

"CROWE MNE" d.o.o.

Broj 086-1/24

Podgorica, 19.04.2024 god.

HIPOTEKARNA BANKA A.D. PODGORICA

**Financial statements
Year ended December 31, 2023
and Independent Auditor's report**

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hipotekarna banka AD Podgorica

Opinion

We have audited the accompanying financial statements of Hipotekarna banka AD, Podgorica (hereinafter: "the Bank"), which comprise a statement of financial position as at December 31, 2023, a statement of comprehensive income, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes, including a summary of significant accounting policies and other disclosures (hereinafter 'financial statements').

In our opinion, the accompanying financial statements present fairly, in all material respects, the Bank's financial position as of December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Law on Audit of Montenegro, Law on Accounting of Montenegro and International Standards on Auditing (ISA) applicable in Montenegro. Our responsibilities under these standards are further described in Auditor's Responsibility for the Audit of Financial Statements section in our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the Committee on International Ethics for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Montenegro, and 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

<i>Key Audit Matters</i>	<i>Appropriate audit procedure</i>
<i>Impairment of given loans and receivables from clients and provisions for off-balance sheet items</i>	
On December 31, 2023, the gross value of given loans and receivables from clients amounted to EUR 266,107 thousand (December 31, 2022: EUR 252,474 thousand), while the total amount of the value correction of loans and receivables from clients amounted to EUR 17,696 thousand on December 31, 2023 (December 31, 2022: EUR 15,662 thousand).	Based on our risk assessment and industry knowledge we examined the cost of impairment of given loans, receivables from clients and provisions for off-balance sheet items and evaluated the applied methodology as well as used assumptions and in accordance with the key audit matter.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key Audit Matters	Appropriate audit procedure
<p data-bbox="308 524 1358 555"><i>Impairment of given loans and receivables from clients and provisions for off-balance sheet items</i></p> <p data-bbox="308 577 826 831">The measurement of the cost of impairment of given loans and receivables from clients and provision for off-balance sheet items is considered key audit matter considering that the determination of the amount of provision for impairment requires the significant assessment by the management to determine the moment when the impairment is recognized as well as the impairment amount.</p> <p data-bbox="308 860 791 891">The most significant consideration relates to:</p> <ul data-bbox="347 920 826 1227" style="list-style-type: none"> • Assumption that are used in the model of expected credit loss for the assessment of credit risk related to exposure and expected credit losses for future cash flow of the client. • Timely identification of the exposure with significant increase of exposure to the credit risk and credit impairment. • Valuation of collateral and assumptions of the future cash flow on individually estimated credit exposures. <p data-bbox="308 1256 826 1391">The management disclosed the additional information about the impairment cost of the given loans and receivables from clients for off-balance sheet items in Notes 3.3.8, 5.2, 7, 7.12 and 23 of the financial statements.</p>	<p data-bbox="853 555 1182 586">Our audit procedures included:</p> <ul data-bbox="890 591 1369 1727" style="list-style-type: none"> • The assessment of key controls over assumptions which are used in expected credit loss model for the assessment of the credit risk related to exposure and future expected cash flows of the client. • detailed testing of the calculation of risk parameters, based on the official methodology of the Bank, which is the subject of assessment of compliance with accounting requirements. This testing also includes the assessment of model assumptions; • Assessment of key controls over the timely identification of exposure with significant increase of the credit risk and exposure identification of the impairment. • Collection and detailed testing which support the appropriate determination of the impairment cost of the loans and receivables including valuation of collateral and assumptions of future cash flow for individually assessed exposure of the loan impairment. • Assessment of key development of high-risk portfolio from the previous period with regard to industry standards and historical data. • Assessing the adequacy of various identified decisions of the Management regarding to assumptions related to the calculation of expected credit losses for individually assessed loans, as well as decisions on the approach to assessment of expected credit losses for collectively assessed loans, as well as evaluating applied methodologies using our industry knowledge; • Assessment of the accuracy and completeness of disclosure in financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

Other information contained in the Bank's annual management report

Other information refers to the information contained in the annual management report, but does not include the financial statements and the auditor's report on them. The management of the Bank is responsible for the preparation of other information in accordance with the regulations of Montenegro. Our opinion on the financial statements does not include other information. In connection with the audit of the financial statements, it is our responsibility to read the other information and thereby consider whether the other information is consistent in all material respects with the financial statements, with our knowledge obtained during the audit, or otherwise appears to be materially incorrect. In addition, we assessed whether the other information was prepared, in all materially significant aspects, in accordance with the Accounting Law of Montenegro, especially whether the other information was formally in accordance with the requirements and procedures for the preparation of other information of the Accounting Law of Montenegro in the context of materiality, i.e. whether any non-compliance with these requirements could affect the judgments made on the basis of this other information.

Based on the implemented procedures, to the extent that we are able to evaluate them, we report that

1. other information describing the facts that are also presented in the financial statements are, in all materially significant aspects, in accordance with the financial statements; and
2. other information was prepared in accordance with the requirements of the Law on Accounting of Montenegro.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Annual Management Report. We have nothing to report in this respect.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is 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, Law on Accounting of Montenegro, and ISAs applicable in Montenegro will always detect a material misstatement when it exists. Misstatements can arise due to 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 of Montenegro, Law on Accounting in Montenegro and ISAs applicable in Montenegro, we apply professional judgment and maintain professional skepticism 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 avoiding 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 applied 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 cause significant doubt on the Banks'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 basic 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 (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 Đorđe Dimić.

Crowe MNE d.o.o. Podgorica

April 19, 2024



Đorđe Dimić, Certified auditor



Pero Đuričković, Certified auditor

Anastasija Boljević, Certified auditor



Vladimir Kavarić, Authorized person

INCOME STATEMENT

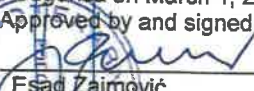
For the period from January 1 to December 31 2023


(In thousands of EUR)


	Notes	2023	2022
Interest income and similar income	3.1, 6	24,383	18,390
Interest income on impaired loans		903	732
Interest expenses and similar expenses	3.1, 6	(2,169)	(2,529)
NET INTEREST INCOME		23,117	16,593
Fee and commission income	3.1, 9	28,998	23,101
Fee and commission expense	3.1, 9	(17,334)	(13,493)
NET FEE AND COMMISSION INCOME		11,664	9,608
Net profit/loss due to the derecognition of financial instruments not valued at fair value through profit and loss		(41)	3
Net profit/loss on account of financial instruments held for trading		901	(59)
Net exchange rate gains		1,244	1,193
Net profit/loss from the derecognition of other property		273	(5)
Other income	14	135	314
Employee expenses	10	(7,040)	(7,255)
Depreciation expenses	12	(2,572)	(2,514)
General and administrative expenses	11	(9,310)	(7,920)
Net income/expenses due to the depreciation of financial instruments not valued at fair value through profit and loss	3.8, 7	(3,561)	(2,709)
Provisioning costs	3.8, 8	(148)	13
Other expenses	13	(129)	(71)
OPERATING PROFIT		14,533	7,191
Income tax	3.6, 15	(2,276)	(1,149)
NET PROFIT		12,257	6,042
Earnings per share	31	1.20	0.59

These financial statements were approved by the Management board of Hipotekarna banka A.D. Podgorica on March 1, 2024 in Podgorica.


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


 Esad Zaimović
 President of the Management Board


 Jelena Vuletić
 Board member


 Nataša Lakić
 Board member


 Ana Golubović
 Board member


 Nikola Špadijer
 Board member

TRANSLATION NOTE: This is a translation of the original document issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.

HIPOTEKARNA BANKA A.D., PODGORICA

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from January 1 to December 31 2023

(In thousand EUR)

	<u>2023</u>	<u>2022</u>
Net profit	<u>12,257</u>	<u>6,042</u>
Total other comprehensive income		
The effects of changes in the value of securities that valued at fair value through other total results	492	1,253
Income tax based on items of total other result	<u>(53)</u>	<u>(205)</u>
Total other result for current year	<u>439</u>	<u>1,048</u>
TOTAL OTHER COMPREHENSIVE INCOME	<u>12,696</u>	<u>7,090</u>

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HIPOTEKARNA BANKA A.D., PODGORICA

BALANCE SHEET
As at December 31, 2023
(In thousands of EUR)

	Notes	December 31, 2023	December 31, 2022
ASSETS			
Cash and cash balances and deposits accounts with central banks	3.7, 16	224,223	328,197
Financial assets at amortized cost		674,299	473,391
Loans and receivables from banks	3.8, 17.1	77,265	34,019
Loans and receivables from clients	3.8, 17.2	248,411	236,812
Securities	17.3	345,861	200,539
Other financial assets		2,762	2,021
Financial assets at fair value through other comprehensive income		6,368	5,875
Securities	18.1	6,368	5,875
Financial assets held for trading		-	-
Securities		-	-
Property, plant and equipment	3.10, 19	9,129	8,750
Intangible assets	20	2,306	2,056
Deferred tax assets	15c	43	110
Other assets	21	5,037	4,460
TOTAL ASSETS		921,405	822,839
LIABILITIES			
Financial liabilities at amortized cost		803,438	719,833
Deposits due to banks and central banks	22.1	2,415	2,461
Deposits due to customers	22.2	788,852	701,434
Borrowings from clients other than banks	22.3	11,928	15,764
Other financial liabilities		243	174
Reserves	23	924	1,068
Current tax liabilities		2,233	1,178
Deferred tax liabilities	15c	15	-
Other liabilities	24	26,381	20,961
Subordinated debt	26	13,261	17,348
TOTAL LIABILITIES		846,252	760,388
EQUITY			
Share equity	25	52,362	52,362
Share premium		10,383	4,341
Retained earnings/losses		12,257	6,042
Current year profit		151	(294)
Other reserves		-	-
TOTAL EQUITY		75,153	62,451
TOTAL EQUITY AND LIABILITIES		921,405	822,839
OFF-BALANCE SHEET ITEMS			
	28	957,066	933,278

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



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President of the Management Board

Ana Golubović
Board member

Jelena Vučetić
Board member

Nikola Spadijer
Board member

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Board member

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HIPOTEKARNA BANKA A.D., PODGORICA

STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 2023


(In thousand EUR)	Share capital	Share premium	Current year profit	Other reserves	Total
Balance as of 1 January 2022	52,362	-	4,323	(1,341)	55,344
Reclassification of debt instruments that are measured at fair value through other comprehensive income at amortized cost	-	-	-	17,991	17,991
Effect of the fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(16,943)	(16,943)
Other effect of securities on capital	-	-	18	-	18
Profit of the year	-	-	6,042	-	6,042
Actuarial losses/gains, net	-	-	-	(1)	(1)
Balance as of 31 December 2022	52,362	-	10,383	(294)	62,451
Balance as of 1 January 2023	52,362	-	10,383	(294)	62,451
Effect of the fair value of financial assets measured at fair value through other comprehensive income	-	-	-	439	439
Profit of the year	-	-	12,257	-	12,257
Actuarial losses/gains, net	-	-	-	6	6
Balance as of 31 December 2023	52,362	-	22,640	151	75,153

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STATEMENT OF CASH FLOWS
For the period from 1 January to 31 December 2023

(In thousand EUR)


	<u>2023</u>	<u>2022</u>
Cash flows from business activities		
Inflows from interest and similar income	24,565	18,001
Outflows from interest and similar income	(2,040)	(2,801)
Inflows from fees and commissions	28,997	23,101
Outflows from fees and commissions	(17,334)	(13,493)
Outflows from employee salaries and supplier costs	(33,099)	(18,841)
Increase/reduction of credits and other assets	(16,102)	(18,367)
Inflows from deposits and other liabilities	87,757	154,272
Paid taxes	(2,069)	(1,266)
Other outflows	(107,608)	(47,045)
Cash inflow/outflow from business activities	<u>(36,933)</u>	<u>93,561</u>
Cash flows from investing activities		
Purchase of property and equipment	(1,885)	(618)
Purchase of intangible assets	(795)	(458)
Treasury bills	(20,358)	(8,840)
Inflows from the sale of material and long-term assets	13	11
Cash inflow/outflow from investing activities	<u>(23,025)</u>	<u>(9,905)</u>
Cash flows from financial activities		
Increase/reduction of borrowed assets	(3,835)	(6,896)
Cash inflow/outflow from financial activities	<u>(3,835)</u>	<u>(6,896)</u>
Exchange rate effect on cash and cash equivalents	1,245	1,193
Net increase/reduction of cash and cash equivalents	<u>(62,548)</u>	<u>77,953</u>
Cash and cash equivalents at the beginning of the period	352,741	274,788
Cash and cash equivalents at the end of the period	<u>290,193</u>	<u>352,741</u>

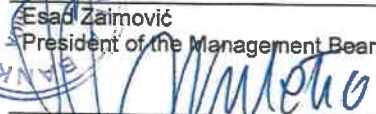
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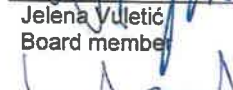



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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

1. ESTABLISHMENT AND OPERATIONS OF THE BANK

Hipotekarna banka AD, Podgorica (hereinafter: Bank) was registered in 1991 as a joint stock company. It was registered in the Central Registry of the Commercial Court under registration number 4-0004632. The Bank was registered in the Registry of Securities Issuers of the Capital Market Authority under No 3 (Decision No 02/3-1/2-01). By Decision No 0101-75/1-2002 of 18 December 2002, the Bank obtained the operating licence from the Central Bank of Montenegro.

In accordance with the Law on Banks, Founder's Agreement, Articles of Association and Decision of the Central Bank of Montenegro, the Bank performs the operations of receiving monetary deposits and extending credits for its own account.

In addition to the banking operations referred to in the previous paragraph, the Bank may also perform basic and additional financial services:

Basic financial services are considered to be:

- receiving deposits or other refunds;
- approval of loans, including consumer loans, mortgage loans and loans for financing commercial operations, purchase of receivables with or without recourse (factoring), including export financing based on the purchase with a discount and without recourse of long-term overdue receivables secured by financial instruments (forfeiting);
- financial lease;
- provision of payment services in accordance with a special law
- issuing of guarantees or other guarantees;
- trading for own account or client's account
- money market instruments (cheques, bills of exchange, certificates of deposit),
- transferable securities,
- foreign means of payment, including exchange transactions,
- financial futures and options,
- currency and interest instruments;
- services directly related to loan services, such as: data collection, analysis and providing information on the creditworthiness of legal entities and entrepreneurs;
- issuing other payment instruments and managing those instruments, if the provision of these services is not considered the provision of services from point 6 of this paragraph, and in accordance with the law;
- rental of safes;
- mediation in concluding deals on the money market;
- participating in the issuance of financial instruments and providing services related to the issuance of financial instruments, in accordance with the regulations governing the capital market;
- - management of clients' assets and consulting in connection with the management of those assets;
- custody services, in accordance with the regulations regulating the capital market;
- advising legal entities in relation to capital structure, business strategy and similar issues and providing services related to status changes, acquisition of shares and shares in other companies;
- issuance of electronic money;
- investment and auxiliary services and activities in accordance with the law governing the capital market, which do not represent services already defined in the previous paragraphs.

Additional financial services are considered to be:

- representation and mediation in insurance, in accordance with the law regulating insurance;
- provision of payment systems management services, in accordance with the law governing payment transactions;
- other services that the credit institution can provide in accordance with the provisions of the law;
- gold trading;
- data delivery services in accordance with the regulations governing the capital market;
- other services or jobs that, considering the way they are provided and the risk to which the Bank is exposed, have similar characteristics as basic financial services.

The bank may, with the prior approval of the Central Bank, perform other tasks in accordance with the law.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

1. ESTABLISHMENT AND OPERATIONS OF THE BANK (Continued)

Based on the approval of the Capital Market Commission and the Central Bank of Montenegro, the Bank performs the following tasks:

- Custody affairs;
- Transactions with securities:
 - o broker trading
 - o dealer trading
 - o investment advising

The bank also performs insurance representation operations, which are regulated by the Insurance Act and the relevant by-laws of the Insurance Supervision Agency.

Bank authorities are:

- 1) shareholders' Assembly
- 2) supervisory board and
- 3) management board

Shareholders' Assembly

The shareholders' assembly is the highest authority of the Bank.

The shareholders' assembly consists of the Bank's shareholders, whose interests can be represented by authorized proxies.

Supervisory Board

The Supervisory Board is the Bank's management body that performs the function of supervising the Bank's operations and whose competences are determined by the Law on Credit Institutions, the Law on Business Companies and the Bank's Statute.

Members of the Bank's Supervisory Board are elected by the Shareholders' Assembly, with prior approval from the Central Bank of Montenegro. The mandate of the members of the Bank's Supervisory Board lasts 4 years and they can be re-elected. The members of the Supervisory Board must together have the professional knowledge, abilities, and experience necessary for independent and independent supervision of the Bank's affairs, and especially for understanding the Bank's affairs and significant risks.

The Supervisory Board has a minimum of 5 (five) and a maximum of 9 (nine) members, of which two fifths are independent members, in accordance with the provisions of the Law on Business Companies.

The Supervisory Board of the Bank formed the following permanent working bodies:

- Nomination Committee
- Risk Committee
- Remuneration Committee
- Audit Committee

Management Board

The Management board is the Bank's management body that performs an executive function and is responsible for managing the Bank daily and its representation, and whose competences are determined by the Law on Credit Institutions, the Law on Business Companies, by-laws and the Bank's Statute. The Management board manages the Bank's affairs and supervises the work of the Bank's employees daily. The Management board of the Bank's ensures that the Bank complies with the regulations governing the Bank's operations, and that it establishes and implements a reliable Bank management system in accordance with the Law on Credit Institutions.

The Management Board of the Bank has five members who are appointed by the Supervisory Board for a period of four years, with the fact that the member whose mandate expires can be reappointed. The members of the Management Board are elected and appointed by the Supervisory Board of the Bank.

The Bank's headquarters are in Podgorica, at street Josipa Broza Tita no. 67. On December 31, 2023, the total number of employees employed in the Bank is 257 (216 employees of the bank and 41 seconded), of which 11 have master's degrees (4.29%), 131 have higher professional qualifications (50.97%), 63 have bachelor's degrees (24.51%) and 52 with secondary education (20.23%).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis for the preparation and presentation of financial statements

The Bank's financial statements for 2023 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the regulations of the Central Bank of Montenegro that regulate the financial reporting of banks.

The attached financial statements have been prepared in the form prescribed by the Decision on the content, terms and method of preparing and submitting financial statements of banks ("Official Gazette of Montenegro" No. 034/22).

The accounting policies and estimates regarding the recognition and valuation of assets and liabilities used in the preparation of these financial statements are consistent with the accounting policies and estimates applied in the preparation of the Bank's annual financial statements for 2022.

The financial statements have been prepared under the historical cost basis, except otherwise stated in accounting policies.

In compiling these financial statements, the Bank applied the accounting policies explained in the note Overview of significant accounting policies. The Bank's financial statements are expressed in thousands of euros (EUR), which is the functional currency of the Bank and the official currency in which financial statements are submitted in Montenegro. Unless otherwise indicated, all amounts are in thousands of EUR.

2.2. Rules of estimates

The financial statements are prepared under the historical cost basis, except for the following positions, which are valued at fair value:

- financial instruments at fair value through profit and loss,
- financial instruments at fair value through other comprehensive income,
- financial liabilities at fair value through the income statement.

2.3. Functional and reporting currency

The Bank's financial statements are expressed in euros (EUR), which is the functional currency of the Bank and the official currency in which financial statements are submitted in Montenegro. Unless specified otherwise, all amounts are presented in thousands of EUR.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023**2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**
(continued)**2.4. Use of estimates**

The presentation of financial statements requires the Bank's management to use the best possible assessments and reasonable assumptions, which affect the presented values of assets and liabilities, and disclosure of contingent receivables and liabilities as at the date of preparation of the financial statements, along with the income and expenses during the reporting period. These assessments and assumptions are based on the information available on the day of compilation of the financial statements. Still, the actual results may deviate from these assessments.

The assessments and the assumptions on which the assessments were made are the result of regular verification. If the verification ascertains that there have been changes to the assessed value of assets and liabilities, the ascertained effects are recognised in the financial statements in the period when the change in the assessment occurred, if the change in the assessment affects only that accounting period, or in the period when the change in the assessment occurred and the following accounting periods, if the change in the assessment affects the current and future accounting periods.

Note 4 contains information about the areas where the degree of assessment is the greatest, and which may have the most significant effect on the amounts recognised in the Bank's financial statements.

2.5. Going concern

The Bank's management continues to assess with reasonable certainty that the Bank will continue operating at a profit in the foreseeable future. Accordingly, the Bank's financial statements have been prepared in accordance with the going concern concept, which implies that the Bank will continue to operate in future.

2.6. Reconciliation of receivables and liabilities

In accordance with the applicable legal regulations, the Bank has reconciled its receivables and liabilities with the Bank's debtors and creditors as at 31 December 2023.

2.7. Consolidation

The Bank does not control any entities.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

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

2.8 Comparative data

Comparative data on these financial statements represent data from the Bank's audited financial statements as of and for the year ended December 31, 2022.

If necessary, the Bank reclassifies comparative data in order to achieve consistency in the data from the financial statements for the current year.

2.9 Changes and amendments to standards whose entry into force and application are mandatory in the current year

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Bank as of 1 January 2023:

- **IFRS 17 Insurance contracts**

The new standard IFRS 17 Insurance Contracts replaced IFRS 4 Insurance Contracts. It applies to annual reporting periods beginning on or after January 1, 2023. An insurance contract is a contract under which one party (the issuer) accepts a significant insurance risk from another party (the policyholder) by agreeing to indemnify the policyholder if a specified uncertain future event occurs (insured event) negatively affects the policyholder. The Bank has estimated that the new standard IFRS 17 Insurance Contracts and its amendments have no impact on the Bank's financial statements.

- **IAS 1 Presentation of financial statements and IFRS Practice report 2: Disclosure of accounting policies (amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments provide guidance on the application of the materiality assessment concept to the disclosure of accounting policies. In particular, the amendments to IAS 1 replace the requirement to disclose "significant" accounting policies with the requirement to disclose "material" accounting policies. Also, instructions and illustrative examples have been added to the Practice Report to help apply the concept of materiality when making judgments about the disclosure of accounting policies.

The Bank has estimated that the adoption of the amendments to this standard has no impact on the Bank's financial statements.

- **IAS 8 Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how they differ from changes in accounting policies and corrections of errors.

The Bank has estimated that the adoption of the amendments to this standard has no impact on the Bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

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

2.9 Changes and amendments to standards whose entry into force and application are mandatory in the current year (continued)

- **IAS 12 Income tax: Deferred taxes arising in connection with assets and liabilities arising from a single transaction (amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments narrow the scope and provide further clarification regarding the exception to initial recognition under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and restoration Liabilities. The amendments clarify that where payments in settlement of a liability are deductible for tax purposes, it is a matter of judgement, taking into account the applicable tax framework, whether such deductions are attributable for tax purposes to the liability or the related asset component. According to the amendments, the exception to initial recognition does not apply to transactions that, on initial recognition, lead to equal taxable and deductible temporary differences. It only applies if the recognition of the leased asset and the lease liability (or the liability to restore the asset, including the related asset) results in taxable and deductible temporary differences that are not equal. The Bank has estimated that the adoption of the amendments to this standard has no impact on the Bank's financial statements.

2.10 Standards that have been issued but have not yet entered into force and have not been previously adopted

- **IFRS 16 Leasing: Liabilities based on a sale and leaseback transaction (amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements used by a seller-lessee in measuring a lease liability arising from a sale-leaseback transaction in IFRS 16, while not changing the accounting treatment of leases that are not related to sale-leaseback transactions. Specifically, the seller-lessee determines the "lease payments" or "revised lease payments" in such a way that the seller-lessee does not recognize any amount of gain or loss related to the right of use it retains. The application of these requirements does not prevent the seller-lessee from recognizing, in the income statement, any gain or loss related to the partial or complete termination of the lease. The seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is the beginning of the annual reporting period in which the entity first applies IFRS 16. These amendments have not yet been adopted by the EU. The Bank has estimated that the adoption of the amendments to this standard will not have an impact on the Bank's financial statements.

- **IAS 1 Presentation of financial statements: Classification of short-term and long-term liabilities (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and are required to be applied retrospectively in accordance with IAS 8. The purpose of the amendments is to clarify the principles in IAS 1 for classification of Liabilities into short-term and long-term. The amendments clarified the meaning of the right to postpone the settlement of Liabilities, the condition that this right exists at the end of the reporting period, that the management's intention does not affect the classification into short-term and long-term Liabilities, that the options of the other contractual party that could lead to the settlement of Liabilities by transferring own capital instruments entities do not affect the classification into short-term and long-term liabilities. Also, the amendments specify that only covenants with which the entity must comply on or before the reporting date can affect the classification of the liability. Additional disclosures are also required for long-term liabilities arising from credit arrangements that are subject to compliance with covenants within twelve months after the reporting date. These changes have not yet been adopted by the EU. The Bank has estimated that the adoption of the amendments to this standard has no impact on the Bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank consistently applies the adopted Accounting Policies and Procedures in all periods presented in the financial statements.

The basic accounting policies applied in the preparation of the financial statements for the year 2023 are listed below.

3.1. Interest and fee income and expenses

Interest income and expenses are reported in the income statement using the effective interest rate method. The effective interest rate represents the rate that accurately discounts future inflows and outflows during the expected term of the financial instrument to:

- The gross book value of the financial asset or
- Depreciated value of the financial liability.

Interest income and expense are recognized in the income statement for all interest bearing debt instruments, using the effective interest method, on an accrual basis, in accordance with the terms of the contractual relationship defined by the contract between the Bank and the client. Effective interest method is the method of calculation of costs of amortized value of financial assets or liabilities and deferral of interest income or interest expense during relevant period. The effective interest rate is the rate that discounts future cash inflows or outflows, during expected life period of financial instrument or when it is applicable, shorter period, to the carrying value of financial asset or liability. The calculation includes all paid and received fees between contractual parties, which are integral part of the effective interest rate, transaction costs and all other premiums and discounts.

The amortized value of the financial asset or financial liability represents the amount at which the financial asset or financial liability was valued at the time of the initial recognition of the reduction for principal repayments and increased or decreased by cumulative depreciation, calculated using the effective interest rate, the difference between the initial amount and the amount at maturity, and for financial assets, adjusted for expected credit loss.

The gross book value of a financial asset is the amortized value of the financial asset before deduction for expected credit loss.

The effective interest rate for financial assets and liabilities is calculated upon initial recognition of the financial asset or liability. When calculating interest income and expenses, the effective interest rate is applied to the gross book value of assets (if the asset is not credit-impaired) or the amortized value of liabilities. For financial instruments with a variable interest rate, the effective interest rate changes as a result of periodic cash flow assessments, in order to reflect the market movement of interest rates.

For financial assets that became credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate method to the amortized value of the financial asset. If the financial asset is no longer credit-impaired, the calculation of interest income is again performed on a gross basis, i.e. interest is calculated by applying the effective interest rate to the gross book value of the financial asset.

For financial assets that are credit-impaired at the time of initial recognition, interest income is calculated by applying the credit-adjusted interest rate to the amortized value of the financial asset. The calculation of interest income does not return to the gross basis even when the credit risk improves.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.2. Fees and commissions income and expenses**

Income and expenses from fees and commissions that are an integral part of the effective interest rate of a financial asset or financial liability are included in the calculation of interest income and expenses using the effective interest rate method.

Income from fees and commissions is recognized at the moment when the corresponding service is performed. Income from fees and commissions includes fees that the Bank calculates and charges for the performance of payment services in the country and abroad, advanced sales channels, guarantees and letters of credit, as well as other services.

Expenses of fees and commissions mainly refer to fees for the performance of payment services in the country and abroad, advanced sales channels and fees for other services, which are recognized as expenses at the time when the corresponding service is performed.

3.3. Net gain/(loss) on financial instruments held for trading

Net gain/(loss) on financial instruments held for trading includes gains less losses on financial assets and financial liabilities held for trading, including all realized and unrealized changes in fair value.

3.4. Foreign Exchange Translation

Business changes in foreign currency were converted into EUR at the mid-rate determined on the interbank foreign exchange market, which was valid on the day of the business change.

Assets and liabilities expressed in foreign currency on the balance sheet date were converted into EUR at the mid-rate determined on the interbank foreign exchange market valid on that day.

Net positive or negative exchange rate differences arising during business transactions in foreign currency and during the recalculation of balance sheet positions expressed in foreign currency are credited or debited to the income statement, as gains or losses from exchange rate differences.

Assumed and potential liabilities in foreign currency were converted into EUR at the mid-rate determined on the interbank foreign exchange market valid on that day.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.5. Leasing**

International Financial Reporting Standard 16 - Leasing (hereafter IFRS 16) requires the Bank to calculate the present value of the liability under the leasing contract taking into account the contracted lease payments, the lease term and the discount rate.

For the calculation of the current value of the property with the right of use and the calculation of the liability based on the lease, the contracted net amount is taken. Amounts of non-deductible VAT on the basis of lease agreements concluded with legal entities and personal income tax on lease agreements concluded with natural persons are recorded as expenses of the period.

From the perspective of measuring and recording leasing, IFRS 16 requires different assessments, the most significant of which relate to the duration of the leasing contract as well as the discount rate used in calculating the present value of the liability.

When calculating the duration of the leasing contract, it is necessary to take into account:

- The period without the possibility of cancellation (which includes the period covered by the option to terminate the lease, if only the lessor has the right to terminate the lease).
- Optional period for extending the lease, if the lessee is relatively sure to use that option.
- Periods covered by the option to terminate the lease, if the lessee is relatively certain that he will not exercise that option.

Regarding the discount rate, it is allowed to use the implicit rate for leasing or the incremental borrowing rate of the lessee. The bank has decided to apply an incremental borrowing rate, which is based on the price of its own sources of financing increased by a risk premium of 1%. The rates obtained in this way are interpolated in such a way as to cover the entire portfolio for the duration of the contract.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Leasing (continued)

The bank has chosen to use the facilities proposed by the standard and accordingly:

- Lease contracts whose newly acquired value of the object or equipment to be rented is less than EUR 5,000.00; and
- Lease agreements whose lease period is shorter than 12 months on the date of first application are not recognized in accordance with the requirements of IFRS 16.

The bank recognizes the rights of use based on the leasing contract within the balance sheet as a separate category of real estate, plant and equipment that has been leased.

Liabilities based on leasing contracts are recognized as part of other liabilities and classified by maturity in accordance with the agreed payments.

Interest accrual costs for leasing contracts are shown under interest expense. Right-of-use amortization costs are shown as period amortization costs.

Lessor accounting under IFRS 16 is essentially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as under IAS 17 and distinguish between two types of leases: operating and finance leases.

3.6. Taxes and contributions

Income tax

Current income tax

Income tax is calculated and paid in accordance with the Law on Corporate Income Tax ("Official Gazette of the Republic of Montenegro" No. 65/01, 12/02, 80/04, No. 40/08, 86/09, 14/ 12, 61/13, 55/16, 146/21 and 152/2022) by applying the prescribed rate to the amount of taxable profit shown in the tax balance sheet.

The amount of taxable profit is determined by reconciling the profit shown in the income statement with the amounts of income and expenses in the manner defined by tax regulations.

Corporate income tax is calculated by applying a progressive rate to the total profit reported in the tax balance sheet.

Corporate tax rates on the amount of taxable profit are:

- 1) up to EUR 100,000.00 9%;
- 2) from EUR 100,000.01 to EUR 1,500,000.00: EUR 9,000.00 + 12% on the amount over EUR 100,000.01;
- 3) over 1,500,000.01 euros: 177,000.00 euros + 15% on the amount over 1,500,000.01 euros

Taxable profit is determined based on the Bank's profit shown in the income statement with the adjustment of income and expenses in accordance with the provisions of the Law on Corporate Income Tax (Articles 8 and 9 for the adjustment of income and Articles 10 to 20 for the adjustment of expenses).

Capital losses can be offset against capital gains realized in the same year. If a capital loss occurs even after offsetting with capital gains realized in the same year, the taxpayer can transfer the capital loss to the account of future capital gains in the following five years.

The tax regulations of Montenegro do not provide that tax losses from the current period can be used as a basis for the refund of tax paid in previous periods. However, losses from the current period shown in the tax balance can be used to reduce the tax base of future accounting periods, but not longer than five years.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Taxes and contributions (Continued)

Income tax (continued)

Deferred Income tax

Deferred income tax is calculated using the method of determining liabilities according to the balance sheet, for temporary differences resulting from the difference between the tax base of receivables and liabilities and their book value. Tax rates in effect at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and tax losses and credits, which can be carried forward to subsequent fiscal periods, to the extent that it is probable that taxable profit will exist against which the deferred tax assets can be utilized.

Taxes, contributions, and other levies not dependent on the operating income

Taxes, contributions, and other levies not dependent on the operating income include property tax and other taxes, fees and contributions paid according to various republic and local tax regulations.

3.7. Cash and cash equivalents

Cash and cash equivalents entail cash in the treasury accounts (EUR and foreign currency), assets in accounts with the Central Bank of Montenegro (including accounts for the allocation of the required reserve), assets in accounts with other banks in the country and abroad, assets with payment transaction agents, cheques, and other monetary receivables.

Cash equivalents are short-term, highly liquid investments that are quickly turned into known amounts of cash and are not under considerable risk of changing value. Cash equivalents are term deposits with commercial banks for the period of up to three months.

3.8 Financial Instruments

3.8.1. Recognition

The purchase or sale of a financial asset or liability is documented using the accounting recognition on the date of balancing of the transaction.

Financial instruments are initially valued at fair value, which includes transaction costs for all financial assets or liabilities, except those valued at fair value through profit and loss. Financial assets at fair value, the effects of whose changes in fair value are disclosed in the income statement, are initially recognized at fair value, and the transaction costs encumber operating costs in the income statement.

3.8.2. Classification

The Bank classifies all its financial assets based on the business model for managing assets and contractual provisions of the property.

The Bank classifies financial assets into the following four categories:

- Financial assets valued at amortized cost (AC);
- Financial assets valued at fair value through other comprehensive income (FVOCI);
- Financial assets that have to be valued at fair value through profit and loss (mandatory FVTPL)
- Financial assets that are optionally valued at fair value through profit and loss (optional FVTPL)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.8. Financial Instruments (continued)****3.8.2. Clasification (continued)**

Financial liabilities, except loan liabilities and financial guarantees, are measured at amortized cost or at FVTPL when they are held for trading and derivative instruments, or the determination of fair value is applied.

3.8.3. Financial assets and liabilities**3.8.3.1 Loans to banks, loans and advance payments made to clients, financial investments at amortized cost**

The Bank only measures Loans to banks, loans and advance payments made to clients, and other financial investments at amortized cost if both of the following requirements are met:

- The financial asset is held in the business model with the aim of holding the financial asset for the purpose of obtaining the agreed cash flows.
- On certain dates, the terms of the agreement regarding the financial asset yield cash flows that are solely payment of principal and interest (SPPI) on outstanding principal.

3.8.3.2 Assessment of the business model

The Bank defines its business model on the level that best reflects the way it manages groups of financial assets for the purpose of achieving its business objective.

The Bank's business model is not assessed based on each individual instrument, but at a higher level of grouped portfolios, and is based on observed factors, such as:

- The way the performance of the business model and financial assets in that business model are assessed and the way they are reported to the key personnel in the management;
- The risks affecting the performance of the business model (and of financial assets in that business model), and especially the way those risks are managed;
- The manner in which fees to managers are determined (for example, whether the fee was based on the fair value of the asset being managed, or based on collected agreed cash flows);
- Expected frequency, value and time of sale are also important aspects of the Bank's assessment.

Business model assessment is based on reasonably expected scenarios without taking the "worst case" or "stress case" scenarios into consideration. If cash flows after initial recognition are realized in a manner different from the Bank's initial expectations, the Bank does not change the classification of remaining financial assets in the business model, but it takes this information into account when it assesses the newly created or recently purchased financial assets.

3.8.3.3 SPPI test

The second step in the classification process is for the Bank to assess the terms of agreement related to financing, to identify whether they pass the SPPI test.

The 'principal' for the purpose of this test is defined as the fair value of the financial asset during the initial recognition, and may be changed during the lifetime of the financial asset (for example, if there are principal repayments or amortization of premium/discount).

The most significant elements of interest in the credit arrangement are usually the consideration of the time value of money and credit risk. To perform the SPPI assessment, the Bank makes the assessment and considers the relevant factors, such as the currency of the financial assets, and the period for which the interest rate is determined.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Financial instruments (Continued)

3.8.3. Financial assets and liabilities (Continued)

3.8.3.3 SPPI test (Continued)

Contrary to this, the agreed terms introducing minimum exposure to risks or volatility in the agreed cash flows not related to the main crediting arrangement do not lead to agreed cash flows, which are exclusively payments of principal and interest on the outstanding amount. In such cases, the financial asset must be measured at FVTLP.

3.8.3.4 Debt instruments valued at FVOCI

Under IFRS 9, the Bank applies the new category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held in the business model, whose aim is achieved by collecting the agreed cash flows and selling the financial assets;
- The terms of agreement of the financial asset pass the SPPI test.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses resulting from the changes in fair value recognized in other comprehensive income (OCI). Interest income and exchange rate gains and losses are recognized in the income statement in the same manner as financial assets measured at amortized cost. ECL (Expected Credit Loss) calculation for debt instruments at FVOCI is explained in Note 3.8.8. At derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to the income statement.

3.8.3.5 Equity instruments at FVOCI

Upon initial recognition, the Bank may choose to irrevocably classify some equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not intended for trading. This classification is defined at the instrument-by-instrument principle.

Gains and losses on these equity instruments are not reclassified as profit. Dividends are recognized in the income statement, as is other operating income, when the right to payment is determined, except when the Bank benefits from such income as a return of the part of the instrument's costs, in which case such gains are recorded in OCI. Equity instruments at FVOCI are not subject to the assessment of depreciation.

3.8.3.6 Financial assets and financial liabilities at fair value through profit and loss

Financial assets and financial liabilities in this category are not held for trading and are defined by the management during initial recognition, or must be measured at fair value under IFRS 9. This classification is defined at the instrument-by-instrument principle, when one of the following criteria is met:

- Classification eliminates or significantly reduces the inconsistent treatment that would otherwise result from the measurement of assets or liabilities or recognition of gains or losses on them on a different basis, or
- Liabilities are a part of the group of financial liabilities (or financial assets, or both under IAS 39), which are managed, and whose work is assessed at fair value, in accordance with the documented risk management or investment strategy, or
- Liabilities containing one or more embedded derivatives, unless they considerably modify cash flows that would otherwise be contractually required, or when a similar instrument is first considered, it is clear with little or no analysis that the separation of an embedded derivative or multiple derivatives is prohibited.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Financial instruments (Continued)

3.8.3. Financial assets and liabilities (Continued)

3.8.3.6 Financial assets and financial liabilities at fair value through profit and loss

Financial assets and financial liabilities at FVTPL are documented in the balance sheet at fair value. Changes in fair value are documented in the income statement, except for movement of fair value of liabilities at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are documented in own credit reserve through OCI and are not reclassified in the income statement. Interest earned or resulting from instruments at FVTPL is calculated in interest income or expenses, and, using the effective interest rate, considering any discount/premium and qualified costs of the transaction that are integral to the instrument. Income from dividends from equity instruments at FVTPL is documented in the income statement as other operating income when the right to payment is established.

3.8.4. Reclassification of financial assets and liabilities

The Bank reclassifies its financial assets after their initial recognition, in cases of business model change, and in exceptional circumstances when the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. Reclassification of financial assets is carried out from the date of reclassification, whereby previously recognized profit, losses (including expected credit losses) and interest are not adjusted.

If the Bank reclassifies a financial asset from the category of measurement at amortized cost to the category of measurement at fair value through the income statement, its fair value is measured on the date of reclassification. Any gain or loss arising as a difference between the previously amortized cost of the financial asset and the fair value is recognized in the income statement.

If the Bank reclassifies a financial asset from the category of measurement at fair value through the income statement to the category of measurement at amortized cost, its fair value on the date of reclassification becomes its new gross book value. Based on the above, the effective interest rate is adjusted on the date of reclassification, which is considered the new date of initial recognition for the purposes of measuring expected credit losses.

If the Bank reclassifies a financial asset from the category of measurement at amortized cost to the category of measurement at fair value through other comprehensive income, its fair value is measured on the date of reclassification. Any gain or loss arising as a difference between the previously amortized cost of the financial asset and the fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted due to the reclassification.

If the Bank reclassifies a financial asset from the category of measurement at fair value through other comprehensive income to the category of measurement at amortized cost, the financial asset is reclassified at its fair value on the date of reclassification. However, cumulative gains or losses previously recognized through other comprehensive income are removed from equity and adjusted to fair value at the date of reclassification. Consequently, financial assets are measured at the date of reclassification as if they had always been measured at amortized cost. This adjustment affects other comprehensive income, but does not affect the income statement, and is therefore not a reclassification adjustment in accordance with IAS 1: Presentation of Financial Statements. The effective interest rate and the measurement of expected credit losses are not adjusted due to the reclassification.

If the Bank reclassifies financial assets from the category of measurement at fair value through the income statement to the category of measurement at fair value in other comprehensive income, the financial assets are still measured at fair value. The date of reclassification is considered the new date of initial recognition for the purposes of measuring expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Financial instruments (continued)

3.8.4. *Reclassification of financial assets and liabilities (continued)*

If the Bank reclassifies financial assets from the category of measurement at fair value through other comprehensive income to the category of measurement at fair value through the income statement, the financial assets are still measured at fair value. Cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to the income statement as a reclassification adjustment in accordance with IAS 1: Presentation of financial statements at the date of reclassification.

3.8.5. *Derecognition of financial assets and liabilities*

The Bank derecognizes a financial asset, such as a loan to a client, when the terms and provisions are negotiated to the point that it essentially becomes a new loan, with the difference recognized as profit or loss from the derecognition, in the extent to which the loss due to depreciation was not yet documented. Newly recognized loans are classified as Stage 1 for the purpose of ECL measuring, unless the new loan is considered POCI.

When assessing whether to derecognize a loan of a buyer, among other things, the Bank considers the following factors:

- Change of loan currency;
- Introduction of capital;
- Change in the counterparty;
- The modification is such that the instrument no longer meets the SPPI criteria.

If the change does not result in cash flows that are considerably different, the modification does not lead to derecognition. Based on the change in the cash flows discounted at the original effective interest rate, the Bank documents the profit or loss due to modification in the extent to which the loss on account of depreciation was not yet documented.

A financial liability is derecognized when the liability is met, i.e. when the debt is paid, cancelled or expired.

3.8.6. *Write-off*

Financial assets are written off partially or fully only if the Bank decides not to collect. If the amount to be written off exceeds the accumulated loan loss provisions, the difference is first calculated as additional provision, which is then reconciled with the gross book value. Any subsequent collection reduces the costs for credit losses.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.8. Financial instruments (continued)****3.8.7. Forborne and modified loans**

The Bank sometimes makes concessions or changes to the initial loan terms as a response to the debtor's financial difficulties, instead of taking ownership of or otherwise collecting the collateral. The Bank considers a loan forborne when such concessions or changes are the result of current or expected financial difficulties of the debtor, and the Bank would not have agreed with those changes if the debtor were financially stable. Indicators of financial difficulties include outstanding liabilities under covenants, or significant concerns by the Credit Risk Division. Forbearance may also include the extension of the repayment period and consenting to new loan terms. After renegotiating the terms, any impairment is measured using the original effective interest rate calculated before the terms were changed. The Bank's policy is to monitor forborne loans to ensure that future payments remain likely. Decisions on derecognition and classification into Stage 2 and Stage 3 are made on a case-by-case basis. If a loan loss is determined by these processes, the loan is managed and declared as an impaired Stage 3 forborne asset until its collection or write-off.

Restructured loans

For loans where there are issues with repayment, the Bank always first endeavours to restructure them, if the conditions exist, because this is considered a better solution than taking over collateral. Rescheduling may entail extending the repayment and agreeing on new lending terms. After the terms have been rescheduled, the loans is no longer considered due, but it is monitored with special attention to ensure that all criteria are met and that future payments are certain. A loan is still subject to individual or collective assessment and value adjustment, which is calculated using the initial effective interest rate of the loan, and is treated as an NPL in the following six months.

When a loan is renegotiated or changed, but not derecognized, the Bank reassesses whether there has been a considerable increase in credit risk. The Bank also considers whether the assets will be classified as Stage 3. After an asset is classified as forborne, it remains forborne during a trial period lasting at least 24 months. For a loan to be reclassified from the forborne category, the client must meet the following criteria:

- All its loans must be considered performing;
- The trial period of two years from the date of the forborne agreement has elapsed;
- Regular payments exceeding an insignificant amount of principal or interest are made for at least half of the trial period;
- The user has no agreement under which it is overdue more than 30 days.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provisions

Impairment of financial assets

The valuation of financial assets of the Bank defines a framework for adequate measuring of value adjustments due to loan losses in accordance with IFRS 9 and the Decision of the Central Bank of Montenegro on the Minimum Standards for Credit Risk Management in Banks.

The procedure defines in particular:

- General definitions of the type of value adjustment;
- Scope of application in terms of client exposure;
- Indicators for the impairment test;
- Key principles for the calculation of value adjustments: cash flow assessments, differentiating the assets relative to the cash flow assessment;
- Exceptions in the calculation of impairment;
- Recognition of interest and interest income after impairment (unwinding);
- Process of budgeting, forecasting, and monitoring;
- Roles and responsibilities of key organizational units.

The complete portfolio is separated into three stages:

Stage 1 contains clients overdue less than 30 days. In Stage 1, in collective calculation, the expected credit loss is calculated for a 12-month period as part of the expected credit loss in the entire lifetime of the asset, which arises from an event of default of the financial asset in the 12 months after the reporting date or a shorter period, if the expected lifetime of the financial instrument is shorter than 12 months.

Stage 2 contains clients that meet one of the 4 criteria pointing to the existence of elevated credit risk, which pertain to a greater number of days overdue, increase in the PD coefficients, or presence in the watch list.

Stage 3 contains clients showing elements of impairment, expressed as a higher number of days overdue, considerable deterioration in operations, or with the POCI designation.

A client may migrate between stages, unless it is POCI (it remains in Stage 3 until the end of the financial lifetime). If it has been rescheduled, the cooling period is 12 months, and if it has not been rescheduled, this period is 6 months.

On the date of initial recognition of a financial asset, the Bank is required to determine whether the asset is impaired. The responsibility for the classification lies with the departments in the commercial area of operations which start the initiative. When rescheduling for clients in enforced collection, the responsibility for classification lies with the High-Risk Loan Management Department. The designation POCI is assigned at the level of ID (account – sub-account), when opening a new account – sub-account.

The Bank separates its portfolio into: I) individual assessment and II) collective assessment.

I) Individual assessment (IA) is performed for all debt instruments (government or corporate bonds) for which there is no rating of an internationally recognized rating agency, and for all monetary assets/deposits given to banks or other financial institutions for which there is no rating of an internationally recognized rating agency

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provisions (Continued)

Impairment of financial assets (Continued)

Individual assessment for clients whose exposure exceeds EUR 50 thousand is performed in three steps:

- a. Individual analysis of clients (mandatory IA) is performed for all clients that meet one of the 4 criteria indicating loan impairment;
- b. Analysis of clients (desirable IA – Assessment form) that do not meet any of the 4 mandatory criteria, but do meet at least one additional criterion pointing to loan impairment;
- c. Analysis of clients (Soft facts – Assessment form) that meet neither the 4 mandatory criteria nor any additional criteria.

In the individual assessment, for the calculation of expected credit losses, several scenarios with weighted probabilities of outcome during the lifetime of the financial asset need to be taken into consideration. The assessment consists of a consideration of the range of possible outcomes, which involves the identification of possible scenarios that specify the amount and time of cash flows for each outcome, and the estimated probability of a certain outcome.

When creating cash flows, in most cases the maximum expected term for forecasting the cash flow is up to 5 years. Payments until the final repayment or up to 5 years ahead are taken, because planning for more than 5 years is not considered realistic. Only in exceptional cases, if there are rational grounds that can be factually proved, can a longer term be taken.

Collective assessment is performed:

- For all clients not on individual assessment;
- If the individual value adjustment for credit losses is less than the collective calculation – except for specific clients, sub-accounts, and where there are clear and easily provable facts indicating this for the loan in question.

If the client was assessed individually, it may not go back to collective assessment in the following quarter. A "cooling" period of 6 months is applied.

As part of collective assessment, there is also a division and subdivision into:

- Legal entities;
- Individuals (cash, consumer, housing loans).

Impairment for credit losses in Stage 1 for a given financial instrument is the sum over a period of months (12 months or until the maturity date, if it is in less than 12 months) of the product of exposure, marginal probability of default (PD), LGD and the discount factor. Discounting is performed using the monthly effective interest rate of the loan.

For the collective assessment of a financial instrument in Stage 2, impairment for credit losses is equal to the Expected Credit Loss (ECL) for the entirety of the lifetime of the loan. The ECL in the entire lifetime of the loan is defined as the set of all possible events that lead to default during the lifetime of the financial asset.

Impairment for credit losses in Stage 2 for a given financial instrument is the sum during the remaining months (of the entire lifetime) of the product of exposure, marginal probability of default (PD), LGD and the discount factor. Discounting is performed using the monthly effective interest rate of the loan.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.8. Financial instruments (continued)****3.8.8 Impairment of financial assets and provisions (Continued)****Impairment of financial assets (Continued)**

Stage 3 contains impaired financial instruments. Value adjustment for credit losses is calculated as the product of net exposure at default (Net_EAD) and loss given default (LGD).

Exposure at default (EAD) used for calculating the expected credit loss depends on the characteristics of the financial instrument:

- Term loans – by assessing the EAD curve of the lifetime of the financial instrument, as the loan nears maturity;
- Guarantees and letters of credit – fixed EAD on the maturity date;
- Credits/loans without a clear repayment schedule, where the average lifetime is calculated.

The calculation of PD parameters consists of the following steps:

1. Calculation of transition matrices;
2. Performance of cumulative lifetime PD;
3. Calculation of marginal lifetime PD;
4. Adjustment of marginal PD for forward-looking information.

Absolute transition matrices are obtained from the historical classification of accounts (loans) by time categories (buckets). In the absolute transition matrix, elements $X_{i,j}$ is the account (loan) number with the initial balance I , and balance j for the following month, where the balance is the time category (bucket)

Reduction of dimensions of the absolute transition matrix by defining the "Default" status, which includes the time categories (buckets) over 90 days. A matrix obtained in this way is transformed into a relative transition matrix. During transformation, the assumption is that the "Default" has an absorbing status, which means that once an account (loan) gets the Default status, it keeps that status.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Financial instruments (continued)

3.8.8 Impairment of financial assets and provisions (Continued)

The cumulative unadjusted lifetime PD is obtained by using the Markov's chain assumption, by exponentiating a 1-month relative transition matrix.

The marginal PD is calculated as the difference between the cumulative PD for the given balance (bucket) in the current and previous months.

The Bank introduces forward-looking information in the manner that it directly adjusts marginal PDs using the corrective factor. In the first 36 months, marginal PD is aligned with the corrective factor, k , after which the adjusted marginal PD converges with the initial (unadjusted) marginal PD. The period of convergence is set at 36 months, after which there is no adjustment.

Loss given default (LGD) is calculated for unsecured exposures. That means that collateral was not taken into consideration and the assumption is that the collection will be generated from cash flows of regular operations. LGD parameters are calculated according to the portfolio and time categories (buckets). For default loans (time categories 4 and more), LGD is determined by comparing the sum of exposure by time category initially and after 12 months. In the calculation of LGD parameters, the Bank uses data from a 5-year period. The obtained results are expertly corrected through linear interpolation to ensure risk continuity by category, i.e. for LGD parameters to have a rising trend by time categories (buckets).

Calculation and approval of value adjustment for individual risks, and the entering of approved value adjustments on a collective basis may and should be performed continuously.

Entries are made in the Bank's Core System. After the value adjustments for expected credit losses are entered, reports are created.

Impairment for ECL in the balance sheet is presented as follows:

- For financial assets valued at amortized value, value adjustment reduces the gross book value of a financial asset;
- For off-balance sheet exposures (assumed liabilities for undisbursed credits and financial guarantees), impairment is recognized as a provision in liabilities in the balance sheet;
- For debt instruments classified as FVOCI, value adjustment is not recognized in the balance sheet, given that the book value of these assets must equal their fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Provisions and impairment of loans and receivables

Calculation of provisions for potential losses

The bank is obliged to classify balance and off-balance sheet items on the basis of which it is exposed to credit risk into the appropriate classification group, as well as to calculate provisions for potential losses, in accordance with the valid Decision on the criteria and method of asset classification and calculation of provisions for potential credit losses of credit institutions ("Official Gazette of Montenegro", No. 127/20, 140/21). In accordance with the aforementioned Decision, the Bank applied the following percentages and days of delay by risk categories for the calculation of the provision for potential losses:

Risk Category	December 31, 2023	
	% provisions	Days of delay
A	0.5	<30
B1	2	31-60
B2	7	61-90
C1	20	91-150
C2	40	151-270
D	70	271-365
E	100	>365

Days past due is not the only classification criterion, but they are an imperative one.

The Bank is required to determine the difference between the amount of provisions for potential losses and the sum of value adjustments for balance sheet asset items and provisions for off-balance sheet items calculated in accordance with the Bank's internal methodology using International Accounting Standard 9.

The positive difference between the amount of calculated provisions for potential losses and the sum of value adjustments for balance sheet asset items and provisions for off-balance sheet items is deducted from the Bank's own assets.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Property, plant, equipment i intangible assets

Property, plant and equipment

Property, plant and equipment are expressed according to their purchase value minus the accumulated value adjustment. The purchase value is the value according to the supplier's invoice plus the dependent costs of procurement and costs for bringing assets into the condition of functional readiness.

The residual value and useful life of the asset are revised, and adjusted if necessary, on the date of each balance sheet. The Bank assesses whether there is objective evidence that the asset is impaired. If any evidence exists, the reimbursable amount is estimated. The reimbursable amount exceeds the net selling price or value in use. If the reimbursable amount exceeds the book value, the asset should not be impaired.

Subsequent costs: costs of replacement of equipment parts (installation of new spare parts), costs of overhaul and general repairs of business premises are recognized as an increase in the present value of business premises or equipment, if it is likely that there will be an inflow of future economic benefits on that account, and if those costs can be reliably measured.

Costs resulting from the ongoing maintenance of equipment: replacement and installation of small spare parts and consumables, along with the costs of everyday repairs, are considered expenses of the period in which they occurred.

Losses or gains that occurred in the alienation or decommissioning of business premises and equipment are determined as the difference between the amount obtained through sale and the present value at which the business premises or equipment were calculated, and are recognized as an asset or liability in the income statement in the period in which the alienation or decommissioning occurred.

Depreciation is evenly calculated on the purchase value of business premises and equipment, and using the following annual rates, with the aim of fully writing off the business premises and equipment during their useful life. The following rates were applied:

Main groups	<u>Depreciation rate (%)</u>
Construction objects	2.00
Vehicles	15.00
Furniture and other equipment	15.00 – 20.00
Computer equipment	33.33
Small inventory	50

The period of depreciation of fixed assets begins when the assets are available for use. Gains and losses on account of alienation of assets are established as the difference between the cash inflow and the book value and are presented in the income statement.

Intangible investments

Intangible investments consist of software and licences. Intangible investments that are obtained are recognized in the amount of purchase value as at the transaction date. After initial recognition, intangible investments are disclosed in the amount of purchase value less the accumulated depreciation and potential value reduction due to impairment.

The costs that may be directly linked to certain software, which will generate an economic benefit in a period longer than one year, are recorded as intangible investments. Maintenance costs and the development of computer software are documented as a cost at the moment in which they occurred.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Property, plant, equipment i intangible assets (Continued)

Intangible investments (Continued)

Depreciation is evenly calculated on the purchase value of intangible investments over a 5-year period, with the aim of fully writing off the intangible investments during their useful life. The depreciation charges for intangible investments begin when the assets are put in use.

3.11. Equity

Share capital, share premium, the Bank's reserves and accumulated income are disclosed within the Bank's capital.

The Bank's share capital consists of invested assets of the founders and shareholders of the Bank in monetary and nonmonetary form. The Law on Securities defines that securities are dematerialized and exist as an electronic entry in the computer system of the Central Securities Depository and Clearing Company. A statement from the registry of the Central Securities Depository and Clearing Company is the only and exclusive proof of ownership of securities

3.12. Employee benefits

Contributions ensuring the employees' social security

In line with the regulations in effect in Montenegro, the Bank is required to pay contributions to state funds, which ensures the social security of employees. These liabilities include contributions for employees charged to the employer in the amounts calculated at the rates prescribed by the relevant legislation. The Bank is also required to deduct contributions from the employees' gross wages and pay them to those funds on behalf of its employees. Contributions charged to the employer and contributions charged to the employee are documented as expenses of the period to which they pertain.

Liabilities on account of severance pay at retirement or other long-term payments to employees

In accordance with the actuary's report, the Bank has calculated the obligation to pay severance pay to employees when they retire, in the amount of three minimum net salaries.

Total expenses of long-term provisions pertaining to future outflows on account of retirement of employees are estimated based on actuarial calculation. For assessment purposes, the Bank hires a certified actuary who calculates future liabilities by discounting estimated future outflows, using the projected unit method.

Liabilities are measured in the amount of the present value of future expenses, considering the growth in future salaries and other conditions, which are distributed to employee benefits on account of past and future working life.

3.13. Fair value

Fair value is the price that would be received for the sale of an asset or payments for the transfer of a liability in a regular transaction between market participants on the valuation date. Determination of fair value assumes that the transaction took place in the primary market of an asset or liability, or, in the absence of a primary market, in the most favourable market for the asset or liability.

If there is a primary market for an asset or liability, the fair value is the price in the market.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Fair value (Continued)

The fair value of an asset or liability is valued using assumptions that would be used by market participants in the determination of the price of an asset or liability, assuming that market participants are acting in their best economic interest.

The fair value of a non-financial asset considers the possibility for a market participant to generate the greatest and best economic benefits from the use of that asset or from its sale to another market participant, which would use that asset in the best way.

The Bank uses valuation techniques which are appropriate in the circumstances, and for which the data used for determining the fair value are available, whereby the use of relevant identifiable input data is maximized and the use of unidentifiable input data is minimized. Valuation techniques are revised periodically, to appropriately reflect the current market conditions.

All assets and liabilities disclosed at fair value or whose fair value is disclosed in the financial statements are classified into three levels of hierarchy of fair value:

- Level 1 - Quoted market prices (unadjusted) in the active market for the same assets or liabilities
- Level 2 - Use of the valuation technique for which the lowest level of input data important for determining the fair value is directly or indirectly identifiable
- Level 3 - Use of the valuation technique for which the lowest level of input data important for determining the fair value is not identifiable

For assets or liabilities which are continuously valued at fair value in the financial statements, the Bank determines whether their hierarchy levels have changed by reassessing the categorization at every reporting date.

3.14. Provisions

Provisions are recognized when:

- The Bank has a present legal or derived obligation as a result of previous events;
- it is highly probable that settling a liability will require an outflow of assets and
- the amount of a liability can be reliably estimated.

Provisions are measured at the present value of expenses required to settle liabilities.

Provisions are revised on the date of each balance sheet and adjusted so that they reflect the best current estimate. If it is no longer probable that an outflow of assets generating economic benefits will be required to settle the given obligation, the provision is removed through the income statement

3.15. Financial guarantees

Financial guarantees are agreements by which the Bank commits to make payments to their users for losses that occur due to a failure of a certain debtor to make a payment upon the maturity of a liability, in accordance with the terms of a debt instrument. Liabilities under financial guarantees are initially recognized at fair value, and the initial fair value is depreciated during the period of the financial guarantee. The liability under the guarantee is subsequently measured in the amount exceeding the depreciated value and present value of the expected future payment (when the payment under the guarantee is probable). Financial guarantees are documented as part of off-balance sheet items.

The received compensation is recognized in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

4. ACCOUNTING ESTIMATES AND ASSUMPTIONS

The management makes estimates and assumptions that affect the value of assets and liabilities in the following financial year. Accounting estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including the anticipation of future events believed to be reasonable in the given circumstances.

The management makes estimates and assumptions related to the future. The resulting accounting estimates will, by definition, rarely equal the achieved results. Estimates and assumptions which contain the risk of causing material adjustments of the book values of assets and liabilities during the next financial year are specified below.

Losses from impairment of financial assets

The measurement of impairment in accordance with IFRS 9 for all categories of financial assets requires an assumption, separately for the estimate of the amount and time of future cash flows and value of collateral when determining the losses from impairment and estimate of a significant increase in credit risk. These estimates are supported by numerous factors and changes that may result in different levels of impairment provisions. The calculation of the Bank's ECL represents output data of complex models with a series of assumptions related to the choice of variables and their interdependencies.

Elements of the ECL model that contain accounting assumptions and estimates include:

- Classification of financial assets: assessment of the business model for the management of financial assets and estimate whether the agreed terms of financial assets satisfy the SPPI test;
- Defining the Bank's criteria for assessment whether there has been a significant increase in the credit risk of a financial asset relative to the initial recognition, definition of a methodology for including prospective information for ECL calculation and selection and approval of models used for the calculation of ECL;
- Development of the ECL model, including various formulas and selection of input data.

Fair value

The determination of the fair value of financial assets and liabilities for which there is no apparent market price requires the use of various valuation techniques. For financial instruments not traded often, whose price transparency is low, fair value is not highly objective and requires a degree of variation in estimations, which depends on liquidity, concentration, uncertainty of market factors, price assumptions and other risks affecting a given instrument.

Contingent liabilities

Contingent liabilities include provisions for severance payments and provisions for court disputes.

For the purposes of calculation and valuation of contingent liabilities, the Bank's management defines assumptions on the probability and amount of outflow of resources, i.e. potential outcome and amount of liabilities on account of court disputes. The Bank's management estimates the amount of provisions for the outflow of funds on account of court disputes based on assessment made by the Bank's legal representatives, probability that the outflow will truly take place according to a contractual or legal obligation from the previous period.

The cost of long-term employee benefits is determined based on actuarial calculation, with the application of actuarial assumptions: discount rate, future growth in salaries in accordance with the rate of inflation and advancement, and growth in salaries on account of years of service, along with changes in the number of employees gaining the right to receive compensations. Given the long-term nature of these plans, estimates are subject to considerable uncertainty. The actuarial calculation is performed by an independent actuary.

4. ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)*Useful life of intangible assets, property, plant and equipment*

The determination of the useful life of intangible assets, property, plant and equipment is based on previous experience with similar assets, and on the anticipated technological development and changes affected by a large number of economic or industrial factors. The adequacy of a given useful life is reviewed annually or whenever there is an indication that the factors which constituted the basis for determining the useful life have changed considerably. The Bank reviews the lifetime of intangible assets, property, plant and equipment in every period of annual reporting.

5. RISK MANAGEMENT**5.1 Risk management**

The Bank has set up a comprehensive system for managing risks, which includes the defined risk management strategy, the adopted risk management policies and processes, the defined authorizations and responsibilities for risk management, an efficient and reliable IT system, procedures for unforeseen situations, stress testing.

In its operations, the Bank is exposed to various risks, the most significant of which are:

- credit risk;
- market risk;
- liquidity risk;
- operational risk.

The risk management strategy contains: overview, objectives and criteria of all risks to which the Bank is or may be exposed. Risk management procedures are designed to identify and analyze risks, to define appropriate limits and risk management controls, and to monitor the exposure of the Bank to certain risks. Risk management procedures are subject to regular control aimed at adequately responding to the changes that occur in the market, to products and services.

The Risk Control Department is responsible for monitoring the Bank's exposure to certain risks and harmonization with risk management procedures and defined limits, of which the Board of Directors is informed on a monthly basis. In addition, monitoring the Bank's exposure to credit risk is the responsibility of the Risk Management Division. The Bank also follows the announcements and changes in the legal regulations and analyses the impact of risks to timely comply its operations with regulations.

The Bank tests its sensitivity to certain types of risks at the cumulative basis as well, using multiple types of stress scenarios. Stress scenarios entail assumptions of the changes of market and other factors which may have a significant material impact on the Bank's operations

5.2. Credit risk

In its operations, the Bank endeavors to operate with creditworthy clients to minimize the potential exposure to credit risk, which is the risk that debtors will be unable to settle their debt to the Bank in its entirety and on time. The Bank makes provisions for impairment losses, which pertain to the losses that occur on the balance sheet date. When making the decision on the loans, the Bank takes into consideration the changes in the economy, specifically the condition of certain branches of the economy that constitute a part of the Bank's loan portfolio, which could lead to losses different from the losses for which provisions were made on the balance sheet date.

The Central Bank of Montenegro adopted the Decision on criteria and method of asset classification and calculation of provisions for potential credit losses of credit institutions ("Official Gazette of Montenegro", No. 127/20, 140/21), which applies from January 1, 2022, and which implies the application of International Financial Reporting Standards when valuing and reporting off-balance sheet assets and off-balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

5. RISK MANAGEMENT (continued)

5.2. Credit risk (continued)

In accordance with the Decision, the Bank has determined the Methodology for estimation of impaired balance assets and probable loss under off-balance positions. The Bank consistently applied the Methodology and reviews it at least once per year, and as necessary adjusts it according to review results, and adjusts the assumptions on which the Methodology is based.

Credit risk mitigation entails that risk be maintained at a level acceptable for the Bank, i.e. that the credit portfolio remains acceptable. Credit risk mitigation is carried out by agreeing on adequate collateral for receivables.

5.2.1. Credit Risk Management

Credit risk exposure is a risk of a financial loss that occurs as a consequence of a debtor's inability to meet all agreed liabilities to the Bank. The Bank manages the assumed credit risk by defining limits relative to large loans, individual loan users and related persons. The above risks are continuously monitored and are subject to control which is performed annually or more frequently. All loans above the prescribed limit are approved by the Management.

In accordance with the limits prescribed by the Central Bank of Montenegro, the branch concentration of loans is subject to continued monitoring.

Risk exposure from individual borrowers, including other banks and financial institutions, is further limited by setting a sub-limit relative to balance sheet and off-balance sheet exposure. Actual exposure relative to the defined limits is regularly monitored.

Credit risk exposure is managed through regular analysis of capability of credit users and potential credit users to repay their liabilities. The Bank approves rescheduling of receivables to clients with certain problems in operations, in order to maximize the utilization of the available potential for settling receivables, and to at the same time ensure that the ability of a loan user to orderly service its debt is sustainable.

Commitments and Contingent Liabilities arising from Borrowings

The primary purpose of these instruments is to ensure that assets are available to the client according to requirements. Guarantees and activated letters of credit constitute irrevocable guarantees of the Bank to make payments in case the client is unable to fulfil its liabilities to third parties, and therefore have the same credit risk as loans. Documentary and commercial letters of credit which constitute a written statement of the obligation of the Bank assumed on behalf of a client, which authorizes a third party to draw bills of exchange from the Bank up to the amount agreed by special requirements, are secured by the basic delivery of the goods to which they refer, and therefore carry less risk than direct borrowing.

5.2.2. Provisions – impairment based on losses

As at the date of preparing the financial statements, the Bank estimates whether there are any indicators of impairment of a financial asset or group of financial assets, in accordance with the requirements of IFRS 9. The indicators used by the Bank to identify a significant increase in credit risk, in accordance with IFRS 9, based on which it classifies assets as Stage 1, 2 or 3, are:

- change in the probability of status of default, i.e. PD during the lifetime of the exposure exceeds the PD during its lifetime at initial recognition by over 200%;
- the absolute level of PD, i.e. 12-month PD of the exposure at the reporting date exceeds 20%;
- delay in the payment of interest or principal;
- rescheduling of the credit and/or NPL status;
- watch list

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

5. RISK MANAGEMENT (continued)

5.2. Credit Risk (continued)

5.2.2. Provisions – impairment based on losses (continued)

- status of default at the level of a group of related persons;
- and a set of additional criteria which may indicate financial difficulties in the operations of legal persons.

In accordance with the adopted methodology, the Bank estimates whether there is objective evidence of impairment, individually for financial assets that are individually significant. The calculation of the present value of estimated future cash flows of a secured financial asset reflects cash flows that may be the result of exclusion reduced by the costs of acquisition and sale of collateral, regardless of whether the exclusion is probable or not.

For the purpose of joint assessment of impairment, financial assets that are not individually significant are grouped based on similar characteristics of credit risk.

5.2.3. Maximum Credit Risk Exposure at Balance Sheet and Off Balance Sheet Items

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

TOTAL EXPOSURE TO CREDIT RISK

(In thousand EUR)

	December 31, 2023		December 31, 2022	
	Gross	Net	Gross	Net
I. Overview of assets				
Cash and deposit accounts with central banks	224,223	224,223	328,197	328,197
<i>Financial assets at amortized value</i>				
- Loans and receivables from Banks	77,529	77,265	34,170	34,019
- Loans and receivables from clients	266,107	248,411	252,474	236,812
- Securities	349,694	345,861	205,166	200,539
- Other financial assets	2,762	2,762	2,021	2,021
<i>Financial assets at fair value through other comprehensive income</i>				
- Securities	6,368	6,368	5,875	5,875
- <i>Financial assets held for trading</i>				
- Securities	-	-	-	-
Other assets	2,581	2,429	2,386	2,061
	929,264	907,319	830,289	809,524
II. Off-balance sheet items				
Payable guarantees	37,496	37,469	28,293	28,119
Performance bonds	17,318	17,311	15,595	15,516
Irrevocable commitments	41,121	40,761	34,846	34,441
Other	18,622	18,616	16,181	16,150
	114,557	114,157	94,915	94,226
Total (I+II)	1,049,057	1,024,084	925,204	903,750

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023**5. RISK MANAGEMENT (continued)****5.2. Credit Risk (continued)****5.2.3. Maximum Credit Risk Exposure at Balance Sheet and Off Balance Sheet Items (continued)**

Exposure to credit risk is controlled by obtaining collateral instruments and guarantees of legal and individuals.

Prior to the approval of loans and other credits, the Bank assesses the debtor's creditworthiness, taking account of the criteria it defined in an internal document, along with the legal validity and the estimated value of collateral.

The value of collateral is calculated as its net value, which means its market value less all costs pertaining to the activation of collateral.

Types of collateral are:

- deposits;
- right of pledge on industrial machines, securities, inventories and vehicles;
- mortgages on property and fiduciary transfer of ownership;
- bills of exchange;
- authorizations;
- garnishments;
- guarantors;
- insurance policies;
- guarantees

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.4. Quality of Financial Placements

The quality of financial assets exposed to credit risk is presented as follows:

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANISATIONS

December 31, 2023	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total Impairment	In thousand EUR	
									Net	Impairment
Housing	15,739	2,866	414	19,019	(79)	(75)	(123)	(277)	18,742	
Cash	42,074	5,889	3,257	51,220	(432)	(282)	(1,938)	(2,652)	48,568	
Purchase of vehicles	4,453	498	54	5,005	(58)	(14)	(12)	(84)	4,921	
Refurbishment of residential or commercial buildings	7,389	1,377	104	8,870	(81)	(33)	(76)	(190)	8,680	
Other	28,199	8,563	2,110	38,872	(340)	(1,377)	(1,005)	(2,722)	36,150	
Total retail	97,854	19,193	5,939	122,986	(990)	(1,781)	(3,154)	(5,925)	117,061	
Large enterprises	15,408	9,539	1,575	26,522	(148)	(307)	(521)	(976)	25,546	
Medium-sized enterprises	5,335	16,832	6,595	28,762	(29)	(1,045)	(1,542)	(2,616)	26,146	
Small-sized enterprises	30,912	48,139	8,786	87,837	(311)	(3,091)	(4,777)	(8,179)	79,658	
State	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	
Corporate customers	51,655	74,510	16,956	143,121	(488)	(4,443)	(6,840)	(11,771)	131,350	
Total	149,509	93,703	22,895	266,107	(1,478)	(6,224)	(9,994)	(17,696)	248,411	
Banks	77,529	-	-	77,529	(264)	-	-	(264)	77,265	
State	222,557	-	1,271	223,828	(668)	-	(1,221)	(2,089)	221,739	
Corporate	63,746	2,083	1,401	67,230	(347)	(665)	(725)	(1,737)	65,493	
Supranational	58,636	-	-	58,636	(7)	-	-	(7)	58,629	
Securities	344,939	2,083	2,672	349,694	(1,222)	(665)	(1,946)	(3,833)	345,861	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.5. Quality of Financial Placements

The quality of financial assets exposed to credit risk is presented as follows:

LOANS AND RECEIVABLES FROM CLIENTS, BANKS AND OTHER FINANCIAL ORGANISATIONS

December 31, 2023	S1	S2	S3	Total	Impairment S1	Impairment S2	Impairment S3	Total Impairment	In thousand EUR	
									Net	Impairment
Housing	10,508	2,365	194	13,067	(64)	(40)	(12)	(116)	12,951	
Cash	50,422	7,349	3,897	61,668	(730)	(521)	(2,697)	(3,948)	57,720	
Purchase of vehicles	2,022	128	60	2,210	(31)	(5)	(21)	(57)	2,153	
Refurbishment of residential or commercial buildings	4,234	770	69	5,073	(50)	(32)	(59)	(141)	4,932	
Other	21,517	9,431	2,067	33,015	(334)	(1,052)	(844)	(2,230)	30,785	
Total retail	88,703	20,043	6,287	115,033	(1,209)	(1,650)	(3,633)	(6,492)	108,541	
Large enterprises	19,533	7,381	1,784	28,698	(416)	(336)	(550)	(1,302)	27,396	
Medium-sized enterprises	9,458	19,790	2,830	32,078	(380)	(1,475)	(453)	(2,308)	29,770	
Small-sized enterprises	28,122	41,338	7,205	76,665	(371)	(1,954)	(3,235)	(5,560)	71,105	
State	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	
Corporate customers	57,113	68,509	11,819	137,441	(1,167)	(3,765)	(4,238)	(9,170)	128,271	
Total	145,816	88,552	18,106	252,474	(2,376)	(5,415)	(7,871)	(15,662)	236,812	
Banks	34,170	-	-	34,170	(151)	-	-	(151)	34,019	
State	146,085	208	1,072	147,365	(761)	(43)	(708)	(1,512)	145,853	
Corporate	46,975	4,665	598	52,238	(1,067)	(1,915)	(131)	(3,113)	49,125	
Supranational	5,564	-	-	5,564	(3)	-	-	(3)	5,561	
Securities	198,624	4,873	1,670	205,167	(1,831)	(1,958)	(839)	(4,628)	200,539	

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.4. Quality of Financial Placements (continued)

Receivables from clients at Stage 1 are presented below:

RECEIVABLES FROM CLIENTS AT STAGE 1						In thousand EUR
December 31, 2023	Not in delay	Delay up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	
Housing	15,739	-	-	-	15,739	
Cash	41,921	153	-	-	42,074	
Purchase of vehicles	4,453	-	-	-	4,453	
Refurbishment of residential or commercial buildings	7,376	13	-	-	7,389	
Other	27,779	420	-	-	28,199	
Total retail	97,268	586	-	-	97,854	
Large enterprises	15,408	-	-	-	15,408	
Medium-sized enterprises	5,335	-	-	-	5,335	
Small-sized enterprises	30,911	1	-	-	30,912	
State	-	-	-	-	-	
Other	-	-	-	-	-	
Corporate customers	51,654	1	-	-	51,655	
Total	148,922	587	-	-	149,509	
of which: restructured	-	-	-	-	-	
Receivables from banks	77,529	-	-	-	77,529	

						In thousand EUR
December 31, 2022	Not in delay	Delay up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	
Housing	10,508	-	-	-	10,508	
Cash	49,987	435	-	-	50,422	
Purchase of vehicles	2,022	-	-	-	2,022	
Refurbishment of residential or commercial buildings	4,234	-	-	-	4,234	
Other	21,139	378	-	-	21,517	
Total retail	87,890	813	-	-	88,703	
Large enterprises	19,533	-	-	-	19,533	
Medium-sized enterprises	9,458	-	-	-	9,458	
Small-sized enterprises	28,041	81	-	-	28,122	
State	-	-	-	-	-	
Other	-	-	-	-	-	
Corporate customers	57,032	81	-	-	57,113	
Total	144,922	894	-	-	145,816	
of which: restructured	-	-	-	-	-	
Receivables from banks	34,170	-	-	-	34,170	

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)**5.2. Risk Management (continued)****5.2.4. Quality of Financial Placements (continued)**

Receivables from clients at Stage 2 are presented below:

**RECEIVABLES FROM
CLIENTS AT STAGE 2**

In thousand EUR

<u>December 31, 2023</u>	<u>Not in delay</u>	<u>Delay up to 30 days</u>	<u>From 31 to 60 days</u>	<u>From 61 to 90 days</u>	<u>Over 90 days</u>	<u>Total</u>
Housing	2,502	-	88	276	-	2,866
Cash	5,183	75	381	250	-	5,889
Purchase of vehicles	429	-	69	-	-	498
Refurbishment of residential or commercial buildings	1,346	-	31	-	-	1,377
Other	8,184	189	136	54	-	8,563
Total retail	17,644	264	705	580	-	19,193
Large enterprises	9,539	-	-	-	-	9,539
Medium-sized enterprises	16,831	-	-	1	-	16,832
Small-sized enterprises	47,799	5	39	296	-	48,139
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate customers	74,169	5	39	297	-	74,510
Total	91,813	269	744	877	-	93,703
of which: restructured	6,480	-	21	-	-	6,501
Receivables from banks	-	-	-	-	-	-

In thousand EUR

<u>December 31, 2022</u>	<u>Not in delay</u>	<u>Delay up to 30 days</u>	<u>From 31 to 60 days</u>	<u>From 61 to 90 days</u>	<u>Over 90 days</u>	<u>Total</u>
Housing	2,098	236	31	-	-	2,365
Cash	5,266	1,604	429	50	-	7,349
Purchase of vehicles	124	4	-	-	-	128
Refurbishment of residential or commercial buildings	735	35	-	-	-	770
Other	8,467	583	365	16	-	9,431
Total retail	16,690	2,462	825	66	-	20,043
Large enterprises	7,381	-	-	-	-	7,381
Medium-sized enterprises	19,790	-	-	-	-	19,790
Small-sized enterprises	40,903	56	379	-	-	41,338
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate customers	68,074	56	379	-	-	68,509
Total	84,764	2,518	1,204	66	-	88,552
of which: restructured	5,339	-	83	-	-	5,422
Receivables from banks	-	-	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.5. Quality of Financial Placements (continued)

Receivables from clients at Stage 3 are presented below:

**RECEIVABLES FROM
CLIENTS AT STAGE 3**

December 31, 2023	In thousand EUR					Total
	Not in delay	Delay up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	
Housing	168	-	3	-	243	414
Cash	633	7	56	24	2.537	3.257
Purchase of vehicles	28	-	4	-	22	54
Refurbishment of residential or commercial buildings	6	-	-	-	98	104
Other	426	13	560	22	1.089	2.110
Total retail	1.261	20	623	46	3.989	5.939
Large enterprises	1.575	-	-	-	-	1.575
Medium-sized enterprises	5.216	1.379	-	-	-	6.595
Small-sized enterprises	3.902	53	33	29	4.769	8.786
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate customers	10.693	1.432	33	29	4.769	16.956
Total	11.954	1.452	656	75	8.758	22.895
of which: restructured	1.286	-	12	-	2.569	3.867
Receivables from banks	-	-	-	-	-	-

December 31, 2022	In thousand EUR					Total
	Not in delay	Delay up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	
Housing	190	4	-	-	-	194
Cash	659	204	152	2	2,880	3,897
Purchase of vehicles	38	1	-	-	21	60
Refurbishment of residential or commercial buildings	3	-	-	-	66	69
Other	652	301	10	4	1,100	2,067
Total retail	1,542	510	162	6	4,067	6,287
Large enterprises	1,784	-	-	-	-	1,784
Medium-sized enterprises	1,640	-	-	-	1,190	2,830
Small-sized enterprises	2,630	237	831	236	3,271	7,205
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate customers	6,054	237	831	236	4,461	11,819
Total	7,596	747	993	242	8,528	18,106
of which: restructured	586	-	448	-	481	1,515
Receivables from banks	-	-	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)
5.2. Risk Management (continued)

5.2.4. Quality of Financial Placements (continued)

Receivables from clients at Stage 3 are presented below:
RECEIVABLES FROM
CLIENTS AT STAGE 3

December 31, 2023	Gross exposure	Impairment	S 3 receivables	Restructured S 3 receivables	Impairment S 3	Share of S3 receivables in gross exposure	Amount of collateral for S3
Retail	122,986	(5,925)	5,939	25	(3,154)	4.83%	9,829
Housing	19,019	(277)	414	-	(123)	2.18%	76
Cash	51,220	(2,652)	3,257	-	(1,938)	6.36%	6,876
Purchase of vehicles	5,005	(84)	54	-	(12)	1.08%	74
Refurbishment of residential or commercial buildings	8,870	(190)	104	-	(76)	1.17%	232
Other	38,872	(2,722)	2,110	25	(1,005)	5.43%	2,571
Corporate clients	143,121	(11,771)	16,956	3,850	(6,840)	11.85%	51,660
Agriculture	4,117	(549)	1,575	-	(520)	38.26%	2,105
Processing industry	9,796	(1,134)	990	330	(682)	10.11%	1,857
Electricity	5,424	(966)	4,111	-	(751)	75.79%	3,620
Construction	22,402	(2,823)	3,779	3,200	(1,825)	16.87%	18,933
Wholesale and retail trade	46,408	(2,067)	1,254	296	(933)	2.70%	7,459
Services	966	(7)	26	24	(1)	2.69%	1,013
Real estate activities	2,138	(101)	-	-	-	0.00%	-
Other	51,870	(4,124)	5,221	-	(2,128)	10.07%	16,673
Total	266,107	(17,696)	22,895	3,875	(9,994)	8.60%	61,489
Receivables from banks	77,529	(264)	-	-	-	0.00%	-
State	223,828	(2,089)	1,271	-	(1,221)	0.57%	-
Corporate	67,230	(1,737)	1,401	-	(725)	2.08%	-
Supranational	58,636	(7)	-	-	-	0.00%	-
Securities	349,694	(3,833)	2,672	-	(1,946)	0.76%	-

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)
5.2. Risk Management (continued)

5.2.5. Quality of Financial Placements (continued)

Receivables from clients at Stage 3 are presented below:

December 31, 2022	Gross exposure	Impairment	S 3 receivables	Restructured S 3 receivables	Impairment S 3	Share of S3 receivables in gross exposure	Amount of collateral for S3
Retail	115,033	(6,492)	6,287	103	(3,633)	5.47%	12,466
Housing	13,067	(116)	194	4	(12)	1.48%	653
Cash	61,668	(3,948)	3,897	-	(2,697)	6.32%	5,006
Purchase of vehicles	2,210	(57)	60	-	(21)	2.71%	65
Refurbishment of residential or commercial buildings	5,073	(141)	69	-	(59)	1.36%	189
Other	33,015	(2,230)	2,067	99	(844)	6.26%	6,553
Corporate clients	137,441	(9,170)	11,819	1,412	(4,238)	8.60%	43,139
Agriculture	2,507	(552)	1,832	-	(550)	73.08%	2,738
Processing industry	4,765	(544)	937	448	(474)	19.66%	8,587
Electricity	6,520	(461)	-	-	-	0.00%	-
Construction	23,809	(2,046)	2,790	18	(826)	11.72%	10,837
Wholesale and retail trade	48,616	(2,682)	2,374	307	(1,144)	4.88%	5,375
Services	695	(2)	37	20	-	5.32%	243
Real estate activities	7,195	(490)	23	-	(23)	0.32%	838
Other	43,334	(2,393)	3,826	619	(1,221)	8.83%	14,521
Total	252,474	(15,662)	18,106	1,515	(7,871)	7.17%	55,605
Receivables from banks	34,170	(151)	-	-	-	0.00%	-
State	147,365	(1,512)	1,072	-	(708)	0.73%	-
Corporate	52,238	(3,113)	598	-	(131)	1.14%	-
Supranational	5,564	(3)	-	-	-	0.00%	-
Securities	205,167	(4,628)	1,670	-	(839)	0.81%	-

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.4. Quality of Financial Placements (continued)

The tables below show changes in Stage 3, i.e. problematic receivables:

CHANGES OF S3 RECEIVABLES						In thousand EUR
	Gross December 31, 2022	New S3 clients	Reduction in existing S3 clients	Increase in existing S3 clients	Closed S3 clients	Gross December 31, 2023
Housing	194	262	(30)	-	(12)	414
Cash	3,897	1,091	(275)	85	(1,541)	3,257
Purchase of vehicles	60	29	(12)	-	(23)	54
Refurbishment of residential or commercial buildings	69	36	(5)	4	-	104
Other	2,067	1,021	(357)	22	(643)	2,110
Retail	6,287	2,439	(679)	111	(2,219)	5,939
Large enterprises	1,784	-	(209)	-	-	1,575
Medium-sized enterprises	2,830	6,576	(2)	11	(2,820)	6,595
Small-sized enterprises	7,205	4,994	(810)	128	(2,731)	8,786
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients	11,819	11,570	(1,021)	139	(5,551)	16,956
Total	18,106	14,009	(1,700)	250	(7,770)	22,895
Receivables from banks	-	-	-	-	-	-
State	1,072	217	(18)	-	-	1,271
Corporate	598	1,012	(12)	-	(197)	1,401
Supranational	-	-	-	-	-	-
Securities	1,670	1,229	(30)	-	(197)	2,672

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.5. Quality of Financial Placements (continued)

The tables below show changes in Stage 3, i.e. impairment of the problematic receivables:

**CHANGES OF S3
IMPAIRMENT**

	In thousand EUR					
	Gross December 31, 2022	New S3 clients	Reduction in existing S3 clients	Increase in existing S3 clients	Closed S3 clients	Gross December 31, 2023
Housing	(12)	(101)	3	(14)	1	(123)
Cash	(2,697)	(317)	109	(230)	1,197	(1,938)
Purchase of vehicles	(21)	(5)	1	(1)	14	(12)
Refurbishment of residential or commercial buildings	(59)	(8)	-	(9)	-	(76)
Other	(844)	(229)	160	(241)	149	(1,005)
Retail	(3,633)	(660)	273	(495)	1,361	(3,154)
Large enterprises	(550)	-	29	-	-	(521)
Medium-sized enterprises	(453)	(1,536)	-	(5)	452	(1,542)
Small-sized enterprises	(3,235)	(2,087)	125	(544)	964	(4,777)
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients	(4,238)	(3,623)	154	(549)	1,416	(6,840)
Total	(7,871)	(4,283)	427	(1,044)	2,777	(9,994)
Receivables from banks	-	-	-	-	-	-
State	(708)	(205)	-	(308)	-	(1,221)
Corporate	(131)	(353)	-	(273)	32	(725)
Supranational	-	-	-	-	-	-
Securities	(839)	(558)	-	(581)	32	(1,946)

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)
5.2. Risk Management (continued)
5.2.4. Quality of Financial Placements (continued)
5.2.4.1. Restructures loans and placements

The tables below give an overview of restructured receivables:

December 31, 2023	Restructures receivables - Gross	S 1 restructured receivables -	S2 restructured receivables -	S3 restructured receivables -	Impairment of restructured receivables	Impairment of S1 restructured receivables	Impairment of S2 restructured receivables	Impairment of S3 restructured receivables	Share of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail	3,690	-	3,665	25	1,128	-	1,108	20	3.00%	428
Housing	2	-	2	-	-	-	-	-	0.01%	85
Cash	35	-	35	-	1	-	1	-	0.07%	-
Purchase of vehicles	-	-	-	-	-	-	-	-	0.00%	-
Refurbishment of residential or commercial buildings	-	-	-	-	-	-	-	-	-	-
Other	3,653	-	3,628	25	1,127	-	1,107	20	0.00%	-
Corporate clients	6,678	-	2,836	3,842	2,652	-	576	2,076	4.67%	343
Agriculture	-	-	-	-	-	-	-	-	0.00%	6,253
Processing industry	380	-	50	330	252	-	-	252	3.88%	402
Electricity	-	-	-	-	-	-	-	-	0.00%	-
Construction	3,661	-	460	3,201	1,593	-	50	1,543	16.34%	3,029
Wholesale and retail trade	313	-	17	296	282	-	1	281	0.67%	283
Services	15	-	-	15	-	-	-	-	1.55%	86
Real estate activities	-	-	-	-	-	-	-	-	0.00%	-
Other	2,309	-	2,309	-	525	-	525	-	4.45%	2,453
Total	10,368	-	6,501	3,867	3,780	-	1,684	2,096	3.90%	6,681
Receivables from Banks	-	-	-	-	-	-	-	-	0.00%	-

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.5. Quality of Financial Placements (continued)

5.2.4.2. Restructures loans and placements (continued)

December 31, 2022	Restructures receivables - Gross	S 1 restructured receivables -	S2 restructured receivables -	S3 restructured receivables -	Impairment of restructured receivables	Impairment of S1 restructured receivables	Impairment of S2 restructured receivables	Impairment of S3 restructured receivables	Share of restructured receivables in gross exposure	Amount of collateral for restructured receivables
Retail	1,160	-	1,057	103	133	-	100	33	1.01%	2,068
Housing	4	-	-	4	1	-	-	1	0.03%	-
Cash	48	-	48	-	1	-	1	-	0.08%	118
Purchase of vehicles	-	-	-	-	-	-	-	-	-	-
Refurbishment of residential or commercial buildings	-	-	-	-	-	-	-	-	0.00%	1,950
Other	1,108	-	1,009	99	131	-	99	32	0.00%	-
Corporate clients	5,777	-	4,365	1,412	931	-	346	585	3.36%	-
Agriculture	-	-	-	-	-	-	-	-	4.20%	27,085
Processing industry	526	-	78	448	135	-	-	135	0.00%	-
Electricity	-	-	-	-	-	-	-	-	11.04%	2,106
Construction	3,625	-	3,607	18	303	-	303	-	0.00%	-
Wholesale and retail trade	420	-	113	307	276	-	2	274	15.23%	20,160
Services	20	-	-	20	-	-	-	-	0.86%	1,547
Real estate activities	-	-	-	-	-	-	-	-	2.88%	140
Other	1,186	-	567	619	217	-	41	176	0.00%	-
Total	6,937	-	5,422	1,515	1,064	-	446	618	2.74%	3,132
Receivables from Banks	-	-	-	-	-	-	-	-	2.75%	29,153
									0.00%	-

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.4. Quality of Financial Placements (continued)

5.2.4.1. Restructures loans and placements (continued)

The tables below show an overview of restructured receivables:

CHANGES OF RESTRICTURED S2 RECEIVABLES

	Gross December 31, 2022	New restructured S2 receivables	Reduction in restructured S2 receivables	Exchange rate effect	Other changes	Gross December 31, 2023	Net December 31, 2023
Housing	-	-	2	-	-	2	2
Cash	48	(48)	35	-	-	35	34
Purchase of vehicles	-	-	-	-	-	-	-
Refurbishment of residential or commercial buildings	-	-	-	-	-	-	-
Other	1,009	2,311	308	-	-	3,628	2,521
Retail	1,057	2,263	345	-	-	3,665	2,557
Large companies	300	(300)	-	-	-	-	-
Medium companies	35	299	(20)	-	-	314	253
Small enterprises	4,030	1,808	(3,316)	-	-	2,522	2,007
Government	-	-	-	-	-	-	-
Other	-	3,318	(3,318)	-	-	-	-
Corporate clients	4,365	5,125	(6,654)	-	-	2,836	2,260
Total	5,422	7,388	(6,309)	-	-	6,501	4,817
Receivables from banks	-	-	-	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)
5.2. Risk Management (continued)
5.2.5. Quality of Financial Placements (continued)
5.2.4.2. Restructures loans and placements (continued)

The tables below show an overview of restructured receivables:

CHANGES OF RESTRUCTURED S3RECEIVABLES

	Gross December 31, 2022	New restructured S3 receivables	Reduction in restructured S3 receivables	Exchange rate effect	Other changes	Gross December 31, 2023	Net December 31, 2023
Housing	4	(4)	-	-	-	-	-
Cash	-	-	-	-	-	-	-
Purchase of vehicles	-	-	-	-	-	-	-
Refurbishment of residential or commercial buildings	-	-	-	-	-	-	-
Other	99	(99)	25	-	-	25	5
Retail	103	(103)	25	-	-	25	5
Large companies	-	-	-	-	-	-	-
Medium companies	459	1,104	(459)	-	-	1,104	874
Small enterprises	953	5	1,780	-	-	2,738	892
Government	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Corporate clients	1,412	1,109	1,321	-	-	3,842	1,766
Total	1,515	1,006	1,346	-	-	3,867	1,771
Receivables from banks	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)
5.2. Risk Management (continued)
5.2.4. Quality of Financial Placements (continued)

5.2.4.2. Loans and receivables from clients covered by collateral

December 31, 2023	S 1 clients					S 2 clients					S 3 clients				
	Property	Deposits	Guarantees	Other collateral	Total	Property	Deposits	Guarantees	Other collateral	Total	Property	Deposits	Guarantees	Other collateral	Total
Residential property	10,534	319	-	4,885	15,739	1,555	165	-	1,146	2,866	350	-	-	414	3,670
Cash	1,708	726	-	39,640	42,074	1,887	144	-	3,859	5,889	762	18	2,477	3,257	
Purchase of vehicles	195	120	-	4,138	4,453	46	28	-	424	498	12	-	42	54	
Adaptation of residential or commercial property	1,781	125	-	5,483	7,389	709	17	-	651	1,377	18	-	86	104	
Other	3,781	562	-	23,856	28,199	1,217	449	-	6,897	8,563	540	13	1,557	2,110	
Retail	18,000	1,852	-	78,001	97,854	5,414	803	-	12,976	19,193	1,682	31	4,226	5,939	
Large companies	116	4	-	15,288	15,408	1,714	-	-	7,824	9,539	1,575	-	-	1,575	
Medium companies	1,838	-	-	3,496	5,335	12,514	-	-	4,318	16,832	5,663	-	932	6,595	
Small enterprises	12,445	251	-	18,216	30,912	25,113	389	22,637	-	48,139	1,903	100	6,783	8,786	
State	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Corporate clients	14,399	255	-	37,000	51,655	39,341	389	22,637	12,142	74,510	9,142	100	7,715	16,956	
Total	32,399	2,108	-	115,002	149,509	44,755	1,192	22,637	25,118	93,703	10,824	131	11,941	22,895	
Receivables from Banks	-	-	-	77,529	77,529	-	-	-	-	-	-	-	-	-	

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.4. Quality of Financial Placements (continued)

5.2.4.2. Loans and receivables from clients covered by collateral (continued)

December 31, 2022	S 1 clients					S 2 clients					S 3 clients				
	Property	Deposits	Guarantees	Other collateral	Total	Property	Deposits	Guarantees	Other collateral	Total	Property	Deposits	Guarantees	Other collateral	
Residential	8,586	273	-	1,649	10,508	1,674	220	471	2,365	4,670	179	-	15	194	
Cash	4,459	858	-	45,105	50,422	1,555	559	5,235	7,349	7,349	798	22	3,077	3,897	
Purchase of vehicles	155	70	-	1,797	2,022	-	17	111	128	128	18	-	42	60	
Adaptation of residential or commercial property	1,773	99	-	2,362	4,234	471	-	299	770	4,234	52	-	17	69	
Other	5,963	509	-	15,045	21,517	2,336	435	6,660	9,431	21,517	1,552	21	494	2,067	
Retail	20,936	1,809	-	65,958	88,703	6,036	1,231	12,776	20,043	88,703	2,599	43	3,645	6,287	
Large companies	4,747	3	-	14,763	19,533	6,322	-	1,059	7,381	19,533	1,784	-	-	1,784	
Medium companies	8,274	-	-	1,184	9,458	18,807	98	885	19,790	9,458	2,797	-	33	2,830	
Small enterprises	20,625	327	440	6,730	28,122	34,849	1,502	4,987	41,338	28,122	5,308	6	1,891	7,205	
State	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Corporate clients	33,646	330	440	22,697	57,113	59,978	1,600	6,931	68,509	57,113	9,889	6	1,924	11,819	
Total	54,582	2,139	440	88,655	145,816	66,014	2,831	19,707	88,552	145,816	12,488	49	5,569	18,106	
Receivables from Banks	-	-	-	34,170	34,170	-	-	-	-	34,170	-	-	-	-	

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.4. Quality of Financial Placements (continued)

5.2.4.2. Loans and receivables from clients covered by collateral (continued)

Fair value of collateral

	<u>December 31, 2023</u>	<u>In thousand EUR December 31, 2022</u>
Deposits	13,690	18,238
Pledge	35,554	32,869
Mortgages and fiduciaries	447,261	420,647
Policies	13,033	12,075
Guarantees	738	791
Total	<u>510,276</u>	<u>484,620</u>

		<u>In thousand EUR December 31, 2022</u>
Due but assessed as a group	<u>December 31, 2023</u>	
Deposits	13,235	17,466
Pledge	28,283	27,349
Mortgages and fiduciaries	314,805	258,210
Policies	13,033	12,070
Guarantees	738	791
	<u>370,094</u>	<u>315,886</u>

		<u>In thousand EUR December 31, 2022</u>
Individually assessed	<u>December 31, 2023</u>	
Deposits	772	772
Pledge	7,271	5,520
Mortgages and fiduciaries	132,456	162,437
Policies	-	5
Guarantees	-	-
Total	<u>140,182</u>	<u>168,734</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (continued)
5.2. Risk Management (continued)
5.2.4. Quality of Financial Placements (continued)
5.2.4.2. Geographic concentration

The geographic concentration of the Bank's exposure to credit risk is presented in the following table:

December 31, 2023	Receivables from S1 and S2 clients			Receivables from S3 clients				
	Montenegro	European Union	USA and Canada	Other countries	Montenegro	European Union	USA and Canada	Other countries
Retail clients	105,880	4,149	3,215	3,803	5,912	-	-	27
Residential	12,946	497	2,893	2,269	414	-	-	-
Cash	46,580	6	322	1,055	3,232	-	-	25
Purchase of vehicles	4,937	-	-	14	54	-	-	-
Adaptation of residential or commercial property	8,726	11	-	29	104	-	-	-
	32,691	3,635	-	436	2,108	-	-	2
Corporate clients	126,165	-	-	-	15,431	1,525	-	-
Agriculture	2,542	-	-	-	1,575	-	-	-
Manufacturing	8,805	-	-	-	990	-	-	-
Electricity	1,313	-	-	-	4,111	-	-	-
Construction	18,623	-	-	-	3,779	-	-	-
Wholesale and retail trade	45,155	-	-	-	1,254	-	-	-
Services	940	-	-	-	26	-	-	-
Real estate activities	2,138	-	-	-	-	-	-	-
Other	46,649	-	-	-	3,696	1,525	-	-
Total	232,045	4,149	3,215	3,803	21,343	1,525	-	27
Receivables from banks	8,003	65,523	-	4,003	-	-	-	-
State	118,541	85,368	-	18,648	-	-	-	1,271
Corporate	100	64,582	520	6,994	-	-	-	1,401
Supranational	-	58,637	-	-	-	-	-	-
Securities	118,641	208,587	520	25,642	-	-	-	2,672

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

HIPOTEKARNA BANKA A.D., PODGORICA

5. **RISK MANAGEMENT (continued)**
5.2. **Risk Management (continued)**
5.2.5. **Quality of Financial Placements (continued)**
5.2.4.3. **Geographic concentration**

The geographic concentration of the Bank's exposure to credit risk is presented in the following table:

	Receivables from S1 and S2 clients			Receivables from S3 clients		
	Montenegro	European Union	USA and Canada	Montenegro	European Union	USA and Canada
December 31, 2022						
Retail clients	98,824	5,037	357	6,261	-	26
Residential	9,784	569	-	194	-	-
Cash	56,052	12	357	3,880	-	17
Purchase of vehicles	2,142	-	-	60	-	-
Adaptation of residential or commercial property	4,969	-	-	69	-	-
	25,877	4,456	-	2,058	-	9
Corporate clients	125,622	-	-	11,819	-	-
Agriculture	676	-	-	1,832	-	-
Manufacturing	3,828	-	-	937	-	-
Electricity	6,520	-	-	-	-	-
Construction	21,019	-	-	2,790	-	-
Wholesale and retail trade	46,242	-	-	2,374	-	-
Services	658	-	-	37	-	-
Real estate activities	7,171	-	-	23	-	-
Other	39,508	-	-	3,826	-	-
Total	224,446	5,037	357	18,080	-	26
Receivables from banks	6,500	22,568	-	-	-	-
State	97,895	35,995	-	-	-	1,072
Corporate	103	48,514	524	-	-	598
Supranational	-	5,563	-	-	-	-
Securities	97,998	90,072	524	-	-	1,670

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (continued)
5.2. Risk Management (continued)
5.2.4. Quality of Financial Placements (continued)
5.2.4.3. Industrial concentration

Concentration by activities through which the Bank is exposed to credit risk, with a deduction for impairment, is presented in the following table:

	Finance	Transport and Telecommunications	Food and accommodation services	Wholesale and retail trade, repair of motor vehicles and motorcycles	Construction	Energy	Extraction of ore and rock	Administration and auxiliary services	Real estate trade	Agriculture, Forestry and fishing	Production	Other	Individuals	Total
Financial assets at amortized value	77,265	-	-	-	-	-	-	-	-	-	-	-	-	77,265
Loans and receivables from Banks	5,469	8,338	18,166	44,341	19,578	4,458	4,602	2,288	2,037	3,568	8,662	9,843	117,061	248,411
Loans and receivables from clients	7,157	1,004	-	-	-	-	-	-	-	-	1,120	336,580	-	345,861
Securities Financial assets at fair value through other comprehensive income	-	105	35	65	-	-	-	-	-	-	-	6,163	-	6,368
Securities Financial assets held for trading	-	-	-	-	-	-	-	-	-	-	-	-	-	-
December 31, 2023	89,891	9,447	18,201	44,406	19,578	4,458	4,602	2,288	2,037	3,568	9,782	352,586	117,061	677,905
December 31, 2022	41,209	2,098	17,320	46,002	21,763	6,059	4,692	983	6,705	1,955	5,779	214,138	108,542	477,245

In thousand EUR

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5. RISK MANAGEMENT (continued)

5.2. Risk Management (continued)

5.2.4. Quality of Financial Placements (continued)

5.2.4.4. Off balance Sheet

The maturity of off-balance sheet items by which the Bank is exposed to credit risk is s follows:

	In thousand EUR			
	Undrawn credit lines	Guarantees	Letters of credit	Total
31 December 2023				
Up to 1 year	36,746	54,804	83	91,633
1 to 5 years	3,326	18,540	-	21,866
Over 5 years	1,049	9	-	1,058
	<u>41,121</u>	<u>73,353</u>	<u>83</u>	<u>114,557</u>

	In thousand EUR			
	Undrawn credit lines	Guarantees	Letters of credit	Total
31 December 2022				
Up to 1 year	32,671	46,814	286	79,771
1 to 5 years	1,872	12,960	-	14,832
Over 5 years	303	9	-	312
	<u>34,846</u>	<u>59,783</u>	<u>286</u>	<u>94,915</u>

5.2. Market risk

The Bank je exposed to market risks. Market risks occur in the case of open positions, due to changes in interest rates and the exchange rate. Limits for exposure to market risks are prescribed internally and in line with the limits prescribed by the Central Bank of Montenegro.

5.3.1. Foreign exchange risk

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

5. RISK MANAGEMENT (continued)

5.3. Market Risk (continued)

5.3.1. Foreign exchange risk (continued)

Exposure to the interest rate risk as at 31 December 2023 is presented in the following table:

In thousand EUR	<u>USD</u>	<u>GBP</u>	<u>CHF</u>	<u>Other</u>	<u>Total</u>
Foreign currency assets	32,181	1,337	3,990	86	37,594
Foreign currency liabilities	<u>31,594</u>	<u>1,370</u>	<u>3,983</u>	<u>40</u>	<u>36,987</u>
Net open position:					
- December 31, 2023	<u>587</u>	<u>(33)</u>	<u>7</u>	<u>46</u>	<u>607</u>
- December 31, 2022	<u>215</u>	<u>9</u>	<u>9</u>	<u>21</u>	<u>254</u>
% core capital:					
- December 31, 2023	<u>1%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	
- December 31, 2022	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	
Aggregate open: position:					
- December 31, 2023	607				
- December 31, 2022	254				
% core capital:					
- December 31, 2023	1.19%				
- December 31, 2022	0.53%				

5. RISK MANAGEMENT (continued)
5.3. Market Risk (continued)
5.3.1. Foreign exchange risk (continued)

The following table shows the scenario of exchange rate change in the range from +10% to -10% relative to the EUR.

Sensitivity analyzes (foreign exchange risk)

	Total	2023 Amount at Foreign currency	In thousand EUR	
			Change in exchange rate	
			10%	-10%
Assets				
Cash and deposits held with central banks	224,223	3,243	324	(324)
<i>Financial assets at amortized value</i>				
Loans and placements from banks	77,265	15,725	1,573	(1,573)
Loans and placements from clients	248,411	498	50	(50)
Securities	345,861	16,548	1,655	(1,655)
Other financial assets	2,762	1,580	158	(158)
<i>Financial assets at fair value through other comprehensive income</i>				
Securities	6,368	-	-	-
<i>Financial assets held for trading</i>				
Securities	-	-	-	-
Other operating receivables	5,037	-	-	-
Total assets	909,927	37,594	3,760	(3,760)
Liabilities				
<i>Financial liabilities at amortized value</i>				
Deposits due to Banks	2,415	973	97	(97)
Deposits due to customers	788,852	33,897	3,390	(3,390)
Loans from clients other than banks	11,928	-	-	-
Other financial liabilities	243	-	-	-
Reserves	924	-	-	-
Other liabilities - balance sheet	26,381	2,117	212	(212)
Subordinated debt	13,261	-	-	-
Total liabilities	844,004	36,987	3,699	(3,699)
Other liabilities (guarantees and letters of credit) – off balance sheet	73,436	-	-	-
Sensitivity of net exposure to foreign exchange risk on changes in rates of foreign currencies				
- December 31, 2023			61	(61)
- December 31, 2022			27	(27)

On December 31, 2023, assuming that all other parameters are unchanged by the change in the EUR exchange rate in relation to other currencies by +10% or -10%, the Bank's profit would increase or decrease by the amount of EUR 61 thousand (December 31, 2022: profit would increase or decrease by the amount of EUR 27 thousand). The reason for the Bank's small exposure to exchange rate changes is the fact that most of the Bank's receivables and liabilities are expressed in EUR.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

HIPOTEKARNA BANKA A.D., PODGORICA

5. RISK MANAGEMENT (continued)
5.3. Market risk (continued)
5.3.2. Interest rate risk

The following table shows interest bearing and non-interest bearing assets and liabilities of the Bank as at 31 December 2023:

	In thousand EUR		
	<u>Interest bearing</u>	<u>Non-interest bearing</u>	<u>Total</u>
ASSETS			
Cash and deposits held with central banks	21,394	202,829	224,223
<i>Financial assets at amortized value</i>			
Loans and placements from banks	77,265	-	77,265
Loans and placements from customers and other financial assets	248,411	-	248,411
Securities	345,861	-	345,861
Other financial assets	2,762	-	2,762
<i>Financial assets at fair value through other comprehensive income</i>			
Securities	-	6,368	6,368
<i>Financial assets held for trading</i>			
Securities	-	-	-
Other operating receivables	-	5,037	5,037
Total assets	<u>695,693</u>	<u>214,234</u>	<u>909,927</u>
LIABILITIES			
<i>Financial liabilities at amortized value</i>			
Deposits due to Banks	2,415	-	2,415
Deposits due to clients	702,601	86,251	788,852
Borrowed assets from other clients	11,928	-	11,928
Other financial liabilities	-	243	243
Other liabilities	81	26,300	26,381
Subordinated debt	13,261	-	13,261
Total liabilities:	<u>730,286</u>	<u>112,794</u>	<u>843,080</u>
Exposure to interest rate risk:			
- December 31, 2023	<u>(34,593)</u>	<u>101,440</u>	<u>66,847</u>
- December 31, 2022	<u>(178,612)</u>	<u>232,393</u>	<u>53,781</u>

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5. RISK MANAGEMENT (continued)
5.3. Market risk (continued)

5.3.2. Interest rate risk (continued)

The following tables show the annual active and passive interest rates of monetary financial instruments:

Loan type	Interest rate
Legal entities	
- short-term loans from the Bank's funds	2.00 - 10.00 p.a.
- short-term loans from other sources	2.00 - 7.00 p.a.
- short-term loans to banks and other financial organizations	2.00 - 7.00 p.a.
- arrangement loans	2.00 - 7.00 p.a.
- long-term loans from the Bank's funds	2.00 - 10.00 p.a.
- long-term loans from other sources	2.00 - 7.00 p.a.
- loans for small and medium-sized enterprises up to 24 months	2.50 - 7.50 p.a.
- loans for small and medium-sized enterprises over 24 months	2.50 - 7.50 p.a.
- loans for entrepreneurs up to 24 months	2.50 - 7.50 p.a.
- loans for entrepreneurs over 24 months	2.50 - 7.50 p.a.

Active interest rates applied to approved loans to individuals in 2023 are as follows:

Loan type	Interest rate
Retail:	
- cash loans	0.88 p.m. - 12.68 p.a.
- consumer loans	0.00 p.m. - 8.00 p.a.
- loans for the purchase of vehicles	4.99 p.a.
- loans for adaptation and financing up to 60 months	0.88 p.m. - 12.68 p.a.
- loans for adaptation and financing over 60 months	0.88 p.m. - 12.68 p.a.
- housing	7.49 p.a.

The passive interest rates applied to received deposits from legal entities in 2023 were the following:

Deposit type	Interest rate
Short-term deposits	0.01%-0.05% p.a.
Long-term deposits	0.50%-0.75% p.a.

The passive interest rates applied to received deposits from individuals in 2023 were the following:

Deposit type	Interest rate
Demand deposits	0.01% p.a.
A vista savings:	
- EUR	0.01% p.a.
- other currencies	0.00% p.a.
Term deposits in EUR:	
- one month	0.01% p.a.
- three months	0.02% p.a.
- six months	0.04% - 0.05% p.a.
- 12 months	0.50% - 0.70% p.a.
- 24 months	0.60% - 0.80% p.a.
- 36 months	0.70% - 0.90% p.a.
Term deposits in foreign currencies:	
- three months	0.01% p.a.
- six months	0.02% p.a.
- 12 months	0.20% p.a.

5. RISK MANAGEMENT (continued)
5.3. Market risk (continued)

5.3.2. Interest rate risk (continued)

Exposure to the interest rate risk as at 31 December 2023 is presented in the following table:

	In thousand EUR					
	Up to one months	From 1 to 3 months	From 3-6 months	From 6-12 months	Over one year	Total
Sensitive assets						
Cash and deposits held with central banks	21,394	-	-	-	-	21,394
<i>Financial assets at amortized value</i>						
Loans and receivables from banks	66,007	-	3,500	7,758	-	77,265
Loans and receivables from clients	7,902	19,078	27,130	64,102	130,199	248,411
Securities	39,048	17,796	97,896	23,570	167,551	345,861
Other financial assets	-	-	-	-	2,762	2,762
<i>Financial assets at fair value through other comprehensive income</i>						
Securities	-	-	-	-	-	-
<i>Financial assets held for trading</i>						
HOV	-	-	-	-	-	-
Securities	-	-	-	-	-	-
Total	134,351	36,874	128,526	95,430	300,512	695,693
% of total interest bearing assets	19%	5%	18%	14%	43%	100%
Sensitive liabilities						
<i>Financial liabilities disclosed at amortized value</i>						
Interest bearing deposits from banks	2,380	-	-	10	25	2,415
Interest bearing deposits from banks	65,647	58,997	105,956	164,820	307,181	702,601
Interest bearing borrowing from clients	233	111	327	631	10,626	11,928
Other financial liabilities	-	-	-	-	174	174
Other liabilities	81	-	-	-	-	81
Subordinated debt	289	-	-	-	12,972	13,261
Total	68,630	59,108	106,283	165,461	330,804	730,286
% of total interest bearing liabilities	9%	8%	15%	23%	45%	100%
Exposure to interest rate risk:						
- December 31, 2023	<u>65,721</u>	<u>(22,234)</u>	<u>22,243</u>	<u>(70,031)</u>	<u>(30,292)</u>	<u>(34,593)</u>
- December 31, 2022	<u>(40,715)</u>	<u>(53,174)</u>	<u>(32,088)</u>	<u>(61,107)</u>	<u>8,472</u>	<u>(178,612)</u>
Cumulative GAP:						
- December 31, 2023	<u>65,721</u>	<u>43,487</u>	<u>65,730</u>	<u>(4,301)</u>	<u>(34,593)</u>	
- December 31, 2022	<u>(40,715)</u>	<u>(93,889)</u>	<u>(125,977)</u>	<u>(187,084)</u>	<u>(178,612)</u>	

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5. RISK MANAGEMENT (continued)

5.3. Market risk (continued)

5.3.2. Interest rate risk (continued)

The following table shows the effect of changes in variable interest rates for receivables and liabilities expressed in EUR in the range from +0.4% bp to -0.4 bp.

Sensitivity analyzes (risk of interest rate changes)

	In thousand EUR		
	Net effect as a result of interest rate changes	+40 b.p.	-40 b.p.
	2023	EUR KS	EUR KS
ASSETS			
Cash and deposits held with central banks	21,394		
with fixed interest rate	-		
with variable interest rate	21,394	86	(86)
<i>Financial assets at amortized value</i>			
Loans and placements from banks	77,265		
Loans and placements from clients	248,411		
with fixed interest rate	248,411		
with variable interest rate	-	-	-
Securities	345,861		
with fixed interest rate	345,861		
<i>Financial assets at fair value through other comprehensive income</i>			
Securities	-		
with fixed interest rate	-		
with variable interest rate	-	-	-
<i>Financial assets held for trading</i>			
Securities	-		
with fixed interest rate	-		
with variable interest rate	-	-	-
	692,931	86	(86)
Liabilities			
<i>Financial liabilities at amortized value</i>			
Deposits due to banks	2,415		
Deposits due to customers	702,601		
Borrowed assets from other clients	11,928		
with fixed interest rate with variable interest rate	11,928		
with fixed interest rate with variable interest rate	-	-	-
Other liabilities	81		
Subordinated debt	13,261		
	730,286		
Net exposure to interest rate risk:			
- December 31, 2023	(37,355)	86	(86)

On December 31, 2023, assuming that all other parameters are unchanged by the change in interest rates by 40 b.p. (+/-0.4%), the Bank's profit would increase or decrease by the amount of EUR 86 thousand (December 31, 2022: the profit would increase or decrease by the amount of EUR 76 thousand). The reason for the Bank's small exposure to changes in variable interest rates is the fact that most of the Bank's receivables and liabilities are contracted with a fixed interest rate.

5. RISK MANAGEMENT (continued)

5.3. Market risk (continued)

5.3.2. Interest rate risk (continued)

The following table shows the effect of changes in interest rates for securities expressed in EUR in the range from 50 bp to 200 bp as at 31 December 2023.

In thousand EUR

Securities - fixed rate	Amount	Interest rate change	Average weighted bp	Change in EUR	Sign
Short-term	178,310	50 b.p.	26	892	+/-
Mid-term	130,870	100 b.p.	38	1,309	+/-
Long-term	36,681	200 b.p.	21	734	+/-
Total	345,861		85	2,934	+/-

In thousand EUR

Securities - variable rate	Amount	Interest rate change	Average weighted bp	Change in EUR	Sign
Short-term	-	50 b.p.	-	-	+/-
Mid-term	-	100 b.p.	-	-	+/-
Long-term	-	200 b.p.	-	-	+/-
Total	-		-	-	+/-

5.3. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to secure sufficient funds for settling liabilities at the moment of their maturity, or the risk that the Bank will have to secure funds at a reasonable price and in a timely manner in order to settle its due liabilities.

Compliance and controlled non-compliance between maturity and interest rates for assets and liabilities are very important for the Bank's management. It is unusual for the Bank to have a fully compliant position, seeing as business transactions often have an undefined maturity date, and there are numerous types of them. A non-compliant item potentially increases profitability, but it also increases the risk of loss.

The maturity of assets and liabilities and the ability of the Bank to secure sources of funding upon the maturity of liabilities at acceptable costs, are an important factor for the assessment of the Bank's liquidity and its exposure to changes in interest rates and FX rates.

Liquidity needs for covering guarantees and activated letters of credit are considerably lower than the amount of assumed liabilities, given that the Bank does not expect a third party to draw the agreed funds. Total outstanding amount of the contractual obligation by which a loan with an extended maturity date is approved does not necessarily lead to a future requirement for liquid assets, given that many of these liabilities will expire or be terminated without financing.

5. RISK MANAGEMENT (continued)

5.4. Liquidity Risk (continued)

The maturity matching of financial assets and financial liabilities according to the expected maturity date as at 31 December 2023 is presented in the overview below:

In thousand EUR

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets							
Cash and deposits held with central banks	202,830	-	-	-	21,393	-	224,223
<i>Financial assets at amortized value</i>							
Loans and receivables from banks	66,007	-	3,500	7,758	-	-	77,265
Loans and receivables from clients	7,902	19,078	27,130	64,102	112,699	17,500	248,411
Securities	39,048	17,796	97,896	23,570	130,870	36,681	345,861
<i>Other financial assets</i>							
<i>Financial assets at fair value through other comprehensive income</i>	2,762	-	-	-	-	-	2,762
Securities	-	-	-	-	-	6,368	6,368
<i>Financial assets held for trading</i>							
Securities	-	-	-	-	-	-	-
Other operating receivables	5,037	-	-	-	-	-	5,037
Total	323,586	36,874	128,526	95,430	264,962	60,549	909,927
Financial liabilities							
<i>Financial liabilities at amortized value</i>							
Deposits due to banks	2,380	-	-	10	25	-	2,415
Deposits due to clients	76,637	66,275	119,194	183,839	331,607	11,300	788,852
Borrowed assets from other clients	233	111	327	631	6,477	4,149	11,928
Other financial liabilities	243	-	-	-	-	-	243
Other liabilities	-	-	-	-	-	-	-
Subordinated debt	19,943	-	-	-	6,438	-	26,381
Total	99,725	66,386	119,521	184,480	357,519	15,449	843,080
Maturity inconsistency							
- December 31, 2023	223,861	(29,512)	9,005	(89,050)	(92,557)	45,100	66,847
- December 31, 2022	211,147	(68,149)	(33,624)	(39,570)	(42,911)	26,888	53,781
Cumulative gap							
- December 31, 2023	223,861	194,349	203,354	114,304	21,747	66,847	
- December 31, 2022	211,147	142,998	109,374	69,804	26,893	53,781	
% of the total source of funds							
- December 31, 2023	24.60%	(3.24%)	0.99%	(9.79%)	(10.17%)	4.96%	
- December 31, 2022	26.01%	(8.39%)	(4.14%)	(4.95%)	(5.21%)	3.31%	

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5. RISK MANAGEMENT (continued)

5.4. Liquidity Risk (continued)

The term compliance of financial assets and liabilities by expected maturity indicates a positive cumulative gap of expected cash flows in all maturity periods, as of December 31, 2023. The presented figures include modeling of deposits without contractual maturity on the basis of historical data and statistical models, in order to determine their stability, as well as delays in repayment of loans. Negative gaps in individual maturity zones are a consequence of the term transformation of assets as one of the principles of banking business.

The maturity compliance of financial Liabilities according to the remaining maturity (undiscounted cash flows) with the balance as of December 31, 2023 is shown in the following overview:

	In thousand EUR						
	Demand	Up to 1 month	From 1- 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 2023							
LIABILITIES							
Liabilities to banks	2,380	-	-	10	25	-	2,415
Liabilities to clients	699,579	878	11,639	43,948	30,967	1,841	788,852
Borrowed assets from other clients	-	233	111	958	6,477	4,149	11,928
Other financial liabilities	-	243	-	-	-	-	243
Other liabilities	-	19,943	-	-	-	6,438	26,381
Subordinated debt	-	289	-	-	12,972	-	13,261
	<u>701,959</u>	<u>21,586</u>	<u>11,750</u>	<u>44,916</u>	<u>50,441</u>	<u>12,428</u>	<u>843,080</u>

	In thousand EUR						
	Demand	Up to 1 month	From 1- 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 2022							
LIABILITIES							
Liabilities to banks	2,417	-	-	-	44	-	2,461
Liabilities to clients	605,169	912	1,458	22,350	68,864	2,681	701,434
Borrowed assets from other clients	-	52	159	763	5,816	8,974	15,764
Other financial liabilities	-	174	-	-	-	-	174
Other liabilities	-	14,088	-	-	-	6,873	20,961
Subordinated debt	-	289	-	4,104	7,982	4,973	17,348
	<u>607,586</u>	<u>15,515</u>	<u>1,617</u>	<u>27,217</u>	<u>82,706</u>	<u>23,501</u>	<u>758,142</u>

5. RISK MANAGEMENT (continued)

5.5. Operational risks

Operational risk is the risk of possible adverse effects on the Bank's financial result and equity resulting from omissions (non-intentional and intentional) in employees' work, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, and from the occurrence of unforeseeable external events, including improbable events.

To set up a highly efficient process for identifying, evaluating, monitoring and reducing/controlling operational risk, the Bank has defined the following general categories of operational risks:

1. internal fraud and activities
2. external fraud and activities
3. attitude towards employees and occupational safety
4. clients, products and business practice
5. damage to fixed assets
6. disruption of operations and system failure
7. performance, delivery and management of processes

Guided by best practices, the Bank has defined the principles for setting up a framework for efficient management of operational risks, which relate to:

- establishment of a suitable environment for managing operational risks and
- identification, evaluation, monitoring and control/supervision of operational risks

The identification, evaluation, supervision and control of operational risks at the Bank is carried out on four levels:

First level - Decentralized responsible person for operational risks:

The decentralized responsible person for operational risks is: manager/director/coordinator within each Sector/Division/Department and by all business units/branches/branch offices. The decentralized responsible person for operational risks must name a deputy for the cases of absence from work. Operational risks are an everyday part of the daily operations of a manager/director/coordinator of each Sector/Division/Department and in all business units/branches/branch offices (everyday monitoring is required for operational risks in the Bank's segments, in all branches of the organizational scheme, along the entire regional network by business units and all lines of business). Everyone is responsible in the part related to their scope of work, and has been assigned responsibilities (which are contained in the hierarchical organizational structure, set out in the existing policies and procedures, and carried out continuously as part of regular business activities).

Second level:

Performed by the Operational Risk Control Department in cooperation with other units inside the Bank, consisting of evaluation, supervision, control and reporting on operational risks.

Third level:

Regular, occasional and extraordinary audits of (operational) risk monitoring, carried out for the purpose of verifying the adherence to internal policies and procedures, and establishing whether there are deviations in the functioning of parts or the entire system of regular risk monitoring.

5. RISK MANAGEMENT (continued)

5.5. Operational risks (continued)

Fourth level:

Regular, occasional and extraordinary audits of compliance of operations related to (operational) risks with regulations, carried out by the Department for Monitoring Regulatory Compliance.

Exposure to operational risk is regularly monitored through compliance with the limits prescribed by the Central Bank of Montenegro. The objective of operational risk management is to ensure that the level of operational risk exposure is in accordance with the Risk Management Strategy and the Bank's policies, i.e. minimize losses arising from operational risks.

Proactive identification and risk assessment is performed annually, which is the way exposure to operational risks is assessed, taking into account the possibility or frequency of occurrence, along with their potential impact on the Bank.

5.6. Fair value of financial assets and liabilities

Comparison of fair and book value of financial assets and liabilities

	Book value		In thousand EUR Fair value	
	2023	2022	2023	2022
Financial assets				
Cash and deposits held with central banks	224,223	328,197	224,223	328,197
<i>Financial assets at amortized value</i>				
Loans and receivables from Banks	77,265	34,019	77,265	34,019
Loans and receivables from clients	248,411	236,812	248,411	236,812
Securities	345,861	200,539	336,774	182,590
Other financial assets	2,762	2,021	2,762	2,021
<i>Financial assets at fair value through other comprehensive income</i>				
Securities	6,368	5,875	6,368	5,875
<i>Financial assets held for trading</i>				
Securities	-	-	-	-
Investments in related companies and joint ventures using the capital method				
Other assets	5,037	4,460	5,037	4,460
	909,927	811,923	900,840	793,974
Financial liabilities				
<i>Financial liabilities at amortized value</i>				
Deposits due to banks and central banks	2,415	2,461	2,415	2,461
Deposits due to clients	788,852	701,434	788,852	701,764
Borrowed assets from other clients	11,928	15,764	11,928	15,764
Other financial liabilities	243	174	243	174
Other liabilities	26,381	20,961	26,381	20,961
Subordinated debt	13,261	17,348	13,261	17,348
	843,080	758,142	843,080	758,472

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5. RISK MANAGEMENT (continued)

5.6. Fair value of financial assets and liabilities (continued)

Hierarchy of fair value of financial instruments valued at fair value

Accounting regulations in force in Montenegro define a hierarchy of valuation techniques, based on whether the inputs required by those valuation techniques are available or not. The available inputs reflect the market data obtained from independent sources; the unavailable inputs include the Bank's market assumptions. These two types of inputs have created the following hierarchy of fair values:

- Level 1 – Quoted values (unadjusted) in the active market of those assets and liabilities. This level includes quoted capital instruments.
- Level 2 – Inputs other than quoted values included in Level 1, which are available and pertain to the given asset or liability, either directly (i.e. in the form of prices/values) or indirectly (in the form of conclusions based on prices/values).
- Level 3 – Inputs for assets and liabilities not based on the available market data. This level includes investments in capital under the Bank's market assumptions (there are no available data).

This hierarchy requires the use of available market data when they exist. In the assessment of fair value, the Bank takes into account the available market values whenever possible. As at 31 December 2023, the market prices of securities valued at fair value in the Bank's portfolio in Level 1 and Level 2 were available.

The estimated fair value of financial instruments, according to the hierarchy of fair values, is given in the following table:

December 31, 2023	Level 1	Level 2	Level 3	Total
Financial assets				
-at fair value through other result	318	6,050	-	6,368
-at fair value through income statement	-	-	-	-
Total	318	6,050	-	6,368
December 31, 2022	Level 1	Level 2	Level 3	Total
Financial assets				
-at fair value through other result	344	5,531	-	5,875
-at fair value through income statement	-	-	-	-
Total	344	5,531	-	5,875

Valuation techniques and assumptions used for the valuation of financial instruments valued at fair value

The fair value of securities (classified in Level 1 and Level 2) through other comprehensive income is based on market prices. As at 31 December 2023, the aforementioned market prices of securities were available.

If the prices are not identifiable, either directly or indirectly, for securities (classified in Level 3) through other comprehensive income, the mark-to-model method is used, which is a process of

discounting cash flows of a financial instrument by the appropriate discount rate obtained by the creation of a yield curve.

5. RISK MANAGEMENT (continued)

5.7. Fair value of financial assets and liabilities (continued)

The significant changes shown in the table above regarding the fair value hierarchy were due to the reclassification of the entire portfolio of debt securities from the category Financial assets at fair value through other comprehensive income to the category Financial assets at amortized value (note 3.8.4).

5.7. Capital management

Capital management aims to:

- compliance with the regulations of the regulator;
- protection of the Bank's ability to maintain going concern in order to be able to provide payments to shareholders and compensation to other owners;
- to provide the capital to support the further development of the Bank;
- to provide an adequate level of capital in case of unexpected losses.

The bank controls of the capital adequacy in accordance with the Decision on the Capital Adequacy of credit institutions of the Central Bank of Montenegro ("Official Gazette of Montenegro" no. 128/20, 140/21 and 144/22). The bank submits quarterly reports on the state, structure, and capital adequacy to the Central Bank.

The bank's regulatory capital is prudently valued capital that aims to cover unexpected losses. The goal of maintaining an adequate level of regulatory capital, which is measured by capital adequacy indicators, is primarily to protect the bank, its creditors and the entire economy, in order to ensure that the financial institution has sufficient quality financial support to safely and efficiently continue its business continuity on a healthy basis. By setting limits, both regulatory and internally determined, the bank is prevented from taking a higher level of risk than it could bear.

The bank's regulatory capital consists of:

1. Regular core capital (CET1)
2. Additional core capital (AT1)
3. Supplementary capital (T2)

In accordance with the Decision on capital adequacy of credit institutions ("Official Gazette of Montenegro" no. 128/20, 140/21 and 144/22), the Bank's regulatory capital represents the sum of elements of regular core capital, additional core capital, and supplementary capital. The Bank's regulatory capital as of December 31, 2023, amounts to EUR 58,139 thousand, and consists of EUR 50,829 thousand regular core capital and EUR 7,310 thousand supplementary capital. The bank does not have elements of additional core capital.

Elements of regular core capital consist of: paid instruments of share capital, retained earnings from previous years.

Deductible elements from regular core capital represent: deductions based on accumulated comprehensive profit, other reserves, prudential valuation, intangible assets, and positive differences between calculated provisions and impairment.

Supplementary elements of regulatory capital amount to EUR 7,310 thousand as of December 31, 2023 and consists of unamortized paid instruments of supplementary capital (issued subordinated bonds). The bank has no deductions based on supplementary capital.

6. INTEREST INCOME AND EXPENSES AND SIMILAR INCOME AND EXPENSES

Interest income

In thousand EUR	2023	2022
Deposits:		
- Foreign banks	1,644	117
- Other	108	20
	1,752	137
Loans:		
- Banks	230	103
- State institutions	34	34
- Government of Montenegro	-	-
- Legal entities	5,518	5,562
- Individuals	7,557	7,387
Fee income recognized in interest income:	952	863
	14,291	13,949
Securities:	8,273	4,303
	8,273	4,303
Repurchase operations:	-	-
Other interest income	67	1
	67	1
Total interest income:	24,383	18,390

Interest expense

In thousand EUR	2023	2022
Deposits:		
- Banks	35	113
- Financial institutions	6	10
- State institutions	25	48
- Legal entities	119	122
- Individuals	696	863
	881	1,156
Loans and other borrowings	319	355
	774	884
Subordinated debt:	195	134
	2,169	2,529

**7. NET INCOME/EXPENSE BASED ON IMPAIRMENT OF FINANCIAL INSTRUMENTS
NOT VALUED AT FAIR VALUE THROUGH INCOME STATEMENT**

a) Impairment

In thousand EUR	<u>2023</u>	<u>2022</u>
Net provisions/ (reversal of provisions) based on:		
- loans	3,637	(1,009)
- deposits at banks	13	6
- securities	(491)	3,384
- off balance items	(287)	(52)
- other	689	380
	<u>3,561</u>	<u>2,709</u>

7.1. Changes at impairment accounts

	<u>December 31, 2022</u>	<u>New placements- increase of impairment</u>	<u>Existing - reduction of impairment</u>	<u>Existing placements - increase of impairment</u>	<u>Closed placements - reversal of impairment</u>	<u>December 31, 2023</u>
Retail	6,492	1,895	(829)	933	(2,566)	5,925
Corporate	9,170	3,864	(1,242)	2,773	(2,794)	11,771
Total	<u>15,662</u>	<u>5,759</u>	<u>(2,071)</u>	<u>3,706</u>	<u>(5,360)</u>	<u>17,696</u>
Receivables from banks	<u>151</u>	<u>257</u>	<u>(7)</u>	<u>5</u>	<u>(142)</u>	<u>264</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

HIPOTEKARNA BANKA A.D., PODGORICA

7. NET INCOME/EXPENSE BASED ON IMPAIRMENT OF FINANCIAL INSTRUMENTS NOT VALUED AT FAIR VALUE THROUGH INCOME STATEMENT (CONTINUED)

7.2. Changes on provisions

Changes in the impairment accounts of uncollectible receivables and provisions

December 31, 2023

	Loans and receivables from clients (Note 17.2)	Interest (Note 17.2)	Acquired assets (Note 21)	Reserves for operational risk, country risk and court disputes (Note 23)	Other receivables (Note 21)	Other financial assets (Note 21)	Provisions for off balance sheet records (Note 23)	Impairment of securities (Note 17.3)	Loans and receivables from banks (Note 17.1)	Total
In thousand EUR										
Balance at the beginning of the year	14,503	1,045	1,085	328	981	157	688	4,628	151	23,566
Impairment over the year, net	3,537	5	642	148	(2)	4	(287)	(450)	113	3,710
Reversal/ impairment that did not affect impairment and provision costs **	(1,323)	(148)	(277)	-	(26)	(46)	-	(344)	-	(2,164)
Decrease in income from interest on impaired placements										
Balance at the end of the year	16,717	902	1,450	476	953	115	401	3,834	264	25,112

December 31, 2022

	Loans and receivables from clients (Note 17.2)	Interest (Note 17.2)	Acquired assets (Note 21)	Reserves for operational risk, country risk and court disputes (Note 23)	Other receivables (Note 21)	Other financial assets (Note 21)	Provisions for off balance sheet records (Note 23)	Impairment of securities (Note 17.3)	Loans and receivables from banks (Note 17.1)	Total
In thousand EUR										
Balance at the beginning of the year	15,668	690	1,088	341	776	167	740	1,114	113	20,697
Impairment over the year, net	(969)	2	-	(13)	205	(10)	(52)	3,496	37	2,696
Reversal/ impairment that did not affect impairment and provision costs **	(196)	353	(3)	-	-	-	-	18	1	173
Decrease in income from interest on impaired placements										
Balance at the end of the year	14,503	1,045	1,085	328	981	157	688	4,628	151	23,566

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

8. PROVISION COSTS

In thousand EUR	<u>2023</u>	<u>2022</u>
Net provisions based on:		
- litigations	7	3
- other	<u>141</u>	<u>(16)</u>
	<u>148</u>	<u>(13)</u>

9. FEE INCOME AND EXPENSES

Fee income
In thousand EUR

	<u>2023</u>	<u>2022</u>
Loan fees	953	863
Fees from off-balance-sheet operations	843	745
Fees from payment transactions and e-banking	6,117	4,228
Fees for foreign payments	1,356	2,437
Fees on credit card operations	17,303	13,315
Other fees and commissions	<u>2,426</u>	<u>1,513</u>
	<u>28,998</u>	<u>23,101</u>

Fee expenses
In thousand EUR

	<u>2023</u>	<u>2022</u>
Fees payable to the Central Bank	861	1,120
Fees for foreign payment transactions	488	417
Deposit insurance premium fees	3,581	2,629
Fees paid for borrowings and guarantees	40	64
Fees based on card and ATMs operations	11,670	8,592
Other fees and commissions	<u>694</u>	<u>671</u>
	<u>17,334</u>	<u>13,493</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

10. EMPLOYEE EXPENSES

In thousand EUR	<u>2023</u>	<u>2021</u>
Net salaries	3,786	3,960
Taxes and contributions on salaries	1,728	1,847
Other employee benefits, net	141	86
Severance and jubilee awards	31	-
Remunerations to members of the Supervisory Board	246	246
Remunerations to members of the Development Committee	24	22
Remunerations to members of the Sustainable Development Committee	16	16
Fees to members of the Committee for monitoring the quality of the loan portfolio	36	36
Fees for members of the Board of Education	-	3
Fees to members of the Investment Committee	7	7
Remunerations to members of the Audit Committee	42	42
Transportation expenses, net	45	44
Travel expenses and per diems	830	833
Employee training	24	26
Provision expenses for Severance and jubilee awards (note 23)	5	5
Assistance / Help given to employees	22	21
Other expenses	57	61
	<u>7,040</u>	<u>7,255</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

11. GENERAL AND ADMINISTRATIVE EXPENSES

In thousand EUR	<u>2023</u>	<u>2022</u>
Rental costs	447	409
Security services	713	637
Electricity and fuel bills	193	187
Cleaning services	189	143
Computer and other equipment maintenance	288	282
Premises-related taxes	23	4
Vehicle maintenance	93	73
Insurance costs	608	588
Audit expense	527	455
Court expenses	11	2
Other professional fees	3	3
Lawyer fees	30	23
Consulting services	466	283
Intellectual services	98	58
Telecommunication costs	114	106
Communication network costs	346	277
Postage	81	20
Office supplies	214	211
Utilities	25	21
Representation expenses	1,396	1,111
Advertising and marketing	731	580
Subscriptions and donations	247	206
Software maintenance	633	556
Equipment rentals	126	105
Data processing services	994	934
Payment card operations	188	155
Other expenses	526	491
	<u>9,310</u>	<u>7,920</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

12. DEPRECIATION COST

In thousand EUR	2023	2022
Property plant and equipment (Note 19)	718	742
Intangible assets (Note 20)	544	530
Property with the right of use (Note 19)	1,310	1,242
	2,572	2,514

13. OTHER EXPENSES

In thousand EUR	2023	2022
Direct write off of receivables	4	11
Various fees	53	54
Extraordinary expenses	72	6
	129	71

14. OTHER INCOME

In thousand EUR	2023	2022
Dividend income	51	79
Other operating income	-	4
Collected receivables previously written off	15	12
Other income	69	219
	135	314

15. INCOME TAX

a) Components of Income Tax

In thousand EUR	2023	2022
Calculated current income tax	2,248	1,178
Calculated deferred income tax	28	(29)
	2,276	1,149
Effective tax rate	15.66%	15.98%

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

15. INCOME TAX (Continued)

b) Reconciliation between tax expense and the product of accounting results multiplied by the applicable tax rate

In thousand EUR	<u>2023</u>	<u>2022</u>
The result in the income statement before taxation	14,533	7,191
Income tax at statutory rate	2,132	1,031
Tax effects of expenses not recognized for tax purposes	138	116
Other	<u>6</u>	<u>2</u>
Income tax disclosed in Income statement	<u>2,276</u>	<u>1,149</u>
	15.66%	15.98%

The tax rate used for 2023 and 2022 is progressive and amounts to 9% up to EUR 100,000.00 of taxable profit, 12% from EUR 100,000.01 to EUR 1,500,000.00 of taxable profit and 15% on the amount over EUR 1,500,000.01 taxable profits, in accordance with the Law on Corporate Profit Tax.

c) Deferred tax liabilities

In thousand EUR	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Deferred tax assets/liabilities as a result of booked unrealized gains on securities valued at fair value through other comprehensive income	(15)	38
Deferred tax assets/liabilities based on the temporary difference between the book and tax basis of property and equipment	42	69
Deferred tax assets/liabilities as a result of booked actuarial gains/losses based on provisions for retirement benefits (IAS 19)	<u>1</u>	<u>3</u>
	<u>28</u>	<u>110</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

16. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS

In thousand EUR	December 31, 2023	December 31, 2022
Cash on hand:	32,380	29,102
- in EUR	29,138	25,486
- in foreign currencies	3,242	3,616
Gyro account	146,295	258,758
Obligatory reserves held with the Central Bank of Montenegro	42,787	38,246
Funds in the collection process	2,761	2,091
	<u>224,223</u>	<u>328,197</u>

The mandatory reserve of the Bank as of December 31, 2023 represents allocated funds in accordance with the regulations of the Central Bank of Montenegro, which is referred to in the "Decision on the mandatory reserve of credit institutions at the Central Bank of Montenegro" ("Official Gazette of Montenegro", No. 19 /22). In accordance with the above, credit institutions calculate the required reserve on demand deposits and time deposits, except for central bank deposits.

Mandatory reserve is calculated by credit institutions using the rate of:

- 5.5% - on the part of the base made up of demand deposits and contracted deposits with a maturity of up to 365 days; that is, up to 366 days
- 4.5% - on the part of the base made up of deposits contracted with a maturity of over 365 days, i.e. 366 days

A rate of 5.5% is applied to deposits contracted with a maturity of over 365 days, i.e. 366 days, which have a clause on the possibility of installments of those deposits within a period shorter than 366 days, i.e. within a period shorter than 366 days.

The mandatory reserve is calculated by applying the prescribed rates to the corresponding part of the base during the previous monthly period, two days before the end of the maintenance period. The maintenance period is a monthly period, starting from the third Wednesday of the month and lasting until the day before the third Wednesday of the following month.

The credit institution allocates the calculated mandatory reserve to the account of the mandatory reserve in the country and/or to the accounts of the Central Bank abroad and cannot be allocated and kept in another form. Mandatory reserve is set aside in EUR. Funds allocated to the accounts of the Central Bank abroad cannot be transferred to other accounts abroad, but can be transferred exclusively to the transaction account of the credit institution in the RTGS system.

On 50% of the required reserve funds set aside in accordance with the Decision, the Central Bank pays the credit institution monthly, by the eighth of the month for the previous month, a fee calculated at the rate of €STR (Euro short-term interest rate) minus 10 basis points on an annual basis, with provided that this rate cannot be less than zero.

If the credit institution plans to withdraw the required reserve funds from the Central Bank's account abroad, in an amount greater than EUR 500,000, it is obliged to notify the Central Bank of this in writing no later than three working days before the day of withdrawal of the required reserve funds.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

16. CASH AND DEPOSIT ACCOUNTS HELD WITH CENTRAL BANKS (CONTINUED)

A credit institution can use up to 50% of the allocated reserve funds to maintain daily liquidity. The credit institution does not pay a fee for the used amount of the mandatory reserve that it returns on the same day. The credit institution is obliged to pay a monthly fee for the amount of mandatory reserve funds that it does not return on the same day at the rate determined by a special regulation of the Central Bank.

When the Central Bank determines that the credit institution improperly calculated and/or set aside the mandatory reserve or did not set it aside within the prescribed period, i.e. that it does not maintain the mandatory reserve in the prescribed amount, the credit institution is obliged to pay for the determined amount of improperly calculated or untimely set aside mandatory reserves per month pays compensation at the rate determined by a special regulation of the Central Bank.

17. FINANCIAL ASSETS AT AMORTIZED VALUE

17.1. Loans and receivables from banks

In thousand EUR	December 31, 2023	December 31, 2022
Correspondent accounts with foreign banks	65,969	24,544
Loans to banks	11,560	9,625
	77,529	34,169
<i>Minus</i>	(264)	(151)
Impairment of loans and receivables from banks	77,265	34,019
	Balance, December 31, 2022	Changes during the year
Impairment of loans and receivables from banks (Note 7.2)	(151)	(113)
	Balance, December 31, 2023	Balance, December 31, 2022
	(264)	(151)

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)**17.2. Loans and receivables from clients**

In thousand EUR	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Due loans:		
- municipalities (public organizations)	5	-
- legal entities	3,979	2,262
- state owned companies	-	-
- individuals	2,329	1,736
- other	10	16
Short-term loans:		
- legal entities	42,836	39,264
- individuals	6,005	5,141
- other	2,063	455
Long-term loans:		
- municipalities (public organizations)	15	63
- legal entities	89,835	91,679
- state owned companies	2,541	1,851
- individuals	114,089	106,978
- other	1,283	1,150
	<u>264,990</u>	<u>250,595</u>
Interest receivables:		
- loans	973	1,154
Accruals:		
- interest on loans	1,158	1,458
- fees	(1,316)	(1,014)
Deposits with other depository institutions	302	281
	<u>1,117</u>	<u>1,879</u>
	<u>266,107</u>	<u>252,474</u>
<i>Minus:</i>		
Impairment allowance of loans, activated guarantees and factoring (Note 7.2)	(16,717)	(14,503)
Impairment allowance of interest receivables (Note 7.2)	(902)	(1,045)
Impairment allowance of accruals	(77)	(114)
	<u>(17,696)</u>	<u>(15,662)</u>
	<u>248,411</u>	<u>236,812</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

17.2. Loans and receivables from clients (continued)

The concentration by activities of the total net loans to customers by the Bank is as follows:

In thousand EUR	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Agriculture, forestry and fishing	3,568	1,955
Mining	4,602	4,527
Processing industry	8,662	4,222
Water supply	777	744
Construction industry	19,578	21,763
Trade	44,341	45,934
Transport and storage	4,345	5,350
Accommodation and catering services	18,166	17,285
Information and communications	3,994	3,067
Finance and insurance sector	5,468	1,718
Real estate trade	2,037	6,705
Professional, scientific and technical activities	5,725	5,914
Administrative and support service activities	2,288	983
Education	151	204
Health and social care	93	361
Art, entertainment and recreational activities	2,138	787
Other services	5,417	6,751
Retail customers	<u>117,061</u>	<u>108,542</u>
	<u>248,411</u>	<u>236,812</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

17.2. Loans and receivables from clients (continued)

Changes in loans and receivables from clients and impairment are shown in the following tables:

LOANS	Stage 1	Stage 2	Stage 3	POCI	TOTAL
December 31, 2022	145,816	88,553	17,827	278	252,474
New receivables	73,837	51,727	3,081	1,525	130,170
Transfer to level 1	(13,915)	6,544	7,371	-	-
Transfer to level 2	2,444	(8,243)	5,798	-	(1)
Transfer to level 3	91	1,437	(1,528)	-	-
POCI crossings	-	-	-	-	-
Existing billing	(25,178)	(14,227)	(5,598)	-	(45,003)
Existing enlargement	2,321	962	361	19	3,663
Closed	(35,900)	(33,046)	(5,480)	(86)	(74,512)
Written off	(7)	(1)	(676)	-	(684)
December 31, 2023	149,509	93,706	21,156	1,736	266,107

IMPAIRMENT	Stage 1	Stage 2	Stage 3	POCI	TOTAL
December 31, 2022	(2,376)	(5,415)	(7,661)	(210)	(15,662)
New receivables	(655)	(3,601)	(900)	(379)	(5,535)
Transfer to level 1	462	(49)	(414)	-	(1)
Transfer to level 2	(73)	547	(474)	-	-
Transfer to level 3	(2)	(194)	197	-	1
POCI crossings	-	-	-	-	-
Existing billing	698	1,010	593	-	2,301
Existing enlargement	(40)	(566)	(3,304)	(20)	(3,930)
Closed	508	2,043	1,989	19	4,559
Written off	-	-	571	-	571
December 31, 2023	(1,478)	(6,225)	(9,403)	(590)	(17,696)

On December 31, 2023, the Bank's portfolio on individual assesment amounts to EUR 62,335 thousand (2022: EUR 73,987 thousand), and on collective assesment EUR 178,488 thousand (2022: EUR 119,245 thousand).

On December 31, 2023, the impairment for the portfolio that is on individual assesment amounts to EUR 12,838 thousand (2022: EUR 9,962 thousand), and for the portfolio that is on collective assesment EUR 4,858 thousand (2022: EUR 5,700 thousand).

On December 31, 2023, on the individual assesment there are 208 credit lots (2022: 230), and on the collective 50,984 credit lots (2022: 45,964).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

17. FINANCIAL ASSETS AT AMORTIZED VALUE (CONTINUED)

17.3 Securities

In thousand EUR	December 31, 2023	December 31, 2022
Debt securities		
Residents	118,541	97,896
Non-residents	231,153	107,271
	349,694	205,167
<i>Impairment</i>	3,833	4,628
	345,861	200,539

In thousand EUR	Balance December 31, 2022	Change	Balance December 31, 2023
Debt securities	(4,628)	795	(3,833)
	(4,628)	795	(3,833)

Securities classified as financial assets according to the amortized cost method with a balance as of December 31, 2023 have a total value of EUR 345,861 thousand. The largest share of investments refers to Montenegrin local bonds, Eurobonds, as well as government bills, the value of which as of December 31, 2023 is EUR 118,274 thousand. The rest of the portfolio, which is classified according to the amortized cost method, refers to non-resident debt securities.

Local bonds of Montenegro mature in 2024 and 2026, with coupon interest rates of 3% and 3.5%, have a nominal value of EUR 24,096 thousand.

Eurobonds of Montenegro with maturity dates from 2025 to 2029, with a coupon interest rate of: 3.375% for the series maturing in 2025, 2.875% for the series maturing in 2027 and 2.55% for the series maturing in 2027 due in 2029, have a nominal value of EUR 64,324 thousand.

Government bills of Montenegro with maturities of 182 and 273 days, with yields to maturity of 3.5% and 4%, have a nominal value of EUR 30,000 thousand.

Debt securities - bonds and government bills - non-residents as of December 31, 2023 have a value of EUR 227,587 thousand. These securities, with a nominal value of EUR 231,614 thousand, mature in the period from 2023 to 2032 with coupon interest rates ranging from 0.00% to 6.96%.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

17. FINANCIAL ASSETS AT AMORTIZED VALUE (Continued)

17.3 Securities (Continued)

	December 31, 2023	December 31, 2022
Short-term debt instruments - government records of the Ministry of Finance of the Government of Montenegro	29,412	8,868
Short-term debt instruments - bonds of financial institutions	22,716	-
Short-term debt instruments - corporate bonds	4,285	3,995
Short-term debt instruments - supranational bonds	6,692	15,381
Short-term debt instruments - bonds of foreign governments	58,628	5,558
Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	54,185	25,236
Long-term debt instruments - domestic bonds of the Ministry of Finance of the Government of Montenegro	63,718	63,611
Long-term debt instruments - bonds of foreign governments	1,384	24,103
Long-term debt instruments - municipal bonds	49,882	23,375
Long-term debt instruments - corporate bonds	270	279
Long-term debt instruments - bonds of financial institutions	35,667	24,752
Short-term debt instruments - government records of the Ministry of Finance of the Government of Montenegro	19,730	7,482
	346,569	202,640
Interest receivables	3,125	2,527
Correction of the value of securities at amortized value	(3,833)	(4,628)
	345,861	200,539

The maturity of the displayed securities is calculated from the reporting date (December 31, 2023) to the maturity date of the listed debt securities.

	Principal amount due over 1 year	Maturity
Long-term debt instruments - corporate bonds	21,888	
Long-term debt instruments - bonds of foreign governments	11,138	
Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	7,750	2025
Long-term debt instruments - bonds of financial institutions	28,842	
Long-term debt instruments - municipal bonds	270	
Long-term debt instruments - corporate bonds	13,251	
Long-term debt instruments - bonds of financial institutions	6,298	
Long-term debt instruments - bonds of foreign governments	6,205	2026
Long-term debt instruments - domestic bonds of the Ministry of Finance of the Government of Montenegro	1,384	
Long-term debt instruments - corporate bonds	7,054	
Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	1,022	2027
Long-term debt instruments - bonds of foreign governments	9,518	
Long-term debt instruments - corporate bonds	16,577	
Long-term debt instruments - Eurobonds of the Ministry of Finance of the Government of Montenegro	2,185	2028
Long-term debt instruments - bonds of financial institutions	1,425	
Long-term debt instruments - bonds of foreign governments	3,052	2029
Long-term debt instruments - bonds of foreign governments	18,300	
Long-term debt instruments - corporate bonds	2,040	2030
Long-term debt instruments - bonds of financial institutions	4,647	
Long-term debt instruments - bonds of foreign governments	3,076	2031
Long-term debt instruments - bonds of foreign governments	1,700	2032
Long-term debt instruments - corporate bonds	3,029	2032
	170,651	

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

**18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE RESULT
AND HELD FOR TRADING**

18.1. Securities at fair value through other comprehensive income

In thousand EUR	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Equity securities		
Residents	100	103
Non-residents	<u>6,268</u>	<u>5,772</u>
	<u>6,368</u>	<u>5,875</u>
	<u>6,368</u>	<u>5,875</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

19. PROPERTY, PLANT AND EQUIPMENT

Movements on property, equipment and other assets for 2023 and 2022 are presented in the following table:

	Properties	Computer equipment	Other equipment	Investment in progress	Assets with the right of use	Total
Cost						
Balance, January 1, 2022	-	1,706	5,488	28	4,312	11,534
Additions	-	117	150	515	4,836	5,618
Modification of the lease period	-	-	-	-	341	341
Transfers	160	4	128	(292)	-	-
Disposals	-	(355)	(235)	(23)	-	(613)
Balance, December 31, 2022	160	1,472	5,531	228	9,489	16,880
Additions	-	147	530	1,152	218	2,047
Modification of the lease period	-	-	-	-	645	645
Transfers	-	598	732	(1,331)	-	(1)
Disposals	(160)	(87)	(481)	-	(253)	(981)
Balance, December 31, 2023	-	2,130	6,312	49	10,099	18,590
Impairment						
Balance, January 1, 2022	-	1,375	3,927	-	1,423	6,725
Depreciation (Note 12)	1	236	505	-	1,242	1,984
Disposals	-	(353)	(226)	-	-	(579)
Balance, December 31, 2022	1	1,258	4,206	-	2,665	8,130
Depreciation (Note 12)	-	212	506	-	1,310	2,028
Disposals / agreement modification	-	(87)	(375)	-	(235)	(697)
Balance, December 31, 2023	1	1,383	4,337	-	3,740	9,461
Current value						
December 31, 2023	(1)	747	1,975	49	6,359	9,129
December 31, 2022	159	214	1,325	228	6,824	8,750

As of December 31, 2023, the Bank has no assets under pledge to secure repayment of loans and other Liabilities.

The ongoing investments mostly refer to payments related to the purchase and installation of Smart Safe devices in the amount of EUR 40 thousand, the installation of an access roller in the amount of EUR 3 thousand, the purchase of stands for POS terminals in the amount of EUR 3 thousand, as well as on investments related to the access to the administrative building in the amount of EUR 2 thousand.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property with right of use

	<u>Business space</u>	<u>Equipment</u>	<u>Total</u>
Balance as at January 1, 2022	1,775	1,114	2,889
Balance as at January 1, 2023	5,724	1,100	6,824
New acquisitions	218	-	218
Depreciation	(949)	(361)	(1,310)
Termination of the contract means	(252)	-	(252)
Termination of contract accumulated depreciation	234	-	234
Modification of the lease period	573	72	645
Balance as ta December 31, 2023	<u>5,548</u>	<u>811</u>	<u>6,359</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

20. INTANGIBLE ASSETS

Intangible assets mostly consist of licenses and software. The following overview shows the movements in intangible assets during 2023 and 2022:

	<u>Other intangible assets</u>	<u>Licences</u>	<u>Software</u>	<u>Intangible assets in progress</u>	<u>Total</u>
Cost					
Balance, January 1, 2022	321	1,336	3,739	71	5,467
Additions	-	5	250	551	806
Transfers	-	-	66	(281)	(215)
Disposals	(34)	-	(8)	-	(42)
Balance, December 31, 2022	<u>287</u>	<u>1,341</u>	<u>4,047</u>	<u>341</u>	<u>6,016</u>
Additions	-	315	318	207	840
Transfers	-	-	129	(174)	(45)
Disposals	(47)	-	(462)	-	(509)
Balance, December 31, 2023	<u>240</u>	<u>1,656</u>	<u>4,032</u>	<u>374</u>	<u>6,302</u>
Impairment					
Balance, January 1, 2022	321	570	2,580	-	3,471
Depreciation (Note 12)	-	105	425	-	530
Disposals	(34)	-	(7)	-	(41)
Balance, December 31, 2022	<u>287</u>	<u>675</u>	<u>2,998</u>	<u>-</u>	<u>3,960</u>
Depreciation (Note 12)	-	124	420	-	544
Disposals	(47)	-	(461)	-	(508)
Balance, December 31, 2023	<u>240</u>	<u>799</u>	<u>2,957</u>	<u>-</u>	<u>3,996</u>
Current value					
December 31, 2023	<u>-</u>	<u>857</u>	<u>1,075</u>	<u>374</u>	<u>2,306</u>
December 31, 2022	<u>-</u>	<u>666</u>	<u>1,049</u>	<u>341</u>	<u>2,056</u>

Increases in intangible assets during 2023 relate mainly to the increase in software, i.e. implementation of new applications, within the application software Dabar in the amount of EUR 351 thousand, investments in process automation in the amount of EUR 55 thousand, as well as new services, functionalities and software improvements related to card and electronic banking in the amount of EUR 42 thousand.

Investments in progress for intangible investments amount to EUR 374 thousand. These investments mostly refer to software projects related to card and ATM operations.

In accordance with IAS 38, the Bank does not amortize licenses with an unlimited life. The useful life is reviewed at the end of each reporting period.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

21. OTHER ASSETS

In thousand EUR	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Assets acquired through collection of receivables	2,523	2,802
Prepaid costs	1,539	681
Receivables from custody	71	59
Advances	740	625
Other receivables from fees and commissions	417	303
Receivables from state funds	69	70
Receivables from costumers	305	222
Credit card receivables	824	789
Receivables from employees	334	316
Other financial receivables	27	23
Other operating receivables	629	677
Impairment of other assets	<u>(2,441)</u>	<u>(2,107)</u>
	<u>5,037</u>	<u>4,460</u>

Assets acquired through collection in the amount of EUR 2,523 thousand as of December 31, 2023 (December 31, 2022: EUR 2,802 thousand) refer to assets acquired based on the activation of loan collateral. Funds acquired on the basis of debt collection are recorded at the lower of the total value of the debt and the estimated value.

The value adjustment of other assets mostly refers to the acquired assets in the amount of EUR 1,450 thousand (December 31, 2022: EUR 1,085 thousand) and EUR 991 thousand to the value adjustment from business relationships (December 31, 2022: EUR 1,022 thousand).

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE

22.1 DEPOSITS FROM BANKS AND CENTRAL BANKS

In thousand EUR	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Avista deposits	2,380	2,417
Term deposits	35	44
	<u>2,415</u>	<u>2,461</u>

Bank deposits in the amount of EUR 2,415 thousand as of December 31, 2023 (December 31, 2022, EUR 2,461 thousand) refer to fixed-term and demand deposits, of which EUR 1,745 thousand refer to demand deposits from domestic banks, and EUR 635 thousand refer to demand deposits of foreign banks.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (CONTINUED)
22.2 DEPOSITS FROM CLIENTS

Demand deposits of natural persons in EUR are deposited with an interest rate of 0.01% per year.

In thousand EUR	December 31, 2023	December 31, 2022
Demand deposits:		
- financial institutions	3,496	3,101
- legal entities	235,384	206,694
- companies with majority state ownership	34,436	30,412
- municipalities (public organizations)	8,931	5,750
- funds	-	757
- individuals	340,711	316,154
- non-profit organizations	12,141	9,853
- The Government of Montenegro	40,260	13,978
- others	20,807	14,502
	<u>696,166</u>	<u>601,201</u>
Funds on escrow accounts	<u>3,281</u>	<u>3,706</u>
Short - term deposits:		
- financial institutions	-	1,000
- legal entities	2,375	3,080
- companies with majority state ownership	4,330	2,085
- municipalities (public organizations)	900	1
- individuals	35,968	39,327
- non-profit organizations	105	84
- The Government of Montenegro	100	400
- others	104	1,453
	<u>43,882</u>	<u>47,430</u>
Long-term deposits:		
- financial institutions	103	3
- legal entities	8,581	15,161
- companies with majority state ownership	2	-
- municipalities (public organizations)	527	1,372
- individuals	34,473	31,149
- non-profit organizations	71	57
- The Government of Montenegro	300	-
- others	302	102
	<u>44,359</u>	<u>47,844</u>
<i>Interest and other liabilities</i>		
Accruals: deposits	<u>1,164</u>	<u>1,253</u>
	<u>788,852</u>	<u>701,434</u>

Short-term and long-term term deposits of natural persons in EUR are deposited with an interest rate ranging from 0% to 6.30% per year depending on the savings package chosen and the amount to be termed (up to EUR 50 thousand and over EUR 50 thousand). Short-term and long-term term deposits of natural persons in foreign currency are deposited depending on the currency, with an interest rate ranging from 0% to 2.7% on an annual basis.

Short-term and long-term term deposits of companies in EUR are deposited with an interest rate ranging from 0% to 2.00% annually, depending on the term period and the amount being termed (up to EUR 100 thousand and over EUR 100 thousand). The interest rate on short-term and long-term time deposits in other currencies is 0.25%.

Demand deposits of legal entities are charged interest ranging from 0% to 0.40% annually.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

22. FINANCIAL LIABILITIES AT AMORTIZED VALUE (CONTINUED)
22.3. LOANS FROM CLIENTS WHICH ARE NOT BANKS

In thousand EUR	Period (Years)	Annual Interest Rate	December 31, 2023	December 31, 2022
European Investment Bank (2009.)	12	4.032%	-	-
European Investment Bank (2009.)	12	3.923%	-	-
European Investment Bank (2010.)	12	3.604%	-	-
European Investment Bank (2010.)	12	3.168%	-	-
European Investment Bank (2010.)	12	3.019%	-	-
European Investment Bank (2011.)	12	3.841%	-	185
European Investment Bank (2011.)	12	3.181%	-	99
European Investment Bank (2012.)	12	2.398%	213	420
European Bank for Reconstruction and Development (2020.)	2.5	2.860%	-	-
Green For Growth Fund, See S.A. (2021)	6.11	4.679%	3,182	3,500
			<u>3,395</u>	<u>4,204</u>
Investment Development Fund of Montenegro, Podgorica (from 2014. to 2021.)	5.11-13.05	1%-3%	5,939	8,964
Directorate for the Development of Small and Medium Enterprises (2007)	7.6	1%	50	50
Ministry of Finance (2021)	9	0%	2,531	2,531
			<u>8,520</u>	<u>11,545</u>
			<u>11,915</u>	<u>15,749</u>
<i>Accruals</i>				
Interest not due			13	15
Total			<u>11,928</u>	<u>15,764</u>

As of December 31, 2023, the Bank has liabilities to the European Investment Bank ("EIB") based on long-term loans in the amount of EUR 213 thousand (December 31, 2022: EUR 704 thousand). Loans are approved to encourage the development of small and medium-sized companies in Montenegro, with a grace period of up to two years. The guarantee of the Government of Montenegro is the means of ensuring the orderly repayment of the aforementioned Liabilities towards the EIB.

In the course of 2021, the bank also signed a loan agreement with the Green for Growth Fund, in the amount of 7 million euros, which funds are intended for financing the construction and renovation of energy-efficient buildings.

The payment is in two tranches of EUR 3.5 million, the first tranche was paid in December 2021.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

23. RESERVES

In thousand EUR	December 31, 2023	December 31, 2022
Provisions for potential losses for:		
- off-balance sheet exposures (note 7.2)	401	688
- operational risk and country risk (note 7.2)	441	300
- litigation / court disputes (note 7.2)	35	28
Provisions for employee retirement benefits and jubilee awards	47	52
	924	1.068

	Estimate per day	
	December 31, 2023	December 31, 2022
Discount rate for retirement benefits	2.88%	2.88%
Employee turnover ratio (does not include employees referred by employment agencies)	1.41%	1.43%
Inflation rate	8.70 %	13.00%
Expected salaries growth rate	-	-

Changes on the account of provisions for employee retirement benefits were as follows:

In thousand EUR	2023	2022
Balance at the beginning of the year	52	46
Provisions during the year (note 10)	5	5
Provisions during the year through capital	(6)	1
Use of provisions	(3)	-
Balance at the end of the year	48	52

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

HIPOTEKARNA BANKA A.D., PODGORICA

24. OTHER LIABILITIES

In thousand EUR	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Liabilities from consignment operations	227	384
Advances received	5,350	3,764
Liabilities for other taxes	64	49
Liabilities relating to deductions from salaries	76	91
Trade payables	954	890
Accrued liabilities		
Lease liabilities with the right of use	6,438	6,873
Custody operation liabilities	5,289	4,318
Suspense accounts	969	755
Other liabilities	7,014	3,837
	<u>26,381</u>	<u>20,961</u>

Lease liabilities

	<u>Business space</u>	<u>Technical equipment</u>	<u>Total</u>
Balance January 1, 2022	1,790	1,118	2,908
Balance January 1, 2023	5,769	1,104	6,873
New purchases	218	-	218
Interest expense	165	22	187
Contract termination	(19)	-	(19)
Modification of the rental price/lease period	563	65	628
Adjustments for the variable portion of the lease payments	-	-	-
Leasing payments	(1,074)	(375)	(1,449)
Adjustment for exchange rate differences	-	-	-
Balance, December 31, 2023	<u>5,622</u>	<u>816</u>	<u>6,438</u>

Maturity of lease liabilities

	<u>Up to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Lease liabilities	292	883	3,253	2,010	6,438

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HIPOTEKARNA BANKA A.D., PODGORICA

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

25. SHARE CAPITAL

The ownership structure of the Bank's share capital as at December 31, 2023 and 2022 was as follows:

	December 31, 2023			December 31, 2022			
	Shareholder	Number of shares	In thousand EUR	% share	Number of shares	In thousand EUR	% share
HIPOTEKARNA BANKA A.D Podgorica/HB - Zbirni Kastodi račun 1		3,220,397	16,465	34.44	2,345,210	11,991	22.90
Gorgoni Antonia		1,024,290	5,237	10.00	1,024,290	5,237	10.00
Gorgoni Paolo		880,509	4,502	8.60	880,509	4,502	8.60
Gorgoni Mario		804,939	4,116	7.86	870,205	4,449	8.50
Ibis SRL		498,568	2,549	4.87	804,939	4,116	7.86
Other		3,812,445	19,493	34.23	4,315,995	22,067	42.14
Total		10,241,148	52,362	100.00	10,241,148	52,362	100.00

- The Bank's share capital amounts to EUR 52,362 thousand consisting of 10,241,148 registered shares;
- The nominal value of one share is EUR 5.1129;
- Shares are dematerialized, infinitely transferable and registered. An extract from the register at the Central Depository Clearing Company AD Podgorica is the only proof of ownership of shares;

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

26. SUBORDINATED DEBT

An overview of the subordinated debt as of December 31, 2023 and 2022 is presented in the following overview:

In thousand EUR	Year of Debt	Period/ year	Annual interest rate	2023	2022
ubordinated bonds HB02	2017	6	5.90%	-	4,095
Subordinated bonds HB03	2019	6	5.00%	8,172	8,167
Subordinated bonds HB04	2021	6	4.50%	5,089	5,086
				13,261	17,348

HBO2 bonds mature in 2023.

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

The bank is obliged to coordinate the scope of its operations with the prescribed indicators, which are determined by the Law on Credit Institutions and by-laws of the Central Bank of Montenegro.

The bank is obliged to meet the following capital requirements at all times:

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

In addition to the aforementioned minimum coefficients prescribed by law, the Bank must also meet the following requirements for capital buffers:

- capital preservation buffer - 0.625%;
- countercyclical buffer – 0%;
- buffer for OSV institutions – 2%;

i.e. combined capital buffer in the amount of 2.625%.

The presentation of the minimum required and achieved capital ratios is given in the following table:

December 31, 2023

	MIN:	Ostvareno:
Common equity (CET 1)	9.15%	14.28%
Share capital (Tier 1)	11.11%	14.28%
Total Capital Ratio (TCR)	13.72%	16.33%

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2023

27. COMPLIANCE WITH THE REGULATIONS OF THE CENTRAL BANK OF MONTENEGRO
(Continued)

	<u>2023</u>	<u>2022</u>
Regulatory capital	58,139	58,466
Share capital (Tier 1)	50,829	48,149
Common equity (CET 1)	50,829	48,149
Supplementary capital (Tier 2)	7,310	10,317
Common Equity Tier 1 (CET1) ratio	14.28%	15.49%
Core capital ratio (Tier 1)	14.28%	15.49%
Total Capital Ratio (TCR)	16.33%	18.81%

In thousand EUR	Prescribed limits	Achieved business indicators	
		<u>2023</u>	<u>2022</u>
Equity	The minimum amount of founding capital is EUR 7.5 million	75,153	62,451
Common Equity Tier 1 (CET1) ratio	min 4.5% legal / min HB for 2023 9.15%	14.28%	15.49%
Core capital ratio (Tier 1)	min 6% legal / min HB for 2023 11.11%	14.28%	15.49%
Total Capital Ratio (TCR)	min 8% legal / min HB for 2023 13.72%	16.33%	18.81%
The bank's total exposure to one person or a group of related persons	Maximum 25% of the share capital	21%	15%
The sum of all the Bank's major exposures	Maximum 800% of the basic capital	179%	138%
Total exposure to all persons connected with the bank	Maximum 200% of the share capital	9%	8%
Total exposure to a member of the supervisory or management board and procurator of the credit institution	Maximum 10% of the share capital	0.79%	1.12%
Minimum liquidity indicator	0.9 at the daily level/1 at the decadal level	RLS 1.80 / DPL 1.63	RLS 2.58 / DPL 2.60
Foreign exchange risk - net open position for an individual currency	15% of the basic capital of the bank	1.19%	0.53%

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NOTES TO THE FINANCIAL STATEMENTS
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28. OFF BALANCE SHEET ITEMS

In thousand EUR	December 31, 2023	December 31 2022
Undrawn credit lines	41,121	34,846
Other letters of credit for payments abroad	83	-
Guarantees issued	-	286
-Payment guarantees		
-Performance guarantees	37,496	28,293
-Other types of guarantees	17,318	15,595
	<u>18,539</u>	<u>15,895</u>
Collateral based on receivables	<u>114,557</u>	<u>94,915</u>
Other off-balance sheet items	510,276	484,620
Evident interest	332,233	353,743
Total	<u>842,509</u>	<u>838,363</u>
Total off balance	<u>957,066</u>	<u>933,278</u>

Other types of guarantees include tender guarantees, customs and advance types of guarantees.

Other items of the Bank's off-balance sheet exposure are mostly related to received credit Liabilities under custody operations in the amount of EUR 330,639 thousand (2022: EUR 351,479 thousand) and written-off receivables from internal records in the amount of EUR 1,594 thousand (2022: EUR 2,265 thousand).

Obtained credit Liabilities for custody and brokerage operations include obtained credit Liabilities for custody operations in the amount of EUR 317,436 thousand (2022: EUR 279,962 thousand) and obtained credit Liabilities for brokerage operations in the amount of EUR 13,203 thousand (2021: EUR 71,517 thousand).

29. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statement, cash and cash equivalents comprises of all assets with maturities of up to three months as follows: cash and available assets held with the Central Bank of Montenegro, other banks and depositary institutions.

In thousand EUR	December 31, 2023	December 31 2022
Cash on hand	29,138	25,486
Cash on hand-foreign currency	3,242	3,616
Assets in the course of settlement	2,761	2,092
Gyro account	146,295	258,758
Correspondent accounts with foreign banks	65,970	24,543
Deposits placed with the Central Bank of Montenegro	<u>42,787</u>	<u>38,246</u>
	<u>290,193</u>	<u>352,741</u>

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30. **RELATED PARTY TRANSACTIONS**

Transactions with related parties are shown in the following tables:

	December 31, 2023	December 31 2022
<u>Assets</u>		
<u>Loans and receivables from banks</u>		
Podravska Banka d.d., Koprivnica	3,557	3,125
	3,557	3,125
<u>Loans and receivables from clients</u>		
Todorović Miljan Nikola	543	541
Employees and individuals related to them	233	209
	776	750
<u>Securities</u>		
Podravska Banka d.d., Koprivnica	3,740	3,740
	3,740	3,740
<u>Other financial receivables</u>		
Podravska Banka d.d., Koprivnica	3,054	7
	3,054	7
Total assets	11,127	7,622
<u>Liabilities</u>		
<u>Deposits from banks</u>		
Podravska Banka d.d., Koprivnica	85	389
	85	389
<u>Deposits from clients</u>		
Todorović Miljan Nikola	789	1,803
Miljan Todorović	304	304
Cerere s.p.a.	223	1,101
Gorgoni Mario	22	-
Gorgoni Paolo	2	-
Njavro Mato	36	18
Moniaci Antonio	2	16
Employees and individuals related to them	706	924
	2,084	4,166
<u>Other liabilities</u>		
Sigilfredo Montinari	62	16
Employees and individuals related to them	-	95
	62	111
Total liabilities	2,231	1,943

Expenses from transactions with related parties that have a significant impact on the Bank's operations in 2023 amounted to EUR 1,592 thousand (2022: EUR 1,968 thousand), while income amounted to EUR 281 thousand (2022: EUR 276 thousand).

31. LITIGATIONS

As of December 31, 2023, there are 31 (29 as of December 31, 2022) lawsuits against the Bank by legal entities and individuals. The total value of the disputes is EUR 694,945 (EUR 1,280,072 as of December 31, 2022) and the value of the dispute in the case of the lawsuit of Željko Rađenović P no. 3777/14 in the amount of EUR 553,360, because the procedure with regard to the main matter - has ended, ie the procedure is ongoing before the High Court in Podgorica, only in the part that concerns the awarded costs.

For now, it is not possible to reliably assess the outcome of the disputes, given that the Bank's management, based on the opinion of the legal advisor, does not expect negative outcomes of the disputes that could have materially significant effects on the Bank's financial statements for 2023.

The total amount of court disputes as of December 31, 2023 in which the Bank is the plaintiff amounts to EUR 6,531,043 (EUR 9,600,621 on December 31, 2022).

32. EARNING PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Bank divided by the weighted average number of ordinary shares outstanding for the period.

Basic and diluted earnings per share	<u>2023</u>	<u>2022</u>
Net profit (In 000 EUR)	12,257	6,042
Weighted average number of ordinary shares	<u>10,241,148</u>	<u>10,241,148</u>
Earning per share / In EUR	1.20	0.59

33. TAX RISK

Montenegrin tax laws are often interpreted differently and are subject to frequent changes. The interpretation of tax laws by the tax authorities in relation to the Bank's transactions and activities may differ from the interpretation of the Bank's management. As a result, transactions may be challenged by the tax authorities and an additional amount of taxes, penalties and interest may be imposed on the Bank. The statute of limitations for the tax liability is five years. This practically means that the tax authorities have the right to order the payment of outstanding liabilities within five years from the time the obligation arose. The Bank's management believes that the tax liabilities recorded in the accompanying financial statements are properly disclosed.

34. SUBSEQUENT EVENTS

At the date of these reports, the Bank has not identified significant events that would require adjustments to the accompanying financial statements.

35. EXCHANGE RATES

The official exchange rates used to convert foreign currency balance sheet items into EUR as at 31 December 2023 and 2022 were:

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
USD	1.1050	1.0666
CHF	0.9260	0.9847
GBP	0.86905	0.88693

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GENERAL INFORMATION ABOUT THE BANK

In accordance with the Decision on Content, deadlines and in the act of preparing and submitting financial statements of banks ("Official Gazette of Montenegro", no. 15/12, 18/13 and 24/18), general information about the Bank is presented as follows:

Name of the Bank: Hipotekarna banka AD, Podgorica
 Address: Street Josipa Broza Tita 67, 81000 Podgorica
 ID number: 02085020
 Telephone/Fax: +382 77 700 001
 Website: www.hipotekarnabanka.com
 Email address: hipotekarna@hb.co.me
 Number of branches: The bank has a headquarters and 21 branches
 Bank account: 907-52001-93

The ten largest shareholders of the Bank as of December 31, 2023 are:

Name and Surname / Company name	number of shares	Percentage share
HIPOTEKARNA BANKA A.D Podgorica HB - Aggregate		
Custody account 1	3,220,397	31.45%
GORGONI ANTONIA	1,024,290	10.00%
GORGONI PAOLO	880,509	8.60%
GORGONI MARIO	804,939	7.86%
IBIS SRL	498,568	4.87%
MONTINARI DARIO	472,723	4.62%
MONTINARI SIGILFREDO	472,723	4.62%
MONTINARI ANDREA	472,396	4.61%
MONTINARI PIERO	472,396	4.61%
GENMONT DOO	401,840	3.92%


Informations on the Bank's Supervisory Board and Management Board as of December 31, 2023


Supervisory Board	Name and surname	Residence information
Chairman	Sigilfredo Montinari	Lecce, Italy
Member	Antonio Moniaci	Trieste, Italy
Member	Miljan Todorović	Trieste, Italy
Member	Miljan Nikola Todorović	Milano, Italy
Member	Mato Njavro	Zagreb, Croatia

Management board	Name and surname	Residence information
Chairman of Management board	Esad Zaimović	Podgorica, Montenegro
Member of Management board	Jelena Vuletić	Podgorica, Montenegro
Member of Management board	Ana Golubović	Podgorica, Montenegro
Member of Management board	Nikola Spadijer	Podgorica, Montenegro
Member of Management board	Nataša Lakić	Podgorica, Montenegro

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


 Esad Zaimović
 President of the Management Board


 Ana Golubović
 Board member


 Jelena Vuletić
 Board member


 Nikola Spadijer
 Board member


 Nataša Lakić
 Board member

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