

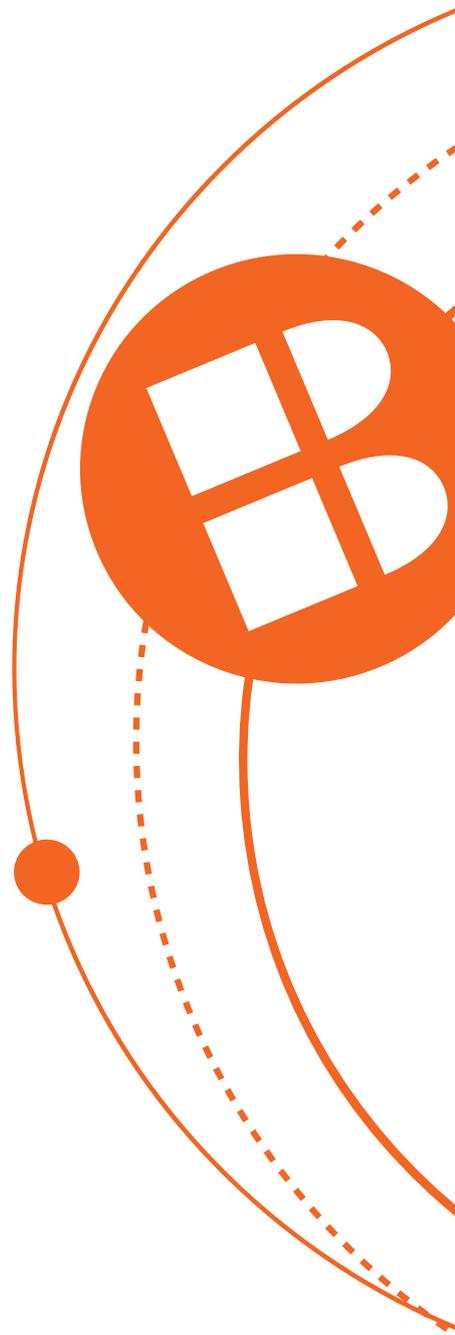
# ANNUAL REPORT

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FOR 2023

 **HIPOTEKARNA  
BANKA**

*Vama posvećena*





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# 1 FROM THE EXTERNAL AUDITOR'S REPORT

## 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>	
<p>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).</p>	<p>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.</p>

**INDEPENDENT AUDITOR'S REPORT (continued)**

**Key Audit Matters (continued)**

Key Audit Matters	Appropriate audit procedure
<p data-bbox="288 524 826 553"><i>Impairment of given loans and receivables from clients and provisions for off-balance sheet items</i></p> <p data-bbox="288 577 826 831">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="288 855 826 884">The most significant consideration relates to:</p> <ul data-bbox="347 913 826 1227" style="list-style-type: none"> <li>• Assumption that are used in the model of expected credit loss for the assessment od credit risk related to exposure and expected credit losses for future cash flow of the client.</li> <li>• Timely identification of the exposure with significant increase of exposure to the credit risk and credit impairment.</li> <li>• Valuation of collateral and assumptions of the future cash flow on individually estimated credit exposures.</li> </ul> <p data-bbox="288 1252 826 1393">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="831 553 1369 582">Our audit procedures included:</p> <ul data-bbox="890 589 1369 1727" style="list-style-type: none"> <li>• 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.</li> <li>• 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;</li> <li>• Assessment of key controls over the timely identification of exposure with significant increase of the credit risk and exposure identification of the impairment.</li> <li>• 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.</li> <li>• Assessment of key development of high-risk portfolio from the previous period with regard to industry standards and historical data.</li> <li>• 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;</li> <li>• Assessment of the accuracy and completeness of disclosure in financial statements.</li> </ul>

## 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

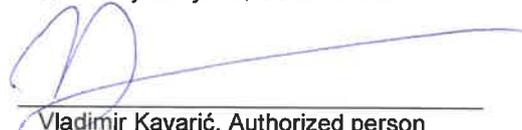


Đorđe Dimić, Certified auditor



Pero Đuričković, Certified auditor

Anastasija Boljević, Certified auditor



Vladimir Kavarić, Authorized person

**INCOME STATEMENT**

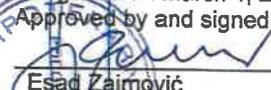
For the period from January 1 to December 31 2023

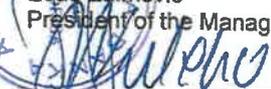
(In thousands of EUR)

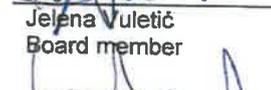
	Notes	2023	2022
Interest income and similar income	3.1, 6	24,383	18,390
Interest income on impaired loans		903	732
Interest expenses and similar expenses	3.1, 6	(2,169)	(2,529)
<b>NET INTEREST INCOME</b>		<b>23,117</b>	<b>16,593</b>
Fee and commission income	3.1, 9	28,998	23,101
Fee and commission expense	3.1, 9	(17,334)	(13,493)
<b>NET FEE AND COMMISSION INCOME</b>		<b>11,664</b>	<b>9,608</b>
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)
<b>OPERATING PROFIT</b>		<b>14,533</b>	<b>7,191</b>
Income tax	3.6, 15	(2,276)	(1,149)
<b>NET PROFIT</b>		<b>12,257</b>	<b>6,042</b>
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 Spadijer  
 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

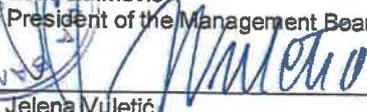
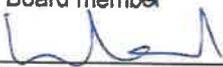
**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
For the period from January 1 to December 31 2023

(In thousand EUR)

	<u>2023</u>	<u>2022</u>
<b>Net profit</b>	<u>12,257</u>	<u>6,042</u>
<b>Total other comprehensive income</b>		
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>
<b>Total other result for current year</b>	<u>439</u>	<u>1,048</u>
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<u>12,696</u>	<u>7,090</u>

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

  
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**HIPOTEKARNA BANKA A.D., PODGORICA**

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

	<u>Notes</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>		<b>921,405</b>	<b>822,839</b>
<b>LIABILITIES</b>			
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
<b>TOTAL LIABILITIES</b>		<b>846,252</b>	<b>760,388</b>
<b>EQUITY</b>			
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		-	-
<b>TOTAL EQUITY</b>		<b>75,153</b>	<b>62,451</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>921,405</b>	<b>822,839</b>
<b>OFF-BALANCE SHEET ITEMS</b>	28	<b>957,066</b>	<b>933,278</b>

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

Ana Golubović  
Board member

Jelena Vučetić  
Board member

Nikola Spadijer  
Board member

Nataša Lakić  
Board member

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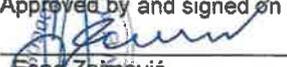
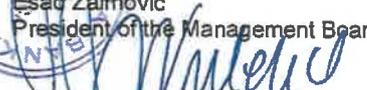
HIPOTEKARNA BANKA A.D., PODGORICA

**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)
<b>Balance as of 31 December 2022</b>	<b>52,362</b>	<b>-</b>	<b>10,383</b>	<b>(294)</b>	<b>62,451</b>
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
<b>Balance as of 31 December 2023</b>	<b>52,362</b>	<b>-</b>	<b>22,640</b>	<b>151</b>	<b>75,153</b>

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 Vučić  
 Board member  
  
 Nataša Lakić  
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HIPOTEKARNA BANKA A.D., PODGORICA

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

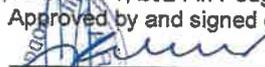
(In thousand EUR)

	2023	2022
<b>Cash flows from business activities</b>		
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)
<b>Cash inflow/outflow from business activities</b>	<b>(36,933)</b>	<b>93,561</b>
<b>Cash flows from investing activities</b>		
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
<b>Cash inflow/outflow from investing activities</b>	<b>(23,025)</b>	<b>(9,905)</b>
<b>Cash flows from financial activities</b>		
Increase/reduction of borrowed assets	(3,835)	(6,896)
<b>Cash inflow/outflow from financial activities</b>	<b>(3,835)</b>	<b>(6,896)</b>
Exchange rate effect on cash and cash equivalents	1,245	1,193
<b>Net increase/reduction of cash and cash equivalents</b>	<b>(62,548)</b>	<b>77,953</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>352,741</b>	<b>274,788</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>290,193</b>	<b>352,741</b>

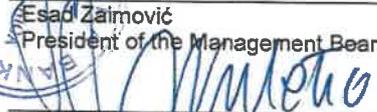
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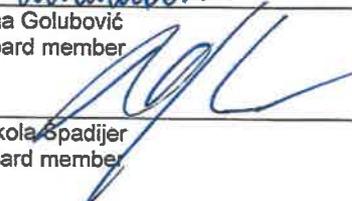
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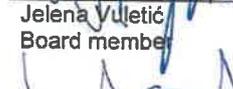


  
Esad Zaimović  
President of the Management Board

  
Ana Golubović  
Board member

  
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# 2

## BUSINESS ACTIVITIES AND ORGANISATIONAL STRUCTURE OF THE BANK

# I BUSINESS ACTIVITIES AND ORGANISATIONAL STRUCTURE OF THE HIPOTEKARNA BANKA

## ABOUT THE BANK

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

The Law on Credit Institutions and the Law on Business Undertakings, as well as enabling regulations of the Central Bank of Montenegro (hereinafter: the CBCG) prescribe the conditions for founding and functioning of banks in Montenegro.

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

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

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

As at 31 December 2023, the Bank had 257 persons working in the Bank (216 Bank employees and 41 secondments), of which 11 held a master's degree (4.29%), 131 held a university degree (50.97%), 63 held a bachelor's degree (24,51%), and 52 held a secondary school degree (20.23%).

## CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE RULES

The bodies of the Bank are as follows:

- » General Shareholders Assembly ,
- » Supervisory Board, and
- » Management Board.

### General Shareholders Assembly

General Shareholders Assembly is the highest body of the Bank.

The General Shareholders Assembly of the Bank is composed of its shareholders whose interests may be represented also by authorised proxies.

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

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

- » The share capital of the Bank amounts to EUR 52,361,965.61, and it consists of 10,241,148 common shares issued in the name of the holder;
- » The nominal value of one share is EUR 5,1129;
- » The shares are dematerialised, indefinitely transferrable and issued in the name of the

holder. The excerpt from the registry with the Central Securities Depository and Clearing Company AD Podgorica is the only evidence of the ownership of shares;

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

1. right to attend the General Shareholders Assembly,
2. right to manage proportionately to the share in capital of this class of shares,
3. right to dispose of shares, in accordance with the applicable regulations,
4. pre-emptive right to acquire new shares,
5. right to acquire shares free of charge in case of the increase in share capital from the Bank's funds, proportionately to its investment,
6. right to dividend pay-out, after the distribution of preferred shares to owners, when the Bank's General Shareholders Assembly decides to pay out the dividend,
7. right to obtain, at personal request, a copy of the balance sheet and profit and loss statement, as well as external auditor's report,
8. right to have an insight, thirty days prior to the session of the General Shareholders Assembly and at the General Shareholders Assembly, in the financial reports including also external auditor's report,
9. right to proportionate part of assets in case of Bank's winding up and other rights in accordance with the applicable regulations.

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

3) Significant direct and indirect equity investments (15 largest shareholders):

<b>Name</b>	<b>Number of shares</b>	<b>% of capital</b>
CERERE SPA - TRST, ITALIJA	1.775.394	17,33%
GORGONI ANTONIA	1.024.290	10,00%
GORGONI PAOLO	880.509	8,60%
GORGONI MARIO	804.939	7,86%
TODOROVIC MILJAN	663.398	6,47%
IBIS SRL	498.568	4,87%
MONTINARI SIGILFREDO	472.723	4,62%
MONTINARI DARIO	472.723	4,62%
MONTINARI ANDREA	472.396	4,61%
MONTINARI PIERO	472.396	4,61%
GENMONT DOO TIVAT	401.840	3,92%
CERFIN DOO	396.070	3,86%
BALANCE AK DOO TIVAT	329.190	3,21%
KRUGGER DOO PODGORICA	276.511	2,70%
TODOROVIC MILJAN NIKOLA	108.963	1,06%

4) There are no securities giving special control rights;

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

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

- 7) There is no agreement between shareholders with which the issuer is familiar and that may result in the restriction of transfer of securities and/or voting rights;
- 8) The manner of appointing and removing from office of members of the Management Board is defined by applicable laws and other regulations;
- 9) The powers of the members of the Management Board are defined by the applicable laws and other regulations;
- 10) There are no significant agreements in which the issuer is a contracting party and which produce legal action, are amended or terminated after the takeover of the issuer in the process of the public initial offering for takeover and their legal effects, unless these agreements are such that their disclosure would have significant harmful effects on the issuer, provided that the issuer is not explicitly obliged to disclose such a data in accordance with the law;
- 11) Members of the Management Board and individual directors of the organisational parts of the Bank have covenants which regulate the payment of fee for the termination of term of office in the amount ranging from 6 (six) to 18 (eighteen) monthly net salaries.

Management bodies of the Bank are: a) Supervisory Board, and b) Management Board.

### Supervisory Board

The Supervisory Board is a management body of the Bank, which performs an oversight function of the operations of the Bank. The powers of the Supervisory Board are specified by the Law on Credit institutions, the Law on Business Undertakings, and the Bank's Articles of Association.

The members of the Supervisory Board are elected and appointed by the General Shareholders Assembly of the Bank.

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

#### Supervisory Board of the Bank:

- Sigilfredo Montinari, Chairperson
- Miljan Todorović, Member
- Miljan Nikola Todorović, Member
- Antonio Moniaci, Member
- Mato Njavro, Member

Supervisory Board committees:

Risk Committee:	Remuneration Committee:	Nomination Committee:
» Antonio Moniaci, Chairperson	» Miljan Todorović, Chairperson	» Sigilfredo Montinari, Chairperson
» Sigilfredo Montinari, Member	» Antonio Moniaci, Member	» Antonio Moniaci, Member
» Mato Njavro, Member	» Mato Njavro, Member	» Mato Njavro, Member

In addition to the above mentioned committees, the Supervisory Board also appoints and dismisses the Audit Committee, which has 3 (three) members.

Members of the Audit Committee are:

- Draško Popović, Chairperson
- Vedrana Cicvarić, Member
- Goran Knežević, Member

During 2023, the Supervisory Board of the Bank passed decisions on the issues from within its remit, and it had continuously overseen the operations of the Bank, and periodically considered reports on the financial situation, operations and risks. In addition, the reports of the standing bodies and control functions were regularly considered at the meetings of the Supervisory Board.

The Supervisory Board also reviewed reports on the completed examinations of the CBCG, and followed up the implementation of measures and recommendations that related to the improvement of operations.

### **Management Board**

The Management Board is a management body of the Bank which performs an executive function and is accountable for managing the Bank on day-to-day basis and for its representation. The powers of the Management Board are specified by the Law on Credit Institutions, the Law on Business Undertakings, enabling regulations, and the Bank's Articles of Association.

The members of the Management Board are elected and appointed by the Supervisory Board of the Bank.

### **Management Board of the Bank:**

- Esad Zaimović, President
- Ana Golubović, Member
- Jelena Vuletić, Member
- Nikola Špadijer, Member
- Nataša Lakić, Member

The Management Board of the Bank holds meetings as needed, and at least once a month. During 2023, the Management Board of the Bank held 31 meeting where the issues were discussed from within its remit.

The Management Board manages the affairs of the Bank and oversees the work of the employees in the Bank on a daily basis.

The Management Board of the Bank ensures that the Bank operates in accordance with the regulations governing the operations of the Bank, and sets up and implements a reliable system of Bank management in accordance with the Law on Credit Institutions.

The Management Board of the Bank reviews periodically and at least once a year, the efficiency of the system for Bank management, including the suitability of procedures and efficiency of control functions, and notifies the Supervisory Board of the conclusions and take proper measures to eliminate the identified deficiencies.

The Management Board of the Bank also reviewed reports on completed examinations of the Central Bank of Montenegro, as well as reports of other supervisory institutions.

## **CORPORATE GOVERNANCE RULES**

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

Instead of the so-called monistic (one-line) model, according to which there is one body that performs the function of oversight and management (board of directors), the Bank developed an organisational structure in accordance with the provisions of the Law on Credit Institutions. The Law envisages a dualistic (two-line) management model according to which the supervisory board performs the oversight function, and the management function is performed by the credit institution's management board, whereby the management and oversight functions are more clearly delineated, and the management of the credit institution is ensured on a daily basis.

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

### **General Shareholders Assembly of the Bank**

The shareholders of the Bank exercise their rights at the Bank's General Shareholders Assembly. The General Shareholders Assembly of the Bank decides on issues prescribed by the Law on Credit Institutions, Law on Business Undertakings, and the Bank's Articles of Association.

The Supervisory Board of the Bank convenes the General Shareholders Assembly and the right to convene the General Shareholders Assembly also have the shareholders with at least 5% holding in the share capital of the Bank in accordance the Law on Business Undertakings and the Bank's Articles of Association.

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

### **Supervisory Board and Management Board**

The obligations and responsibilities of the members of the Bank's Supervisory and Management Boards are determined by the Law on Credit Institutions, the Law on Business Undertakings and the Bank's Articles of Association.

The process for appointing and removing from office or relieving of duty of the members of the Bank's Supervisory or Management Board is determined by the Law on Credit Institutions, the Law on Business Undertakings and the Bank's Articles of Association.

### **Supervisory Board**

The Supervisory Board is a management body of the Bank, which performs an oversight function of the operations of the Bank. The powers of the Supervisory Board are specified by the Law on Credit institutions, the Law on Business Undertakings and the Bank's Articles of Association.

The members of the Supervisory Board of the Bank, who are previously authorised by the Central Bank of Montenegro, are elected by the General Shareholders Assembly. The term of office of the members of the Supervisory Board of the Bank lasts 4 years and they may be re-elected. Members of the Supervisory Board of the Bank must meet the requirements prescribed by the Law on Credit Institutions, the Law on Business Undertakings, relevant decisions of the Central Bank of Montenegro and Bank's internal acts. The members of the Supervisory Board must jointly have professional knowledge, skills and experience required for independent and autonomous oversight of operations of the Bank, in particular for understating tasks and significant risks of the Bank. The Supervisory Board has at least 5 (five) and at a maximum 9 (nine) members, of which two fifths are independent members in accordance with the provisions of the Law on Business Undertakings.

The Supervisory Board of the Bank established the following standing bodies:

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

### **Management Board of the Bank**

The Management Board is a management body of the Bank which performs an executive function and is accountable for managing the Bank on a day-to-day basis and for its representation. The powers of the Management Board are specified by the applicable laws and other regulations and the Bank's Articles of Association.

The Management Board of the Bank has five members who are appointed by the Supervisory Board for a period of four years and the member whose term of office has elapsed may be re-appointed.

The members of the Management Board of the Bank must meet the requirements prescribed by the Law on Credit Institutions, the Law on Business Undertakings, relevant Decision of the CBCG and Bank's internal acts.

Since the members of the Bank's Management Board manage the Bank's affairs on a daily basis, they are also responsible for managing the risks to which the Bank is exposed in its operations. The chairperson of the Management Board represents the Bank in accordance with the decisions of the Shareholders' Assembly, the Supervisory Board and the Management Board. When undertaking legal actions and legal affairs on behalf and for the account of the Bank, the chairperson of the Management Board must ensure the signature of one more member of the Management Board, who is, as a rule, functionally responsible for the business area in question, i.e., the signature of another member of the Management Board. The members of the Management Board must be employed in the Bank, full-time, and must manage the Bank's affairs from the territory of Montenegro.

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

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

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

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

## **STATEMENT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE**

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

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

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

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

Having considered the aforesaid, in accordance with the provisions of Articles 15 and 19 of the Law on Accounting (OGM 145/21, 152/22), the members of the Managing Board of the Bank declare that they apply the Code of Corporate Governance in Montenegro, as well as codes of business conduct of relevant organisations, of which it is a member.

## **DIVERSITY POLICY AND STRUCTURE OF THE BANK'S MANAGEMENT BODIES**

The scope of this Policy is based on the principle of proportionality, i.e. taking into account:

- type, scope and complexity of operations;
- risk profile, and
- the Bank's business strategy.

In general, with regard to diversity, the Bank's policy is to hire the best candidates for jobs or positions, regardless of whether they are male or female or of age.

Historically speaking, the Bank had a diverse structure and a significant number of women in leading positions, and for several years an equal number of male and female executive directors.

The Bank's objectives will continue to be that, in addition to gender equality, the candidates' expertise, a wide range of skills and competences, as well as previous experience are taken into account during selection, in order to meet all the necessary criteria for diversity, and not only in management bodies, but also in the Bank as a whole, while enabling the representation of different views, experience and independence of opinion as an incentive for decision-making and the execution of tasks as a whole.

The structure of the Bank's Management Board is defined by positive regulations, the Articles of Association and other internal acts of the Bank, which ensure that the composition of the Bank's Management Board as a whole has the necessary professional knowledge, skills and experience, which enables it to independently and autonomously manage the Bank's affairs and thus to establish and implement legal, safe and stable operations of the Bank.

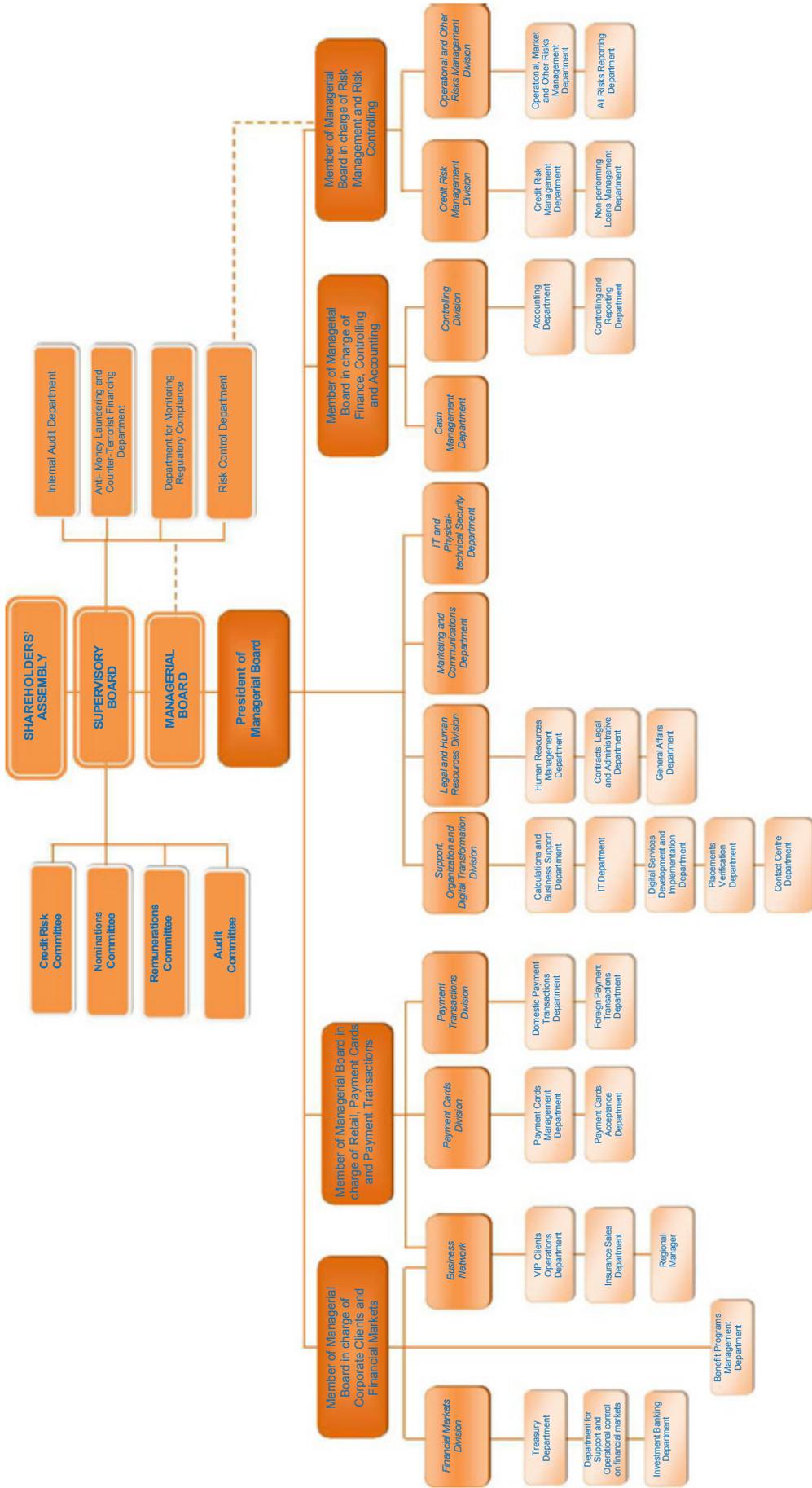
The powers and responsibility of the Bank's Supervisory Board and its working bodies is determined by positive regulations, the Articles of Association and other internal acts of the Bank, and the structure of the Supervisory Board in terms of diversity, or the fulfilment of the quantitative objective for the participation of the less represented gender, at the level of at least one third, is in the domain of the Bank's shareholders, so by adopting this Policy at the Bank's General Shareholders Assembly, the shareholders simultaneously assume an obligation regarding the target structure of the Bank's Supervisory Board.

## MANAGEMENT OF THE BANK

<b>MANAGEMENT BOARD:</b>	<p><b>Esad Zaimović</b>, President of the Management Board</p> <p><b>Nikola Špadijer</b>, member of the Management Board for retail banking, payment card operations and payment system</p> <p><b>Ana Golubović</b>, member of the Management Board for corporate banking and financial markets</p> <p><b>Jelena Vuletić</b>, member of the Management Board for risk management and risk control</p> <p><b>Nataša Lakić</b>, member of the Management Board for finance affairs, controlling and accounting</p>
<b>CONTROL FUNCTIONS:</b>	
INTERNAL AUDIT DIVISION	Veselin Ivanović, Chief Internal Auditor
COMPLIANCE SERVICE	Danka Dragičević, Director
RISK CONTROL SERVICE	Goran Smolović, Director
<b>SENIOR MANAGEMENT:</b>	
FINANCIAL MARKETS DEPARTMENT	Gojko Maksimović, Director
PAYMENT CARD OPERATIONS DEPARTMENT	Sejad Šehić, Acting Director
PAYMENT SYSTEM DEPARTMENT	Milena Grupković, Director
ORGANISATION AND DIGITAL TRANSFORMATION SUPPORT DEPARTMENT	Nikola Milović, Director
LEGAL AFFAIRS AND HUMAN RESOURCES DEPARTMENT	Božo Đurašković, Director
CREDIT RISK MANAGEMENT DEPARTMENT	Milana Stevanović, Director

OPERATIONAL, MARKET AND OTHER RISKS MANAGEMENT DEPARTMENT	Nikola Pejović, Director
INFORMATION AND PHYSICAL AND TECHNICAL SECURITY DEPARTMENT	Haris Dizadarević, Director
MARKETING AND COMMUNICATION DEPARTMENT	Eva Ivanović, Director
BUSINESS NETWORK	Tamara Braunović, Director
TREASURY SERVICE	Vladan Marković, Director
BENEFIT PROGRAMME MANAGEMENT SERVICE	Jelena Stojanović, Director
PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING DIVISION	Sanja Mijušković, Authorised Officer

# BANK'S ORGANISATIONAL CHART







# 3

**DEVELOPMENT,  
FINANCIAL POSITION  
AND BUSINESS  
RESULTS OF THE BANK**

## II DEVELOPMENT, FINANCIAL POSITION AND BUSINESS RESULTS OF THE BANK

### BUSINESS OPERATIONS

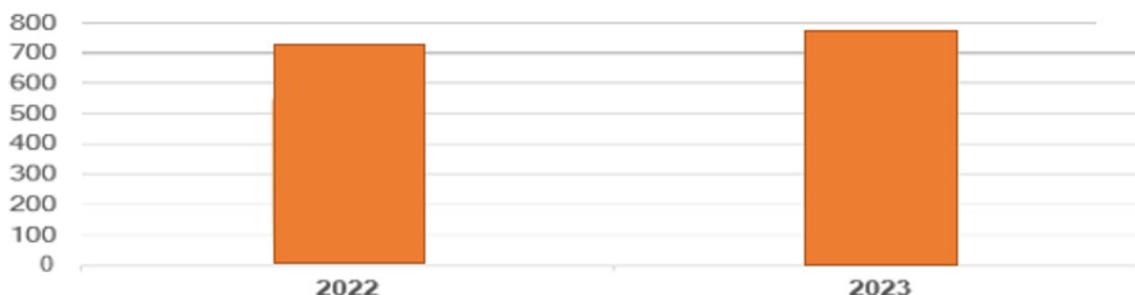
#### DEPOSITS

In 2023, deposits saw a y-o-y growth of 12.45%, which indicates the continued growth of the confidence of citizens and economy in the Bank also in 2023, in addition to high level of deposits recorded in the previous years.

Stock of total deposits<sup>1</sup>:

Year	Total deposits (EUR '000)	% of change
2022	702,642	-
2023	790.103	12.45%

The following graph shows total deposits in EUR '000,000:



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

With regard to the share of time and demand deposits in total deposits, the Bank maintained adequate deposit structure.

The share of deposits of legal persons accounted for 47.75% of total deposits, while deposits of natural persons stood at 52,25%, as shown in the graph below:

<sup>1</sup> Deposits from clients and banks do not include interest payables and prepayments and accruals



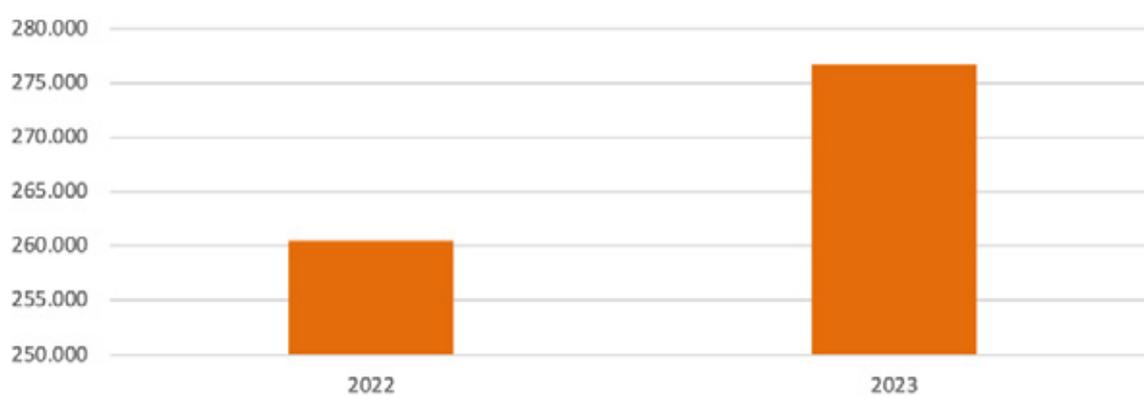
## LOANS

In 2023, as well as in the previous years, the Bank granted loans to a large number of new clients. An ongoing support and further development of the existing clients is an imperative for the Bank, while employees of the Bank put a special focus on anticipating the needs of the clients, optimising the structuring of arrangements and tariffs for the existing clients.

One of the recognizable characteristics of the Bank is that, in addition to granting loans, it also provides consulting services to clients, with the aim of improving operations and achieving better business results for both the Bank and its clients.

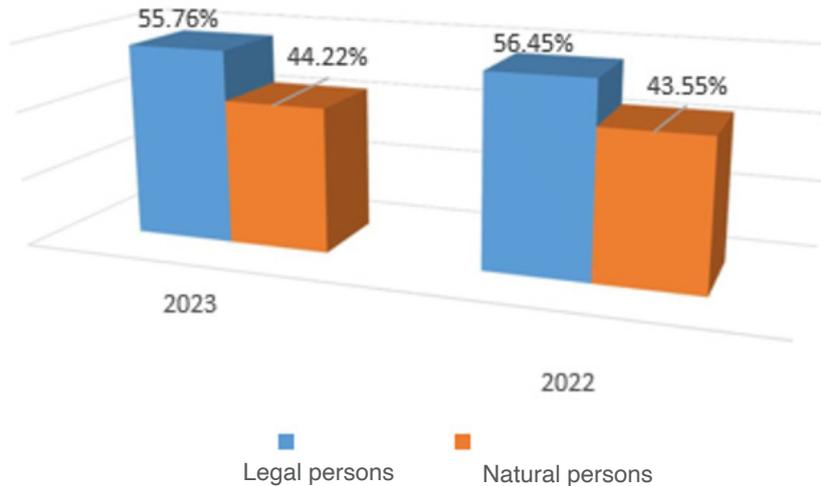
Stock of total loans<sup>2</sup>:

Year	Loans (EUR '000)	% of change
2022	260.472	-
2023	276.748	6,25%



With regard to the structure of total loans, household loans made up 44.22%, while the share of corporate loans was 55.76% of total loan portfolio.

<sup>2</sup> Stock of total loans is the amount of gross loans granted to clients and banks and they do not include interest receivables and prepayments and accruals



In 2023, the Bank continued to optimise portfolio for guarantees issues, taking into account the structure and purpose of the guarantees. As at-end 2023, as a result, the portfolio of guarantees amounted to EUR 73.3 million.



The Bank's range of services offered to legal persons included cash loans, revolving loans, loans for payment of liabilities to suppliers, loans for refinancing of debts with other banks, overdraft loans, factoring, as well as all types of guarantees.

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

## DEVELOPMENT OF NEW PRODUCTS AND SERVICES

As a leader in banking innovations in Montenegrin market, and in accordance with global trends, Hipotekarna Banka offered its clients, among the first in Montenegro and the region, a mobile application that enables business entities, companies and entrepreneurs to turn their mobile phone into a POS terminal (a terminal for payment via payment cards and mobile wallet). This innovative solution is intended to improve the operations of business entities - small and medium-sized enterprises, as well as registered entrepreneurs, regardless of their registered activity.

Cash withdrawal when paying by cards is a new service that the Bank offers to merchants, users of POS terminals. Using this service, when shopping, the consumer can also request a cash payment from his card from the seller.

In cooperation with Mastercard, Hipotekarna Banka enabled its users to use the Google Pay service. This is a service that allows the Android operating system users to make payments without physically using a payment card.

During the past years, we organised several activities where we rewarded users of the MojNovčanik application, Apple pay, as well as the 50,000th user of the Premium card.

This year was also significant in the field of application of new technologies, with which the Bank continued the practice of introducing software robots and solutions that use artificial intelligence. Artificial intelligence has become an indispensable and reliable participant in the processes within the Bank. The Bank today, with the help of companies such as Uhura Solutions and Robotiq, is able to massively process documents from executive institutions with which it has mandatory cooperation. The solution autonomously opens received mails, "reads" them and selects the necessary attributes, which it robotically enters into the information system.

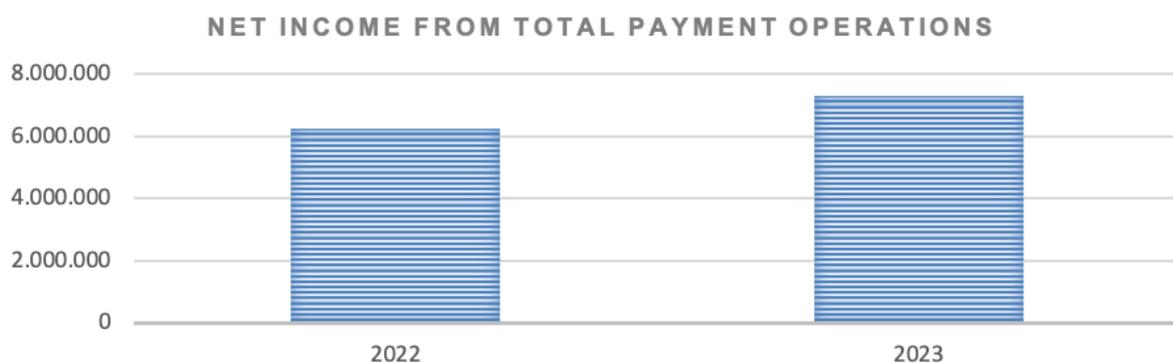
Another process that significantly contributes to easier business, as a result of cooperation with Robotiq, is the automatic closing of loans without any balance. After they are identified as potential loans for closing, in accordance with the given conditions, the closing is performed by the robot.

## PAYMENT OPERATIONS

In 2023, the Bank's payment operations were characterized by additional improvements, both in terms of procedure and certain application solutions. At the same time, the parameters defining the performance in this segment have grown. The set payment operation targets were achieved and exceeded.

In 2023, the payment operations of the Bank were characterized by additional improvements, in terms of both the procedures and certain application solutions. At the same time, the parameters defining this segment of the Bank's operations have grown. The targets set for the payment operations were achieved and exceeded.

Net income from the total payment operations rose by 17% compared to the previous year.

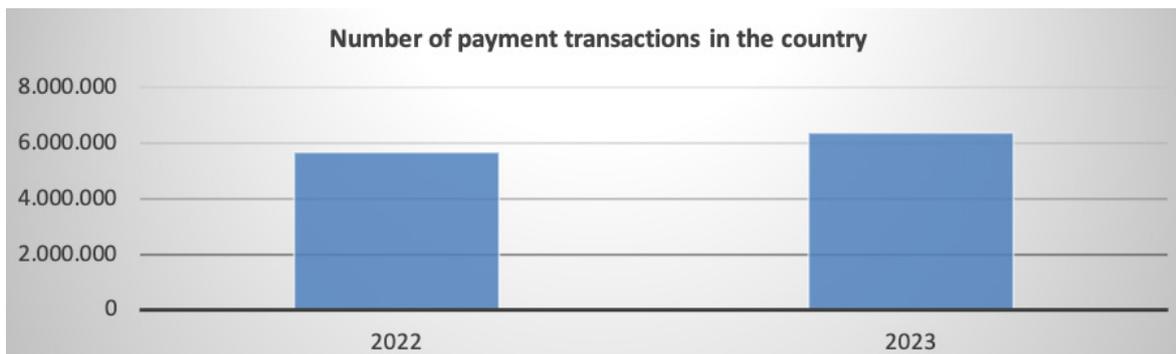


## DOMESTIC PAYMENT OPERATIONS

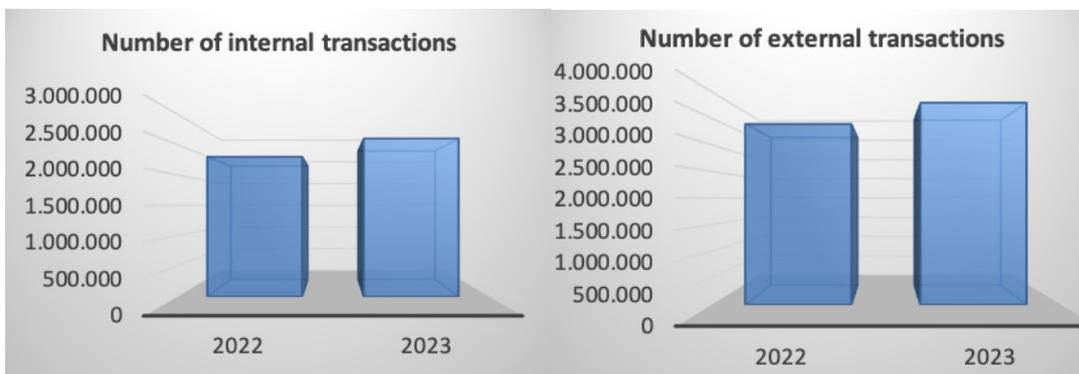
Following on from the previous year, the Bank faced significant changes in the regulations in this segment in 2023, as well the need to adjust its internal documentation and procedures to the changes, which was successfully completed. Also, new processes have been introduced into daily activities, such as the process of controlling electronic orders  $\geq$  EUR 50,000 and controlling documentation before opening accounts for legal entities and entrepreneurs, through the verification procedure.

As a continuation of the current trend, the Bank's domestic payment operations saw growth in 2023.

Total number of outgoing and incoming transactions in the domestic payment operations increased by 12.25% compared to 2022.



In accordance with the general trend, the number of internal transactions in the Bank increased by 13% compared to the previous year. External transactions also saw growth of 11.7%, y-o-y.



Electronic transactions (e-banking) recorded a significant increase, which represented a continuation of a good trend and indicates the clients are increasingly choosing electronic applications and execute payments using electronic payment orders.

## INTERNATIONAL PAYMENT OPERATIONS

During 2023, similarly to the previous year, this segment of the Bank's operations was exposed to various challenges (in the field of domestic regulation but also the additional tightening of correspondent bank standards), which it successfully overcame, while maintaining the continuity of a high number and volume, both in payments and in inflows.

Additional attention was paid to diversification when processing payments, i.e., to reducing the risk of doing business through one or a couple of correspondent banks, and actions were taken in a planned way, aiming at predetermined targets, and their achievement was checked periodically. Also, as a result of the efforts and efficiency of colleagues from the Financial Markets Department, new correspondent accounts were opened, of which the USD account opened at Erste Group Bank AG Vienna and the CHF account opened at Credit Suisse AG are certainly the most important ones for the processing of transactions, as a task of the International Payment Service.

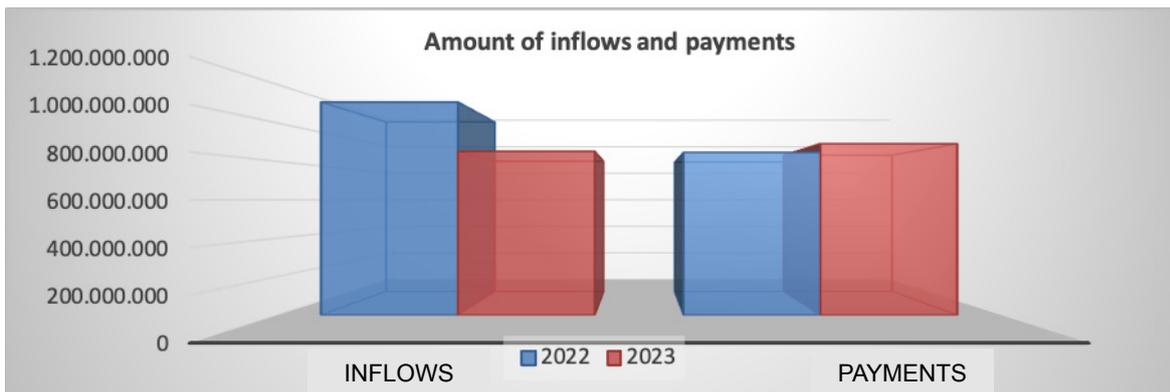
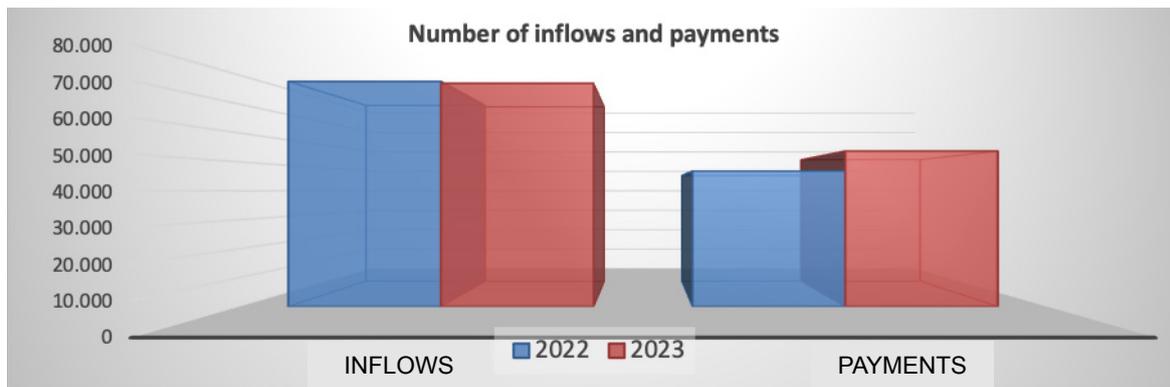
In the last quarter of 2023, the Bank successfully completed testing for the SWIFT GO programme, and we expect it to be connected in the next year. It is important to note that our most important correspondent banks joined the programme (Intesa Sanpaolo Milano and Raiffeisen International Bank AG Vienna). It is expected that this programme will improve and simplify the implementation of transactions up to EUR 10,000, for which the execution time would be 4 hours, with fees known and charged in advance. This would nullify the advantages of payment platforms, WU and similar systems that also handle smaller amounts. For the beginning, the Bank will be in the role of recipient of these messages – i.e., we are starting the programme through the implementation of inflows.

The increase in the number and volume of transactions on the one hand, i.e. increasingly complex compliance/AML/FT requirements on the other, and above all the significant global increase in external fraud and new, sophisticated hacking techniques, require a decisive and effective response. In this sense, during the previous year, the Bank started activities to improve and advance certain segments of the control of international payment transactions. At the same time, and further to the above, the Bank started negotiations regarding the implementation of new SWIFT functionalities (Proof of Value solutions for PreValidation and Transaction Screening services) that would be harmonized with the new version of online banking with respect to foreign payment transactions. We believe that in this way we will refresh the offer and functionality of international payment services.

In the field of documentary business, the Bank, in cooperation with correspondent banks and the EBRD, achieved standard good results and successfully responded to the needs of clients.



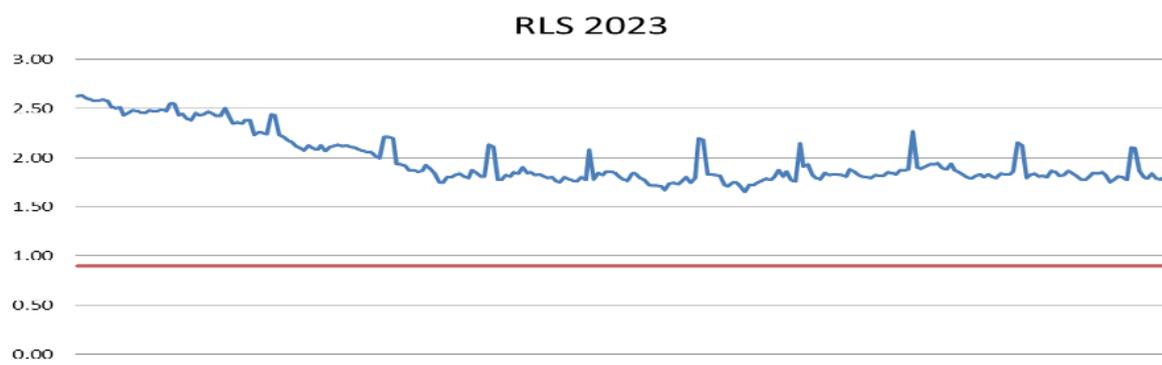
The total number of international payment transactions in 2023 increased by 2.5% over the previous year. The number of international payments increased by 15% compared to the previous year.



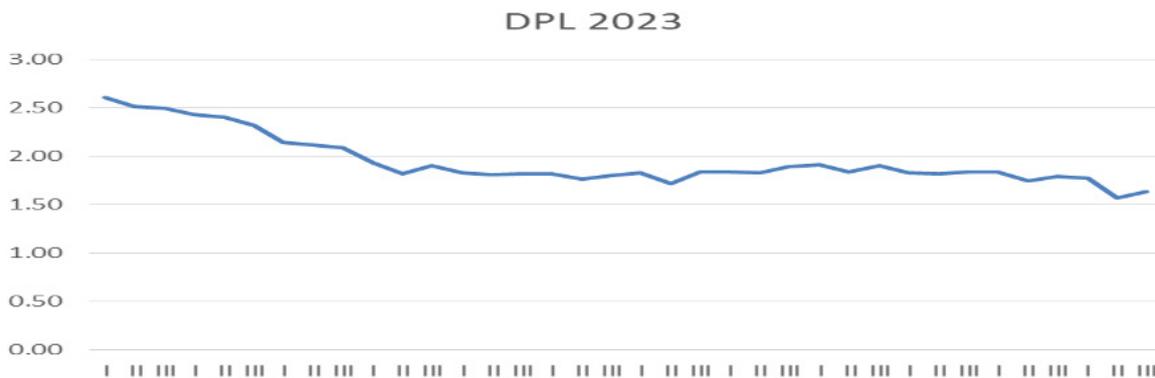
## ASSET MANAGEMENT

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

Thanks to its rational liquidity management, the Treasury Service, operating as a part of the Financial Markets Department, managed to maintain the level of liquid assets and total liquid position of the Bank at the satisfactory level throughout 2023. In addition, the Service reconciled funding sources with loans by daily, weekly, ten-day and monthly scheduling of available liquid assets. Adequate allocation of funds was performed through close cooperation with other departments and services in the Bank. This allowed the Bank to meet its obligations towards creditors regularly, as well as to accommodate client requests within the shortest time possible. The daily liquidity ratio, which is calculated using the methodology set by the CBCG, was above the statutory minimum of 0.90 throughout 2023.



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



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

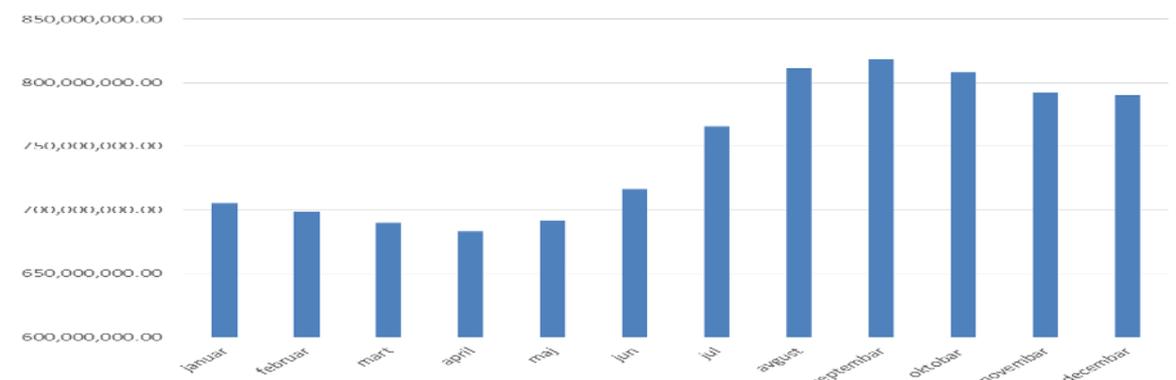
During 2023, the Bank also achieved high values in terms of the LCR. In accordance with the CBCG Regulation, the minimum amount of this ratio is 100%. The highest value of the ratio was achieved by the Bank in July 2023, when the LCR was 529%, while the lowest value was achieved in January 2023, when the LCR was 328%.

At the end of 2023, the ratio was 431%. The high level of liquid coverage is the product of a large number of securities meeting the criteria to be classified as liquid assets, as well as a large number of deposits meeting the criteria for the category of stable deposits, first of all.



The Bank was recognized as one of the most reliable and most liquid banks in the banking system of Montenegro. This statement is supported by the 2022 year-end data showing total deposits in the amount of EUR 703 million, and at the end of 2023 even EUR 790 million.

## Total deposits during 2023



Surplus liquid assets were invested in securities and short-term deposits in EUR and USD with foreign banks. At the end of 2023, the securities portfolio amounted to EUR 352 million, and in the structure of the securities portfolio, Montenegrin government debt securities accounted for the largest share, of about EUR 118 million.

Freely available cash was used for making time deposits in cooperation with six banks, and the average amount of time deposits was approx. EUR 40 million cumulatively. In 2023, the Bank took part in T-Bill auctions, where it bought T-Bills in nominal amount of EUR 30 million.

In 2023, significant fluctuations in currency exchange rates were recorded, especially in the EUR/USD currency pair, which has the greatest impact on the Bank's exposure to the risk of exchange rate changes.



Even in these conditions, the Treasury Service managed to achieve an exceptional result on the basis of income from foreign exchange rate gains, which is the result of adequate risk management of exchange rate changes. At the end of 2023, the total income from exchange rate gains amounted to EUR 1.245 million, which had a significant impact on the Bank's final financial result.

## INVESTMENT BANKING

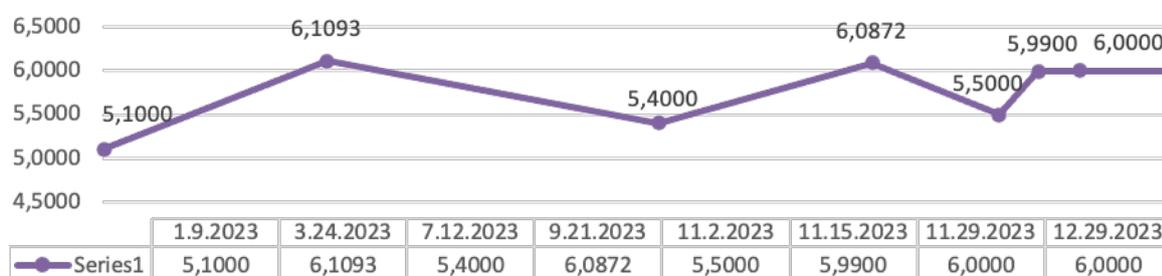
### Montenegro's Capital Market

In 2023, total turnover recorded at the Montenegro Stock Exchange amounted to EUR 12,261,010.93, which was a y-o-y decrease of about 84.32%. In 2023, some 1,753 deals were concluded in the Montenegrin market, which was a decrease of about 29.54% compared to 2022.

MNSE 10 index (index that follows the price trend in 10 most liquid companies) rose by 5.36% last year, while MONEX grew by 10.20% over the same period.

The shares of Hipotekarna banka AD Podgorica have a 20% participation in the MNSE 10 index.

Price movement of Hipotekarna banka shares in the period from 1 January to 31 December 2023:



The last price per share at the end of 2023 was EUR 6,000 (as of 29 December 2023), which represents an increase of 17.65% compared to the last recorded price in 2022 (EUR 5,100 as of 30 December 2022).

Share details	
ISIN	MEHIBPRI1PG7
Stock Exchange	Montenegroberza AD Podgorica
Segment	Free market
Number of shares	10,241,148.00
Market price as of 29/12/2023	6,000
Market capitalisation	61,446,888.00

During 2023, Montenegro Stock Exchange had six active members, three of which were banks. In terms of turnover on the Montenegro Stock Exchange, the Bank is in second place

#### CONFERENCE ON FINANCIAL MARKETS

In June 2023, the Bank held a conference on financial markets called "Road to Investments". The mentioned event was organized with the support of Raiffeisen Bank International AG from Vienna, and gathered over 150 participants.

The conference consisted of two panels. On the first panel "Market conditions and current environment for investments on the capital market", the moderator, professor from the Faculty of Economics of the University of Montenegro - Dr. Saša Popović, together with the Panel participants: Professor of Corporate Finance from the Bocconi University in Milan - Maurizio Dallochio and the Dean of the Zagreb School of Economics and management - Mato Njavra, presented the current situation and trends in the world financial markets. The second panel of the conference had the following speakers: Director of Research at Raiffeisen Bank International AG - Christian Hinterwallner, owner of Senzal Capital from Serbia - Rade Rakočević and Financial Director of Agram EEIG Croatia - Emil Mihalina. Through their presentation, they tried to bring to the participants their views on future movements in the financial markets by individual classes of financial instruments. The Conference was judged successful by all participants, with the Bank expressing its satisfaction with the conclusions reached, which will encourage faster development and convergence with the developed financial markets of the EU.

## Broker and Custody Operations

In 2023, total turnover that the Bank recorded at the Montenegro Stock Exchange amounted to EUR 5,374,360, which made up 21.39% of total turnover. Observing the realised turnover, the Hipotekarna Banka AD ranked second in terms of participation in total turnover realised at the Montenegro Stock Exchange.

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

Type of securities	Number of transactions	Turnover in EUR
Shares	332	4.164.480
Bonds	20	1.209.880
<b>TOTAL</b>	<b>352</b>	<b>5.374.360</b>

In 2023, total turnover realised by trading in subordinated bonds of the Bank, HBO3 and HBO4, amounted to EUR 1,204,000.00. An overview of trading in Hipotekarna Banka AD bonds was as follows:

Name of the bond	Number of transactions	Turnover
HBO3	11	390.000
HBO4	8	814.000
<b>TOTAL</b>	<b>19</b>	<b>1.204.000</b>

In 2023, the turnover realised by the Bank in the international market for the account of clients amounted to EUR 134 million. The largest portion of the said transactions referred to OTC transactions with bonds

The table below provides an overview of concluded transactions in the international market in period from 01 January – 31 December 2023 for the account of clients.

<b>Total number of executed transactions</b>	<b>755</b>
<b>Total value of executed transactions (EUR):</b>	327.017.907,56
<b>Total value of executed transactions (USD):</b>	242.882.623,10

Compared to the previous year, the Bank generated higher turnover by 323%.

As at 31 December 2023, the Bank's clients held securities with the Bank in the amount of around EUR 317 million, which was by around 14% higher (or by approximately EUR 37 million) than as at end-2022. Therefore, the Bank maintained the position of the leader in the field of custody operations in Montenegro

### III RISK EXPOSURE AND MANAGEMENT

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

This process is integrated into the Bank's corporate governance framework and is based on the "Three lines of defence" model - "the first line of defence" consisting of Bank's business lines, where risks associated with products, activities, processes and systems occur; "the second line of defence" consisting of organisational parts of the Bank responsible for managing and controlling the risks - Credit Risk Management Department, Operational, Market and Other Risks Management Department, and Risk Control Service; and the "third line of defence" consisting of internal audit, independent external auditor, and it may include external independent qualified entities.

A special attention within the risk management is paid to the policies and procedures related to risk management, as well as the development of the necessary methodologies. Reporting within individual departments is performed on a weekly, monthly, quarterly and annual basis, and all activities are reported to the ALCO, the Management Board, the Non-Financial Risk Committee, the Supervisory Board, the Risk Committee and other relevant bodies.

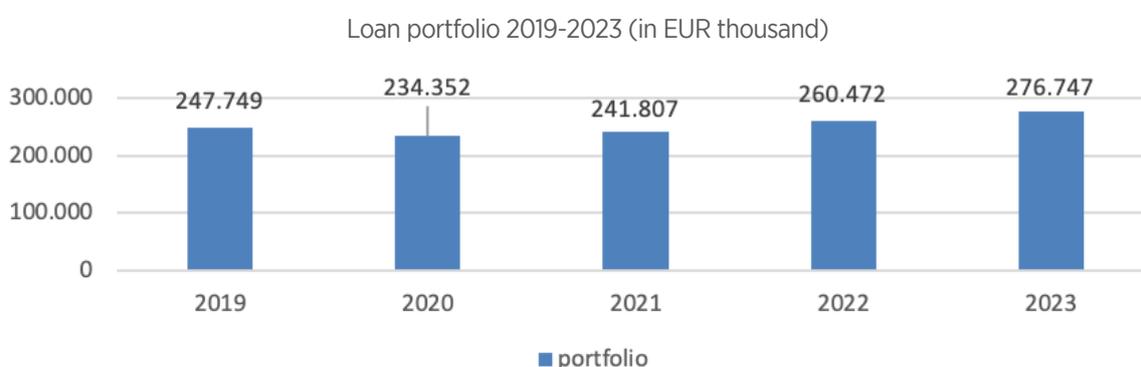
The most significant risks to which the Bank is exposed in its operations are: credit risk, liquidity risk, interest rate risk from the banking book, market risks and operational risk.

#### Credit risk

Credit risk management is a key component of the overall risk management system. Credit risk management is aimed at maximizing the Bank's return and risk ratio. Credit risk is managed at the individual level (level of individual loans) and at the portfolio level

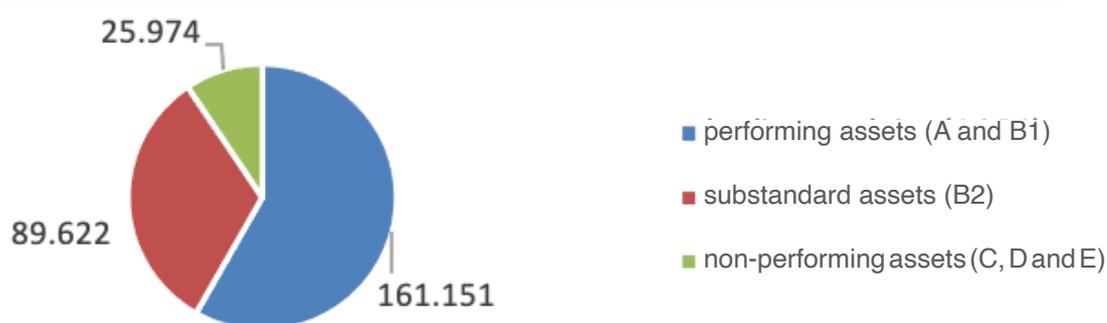
The tables below show loan portfolio that consists of receivables based on principal of loans granted to clients and banks, and receivables based on called guarantees.

As at end-December 2023, Bank's loan portfolio increased by 6.25%, y-o-y.



Bank's performing assets (A and B1) accounted for 58.2% of total portfolio, while substandard assets (B2) accounted for 32.4%, and non-performing assets (C, D and E) amounted to 9.4%.

Asset quality – December 2023 (in EUR thousand)



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

- According to the CBCG methodology, as at 31 December 2023, loan loss provisions made up 6.29% of the portfolio or EUR 17,398,310. When compared to 2022 year-end, these provisions increased by 16.57% or EUR 2,473,659.

Portfolio / provisions based on the CBCG

	31.12.2022.	31.03.2023.	30.06.2023.	30.09.2023.	31.12.2023.
Portfolio	260.471.830	268.660.258	283.935.323	264.745.155	276.747.161
Provisions	14.924.651	15.965.657	17.831.508	16.737.020	17.398.310
Provisions (%)	5,73%	5,94%	6,28%	6,32%	6,29%

- Loan impairment for expected losses, as at 31 December 2023, amounted to EUR 16,959,009 or 6.13% of the portfolio. Y-o-y, the impairments increased by EUR 2,313,884 or 15.80%.

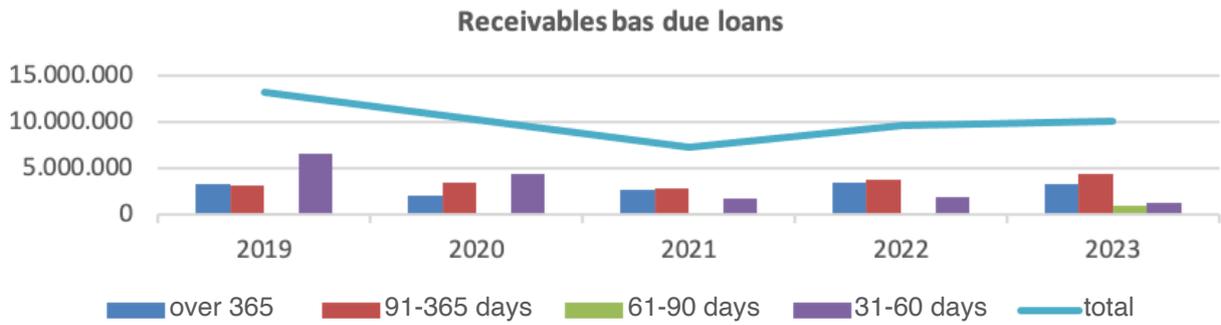
Portfolio / impairments based on internal methodology (model)

	31.12.2022	31.03.2023	30.06.2023	30.09.2023	31.12.2023
Portfolio	260.471.830	268.660.258	283.935.323	264.745.155	276.747.161
Impairments	14.645.125	14.692.753	14.970.029	14.826.233	16.959.009
Provisions (%)	5,62%	5,47%	5,27%	5,60%	6,13%

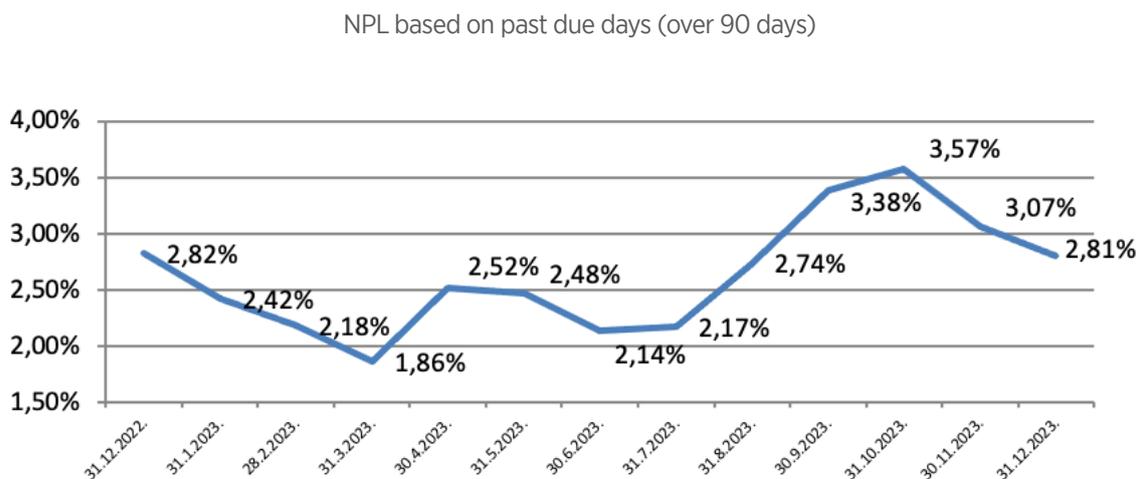
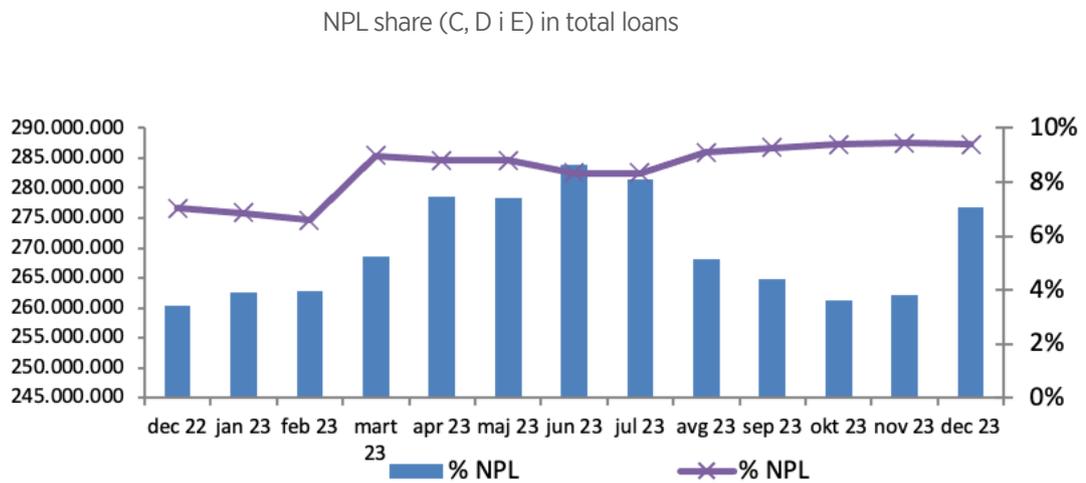
Loans past due:

- As at 31 December 2023, past due loans over 30 days amounted to EUR 10.057.779 or 3.63% of total portfolio of the Bank, while as at 31 December 2021, they stood at EUR 9.619.685 or 3.69% of total portfolio of the Bank.

- With regard to the past due loans over 90 days as at 31 December 2023, they amounted to EUR 7,768,738 or 2.81% of total portfolio of the Bank, while as at 31 December 2022, they amounted to EUR 7,356,173 or 2.82% of total portfolio of the Bank.



With regard to the classification categories (C, D and E), as at end-December 2023, NPLs amounted to EUR 25,974,264 or 9.39% of the portfolio, while as at December 2022, they amounted to EUR 18,318,225, or 7.03% of the portfolio.



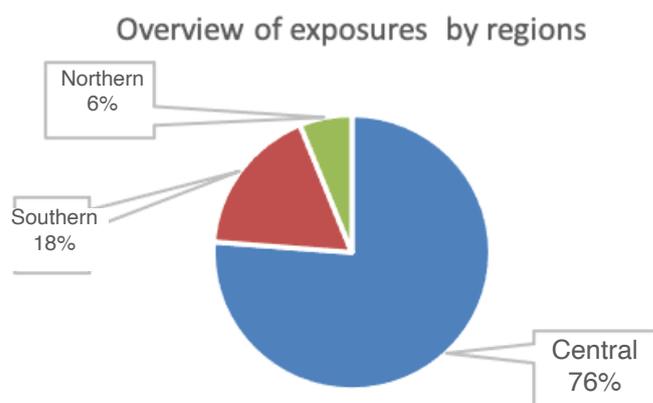
The table below shows the structure of loan portfolio per industries as at 31 December 2023.

The trade sector accounted for the largest share in loan portfolio and it amounted to 16.72% of the portfolio, while the share of exposure to natural persons amounted to 40.20%.

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

Industry	Loan amount	% of portfolio	Limit
Agriculture, forestry and fishing	4.116	1,49%	40%
Mining and quarrying	4.746	1,71%	40%
Manufacturing industry	9.749	3,52%	40%
Electricity supply	5.360	1,94%	40%
Water supply	807	0,29%	40%
Construction	22.278	8,05%	40%
Wholesale, retail trade and repair of motor vehicles and motorcycles	46.261	16,72%	40%
Transport and warehousing	4.893	1,77%	40%
Accommodation and food services	18.645	6,74%	40%
Information and communication	4.103	1,48%	40%
Financial and insurance activities	13.681	4,94%	40%
Real estate business	2.162	0,78%	40%
Professional, scientific and technical activities	6.352	2,30%	40%
Administrative and support service activities	2.511	0,91%	40%
Public administration, defence and compulsory social insurance	0	0,00%	40%
Education	158	0,06%	40%
Health and social welfare	100	0,04%	40%
Art, entertainment and recreational activities	2.219	0,80%	40%
Other service activities	965	0,35%	40%
Natural persons - residents	111.259	40,20%	45%
Non-residents	16.383	5,92%	40%
<b>Total</b>	<b>276.747</b>		

The graph below shows the exposure of the Bank to regions in December 2023.



The Bank's security portfolio as of 31 December 2023 amounted to EUR 350 million, the structure of which according to classification groups is shown in the following table:

Classification	Portfolio percentage
A	92,04%
B1	6,36%
B2	0,60%
C1	0,58%
C2	0,06%
E	0,36%
<b>Total</b>	<b>100,00%</b>

## Market risk

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

**Interest rate risk from the banking book** is the potential negative impact of changes in interest rates on the economic value of equity (EVE) and net interest income of the Bank.

When calculating the impact of changes in interest rates on economic value of equity through gap analysis, the impact on changes in interest rates is considered in the following six scenarios:

- parallel shock up;
- parallel shock down;
- steeper shock (short rates down and long rates up);
- flattener shock (short rates up and long rates down);
- short rates shock up;
- short rates shock down.

Parallel shock down had the largest impact on economic value of equity where the economic value of equity was reduced by 7.54%. This value was significantly above the statutory limit of 20%.

The impact of parallel shock up of interest rates of 200 basis points on net interest income amounted to EUR -554.36 thousand.

**Foreign exchange risk** did not have any significant impact on total risk profile of the Bank. The table below shows net open FX position per individual currencies as at 31 December 2023.

FX position – 31 December 2023 (converted to EUR)

Currency	Assets	Liabilities	Net position
AUD	19.873	-20.630	<b>-757</b>
CAD	44.587	-18.621	<b>25.966</b>
DKK	20.509	-281	<b>20.228</b>
JPY	0	0	<b>0</b>

<b>KWD</b>	0	0	<b>0</b>
<b>NOK</b>	854	0	<b>854</b>
<b>SEK</b>	0	-405	<b>-405</b>
<b>CHF</b>	3.989.627	-3.983.340	<b>6.287</b>
<b>GBP</b>	1.336.877	-1.369.581	<b>-32.705</b>
<b>USD</b>	32.180.636	-31.595.947	<b>584.690</b>

## Position Risk

**Position risk** is the risk of losses due to changes in the prices of financial instruments. As at 31 December 2023, the Bank did not have any positions in the trading book.

## Liquidity Risk

Given the Bank's strategic commitments, maintaining a high level of liquidity is an imperative in the process of managing this risk. The reputation of a highly liquid Bank is especially important for ensuring business growth through the growth of household and corporate deposits.

Liquidity risk is measured and monitored by:

- projecting and monitoring cash inflows and outflows;
- measuring and monitoring the concentration of deposits and other sources of financing;
- measuring and monitoring liquidity indicators;
- establishing, monitoring and maintaining adequate maturity match of funds and sources;
- stress testing;
- measuring, monitoring and evaluating the variability of deposits;
- monitoring potential liabilities recorded in the Bank's off-balance sheet;
- using financial instruments to establish an adequate composition of funds and sources;
- determining liquidity indicators and using them in the process of monitoring the Bank's liquidity.

One of the ways of managing the liquidity risk is managing the maturity match of the Bank's assets and liabilities. The maturity match of financial assets and liabilities is determined according to the agreed and expected maturity, with the expected maturity being used to methodologically match the cash flows. The Bank has a positive gap of expected cash flows in all maturity zones.

**Maturity match** of financial assets and financial liabilities as at 31 December 2023 (based on expected maturity)

In EUR thousand

	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Total
<b>Financial assets</b>							
Cash and deposits with central banks	202,830				21,393		<b>224,223</b>
<i>Financial assets at amortised cost</i>							
Loans and receivables from banks	66,007		3,500	7,758			<b>77,265</b>

Loans and receivables from clients	7,902	19,078	27,130	64,102	112,699	17,500	<b>248,411</b>
Securities	39,048	17,796	97,896	23,570	130,870	36,681	<b>345,861</b>
Other financial assets	2,762						<b>2,762</b>
<i>Financial assets at fair value through other comprehensive income</i>							
Securities						6,368	<b>6,368</b>
<i>Financial assets held for trading</i>							
Securities							<b>0</b>
Other operating receivables	5,037						<b>5,037</b>
<b>Total</b>	<b>323,587</b>	<b>36,874</b>	<b>128,526</b>	<b>95,430</b>	<b>264,963</b>	<b>60,549</b>	<b>909,928</b>
<b>Financial liabilities</b>							
<i>Financial liabilities at amortised cost</i>							
Deposits of banks	2,380			10	25		<b>2,415</b>
Deposits of clients	76,637	66,275	119,194	183,839	331,607	11,300	<b>788,852</b>
Borrowings from other clients	233	111	327	631	6,477	4,149	<b>11,928</b>
Other financial liabilities	243						<b>243</b>
Other liabilities	19,943				6,438		<b>26,381</b>
Subordinated debt	289				12,972		<b>13,261</b>
<b>Total</b>	<b>99,725</b>	<b>66,386</b>	<b>119,521</b>	<b>184,480</b>	<b>357,519</b>	<b>15,449</b>	<b>843,080</b>
Maturity mismatch	<b>223,862</b>	<b>-29,512</b>	<b>9,005</b>	<b>-89,050</b>	<b>-92,556</b>	<b>45,100</b>	<b>66,848</b>
Cumulative GAP:	<b>223,862</b>	<b>194,349</b>	<b>203,355</b>	<b>114,305</b>	<b>21,749</b>	<b>66,848</b>	

## Operational Risk

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

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

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

- Identifying the existing sources of operational risks and sources of operational risks that may arise from the introduction of new products, systems or activities;
- measuring operational risk by accurate and timely assessment of that risk;
- monitoring of operational risks by analysing the situation, changes and trends of exposure to that risk;
- controlling operational risks by maintaining that risk at a level acceptable to the Bank, reducing or eliminating it altogether;
- defining powers and responsibilities in the process of establishing an operational risk management system;
- system of reporting and informing.

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

## Regulatory Capital and Capital Adequacy

As at 31 December 2023, total regulatory capital of the Bank amounted to EUR **58.139** million and consisted of:

- Common Equity Tier 1 capital in the amount of EUR **50.829** million.
- Tier 2 capital in the amount of EUR **7.310** million.

The following table shows capital adequacy ratios and minimum requirements for regulatory capital:

CAR	31.12.2023.	Min
CET1*	14.28%	9.12%
T1**	14.28%	11.08%
Total***	16.33%	13.69%

\* Common Equity Tier 1 adequacy ratio

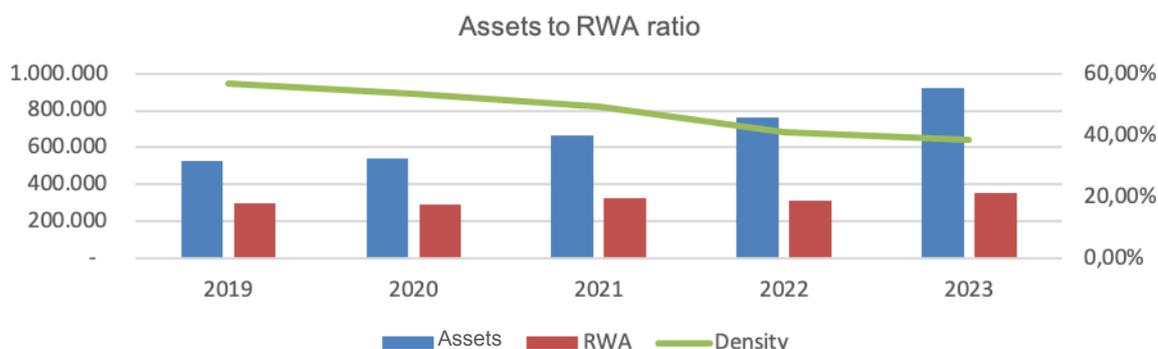
\*\* Tier 1 adequacy ratio

\*\*\* Total capital adequacy

The stated minimum capital ratios include capital buffers as well as the capital requirement within Pillar II of the Basel Framework determined by the supervisory assessment by the Central Bank of Montenegro.

All ratios are significantly above the statutory minimum.

In the last five years, the Bank has recorded a positive trend in the assets to RWA ratio, which indicates an improvement in the risk profile of assets.



## IV HEDGING METHODS

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

Credit risk is defined as a risk of possibility of incurring negative effects on the financial result and capital of the Bank due to the debtor's default or due to deterioration in debtor's credit rating.

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

- At the level of the debtor, the potential risk of the client is determined on the basis of a set of risk characteristics. For citizens, these characteristics include socio-demographic and behavioural characteristics, while for corporate clients, creditworthiness and potential credit risk are determined based on a set of financial risk parameters (related to the client's financial condition), as well as business risk and industry risk. The significance of a particular risk characteristic for the purposes of predicting the client's future risk is determined on the basis of an analysis of the historical data that the Bank has on its clients. Summing up all risk characteristics weighted by the probability of their occurrence gives a general measure of risk for an individual debtor.
- At the same time, the Bank measures credit risk at the level of the entire portfolio. The Bank continuously assesses its loan portfolio in terms of changes in the quality, composition and level of provisions, and identifies the causes of such changes or possible non-compliance with the targeted results. Risk analysis at the portfolio level, analysis of portfolio sub-segments, continuous testing of process efficiency and application of risk-based limits are becoming increasingly important for the Bank's lending activity.

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

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

Hedging against these risks is performed as follows:

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

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

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

The average remaining weighed maturity of these loans is given below:

<b>Weighted maturity</b>	
<b>Total portfolio</b>	<b>3.09</b>
<b>Natural persons</b>	<b>4.08</b>
<b>Legal persons</b>	<b>2.30</b>

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

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

Exchange rate hedging is made by currency adjustment of loans with sources and by trying to have net open position at the lowest possible level. In doing so, the exchange rate

fluctuations do not impact the profit and loss statement; they have neutral position since the positive sign on the asset side is negative sign on the liabilities side and vice versa. Also, the Bank reviews the currency of the client in which it operates and has cash flow, and it grants currency loans or make investments to these clients.

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

The Bank reduces operational risks through higher level of automation, procedures, double controls, internal audit education and the overall internal controls system.

## V ENVIRONMENTAL INVESTMENTS

In the area of environmental protection, as one of the important segments of the turn towards more sustainable business, which the Bank undertook, the activities continue. The Bank's vision is to become a regional leader in terms of permanent commitment to a positive impact on the country and the environment.

As a partner to a significant segment of the population and the corporate sector, the Bank has recognized its responsibility to guide and support the community in its sustainability-oriented efforts. It is dedicated to expanding the range of services it offers as well as improving the support system it provides to its clients.

By becoming the first and to date the only bank in the region to sign the principles of responsible banking of the United Nations, it takes a significant step towards harmonizing its operations with global sustainability goals. It is the Bank's intention to set high ethical standards for itself and inspire others in the region to follow suit. Moreover, it is certain that the Bank will be recognized as the first Montenegrin bank that published a sustainability report and assessed the materiality of various business segments, which reflects the Bank's commitment to transparency and responsible business practices. Nevertheless, there is an awareness that the Bank is still on the path of continuous improvement in this area. The Bank's goal is to create a framework for measuring the Bank's impact on the environment and society and to lead by example.

The Brundtland Report of 1987 defined sustainable development as: "Development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs." In this regard, the Bank is adjusting its business mission and vision:

"At Hipotekarna Banka, while our primary mission revolves around the creation and preservation of our clients' wealth, our commitment extends beyond financial gain. We are a prominent institution in a country with a rich and complex history, and we like to think of ourselves as an agent which supports the growth and development of our nation, which can be seen in the incredible changes that Montenegro has experienced on its national development path. We ourselves recognize the importance of sustainable development, giving the greatest importance to the well-being of the environment and the communities

in which we operate. In the modern environment, the integration of the principles of environmental protection, society and management is not only an option but an imperative of responsible business behavior. We strongly believe that neglecting ESG considerations in our operations and strategic endeavors would be unthinkable, reflecting our commitment to fostering a harmonious balance between financial prosperity and the broader well-being of our ecosystem."

## **VI PLANNED FUTURE DEVELOPMENT**

During 2023, the unfavorable geopolitical situation continued, as did the further fight against inflation. Forecasts for world economic growth are still not very bright, which leads to expectations that growth will be slow and uncertain in 2024 as well.

Following the trends of general macroeconomic indicators of the global economy, as well as the Montenegrin economy, the Bank continues to focus its development towards raising the quality of service to its clients in all areas of business, while preserving the existing values. This implies that in the coming period the Bank will pay significant attention to:

- continuous innovation of existing technical solutions in the use of the Bank's digital services, in order to increase the availability and quality of products and services;
- strengthening internal capacities through ongoing employee education, opening new and innovating existing business units;
- continuous monitoring and improvement of the system of internal controls at all levels of business in order to ensure and maintain the quality of operations at a high level, launch initiatives for revenue growth and optimization of operational efficiency;

in order to satisfy all stakeholders of the Bank.

Education and development of employees is one of the basic items in the future period, which will be given special attention in 2024.

During 2024 again, the Bank will continue to implement activities aimed at complying with complex regulations, harmonized with EU standards.

Finally, during 2024, the Bank will continue to provide support to the social community in various areas - education, culture, healthcare, thereby contributing to social and economic progress.

## **VII RESEARCH, DEVELOPMENT AND INVESTMENT IN EMPLOYEE EDUCATION**

In this business segment, the Bank continued to promote and affirm current values.

The Bank continuously monitors and participates in market research, as well as in the analyses published by renowned agencies, using the obtained data to position the brand.

The key elements of success and our organisational culture are based on the knowledge, skills and dedication of our employees. Therefore, the Bank continuously plans the development and improvement of the skills of its employees, both by organising trainings, which is assisted by

experienced, competent employees, and by hiring reputable foreign consultants/consulting firms specialised in human resources management.

We particularly consider it important to emphasize expert training seminars for our sales staff, i.e., employees in positions where communication with clients is most commonly occurring, with the aim of improving their communication skills, styles adapted to different stages of that communication, as well as further developing of skills for understanding clients' needs, which is in their best interest. In addition, the Bank is committed to the concept of continuous development of employees in managerial positions, and hires external consulting teams to improve their skills in accordance with modern standards.

In the course of 2023, the Bank organized several seminars, trainings and workshops, namely:

- "Internal communication";
- "Feedback";
- "Orienteering";
- Prevention of misuse of payment cards;
- Opening, managing and canceling accounts - changes and challenges;
- Law on interbank fees – presentation, challenges and changes.

## **VIII BUYBACK OF OWN SHARES**

In 2023, the Bank did not buy its shares back.

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

With regard to the financial instruments used by the Bank that are important for assessing the financial position and business performance, and for determining assets, liabilities, financial position and profit or loss, two series of subordinated bonds issued by the Bank in 2019 and 2021 stand out, which had a positive effect on increasing long-term sources of funding and strengthening the Bank's capital adequacy ratio. In July 2023, the second series of subordinated bonds in nominal amount of EUR 4 million matured.

## X BUSINESS NETWORK

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

### Branch in Podgorica

Address: Ul. slobode br. 91  
Tel: +382 19905  
E-mail: filijala.podgorica@hb.co.me

### Branch in Nikšić

Address: Trg Save Kovačevića bb  
Tel: +382 19905  
E-mail: filijala.niksic@hb.co.me

### Branch in Bar

Address: Ul. Maršala Tita bb  
Tel: +382 19905  
E-mail: filijala.bar@hb.co.me

### Branch in Budva

Address: Mediteranska bb  
Tel: +382 19905  
E-mail: filijala.budva@hb.co.me

### Branch in Kotor

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

### Branch in Herceg Novi

Address: Trg Nikole Đurkovića bb  
Tel: +382 19905  
E-mail: filijala.hercegnovi@hb.co.me

### Branch in Bijelo Polje

Address: Ul. Slobode bb  
Tel: +382 19905  
E-mail: filijala.bijelopolje@hb.co.me

### Branch in Berane

Address: Ul. Mojsija Zečevića bb  
Tel: +382 19905  
E-mail: filijala.berane@hb.co.me

### Branch in Ulcinj

Address: Bul. Semi Fraseri bb  
Tel: +382 19905  
E-mail: filijala.ulcinj@hb.co.me

### Branch in Danilovgrad

Address: Baja Sekulića br. 8  
Tel: +382 19905  
E-mail: filijala.danilovgrad@hb.co.me

### Branch in Herceg Novi

Address: Bijela bb  
Tel: +382 19905  
E-mail: filijala.hercegnovi@hb.co.me

### Branch in Herceg Novi

Address: Kompleks PORTONovi, Donje naselje 04  
Tel: +382 19905  
E-mail: filijala.hercegnovi@hb.co.me

### Branch in Podgorica

Address: Ul. Josipa Broza Tita br. 67  
Tel: +382 19905  
E-mail: ekspozitura.centrala@hb.co.me

### Branch in Podgorica

Address: Bul. Svetog Petra Cetinjskog br.130  
Tel: +382 19905  
E-mail: ekspozitura.podgorica1@hb.co.me

### Branch in Podgorica

Address: Ul. Đoka Miraševića M3  
Tel: +382 19905  
E-mail: ekspozitura.podgorica2@hb.co.me

### Sub-branch in Podgorica

Address: Cetinjski put bb, Donja Gorica  
Tel: +382 19905  
E-mail: ekspozitura.podgorica3@hb.co.me

### Sub-branch in Podgorica

Address: Cetinjski put bb Shopping mol  
BIG FASHION  
Tel: +382 19905  
E-mail: filijala.podgorica@hb.co.me

### Branch in Cetinje

Address: Ul. Bajova br. 74  
Tel: +382 19905  
E-mail: ekspozitura.cetinje@hb.co.me

### Branch in in Tivat

Address: Ul. 21. Novembra br. 21  
Tel: +382 19905  
E-mail: ekspozitura.tivat@hb.co.me

### Branch in in Tivat – Porto Montenegro

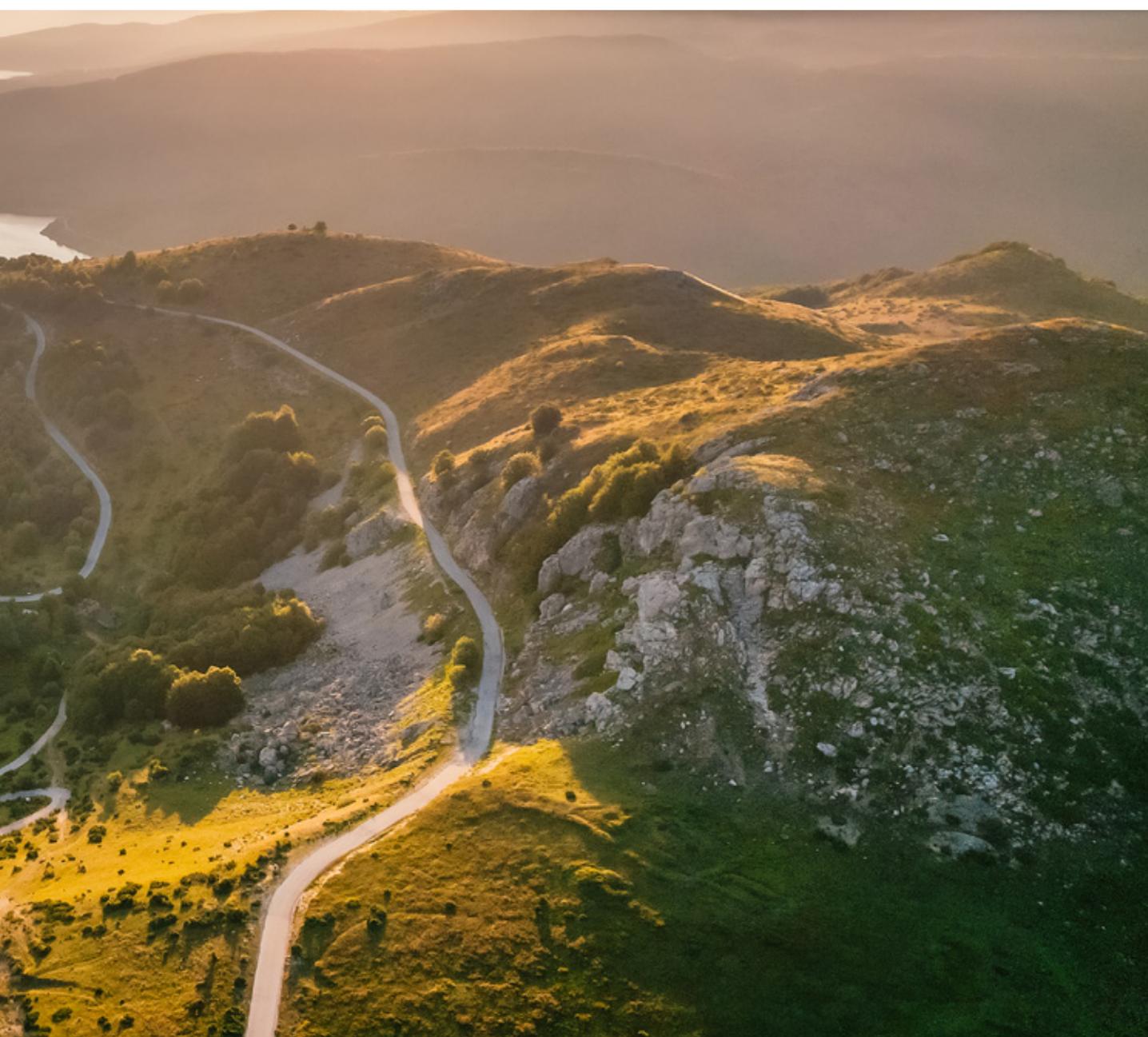
Address: Porto Montenegro, zgrada Teuta, Obala bb  
Tel: +382 19905  
E-mail: ekspozitura.porto.montenegro@hb.co.me

### Branch in Žabljak

Address: Narodnih heroja bb  
Tel: +382 19905  
E-mail: ekspozitura.zabljak@hb.co.me







# 4

## FINANCIAL REPORTS AND INDICATORS

## XI FINANCIAL REPORTS AND INDICATORS

### BALANCE SHEET

as at 31 December 2023 (EUR '000)

	ASSETS	31-Dec-2022	31-Dec-2023
1.	<b>Cash and deposit accounts with central banks</b>	<b>328,197</b>	<b>224,223</b>
2.	<b>Financial assets at amortised cost</b>	<b>473,391</b>	<b>674,300</b>
2.a.	Loans and receivables from banks	34,018	77,265
2.b.	Loans and receivables from clients	236,812	248,411
2.c.	Securities	200,539	345,861
2.d.	Other financial assets	2,021	2,762
3.	<b>Financial assets at fair value through other comprehensive income</b>	<b>5,875</b>	<b>6,368</b>
3.a.	Loans and receivables from banks	-	-
3.b.	Loans and receivables from clients	-	-
3.c.	Securities	5,875	6,368
3.d.	Other financial assets	-	-
4.	<b>Held-for-trading financial assets</b>	<b>-</b>	<b>-</b>
4.a.	Loans and receivables from banks	-	-
4.b.	Loans and receivables from clients	-	-
4.c.	Securities	-	-
4.d.	Other financial assets	-	-
5.	<b>Financial assets carried at fair value through profit and loss, not held for trading</b>	<b>-</b>	<b>-</b>
6.	<b>Derivative financial assets as hedging instruments</b>	<b>-</b>	<b>-</b>
7.	<b>Changes in the fair value of items being subject to hedging</b>	<b>-</b>	<b>-</b>
8.	<b>Investments in associates, subsidiaries and joint ventures at equity method</b>	<b>-</b>	<b>-</b>
9.	<b>Investment properties</b>	<b>-</b>	<b>-</b>
10.	<b>Property, plant and equipment</b>	<b>8,750</b>	<b>9,129</b>
11.	<b>Intangible assets</b>	<b>2,056</b>	<b>2,306</b>
12.	<b>Current tax assets</b>	<b>-</b>	<b>-</b>
13.	<b>Deferred tax assets</b>	<b>109</b>	<b>43</b>
14.	<b>Non-current assets held for sale and discontinued operations</b>	<b>-</b>	<b>-</b>
15.	<b>Other assets</b>	<b>4,460</b>	<b>5,037</b>
16.	<b>TOTAL ASSETS:</b>	<b>822,839</b>	<b>921,405</b>
	<b>LIABILITIES</b>		
17.	<b>Financial liabilities carried at amortised cost</b>	<b>719,833</b>	<b>803,438</b>

17.a.	Deposits of banks and central banks	2,460	2,415
17.b.	Deposits of clients	701,434	788,852
17.c.	Borrowings from banks and central banks	-	-
17.d.	Borrowings from clients other than banks	15,764	11,928
17.e.	Securities	-	-
17.f.	Other financial liabilities	174	243
18.	<b>Held-for-trading financial liabilities</b>	-	-
19.	<b>Financial liabilities not traded and measured at fair value through profit or loss</b>	-	-
20.	<b>Derivative financial liabilities as hedging instruments</b>	-	-
21.	<b>Changes in the fair value of items being subject to hedging</b>	-	-
22.	<b>Provisions</b>	<b>1,068</b>	<b>924</b>
23.	<b>Liabilities on non-current assets held for sale and discontinued operations</b>	-	-
24.	<b>Current tax liabilities</b>	<b>1,178</b>	<b>2,233</b>
25.	<b>Deferred tax liabilities</b>	-	<b>15</b>
26.	<b>Other liabilities</b>	<b>20,961</b>	<b>26,381</b>
27.	<b>Subordinated debt</b>	<b>17,348</b>	<b>13,261</b>
28.	<b>TOTAL LIABILITIES:</b>	<b>760,388</b>	<b>846,252</b>
<b>CAPITAL</b>			
29.	<b>Share capital</b>	<b>52,362</b>	<b>52,362</b>
30.	<b>Issue premiums</b>	-	-
31.	<b>Retained earnings</b>	<b>4,341</b>	<b>10,383</b>
32.	<b>Current year profit/loss</b>	<b>6,042</b>	<b>12,257</b>
33.	<b>Other reserves</b>	<b>-294</b>	<b>151</b>
34.	<b>Non-controlling interests in equity</b>	-	-
35.	<b>TOTAL CAPITAL: (29. do 34.)</b>	<b>62,451</b>	<b>75,153</b>
36.	<b>TOTAL CAPITAL AND LIABILITIES: (28. + 35.)</b>	<b>822,839</b>	<b>921,405</b>

## PROFIT AND LOSS STATEMENT

From 1 January to 31 December 2023 (EUR '000)

	POSITION	31-Dec-2022	31-Dec-2023
1.	Interest income and similar income	18,390	24,383
2.	Interest income on impaired loans	732	902
3.	Interest expenses and similar expenses	2,529	2,169
<b>I.</b>	<b>NET INTEREST INCOME (1 + 2 - 3)</b>	<b>16,593</b>	<b>23,117</b>
4.	Fee and commission income	23,101	28,997
5.	Fee and commission expenses	13,493	17,337
<b>II.</b>	<b>NET FEE AND COMMISSION INCOME (4-5)</b>	<b>9,607</b>	<b>11,664</b>
6.	Net gains/losses from derecognition of financial instruments not carried at fair value through profit or loss	3	-41
7.	Net gains/losses on held-for-trading financial instruments	-59	901
8.	Net gains/losses from financial instruments carried at fair value through profit or loss, not held for trading	-	-
9.	Changes in fair value in hedge accounting	-	-
10.	Net gains/losses from FX revaluation	1,193	1,245
11.	Net gains/losses from derecognition of other assets	-5	273
12.	Other income	314	135
13.	Employee expenses	7,255	7,040
14.	Depreciation expenses	2,514	2,572
15.	Overhead and administrative expenses	7,920	9,310
16.	Net gains/losses from modification and reclassification of financial instruments	-	-
17.	Net gains/losses from impairment of financial instruments not carried at fair value through profit or loss	2,709	3,561
18.	Provision expenses	-13	148
19.	Other expenses	72	129
<b>III.</b>	<b>PROFIT/LOSS BEFORE TAX: I+II+6+7+8+9+10+11+12-13-14-15-16-17-18-19</b>	<b>7,191</b>	<b>14,533</b>
21.	Profit tax	1,149	2,276
<b>22.</b>	<b>NET PROFIT/LOSS (III - 21)</b>	<b>6,042</b>	<b>12,257</b>

### Profit and Loss Statement

In 2023, the Bank recorded profit of EUR 12.257 million. Interest income rose by 32.23% compared to the previous year and they amounted to EUR 25.286 million, which was the result of the investment in securities and an increase in lending activity.

Fee income increased by 25.53% compared to the previous year, and they amounted to EUR 28.997 million. The increase in fee income mostly referred to the increase in fee income based on card operations, payment transactions and investment banking. Net fee income amounted to 37.54% of net income arising from regular operations of the Bank.

Other income increased by 73.56% compared to the previous year and amounted to EUR 2,513 million.

Operating expenses, including depreciation, amounted to EUR 19,051 million, and they rose by 7.26% compared to the previous year. The expenses growth was due to the increased activities of the Bank related to the business network development, the number of employees and other expenses associated with the Bank's operations.

Regular business expenses, including depreciation, amounted to EUR 19.051 million and they rose by 7.26% compared to the previous year. The expenses growth was due to the increased activities of the Bank that refer to the development of business network, the number of employees as well as other expenses following the operations of the Bank.

## Capital

As at 31 December 2023, total capital of the Bank amounted to EUR 75.153 million. It saw an increase of 20.34% compared to the previous year.

As at 31 December 2023, share capital amounted to EUR 52.362 million in nominal terms. The share capital consisted of 10,241,148 shares, and nominal amount of each share was EUR 5.1129.

## Indicators

As at 31 December 2023, the position of the Bank in the Montenegrin banking system, according to the last, publicly disclosed, data on financial statements of all banks in Montenegro was as follows:

BALANCE SHEET CATEGORIES	HB	MNE system	% HB's share in MNE system	HB's ranking in MNE system
	( ' 000 000 EUR)			
Securities	<b>352</b>	1.315	27%	1
Loans and receivables from banks and clients	<b>326</b>	3.961	8%	4
Deposits of banks and clients	<b>791</b>	5.482	14%	3
Total capital	<b>75</b>	820	9%	4
Total balance sheet	<b>921</b>	6.734	14%	3
Net interest income	<b>23</b>	234	10%	4
Net fee and commission income	<b>12</b>	65	18%	2
Net profit	<b>12</b>	146	8%	5

Financial indicators as at 31 December 2023:

- ROAA – 1,41%
- ROAE – 17,82%

## MANAGEMENT BOARD

**Member of the Management Board**

Jelena Vuletić

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**President of the Management Board**

Esad Zaimović

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**Member of the Management Board**

Ana Golubović

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**Member of the Management Board**

Nikola Špadijer

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**Member of the Management Board**

Nataša Lakić

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