share premium		-	7,444
Retained earnings/losses		(61)	25,425
Current year profit		4,384	3,488
Other reserves		(1,341)	1,181
TOTAL EQUITY		**55,344**	**53,544**
TOTAL EQUITY AND LIABILITIES		**663,731**	**542,581**
OFF-BALANCE SHEET ITEMS	28	**877,361**	**753,678**

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STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 2021

(In EUR thousand)

	Share capital	Share premium	Current year profit	Other reserves	Total
As of 1 January 2020	**16,006**	**7,444**	**25,404**	**3,046**	**51,900**
Effect of reducing financial assets measured at fair value through other comprehensive income	-	-	-	(1,865)	(1,865)
Other effect of securities on equity	-	-	21	-	**21**
Current year profit	-	-	3,488	-	**3,488**
As of 31 December 2020	**16,006**	**7,444**	**28,913**	**1,181**	**53,544**
As of 1 January 2021	**16,006**	**7,444**	**28,913**	**1,181**	**53,544**
Share issuance	36,356	(7,444)	(28,912)	-	-
Effect of reducing financial assets measured at fair value through other comprehensive income	-	-	-	(2,502)	**(2,502)**
Other effect of securities on equity	-	-	(62)		**(62)**
Actuarial losses/gains, net	-	-	-	(20)	**(20)**
Current year profit	-	-	4,384	-	**4,384**
As of 31 December 2021	**52,362**	**-**	**4,323**	**(1,341)**	**55,344**

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CASH FLOW STATEMENT
For the period from 1 January to 31 December 2021

DESCRIPTION	Notes	2021	2020
		(In EUR thousand)	
Cash flows from operating activities			
Inflows from interest and similar income		16,920	18,363
Outflows from interest and similar income		(2,498)	(3,240)
Inflows from fees and commissions		15,584	12,821
Outflows from fees and commissions		(9,675)	(7,893)
Outflows from employee salaries and supplier costs		(22,337)	(21,909)
Increase/reduction in loans and other assets		(6,857)	13,568
Inflows from deposits and other liabilities		118,200	8,550
Paid taxes		(880)	(1,037)
Other outflows		(24,299)	(20,950)
Cash inflows/outflows from operating activities		**84,158**	**(1,727)**
Cash flows from investing activities			
Purchase of property and equipment		(616)	(573)
Purchase of intangible assets		(529)	(475)
Treasury bills		10,000	30,104
Inflows from the sale of tangible and long-term assets		18	87
Cash inflows/outflows from investing activities		**8,873**	**29,143**
Cash flows from financial activities			
Increase/reduction of borrowings		627	(283)
Cash inflow/outflow from financial activities		**627**	**(283)**
Foreign exchange effect on cash and cash equivalents		531	461
Net increase/reduction in cash and cash equivalents		**94,189**	**27,594**
Cash and cash equivalents at the beginning of the period		**180,599**	**153,005**
Cash and cash equivalents at the end of the period	29	**274,788**	**180,599**

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These financial statements were approved by the Board of Directors of Hipotekarna banka A.D. Podgorica on 31 January 2022 in Podgorica.

Approved by and signed on behalf of Hipotekarna banka A.D. Podgorica:

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2 BUSINESS ACTIVITIES AND ORGANISATIONAL STRUCTURE OF THE BANK

BUSINESS ACTIVITIES AND ORGANISATIONAL STRUCTURE OF THE HIPOTEKARNA BANKA

ABOUT THE BANK

Hipotekarna Banka AD Podgorica (hereinafter: the Bank) provides the widest range of banking and financial products and services to legal and natural persons in Montenegro in accordance with the licenses issued by the competent institutions.

The Banking Law, the Law on Business Organisations, and enabling regulations of the Central Bank of Montenegro (hereinafter: the CBCG) prescribe the conditions for founding and functioning of banks in Montenegro.

The provision of services performed by the Bank in the securities market is regulated by the Law on Capital Markets and enabling regulations of the Capital Markets Authority. The Bank also performs payment operations that are governed by the Payment System Law including the enabling regulations of the CBCG.

The Bank also performs the insurance agency activities that are regulated by the Law on Insurance and relevant enabling regulations of the Insurance Supervision Agency.

The Bank is subject to the supervision and oversight of the CBCG, the Capital Markets Authority and the Insurance Supervision Agency.

As at 31 December 2021, the Bank had 225 employees, of which 11 held a master's degree (4.9%), 101 held a university degree (44.9%), 61 held a bachelor's degree (27.1%), and 52 held a secondary school degree (23.1%).

CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE RULES

The General Shareholders Meeting of the Bank is composed of its shareholders.

Pursuant to Article 15b of the Law on Takeover of Joint Stock Companies:

1) The structure of the Bank's capital is as follows:

» The share capital of the Bank amounts to EUR 52,361,965.61, and it consists of 10,241,148 common shares issued in the name of the holder;

» The nominal value of one share is EUR 5,1129;

» The shares are dematerialised, indefinitely transferrable and issued in the name of the holder. The excerpt from the registry with the Central Securities Depository and Clearing Company AD Podgorica is the only evidence of the ownership of shares;

» A shareholder of the Bank, as the owner of common shares, is entitled to the following:

1. right to attend the General Shareholders Meeting,

2. right to manage proportionately to the share in capital of this class of shares,

3. right to dispose of shares, in accordance with the applicable regulations,

4. pre-emptive right to acquire new shares,

5. right to acquire shares free of charge in case of the increase in share capital from the Bank's funds, proportionately to its investment,

6. right to dividend pay-out, after the distribution of preferred shares to owners, when the Bank's General Shareholders Meeting decides to pay out the dividend,

7. right to obtain, at personal request, a copy of the balance sheet and profit and loss statement, as well as external auditor's report,

8. right to have an insight, thirty days prior to the session of the General Shareholders Meeting and at the General Shareholders Meeting, in the financial reports including also external auditor's report,

9. right to proportionate part of assets in case of Bank's winding up and other rights in accordance with the applicable regulations.

2) There are no restrictions for transferring shares i.e., securities;

3) Significant direct and indirect equity investments (10 largest shareholders):

Cerere S.P.A. - Italy	*13.9275 %*
Lorenzo Gorgoni - Italy	*12.9788 %*
Antonia Gorgoni – Italy	*10.0016 %*
Sigilfredo Montinari - Italy	*7.9828 %*
Miljan Todorović - Italy	*7.3982 %*
Genmont doo Podgorica	*4.9002%*
Ibis Srl - Italy	*4.8682 %*
Dario Montinari - Italy	*4.6159 %*
Piero Montinari - Italy	*4.6127 %*
Andrea Montinari - Italy	*4.6127 %*
Andrea Montinari - Italy	*4.6127 %*

4) There are no securities giving special control rights;

5) Applicable laws and other regulations apply to the acquisition of shares by employees;

6) There are no restrictions of voting rights, such as restriction of the voting right of the owner holding a certain percentage of securities or number of shares by deadlines for exercising right to vote, and the like;

7) There is no agreement between shareholders with which the issuer is familiar and that may result in the restriction of transfer of securities and/or voting rights;

8) The manner of appointing and relieving from office of members of the Board of Directors is defined by applicable laws and other regulations;

9) The powers of the members of the Board of Directors are defined by the applicable laws and other regulations;

10) There are no significant agreements in which the issuer is a contracting party and which

produce legal action, are amended or terminated after the takeover of the issuer in the process of the public initial offering for takeover and their legal effects, unless these agreements are such that their disclosure would have significant harmful effects on the issuer, provided that the issuer is not explicitly obliged to publish such a data in accordance with the law;

11) Executive directors and individual directors of the organisational parts of the Bank have covenants which regulate the payment of fee for the termination of term of office in the amount ranging from 6 (six) to 18 (eighteen) net monthly salaries.

The Board of Directors of the Bank manages the Bank. Members of the Board of Directors are elected and appointed by the General Shareholders Meeting.

The structure of the Board of Directors and its bodies is as follows:

Board of Directors of the Bank:

• Sigilfredo Montinari, Chairperson

• Božana Kovačević, Deputy Chairperson

• Renata Vinković, Member

• Goran Varat, Member

• Esad Zaimović, Member

Audit Committee of the Bank:

• Draško Popović, Chairperson

• Božana Kovačević, Member

• Goran Knežević, Member

Credit Risk Management Committee of the Bank:

• Renata Vinković, Chairperson

• Sigilfredo Montinari, Member

• Esad Zaimović, Member

The Board of Directors of the Bank meets as needed and at least once a month.

During 2021, the Board of Directors of the Bank passed decisions on the issues from within its competence, and it had continuously overseen the operations of the Bank by periodical review of the reports on the financial situation and operations. In addition, the Board of Directors regularly discussed the reports of standing and interim bodies of the Bank, control functions, and the reports on the functioning of the internal controls system.

The Board of Directors of the Bank also reviewed the reports on the completed examinations of the CBCG, as well as the reports of other supervisory institutions.

The executive directors organise and manage the operations of the Bank and oversee the work of the Bank's employees on daily basis.

Bank Executive Directors:

- Esad Zaimović, Chief Executive Officer
- Nikola Špadijer, Executive Director for retail operations and advanced distribution channels
- Ana Golubović, Executive Director for corporate operations and financial markets
- Jelena Vuletić, Executive Director for risks

CORPORATE GOVERNANCE RULES

The Bank has established corporate governance in accordance with legal regulations, the CBCG regulations and best practices.

The corporate governance aims to provide a transparent organisational structure and segregation of duties and responsibilities of corporate authorities and their bodies, achieving effective oversight, functioning of internal controls, with emphasis on risk management, protection of assets and reputation of the Bank.

General Meeting of Bank's Shareholders

The shareholders of the Bank exercise their rights at the Bank's General Shareholders Meeting. The General Shareholders Meeting of the Bank decides on issues prescribed by the Banking Law, Law on Business Organisations, and the Bank's Articles of Association.

The Board of Directors of the Bank convenes the General Shareholders Meeting and, in accordance the Law on Business Organisations and the Bank's Articles of Association, the shareholders with at least 5% participation in the share capital of the Bank also have the right to convene the General Shareholders Meeting.

The convening of the General Shareholders Meeting, handling of the General Meeting, quorum, decision-making and other issues important for the work of the General Shareholders Meeting is governed by the Law on Business Organisations, Articles of Association and internal acts of the Bank.

Board of Directors and Executive Directors

Duties and responsibilities of the members of the Board of Directors of the Bank and the Executive Directors of the Bank are determined by the Banking Law, the Law on Business Organisations and Articles of Association of the Bank.

The procedures for appointing and relieving from office, i.e., recalling of the members of the Board of Directors and executive directors of the Bank are specified by the Banking Law, the Law on Business Organisations and the Bank's Articles of Association.

Board of Directors

In accordance with legal regulations and the Bank's Articles of Association, the Board of Directors manages the Bank and oversees its operations.

The members of the Board of Directors of the Bank, who are previously authorised by the CBCG, are elected by the General Shareholders Meeting. The term of office of the members of the Board of Directors of the Bank lasts 4 years and they can be re-elected. Members of the Board of Directors of the Bank must meet the requirements prescribed by the Banking Law, the Law on Business Organisations, relevant Decision of the CBCG and Bank's internal acts. The fulfilment of prescribed conditions and personal reputation of the members of the Board of Directors should provide professional, legal, safe and stable management of the Bank's operations, as they are jointly responsible for establishing a risk management system, compliance of the Bank's operations with regulations, financial stability of the Bank and the accuracy of reporting.

The Board of Directors of the Bank, in addition to the Audit Committee, has established the following bodies: Assets and Liabilities Committee, Credit Risk Management Committee and Investment Committee. A member of the Board of Directors is also included in the composition of these committees / bodies.

Executive Directors of the Bank

In accordance with the legal regulations and the Bank's Articles of Association, the executive directors organise and manage the Bank's operations and oversee the work of the Bank's employees on a daily basis.

In accordance with the provisions of the Bank's Articles of Association, the Bank has at least two and a maximum of five executive directors, one of whom is the chief executive officer. The executive directors of the Bank, who are previously authorised by the CBCG, are elected by the Board of Directors of the Bank. The executive directors of the Bank must meet the requirements prescribed by the Banking Law, the Law on Business Organisations, relevant Decision of the CBCG, and the internal acts of the Bank.

Since the executive directors of the Bank manage the Bank's business on a daily basis, they are also responsible for managing the risks to which the Bank is exposed in its operations. When taking legal action on behalf and for the account of the Bank, the Chief Executive Officer must obtain a signature of another executive director. The executive directors of the Bank are full-time employees of the Bank.

Internal Controls System and Risk Management Process as regards to the Financial Reporting

In order to ensure the reliability and objectivity of accounting statements and reports, a system of internal control has been established in such a way that internal organisation and procedures define control points, thus ensuring control of accuracy and completeness of data, as well as that all changes are accurately recorded and business books mutually consistent.

The Bank has established control procedures and activities related to data processing, segregation of duties, approval and authorisation system and reporting area.

Financial reporting risk is assessed through analysis and management of internal and external risks while compiling realistic and objective financial statements in accordance with the adopted internal acts of the Bank. The internal audit controls the functioning of the internal controls system and gives recommendations for their improvement, within the audits envisaged in the annual work plan. The Bank seeks, through the existing system of internal controls, to reduce the possibility of errors in the financial reporting.

STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE

As a member of the Association of Montenegrin Banks, the Chamber of Commerce of Montenegro, and the Union of Employers of Montenegro, the Bank adheres to the objectives and guidelines of the code of business conduct of the above stated relevant organisations and the principles they contain.

The Bank is a member of the Montenegro Stock Exchange AD Podgorica.

Code of Corporate Governance in Montenegro - the Code, adopted by the Board of Directors of Montenegro Stock Exchange AD Podgorica in 2019 intended for joint stock companies whose financial instruments are listed on the stock exchange, contains a set of rules and principles aimed at improving the corporate governance practice, and its implementation is based on the application of the rule "apply or explain", thus an additional explanation of the method of regulating the issue of preventing and resolving corporate conflicts is provided below.

Namely, the Bank's internal acts regulate the issue of conflict of interest, including the issues of preventing and resolving the conflict of interest of employees. Furthermore, in accordance with regulations governing the capital market, the Bank has regulated, inter alia, the issue of preventing negative effects of the conflict of interest on the provision of investment and ancillary services, and carrying out investment activities, taking into account the interests of the Bank, other persons, and clients. In addition, the Bank's Articles of Association also regulate the prevention and resolution of conflicts of interest of members of the Board of Directors. As the Board of Directors of the Bank manages the Bank, this, by analogy, implies that it also resolves issues of possible (corporate) conflicts that may arise between shareholders and the Bank. In the same vein, the Board of Directors of the Bank is responsible for ensuring that the operations of the Bank are carried out in accordance with the law, other regulations and internal acts of the Bank, and thus for minimizing harmful consequences for the Bank, which may also arise from the relationship between the Bank and its shareholders. No shareholder of the Bank has been in conflict with the Bank so far, nor did they file a lawsuit against the Bank.

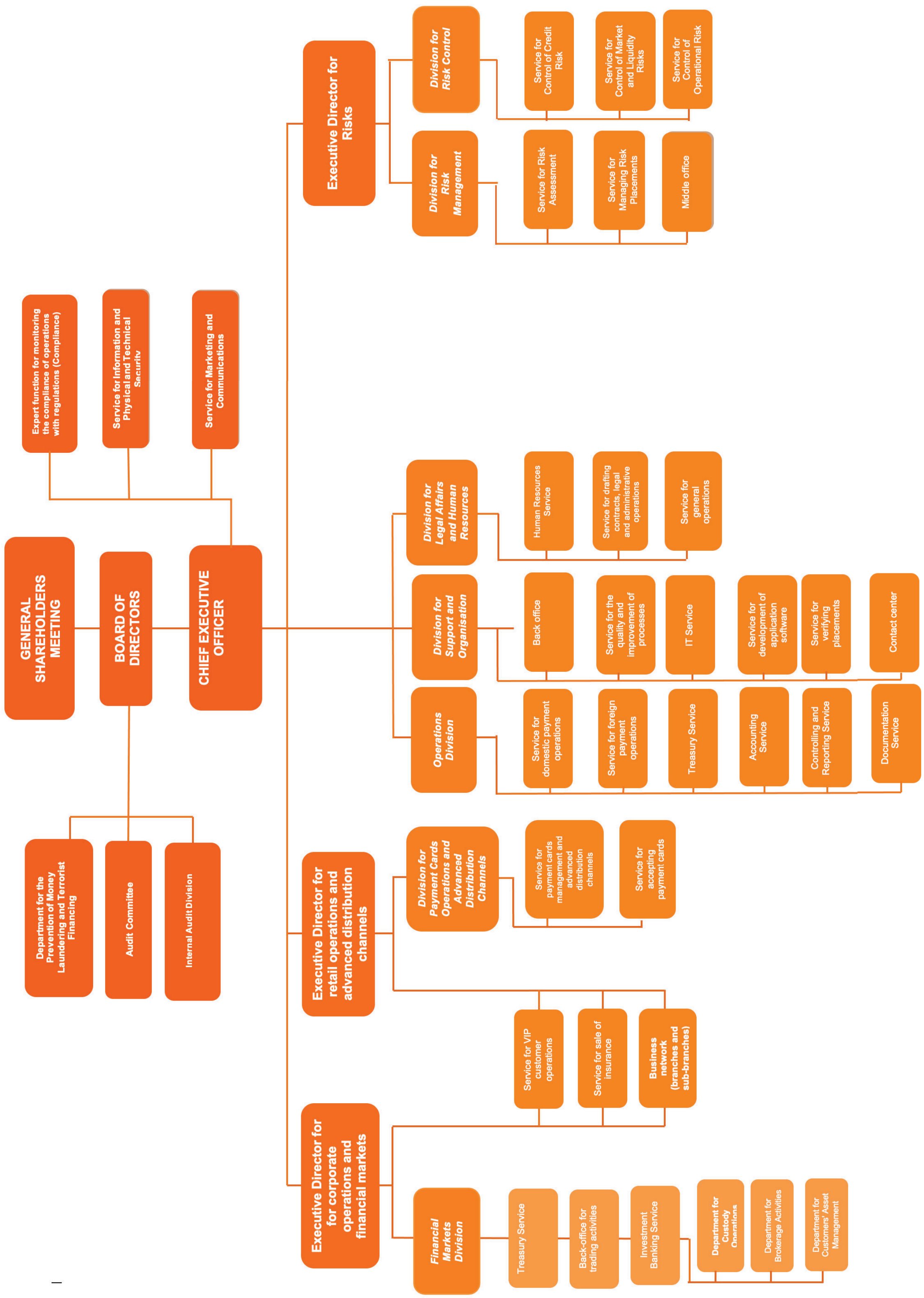
Having considered the aforesaid, in accordance with the provisions of Article 14 of the Law on Accounting (OGM 52/2016), the executive directors of the Bank declare that they apply the Code of Corporate Governance in Montenegro, as well as codes of business conduct of relevant organisations, of which it is a members.

MANAGEMENT OF THE BANK

EXECUTIVE DIRECTORS	Esad Zaimović, Chief Executive Officer Nikola Špadijer, Executive Director for retail operations and advanced sales channels Ana Golubović, Executive Director for corporate operations and financial markets Jelena Vuletić, Executive Director for risks
INTERNAL AUDIT DIVISION	Veselin Ivanović
EXPERT FUNCTION FOR MONITORING THE COMPLIANCE OF OPERATIONS WITH REGULATIONS (COMPLIANCE)	Danka Dragićević

DIVISION FOR PREVENTION OF MONEY LAUNDERING AND TERRORIST	Sanja Mijušković / Damir Ljajević
DEPARTMENTS	Gojko Maksimović, Director of the Financial Markets Department Nataša Lakić, Director of the Department for Operations Nikola Milović, Director of the Department for Support and Organisation Božo Đurašković, Director of the Department for Legal Affairs and Human Resources Goran Smolović, Director of the Department for Risk Control Milana Stevanović, Acting Director of the Department for Risk Management
INDEPENDENT SERVICES	Haris Dizdarević, Director of the Service for Information and Physical and Technical Security Eva Ivanović, Director of Marketing and Communications

BANK'S ORGANISATIONAL CHART



3 DEVELOPMENT, FINANCIAL POSITION AND BUSINESS RESULTS OF THE BANK

DEVELOPMENT, FINANCIAL POSITION AND BUSINESS RESULTS OF THE BANK

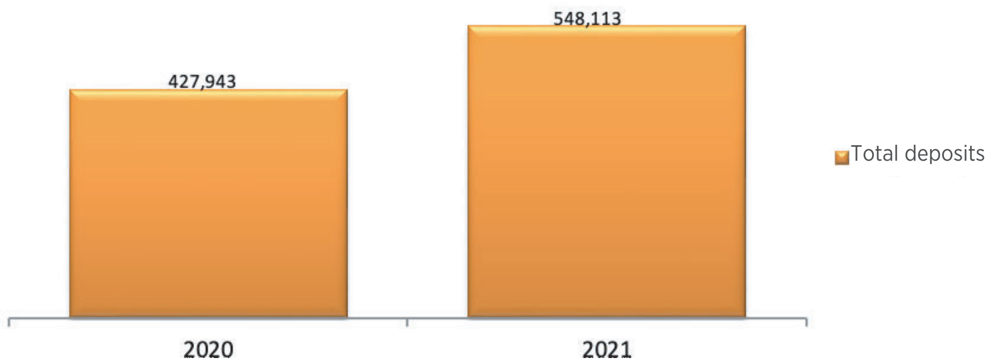
BUSINESS OPERATIONS

DEPOSITS

In 2021, deposits saw a y-o-y growth of 28.08%, which indicates the continued growth of the confidence of citizens and economy in the Bank also in 2021, in addition to high level of deposits recorded in the previous year. In addition to the stable growth of all types of deposits, the growth in demand deposits of 35.96% was of particular importance.

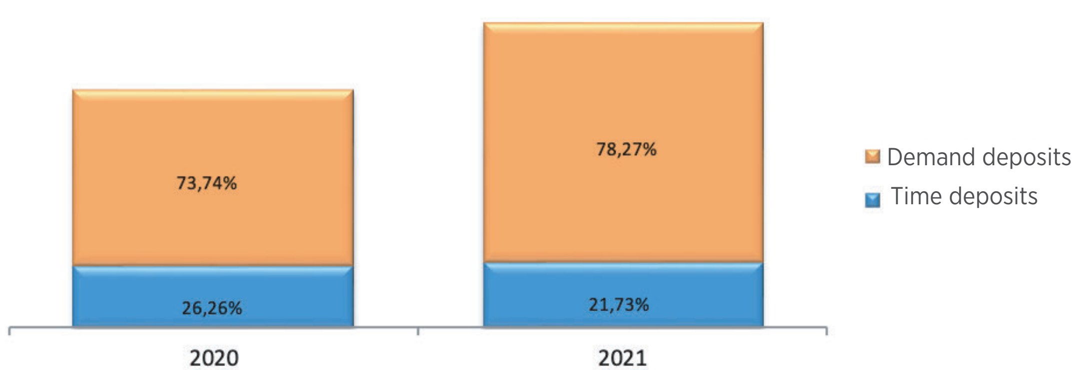
Total deposits[1]:

year	Total deposits (EUR 000)	% of change
2020	427,943	-
2021	548,113	28.08%



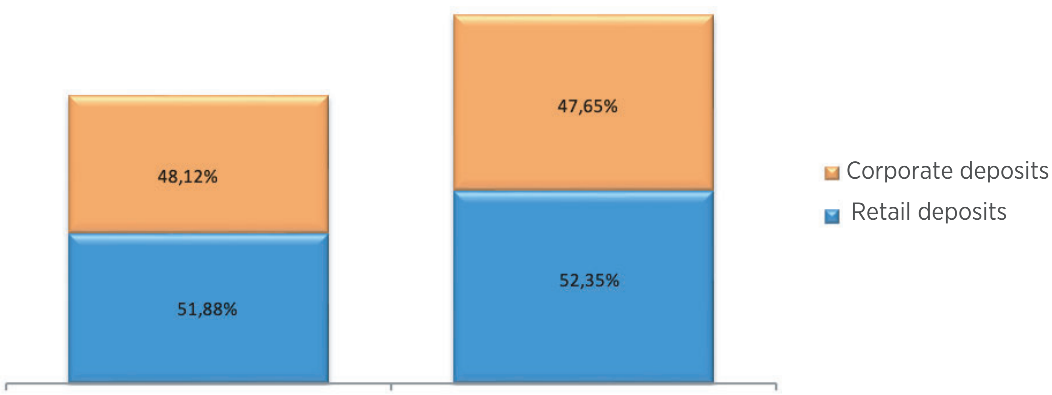
The increase in deposits resulted from the increase in the number of clients as well as the increase in the confidence in the Bank. Thanks to all Bank's features, which are, first and foremost, security, professionalism and high quality of the offer, we are recognised as a trustworthy bank, thus we continued the positive trend of deposit growth.

With regard to the share of time and demand deposits in total deposits, the Bank maintained adequate deposit structure. Time deposits accounted for 21.73% in total deposits, while demand deposits accounted for 78.27%.



1 Deposits from clients and banks do not include interest payables and prepayments and accruals.

The share of corporate deposits accounted for 47.65% of total deposits, while retail deposits stood at 52.35%, as shown in the graph below:



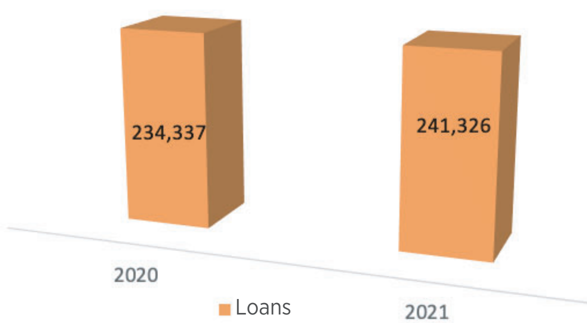
LOANS

In 2021, as well as in the previous years, the Bank granted loans to a large number of new clients. An ongoing support and further development of the existing clients is an imperative for the Bank, while employees of the Bank put a special focus on anticipating the needs of the clients, optimising the structuring of arrangements and tariffs for the existing clients.

In addition to its lending activities, the Bank is also recognisable by providing consulting services to its clients, with the aim of improving business and achieving better business results for both the Bank and its clients.

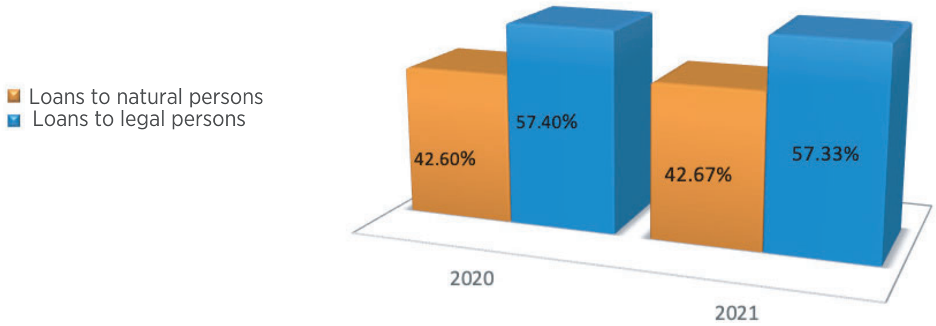
Total loans[2]:

Year	Loans (EUR 000)	% of change
2020	234,337	-
2021	241,326	2.98%

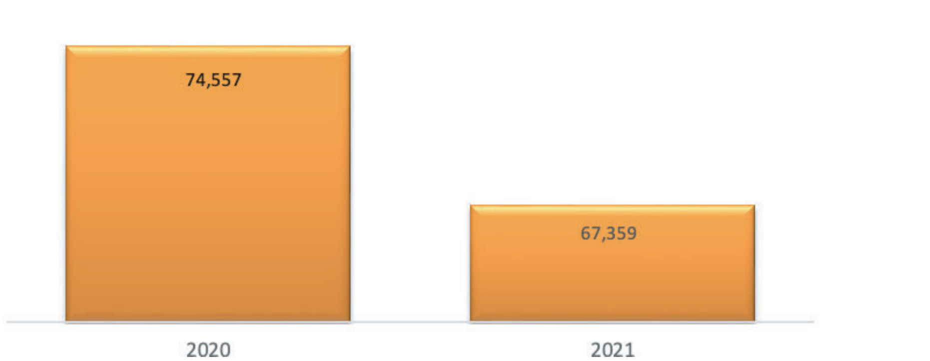


With regard to the structure of total loans, retail loans made up 42.67%, while the share of corporate loans was 57.33% of total loan portfolio.

2 Total loans is the amount of gross loans granted to clients and banks and they do not include interest receivables and prepayments and accruals



Overview of guarantees in 2021 (EUR 000):



The Bank has continued its successful cooperation with the Investment and Development Fund (IDF) in the area of lending under favourable conditions.

The Bank's range of services offered to legal persons included cash loans, revolving loans, loans for payment of liabilities to suppliers, loans for car purchase, loans for refinancing of debts with other banks, loans for financing export receivables, loans for purchase of equipment, loans for refurbishment of office space, loans for tourist season preparation, overdraft loans, factoring, as well as all types of guarantees.

The Bank also offers a wide spectrum of household loans: cash loans, purpose-specific loans, student loans, car purchase loans, reconstruction and refurbishment loans, sailor loans, tourism loans, agriculture loans, overdraft loans, consumer instalment loans, etc. as well as all types of guarantees.

DEVELOPMENT OF NEW PRODUCTS AND SERVICES

In 2021, the Bank also maintained the focus and partially the continuity in launching innovative products.

In October 2021, the Bank celebrated 10th anniversary of the Premium Programme and in anticipation of this jubilee, it enabled all users of the limit on instalments for purchases with Premium cards, shopping for 24 months.

The Bank has also introduced a prestigious service VISA Concierge, which enables VIP clients of the Bank to participate in celebrity events worldwide.

The Bank has continued to promote current products, primarily providing direct benefits to the users of the prestigious application "Moj novčanik".

PAYMENT OPERATIONS

The entire payment operations of the Bank in 2021 are characterized by the growth of indicators that define the operations of this segment of the Bank. All previously set payment plans have been achieved, which shows how successful and efficient the Bank was during the previous year.

DOMESTIC PAYMENT OPERATIONS

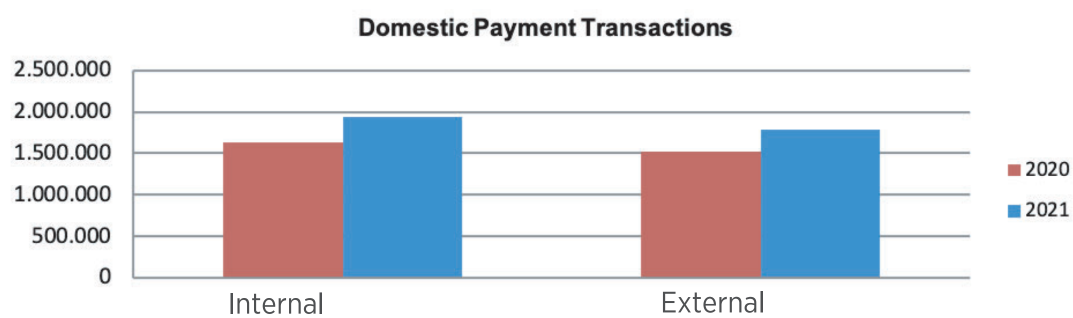
In 2021, the Bank's entire payment operations recorded growth.

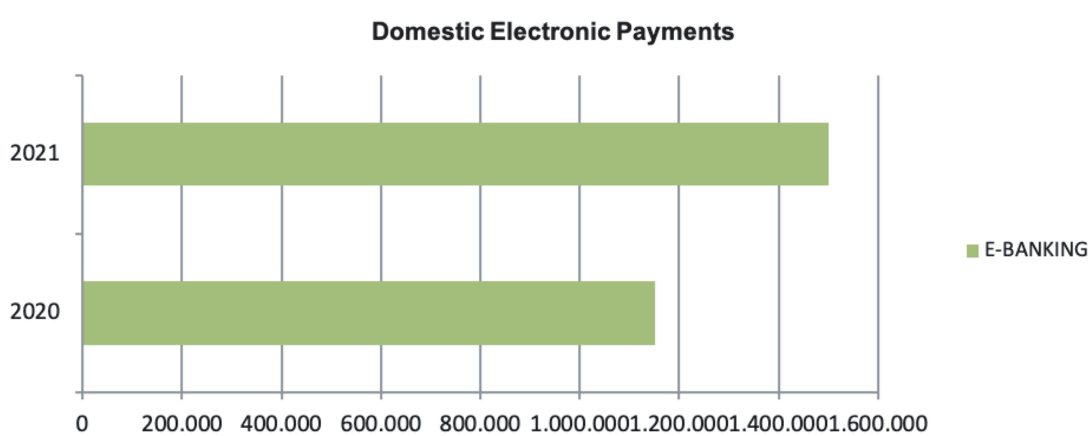
In relation to 2020, the total number of Bank's payment transactions in domestic payment operations increased by 19%. Out of that, the number of internal transactions in the Bank increased by 19% compared to the previous year. External transactions also recorded an increase of 18% compared to the previous year.

With regard to the structure of external orders, the increase was recorded both with retail orders (amounts up to EUR 1,000 – increase of 19%) and wholesale orders (amounts over EUR 1,000 – an increase of 15%).

The number of inflows from other banks increased by 9% compared to the previous year.

In addition, electronic transactions (e-banking) recorded a significant increase, which indicates the clients are increasingly choosing electronic applications and execute payments using electronic payment orders. The increase in the number of e-transactions in domestic payment operations amounted to 30% compared to the previous year.



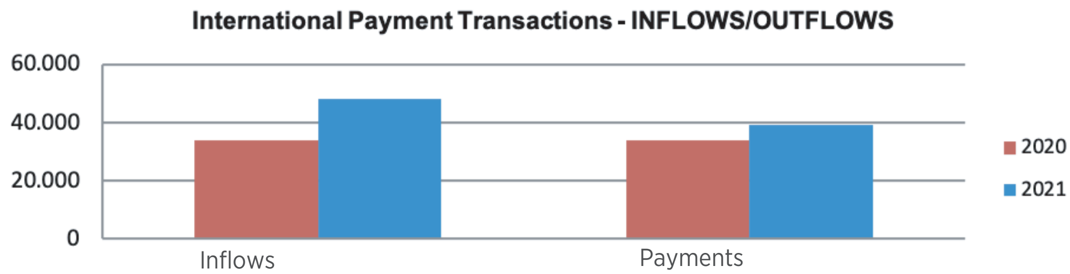


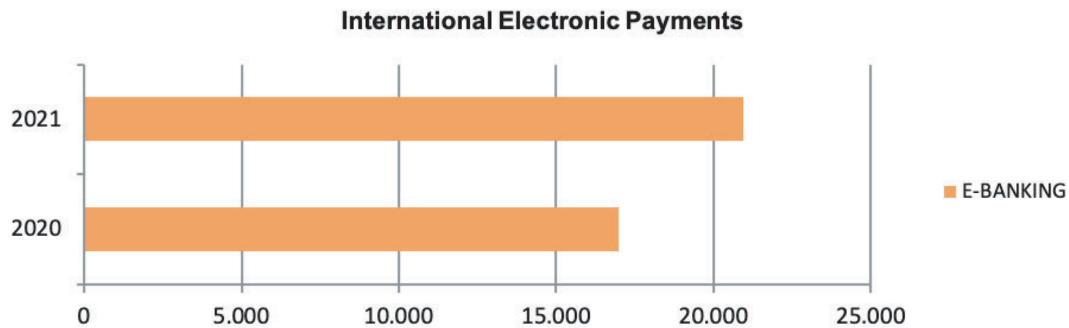
INTERNATIONAL PAYMENT OPERATIONS

In 2021, the continuity of a high number of payments, as well as the growth of incoming payments and payments executed through e-banking, and other transactions that are an integral part of this segment defined the international payment operations.

The Bank has long been recognised as an efficient and reliable partner by foreign banks.

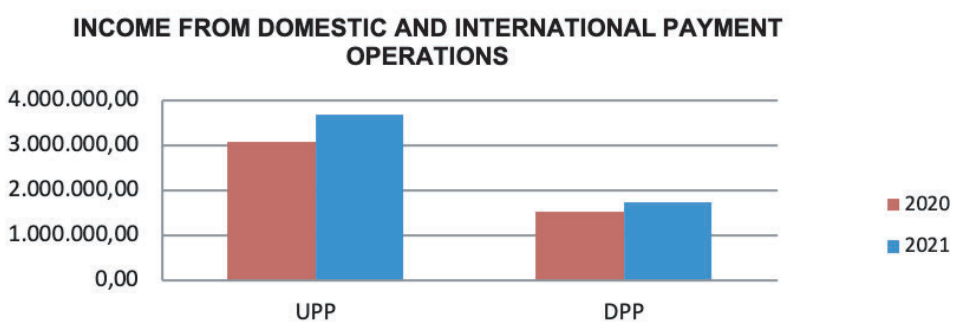
The number of international payment transactions increased by 15% compared to the previous year. In 2021, the number of international electronic payments using "HB-klik" (e-banking) increased y-o-y by 23%, while the number of realised inflows increased by 41% over the same period.

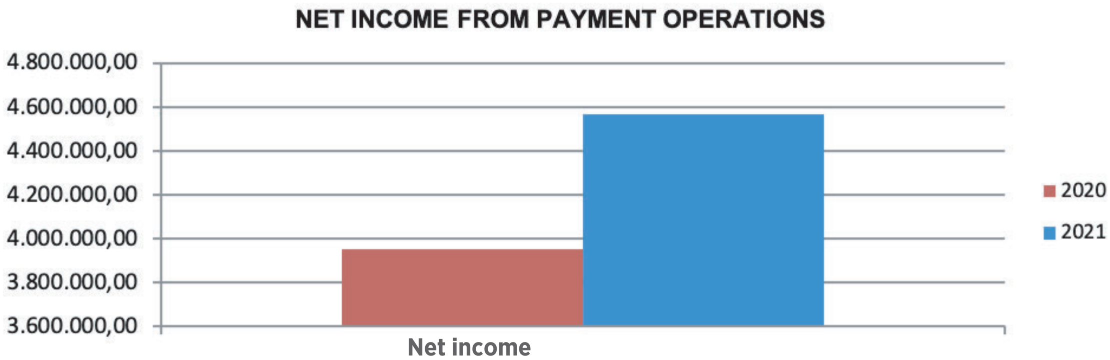




Total fee income arising from the payment operations services increased by 18% compared to 2020. Of that amount, the increase of income from domestic payment operations amounted to 19%, while income from international payment operations amounted to 15%.

Net income from total payment operations increased by 16% compared to the previous year.





ASSET MANAGEMENT

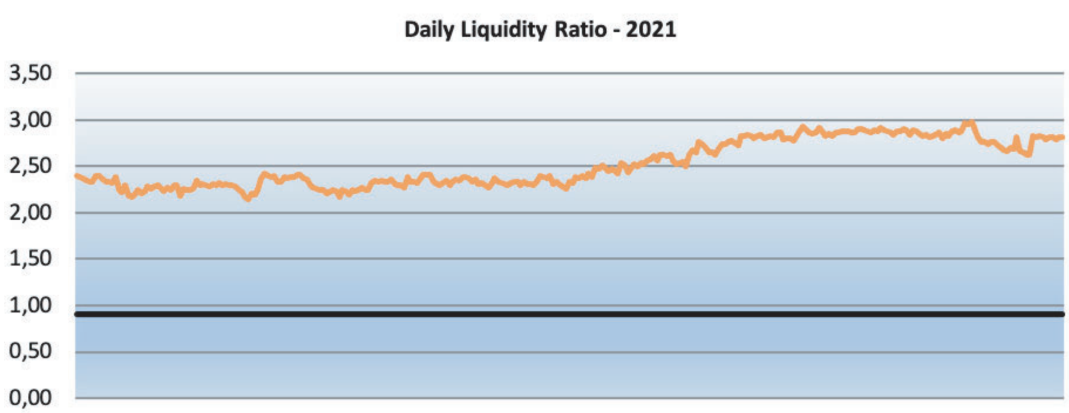
Providing optimal liquidity is a basic requirement for safe and efficient operations of each bank. With a view to maintaining adequate liquid assets to total liabilities ratio, the Bank should provide the liquidity needed by applying rational assets and liabilities management.

In 2021, the Bank also put emphasis on stabilising domestic sources of funding, expanding its depositor base, and reducing short-term sources in favour of long- term sources of funding.

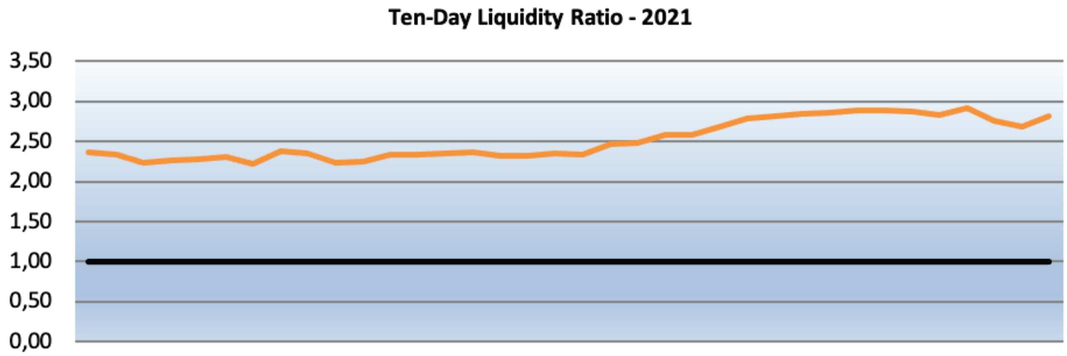
The Bank participated in a programme to support micro-, small- and medium-sized enterprises in overcoming the crisis caused by the new coronavirus, launched by the Ministry of Finance and Social Welfare and supported by the Council of Europe Development Bank (CEB). Through this programme, funds in the amount of EUR 4 million became available to the economy.

In the middle of December, the Bank signed a loan agreement with Finance in Motion - Green for Growth Fund, worth EUR 7 million. These funds are intended to cover projects aimed at achieving energy efficiency and reducing greenhouse gas emissions.

The Treasury service operating as a part of the Financial Markets Division managed to maintain the level of liquid assets and total liquid position of the Bank at the satisfactory level throughout 2021 thanks to its rational liquidity management. In addition, the Service reconciled funding sources with loans by daily, weekly, ten-day and monthly scheduling of available liquid assets. Adequate allocation of funds was performed through close cooperation with other departments and services in the Bank. This allowed the Bank to meet its obligations towards creditors regularly, as well as to accommodate client requests within the shortest terms possible. The daily liquidity ratio, which is calculated using the methodology set by the CBCG, was above the statutory minimum of 0.90 throughout 2021.



Also, ten-day liquidity ratio was above the statutory minimum of 1.00.



With the aim to manage liquidity within a period, the Bank regularly monitored indicators of the structural liquidity through maturity match of financial assets and liabilities, overview of maturity of large deposits, and by establishing a stable part of demand deposits using the internal model. The Bank maintained liquidity at the satisfactory levels.

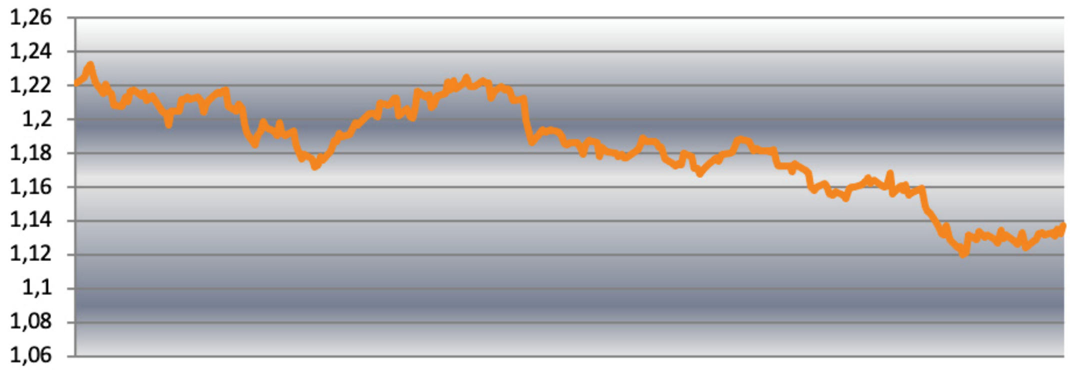
Given that 2021 saw a fall in interest rates on deposits of clients and the caution of clients in managing their own funds, it can be noted that, even in such circumstances, the Bank was recognised as one of the most reliable and most liquid banks in the banking system of Montenegro. This statement is supported by the 2020 year-end data that showed total deposits in the amount of EUR 428 million, and 2021 year-end data showing total deposits in the amount of EUR 548 million, which represented an increase of 28%. On the other hand, according to the Central Bank of Montenegro data, during 2021, total deposits recorded growth of about 24.56%, and the Bank recorded also better results than the market in this segment. In addition to lending activity, surpluses of liquid funds were invested in marketable securities

In 2021, there were no T-Bill auctions, so the Bank, upon their maturity, invested the funds into government bonds of Montenegro that were issued on the international market. Also, through the activities of the Financial Markets Division, the Bank invested in other international securities. Thus, at the end of 2021, the securities portfolio amounted to about EUR 150.90 million and compared to the end of 2020 it increased by about 16.79% or about EUR 22 million (at the end of 2020, the securities portfolio amounted to EUR 129.2 million).

In the structure of the securities portfolio, Montenegrin government debt securities accounted for the main share of about EUR 80 million, or about 57%.

The Bank also generated significant income by executing transactions with financial instruments, making a profit due to derecognition of financial instruments that are not measured at fair value through profit or loss and net profit from the sale of financial instruments held for trading in the total amount of approximately EUR 464 thousand.

Large exchange rate fluctuations were recorded in 2021, particularly in currency pair EUR/USD, which has had the highest impact on the exposure of the Bank to foreign exchange.



Even in these conditions, the Trading Service managed to achieve an exceptional result on the basis of income from foreign exchange rate differences, which is the result of adequate risk management of exchange rate changes. At the end of 2021, the total income from exchange rate differences amounted to EUR 531 thousand, which had a significant impact on the Bank's final financial result. Realized income from exchange rate differences at the end of 2021 was 15% higher than in 2020, which encourages that economic activity began to recover after the great decline in 2020 caused by the global coronavirus pandemic.

INVESTMENT BANKING

Montenegro's Capital Market

In 2021, total turnover recorded at the Montenegro Stock Exchange amounted EUR 46,467,878.61, which was a y-o-y decline of about 26%. In 2021, some 1.618 deals were concluded in the Montenegrin market, which was a decline of about 8.79% compared to 2020.

MNSE 10 index (index that follows the price trend in 10 most liquid companies) rose by 7.28% last year, while MONEX recorded a decline of 4.47% over the same period.

In 2021, two broker companies terminated their membership in the Montenegro Stock Exchange, and at the end of 2021, six members were active in the exchange, of which three were banks.

Broker and Custody Operations

In 2021, total turnover that the Bank recorded at the Montenegro Stock Exchange amounted EUR 28,304,472, which made up 30.46% of total turnover. Observing the realised turnover, the Bank ranked second in terms of participation in total turnover realised at the Montenegro Stock Exchange.

The table below provides a structure of the realised turnover of the Bank:

Type of securities	Number of transactions	Realised turnover
Shares	161	8.012.438,38
Bonds	51	20.292.034,00
TOTAL	**212**	**28.304.472,38**

In 2021, total turnover realised by trading in subordinated bonds of the Bank, HBO1, HBO2 and HBO3, amounted to EUR 1,495,898.00. An overview of trading in Bank's bonds was as follows:

Name of the bond	Number of transactions	Realised turnover
HBO1	3	843.000,00
HBO2	4	100.880,00
HBO3	6	552.018,00
TOTAL	**13**	**1.495.898,00**

In 2021, the turnover realised by the Bank at the international market for the account of clients amounted to EUR 177 million. The largest portion of the said transactions referred to OTC transactions with bonds.

The table below provides an overview of concluded transactions at the international market in period from 01 January – 31 December 2021.

Total number of executed transactions	**626**
Total value of executed transactions (EUR):	cca 108.231.075,20
Total value of executed transactions (USD):	cca 77.923.386,66

Compared to the previous year, the Bank generated almost twice as much turnover.

As at 31 December 2021, the Bank's clients held securities with the Bank in the amount of EUR 233.1 million, which was by 140% higher (or by approximately EUR 136 million) than as at end-2020. It is worth emphasizing that of the total amount of clients' portfolio, foreign securities amounted to about EUR 192 million. Therefore, the Bank became the leader in the field of custody operations in Montenegro

RISK EXPOSURE AND MANAGEMENT

Generally speaking, the risk management process involves: identifying, measuring, monitoring, controlling and reporting on risks. In addition, risk management policies and procedures are being developed within the Division, as well as methodologies and procedures for measuring them. Establishing a comprehensive risk management framework as well as recognising the risk management culture in the general corporate culture of the Bank is a necessary precondition for the long-term success of any banking strategy.

This process is integrated into the Bank's corporate governance framework and is based on a model "Three lines of defence" - "the first line of defence" is the management of the Bank's business lines, which is responsible for managing risks associated with products, activities, processes and systems in business segments and in decision-making on a daily basis; "the second line of defence" is the executive director of the Bank for risk management and the bodies of the Board of Directors for individual risks; and "the third line of defence" are internal audit, independent external auditor, and it may include external independent qualified entities

The Risk Management Division is responsible for managing risks within the Bank, which has two services - Service for Risk Assessment and Service for Managing Risk Loans, both being responsible for risk assessment, identification, and measurement. The Division for Control of Risk is responsible for monitoring, control and reporting on risks.

A special attention within the risk management is paid to the policies and procedures related to risk management, as well as the development of the necessary methodologies. Reporting within both divisions is performed on a monthly, quarterly and annual basis, and all activities related to the Risk Management Division are reported to the ALCO, the Board of Directors, the Credit Risk Committee and the Non-Financial Risk Committee.

The Bank has identified in its operations the following categories of risks that it wants to actively manage: credit risk, liquidity risk, interest rate risk from the banking book, market risk, operational risk and country risk. All other categories of risks are monitored on an ongoing basis and measures to control risk are taken, if needed.

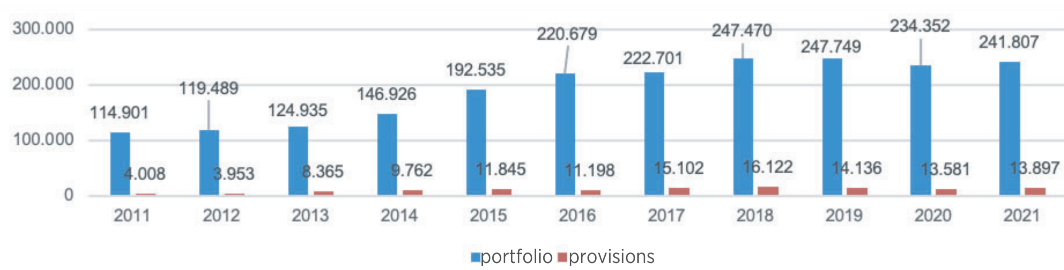
Credit Risk

Credit risk is defined as the risk of loss due to the inability or unwillingness of a client to fully and timely meet its obligations to the bank.

Credit risk management is a key component of overall risk management system. Credit risk management is aimed at maximising the ratio between the risk and return of the Bank. In order to accomplish this objective, credit risk is managed at individual level (at the level of sub-account) within the Risk Management Division, and at the portfolio level within the Division for Control of Risk.
The tables below show loan portfolio that consists of receivables based on principal of loans granted to clients and banks, and receivables based on called guarantees.

As at end-December 2021, Bank's loan portfolio increased y-o-y by 3.18%.

PORTFOLIO / PROVISIONS 2011-2021(EUR THOUSAND)



Bank's performing assets (A and B1) accounted for 52% of total portfolio, while substandard assets (B2) accounted for 43%, and non-performing assets (C, D and E) amounted to 5%.

Asset quality – December 2021 (EUR million)

The main indicators of credit risk were: the percentage of loan loss provisions, loans past due, and share of non-performing assets in total portfolio (NPL%).

The percentage of loan loss provisions can be observed using the CBCG methodology and internal methodology of the Bank (impairment).

• According to the CBCG methodology, as at 31 December 2021, loan loss provisions made up 5.75% of the portfolio or EUR 13,896,737. When compared to 2020 year-end, these provisions increased by 2.32% or EUR 315,556.

Portfolio / provisions based on the CBCG

	31.12.2020.	31.03.2021.	30.06.2021.	30.09.2021.	31.12.2021.
Portfolio	234.337.109	235.927.427	246.924.417	231.870.634	241.806.927
Provisions	13.581.181	14.010.274	14.876.387	13.188.277	13.896.737
Provisions (%)	5,80%	5,94%	6,02%	5,69%	5,75%

• According to the internal methodology, as at 31 December 2021, loan impairments amounted to EUR 15,778,384 or 6.53% of the portfolio. Y-o-y, the impairments increased by EUR 1,187,456 or by 8.14%.

Portfolio / impairments based on internal methodology (model)

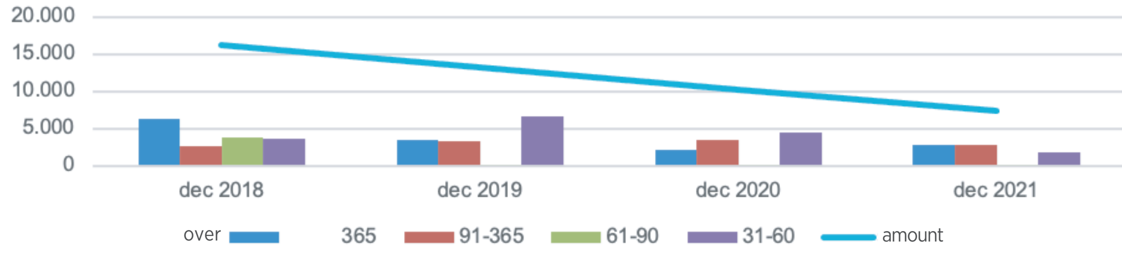
	31.12.2020.	31.03.2021.	30.06.2021.	30.09.2021.	31.12.2021.
Portfolio	234.337.109	235.927.427	246.924.417	231.870.634	241.806.927
Impairments	14.590.928	14.701.241	14.685.491	13.980.278	15.778.384
Provisions (%)	6,23%	6,23%	5,95%	6,03%	6,53%

Loans past due:

• As at 31 December 2021, past due loans over 30 days amounted to EUR 7,384,496 or 3.05% of total portfolio of the Bank, while as at 31 December 2020, they stood at EUR 10,236,930 or 4.37% of total portfolio of the Bank.

• With regard to the past due loans over 90 days as at 31 December 2021, they amounted to EUR 5,609,438 or 2.32% of total portfolio of the Bank, while as at 31 December 2020, they amounted to EUR 5,607,850 or 2.39% of total portfolio of the Bank.

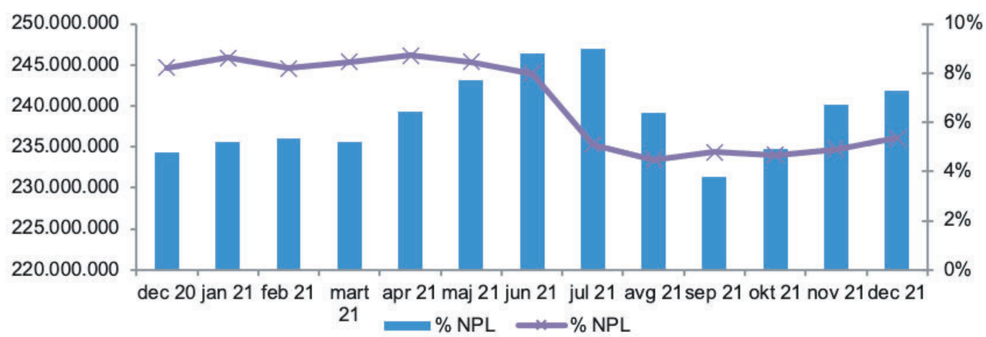
Receivables based on past due loans



The share of non-performing assets (NPLs) in total portfolio is monitored on the basis of the client's financial situation i.e., based on the classification category (C, D and E) and past due days i.e., over 90 days past due.

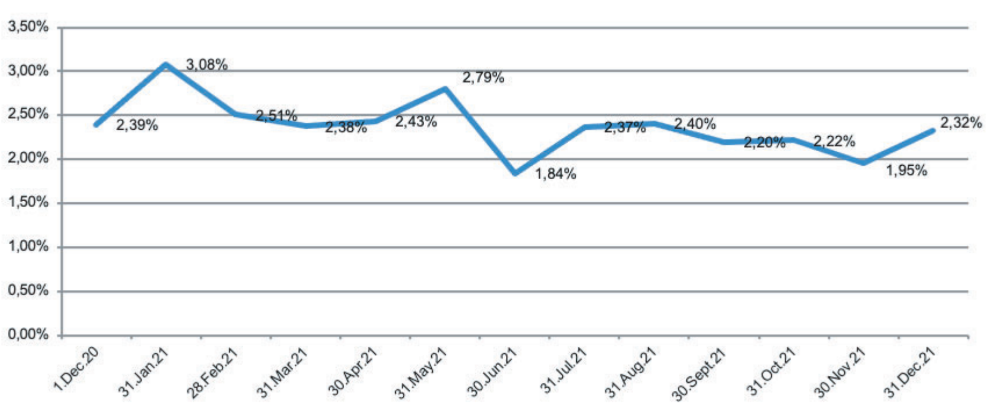
With regard to the classification categories (C, D and E), as at end-December 2021, NPLs amounted to EUR 12,947,849 or 5.35% of the portfolio, which represents an NPL decline of 32.70% compared to December 2020, when they amounted to EUR 19,238,690.

NPL share (C, D, E) in total loans



As at end-December 2021, based on the past due days (>90d), NPLs amounted to EUR 5,609,438 or 2.32% of the portfolio, which represented an increase in NPLs of only 0.03% compared to December 2020 when NPLs amounted to EUR 5,607,850.

NPL based on past due days (over 90 days)



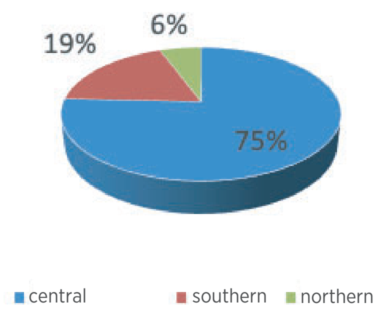
The table below shows the structure of loan portfolio per industries in December 2021.

The trade sector accounted for the largest share in loan portfolio and it amounted to 16.36% of the portfolio, while the share of exposure to natural persons amounted to 38.72%.

Portfolio structure per industries as at 31 December 2021 (EUR thousand)

Industry	Amount of loan	% of portfolio	Limit
Agriculture, forestry and fishing	2.692	1,11%	40%
Mining and quarrying	4.802	1,99%	40%
Manufacturing industry	6.972	2,88%	40%
Electricity supply	7.234	2,99%	40%
Water supply	799	0,33%	40%
Construction	27.752	11,48%	40%
Wholesale, retail trade and repair of motor vehicles and motorcycles	39.570	16,36%	40%
Transport and warehousing	6.412	2,65%	40%
Accommodation and food services	19.584	8,10%	40%
Information and communication	1.242	0,51%	40%
Financial and insurance activities	7.544	3,12%	40%
Real estate business	4.049	1,67%	40%
Professional, scientific and technical activities	4.462	1,85%	40%
Administrative and support service activities	1.978	0,82%	40%
Public administration, defence and compulsory social insurance	0	0,00%	40%
Education	206	0,09%	40%
Health and social welfare	676	0,28%	40%
Art, entertainment and recreational activities	859	0,36%	40%
Other service activities	842	0,35%	40%
Activities of households as employers	0	0,00%	40%
Activities of extra-territorial organisations and bodies	0	0,00%	40%
Natural persons - residents	93.636	38,72%	45%
Non-residents	10.495	4,34%	40%
Total	**241,807**		

The graph below shows the exposure of the Bank to regions in December 2021.



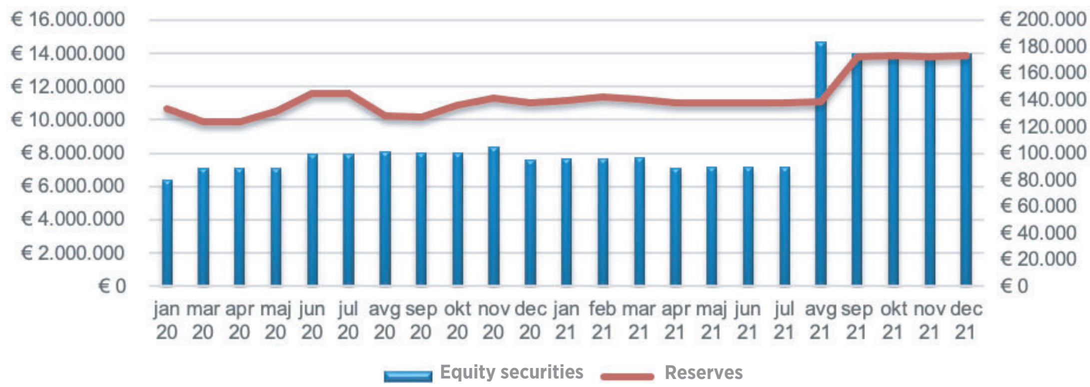
In accordance with the graphical and tabular presentation of the trend of non-performing loans in the last year, it can be concluded that the current social and economic crisis caused by the consequences of the pandemic did not affect the deterioration of NPL parameters at the end of 2021. Despite the impact of the pandemic on the real sector, the Bank, guided by a well-defined credit risk management practice and in addition to the increase in its loan portfolio, managed to reduce the share of non-performing loans.

Securities – within credit risk

As at 31 December 2021, Bank's banking book consisted of equity and debt financial instruments. In December, all positions in the banking book were within the statutory and internally defined limits. As at 31 December 2021, total securities owned by the Bank amounted to EUR 150,913,044. Of that amount, debt securities amounted to EUR 136,961,952, while equity securities were EUR 13,951,092.

Graph: Debt Securities and Reserves

Graph: Equity Securities and Reserves



Market Risk

The Bank analyses the following risks within **market risks**: interest rate risk, foreign exchange risk and position risk.

Interest rate risk is the negative impact of changes in interest rates on the bank's financial position.

Interest rate risk arises due to:

a. Changes in prices, or mismatches in the maturity of assets and liabilities (risk of price changes);

b. Changes in reference interest rates for assets and liabilities;

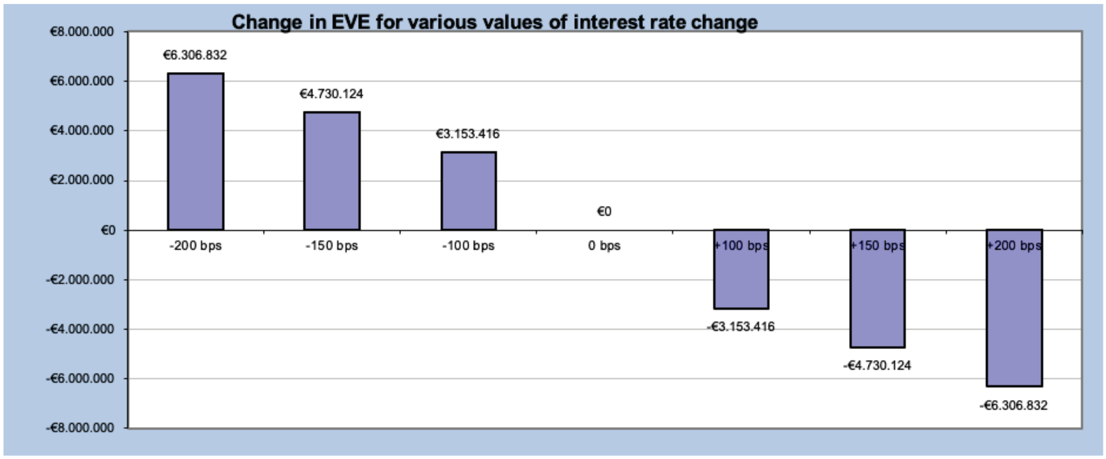
c. Changes in the shape of the yield curve (yield curve risk);

d. Exercising the financial option that implicitly exists in the credit arrangements that the Bank has with clients (option risk).

Two complementary perspectives were used for analysing interest rate risk: impact on the economic value of equity of the Bank, as well as net interest income.

Gap duration was applied on the analysis of the impact of interest rate risk arising from the banking book on the economic value of the Bank. The purpose of this method was to present potential change in the value of future lending and deposit cash flows of the Bank sensitive to interest rate risk, which difference represents the economic value of equity (EVE) of the Bank. Contrary to interest rate gap that measures the impact of interest rate risk on net interest income, taking into account lending and deposit cash flows up to one year, the duration gap takes into account all cash flows.

In case of the increase of the level of interest rates by 200 basis points, as at 31 December 2021, the EVE of EUR 111,635,429 would decrease by EUR 6,306.,832 or by 12%. As at 31 December 2020, the calculated amount of duration gap (or risk weighted position of the banking book) made up 11.64% of own funds of the Bank, which was within the statutory limit of 25% of Bank's own funds.



Projection of demand deposits withdrawal:

1-30 days	31-90 days	91-180 days	181-365 days	over 1 year
16%	12%	12%	16%	45%

ASSETS AND LIABILITIES SENSITIVE TO INTEREST RATE (EUR thousand)
Aggregate as at 31 December 2021

SENSITIVE ASSETS	1-30 days	31-90 days	91-180 days	181-365 days	over 1 year	TOTAL
Interest-bearing deposits in other institutions	53.372					53.372
Interest-bearing securities		441	442	3.054	127.059	130.996
Loans and other receivables	13.925	15.883	20.001	55.741	136.256	241.326
Other sensitive assets	2.312					3.369
TOTAL	69.610	16.324	20.443	58.795	263.315	429.064
% of total interest-bearing assets	16%	4%	5%	14%	61%	100%
SENSITIVE LIABILITIES	**1-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**over 1 year**	**TOTAL**
Interest-bearing deposits	66.564	56.069	61.083	100.974	204.361	489.051
Interest-bearing borrowings	50	148	2.336	2.349	17.762	22.645
Subordinated debt and bonds					17.000	17.000
Other sensitive liabilities	891					891
TOTAL	67.505	56.217	63.419	103.323	239.123	529.587
% of total interest-bearing liabilities	13%	11%	12%	20%	45%	100%
DIFFERENCE (GAP)	**1-30 days**	**31-90 days**	**91-180 days**	**181-365 days**	**over 1 year**	**TOTAL**
GAP AMOUNT	2.105	-39.894	-42.976	-44.527	24.192	-101.100

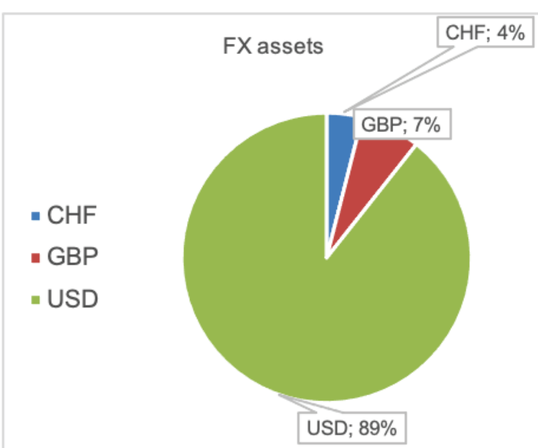
A part of the year in which there is GAP exposure	0,96	0,84	0,63	0,26		
Cumulative gap	2.105	-37.788	-80.764	-125.292	-101.100	-202.199
Impact on net interest income	40	-667	-542	-232		
Annual change in interest income (interest rate shock)	**-1,400**					
Cumulative gap / Total assets	0%	-6%	-12%	-19%	-15%	-30%
Prescribed limits	54%					

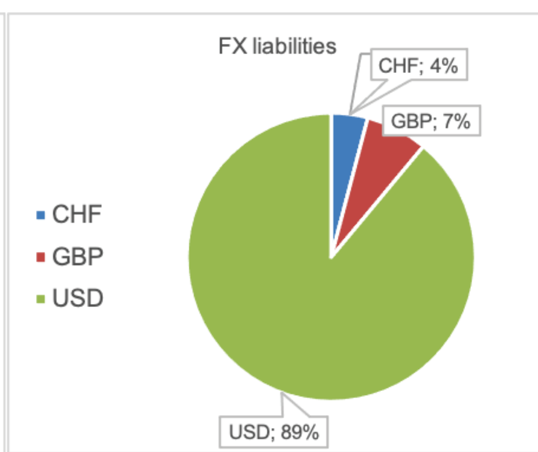
If interest rates rise by 2 percentage points, the expected annual net interest income would decline by EUR 1,400 thousand.

Foreign exchange risk did not have any significant impact on total risk profile of the Bank. The Bank operated within the established system of limits.

FX position – 31 December 2021 (converted in EUR)

Own funds				EUR 54,214,000	
Currency	**Assets**	**Liabilities**	**Net position**	**Limit (% of own funds)**	**Realised**
AUD	9.516	-9.830	-313	15%	0%
CAD	11.791	-10.116	1.675	15%	0%
DKK	7.033	-1.076	5.957	15%	0%
JPY	0	0	0	15%	0%
KWD	0	0	0	15%	0%
NOK	0	0	0	15%	0%
SEK	15.524	-9.532	5.992	15%	0%
CHF	1.176.512	-1.217.139	-40.626	15%	0%
GBP	1.988.596	-2.067.378	-78.782	15%	0%
USD	26.431.809	-26.477.608	45.799	15%	0,08%
	29.640.782	**-29.792.679**	**-151.897**	**20%**	**0,28%**





POSITION RISK

Position risk is the risk of losses due to changes in the prices of financial instruments. As at 31 December 2021, securities in the bank's trading book amounted to EUR 7,465 million. The required capital for position risk based on positions in equity instruments was calculated in the amount of EUR 896 thousand.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be able to meet its obligations at any time. Given the Bank's strategic commitments, maintaining a high level of liquidity is imperative in the process of managing this risk. The reputation of a highly liquid Bank is especially important for ensuring business growth through the growth of household and corporate deposits. The high level of liquidity was maintained even in the conditions of the crisis caused by the effects of the coronavirus epidemic, which indicates a stable level of deposits that the Bank has at its disposal, as well as the confidence that clients have in the Bank.

In 2021, Bank's deposit portfolio recorded a significant increase of EUR 120 million. Despite the challenging period marked by fears of the pandemic impact on the business environment, the Bank managed to achieve the highest level of deposit growth in its business history and gain the trust of both natural and legal persons. In the coming period, the Bank will pay special attention to preserving the balance sheet total and maintaining the optimal maturity structure in order to efficiently manage assets and liabilities.

The Bank will not tolerate higher liquidity risk in order to achieve higher returns, because it would jeopardize the strategically defined ratio of return and risk as well as the reputation in the market segment recognized as key to the Bank's development - households and small and medium enterprises.

The Bank **measures liquidity risk** based on projections of net cash flows and using the liquidity gap report, calculating liquidity ratios, LCR and NSFR, short-term assets and liabilities gap, concentration of time deposits and liquidity stress test.

Net cash flows are calculated as the difference between cash inflows and outflows over a period of time. In determining cash inflows and outflows, the Bank uses a set of assumptions as defined in the CBCG decisions and internal documents.

The liquidity ratio is the ratio between short-term assets and short-term liabilities as defined by the Decision on Minimum Standards for Liquidity Risk Management in Banks.

The liquidity coverage ratio (LCR) refers to ensuring the bank's resilience in conditions of short-term stress. Net stable funding ratio (NSFR) is aimed at ensuring the resilience of banks to liquidity shocks over a longer period of time.

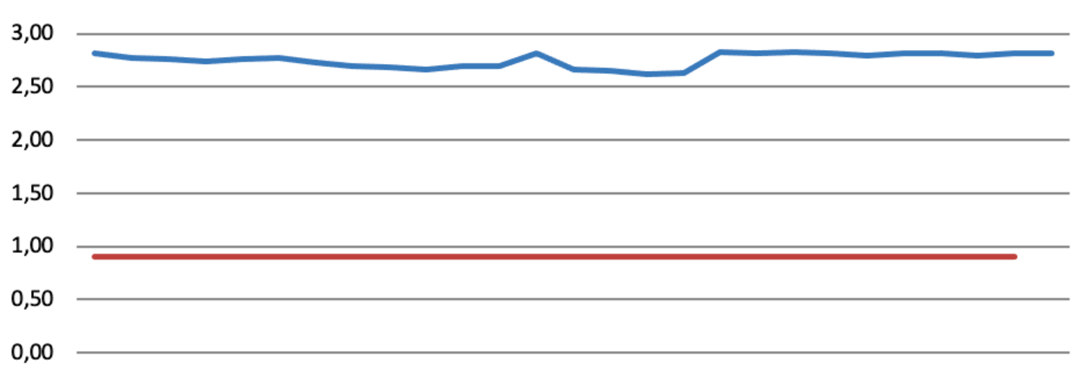
Maturity match of financial assets and financial liabilities as at 31 December 2021

I	Financial assets in the balance sheet	1 - 7 days	8 - 15 days	16 - 30 days	31 - 90 days	91 - 180 days	181 - 365 days	1 - 5 years	Over 5 years	TOTAL
1.	**Cash, deposits with central banks and receivables from banks**	**221.415**	**0**	**0**	**0**	**0**	**0**	**14.466**	**0**	**235.881**
1.a	Cash and cash equivalents	206.950	0	0	0	0	0	0	0	**206.950**
1.b	Reserve requirement	14.466	0	0	0	0	0	14.466	0	**28.931**
2.	**Financial assets at amortised cost**	**42.402**	**229**	**451**	**16.567**	**19.377**	**50.191**	**111.841**	**30.059**	**271.117**
2.a	Receivables from banks (funds with banks)	39.005	0	0	0	0	0	0	0	**39.005**
2.c	Loans to banks	4.997	0	0	0	0	0	0	292	**5.289**
2.d	Loans to clients	9.046	229	451	16.567	19.377	50.191	111.841	28.514	**236.217**
2.e	Securities	3.552	0	0	0	0	0	0	0	**3.552**
2.f	Other financial assets	1.942	0	0	0	0	0	0	0	**1.942**
2.g	Interest receivables, accruals and prepayments, and value adjustments	-16.141	0	0	0	0	0	0	1.252	**-14.888**
3.	**Financial assets at fair value through other comprehensive income**	**6.486**	**0**	**0**	**453**	**449**	**3.107**	**70.188**	**59.203**	**139.886**
3.e	Securities	6.486	0	0	441	442	3.054	67.816	59.243	**137.482**
3.g	Interest receivables, accruals and prepayments, and value adjustments	0	0	0	12	7	52	2.372	-40	**2.404**
4.	**Financial assets held for trading**	**7.465**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**7.465**
4.e	Securities	7.465	0	0	0	0	0	0	0	**7.465**
7.	Other assets	-9.143	0	0	0	0	284	0	18.242	**9.382**
	Total	**284.766**	**229**	**451**	**17.008**	**19.819**	**53.530**	**194.122**	**106.291**	**676.216**

II	Financial liabilities in the balance sheet	1 - 7 days	8 - 15 days	16 - 30 days	31 - 90 days	91 - 180 days	181 - 365 days	1 - 5 years	Over 5 years	TOTAL
1.	**Financial liabilities at amortised cost**	**19.572**	**7.903**	**9.813**	**25.434**	**28.022**	**42.129**	**388.228**	**51.935**	**573.037**
1.a	Deposits of banks and central banks	1.714	0	0	0	0	0	0	0	**1.714**
1.b	Deposits of clients	15.530	7.903	9.813	25.285	25.687	39.780	382.029	40.373	**546.400**
1.c	Loans of banks and central banks	0	0	0	148	2.307	2.229	4.204	0	**8.888**
1.d	Loans of clients, other than banks	50	0	0	0	29	120	1.995	11.562	**13.756**
1.f	Other financial liabilities	1.881	0	0	0	0	0	0	0	**1.881**
1.g	Interests and accruals and prepayments	397	0	0	0	0	0	0	0	**397**
4.	**Subordinated debt**	**-68**	**0**	**0**	**0**	**0**	**0**	**12.211**	**5.088**	**17.232**
6.	**Other liabilities**	**17.931**	**0**	**0**	**0**	**0**	**189**	**0**	**0**	**18.120**
	Total	**37.038**	**7.903**	**9.813**	**25.434**	**28.022**	**42.318**	**400.440**	**57.023**	**607.991**

III	DIFFERENCE:	1 - 7 days	8 - 15 days	16 - 30 days	31 - 90 days	91 - 180 days	181 - 365 days	1 - 5 years	Over 5 years	TOTAL
1.	**Maturity gap I-II**	**247.728**	**-7.674**	**-9.362**	**-8.426**	**-8.204**	**11.212**	**-206.317**	**49.268**	
2.	**Cumulative gap**	**247.728**	**240.054**	**230.692**	**222.266**	**214.062**	**225.274**	**18.956**	**68.225**	
	% of total sources of funds	40,7%	39,5%	37,9%	36,6%	35,2%	37,1%	3,1%	11,2%	

Daily liquidity ratio during December 2021

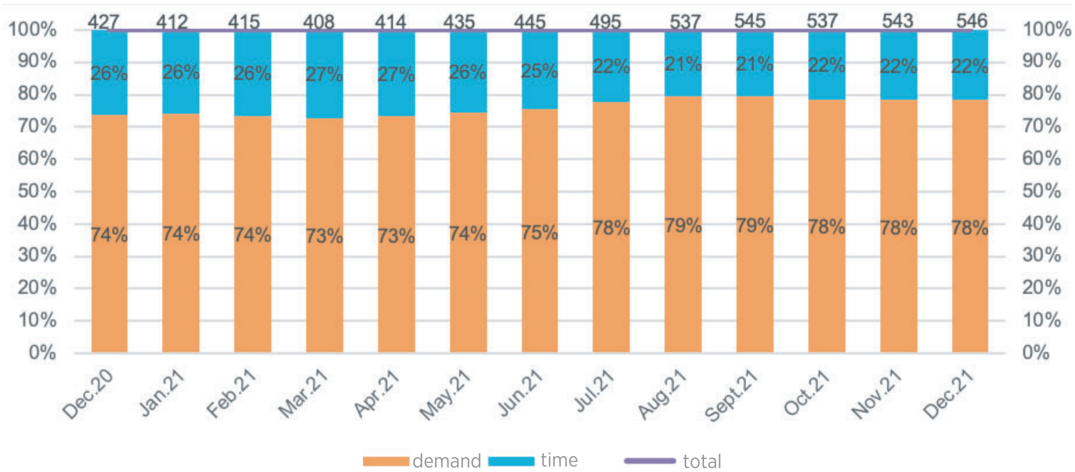


Daily liquidity ratio ranged significantly above the statutory minimum of 0.9.

Liquid Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**) were above the 100% limit.

Dec-2021	
LCR	396%
NSFR	141%

Demand and time deposits, ratio and trend (%)



OPERATIONAL RISK

Operational risk is the probability of loss for the Bank, due to inadequate internal systems, processes and controls, including inadequate information technology, due to the engagement of persons outside the Bank to perform certain tasks for the bank, weaknesses or omissions in performing tasks or internal processes, work of employees, illegal actions and external events, which may expose the Bank to risk.

Operational risk management is regulated by the Bank's internal acts, as well as the CBCG acts. The Bank identifies, on monthly basis, the events arising from exposure to operational risks. The Board of Directors and the Committee for Non-Financial Risks are reported on the identified risks, incurred losses, as well as the measures that need to be taken in order to solve the identified problems. In the part of operational risk management, the improvement of the existing processes is constantly applied, mostly related to educating employees about the importance of identifying and reporting events related to operational risks, improvements in identifying and assessing operational risks within the self-assessment process, in the field of new products, processes and systems and outsourcing of business activities.

The objective of the Bank's operational risk management is to establish an efficient and effective operational risk management system, based on a number of risk factors to which the Bank is exposed in performing its activities, including the scope, sophistication, nature and complexity of the Bank's activities. The system ensures the following:

- Identifying the existing sources of operational risks and sources of operational risks that may arise from the introduction of new products, systems or activities;
- measuring operational risk, including accurate and timely assessment of that risk;

• monitoring of operational risks by analysing the situation, changes and trends of exposure to that risk;
• controlling operational risks by maintaining that risk at a level acceptable to the Bank, reducing or eliminating it altogether;
• defining powers and responsibilities in the process of establishing an operational risk management system;
• system of reporting and informing the Board of Directors and the Bank's Management on operational risk management.

Operational risk management includes the following **methodologies and indicators**:
• Quantitative - database with operational risk events;
• Qualitative - self-assessment of operational risks, which gives a view of the Bank's exposure to operational risk;
• Key risk indicators (KRI);
• Analysis of operational risks for the processes of hiring external partners to provide services to the bank – outsourcing;
• Analysis of operational risks during the introduction of new products, systems and processes.

Operational risk is subject to decentralised management, i.e., the organizational units that have operational risk are responsible for managing it in cooperation with the Department for Control of Risk, which is in charge of supporting the identification, measurement, mitigation and monitoring of risks, and to provide a methodology to assist employees to manage risk in a timely and systemic manner.

COUNTRY RISK

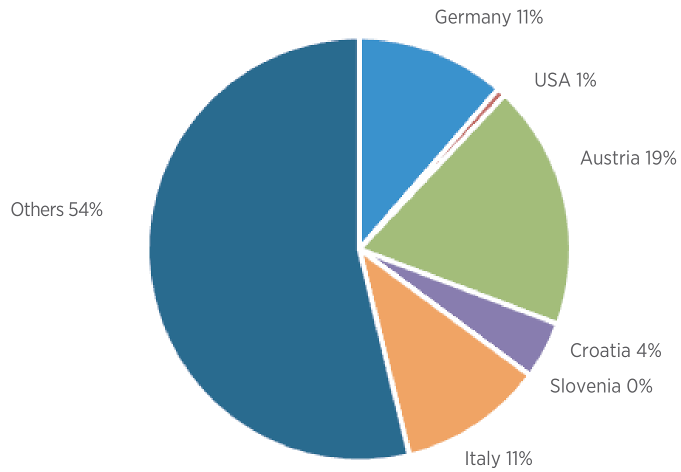
Country risk is the probability of incurring a loss for the Bank, due to the inability to collect receivables from natural and legal persons residing / domiciled outside Montenegro, and for reasons related to the political, social and economic environment of the country where the debtor is domiciled. It includes:
• **Political and economic risk**, which means the probability of incurring a loss arising from the inability to collect bank claims due to restrictions set by acts of state and other debtors, as well as the general economic and systemic situation in the country,
• **Transfer risk**, which means the probability of loss due to inability to collect receivables denominated in a currency other than the legal tender of the debtor's country, arising from restrictions on payment of obligations to creditors from other countries in a particular currency.

The basic method for managing this type of risk is establishing of exposure limits to non-residents, in accordance with the degree of risk of the non-resident's country.

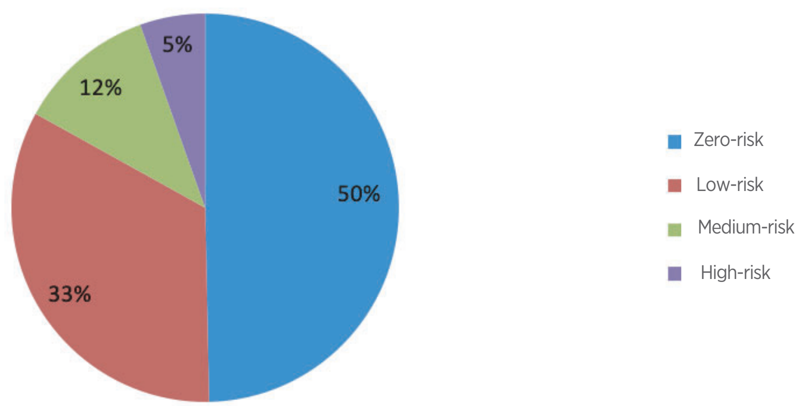
The Country Risk Management Policy is developed in accordance with the laws and enabling regulations of the CBCG, as well as in accordance with the internal acts of the Bank (Country Risk Management Procedure and Policy). The following is defined in the internal acts:
- Allowed limits of exposure to country risk, individually by countries and on aggregate basis:
- Periodical review of adequacy of country risk management system;
- Powers and responsibilities of persons related to the risk taking and risk management;
- The manner of identifying, measurement, monitoring and control of country risk;
- Obligations regarding periodical reporting on Bank's exposure to country risk;
- classification of asset exposed to country risk and criteria for determining country ratings.

The Bank is exposed to non-residents in total amount of EUR 123 million, of which, its largest exposure is to Austria in total amount of EUR 22,8 million

Exposure structure to non-residents



Exposure structure based on country classification



Graph above shows that 50% of exposure of the Bank referred to the exposure to countries classified as zero-risk countries, 33% referred to low-risk countries, while 17% referred to medium-risk and high-risk countries. It can be concluded that the Bank has good country risk management.

SOLVENCY RATIO AND BANK'S OWN FUNDS

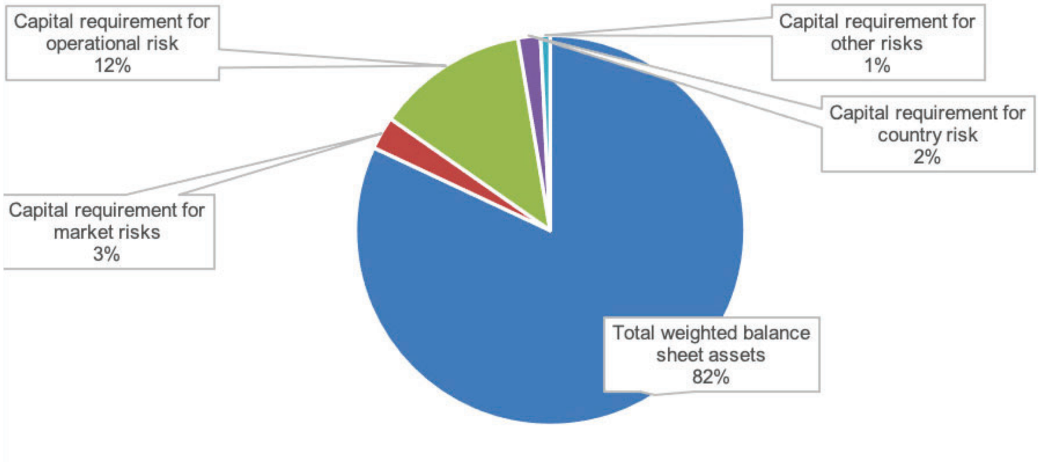
As at 31 December 2021, solvency ratio was above the statutory limit (10%), and it amounted to 16.55%. Solvency ratio was the most important indicator of confidence in the Bank, and of the protection of depositors, creditors and business partners of the Bank.

Solvency ratio for 2021

Report on Bank's solvency ratio as at 31 December 2021 (EUR thousand)

No	Item	Position	Table	Amount
I	**Bank's own funds**	**43**	**SSB**	**52.214**
1.	Core capital	42	SSB	42.014
2.	Supplementary capital	41	SSB	12.200
II	**Total weighted balance sheet assets**			**268.501**
1.	Weighted balance sheet assets	89	PBA	229.941
2.	Weighted off-balance sheet assets	25	PVB	37.602
3.	Amount mitigating negative impact on own funds of a bank due to the transition to the valuation of asset items by applying IFRS 9, specified in accordance with Article 4 paragraphs 5 and 6 of the Decision of Capital Adequacy of Banks	6	SSB	958
III	**Capital requirements for market risks**			**896**
IV	**Capital requirements for operational risk**			**4.141**
V	**Capital requirements for country risk**			**6.100**
VI	**Capital requirements for other risks**			**2.589**
VII	**Bank's solvency ratio**			**16,55%**

Structure of capital requirement for all risks



The structure of Bank's **own funds** was as follows as at 31 December 2021:

Overview of own funds (EUR thousand)

I/A	Core elements of own funds	Position	Amount
1.	Paid-in share capital at nominal value, excluding cumulative preferential shares	1	52.362
3.	Reserves established against post-income tax (legal, statutory, and other reserves)	3	-21
4.	Undistributed prior year profit which general meeting decided to include in core capital deducted by corresponding income tax and other foreseeable expenses	4	-61
6.	Amount mitigating negative impact on own funds of a bank due to the transition to the valuation of asset items by applying IFRS 9, specified in accordance with Article 4 paragraphs 5 and 6 of the Decision of Capital Adequacy of Banks	6	958
7.	**Total (positions 1+2+3+3a+4+5+6)**	**7**	**53.238**
I/B	**Deductible items in the calculation of core capital**		
3	Intangible assets (goodwill, licenses, patents, trademarks, concessions)	10	1.996
5.	Unrealised loss based on value adjustment of financial assets available for sale, carried at fair value	12	2.702
6.	Positive difference between the amount of calculated loss provisions and the sum of the amount of allowances for impairment on balance sheet and provisioning for off-balance sheet items	13	6.526
8	**Total (positions 8+9+10+11+12+13+14)**	**15**	**11.224**
I/C	**Core capital (core elements of own funds less deductible items, positions 7-15)**	**16**	**42.014**
II/A	**Supplementary elements of own funds to be included in the supplementary capital**		

4	Subordinated debt (meeting the requirements set out under Article 6 of the Decision)	20	12.200
7.	**Total (positions 17+18+19+20+21+22)**	**23**	**12.200**
II/B	**Deductible items in the calculation of supplementary capital**		
3.	**Total (positions 24+25)**	**26**	**0**
II/C	**Supplementary capital (supplementary elements of own funds less deductible items, positions 23-26)**	**27**	**12.200**
II/D	**Supplementary capital to be included in own funds, Article 8 of the Decision**	**28**	**0**
IIIA	**Own funds (core capital + supplementary capital to be included in own funds) prior deductible items**	**29**	**54.214**
III/B	**Deductions from own funds**		
III/C	**Total deductions from own funds (positions 30+31+32+33+34+35+36+37+38)**	**39**	**0**
IV	**Core capital deducted by 50% of deductions from own funds (position 39)**	**40**	**42.014**
V	**Supplementary capital deducted by 50% of deductions from own funds (position 39)**	**41**	**12.200**
VI	**Core capital deducted as needed, Article 9 paragraph 3 of the Decision**	**42**	**42.014**
VII	**OWN FUNDS (Core capital + Supplementary capital) (V+VI)**	**43**	**54.214**

HEDGING METHODS

Hedging against placement risk is performed using proactive and preliminary analyses based on risk to return ratio (the classification by rating agencies and the CBCG and expected return/interest), comparison of similar investments and alternatives. The Bank makes pre-analysis before making investments (by reviewing published ratings, using external ratings, and the like). Credit risk factors can be changed also during the life of an investment, and the decisions are made on keeping, reducing, selling or rescheduling the placements.

Credit risk is defined as a risk of possibility of incurring negative effects on the financial result and capital of the Bank due to the debtor's default or due to deterioration in debtor's credit rating. Default is when a client cannot repay its obligations when they become due, for instance inability to pay interest or failure to meet agreed contractual clauses. Since historically the calculations of probability of default can be done, the Bank tends to avoid classes that have had poor classification in the history.

Measurement and assessment of credit risk are performed simultaneously at the level of the account (debtor) as well as at the level of the loan portfolio.

- At the level of the debtor, the potential risk of the client is determined on the basis of a set of risk characteristics. For citizens, these characteristics include socio-demographic and behavioural characteristics, while for corporate clients, creditworthiness and potential credit risk are determined based on a set of financial risk parameters (related to the client's financial condition), as well as business risk and industry risk. The significance of a particular risk characteristic for the purposes of predicting the client's future risk is determined on the basis of an analysis of the historical data that the Bank has on its clients. Summing up all risk characteristics weighted by the probability of their occurrence gives a general measure of risk for an individual debtor.

- At the same time, the Bank measures credit risk at the level of the entire portfolio. The Bank continuously assesses its loan portfolio in terms of changes in the quality, composition and level of provisions, and identifies the causes of such changes or possible non-compliance with the targeted results. Risk analysis at the portfolio level, analysis of portfolio sub-segments, continuous testing of process efficiency and application of risk-based limits are becoming increasingly important for the Bank's lending activity..

Hedging against the risk at the level of individual account and portfolio level is performed by collateralising the loans, and in addition to the cash flow estimation (primary source of repayment), the secondary sources of repayment that can be used include deposits, guarantees, sureties, co-debtors, guarantors, mortgages, cessions.

Several classes of risk are also monitored including: 1. interest rate fluctuations; 2. reinvestment risk; 3. early repayment risk and call risk; 4. liquidity risk; 5. exchange rate risks; 6. inflation risk; 7. macroeconomic and external risks.

Hedging against them is performed as follows:

Since interest rate risk consists of a series of cash flows, risk in fixed interest rates increases with the increase of interest rate. As the interest rates grows in the market, the existing contracts have fixed interest income, the existing placements are worth less, and they are less attractive (if cash were at the account, it could be invested under higher interest rates and make higher income, opportunity cost). Since the returns are lower than the potential returns, the possibility of sale of these investments decreases i.e., the value of investments reduces.

The Bank monitors changes in interest rates and adjust them proactively by trying to have horizontal or maturity match, and therefore lower maturity gaps. New placements monitor market and periodical adjustments of lending and deposit interest rates so that interest rate spread would remain at the same level and enable the Bank better profitability.

Reinvestment risk is connected with maturity. The shorter the period the lower the risk. The risk is lower if new investments will have more significant changes in interest rates and in conditions under which they will be invested compared to the current ones. The Bank makes mainly short-term investments. The investment to legal persons accounted for the main share in the Bank, smaller portion referred to investments to natural persons, whereas the majority of them referred to consumer loans, cash loans and credit cards, and minimum housing loans. The average weighed period for these loans is given below:

Weighted average	
Total portfolio	**3.92**
Natural persons	**4.92**
Legal persons	**3.08**

Risk of early repayment is the risk of inability to anticipate cash flows, planning and monitoring. The Bank reduces this risk by negotiating clauses on fee for early repayment of loans, which are aligned with the law on consumer loans. The fee has exclusive purpose of compensation for the expenses based on the payment of interest on deposits and credit lines from which it is funded and from which it monitors maturity match of loans and sources (liabilities, deposits and borrowings).

Liquidity risk reflects in an inability of the Bank to provide funds at the market for financing activities under the same or similar conditions, and to sell loans under the same or similar conditions. The Bank hedges against it by trying to adjust to the maximum possible extent loans with sources and reducing maturity gaps. New loans are monitored through the spread of new price of sources. Transaction expenses of purchase of credit lines, deposits and sale of placements are compensated with fees and they are monitored on the assets side of the balance sheet of the Bank.

Exchange rate hedging is made by currency adjustment of loans with sources and by trying to have net open position at the lowest possible level. In doing so, the exchange rate fluctuations do not reflect on the profit and loss statement; they have neutral position since the positive sign on the asset side is negative sign on the liabilities side and vice versa. Also, the Bank reviews the currency of the client in which it operates and has cash flow, and it grants currency loans or make investments to these clients.

Inflation risk also affects the realistic value of money and disrupts the return on equity and the expectations of the owners of the Bank. The Bank calculates the value of cash flows in its projections by monitoring also projections of inflationary expectations in Montenegro and EUR currency. The main operations in the Bank are performed in EUR.

Many external and macroeconomic factors cannot be anticipated and viewed in the present moment. This includes political risk that the debtors will not be able to service regularly their obligations. There is also a regulatory risk, transfers of capital, natural disasters, corporate restructurings, acquisitions, mergers, and the like. The Bank monitors ratings of countries and available information and tends to keep concentration risk to individual countries, products and clients within the limits that cannot jeopardise the survival and operations of the Bank.

The Bank reduces operational risks through higher level of automation, procedures, double controls, and internal audits as overall internal controls system.

ENVIRONMENTAL INVESTMENTS

With regard to the environmental protection, the Bank has taken specific steps in the previous period to estimate its impact on the environment as well as to develop a strategy for its improvement. It is currently in the preparatory phase of informing the public about the above steps, which confirms the Bank's intention to provide adequate protection of the environment within its direct or indirect business impact.

In addition, the Bank has expressed its intention to prevent or limit financing that may have a negative impact on the environment, while its business policy has focused on financing that encourages the protection or improvement of the environment, especially by introducing more energy efficient technologies.

In order to realize the above intentions of commitment to this business segment, the Bank has previously found a way to use the funds from credit lines that are in line with the intention to preserve the environment, including those to improve energy efficiency of households and those from the European institutions, primarily the European Bank for Reconstruction and Development (EBRD).

In the forthcoming period, the Bank is preparing new sources of funding and products with the same goal, with a view to actively contributing to the well-being of the environment and the community in which it operates.

PLANNED FUTURE DEVELOPMENT

The available statistical data for the third quarter of 2021 indicated the growth trend and a continuous recovery in certain economic sectors. The Central Bank of Montenegro data for the nine-month period of 2021 showed that, despite the COVID-19 pandemic, safety and stability of the baking sector has been preserved having high level of liquid funds, and growth in lending activity.

The Bank's planned development in 2022 follows the trends of general macroeconomic indicators of the Montenegrin economy. The Bank will focus on SME clients, without neglecting large economic entities. The Bank will successfully implement this by taking advantage of its already traditional advantages such as speed, transparency, quality of service, individual approach, which the Bank's customers rightly consider our comparative advantage. In addition, we will persist in providing clients with solutions for easier and faster banking services, which makes us still a leader in the field of innovation.

As the COVID-19 pandemic has further accelerated the challenge of financial technology, which brings with it numerous and major changes, we are determined to continue the trend of digitalization and sales opportunities through alternative sales channels in order to adapt to change (internet, e-commerce, new service for accepting payment cards - MojPOS, etc.).

In 2022, we will continue to invest in employee education, because it is especially important to us that clients perceive our employees as professional, proactive, kind and able to respond to their requests.

Alignment with complex regulations, harmonized with EU standards, is ahead of us in 2022, but we are adjusted to face the challenges.

We will persevere with supporting the community in various fields - education, culture, especially health, which will contribute to social and economic recovery and progress.

We expect that the professional work of the employees will contribute also in 2022 to the success and reputation that the Bank has in the market.

RESEARCH, DEVELOPMENT AND INVESTMENT IN EDUCATION OF EMPLOYEES

The Bank has continued with the promotion and activities on the affirmation of current values. The Bank continuously monitors and participates in market research, as well as in the analyses published by renowned agencies, thus using the obtained data to position the brand.

The key elements of success and our organisational culture are based on the knowledge, skills and dedication of our employees. Therefore, the Bank continuously plans the development and improvement of the skills of its employees, both by organising trainings, which is assisted by experienced, competent employees, and by hiring reputable foreign consultants/consulting firms specialised in human resources management. We particularly consider it important to emphasize expert training seminars for our sales staff, i.e., employees in positions where communication with clients is most commonly accomplished, with the aim of improving their communication skills, styles adapted to different stages of that communication, as well as further developing of skills for understanding clients' needs, which is in their best interest. In addition, the Bank is committed to the concept of continuous development of employees in managerial positions, thus hiring external consulting teams to improve their skills in accordance with modern standards.

BUYBACK OF OWN SHARES

In 2021, the Bank did not buy its shares back.

FINANCIAL INSTRUMENTS IMPORTANT FOR THE ASSESSMENT OF FINANCIAL POSITION AND BUSINESS PERFORMANCE OF THE BANK

With regard to the financial instruments used by the Bank that are important for assessing the financial position and business performance, and for determining assets, liabilities, financial position and profit or loss, three series of subordinated Bonds issued by the Bank in 2017, 2019 and 2021 stand out, which had a positive effect on increasing long - term sources of funding and strengthening the Bank's capital adequacy ratio. It is important to note that the first series of subordinated bonds, issued in 2014 (HBO1) in the total amount of EUR 10 million, expired in December 2021. Also, in December 2021, the fourth series of subordinated bonds in the amount of EUR 5 million was successfully realized and registered. The said bond has a maturity of 7 years and pays an interest rate of 4.50% per annum.

NETWORK OF BANK BUSINESS UNITS

The network of Bank business units includes the following branches and sub-branches:

Branch in Podgorica
Address: Slobode 91
Phone: +382 19905
E-mail: filijala.podgorica@hb.co.me

Branch in Nikšić
Address: Trg Save Kovačevića bb
Phone: +382 19905
E-mail: filijala.niksic@hb.co.me

Branch in Bar
Address: Maršala Tita bb
Phone: +382 19905
E-mail: filijala.bar@hb.co.me

Branch in Budva
Address: Mediteranska bb
Phone: +382 19905
E-mail: filijala.budva@hb.co.me

Branch in Kotor
Address: SC Kamelija, Trg M. Petrovića bb
Phone: +382 19905
E-mail: filijala.kotor@hb.co.me

Branch in Herceg Novi
Address: Trg Nikole Đurkovića bb
Phone: +382 19905
E-mail: filijala.hercegnovi@hb.co.me

Branch in Bijelo Polje
Address: Slobode bb
Phone: +382 19905
E-mail: filijala.bijelopolje@hb.co.me

Branch in Berane
Address: Mojsija Zečevića bb
Phone: +382 19905
E-mail: filijala.berane@hb.co.me

Branch in Ulcinj
Address: 26.Novembar bb
Phone: +382 19905
E-mail: filijala.ulcinj@hb.co.me

Branch in Danilovgrad
Address: Baja Sekulića 8
Phone: +382 19905
E-mail: filijala.danilovgrad@hb.co.me

Sub-branch in Herceg Novi
Address: Kompleks PORTONOVI, Donje naselje o4
Phone: +382 19905
E-mail: filijala.hercegnovi@hb.co.me

Sub-branch in Podgorica
Address: Slobode 91
Phone: +382 19905
E-mail: filijala.podgorica@hb.co.me

Sub-branch in Podgorica
Address: Josipa Broza Tita 67
Phone: +382 19905
E-mail: ekspozitura.centrala@hb.co.me

Sub-branch in Podgorica
Address: Svetog Petra Cetinjskog 30
Phone: +382 19905
E-mail: ekspozitura.podgorica1@hb.co.me

Sub-branch in Podgorica
Address: Đoka Miraševića M3
Phone: +382 19905
E-mail: ekspozitura.podgorica2@hb.co.me

Sub-branch in Podgorica
Address: Cetinjski put bb, Donja Gorica
Phone: +382 19905
E-mail: ekspozitura.podgorica3@hb.co.me

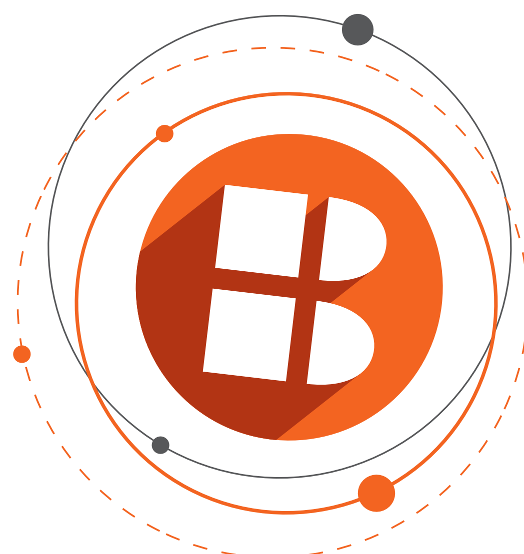
Sub-branch in Podgorica
Address: Cetinjski put bb Shoping mol Delta City
Phone:+38219905
E-mail: filijala.podgorica@hb.co.me

Sub-branch in Cetinje
Address: Bajova 74
Phone: +382 19905
E-mail: ekspozitura.cetinje@hb.co.me

Sub-branch in Tivat
Address: 21. Novembra 21
Phone: +382 19905
E-mail: ekspozitura.tivat@hb.co.me

Sub-branch in Tivat – Porto Montenegro
Address: Porto Montenegro, zgrada Teuta, Obala bb
Phone: +382 19905
E-mail: ekspozitura.porto.montenegro@hb.co.me

Sub-branch in Žabljak
Address: Narodnih heroja bb
Phone: +382 19905
E-mail: ekspozitura.zabljak@hb.co.me



4 FINANCIAL REPORTS AND INDICATORS

FINANCIAL REPORTS AND INDICATORS

PROFIT AND LOSS STATEMENT

from 1 January to 31 December 2021 (EUR 000)

	POSITION	31-Dec-2021	31-Dec-2020
1.	Interest income and similar income	17,643	18,239
2.	Interest income on impaired loans	342	-
3.	Interest expenses and similar expenses	3,180	3,200
I.	**NET INTEREST INCOME (1 + 2 - 3)**	**14,805**	**15,040**
4.	Fee and commission income	15,584	12,821
5.	Fee and commission expenses	9,675	7,893
II.	**NET FEE AND COMMISSION INCOME (4-5)**	**5,909**	**4,928**
6.	Net gains/losses from derecognition of financial instruments not carried at fair value through profit or loss	192	212
7.	Net gains/losses on held-for-trading financial instruments	272	153
8.	Net gains/losses from financial instruments carried at fair value through profit or loss, not held for trading	-	-
9.	Changes in fair value in hedge accounting	-	-
10.	Net gains/losses from FX revaluation	531	461
11.	Net gains/losses from derecognition of other assets	237	152
12.	Other income	236	645
13.	Employee expenses	5,969	5,551
14.	Depreciation expenses	2,381	2,542
15.	Overhead and administrative expenses	7,173	6,069
16.	Net gains/losses from modification and reclassification of financial instruments	-	-
17.	Net gains/losses from impairment of financial instruments not carried at fair value through profit or loss	1,363	3,518
18.	Provision expenses	234	6
19.	Other expenses	213	70
III.	**PROFIT/LOSS BEFORE TAX: I+II+6+7+8+9+10+11+12-13-14-15-16-17-18-19**	**4,849**	**3,835**
21.	Profit tax	465	346
22.	**NET PROFIT/LOSS (III - 21)**	**4,384**	**3,488**

BALANCE SHEET

as at 31 December 2021 (EUR 000)

	ASSETS	31-Dec-2021	31-Dec-2020
1.	**Cash and deposit accounts with central banks**	**235,881**	**163,390**
2.	**Financial assets at amortised cost**	**271,117**	**240,348**
2.a.	Loans and receivables from banks	43,894	22,055
2.b.	Loans and receivables from clients	221,729	215,400
2.c.	Securities	3,552	1,107
2.d.	Other financial assets	1,942	1,786
3.	**Financial assets at fair value through other comprehensive income**	**139,886**	**128,150**
3.a.	Loans and receivables from banks	-	-
3.b.	Loans and receivables from clients	-	-
3.c.	Securities	139,886	128,150
3.d.	Other financial assets	-	-
4.	**Held-for-trading financial assets**	**7,465**	**-**
4.a.	Loans and receivables from banks	-	-
4.b.	Loans and receivables from clients	-	-
4.c.	Securities	7,465	-
4.d.	Other financial assets	-	-
5.	**Financial assets carried at fair value through profit and loss, not held for trading**	**-**	**-**
5.a.	Loans and receivables from banks	-	-
5.b.	Loans and receivables from clients	-	-
5.c.	Securities	-	-
5.d.	Other financial assets	-	-
6.	**Derivative financial assets as hedging instruments**	**-**	**-**
7.	**Changes in the fair value of items being subject to hedging**	**-**	**-**
8.	**Investments in subsidiaries, associates and joint ventures at equity method**	**-**	**-**
9.	**Investment properties**	**-**	**-**
10.	**Property, plant and equipment**	**4,809**	**6,214**
11.	**Intangible assets**	**1,996**	**2,019**
12.	**Current tax assets**	**-**	**-**
13.	**Deferred tax assets**	**284**	**27**
14.	**Non-current assets held for sale and discontinued operations**	**-**	**-**
15.	**Other assets**	**2,293**	**2,433**
16.	**TOTAL ASSETS:**	**663,731**	**542,581**

	LIABILITIES		
17.	**Financial liabilities carried at amortised cost**	**573,036**	**451,661**
17.a.	Deposits of banks and central banks	1,714	1,214
17.b.	Deposits of clients	548,259	428,346
17.c.	Borrowings from banks and central banks	-	-
17.d.	Borrowings from clients other than banks	22,667	22,049
17.e.	Securities	-	-
17.f.	Other financial liabilities	397	54
18.	**Held-for-trading financial liabilities**	**-**	**-**
18.a.	Deposits of banks and central banks	-	-
18.b.	Deposits of clients	-	-
18.c.	Borrowings from banks and central banks	-	-
18.d.	Borrowings from clients other than banks	-	-
18.e.	Securities	-	-
18.f.	Other financial liabilities	-	-
19.	**Financial liabilities not traded and measured at fair value through profit or loss**	**-**	**-**
19.a.	Deposits of banks and central banks	-	-
19.b.	Deposits of clients	-	-
19.c.	Borrowings from banks and central banks	-	-
19.d.	Borrowings from clients other than banks	-	-
19.e.	Securities	-	-
20.	**Derivative financial liabilities as hedging instruments**	**-**	**-**
21.	**Changes in the fair value of items being subject to hedging**	**-**	**-**
22.	**Provisions**	**1,127**	**1,453**
23.	**Liabilities on non-current assets held for sale and discontinued operations**	**-**	**-**
24.	**Current tax liabilities**	**464**	**342**
25.	**Deferred tax liabilities**	**-**	**23**
26.	**Other liabilities**	**16,528**	**13,301**
27.	**Subordinated debt**	**17,232**	**22,256**
28.	**TOTAL LIABILITIES:**	**608,388**	**489,037**
	CAPITAL		
29.	**Share capital**	**52,362**	**16,006**
30.	**Issue premiums**	**-**	**7,444**
31.	**Retained earnings**	**-61**	**25,425**
32.	**Current year profit/loss**	**4,384**	**3,488**
33.	**Other reserves**	**-1,341**	**1,181**
34.	**Non-controlling interests in equity**	**-**	**-**
35.	**TOTAL CAPITAL: (29. do 34.)**	**55,344**	**53,544**
36.	**TOTAL CAPITAL AND LIABILITIES: (28. + 35.)**	**663,731**	**542,581**

CAPITAL

As at 31 December 2021, total capital of the Bank amounted to EUR 55.344 million. Capital increased by 3.36% compared to the previous year. As at 31 December 2021, the nominal value of the share capital amounted to EUR 52,362 million. The share capital consists of 10,241,148 shares, each with a nominal value of EUR 5.1129. The ownership structure of the Bank consists of foreign legal and natural persons that own 61% of the share capital, while the remaining share capital is owned by domestic legal and natural persons.

PROFIT AND LOSS STATEMENT

In 2021, the Bank recorded profit of EUR 4,384 million. Interest income fell by 1.39% compared to the previous year and they amounted to EUR 17,985 million which was the result of the decrease in lending activity in 2021. Fee income increased by 21.55% compared to the previous year, and they amount to EUR 15,584 million. The increase in fee income mostly referred to the increase in fee income based on card operations and payment transactions as a result of an increase in turnover due to mitigation of measures related to coronavirus epidemic during the tourist season. Net fee income amounted to 30.91% of net income arising from regular operations of the Bank.

Other income fell by 9.54% in the observed period and they amounted to EUR 1,468 million.

Expenses from regular operations, including depreciation, amounted to EUR 15,736 million and they rose by 10.56% compared to the previous year. The expenses growth was due to the increased activities of the Bank that refer to the development of business network, number of employees as well as other expenses following the operations of the Bank.

Credit risk assessment and provisioning for risk loans and contingent liabilities of the Bank are based on the implementation of the principles of conservative policy and prevailing laws and regulations. As at 31 December 2021, total provisions for assets and liabilities positions amounted to EUR 19,638 million

DISTRIBUTION OF PROFIT

The Board of Directors, upon the proposal of the management of the Bank, proposed to the General Meeting of Shareholders not to distribute profit in 2021 in order to increase total capital of the Bank..

INDICATORS

As at 31 December 2021, the position of the Bank in the Montenegrin banking system, according to the last, publicly disclosed, data on financial statements of all banks in Montenegro was as follows:

- Market share: the Bank ranked 4th i.e., 12.46% of market share;
- Net profit: the Bank ranked 5th.

Financial indicators as at 31 December 2021:

- ROAA – 0.72%
- ROAE – 8.05%
- SSB – EUR 54,214 million
- Solvency ratio – 16.55%.

BOARD OF DIRECTORS

Member of the Management Board
Jelena Vuletić

Member of the Management Board
Ana Golubović

Member of the Management Board
Nikola Špadijer

Member of the Management Board
Nataša Lakić

President of the Management Board
Esad Zaimović