

"CROWE MNE" d.o.o.

Broj 55-1/26

Podgorica, 24.03. 2026 god.

UNIVERSAL CAPITAL BANK A.D. PODGORICA
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2025

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Universal Capital bank AD Podgorica

Opinion

We have audited the attached individual financial statements of Universal Capital Bank AD Podgorica (hereinafter: "the Bank"), which include the individual balance sheet as of December 31, 2025, the individual income statement, the individual statement of other comprehensive income, the individual statement of changes in equity and the individual statement of cash flows for the year ending on that date, as well as notes containing an overview of basic accounting policies and other disclosures (hereinafter to the text: "individual financial statements").

In our opinion, the attached individual financial statements truthfully and objectively present, on all materially significant issues, the financial position of the Bank as of December 31, 2025, as well as the results of its operations and cash flows for the year ending on that date, in accordance with International Financial Reporting Standards.

Basis for opinion

We performed the audit in accordance with International Standards on Auditing (ISA) applicable in Montenegro. Our responsibilities in accordance with those standards are described in more detail in the section of the report entitled Auditor's Responsibilities for Auditing Financial Statements. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including the International Standards of Independence (IESBA Code) of the International Ethical Standards Board for Accountants (IESBA) and ethical requirements relevant to our audit of financial statements in Montenegro, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate and provides a basis for our opinion.

Key audit matters

Key audit matters are those matters that were, in our professional judgment, of greatest importance to the audit of the individual financial statements of the current period. We addressed these matters in the context of our audit of the individual financial statements as a whole and in forming our opinion thereon, and we do not express a separate opinion on those matters.

Key audit matter	Appropriate audit procedure
<i>Impairment of the value of loans and receivables from clients and provisions for off-balance sheet items</i>	
As of December 31, 2025, the gross value of loans and receivables from clients was EUR 189,557 thousand (December 31, 2024: EUR 173,402 thousand), while the total value of the value of loans and receivables from clients was EUR 8,924 thousand as of December 31, 2025 (December 31, 2024: EUR 7,819 thousand).	Based on our risk assessment and knowledge of the industry, we examined the costs of impairment of loans and receivables from clients and provisions for off-balance sheet items, and assessed the applied methodology, as well as the assumptions used, in accordance with the description of the key audit issue.

INDEPENDENT AUDITOR'S REPORT (continued)
Key audit matters (continued)

Key audit matter	Appropriate audit procedure
<i>Impairment of the value of loans and receivables from clients and provisions for off-balance sheet items</i>	
<p>Measuring the cost of impairment of given loans and receivables and provisions for off-balance sheet items is considered a key audit issue, given that the determination of the amount of provisions for impairment requires a significant assessment by management related to the determination of the moment of recognition of impairment as well as the amount of impairment.</p> <p>The most significant consideration refers to:</p> <ul style="list-style-type: none"> • Assumptions used in expected credit loss models to assess credit risk related to the exposure and expected future cash flows of the client; • Timely identification of exposure with a significant increase in exposure to credit risk and credit impairment; • Valuation of collateral and assumptions of future cash flows on individually assessed loan exposures; <p>Management has disclosed additional information on the cost of impairment of loans and receivables from customers and provisions for off-balance sheet items in notes 3.8.8, 5.2, 15, 18.2 and 28 to the financial statements.</p>	<p>Our testing included the following elements:</p> <ul style="list-style-type: none"> • assessment of key controls over assumptions used in expected credit loss models to estimate credit risk related to the exposure and expected future cash flows of the client; • detailed testing of the calculation of risk parameters, based on the bank's official methodology, which is the subject of an assessment of compliance with accounting requirements. The mentioned testing includes the evaluation of the assumptions of the model; • assessment of key controls and testing of their effectiveness over timely identification of exposure with a significant increase in credit risk and timely identification of exposure to impaired credit values; • collection and detailed testing of sample evidence supporting the appropriate determination of assumptions for loan impairment charges and provisions for guarantees, including collateral valuation and future cash flow assumptions on individually assessed credit impairment exposures; • assessment of the key movements of the high-risk portfolio from the previous period in relation to industry standards and historical data; • assessment of the adequacy of various identified decisions of the Management concerning the assumptions related to the calculation of expected credit losses for individually assessed loans, as well as the decision on the approach to the assessment of expected credit losses for collectively assessed loans, as well as the evaluation of applied methodologies using our knowledge and experience in the industry; • assessment of accuracy and completeness of disclosure in financial reports.

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 individual 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 individual financial statements does not include other information. In connection with the audit of individual 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 individual financial statements, with our knowledge obtained during the audit, or otherwise appears to be materially incorrect. In addition, we have assessed whether the other information has been prepared, in all materially significant aspects, in accordance with the Accounting Law of Montenegro, especially whether the other information in a formal sense is 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 shown in the individual financial statements are, in all materially significant aspects, in accordance with the individual financial statements;
2. other information was prepared in accordance with the requirements of the Law on Accounting of Montenegro;
3. The statement on the application of the corporate governance code was prepared in accordance with the requirements of the Accounting Law of Montenegro.

In addition, it is our responsibility to report, based on the Bank's knowledge and understanding obtained in the audit, whether the other information contains material misstatements. Based on the procedures we performed in connection with the other information obtained, we did not determine materially significant misstatements.

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

Management is responsible for the compilation and fair presentation of these individual financial statements in accordance with International Financial Reporting Standards, as well as for those internal controls that management deems necessary for the preparation of individual financial statements that do not contain material misstatements resulting from fraud or error.

In preparing the separate 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 responsibility for auditing separate financial statements

Our objective is to obtain reasonable assurance that the individual financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that contains our opinion.

Reasonable assurance means a high level of assurance, but does not represent a guarantee that the audit conducted in accordance with the Law on Auditing of Montenegro, the Law on Accounting of Montenegro and international auditing standards applicable in Montenegro, will always reveal materially incorrect statements if such statements exist. Misstatements can arise as a result of fraud or error and are considered material if it is reasonable to expect that they, individually or in the aggregate, will affect the economic decisions of users made on the basis of these individual financial statements.

During the audit in accordance with the Law on Auditing of Montenegro, the Law on Accounting of Montenegro and international auditing standards applicable in Montenegro, we apply professional judgment and maintain professional skepticism during the audit. Also:

- We identify and assess the risk of materially significant misstatements in individual financial statements, arising as a result of fraud or error; designing and performing audit procedures that are appropriate for those risks; and obtaining sufficient appropriate audit evidence to provide a basis for the auditor's opinion. The risk that material misstatements resulting from fraud will not be identified is greater than for misstatements resulting from error, because fraud may involve collusion, forgery, intentional omissions, misrepresentation or circumvention of internal controls.
- We obtain an understanding of internal controls 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 system.
- We evaluate the accounting policies applied and the extent to which accounting estimates and related disclosures made by management are reasonable.
- Conclude on the appropriateness of management's application of the going concern principle as a basis of accounting and, based on the audit evidence gathered, whether there is a material uncertainty related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence gathered up to the date of the auditor's report. However, future events or conditions may result in the Bank ceasing to operate in accordance with the going concern principle.
- We evaluate the overall presentation, structure and content of the individual financial statements, including disclosures, and whether the underlying transactions and events are presented in the individual financial statements in such a way as to achieve a fair presentation.

We communicate with those charged with governance regarding, among other things, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal controls that we identify during our audit. We also provide those charged with governance with a statement that we comply with relevant ethical requirements regarding independence and that we will disclose to them all relationships and other matters that could reasonably be expected to affect our independence, and where applicable, appropriate safeguards.

INDEPENDENT AUDITOR'S REPORT (continued)***Auditor's responsibility for auditing separate 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 separate 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
March 24, 2026

Đorđe Dimić, Certified auditor

Pero Đuričković, Certified auditor

Marija Dašić, Certified auditor

Vladimir Kavarić, Authorised person

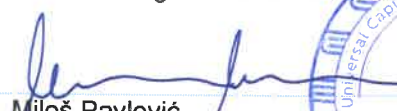
SEPARATE INCOME STATEMENT

For the year ended December 31, 2025


<i>in thousand EUR</i>	Notes	2025	2024
Interest and similar income	3,1, 6,1,	10,347	11,249
Interest income on impaired placements	3,1, 6,2,	121	100
Interest and similar expenses	3,1, 6,3,	(1,928)	(2,088)
Net interest income		8,540	9,261
Fee and commission expenses	3,2, 7,1,	5,159	5,845
Fee and commission income	3,2, 7,2,	(1,764)	(1,785)
Net fee and commission income		3,395	4,060
Net gain/loss due to derecognition of financial instruments that are not valued at fair value through the income statement	8	(4)	-
Net loss on financial instruments held for trading	3,3, 9	77	22
Net gains from exchange differences	3,4, 10	977	871
Net loss due to derecognition of other assets	10,1	(125)	12
Other income	11	37	38
Employee costs	12	(3,401)	(3,096)
Depreciation costs	13	(623)	(544)
General and administrative costs	14	(2,407)	(2,432)
Net income/expenses based on the impairment of financial instruments that are not valued at fair value through the income statement	15	(263)	134
Provision costs		(65)	8
Other costs	11	(68)	(128)
Profit before tax		6,070	8,206
Income tax	16	(901)	(1,197)
NET PROFIT		5,169	7,009


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


Signed on behalf of Universal Capital Bank A,D, Podgorica, on March 17th 2026:


 Miloš Pavlović
 President of the Management Board




 Veselin Vuković
 Member of the Management Board


 Nikola Vujošević
 Member of the Management Board


 Lana Kalezić
 Head of Finance


SEPARATE STATEMENT OF FINANCIAL POSITION


For the year ended December 31, 2025

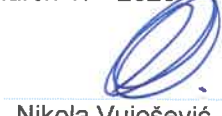
<i>In thousand EUR</i>	Notes	December 31,2025,	December 31,2024
ASSETS			
Cash and deposits held with the central banks	17	35,468	50,884
<i>Financial assets at amortized cost</i>			
Loans and receivables from banks	18,1,	31,868	37,247
Loans and receivables from clients	18,2,	180,633	165,583
Securities	18,3,	28,408	52,719
Other financial assets		1,925	1,607
<i>Financial assets at fair value through other comprehensive income</i>			
Securities	19,1	33,584	45,156
<i>Financial assets held for trading</i>			
Securities	19,2	151	435
Hedge derivatives		-	-
Investments in subsidiaries according to the equity method	20	307	307
Investment property	21	33	30
Property, Plant and Equipment	22	4,544	4,254
Intangible assets	23	1,312	650
Deferred tax assets	16,3,	198	286
Other assets	24	2,130	2,189
Total assets		320,561	361,347
LIABILITIES			
<i>Financial liabilities that are stated at amortized value</i>			
Bank and central bank deposits	25,1,	20	15
Client deposits	25,1,	268,678	310,708
Loans from non-bank clients	25,2,	2,546	3,566
Hedge derivative financial liabilities		-	-
Reserves		970	1,033
Current tax liabilities		891	1,219
Deferred tax liabilities	16,1, 16,3	186	158
Other obligations	26	6,028	5,552
Subordinated debt		-	-
Total liabilities		279,319	322,251
EQUITY			
Share capital	27	13,124	13,124
Retained earnings		22,771	19,262
Profit of the current year		5,169	7,009
Other reserves		178	(299)
Total equity		41,242	39,096
Total equity and liabilities		320,561	361,347
Off-balance sheet items	28	461,787	440,635


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Mijoš Pavlović
President of the Management Board


Veselin Vuković
Member of the Management Board


Nikola Vujošević
Member of the Management Board


Lana Kalezić
Head of Finance

SEPARATE STATEMENT OF CHANGES IN EQUITY

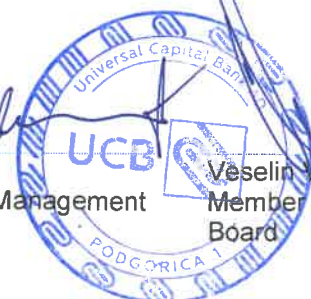
For the year ended December 31, 2025

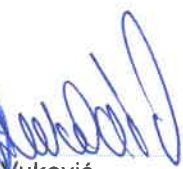
<i>In thousand EUR</i>	<u>Share capital</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Total</u>
Balance as of January 1st2024	13,124	22,762	(2,240)	33,646
Result of the period	-	7,009	-	7,009
Effects of fair value changes of securities measured through other comprehensive income, net	-	-	1,941	1,941
Dividend payment	-	(3,500)	-	(3,500)
State as of December 31st 2024	13,124	26,271	(299)	39,096
Result of the period	-	5,169	-	5,169
Effects of fair value changes of securities measured through other comprehensive income, net	-	-	477	477
Dividend payment	-	(3,500)	-	(3,500)
State as of December 31st 2025,	13,124	27,940	178	41,242

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


Signed on behalf of Universal Capital Bank A,D, Podgorica, on March 17th 2026:


Miroš Pavlović
President of the Management Board




Veselin Vuković
Member of the Management Board


Nikola Vujošević
Member of the Management Board


Lana Kalezić
Head of Finance


SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

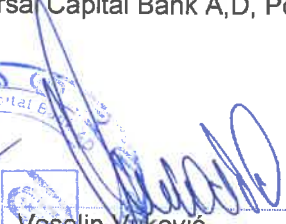
For the year ended December 31, 2025

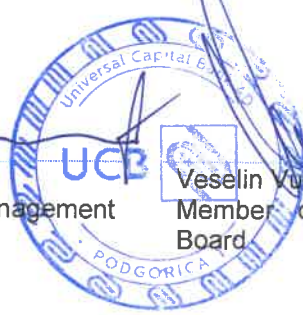
<i>In thousand EUR</i>	2025	2024
PROFIT FOR THE PERIOD	5,169	7,009
OCI items that cannot be reclassified to profit or loss		
Effects of value changes of equity securities measured at fair value through other comprehensive income	-	-
OCI items that may be reclassified to profit or loss		
Effects of value changes of debt securities measured at fair value through other comprehensive income	558	2,283
Tax related to other comprehensive income	(81)	(342)
Total other comprehensive income	477	1,941
TOTAL COMPREHENSIVE INCOME OF THE PERIOD	5,646	8,950


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President of the Management Board


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Member of the Management Board




Nikola Vujošević
Member of the Management Board


Lana Kalezić
Head of Finance


SEPARATE CASH FLOW STATEMENT


For the year ended December 31, 2025


<i>In thousand EUR</i>	December 31,2025	December 31,2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and similar receipts	10,738	11,510
Interest and similar outflows	(1,458)	(2,445)
Fee and commission receipts	5,074	5,936
Fees and commissions paid	(1,764)	(1,785)
Payments to employees and suppliers	(6,123)	(5,641)
Inflows / (outflows) from loans and other assets	(15,513)	3,405
Inflows / (outflows) from deposits and other liabilities	(42,384)	(45,151)
Tax paid	(1,467)	(1,680)
Other inflows/(outflows)	225	97
Net cash from operating activities	(52,672)	(35,754)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(160)	(485)
Purchase of intangible assets	(846)	(288)
Securities	36,408	20,014
Net cash used in investing activities	35,402	19,241
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	(1,020)	(719)
Dividend payment	(3,497)	(3,497)
Net cash from financing activities	(4,517)	(4,216)
Effects of FX gains/losses on cash and cash equivalents	977	871
Net increase /(decrease) in cash and cash equivalents	(20,810)	(19,858)
Cash and cash equivalents at the beginning of the year	88,152	108,010
Cash and cash equivalents at the end of the year (Note 17)	67,342	88,152


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

Signed on behalf of Universal Capital Bank A.D, Podgorica, on March 17th 2026:


Miloš Pavlović
President of the Management
Board


Veselin Vuković
Member of the Management
Board


Nikola Vujošević
Member of the Management
Board


Lana Kalezić
Head of Finance

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

December 31, 2025

1. CORPORATE INFORMATION

Universal Capital Bank AD, Podgorica was founded under the name First Financial Bank AD, Podgorica (hereinafter: the Bank) established on 18 October 2007. The Decision of the Shareholders Assembly of the Bank's name change was adopted at the session held on 30 May 2014, and the new name was official changed on 4 June 2014.

The Bank's headquarters are in Podgorica, Stanka Dragojevic Street bb.

The Bank has obtained a permit from the Central Bank of Montenegro (Decision No. 0101-2933/3-2 dated 12 July 2007). The Bank is inscribed in the Register of the issuers of securities maintained by the Securities Commission under number 472 (Decision No. 02/3-33/2-07 dated 31 October 2007).

In accordance with the Law on Credit Institutions, the Decision on Incorporation and the Articles of Incorporation, the Bank performs banking operations i.e. activities of reception of cash deposits and approval of loans for its own account.

- 1) Issuance of guarantees and undertaking of other off-balance sheet commitments;
- 2) The purchase, sale and collection of receivables (factoring, forfeiting and other);
- 3) The issuance, processing and recording of payment instruments;
- 4) Payments in the country and abroad, in accordance with the relevant regulations;
- 5) Finance lease;
- 6) The activities with securities, in accordance with the law governing the securities;
- 7) Trading in its own name and for its own account or on behalf of clients: with foreign currencies, including exchange transactions in financial derivatives;
- 8) Depot operations;
- 9) Analysis and provision of information and advice on the creditworthiness of companies and entrepreneurs and other issues regarding operations;
- 10) Rental of safe deposit boxes;
- 11) The activities that are part of banking operations, ancillary tasks in relation to the operations of the Bank, other activities directly related to the operations of the Bank in accordance with the Articles of Incorporation.

The Bank may perform other activities in accordance with the law based on a prior approval from the Central Bank.

In accordance with Article 7 of the Law on Accounting, the Bank is classified as a medium-sized legal entity (Decision of the Board of Directors No. 2696/26-7 dated March 17, 2026) based on the fulfillment of 2 of the 3 stated conditions:

- Average number of employees during the business year from 50 - 250. The average number of employees in 2025 is 94 (2024: 89);
- Total annual income of EUR 10,000 thousand - EUR 50,000 thousand. The total income in 2025 was EUR 16,719 thousand (2024: EUR 18,279 thousand); and
- Total assets of EUR 5,000 thousand - EUR 25,000 thousand. Total assets on 31.12.2025. was EUR 320,561 thousand (December 31, 2024: 361,347 thousand).

1. CORPORATE INFORMATION (Continued)

As of December 31, 2025, the Bank consists of the head office in Podgorica and branches in Miločer and Podgorica. The bank has 99 employees (December 31, 2024: 91 employees).

The Bank has two subsidiaries with a 100% of equity interest:

- Portokali Adriatic d.o.o. Podgorica, whose main activity is retail trade in fruit and vegetables in specialized stores; and
- Universal Capital Bank Financial Service in Dubai (hereinafter referred to as UCBFS), whose main activity is contracting loans and investment deals between UCB and clients from the UAE and the MENAT region, as well as consulting on financial products and loans.

In accordance with the Law on Credit Institutions and accompanying legislation, the corporate governance system consists of:

1. Shareholders Assembly;
2. Supervisory Board; and
3. Board of Directors.

The members of the Bank's Supervisory Board as of December 31, 2025 are:

First and last name	Position	Decision no.
Alfredo Longo	Chairman of the Supervisory Board	03-6551-6/2021 from December 10 th 2021
Aco Aleksić	SB member	03-8027-2/2023 from November 9 th 2023
Božo Milatović	SB member	03-8896-3/2022 from December 26 2022
Josip Pecirep	SB member	03-6551-9 /2021 from December 10.2021
Tanja Mihajlovska Dimitrijevska	SB member	03-7902-2/2025 from December 01 2025

As of December 31, 2025, the members of the Bank's Board of Directors were as follows:

Ime i prezime	Funkcija	Broj Rješenja
Miloš Pavlović	Chairman of the Board of Directors	03-6550-8/2021 from December 10 th 2021
Nikola Vujošević	BoD member	03-6550-9/2021 from December th 10 2021
Veselin Vuković	BoD member	03-6550-10/2021 from December 10 th 10.2021

As of December 31, 2025 the members of the Bank's Audit Committee were as follows:

Ime i prezime	Funkcija
Mina Jovanović	Chairman
Goran Bencun	Deputy chairman
Lazar Mišurović	Member

The Bank's internal auditor as of December 31, 2025 is Sonja Burzan.

The Bank's head office is in Podgorica, at Stanka Dragojevića bb.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE SEPARATE FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of the separate financial statements

The accompanying separate financial statements for the year ended December 31, 2025 have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), published by the International Accounting Standards Board, and regulations of the Central Bank of Montenegro governing the financial reporting of banks.

The Bank is required to keep books of account, prepare accounting records, measure assets and liabilities and prepare and publish financial statements in accordance with the Law on Credit Institutions ("Official Gazette of Montenegro", no. 72/19, 82/20 8/21), regulations adopted based on the aforesaid law and the International Accounting Standards and International Financial Reporting Standards (IASs/IFRSs). Additionally, the Bank is required to apply the International Accounting Standards and International Financial Reporting Standards from the date set by the International Accounting Standards Board (IASB) as the date of their application, unless the Central Bank of Montenegro does not set another date for certain IASs/IFRSs as the commencement date of their application.

The Bank's separate financial statements have been prepared in accordance with the Decision on the Contents, Deadlines and Manner of Preparing and Submitting Financial Statements of Banks ("Official Gazette of Montenegro", no. 15/12, 18/13, 24/18 i 34/22).

In the preparation of the accompanying separate financial statements, the Bank adhered to the accounting policies described in Note 3, related to accounting, banking and tax regulations of Montenegro.

2.2. Rules of Estimate

The separate financial statements have been prepared in accordance with the historical cost convention, except for the following items measured at fair value:

- Financial instruments at fair value through profit or loss,
- Financial instruments at fair value through other comprehensive income,
- Financial liabilities at fair value through profit or loss.

2.3. Functional and Reporting Currency

The Bank's separate financial statements are stated in thousands of euros (EUR), which is the Bank's functional currency and the official reporting currency in Montenegro. All amounts are expressed in EUR thousand, unless otherwise stated.

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

2.4. Use of Estimates

The presentation of separate financial statements requires that the Bank's Board of Directors make the best possible estimates and reasonable assumptions that affect the presented values of assets and liabilities, as well as the disclosure of contingent liabilities and receivables as at the date of the preparation of the financial statements, and the income and expenses arising during the reporting period. These estimations and assumptions are based on information available to us as at the financial statements' preparation date. However, the actual results may differ from the values estimated in this manner.

The estimates as well as the assumptions on the basis of which the estimates are made are the result of regular controls.

If the control determines that there has been a change in the estimated value of assets and liabilities, the identified effects are recognized in the financial statements in the period when the change in the estimate occurred, if the change in the estimate affects only that accounting period, or in the period when there has been a change in the estimate in subsequent accounting periods, if the change in the estimate affects the current and future accounting periods.

Note 4 provides information about the areas where the level of assessment is the largest and may have the most significant effect on the amounts recognized in financial statements of the Bank.

2.5. Changes in Accounting Policies and Disclosures

2.5.1 New and Amended IFRS Accounting Standards whose Entry into Force and Application are Mandatory in the Current Year

The adopted accounting policies are in accordance with those of the previous financial year, with the exception of the following IFRS and amended IFRS adopted by the Bank from January 1, 2025:

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2025. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The newly adopted amendments to IFRS did not have a material impact on the Bank's accounting policies.

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

2.5. Changes in Accounting Policies and Disclosures (Continued)

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

- **IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Classification and Measurement of Financial Instruments (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2026. Early adoption of amendments related to the classification of financial assets and the related disclosures is permitted, with the option to apply the other amendments at a later date. The amendments clarify that a financial liability is derecognised on the 'settlement date', when the obligation is discharged, cancelled, expired, or otherwise qualifies for derecognition. They introduce an accounting policy option to derecognise liabilities settled via electronic payment systems before the settlement date, subject to specific conditions. They also provide guidance on assessing the contractual cash flow characteristics of financial assets with environmental, social, and governance (ESG)-linked features or other similar contingent features. Additionally, they clarify the treatment of non-recourse assets and contractually linked instruments and require additional disclosures under IFRS 7 for financial assets and liabilities with contingent event references (including ESG-linked) and equity instruments classified at fair value through other comprehensive income. The effects of this standard are not expected to have a significant impact on the Bank's financial statements.

- **IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Contracts Referencing Nature-dependent Electricity (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted. The amendments include clarifying the application of the 'own-use' requirements, permitting hedge accounting if contracts in scope of the amendments are used as hedging instruments, and introduce new disclosure requirements to enable investors to understand the impact of these contracts on a company's financial performance and cash flows. The clarifications regarding the 'own-use' requirements must be applied retrospectively, but the guidance permitting hedge accounting have to be applied prospectively to new hedging relationships designated on or after the date of initial application. The effects of this standard are not expected to have a significant impact on the Bank's financial statements.

- **Annual Improvements to IFRS Accounting Standards – Volume 11**

The IASB's annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS. In July 2024, the IASB issued Annual Improvements to IFRS Accounting Standards — Volume 11. An entity shall apply those amendments for annual reporting periods beginning on or after January 1, 2026. The Annual Improvements to IFRS Accounting Standards - Volume 11, includes amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10, and IAS 7. These amendments aim to clarify wording, correct minor unintended consequences, oversights, or conflicts between requirements in the standards. The effects of these clarifications and amendments are not expected to have a significant impact on the Bank's financial statements.

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

2.5. Changes in Accounting Policies and Disclosures (Continued)

2.5.2 Standards that have been issued but have not yet entered into force and have not been previously adopted (continued)

- **IFRS 18 Presentation and Disclosure in Financial Statements**

IFRS 18 introduces new requirements on presentation within the statement of profit or loss. It requires an entity to classify all income and expenses within its statement of profit or loss into one of the five categories: operating; investing; financing; income taxes; and discontinued operations. These categories are complemented by the requirements to present subtotals and totals for 'operating profit or loss', 'profit or loss before financing and income taxes' and 'profit or loss'. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes. In addition, there are consequential amendments to other accounting standards. IFRS 18 is effective for reporting periods beginning on or after January 1, 2027, with earlier application permitted. Retrospective application is required in both annual and interim financial statements. The standard has not yet been endorsed by the EU. In the following reporting periods, Management will analyse the requirements of this newly issued standard and assess its impact.

- **IFRS 19 Subsidiaries without Public Accountability: Disclosures (including amendments)**

IFRS 19 permits subsidiaries without public accountability to use reduced disclosure requirements if their parent company (either ultimate or intermediate) prepares publicly available consolidated financial statements in compliance with IFRS accounting standards. These subsidiaries must still apply the recognition, measurement and presentation requirements in other IFRS accounting standards. Unless otherwise specified, eligible entities that elect to apply IFRS 19 will not need to apply the disclosure requirements in other IFRS accounting standards. The amendments issued in August 2025 reduce the disclosure requirements of new IFRS accounting standards, which had been included in full when IFRS 19 was first issued. IFRS 19 (including the amendments) is effective for reporting periods beginning on or after January 1, 2027, with early application permitted. The standard (including the amendments) has not yet been endorsed by the EU. The effects of this standard are not expected to have a significant impact on the Bank's financial statements.

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

2.6. Going concern concept

The separate financial statements have been prepared in accordance with the going concern principle, which implies that the Bank will continue to operate for an indefinite period in the foreseeable future. This entails the compliance with the liquidity principle (the Bank's ability to meet its due cash liabilities at all times) and the solvency principle (the Bank's permanent ability to meet its liabilities).

2.7. Consistency of receivables and liabilities

Pursuant to the applicable legislation, the Bank reconciled outstanding balances of receivables and payables with Bank's creditors and debtors as of 31 December 2025. An Inventory Count Report was adopted at a meeting of the Board of Directors held on February 17, 2026.

2.8. Impact of the Russian-Ukrainian Conflict

After the outbreak of the Russian-Ukrainian war on February 24, 2022, the Bank implemented certain measures in such a way that it minimized the provision of banking services to Russian citizens. This is mostly due to the international restrictive measures that the Bank is fully implementing in accordance with the decisions of the Government of Montenegro. Trade and all inflows and outflows with the Russian Federation have been minimized. For Russian citizens, the Bank does not provide international payment services unless they have a residence card of one of the EU member states in accordance with the decisions of the Government of Montenegro.

2.9. Comparative data

Comparative figures in these financial statements include the comparative figures contained in the financial statements for the year ended December 31, 2024.

2.10. Consolidation

These financial statements represent separate financial statements of the Bank. In accordance with Article 313 of the Law on Credit Institutions ("Official Gazette of Montenegro" No. 72/19, 82/20 and 8/21), consolidated financial statements of the banking group do not include subordinate members of the group whose balance sheet accounts for less than 1% of the balance sheet of higher-level member of the group. Since the Bank has control over two subordinate entities as of December 31, 2024, out of which, one meets the condition from Article 313 of the Law on Credit Institutions, the Bank uses the right to exemption from consolidation for that entity.

Subordinate members of the banking group and their share in Bank's assets as of December 31, 2025:

Name	Share in Bank's assets	% of share	Main activity
Portokali Adriatic d.o.o. Podgorica	0.06%	100%	Retail sale of fruit and vegetables in specialised stores
Universal Capital Bank Financial Service, Dubai	0.25%	100%	Consultancy on financial products and loans

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied during the preparation of the separate financial statements for the year ended December 31, 2025 are listed below.

3.1. Interest income and expense

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate represents the rate that discounts future inflows and outflows during the expected deadline of financial instrument:

- Gross book value of a financial asset or
- Amortised amount of the financial liabilities.

When calculating the effective interest rate for financial instruments, except for purchased or approved credit-impaired assets, the Bank when estimating future cash flows takes into account all agreed terms but not for ECL. For purchased or credit-impaired financial assets the credit – adjusted effective interest rate is calculated taking into account expected cash flows including ECL.

When calculating effective interest rate the transaction cost and all unpaid or paid fees are considered, which are the part of effective interest rate. The transaction costs are incremental costs which can be directly attributed to the issuance or disposal of some financial assets or financial liabilities.

Amortized amount of the financial asset or financial liability represents the amount by which the financial asset or financial liability are valued in the moment of initial recognition less for repayment of principal and increased or decreased for cumulative depreciation calculated using effective interest rate, the difference between initial amount and the amount of the maturity and for financial assets, corrected for expected credit loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Interest Income and Expense (Continued)

Gross book amount of financial asset is the amortized amount of financial asset before the impairment for expected credit loss.

The effective interest rate for financial assets and financial liabilities is calculated at initial recognition of the financial asset or liability. When calculating the interest income and expense the effective interest rate is applied on gross carrying amount of the assets (if the amount is not credit – impaired) or amortized value of liability. For the financial instruments with variable interest rate the effective interest rate is fluctuated due to periodic estimation of cash flow to reflect market interest rate trend.

For financial assets which became credit – impaired after initial recognition the interest income is calculated by applying the effective interest rate method on amortized value of financial asset. If the financial assets are no longer credit–impaired the calculation of the income is calculated again on a gross basis i.e., the interest is calculated applying effective interest rate on gross carrying amount of the financial asset of the financial asset.

For financial assets which are credit-impaired at the time of initial recognition the interest income is calculated by applying credit–adjusted interest rate on the amortized amount of financial asset. The calculation of interest income does not return to gross basis not even when the credit risk is improved.

Fee and commission income and expenses which are part of the effective interest rate of the financial asset or financial liability are included in the calculation of the income and expenses from interest by applying effective interest rate method.

Default interest and other income and other expenses related to interest-bearing assets, i.e., interest-bearing liabilities, are calculated on an accrual basis.

3.2. Fee and Commission Income and Expenses

Fee and commission income include fees that the Bank calculates and charges for performance of payment services in the country and abroad, guarantees and letters of credit, as well as other services. Fee and commission income are recognized at the time when the correspondent service is done.

Fee and commission expenses generally relate to fees for domestic and foreign payment operations and other services which are recognized as an expense in the moment when the service is provided.

3.3. Net profit / (loss) based on Financial Instruments Held for Trade

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Foreign Currency Transactions

Transactions denominated in foreign currencies are translated into EUR at the date of transaction. Assets and liabilities denominated in a foreign currency are translated into EUR by applying the official exchange rate, as determined on the exchange rate list from Central Bank of Montenegro valid on day given. For currencies that are not on this list, the exchange rate from the interbank foreign exchange market is used. The treatment of assumed and contingent liabilities in foreign currency is identical.

Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the statement of comprehensive income as gains or losses based on foreign exchange.

3.5. Leases

On the date of establishing the contract, the Bank assesses whether it constitutes a lease, i.e., whether the contract transfers the right to control the use of the determined property during a certain period of time in exchange for compensation.

3.5.1. Bank as a Lessee

The Bank applies a single recognition and measurement approach to all leases, except for short-term contracts or low-value assets. The Bank recognizes lease and asset liabilities - rights to use.

The Bank recognizes assets on the basis of the right to use them on the day of the beginning of the lease agreement, i.e., the date of obtaining the right to use the property. Subsequent measurement is performed at amortized cost, with adjustments based on compliance with lease obligations. Initial direct costs and advances paid less benefits received are included in the value of the asset at the date of initial recognition. Depreciation is calculated on a straight-line basis over the term of the contract. For contracts without a term, the Bank applies a period of 5 years.

Right-of-use assets are presented in Note 22 – Property, plant and equipment.

On the date of commencement of the lease agreement, the Bank recognizes a lease liability measured at the net present value of future payments under the lease agreement until the expiration of the contract. For contracts without a term, the Bank applies a period of 5 years. The Bank has no variable elements of future payments or built-in options in the contracts.

3.5.2. Bank as a Lessor

Leases under which the Bank does not transfer substantial risks and rewards of ownership are classified as operating leases. Lease income is recognized on a straight-line basis over the term of the contract. Initial costs related to the asset, such as negotiation costs and asset preparation costs, are included in the carrying amount of the asset and depreciated in accordance with the recognition of rental income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Taxes and Contributions

3.6.1. Income tax

Current income tax

Income taxes are calculated and paid in conformity with the Law on Corporate Income Tax ("Official Gazette of Montenegro", No. 65/01, 12/02, 80/04, 40/08, 86/09, 40/11, 14/12, 61/13, 055/16, 146/21, 152/22, 028/23, 125/23 and 088/24). Income tax rates are progressive for taxable income and they amount:

- Up to EUR 100,000.00: 9%;
- To EUR 100,000.01 – 1,500,000.00: EUR 9,000.00 + 12% on an amount over EUR 100,000.01; and
- To an amount over EUR 1,500,000.01: EUR 177,000.00 + 15% on an amount exceeding EUR 1,500,000.01.

Capital losses may be offset against capital gains realized in the same year. Where, upon offsetting capital loss against capital gains realized in the same year capital loss remains, the taxpayer may carry it forward and set against the next gains over a five-year period.

The Montenegrin tax regulations do not envisage the possibility of using the current period tax loss as a basis for the recovery of tax paid in prior periods. However, current period losses presented in the tax balance sheet may be used to reduce the future tax base for up to 5 years.

Deferred Income Taxes

Deferred income tax is determined using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities, and their book values. The tax rates effective at the balance sheet date, or the tax rates that came into effect after that date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for the deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Taxes, contributions and other duties not related to operating results

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

3.6.2. Transfer pricing

Montenegro introduced more detailed rules on transfer pricing by amending the Law on Corporate Income Tax (Official Gazette No. 152/22, 028/23 and 088/24).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Taxes and Contributions (Continued)

3.6.2. Transfer pricing (Continued)

The Ministry of Finance of Montenegro is 02.11.2022. published the Instruction on the closer method of determining the transfer prices of transactions ("Official Gazette of Montenegro", No. 121/22 of 02.11.2022, hereinafter: "Instruction"). The instruction prescribes the method of determining the transfer prices of transactions and the content of documentation on transfer prices.

The Law on Corporate Income Tax (Article 38 c) provides for the preparation of Documentation in an abbreviated form if the taxpayer has made transactions with a related party that do not exceed the value of 75,000 euros in the year for which the tax return is submitted.

Regarding intercompany loans, the Law foresees the possibility of applying "arm's length" interest rates prescribed by the Ministry of Finance or general rules on determining the price of a transaction based on the "arm's length" principle (using one of the prescribed methods).

Transfer pricing documentation should be submitted by large taxpayers with the tax return (other taxpayers are required to have transfer pricing documentation at the time of filing the tax return). The deadline for submitting the tax return is three months from the end of the period for which the tax is calculated. Exceptionally, until 2027, the deadline for submitting (that is, possessing) transfer pricing documentation is June 30 of the current year for the previous year (for the financial year 2025, the deadline is June 30, 2026).

3.7. Cash and Cash Equivalents

Cash and cash equivalents comprise cash (EUR and foreign currencies), cash at treasury (EUR and foreign currencies), balances with the Central Bank of Montenegro, including both the obligatory reserves, and balances on accounts with other banks in the country and abroad, as well as other highly liquid assets with maturity up to three months.

Cash and cash equivalents are valued at amortized value at balance sheet.

3.8. Financial instruments

3.8.1. Initial Recognition

Purchase or sale of a financial asset or liability is recorded using an accounting coverage at the balance sheet date of the transaction.

Financial instruments are initially measured at fair value plus transaction costs for all financial assets or liabilities other than those that are valued at fair value through income statement. Financial assets at fair value, whose effect of changes in fair value are recognized in income the statements, initially recognized at fair value, and transaction cost are charged to operating expenses in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.2. Classification and Measurement

The Bank classifies all its financial assets based on the business model for asset management and contractual provisions of the asset (identification of SPPI criteria).

The Bank classifies financial assets into the following four categories:

- Financial assets valued at amortized cost (AC),
- Financial assets valued at fair value through other comprehensive income (FVOCI),
- Financial assets mandatorily measured at fair value through profit and loss (mandatory FVTPL) and
- Financial assets optionally measured at fair value through profit and loss (optional FVTPL).

Financial liabilities are measured at amortized cost, except for liabilities held for trading or derivative instruments, where the determination of fair value is applied. In this case, changes in fair value are recorded in the income statement.

3.8.2.1. Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are estimated and reported to key personnel of management bodies;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.2. Classification and Measurement (Continued)

3.8.2.2. SPPI test

The second step in the classification process is that the Bank assesses contractual terms of funding to identify whether they meet the SPPI test.

'Principal' for the purposes of this test is defined as the fair value of a financial asset on initial recognition and may change over the lifetime of the financial asset (for example, if there are principal repayments or premium / discount depreciation). The most important elements of the interest for loan arrangement are usually taking into account the time value of the money and credit risk. In order to implement the SPPI rating, the Bank applies assessment and considers relevant factors such as currency in which is denominated financial asset and the period for which the interest rate is determined.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.8.3. Financial Assets and Liabilities

3.8.3.1. Loans and receivables from banks and clients, securities and other financial assets at amortized cost

The Bank measures loans and receivables from banks, loans and receivables from customers, debt securities and other financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within the business model with the aim of holding the financial asset for the purpose of collecting contracted cash flows;
- The contractual terms of the financial asset give cash flows on certain dates that are solely payments of principal and interest (SPPI) on the amount of outstanding principal.

Loans and receivables

Loans approved from the Bank are recorded in the business books in the moment of the transfer of the assets to the loan beneficiary.

Loans are stated in the balance sheet in the amount of approved placement increased by the amount of interest due less repaid principal and paid interest and impairment of the value based on the assessment of the identified risk for individual placements and risk for which the experience indicates that they are contained in credit portfolio.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.3. Financial Assets and Liabilities (Continued)

3.8.3.1. Loans and receivables from banks and clients, securities and other financial assets at amortized cost (Continued)

Financial guarantees, letters of credit and undrawn borrowings

Financial guarantees are initially recognized in the financial statements (as part of the provision) at fair value, with a premium received. After initial recognition, the Bank's liability for each guarantee is measured as greater than the initial amount recognized less cumulative depreciation recognized in the income statement, and in accordance with IFRS 9 - ECL Provisions as set out in Note 3.8.8. The premium received is recognized in the income statement in net income from fees and commissions proportionately over the life of the guarantee.

Unused loan liabilities and letters of credit are liabilities under which, during the term of the liability, the Bank is obliged to provide the client with a loan with predetermined conditions. Similar to contracts, and for financial guarantees, provisions are created in the case of an onerous contract, but as of January 1, 2018, these contracts have been within the requirements of the ECL.

3.8.3.2. Debt instruments measured at FVOCI

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

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

3.8.3.3. Financial assets and financial liabilities at fair value through the income statement

Financial assets and financial liabilities in this category are held for trading or are determined by the management body during initial recognition or must be measured at fair value according to IFRS 9. This classification is determined on an instrument-by-instrument basis, when one of the following criteria is met:

- The classification eliminates or significantly reduces inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognizing gains or losses on them on a different basis, or
- Obligations are part of a group of financial obligations, which are managed and their performance is assessed according to fair value, in accordance with documented risk management or investment strategy, or
- Obligations that contain one or more embedded derivatives, unless they significantly modify the cash flows that would otherwise be required under the contract, or it is clear with little or no analysis when a similar instrument is first considered, that the separation of the embedded derivative or more is prohibited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.3. Financial Assets and Liabilities (Continued)

3.8.3.3. Financial assets and financial liabilities at fair value through the income statement

Financial assets and financial liabilities under FVPL are recorded in the balance sheet at fair value. Changes in fair value are recorded in the income statement, with the exception of changes in the fair value of FVPL liabilities due to changes in the Bank's own credit risk. Such fair value changes are recorded in the own credit reserve through OCI and are not reclassified to the income statement. Interest earned or accrued on FVPL instruments is calculated in interest income or interest expenses, that is, using EKS, taking into account any discount/premium and qualified transaction costs that are an integral part of the instrument. Income from dividends from equity instruments according to FVPL is recorded in the income statement as other operating income when the right to payment is established.

Derivatives held for hedging purposes

The effects of reduction to fair value of derivative financial instruments are recorded in the income statement on the reporting date.

3.8.4. Reclassification of Financial Assets and Liabilities

The Bank reclassifies its financial assets after their initial recognition, in cases of changes in the business model, and in exceptional circumstances when the Bank acquires, disposes of or terminates the business line. Financial liabilities are never reclassified. Reclassification of financial assets is performed from the date of reclassification, without restatement of previously recognized profit, loss (including expected credit losses) or interest.

If the Bank reclassifies financial assets from the measurement category at amortized cost to the measurement category at fair value through profit or loss, its fair value is measured at the date of reclassification. All gains or losses arising as the difference between the amortized cost of financial assets and fair value are recognized in the income statement.

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

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

If the Bank reclassifies a financial asset from the category of measurement at fair value through other comprehensive income to the category of measurement at amortized cost, the financial asset is reclassified at its fair value on the date of reclassification. However, cumulative gains or losses previously recognized through other comprehensive income are removed from equity and adjusted to fair value at the date of reclassification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.4. *Reclassification of Financial Assets and Liabilities (Continued)*

Consequently, financial assets are measured at the date of reclassification as if they had always been measured at amortized cost. That adjustment affects other comprehensive income, but does not affect the income statement, and is therefore not a reclassification adjustment in accordance with IAS 1: Presentation of Financial Statements. The effective interest rate and the measurement of expected credit losses are not adjusted due to the reclassification.

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

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

During 2025, the Bank did not reclassify securities.

3.8.5. *Derecognition of Financial Assets and Liabilities*

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI or Purchased or Originated as Credit-Impaired).

When assessing whether or not to derecognize a loan to a customer, among others, the Bank considers the following factors:

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty; and
- If the modification is such that the instrument would no longer meet the SPPI criteria.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Recognition of financial liability terminates when the liability is met i.e., when the debt is paid, cancelled or expired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.6. Write-off

The financial assets are written off partly or in total only if the Bank withdraws from collection. If the amount that should be written off is greater than accumulated provision for credit losses the difference is initially calculated as additional provision which conflicts with gross carrying amount. Any other additional collection is recognized as extraordinary income within the balance sheet item – other income.

Write-offs may relate to the financial asset in whole or in part. Indicators of lack of reasonable expectation of recovery of financial assets are: death of the client and / or guarantor, complete loss of communication and access to the client, partial or complete legal nullity of the contract, exhaustion of legal collection possibilities (termination of litigation and enforcement proceedings) or from its assets and finally non-recognition of receivables in the bankruptcy estate of the debtor. The existence of any of the indicators (or more of them) is a necessary but not a sufficient condition for the write-off of financial assets. The decision on write-off is made by the Board of Directors, while the responsibility for materially insignificant amounts is delegated to the Credit Committee.

During 2025, the Bank wrote off financial assets with a total gross book value of EUR 25 thousand. Collection of previously written-off financial assets in 2025 amounted to EUR 1 thousand.

3.8.7. Forborne and Modified Loans

The bank sometimes accepts changes to the original terms of the loan in response to the borrower's financial difficulties, rather than repossessing or otherwise enforcing the collateral. The Bank considers the loan forborne when such changes are the result of the debtor's current or expected financial difficulties, and the Bank would not agree to those changes if the debtor is financially stable. Indicators of financial difficulties include outstanding covenant obligations, or significant concerns by the Risk Control, Measurement and Reporting Service. Forborne may include extending the repayment term and agreeing to new loan terms.

The conditions that must be met are defined by the Restructuring Policy, adopted by the Board of Directors, with the consent of the Supervisory Board, whose ultimate goal is to ensure an increase in the volume and certainty of collection of the Bank's exposure and to ultimately reduce credit risk to a minimum, as well as to encourage the recovery of Clients in financial difficulties through debt restructuring. The procedure of financial restructuring is carried out with eligible Clients if they are in financial difficulties and if the economic activity they perform is sustainable in order to heal it and reduce the assumed credit risk to a minimum.

After the terms are renegotiated, any impairment is measured using the original EKS calculated before the terms were changed. It is the Bank's policy to monitor non-performing loans to ensure that future payments are still likely. Derecognition decisions resulting in POCI classification or Stage 2 and Stage 3 reclassification are determined on a case-by-case basis. If a credit loss is identified through these processes, it is managed and disclosed as an impaired Stage 3 asset until it is collected or written off..

After an asset is classified as forborne, it remains forborne for at least 24 months of the trial period. In order for the loan to be reclassified from the forborne category, the client must meet the following criteria:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.7. Forborne and Modified Loans (Continued)

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- The customer does not have any contract that is more than 30 days past due.

An overview of the development of restructured loans during 2025 is presented in Note 5.

3.8.8. Impairment of Financial Assets

Pursuant to the applicable Decision on Minimum Risk Management Standards in Credit Institutions ("Official Gazette of Montenegro", no. 134/21), credit institutions are required to assess quality of assets at least quarterly, determine whether there is objective evidence of impairment of balance sheet assets, or probable loss on the basis of off-balance sheet items and to calculate the adequate amount of such impairment, or probable loss, and to classify these items in the appropriate classification group, in accordance with the aforementioned Decision.

For the purposes of assessing impairment of financial assets and calculation of impairment, the Bank applies the Methodology for estimating impairment and expected loss according to IFRS 9.

In accordance with IFRS 9, impairment of financial assets (i.e., expected credit losses, ECL) is considered for all financial assets except those classified at fair value through profit or loss and equity instruments at fair value through other comprehensive income.

3.8.8.1. Basic IFRS 9 principles

When assessing the impairment of financial assets, the Bank starts from the requirements of IFRS 9 standard, as follows:

- An impairment assessment is based on expected losses;
- The expected losses are made at the 12-month level and the lifetime level of financial instruments and contain the probability of weighted assessments;
- Impairment is recognized both individually and, on a group, (portfolio) basis;
- Calculation of impairment for clients in default is based on an assessment of the expected future cash flows of a financial asset;
- The time value of money is taken into account in a manner that entails discounting cash flows from a financial asset that are measured at amortized cost by using the contractual effective interest rate, except for POCI assets, which use credit risk adjusted EKS;
- Probability-weighted scenarios for calculating the expected loss - means that a probability-weighted scenario for calculation needs to be embedded in minimum two different scenarios in all stages of the calculation of expected losses;
- Necessary adequate parameter risk modelling (EAD exposure, PD - probability of default, LGD - loss by default, CCF - credit conversion factor).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8 Impairment of Financial Assets (Continued)

3.8.8.1. Basic IFRS 9 principles (Continued)

- Necessary modelling of forward-looking expectations - when determining risk parameters, it is also necessary to take into consideration forward-looking information, in which way historical data on credit losses are adjusted for future expectations;
- Calculation of interest income on non-performing assets is performed on (net) amortised cost.

Forward-looking information

According to the requirements of IFRS 9, in the first step the Bank is required to assess, at reasonable cost and effort, at which point in the economic cycle it is currently and in relation to its exposures and how future events may affect the level of expected credit losses. The very concept of expected credit losses (as opposed to the previous concept of incurred losses) requires the use of forward-looking information. The most common method of including this information is to find a significant relationship between the components in the expected credit loss model and macroeconomic variables and then, use the estimated movements of macroeconomic variables to predict the future values of the expected credit loss model components (risk parameters).

We come to the conclusion that the so-called black swan has occurred and that the use of standard statistical methods to examine the interdependence between macroeconomic variables (e.g. linear regression) would be inadequate in every respect

The Bank opted to keep an expert assessment of the correction factor (for forward-looking approach), by examining the historical PD and its movement by years (separately for the retail and corporate segments). In this way, the maximum increase in PD over a period of 12 months was identified. By indexing this increase, a corrective factor was obtained.

Individually significant receivables

Individually significant receivables are considered to be a total gross exposure of the Bank to one party or a group of related parties that is higher than EUR 200 thousand in corporate, retail and entrepreneurs' segments.

Default status

A default status is a status which is assigned to receivables if one of the following criteria is met:

- There is a delay in repayment more than 90 days;
- There are other qualitative factors which indicate objective impairment evidence – an assessment of uncertainty for fulfilling debtor's obligations;
- Financial problems of the debtor
- Restructuring designated as non-performing;
- Bankruptcy or liquidation;
- Lack of client cooperation and terminated contracts;
- POCI status;
- Write-off of receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.1. Basic IFRS 9 principles (Continued)

Forward-looking information (Continued)

A default status is indicative of a client whose creditworthiness is estimated to be either D or E, i.e. when all their exposures are classified under Stage 3.

Low credit risk exposures

In accordance with the regulations of IFRS 9 the credit risk of financial instrument is considered low if the risk if there is a low risk of default of financial instrument, if the debtor is totally capable in a short term to fulfil all its contractual liabilities in terms of cash flow and if unfavourable changes in the economic and business conditions can in a long term but not necessarily decrease the ability of the debtor to fulfil his contractual liabilities in terms of cash flow.

Financial instruments are not considered as instrument of the low credit risk when the risk from loss on the basis of those instruments consider low only because of the value or security as collateral. Financial instruments do not need to obtain an external rating to be considered instruments of the low credit risk from a market participants' perspective considering all the terms of financial instruments.

3.8.8.2. Impairment Calculation

Staging

During initial recognition, all financial assets that fall within the scope of IFRS 9 (except POCI assets) are allocated in Stage 1 and require the calculation of 12-month expected losses.

A significant increase in credit risk in relation to the initial recognition (for exposures that are not part of the low credit risk portfolio) leads to the transition to Stage 2 according to the criteria of creditworthiness and client default. Exit from Stage 2 ie. return to Stage 1 for legal entities, individuals and S.M.E. (in which the shift is conditioned by days of delay) is possible for clients A, B and C if the client meets the condition for belonging to Stage 1 at the end of the accounting period. The exception to the previous paragraph refers to performing restructuring for which a trial (cooling) period of 12 months from the date of restructuring is required, provided that at the end of the reporting periods in the trial period there are no delays of more than 30 days. The bank can also classify certain exposures in Stage 2 based on an individual decision and assessment of the increase in credit risk.

During initial recognition, all financial assets that fall within the scope of IFRS 9 (except POCI assets) are allocated in Stage 1 and require the calculation of 12-month expected losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Staging (Continued)

A significant increase in credit risk in relation to the initial recognition (for exposures that are not part of the low credit risk portfolio) leads to the transition to Stage 2 according to the criteria of creditworthiness and client default. Exit from Stage 2 ie. return to Stage 1 for legal entities, individuals and S.M.E. (in which the shift is conditioned by days of delay) is possible for clients A, B and C if the client meets the condition for belonging to Stage 1 at the end of the accounting period. The exception to the previous paragraph refers to performing restructuring for which a trial (cooling) period of 12 months from the date of restructuring is required, provided that at the end of the reporting periods in the trial period there are no delays of more than 30 days. The bank can also classify certain exposures in Stage 2 based on an individual decision and assessment of the increase in credit risk.

Indicators of a significant increase in credit risk compared to initial recognition are as follows::

- the financial condition of the debtor shows a deterioration compared to the initially assessed condition, which is accompanied by a change in the initial creditworthiness from good to low quality (with the restriction that the newly assigned is not lower than the category belonging to the classification group C);
- the fact that there is information about the breach of contractual obligations;
- Delays in settling due liabilities for 31-90 days;
- a significant change in the terms of loan repayment compared to the originally agreed, assuming that at the time of concluding the restructuring the client is up to 90 days in arrears (so-called performing-restructuring);
- Information from external sources suggests a negative development of the client's creditworthiness (e.g. litigations and lawsuits are filed against the client, account blockade, loss of significant customers or suppliers, etc.);
- Available information from the credit register shows that the client is in a significant delay in repaying the loan with other banks, etc. (excluding situations in which the Bank's loan is clearly separable from other loans granted to the same borrower by its characteristics or sources of repayment);
- Bad historical experience;
- unfavourable change in the regulatory or technological environment of the debtor;
- Significant change in the value of collateral to the extent that reduces the debtor's incentive to continue with the orderly settlement of contractual obligations, etc.);
- disappearance of the active market for financial instruments of debtors;
- Expect a significant reduction in customer turnover and loss of a large customer. A decline in turnover is defined as significant if it is not the result of "one-off" events or events related to the specificity of the industry, i.e. seasonality but is the result of regular business activity.
- The lifetime PD of an exposure on the reporting date is higher than its lifetime PD at initial recognition by more than 200%;
- A reduction in total capital in the last 12 months by more than 50% in relation to the previous comparative period or capital is negative (except for newly founded companies);
- A company operates with a loss and has negative working capital (except in case of newly founded companies);
- A reduction of total income by more than 50% in the last 12 months, except in cases when the previous turnover is a result of a one-off event, and
- An increase in the net financial debt / EBITDA ratio by more than 100% compared to the previous accounting period, provided that it exceeds 10

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Staging (Continued)

For securities, the transition to Stage 2 represents a decline in the issuer's rating (according to the scales of Moody's, S&P, Fitch), which leads to an increase in the lifetime of PD higher than 200% compared to PD at the time of recognition of the financial instrument. Exposures with a rating lower than C or exposures with a default event are considered Stage 3.

Criteria for client allocation in Stage 3 are objective evidence of impairment, and by definition they are:

- there is a delay in repayment for more than 90 days, with exposure amounts exceeding the materiality threshold;
- financial problems of the debtor reflected in the deterioration of the following comprehensively observed indicators:
 - a) company's capital is negative,
 - b) the company does not generate income or a decrease in income is higher than 70% compared to the previous comparative period,
 - c) the customer has a negative net result
- demand for payment under guarantee
- certainty that bankruptcy proceedings will be initiated against the debtor;
- reorganization procedure;
- Debt collection through activation of collateral;
- Restructuring labelled as non-performing,
- Contract termination, bankruptcy or liquidation, POCI
- Clients with current solvency D or E.
- There are other qualitative factors that indicate objective impairment evidence - assessment of uncertainty for the purpose of settling debtor's liabilities.

The transition of exposures from Stage 3 to Stage 2 and from Stage 2 to Stage 1 is only possible in stages:

- the condition for the transition from Stage 3 to Stage 2 is possible after the expiration of a period of 3 months in condition that at the end of the reporting periods during the cooling period there are no delays of more than 90, if the condition for Stage 3 was a delay of more than 90 days, i.e. that the conditions of belonging to the Stage 2 have been fulfilled;
- Exiting from Stage 2, i.e. the return to Stage 1 for legal entities, individuals and S.M.E. (in which the shifting is conditioned by the days of delay) is for clients A, B and C is possible if the client at the end of the accounting period meets the condition for belonging to Stage 1.

The exception to the above applies to non-performing loans that require a cooling period of 12 months from the date of restructuring, provided that at the end of the reporting period there is no delay of more than 90 days, with an additional 12 months in Stage 2, provided that at the end of the reporting periods during that cooling period no delays of more than 30 days were recorded, after which the condition for transition to Stage 1 is met.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Staging (Continued)

Belonging to the stage for clients with a larger number of individual exposures is determined by the exposure with the largest delay in repayment. The Bank is obliged to take into account the relations within the group of related legal entities by classifying the dominant debtor from the group of related persons in Stage 2/Stage 3 and other entities from that group in that category. Clients with ICL (Intensive Care List) checklist are treated under Stage 2 and Stage 3, respectively.

POCI assets

Financial assets that are recognized as impaired at the time of initial recognition are considered POCI assets (Purchased or Originated as Credit Impaired).

For POCI assets, expected credit losses are always assessed at the level of lifetime, and cannot be assessed at the level of twelve-month expected losses. Credit risk-adjusted EIR is used to discount expected future cash flows.

Impairment calculation process

The Bank identifies the items of balance sheet assets and the expected loss on the basis of risk items and calculates the appropriate amount of that impairment, i.e. expected loss on:

- An individual basis of material significant receivables; a group basis (group assessment for receivables which are not individually significant in default);
- A group basis (group assessment of individually significant items which are not in default).

Expected credit losses are assessed on a quarterly basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Individual ECL assessment

Assessment of expected losses on an individual basis relates to exposures to clients whose exposure exceeds the materiality threshold and are in the default status. An assessment of expected losses on an individual basis is based on an assessment of the expected cash flows from the loan repayment or from collateral. Expected scenarios are in three scenarios with different probabilities. The amount of impairment represents the discounted value of cash flows through the collection scenarios weighted by their probability. The scenarios use estimates of expected future cash flows from ordinary activities (continued loan repayment) or from the foreclosure of collateral.

The assessment of cash flows from the continuation of loan repayment is based on the assessment for each client individually in accordance with the expectation of cash flows (whether based on assumptions from the previous period or oral / written agreement with the client). The expected cash flows are the result of the probability of a weighted outcome as explained in this Methodology - part of the inclusion of forward-looking information.

In accordance with the Bank's policy on the acceptability and effective value of collateral, the assessment of cash flows expected to be realized by collateral is also based on the probability of weighted results. The expected effective value of the collateral is considered through the scenario of expected collection and discounted at the original effective interest rate on the reporting date. The impairment calculation is considered on the net principle.

The assessment of expected losses on a group basis is for all other financial assets that are not the subject of an individual assessment and for which the impairment is not established. Estimation of expected losses on a group basis is done according to the phases defined by this Methodology as follows

- for Stage 1 at the level of twelve months of losses;
- for Stage 2 and Stage 3 at the level of expected lifetime losses.

Group ECL assessment

Group assessment of expected losses are made according to groups with similar credit risk characteristics, and considering the current size and structure of the Bank's loan portfolio.

Risk parameters in the calculation of expected losses:

- PD - Probability of Default (12-month or in duration) which indicates the probability of occurrence of default status;
- LGD - Loss Given at Default which indicates the amount of loss on default;
- EAD – Exposure at Default which indicates the Bank's exposure to credit losses;
- CCF – Credit Conversion Factor which indicates the probability of converting off-balance sheet exposures to on-balance sheet exposures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Group ECL assessment (Continued)

The PD is directly calculated from the migration matrix (which contains the probability of transition between two statuses in a specific time period) by monitoring in all segments for exposures that are not in default for twelve months and reflecting the percentage of exposure that has passed into default status during that period. The obtained PD values will be used as the basis for the calculation for all segments of the portfolio.

The probability of default can vary in different life stages of the loan, so in terms of the probability of migration, it is important to consider all stages of the loan's duration. Changes in the time periods for PD calculation can be determined by multiplying the matrix with the corresponding path number in order to assess the appropriate time horizon. PD for a period of 12 months is obtained by calculating the number of migrations at the beginning and at the end of the period.

Based on days of delay the Bank will classify the following groups (buckets):

Bucket	Status	Days of default
1	Impairment before default	0 - 30 days
2	Impairment before default	31 - 60 days
3	Impairment before default	61 - 90 days
4	Impairment after default	90+ days

A twelve-month parameter of the PD risk having the 'i' status in a 't' year is defined as:

$$PD_i(t) = \frac{N_{[t-1, t]}^{i \rightarrow \text{default}}}{N_{t-1}^i}$$

where:

$N_{[t-1, t]}^{i \rightarrow \text{default}}$ - the number or transitions from the 'i' status to the 'default' status for a time period [t-1, t)

N_{t-1}^i - a number of placements having the 'i' status was measured in the year (t-1).

For PD calculation for retail portfolio, migration matrices are based on the party level. Corporate portfolio migration matrices are based on client level.

For the calculation of twelve-month losses, a PD will be used based on twelve months matrices adjusted by macroeconomic adjustment weighted by the probability as described in the introduction - the inclusion of forward-looking information.

When calculating the lifetime values of the PD, the same matrix format used to calculate the 12-month PD values will be used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Group ECL assessment (continued)

Step 1:

Starting from the value of the PD at the twelve-month level according to the matrix of migration, the Bank will multiply the matrix by calculating the cumulative probability of a PD for maturity up to 5 years, from where further to the maximum maturity of financial instruments in the portfolio implies constant values of cumulative probability per bucket.

The multiplication of migration matrices is based on the access to a Markov chain and is calculated using the following formula:

$$T_t = T_{t-1} \times T = \dots = T^t,$$

where:

T – is a one-year migration matrix.

* Note: The multiplication of the matrix does not have commutative characteristic and is marked as 'x'.

Step 2:

Based on the obtained cumulative values of PD for different maturities and buckets, the Bank will calculate probabilities of PD for the same maturities and buckets (assuming that a certain exposure has transition to default in a year 'n', assuming that it has "survived" up to the year n-1). Transfer from cumulative to conditional probability is obtained based on the Bayes approach:

$$PD_{uslovni}(t) = \frac{PD_{kumulativni}(t) - PD_{kumulativni}(t-1)}{1 - PD_{kumulativni}(t-1)}$$

Step 3:

Based on the obtained conditional probability of the PD, the Bank will calculate from the same matrices the marginal values of the PD, which marks the default exactly in a year 'n' for all maturities and buckets. For the marginal value of the PD from the 5th year, the Bank will use a constant simple weighted average of marginal value of the PD until that year. The Bank calculates the marginal probability using the following formula:

$$PD_{marginalni}(t) = PD_{uslovni}(t) \cdot (1 - PD_{kumulativni}(t-1))$$

*Note: Marginal, cumulative and conditional PD in the first year (t=1) are equal, therefore it is the same which one is used during the calculation of twelve months credit losses. In lifetime loans only marginal PD is used. For the further consistency, for the parameter valuation of the PD risk we are considering the valuation of marginal probability of PD.

Step 4:

The Bank adjusts the obtained marginal values of the PD for all maturities and buckets by multiplying them with a corrective factor as described in the introduction – the inclusion of forward-looking information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Group ECL assessment (continued)

PD parameter for securities is used according to the values Moody's rating, i.e., S&P and according to the expectation of the changes of rating in the following year the macroeconomic adjustment of the weighted probability is done, as described in the introduction – inclusion of the forward-looking information.

The **LGD** parameter is used for securities according to the values and rating scale of Moody's or S&P. To calculate the LGD for Corporate (legal entities) customers and Retail (natural persons) customers, the following formula is used:

$$\text{LGD} = (1-\text{CR}) * \left(\frac{\text{EAD} - \max\{0, \text{efektivna vrijednost kolaterala}\}}{\text{EAD}} \right)$$

where:

LGD – Loss Given Default,

CR – is Cure Rate, obtained from twelve-month migration matrixes (for stage 3 it amounts to 0)

In the case where the effective value of the collateral equals or its greater than amount of EAD, and with the aim for LGD not to equal zero, a fixed value of 5% is used in the formula: $\left(\frac{\text{EAD} - \max\{0, \text{effective value of collateral}\}}{\text{EAD}} \right)$. The percentage is determined by experts, by taking into account the high value of collateral, and on the other hand takes into account the provision of IFRS 9 that the assessment of expected credit losses should always reflect the possibility of credit losses even if the absence of credit loss (IFRS 9, 5.5.41) is most likely.

The LGD parameter is not macro-economically adjusted, since the adjustment is at PD level, and is taken into account by multiplying in the impairment formula.

For the calculation of impairment within the homogeneous groups Corporate with first class collateral and Retail with first class collateral, the Bank will apply a fixed percentage of 0.1% in relation to EAD.

The exposure level according to the definition in the introduction and based on the amortisation/depreciation plan is used as **EAD**, i.e. an exposure level for 12-month expected credit losses and a useful life of a financial instrument. For off-balance sheet exposures as a basis for impairment calculation, the amount of off-balance sheet exposure is used together with the credit conversion factor as defined by the Methodology for Assessment of Impairment and Expected Loss (i.e. as a product of an off-balance sheet exposure and credit conversion factors).

As defined in Article 13 of the Capital Adequacy of Credit Institutions Decision, the values of the credit conversion factor (**CCF**) for different types of off-balance sheet exposures are used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Group ECL assessment (continued)

The calculation of impairment for placements on a group basis is done according to the formulas below for all segments, and for those clients, where there is no objective evidence of impairment if they are materially significant clients or clients with evidence of impairment, but whose exposure is not material.

For exposures that are classified in Stage 1 and for which a twelve-month expected credit loss is calculated on a group basis, the following formula is used:

$$12EL = PD_s \cdot LGD_s \cdot EAD_s$$

12EL	Twelve months expected credit losses
EADs	Exposure at the time of the reporting date
PDs	The probability of entering the default status adjusted for future expectations
LGDs	Loss in the default status, i.e. the recovery rate which indicates on that which the part (percentage) of the contract that were in a default status of the obligation came out in a natural way (considering the value of collateral for individual contracts) during a given time period

For exposures classified in Stage 2 and 3 and for which expected credit losses over the useful lives of financial instruments are calculated on a group basis, the following formula is used:

a) For non-default exposures

$$LEL = \sum_{t=1}^{\text{Maturity}} EAD_s[t] \cdot mPD_s[t] \cdot LGD_s[t]$$

where:

LEL	Expected credit loss over the useful life of a financial instrument
mPDs[t]	A PD vector adjusted through probability-weighted scenarios for macroeconomic expectations
LGDs[t]	LGD vector
EADs[t]	Credit risk exposure vector

b) For default exposures

The same formula as in the previous section is used, whereby the PD vector=1 for all curve points.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Individual ECL calculation

After selecting individual significant placements and establishing the existence of one or more objective evidence of impairment of receivables, the impairment is assessed on an individual basis.

The amount of impairment in accordance with IFRS is calculated as a difference between the carrying values of assets and the present value based on probability-weighted scenarios of the estimated cash flows discounted on the present value, i.e. the reporting date value.

Impairment (P_{ind}) on an individual basis is calculated as:

$$P_{ind} = CA - RA$$

where:

CA	Carrying amount of a financial asset
RA	The amount that the Bank expects to collect per individually impaired asset through probability-weighted scenarios. RA is defined as the present value of the future cash flows CFT.

The RA calculation is presented in the following mathematical formula:

$$RA = \sum_0^t \frac{CF_t}{(1+r)^t}$$

where:

T	is an expected collection period of the receivables from the Bank. Cash flows are added on a monthly basis.
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An assessment of the amount that the Bank expects to collect on an individually impaired asset is in accordance with the probability of weighted assumptions, so that the bank assesses it in two different scenarios to which is assigned the probability and amount of the collection, and the final amount of RA is the sum of the collection amount according to the probability scenario with its probability.

The discount factor 'r' presents the initially agreed effective interest rate calculated for a certain loan if it is the loan that is classified in the Stage 3, i.e. credit adjusted effective interest rate if it is about POCL assets.

The Bank considers the following relation between annual EIR and monthly EIR: $EKS_{p,m} = (1 + EKS_{p,a})^{1/12} - 1$

A customer assessment consists of the assessment of the future cash flow. The expected future cash flows include:

- Future cash flows from the loan collection; and
- Future cash flows from the collateral collection.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.2. Impairment Calculation (Continued)

Individual ECL calculation (calculation)

For the discounting of the cash flow the effective interest rate or credit adjusted effective interest rate (expressed on a monthly level) is used, depending on the type of the assets. For the impairment calculation on the off – balance sheet items and discounting of the future cash flows the effective interest rate can be used on one of the following ways:

- With approved and unused loans – there is an effective interest rate;
- The Bank uses an interest rate of 10% for guarantees, letters of credit and other off-balance sheet liabilities.

In addition, taking into account the maturity from 12-24 months, it is considered that the contingent off – balance sheet item, would transfer to loan if it would be on the Bank's expense, the maturity from 12-24 months and possibly all other conditions that would affect the amount of effective interest rate.

The following parameters are deemed significant:

- The agreed effective interest rate;
- The date of improvement and the date of maturity of the placements;
- Expected collection of the cash flows (principal, interest, fee) from original plan of the repayment or corrected in accordance with delay of experience;
- Expected collection of the collateral, if the collection is not expected from cash flows. Collateral is entered reduced by the corresponding haircut, defined by the procedure.

Considering the determinative of IFRS 9 that the assessment of the expected credit losses should always reflect the possibility of credit losses, even if it is most likely that that the credit loss will not occur the Bank will define the percentage of 0.1% as a minimum amount of impairment at individual party.

3.8.7.3. Presentation

ECL impairment in the income statement is recognized as follows:

- For financial assets valued at amortized cost, impairment decreases the gross carrying amount of a financial asset;
- For off-balance sheet exposures (irrevocable commitments for undrawn loans and financial guarantees) impairment is recognized as a reserve in the equity and liabilities of the balance sheet;
- For partially withdrawn credit facilities where the Bank cannot separately identify the ECL, the expected credit losses should be recognized together as a deductible item of gross carrying value of withdrawn credit parties. Provision is recorded to the extent where the combined ECL exceeds the gross carrying value of the assets;

For debt instruments classified at FVOCI the impairment is not recognized in the balance sheet, due to the carrying amount of these assets must be equal to their fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

3.8.8. Impairment of Financial Assets (Continued)

3.8.8.4. Provisions

Pursuant to the applicable Decision on Minimum Risk Management Standards in Credit Institutions ("Official Gazette of Montenegro", no. 134/21), the Bank is obligated, depending on the probability of loss, to classify asset items into the following categories:

- A category ("Good Assets") - including loan and other receivables for which there are firm documentary evidences that will be collected in full and as agreed
- B category ("Special Mention") - with B1 and B2 subcategories - including loan for which there is remote probability of loss, but which, require special attention of the Bank, as potential risk, if not adequately monitored, could diminish in terms of its collection
- C category ("Substandard assets") – with C1 and C2 subcategories for which there is high probability of loss, due to the clearly identified collectability issues;
- D category ("Doubtful assets") including loan the full collection of which is, taking into account the creditworthiness of the borrower, value and possibility of realization of collaterals, highly unlikely.
- E category ("Loss") – including the items which are uncollectable in full, or will be collectable in an insignificant amount.

The calculation of provision is conducted on a monthly basis. On a monthly basis, based on the performed classification of balance sheet assets and off-balance sheet items, the Bank calculates provisions for potential losses, applying percentages in the following table:

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

The Bank shall determine the difference between the amount of loan loss provisions calculated in accordance with the above given table and the sum of the amount of allowances for impairment losses and provisions for off-balance sheet items calculated in accordance with the provisions of Decision regulating the manner of valuation of asset items by applying IFRS 9.

A positive difference between the calculated provisions for potential losses and the sum of allowances for items of balance sheet assets and provisions for off-balance sheet items represents a deductible item from the Bank's Tier 1 capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Property, Plant and Equipment and Intangible Assets

Property, Plant, Equipment and Intangible Assets as of December 31, 2024 are recorded at cost less accumulated depreciation/amortisation. Cost is the value contained in the supplier's invoice increased by attributable expenses based on procurement and input of the assets in the functional state.

Depreciation/amortisation is calculated on a straight-line basis on cost using the following annual rates, in order to write them off over their expected useful lives. Calculation of depreciation commences when the assets are put into use.

	Rate (%)	
	2024	2023
Buildings	1	1
Computers and computer equipment	20	20
Furniture and other equipment	11	11
Vehicles	15	15
Leasehold improvements	15	15
Intangible assets	20	20

Pursuant to the Corporate Income Tax Law ("Official Gazette of Montenegro" No. 80/04, 40/08, 86/09, 14/12, 61/13, 055/16, 146/21, 152/22, 028/23, 125/23 and 088/24), the value of buildings for tax purposes is calculated using the proportional method and value of equipment and application software by applying digressive method for the entire period, regardless the date of activation. Business premises belong to the group I for which the applicable rate is of 2.5%, while the remaining fixed assets, equipment and software, are arranged in groups II to V, for which applicable rates are in the range from 10% to 30%, intangible assets depreciation is equated with depreciation for accounting purposes.

3.10. Investment Property

Investments in property are tangible assets that are not used directly for the performance of activities, but are acquired for the lease or sales purposes.

Investment property is initially recognized at cost, which consists of cost and transaction costs of acquisition. Subsequent measurement is based on a fair value model based on market value. Gains and losses on subsequent measurement are recognized in the income statement.

3.11. Impairment of Tangible and Intangible Assets

On each balance sheet date, the Bank's Board of Directors reviews the carrying amounts of tangible and intangible assets. If there is an indication that an asset is impaired, the recoverable amount of the asset is estimated in order to determine the amount of impairment loss. If the recoverable amount of an asset is estimated to be less than the value at which the asset is stated, existing value of the asset is reduced to its recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Impairment of Tangible and Intangible Assets (Continued)

An impairment loss is recognized as an expense of the current period and is recorded under other operating expenses. If subsequently there is a situation that the loss recognized in previous years does not exist or is reduced, the value of the asset is increased up to the revised estimate of its recoverable value, but in way that increased value at which the asset is managed does not exceed the value at which the asset would be managed if in the previous years was not recognized loss due to impairment of assets.

The Bank's Board of Directors believes that the total value of tangible and intangible assets as at 31 December 2023 is not overstated.

3.12. Repossessed Assets

Repossessed assets are assets acquired by the Bank on foreclosure of receivables for placements collateralised by the above-mentioned property. The Bank recorded repossessed assets at the lower of the gross carrying value of receivables or market value of collateral less costs to sell.

In accordance with the Decision on Minimum Standards for Investments of Credit Institutions in Real Estate and Fixed Assets ("Official Gazette of Montenegro", No. 24/09, 66/10, 58/11, 61/12, 13/13, 51/13, 16/15, 82/17, 72/19, 126/20 and 20/24), total investments of a credit institution in real estate and fixed assets must not exceed the credit institution's regular stake capital. Exceptionally, a credit institution may have investments in real estate and fixed assets exceeding the regular stake capital, if the following conditions are met:

- the amount of investment in real estate and fixed assets exceeding the amount of regular stake capital is treated by a credit institution as a deduction item in the calculation of the credit institution's regular stake capital;
- after the deduction of the credit institution's regular stake capital in accordance with point 1) hereof, the amount of regulatory capital and the credit institution's capital adequacy ratio exceed the regulatory minimum.

For properties acquired by a credit institution in exchange for claims in debt restructuring proceedings, bankruptcy proceedings, liquidation proceedings against a debtor of a credit institution, in debtor reorganisation proceedings in accordance with the regulations governing bankruptcy, or in enforcement proceedings for the purpose of settling claims, the credit institution is obliged to include 100% of the value of that property in the calculation when calculating the total amount of investments in real estate and fixed assets, if more than two years have elapsed since the date of acquisition of the property.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Provisions

Provisions are recognized when:

- the Bank has a present legal or constructive obligation as a result of past events;
- when it is probable that an outflow of resources embodying economic benefits will be required to settle the liability
- When a reliable estimate of the amount of the liability can be made.

Provisions are measured at the present value of the expenditures required to settle the liability.

Provisions are reassessed at each balance sheet date and adjusted to reflect the best current estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the liability, the provision is reversed through the income statement.

3.14. Employee Benefits

3.14.1. Contributions for Social Security of Employees

Pursuant to the regulations effective in Montenegro, the Bank has an obligation to pay contributions to various state social security funds for social security of employees. These obligations involve the payment of contributions on behalf of an employee, by the employer, in amounts calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

3.14.2. Retirement Benefits

The present value of future obligations under the General Collective Agreement in Montenegro, such as retirement benefits after fulfilling the conditions, as assessed by the Bank's Board of Directors, does not have a material effect on the financial statements taken as a whole, and, therefore, in accordance with accounting policies applicable in Montenegro, provisions are made based on mentioned employee benefits, using the actuarial calculation.

3.15. Borrowings

Borrowings are initially recognised at fair value, which is usually equal to the cost of the loan, including transaction costs incurred. In the following periods, borrowings are reported at amortized value. Any differences between the realized inflow, less transaction costs, and the amount of repayments are recognised in the profit and loss account as interest expense over the period of use of the loan, using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Payment Operations and Cash Management

The Bank performs payment operations and cash management based on a Business Co-operation Contract, which is concluded between a customer, as one contracting party, and a User, as the other party. The Bank is obliged to receive funds from the Customer and conclude a Loan Agreement for Payment Operations and Cash Management with the Loan User on behalf of the Bank and for the account of the Customer and to make these funds fully available to the Loan User. The Loan User will pay interest based on the Loan Agreement for Payment Operations and Cash Management in accordance with the loan repayment schedule, whereas the Bank charges a fee for performing payment operations and cash management. Payment operations and cash management differ from credit operations due to the fact that the Bank does not bear the credit risk, which fully belongs to the customer. Thus, the Bank accounts for these operations under off-balance sheet items, while fee and commission income is recorded in the income statement under the fee and commission income during the payment operations and cash management.

3.17. Investments in Subsidiaries according to the Equity Method

The Bank recognizes subsidiaries according to the equity method in line with IAS 27. These investments are initially recognised at (historical) cost. The cost convention entails that equity investment in a subsidiary is recorded at the value paid for the acquisition of such investment, which is stated at cost every year unless it is impaired, when the carrying value needs to be reduced to the recoverable value and an impairment loss is recognised simultaneously. According to the cost method, movements in the equity of a subsidiary (arising from the result or revaluation reserves) does not affect the measurement of equity interest in the separate financial statements of the parent company. Income from equity investments in a subsidiary is only recognised in case it is decided to distribute profit as dividends.

3.18. Related Party Transactions

Parties related to the Bank are as follows:

- 1) Bank's shareholders that have a 5% or more of interest in the Bank's equity or shares and a voting right;
- 2) Members of the Supervisory Board or the Board of Directors and procurators of the Bank;
- 3) Persons responsible for the operation of control functions, an authorised person for anti-money laundering, a person responsible for business transactions with corporate customers, a person responsible for business transactions with retail customers;
- 4) Other persons that have signed an employment contract with the Bank, whose provisions indicate a notable influence of those persons on the operations of the credit institution, i.e. provisions that prescribe a reward for the performance of such persons under specific criteria that differ from the terms and conditions for persons that have concluded standard employment contracts, but who are not persons referred to under previous items;
- 5) A legal entity in which the Bank, a member of the Supervisory Board or the Board of Directors or a procurator of the Bank have a significant influence;
- 6) A legal entity whose member of its governing body is also a member of the Supervisory Board or the Board of Directors or a procurator of the Bank;
- 7) A legal entity whose member of its governing body has a 10% or more of shares of the Bank and a voting right;
- 8) A member of a governing body of a company which is, directly or indirectly, the parent company or a subsidiary of the Bank.
- 9) A person acting on behalf of the person referred to in paragraphs 1 to 7 of this paragraph in connection with transactions from which the Bank's exposure would arise or increase;
- 10) A person with a person paragraphs 1 to 8 of this paragraph represent a related person; And
- 11) A member of the immediate family of individual from the point of view. 1 to 8 of this paragraph.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Related Party Transactions (Continued)

A member of the immediate family of a person is considered:

- 1) A spouse or a person with whom the aforesaid person lives in a union that is equal to marriage according to the law;
- 2) Children and adopted children of that person and the person referred to under the previous item;
- 3) A person who does not have full business capacity and who is under guardianship of the aforesaid person.

Business transactions with related parties are specified under the Procedure for Identifying, Recording and Monitoring Related Parties in Order to Assess Large Exposures and Bank's Related Parties. The Procedure regulates the concept of related parties and parties related to the Bank, authorizations and responsibilities regarding regular identification and records of related persons, as well as all parties related to the Bank and business operations and transactions with them.

Identifying possible connections among these parties is an integral part of the Bank's loan approval and monitoring process. Related parties are identified when establishing a business contact with the Client. The Sales Department – Retail and Corporate Customers is required to collect information and credible documentation about related parties. The client submits to the Bank a Statement of Related Parties listing its related parties. The Sales Department – Retail and Corporate Customers monitors Groups of related parties in terms of their exposure and in terms of doing business with them, and reports about it at least on a quarterly basis to the ALCO, the Board of Directors and the Supervisory Board of the Bank.

As part of the Department for Risk Supervision, Measurement and Reporting, the Credit Analysis is required to review and verify established groups of related parties and identify additional connecting factors (both in terms of a control relationship and economic interconnection/interdependence), and redefine related party groups accordingly.

The Sales Department – Retail and Corporate Customers and the Department for Risk Supervision, Measurement and Reporting monitor Bank's related parties in terms of their exposure and doing business with them, and report about it at least quarterly to the ALCO, the Management Board and the Supervisory Board of the Bank. The information about doing business with parties related to the Bank has to be made available to all employees who may conduct business transactions with these parties. The Bank's Board of Directors, along with the consent from the Supervisory Board, decides on conducting business transactions with parties related to the Bank.

When observing potential transactions with related parties, the attention is focused on the purpose of the relationship, not only to the legal form.

3.17. Outsourcing Policy

The Bank has adopted the Outsourcing Policy, which defines the processes for introducing new products and operational risks arising from activities that the Bank has entrusted to third parties.

Outsourcing risk management is done through a multi-level evaluation of service providers and regular annual monitoring of the quality of outsourced critical activities.

4. ACCOUNTING POLICIES AND ASSUMPTIONS

The Bank's Board of Directors performs assessment and makes assumptions which affects to the value of the assets and liabilities in the following financial year. Accounting policies and assumptions are continuously valued and based on historical experience and other factors, including expectations of the future events for which it is believed that they will be reasonable in the given circumstances.

The resulting accounting assumptions will by the definition rarely be equal with the archived results. The most significant uses of estimates and judgments are as follows:

4.1. Impairment of Loans

The Bank monitors and checks the quality of the loan portfolio on a monthly basis, both on an individual and collective basis, with the aim of ongoing assessment of the required amount of security. In determining the amount of impairment on an individual basis, the Bank estimates the value of future cash flows, including from collateral, using a certain degree of impairment of collateral (hair-cuts) and a certain collection period.

The Bank's Board of Directors uses historical loss estimates for assets with similar credit risk characteristics to assess the level of impairment of collateral and the period of collection. The methodology and assumptions used in estimating the amounts and periods of future cash flows are reviewed regularly to eliminate any differences between estimated losses and actual experience.

Stress testing for credit risk predicts the impact of adverse macroeconomic conditions on non-collection and loss rates. Based on historical experience, the relationship between macroeconomic and risk factors is assessed and a benchmark for existing exposures is applied to assess the additional default rate and the provision required to respond to the identified risk. The assumption in these scenarios is that the exposure does not change over the course of one year.

Low-risk loans and lower-exposure loans are reviewed collectively.

4.2. Impairment of Securities

To assess the impairment of securities, the Bank uses the rating system of internationally recognized rating agencies (Moody's, S&P, Fitch), as well as their research on government and corporate debt.

In the part of PD parameters (Probability of Default), data from the above-mentioned researches are used directly, where the influence of estimates and assumptions is low. The estimation of the LGD parameter (Loss Given at Default) for government debt is based on the information from the above research for default economies, which is most similar to the economies of issuers whose securities the Bank has in its portfolio. Average values are used for corporate debt.

The most significant assumptions relate to forward-looking information, with the Bank, guided by the precautionary principle in times of heightened uncertainty, using moderately pessimistic scenarios in modelling.

4. ACCOUNTING POLICIES AND ASSUMPTIONS (Continued)

4.3. Fair Value of Financial Instruments

The fair value of financial instruments traded in an active market is obtained based on the published market price on the valuation date.

Determining the fair value of financial assets and liabilities for which there is no observable market price requires the use of various valuation techniques. Although valuation techniques reflect market conditions to a good extent on the day of measurement, they may still differ from market conditions before and after that day.

For financial instruments that are not traded frequently and have low price transparency, fair value is less objective and requires some degree of valuation variation depending on liquidity, concentration, uncertainty of market factors, price assumptions and other risks affecting a particular instrument. A change in the estimates of these factors could affect the fair value of the financial instruments shown.

4.4. Long-term Employee Benefits

The cost of long-term employee benefits is determined on the basis of actuarial calculation, using actuarial assumptions: discount rate, future wage growth in line with inflation and promotion rates, and wage growth based on past work, as well as changes in the number of employees entitled to compensation. Given the long-term nature of these plans, estimates are subject to significant uncertainty. An independent actuary performs actuarial calculation.

4.5. Useful Lives of Intangible Assets, Property, Plant and Equipment

Determining the useful lives of intangible assets, properties, plants and equipment is based on previous experience with similar assets as well as anticipated technical development and changes that are influenced by a large number of economic and industrial factors. The adequacy of a certain useful lifetime is reconsidered at an annual level or whenever there is an indication that there has been a significant change of the factors which presented the basis for determining the lifetime.

4.6. Litigation

The Bank estimates the amount of provisions for outflows based on litigation based on an assessment of the probability that the outflow of resources will actually occur under a contractual or legal obligation from prior periods.

4. ACCOUNTING POLICIES AND ASSUMPTIONS (Continued)

4.7. Lease Assessments

4.7.1. Assessment of an Indefinite Lease Term

The Bank has lease agreements for business premises in which it performs activities concluded for an indefinite period of time. The Bank's Board of Directors estimates the expected duration of the contract based on available information. Estimates are revised at each reporting period or if there are significant changes in contractual terms.

4.7.2. Estimation of Incremental Borrowing Rate (Discount Rate)

The Bank is not able to determine the implicit leasing rate, therefore it uses an incremental borrowing rate in measuring the lease liability. The incremental borrowing rate reflects the rate at which the Bank could borrow funds necessary to purchase the leased assets, in similar economic circumstances.

5. RISK MANAGEMENT

5.1. Introduction

In accordance with the Decision on minimum standards for risk management in credit institutions of the CBM, the Bank is particularly exposed or may be exposed to the following risks in its operations:

1. Credit risk and risks associated with credit risk:
 - Credit risk in the narrower sense;
 - Counterparty risk;
 - Dilution risk;
 - Currency induced credit risk;
 - Interest induced credit risk;
 - Concentration risk;
 - Residual risk;
 - Securitisation credit risk;
 - Country risk;
 - Credit valuation adjustment (CVA) risk; and
 - Settlement/delivery risk.
2. Market risks:
 - Currency risk;
 - Position risk;
 - Commodity risk; and
 - IRRBB risk.
3. Operational risks:
 - Operational risk;
 - Outsourcing risk;
 - Risk associated with new product development; and
 - Model risk

5 RISK MANAGEMENT (Continued)

5.1. Introduction (Continued)

1. Liquidity risk:
 - Liquidity risk
2. Other risks:
 - Risk of high financial leverage;
 - Reputational risk;
 - Strategic risk; and
 - Risk of business and macroeconomic environment (influence of external factors).

All identified risks, as well as risks that the Bank considers significant, are given below:

Significant risks	Not significant risks
<p>The following risks of the bank were assessed as significant:</p> <ol style="list-style-type: none"> 1. Credit risk in the narrower sense; 2. Country risk; 3. Residual risk; 4. Risk of concentration; 5. Credit risk of the other contracting party; 6. Foreign exchange risk; 7. Operational risk; 8. Interest risk from non-traded positions; 9. Liquidity risk; 10. Legal risk; 11. Risk associated with outsourcing; 12. Risk associated with the introduction of new products; 13. Strategic risk; and 14. Risk of the business and macroeconomic environment. 	<p>The following bank risks have been considered but are not materially significant:</p> <ol style="list-style-type: none"> 1. Currency-induced credit risk; 2. Interest induced risk; 3. Risk of dilution; 4. Model risk; 5. Risk associated with securitization; 6. Credit valuation adjustment risk (CVA risk); 7. Delivery settlement risk; 8. Risk of excessive financial leverage; 9. Position risk; 10. Commodity risk; and 11. Reputational risk.

The main responsibility of the Bank is to identify, assess, mitigate and monitor risks. Therefore, an adequate organizational structure has been established and risk identification, assessment, management, monitoring and reporting processes have been defined.

The credit risk management policy at Universal Capital Bank defines credit risk management roles and responsibilities in the bank, a general risk assessment, eligible borrowers and types of credit exposures, organizational principles of credit transactions, principles involved in credit operations (transactions), credit exposure monitoring, monitoring of loan processing, an early warning system, intensified monitoring of credit exposures, treatment of non-performing loans, restructuring of credit exposures, provisions for credit losses and write-off of exposures, portfolio management, risks associated with credit risk as well as reporting requirements. The policy also specifies adequate job descriptions in all organisational units, Boards and decision-making and supervisory bodies, decision-making authorisations, as well as procedures and guidelines for the respective operational areas to assist in the implementation of the policy and ensure that the policy objectives are fully accomplished at all levels.

5 RISK MANAGEMENT (Continued)

5.1. Introduction (Continued)

For the purpose of appropriate liquidity risk management, the Bank adheres to the following principles:

- Liquidity risk identification, measurement, mitigation and monitoring are regularly performed for all currencies (denominated in EUR);
- An analysis of liquidity factors and stability or volatility of deposits is based on historical data; and
- Liquidity risk is managed responsibly, conservatively and in accordance with the Bank's Risk Management Strategy and Liquidity Risk Management Policy, the regulator's requirements regarding liquidity risk management and by maximally observing the liquidity risk management and supervision principles proposed by the Basel Committee on Banking Supervision.

The risk management strategies, policies, procedures and other risk management documents are designed to identify and analyse risks, define limits and controls required for risk management and to monitor Bank's exposure to each risk. Risk management documents are subject to regular control in order to adequately respond to any changes in the market, products and services.

The Department for Risk Monitoring, Management and Reporting is responsible for monitoring the Bank's exposure to certain risks.

5.2. Credit Risk

The Bank is exposed to credit risk, which is a risk of customers that will be unable to pay their liabilities to the Bank in full and on time. Credit risk is identified as the most significant risk in the Bank's portfolio.

Sales operations are separated from risk supervision and business support activities. The separation involves all levels, including Bank's Board of Directors.

The term credit risk applies to all risk subtypes listed below within the group credit risk and risks associated with credit risk:

- Credit risk in the narrower sense;
- Counterparty risk and credit valuation adjustment risk (CVA risk);
- Currency-induced credit risk;
- Interest-induced credit risk;
- Country risk;
- Residual risk;
- Concentration risk; and
- Securitization risk.

The policy for managing credit risk and risks associated with credit risk at the Bank governs credit risk in the narrower sense (typical credit risk - risk associated with a client's credit exposure), as well as country risk, residual risk, currency-induced credit risk and interest-induced credit risk. The Bank is not exposed to other risks from the group.

5 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

The following principles denote the Bank's approach to credit risk management:

- Detailed analysis of borrowing capacities of bank customers;
- Carefully documenting credit risk analyses and processes involved in credit operations, ensuring that the performed analyses can be understood by third parties with adequate knowledge;
- Avoiding overindebtedness of bank clients;
- Building a personal and long-term relationship with a client and maintaining regular contact;
- Systematic monitoring of credit exposure repayment;
- Systematic monitoring of repayment delays;
- Systematic collection from collateral in case of default;
- Implementation of carefully designed and well-documented processes;
- Application of the "four-eyes" principle; and
- Investing in well-trained and highly motivated staff.

The Bank measures, manages, monitors and reports on the concentration risk to which it is exposed and tries to identify concentration risks when planning new activities, especially those arising from new products and markets. The bank constantly assesses and adjusts its business and strategic goals in order for the bank's exposure to concentration risk to be harmonised with its risk appetite defined under the RAF and RAS.

The Bank has specified in its Concentration Risk Management Policy the indicators that it monitors during concentration risk management and the limits and techniques it uses to mitigate the risk.

Country risk represents the probability of loss for the Bank due to the impossibility of collecting receivables from parties outside of Montenegro, for political, social and economic reasons in the country in which the borrower's head office or place of residence is located.

The Bank assesses the country risk exposure for all countries in which the head offices and/or places of residence of Bank's debtors are located.

The calculation of the total exposure to a borrower's country includes loans, shares, debt securities, capital investments, funds on correspondent accounts, financial derivatives, guarantees and other unconditional off-balance sheet liabilities.

The Bank needs to classify all debtors' countries under one of the following risk categories:

- no risk countries;
- low risk countries;
- medium risk countries; and
- high risk countries.

A borrower's country for which no country risk exists is classified as a no-risk country.

A borrower's country for which country risk exists, but the collection of bank's receivables are not endangered, is either classified as a low-risk or medium-risk country depending on the country's risk level.

5 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

A borrower's country in which the collection of receivables is endangered or actual problems regarding the collection of receivables exist is classified as a high-risk country.

The Department for Risk Supervision, Measurement and Reporting monitors the ratings of the countries in which the head offices and/or places of residence of Bank's debtors are located in accordance with the long-term credit rating methodology of Standard & Poor's. The Department classifies countries according to a risk level based on these ratings, and defines exposure limits accordingly.

The ratings of the countries in which the head offices and/or places of residence of Bank's debtors are located are monitored at least quarterly when assessing the country's risk exposure. Rarely, in case of changes and events in the borrower's country based on which it needs to be classified as a high-risk country, the Bank is required to do so immediately after such events have occurred.

Residual risk is the possibility of negative effects on the bank's financial result and capital since credit risk mitigation techniques are less effective than expected or their application has an insufficient effect on reducing the risks to which the bank is exposed, whereby it is structured through two main elements:

1. Risk of secondary sources of collection - value of collaterals, corrective factors on the value of collaterals, risk of collection upon default status (post-default collection or enforced collection, etc.), and
2. Inadequacy of the receivables collection system through the achieved time dynamics of receivables collection (reduction in the fair value of receivables, including the value of collaterals due to the slowness and inefficiency of the collection system).

The collateral catalogue specifies that the Bank will endeavour to provide first-class or adequate collaterals. Since the Bank's portfolio contains a considerable amount of receivables secured by first-class collaterals, special attention was paid to adequate collaterals during the implementation of credit risk mitigation techniques.

Adequate sureties and guarantees, as well as mortgages or fiduciaries in favour of the Bank on immovable property used as residential or commercial premises, are considered adequate instruments for securing the collection of receivables, if the following conditions are met:

- a placement has been approved in accordance with the stable and safe banking principles;
- immovable property is free of real and legal encumbrances (encumbrances and restrictions);
- the Bank has priority when it comes to the order of the collection of receivables;
- the objectively assessed value of the real estate is in accordance with the minimum percentages specified in the Collateral Catalogue;
- immovable property can be sold within a period that does not jeopardize the Bank's liquidity;
- real estate is insured against the occurrence of harmful events (fires, floods, etc.) over the useful life of the placement, and the insurance policy is endorsed by the Bank.

5 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

Currency and interest induced credit risk

As part of its credit risk management, the Bank is particularly required to assess the exposure to and manage:

- Interest induced credit risk; and
- Currency induced credit risk.

Interest induced credit risk is the risk of loss arising from exposures linked to variable interest rates.

Currency induced credit risk is the risk of loss arising from exposures denominated in or linked to a foreign currency.

As part of currency/interest induced credit risk management, the Bank will carry out the following activities:

- identification of debtors that are the reason for a significant exposure to these risks;
- an impact assessment of a significant increase in the amount of debt repayment in the event of considerable negative fluctuations in interest rates/exchange rates on the debtor's creditworthiness;
- estimate of impairment and provisions for exposures that are subject to these risks in case of changes in exchange rates or interest rates;
- linking the credit exposure to the reference hedging instrument used by the credit institution, if applicable; and
- carrying out stress resistance tests.

The Bank's current exposure to currency induced and interest induced credit risks is at a minimum level taking into account the size of the foreign currency exposures portfolio and/or the size of the variable interest rate exposures portfolio. Thus, the Bank does not identify them as significant risks during a regular annual risk count carried out for the purpose of identifying significant risks.

The Bank makes provisions for expected credit losses as defined by the Methodology for the Assessment of Impairment and Expected Loss according to IFRS 9 (Note 3.3.8). Significant changes in the economic environment or certain industries included in the Bank's loan portfolio might result in losses that are different from the losses provided for as of the balance sheet date. Therefore, the Bank's Board of Directors carefully manages Bank's credit risk exposure.

5.2.1. Credit risk management

A credit risk exposure is a risk of a financial loss resulting from the borrower's inability to meet all their contractual obligations towards the Bank's strategic commitment is aimed at ensuring optimal diversification of risks and income sources in order to increase cost-effectiveness and the segment of providing existing products and services, as well as promoting and affirming new ones. The Bank manages the credit risk assumed by setting limits in respect of large loans, single borrowing entities and related parties. Such risks are monitored and reviewed on an ongoing basis.

5 RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

Currency and Interest Induced Credit Risk (Continued)

5.2.1. Credit risk management (Continued)

Credit risk exposure management is performed by regularly analysing the ability of the borrower and potential borrowers to repay their liabilities for interest and principal.

Credit exposures under intensive monitoring are exposures where an increase in default risk has been identified, i.e. if they are categorized as increased credit risk exposures.

A credit exposure is classified as an increased credit risk exposure if it meets one of the following conditions:

- A customer has been continuously (for the last three months) in arrears for over 30 days, but less than 90 days;
- The client's account has been blocked for more than 30 days in the last 3 months;
- Irregular settlement of tax liabilities - the client is on the lists of major tax debtors published by the tax administration;
- The customer has related parties that are in default with the Bank;
- Restructured credit exposures that do not have a default status;
- Multiple restructured credit exposures that are not in arrears; and
- Other reasons.

The Bank defines and implements a procedure that ensures intensified monitoring/management of all credit exposures that meet one or more of the aforesaid indicators.

Accordingly, the Bank creates an adequate watch list.

Loan Commitments and Contingent Liabilities

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit represent Bank's irrevocable undertakings that it will make payments in the event that a customer cannot meet its obligations to third parties, and therefore they carry the same credit risk as loans.

5.2.2. Provisions for credit losses on impairment in accordance with accounting regulations prevailing in Montenegro

The Bank makes an impairment assessment (for balance sheet items), i.e. an estimate of a probable loss (for off-balance sheet items) regarding all balance sheet and off-balance sheet items that are exposed to credit risk. According to the methodology, the Bank has classified all financial assets into groups (portfolios) with similar credit risk characteristics, and taking into consideration the current size and structure of the loan portfolio, they are divided into: placements to corporate customers and entrepreneurs and placements to retail customers. As of the reporting date, the Bank establishes if financial assets were impaired. Objective impairment evidence is explained in Note 3.8.8.

5 RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.3. Maximum credit risk exposure**

An overview of financial assets and off-balance sheet exposures to credit risk (the amounts contain all receivables, including interest and accruals and deferrals) is presented below:

<i>In EUR thousand</i>	December 31, 2025		December 31, 2024	
	Gross	Net	Gross	Net
<i>I Overview of assets</i>				
Cash and deposit accounts with central banks	35,468	35,468	50,884	50,884
Loans and advances to banks	31,874	31,868	37,267	37,247
Loans and advances to customers	189,557	180,633	173,402	165,583
Securities	62,450	62,143	98,879	98,310
Other financial assets	1,937	1,925	1,630	1,607
Other assets	2,403	1,919	2,089	1,774
	323,689	313,710	364,151	355,405
<i>II Off-balance sheet items</i>				
Irrevocable commitments	4,897	4,760	7,411	7,194
Payment guarantees	16,433	15,739	15,125	14,384
Performance guarantees	4,518	4,483	4,584	4,548
	25,848	24,982	27,120	26,126
Total (I+II)	349,537	313,956	391,271	381,176

Types of collaterals are as follows:

- deposits;
- pledges on industrial machinery, securities, inventories and vehicles;
- property mortgages and fiduciary ownership transfer;
- promissory notes;
- authorisations;
- garnishments and injunctions;
- endorsers and
- Insurance policies.

The catalogue of eligible collaterals defines collateral types (security instruments for the Bank's loan repayments) and establishes which objects and rights are treated as collaterals, i.e. which objects and rights and under what conditions the Bank takes into account when analysing and assessing borrower's credit risk. Credit risk management is partially controlled in this way.

Taking into consideration the collateral value risk when estimating cash flows from collaterals, the Bank applies a haircut of at least 30% up to 100% to all immovable property depending on the type of collateral and location, whereas a 90% haircut is applied to a collateral in the form of a pledge on movable property.

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers and securities****Loans and advances to banks and customers – staging**

An overview of gross exposures and the calculated impairment of advances' principal (ECL – expected credit losses) by stages for loans and advances to banks and customers is provided below:

In EUR thousand

December 31, 2025	Gross S1	Gross S2	Gross S3	Total	ECL S1	ECL S2	ECL S3	Total ECL	Net
Cash loans	7,448	153	123	7,724	168	4	108	280	7,444
Housing loans	211	134	26	371	-	7	26	33	338
Credit cards	482	12	493	987	4	1	3	8	979
Other	49	-	278	327	-	-	218	218	109
Loans to retail customers	8,190	299	920	9,409	172	12	355	539	8,870
Large and medium-sized enterprises	126,285	30,307	4,790	161,382	2,709	1,285	3,229	7,223	154,159
State	15,732	-	-	15,732	168	-	-	168	15,564
Other	273	-	-	273	1	-	-	1	272
Loans to corporate customers	142,290	30,307	4,790	177,387	2,878	1,285	3,229	7,392	169,995
Total loans and receivables to customers	150,480	30,606	5,710	186,796	3,050	1,297	3,584	7,931	178,865
Loans to banks	31,874	-	-	31,874	6	-	-	6	31,868

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers and securities (Continued)****Securities – staging**

The tables below show the gross exposure and the calculated amount of impairment for the principal amount of receivables (ECL - expected credit losses) by stage, for securities:

December 31, 2025	Gross S1	Gross S2	Gross S3	Total	ECL S1	ECL S2	ECL S3	Total ECL	Net
Ministry of Finance of Montenegro	28,598	-	-	28,598	305	-	-	305	28,293
Securities at amortised cost	28,598	-	-	28,598	305	-	-	305	28,293
Ministry of Finance of Montenegro	20,518	-	-	20,518	-	-	-	-	20,518
Egypt Govern Cairo, Egypt	-	2,503	-	2,503	-	-	-	-	2,503
Sava Re dd Ljubljana Francuska Paris	463	-	-	463	-	-	-	-	463
9,933	-	-	-	9,933	-	-	-	-	9,933
*Securities at fair value through other comprehensive income	30,914	2,503	-	33,417	-	-	-	-	33,417
Total securities at amortized and fair value through other total results	59,512	2,503	-	62,015	305	-	-	305	61,710

* Value correction for securities valued at fair value through other comprehensive income is recorded in equity as of December 31, 2025 are EUR 248 thousand.

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers and securities (Continued)**

Loans and advances to banks and customers – staging

In EUR thousand

December 31, 2024	Gross S1	Gross S2	Gross S3	Total	ECL			Total ECL	Net
					ECL S1	ECL S2	ECL S3		
Cash loans	7,714	269	131	8,114	214	7	120	341	7,773
Housing loans	163	-	186	349	-	-	75	75	274
Credit cards	489	204	126	819	4	-	23	27	792
Other	65	206	236	507	-	37	207	244	263
Loans to retail customers	8,431	679	679	9,789	218	44	425	687	9,102
Large and medium-sized enterprises	110,222	22,960	4,288	137,470	1,979	918	3,187	6,084	131,386
State	23,860	-	-	23,860	255	-	-	255	23,605
Other	272	-	-	272	1	-	-	1	271
Loans to corporate customers	134,354	22,960	4,288	161,602	2,235	918	3,187	6,340	155,262
Total loans and receivables to customers	142,785	23,639	4,967	171,391	2,453	962	3,612	7,027	164,364
Loans to banks	37,267	-	-	37,267	20	-	-	20	37,247

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers and securities (Continued)**

Loans and advances to banks and customers – staging

31.12.2024	Bruto S1	Bruto S2	Bruto S3	Ukupno	ECL S1	ECL S2	ECL S3	Ukupno ECL	Neto
Ministry of Finance of Montenegro	52,586	-	-	52,586	561	-	-	561	52,025
Securities at amortised cost	52,586	-	-	52,586	561	-	-	561	52,025
Ministry of Finance of Montenegro	27,002	-	-	27,002	-	-	-	-	27,002
Egypt Govern Cairo, Egypt	-	2,455	-	2,455	-	-	-	-	2,455
Permex-PetroleosMexicanos Mexico City	-	985	-	985	-	-	-	-	985
Republic of Albania Tirana	997	-	-	997	-	-	-	-	997
Sava Re dd Ljubljana	443	-	-	443	-	-	-	-	443
Francuska Paris	5,962	-	-	5,962	-	-	-	-	5,962
European Union Luxembourg	6,970	-	-	6,970	-	-	-	-	6,970
*Securities at fair value through other comprehensive income	41,374	3,440	-	44,814	-	-	-	-	44,814
Total securities at amortized and fair value through other total results	93,960	3,440	-	97,400	561	-	-	561	96,839
* Value correction for securities valued at fair value through other comprehensive income is recorded in equity as of 12/31/2024. amount to EUR 359 thousand.									

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4 Loans and advances to banks and customers (Continued)

The tables below show data on the exposure of receivables based on principal to credit risk by sector and category of receivables, stage and number of days of delay in repayment of due obligations:

Receivables from clients and banks - Stage 1

In EUR thousand

December 31, 2025	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	6,578	870	-	-	-	7,448
Housing loans	150	61	-	-	-	211
Credit cards	34	448	-	-	-	482
Other	48	1	-	-	-	49
Loans to retail customers	6,810	1,380	-	-	-	8,190
Large and medium-sized enterprises	122,427	3,858	-	-	-	126,285
State	15,732	-	-	-	-	15,732
Other	273	-	-	-	-	273
Loans to corporate customers	138,432	3,858	-	-	-	142,290
Total loans to customers, out of which:						
Restructured	145,242	5,238	-	-	-	150,480
	-	-	-	-	-	-
Loans to banks	31,874	-	-	-	-	31,874
December 31, 2024	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	7,374	340	-	-	-	7,714
Housing loans	124	39	-	-	-	163
Credit cards	42	447	-	-	-	489
Other	64	1	-	-	-	65
Loans to retail customers	7,604	827	-	-	-	8,431
Large and medium-sized enterprises	107,648	2,573	-	-	-	110,221
State	23,860	-	-	-	-	23,860
Other	273	-	-	-	-	273
Loans to corporate customers	131,781	2,573	-	-	-	134,354
Total loans to customers, out of which:						
Restructured	139,385	3,400	-	-	-	142,785
	-	-	-	-	-	-
Loans to banks	37,267	-	-	-	-	37,267

The Bank realized all cash flows from purchased securities in a timely manner, without delay.

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers (Continued)**

Receivables from clients and banks - Stage 2

In EUR thousand

December 31,2025	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	-	94	11	48	-	153
Housing loans	134	-	-	-	-	134
Credit cards	-	-	8	4	-	12
Other	-	-	-	-	-	-
Loans to retail customers	134	94	19	52	-	299
Large and medium-sized enterprises	15,528	2,692	337	11,750	-	30,307
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to corporate customers	15,528	2,692	337	11,750	-	30,307
Total loans to customers, out of which:						
Restructured	15,662	2,786	356	11,802	-	30,606
	13,573	1,000	3	11,750	-	26,326
Loans to banks	-	-	-	-	-	-
December 31,2024	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	183	16	67	2	-	269
Housing loans	-	-	-	-	-	-
Credit cards	5	-	-	199	-	204
Other	121	-	-	85	-	206
Loans to retail customers	309	16	67	286	-	679
Large and medium-sized enterprises	21,096	858	1,007	-	-	22,960
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to corporate customers	21,096	858	1,007	-	-	22,960
Total loans to customers, out of which:						
Restructured	21,405	874	1,074	286	-	23,639
	16,622	793	-	-	-	17,415
Loans to banks	-	-	-	-	-	-

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Receivables from clients and banks - Stage 3

In EUR thousand

December 31,2025	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	23	4	-	-	96	123
Housing loans	-	-	-	-	26	26
Credit cards	-	9	-	-	484	493
Other	-	24	-	-	254	278
Loans to retail customers	23	37	-	-	860	920
Large and medium-sized enterprises	1,351	274	-	444	2,721	4,790
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to corporate customers	1,351	274	-	444	2,721	4,790
Total loans to customers, out of which:						
Restructured	1,374	311	-	444	3,581	5,710
	164	297	-	444	1,512	2,417
Loans to banks	-	-	-	-	-	-
December 31,2025	Not in arrears	Up to 30 days in arrears	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Cash loans	3	13	8	3	104	131
Housing loans	-	159	-	-	27	186
Credit cards	1	18	-	-	107	126
Other	-	31	-	-	205	236
Loans to retail customers	4	221	8	3	443	679
Large and medium-sized enterprises	1,471	-	-	-	2,817	4,288
State	-	-	-	-	-	-
Other	-	-	-	-	-	-
Loans to corporate customers	1,471	-	-	-	2,817	4,288
Total loans to customers, out of which:						
Restructured	1,475	221	8	3	3,260	4,967
	1,367	190	-	-	1,856	3,413
Loans to banks	-	-	-	-	-	-

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers (Continued)**

An overview of the data on impaired advances by days in arrears (advances' principal and the appropriate amount of expected credit losses) is provided below):

Advances to customers and banks – Stage 3*In EUR thousand*

December 31, 2025	Bruto kredit	Obezvrjeđenje Stage 3	Restrukturirani Stage 3	Obezvrjeđenje Stage 3	Učešće Stage 3	Kolateral za Stage 3
Gotovinski	7,724	280	13	108	1.59%	614
Stambeni	371	33	23	26	7.00%	-
Kreditne kartice	987	8	-	3	49.95%	525
Ostalo	327	218	226	218	85.01%	1,063
Kreditni fizičkim licima	9,409	539	262	355	9.78%	2,202
Velika i srednja preduzeća	161,382	7,223	2,155	3,229	2.97%	12,933
Država	15,732	168	-	-	0.00%	-
Ostalo	273	1	-	-	0.00%	-
Kreditni pravnim licima	177,387	7,392	2,155	3,229	2.70%	12,933
Ukupno krediti klijentima	186,796	7,931	2,417	3,584	3.06%	15,135
Kreditni bankama	31,874	6	-	-	0.00%	-

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers (Continued)**

An overview of the data on impaired advances by days in arrears (advances' principal and the appropriate amount of expected credit losses) is provided below):

Advances to customers and banks – Stage 3*In EUR thousand*

31 December 2024	Gross loan	Impairment	Stage 3	Restructured Stage 3	Impairment Stage 3	Share Stage 3	Collateral for Stage 3
Cash loans	8,113	341	131	16	120	1.61%	565
Housing loans	349	75	186	182	74	53.30%	391
Credit cards	820	27	126	-	23	15.37%	109
Other	507	244	236	234	207	46.55%	832
Loans to retail customers	9,789	687	679	432	424	6.94%	1,897
Large and medium-sized enterprises	137,469	6,084	4,288	2,981	3,187	3.12%	8,001
State	23,860	255	-	-	-	0.00%	-
Other	273	1	-	-	-	0.00%	-
Loans to corporate customers	161,602	6,340	4,288	2,981	3,187	2.65%	8,001
Total loans to customers	171,391	7,027	4,967	3,413	3,611	2.90%	9,898
Loans to banks	37,267	20	-	-	-	0.00%	-

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

The tables below show data on the exposure of receivables based on principal to credit risk by sector and category of receivables, stage and number of days of delay in repayment of due obligations:

<i>In EUR thousand</i>	Stage 1	Stage 2	Stage 3	Total
Balance as of 31 December 2024	142,785	23,639	4,967	171,391
New advances	66,875	1,786	175	68,835
Reduction / Advance repayment	(50,018)	(2,009)	(1,403)	(53,430)
Transition to Stage 1	226	(213)	(13)	-
Transition to Stage 2	(9,367)	9,367	-	-
Transition to Stage 3	(21)	(1,964)	1,984	-
Balance as of 31 December 2025	150,480	30,606	5,710	186,796

<i>In EUR thousand</i>	Stage 1	Stage 2	Stage 3	Total
Balance as of 31 December 2024	2,453	962	3,612	7,027
New advances	2,146	337	18	2,501
Reduction / Advance repayment	(930)	30	(697)	(1,597)
Impairment during the year	3	(3)	-	-
Transition to Stage 1	(617)	617	-	-
Transition to Stage 2	(5)	(646)	651	-
Balance as of 31 December 2025	3,050	1,297	3,584	7,931

Restructured loans and advances

The Bank has restructured a borrower's loan if it did the following due to the deterioration of the borrower's creditworthiness:

- extended the repayment period for principal or interest,
- reduced the interest rate on the approved loan,
- assumed the borrower's claims against a third party for the purpose of the loan repayment either in full or in part;
- reduced the amount of debt, principal or interest;
- capitalized interest on the loan approved to the borrower;
- replaced the existing loan or existing loans with a new loan (loan renewal);
- provided other similar benefits that facilitate the borrower's financial position.

When restructuring a loan, the Bank performs a financial analysis of the borrower and assesses the borrower's ability, after the loan restructuring, to generate cash flows that will be sufficient to repay the principal and interest on the loan. During 2025, there were 9 new restructurings, which related to legal entities with a balance of receivables as of 31.12.2025 in the amount of EUR 26,385 thousand (2024: there were no new restructurings), as well as one restructuring of natural persons with a balance of receivables as of 31.12.2025 in the amount of EUR 102 thousand (2024: there were no new restructurings).

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Data on restructured loans and advances are presented below:

Restructured loans and advances

In EUR thousand

December 31, 2025	Restructured advances	S1	S2	S3	Restructured advances	ECL S1	ECL S2	ECL S3	Share of restructured advances	Share of restructured advances
Cash loans	16	-	3	13	15	-	1	14	0.21%	32
Housing loans	125	-	102	23	29	-	6	23	33.75%	-
Credit cards	-	-	-	-	-	-	-	-	0.00%	-
Other	227	-	-	227	204	-	-	204	77.31%	832
Loans to retail customers	368	-	105	263	248	-	7	241	3.91%	864
Large and medium-sized enterprises	28,376	-	26,221	2,155	2,191	-	727	1,464	17.58%	32,956
State	-	-	-	-	-	-	-	-	0.00%	-
Other	-	-	-	-	-	-	-	-	0.00%	-
Loans to corporate customers	28,376	-	26,221	2,155	2,191	-	727	1,464	15.99%	32,956
Total loans to customers	28,744	-	26,326	2,418	2,439	-	734	1,705	15.39%	33,820
Loans to banks	-	-	-	-	-	-	-	-	0.00%	-

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers (Continued)****Restructured loans and advances (Continued)***In EUR thousand*

December 31, 2024	Restructured advances	S1	S2	S3	Restructured advances	ECL S1	ECL S2	ECL S3	Share of restructured advances	Share of restructured advances
Cash loans	25	-	9	16	16	-	-	16	0,31%	32
Housing loans	182	-	-	182	71	-	-	71	52,15%	391
Credit cards	-	-	-	-	-	-	-	-	0,00%	-
Other	249	-	15	234	205	-	-	205	49,11%	1.231
Loans to retail customers	456	-	24	432	292	-	-	292	4,66%	1.654
Large and medium-sized enterprises	20.372	-	17.391	2.981	1.987	-	17	1.970	14,82%	41.338
State	-	-	-	-	-	-	-	-	0,00%	-
Other	-	-	-	-	-	-	-	-	0,00%	-
Loans to corporate customers	20.372	-	17.391	2.981	1.987	-	17	1.970	12,61%	41.338
Total loans to customers	20.828	-	17.415	3.413	2.279	-	17	2.262	12,15%	42.992
Loans to banks	-	-	-	-	-	-	-	-	0,00%	-

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers (Continued)****Geographic concentration (Continued)***In EUR thousand*

December 31, 2024	Stage 1 and Stage 2				Stage 3					
	Montenegro	EU	Europe - other	Other	Total	Montene gro	EU	Europe - other	Other	Total
Retail customers	4,930	42	3,876	261	9,109	554	9	81	35	679
Cash loans	4,315	-	3,667	-	7,982	128	-	3	-	131
Housing loans	163	-	-	-	163	186	-	-	-	186
Credit cards	319	42	72	261	694	4	9	78	35	126
Other	133	-	137	-	270	236	-	-	-	236
Corporate customers	76,550	500	9,767	70,498	157,315	4,160	-	124	4	4,288
Banks and financial activities	3,200	-	-	-	3,200	-	-	-	-	-
State, public and local self-government	23,860	-	-	-	23,860	-	-	124	-	124
Mining and quarrying	877	-	-	-	877	49	-	-	-	49
Construction	10,427	-	5,370	-	15,797	106	-	-	-	106
Information and communications	4,126	-	-	-	4,126	-	-	-	-	-
Manufacturing	3,893	-	-	-	3,893	99	-	-	-	99
Real Estate	1,500	-	-	-	1,500	-	-	-	-	-
Transportation and Logistics	4,778	-	-	-	4,778	649	-	-	-	649
Professional, Scientific and Technical Activities	386	500	800	4,852	6,538	14	-	-	4	18
Accommodation and food services	9,861	-	-	65,646	75,507	904	-	-	-	904
Health and social protection	-	-	987	-	987	545	-	-	-	545
Shop	11,877	-	1,500	-	13,377	829	-	-	-	829
Arts, entertainment and recreation	291	-	1,110	-	1,401	506	-	-	-	506
Services	1,474	-	-	-	1,474	459	-	-	-	459
Bank loans	-	15,894	11,063	10,310	37,267	-	-	-	-	-
Securities	79,588	13,375	997	3,440	97,400	-	-	-	-	-

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers (Continued)****Concentration per industry**

The Concentration per industry of the Bank's credit risk exposure is as follows:

<i>In EUR thousand</i>	State, public administration and local self-government	Banks and financial activities	Professional, scientific and technical activities	Service activities	Trade	Artistic, entertainment and recreational activities	Construction	Information and communication	Mining	Traffic and logistics	Other	Retail customers	Total
December 31, 2025.													
<i>Financial assets at amortized cost</i>													
Loans and advances to banks	-	31,874	-	-	-	-	-	-	-	-	-	-	31,874
Loans and advances to customers	15,732	4,836	9,810	77,643	15,867	4,720	23,919	5,640	2,725	3,083	13,411	9,410	186,796
Securities	28,598	-	-	-	-	-	-	-	-	-	-	-	28,598
Other financial assets	-	1,915	-	-	-	-	-	-	-	-	22	-	1,937
<i>Financial assets at FVOCI</i>													
Securities	32,954	463	-	-	-	-	-	-	-	-	-	-	33,417
<i>Financial assets held for trading</i>													
Securities	-	-	-	151	-	-	-	-	-	-	-	-	151
Other assets	-	-	-	-	-	-	-	-	-	-	2,005	-	2,005
Total	77,284	39,088	9,810	77,794	15,867	4,720	23,919	5,640	2,725	3,083	15,438	9,410	284,778

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.4. Loans and advances to banks and customers (Continued)

Concentration per industry (Continued)

<i>In EUR thousand</i>	State, public administration and local self-government	Banks and financial activities	Professional, scientific and technical activities	Service activities	Trade	Artistic, entertainment and recreational activities	Construction	Information and communication	Mining	Traffic and logistics	Other	Retail customers	Total
31 December 2024													
<i>Financial assets at amortized cost</i>													
Loans and advances to banks	-	37,267	-	-	-	-	-	-	-	-	-	-	37,267
Loans and advances to customers	23,984	3,200	400	71,292	12,706	1,907	15,902	4,126	926	5,427	22,229	9,292	171,391
Securities	52,586	-	-	-	-	-	-	-	-	-	-	-	52,586
Other financial assets	-	1,607	-	-	-	-	-	-	-	-	23	-	1,630
<i>Financial assets at FVOCI</i>													
Securities	43,386	443	-	-	985	-	-	-	-	-	-	-	44,814
<i>Financial assets held for trading</i>													
Securities	353	-	-	74	-	-	-	-	-	-	-	-	427
Other assets	-	-	-	-	-	-	-	-	-	-	1,999	-	1,999
Total	120,309	42,517	400	71,366	13,691	1,907	15,902	4,126	926	5,427	24,251	9,292	310,114

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers (Continued)**

Loans secured by collaterals

Loans and advances to banks and customers secured by collaterals (only secured amounts) are provided below:

<i>In EUR thousand</i>	Stage 1			Stage 2			Stage 3			Total
	Property	Deposits	Other collateral	Property	Deposits	Other collateral	Property	Deposits	Other collateral	
31 December 2025										
Cash loans	3,145	270	544	136	-	-	50	-	21	71
Housing loans	212	-	-	31	-	-	-	-	-	-
Credit cards	-	369	-	-	9	-	-	490	-	490
Other	12	-	-	-	-	-	170	-	108	278
Loans to retail customers	3,369	639	544	168	9	-	220	490	129	839
Large and medium-sized enterprises	32,531	40,996	14,189	5,798	21,601	442	1,351	207	1,677	3,235
State	-	-	-	-	-	-	-	-	-	-
Other	247	-	26	-	-	-	-	-	-	-
Loans to corporate customers	32,778	40,996	14,214	5,798	21,601	442	1,351	207	1,677	3,235
Total loans to customers	36,147	41,635	14,758	5,966	21,610	442	1,571	698	1,806	4,074
Loans to banks	-	-	-	-	-	-	-	-	-	-

5. RISK MANAGEMENT (Continued)**5.2. Credit Risk (Continued)****5.2.4. Loans and advances to banks and customers (Continued)**

Loans secured by collaterals (Continued)

In EUR thousand	Stage 1			Stage 2			Stage 3		
	Property	Deposits	Other collateral	Property	Deposits	Other collateral	Property	Deposits	Other collateral
31 December 2024			Total			Total			Total
Cash loans	3,253	179	682	222	-	5	44	6	21
Housing loans	163	-	-	-	-	-	159	-	-
Credit cards	-	371	-	-	199	-	-	103	-
Other	52	-	-	95	-	111	177	-	57
Loans to retail customers	3,468	550	682	317	199	116	380	110	78
Large and medium-sized enterprises	26,084	50,299	5,894	2,423	17,541	1,865	1,526	445	1,153
State	-	-	-	-	-	-	-	-	-
Other	218	-	42	-	-	-	-	-	-
Loans to corporate customers	26,302	50,299	5,936	2,423	17,541	1,865	1,526	445	1,153
Total loans to customers	29,770	50,849	6,618	2,740	17,740	1,981	1,906	555	1,231
Loans to banks	-	-	-	-	-	-	-	-	-

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.5. Off-balance sheet items

In EUR thousand

December 31,2025	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
Up to 1 year	2,714	5,155	-	7,869
From 1 to 5 years	2,183	15,799	-	17,982
Total	4,897	20,954	-	25,851

December 31,2024	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
Up to 1 year	4,789	3,033	-	7,822
From 1 to 5 years	2,622	16,676	-	19,298
Total	7,411	19,709	-	27,120

Exposures and provisions for off-balance sheet items by stage are presented below:

December 31,2025	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
<i>Exposure</i>				
Stage 1	4,766	18,514	-	23,280
Stage 2	44	1,345	-	1,389
Stage 3	87	1,095	-	1,182
Total	4,897	20,954	-	25,851
<i>Provision for off balance</i>				
Stage 1	121	244	-	365
Stage 2	4	23	-	27
Stage 3	12	462	-	474
Total	137	729	-	866
Net	4,761	20,225	-	24,985

5. RISK MANAGEMENT (Continued)

5.2. Credit Risk (Continued)

5.2.5. Off-balance sheet items (Continued)

December 31, 2024	Undrawn credit facilities	Guarantees	Uncovered letters of credit	Total
<i>Exposure</i>				
Stage 1	7,007	16,765	-	23,772
Stage 2	313	1,944	-	2,257
Stage 3	91	1,000	-	1,091
Total	7,411	19,709	-	27,120
<i>Provision for off balance</i>				
Stage 1	214	312	-	526
Stage 2	1	15	-	17
Stage 3	2	450	-	452
Total	217	777	-	994
Net	7,194	18,932	-	26,125

5.3. Market risk

The Bank is exposed to market risks. Market risks arise in the case of open positions, due to changes in interest rates, currency exchange rates and changes in securities prices that change in accordance with market fluctuations. Limits for exposure to market risks are internally prescribed and aligned with the limits prescribed by the Central Bank of Montenegro.

Foreign exchange, position and commodity risks fall into the group of market risks, which are defined as the risks of losses on financial instruments recorded in the Bank's balance sheet and off-balance sheet, caused by negative movements in market prices.

5.3.1. Foreign exchange risk

The bank is exposed to **foreign exchange risk**, which is the risk of loss resulting from changes in exchange rates and/or changes in the price of gold.

Foreign exchange risk represents the risk of negative effects on the Bank's financial result arising from changes in exchange rates, which includes:

- **Foreign exchange risk of the Bank's income statement**

The foreign exchange risk of the Bank's income statement is measured on the basis of the Bank's ODP. This Policy sets the overall limits for the Bank for ODP. Exchange rate changes can directly affect the Bank's income statement if it has significant foreign exchange positions. Thus, the risk of losses due to changes in the exchange rate is reduced by closing foreign exchange positions.

5. RISK MANAGEMENT (Continued)

5.3. Market Risk (Continued)

5.3.1. Foreign exchange risk (Continued)

- **Capital adequacy foreign exchange risk**

The capital adequacy foreign exchange risk occurs if the currency of the Bank's capital differs from the currency in which the Bank reports most of its assets. In such a case, the depreciation of the local currency could result in a significant deterioration of the capital adequacy and the Bank would have higher risk-weighted assets compared to stable capital in the local currency.

The occurrence of capital adequacy foreign exchange risk is **unlikely**, since the Bank keeps its capital and a majority (almost all) of its assets in the local/functional currency (EUR).

The bank endeavours to **maintain a closed foreign exchange position** and takes care that the open foreign exchange position is within the conservative limit at all times. Derivatives can only be used for hedging purposes, i.e. closing Bank's positions, as well as for liquidity purposes.

The following general rules apply at the Bank level:

- The currency in which the Bank acquires financial assets determines the currency in which loans are granted to customers, and vice versa. The Bank is required to maintain a balance between assets and liabilities denominated in a certain currency within the limits prescribed in this Policy in order to protect itself against foreign exchange fluctuations. If this is not possible, financial instruments are used to their available extent to close the existing mismatch; and
- If the Bank conducts its business operations in local and foreign currencies, it has to monitor its exposure to exchange rate changes on a daily basis in order to maintain open positions within the required limit.

The Bank identifies, measures, monitors, supervises and reports on the risk arising from changes in the exchange rate and factors affecting it.

Asset management is separated from risk supervision and business support activities, and it includes all organisational units, including the Board of Directors.

The Bank's financial position and cash flows are exposed to the effects of changes in foreign exchange rates. Exposure to foreign exchange risk is regularly monitored through compliance with the limits prescribed by the Central Bank of Montenegro. The exposure to foreign exchange risk as of 31 December 2025 is presented below:

<i>In EUR thousand</i>	USD	GBP	CHF	Ostalo	Total
Foreign currency assets	1,262	448	27	10,519	12,256
Foreign currency liabilities	1,259	447	23	10,464	12,193
<i>Net open position</i>					
December 31,2025	3	1	4	55	63
December 31,2024	7	-	-	59	66
<i>% of share capital</i>					
December 31,2025	0.01%	0.00%	0.01%	0.18%	0.20%
December 31,2024	0.02%	0.00%	0.00%	0.21%	0.23%

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

The Bank's assets and liabilities in major currencies as of December 31, 2025 are provided below:

<i>In EUR thousand</i>	USD	GBP	CHF	Other currency s	Total foreign currency s	Local currency (EUR)	Total
Cash and deposit accounts with central banks	68	64	25	35	192	35,276	35,468
<i>Financial assets at amortised cost</i>							
Loans and advances to banks	345	383	-	10,440	11,168	20,700	31,868
Loans and advances to customers	-	-	-	-	-	180,633	180,633
Securities	-	-	-	-	-	28,408	28,408
Other financial assets	849	1	2	-	852	1,073	1,925
<i>Financial assets at FVOCI</i>							
Securities	-	-	-	-	-	33,584	33,584
<i>Financial assets held for trading</i>							
Securities for trading	-	-	-	-	-	151	151
Derivatives held for risk protection	-	-	-	-	-	-	-
Other assets	-	-	-	44	44	1,875	1,919
Total financial assets	1,262	448	27	10,519	12,256	301,700	313,956
<i>Financial liabilities at amortised cost</i>							
Bank and central bank deposits	427	447	23	10,443	11,340	20	20
Customer deposits	-	-	-	-	-	257,339	268,679
Loans to non-bank customers	-	-	-	-	-	2,546	2,546
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	-
Other liabilities	832	-	-	21	853	5,175	6,028
Subordinated debt	-	-	-	-	-	-	-
Total financial liabilities	1,259	447	23	10,464	12,193	265,080	277,273
<i>Net foreign exchange exposure:</i>							
December 31, 2025	3	1	4	55	63		
December 31, 2024	7	-	-	59	66		

5. RISK MANAGEMENT (Continued)**5.3. Market Risk (Continued)****5.3.2. Interest rate risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to fluctuating market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to fluctuating market interest rates. The Bank is exposed to the effects of changes in current interest rates on the market based on the risk of changes in interest rates on cash flows. As a result of such changes, interest margins may increase. However, they may reduce profit or result in a loss in the event of unexpected movements. Interest rates are based on market rates so that the Bank regularly re-sets prices.

The following table shows the Bank's interest-bearing and non-interest-bearing assets and liabilities as at 31 December 2025:

<i>In EUR thousand</i>	Interest-bearing	Non-interest-bearing	Total
Cash and deposit accounts with central banks	7,288	28,180	35,468
<i>Financial assets at amortised cost</i>			
Loans and advances to banks	17,797	14,071	31,868
Loans and advances to customers	180,633	-	180,633
Securities	28,408	-	28,408
Other financial assets	-	1,925	1,925
<i>Financial assets at FVOCI</i>			
Securities	33,584	-	33,584
<i>Financial assets held for trading</i>			
Securities for trading	151	-	151
Derivatives held for risk protection	-	-	-
Other assets	-	1,919	1,919
Total financial assets	267,861	46,095	313,956
<i>Financial liabilities at amortised cost</i>			
Banks and central banks deposits	-	20	20
Customer deposits	88,689	179,990	268,679
Loans to non-bank customers	2,546	-	2,546
Derivative financial liabilities as a hedging instrument	-	-	-
Other liabilities	-	-	-
Subordinated debt	-	-	-
Total financial liabilities	91,235	180,010	271,245
<i>Interest rate risk exposure:</i>			
December 31, 2025	176,626	(133,915)	42,711
December 31, 2024	177,246	(136,130)	41,116

5. RISK MANAGEMENT (Continued)

5.3. Market Risk (Continued)

5.3.2. Interest rate risk (Continued)

The Bank is financed and it grants placements at fixed interest rate. Loans to corporate customers are granted at the following interest rates:

- Short-term loans at a fixed interest rate: 2.50% - 8.00%
- Long-term loans at a fixed interest rate: 3.85% - 7.50%

Lending interest rates applied to loans to retail customers in 2025 were as follows:

Loan type	Interest rate
UCB cash loans with deposits as collateral	2.0% - 6.00%
UCB cash loans with mortgages as collateral	5.00% - 9.00%
Cash loans	5.50% - 12.00%
Student loans	7.50% - 8.50%
Loans for tourism development	7.50% - 9.00%
Micro loans	13.00%
Loans to pensioners	6.49% - 7.50%

Passive interest rates applied to the deposits of corporate customers in 2025 were as follows:

Deposit type	Interest rate
Short-term deposits	0.00% ¹ - 3.05%
Long-term deposits	0.00% - 3.50%

Passive interest rates applied to the deposits of retail customers in 2025 were as follows:

Deposit type	Interest rate ²
Demand deposits	0.00%
<i>Time deposits in EUR:</i>	
- 3 months	1.20% - 1.70%
- 6 months	2.00% - 2.50%
- 12 months	2.50% - 3.00%
- 24 months	2.70% - 3.25%
- 36 months	2.90% - 3.40%
<i>Time deposits in foreign currencies:</i>	
- 6 months	0.20%
- 12 months	0.40%
- 24 months	0.60%

¹ 0.00% applies to cash collateral

² The above interval is the campaign interest rate that was valid from Oct 20 to Dec 31.2025

5. RISK MANAGEMENT (Continued)

5.4. Liquidity Risk

The Bank is exposed to liquidity risk, i.e. the risk of negative effects on the Bank's financial result and capital resulting from the Bank's inability to settle its due liabilities without unacceptable loss. Thus, liquidity risk is defined as a risk that the bank will not be able to provide sufficient funds for the settlement of its liabilities when they mature, or a risk that the bank will have to provide funds for the settlement of its liabilities at a cost higher than the usual one. Therefore, liquidity risk is categorized into the following sub-categories:

- Liquidity risk of financing sources; and
- Market liquidity risk

The liquidity risk of financing sources represents the impossibility of renewing existing sources of funds and/or collecting new sources in the short term, at an acceptable price (existing deposits will not be renewed, a new (fresh) source of financing cannot be obtained, or it can be provided at a less favourable cost, etc.). The most important sub-category of liquidity risk of funding sources is a structural liquidity risk, which arises from a significant maturity mismatch between Bank's assets and liabilities, i.e. its future inflows and outflows. It is a consequence of an inappropriate policy of a maturity transformation of assets.

Market liquidity risk represents the impossibility of converting certain forms of assets into liquid assets (cash) on the financial market quickly, easily and with minimum value losses. Therefore, market liquidity risk represents the risk of not being able to sell financial instruments at an acceptable price and within the required period. A difficult conversion of assets into cash can result from both external (systemic) risk factors such as, for example, insufficient market depth and/or market liquidity, and internal factors related to the Bank itself (e.g. illiquid assets in the Bank's portfolio).

Therefore, the Bank takes into account all key sources of liquidity risk to which it could be exposed: the risk of loss of financing by retail and corporate customers, intraday liquidity risk, concentration risk of financing sources (diversification of financing sources), currency liquidity risk, market liquidity risk, liquidity risk of off-balance sheet items, etc. All details about key liquidity risk sources are included in a Bank's separate by-law – the Internal Liquidity Adequacy Assessment Process Methodology (ILAAP).

In addition to the Risk Management Strategy, liquidity risk management is stipulated by the following corporate by-laws:

- Internal Liquidity Adequacy Assessment Policy (ILAAP Policy);
- Liquidity risk management policy;
- Internal Liquidity Adequacy Assessment Process Methodology (ILAAP Methodology);
- Action plan in unforeseen circumstances - liquidity crisis; and
- The methodology for determining the stable level of demand deposits, etc.

The Bank adjusts its operations taking liquidity risk into account to the applicable legislation and corporate liquidity risk management policy. The bank manages liquidity reserves on a daily basis ensuring that all customers' requirements are met.

The bank manages liquidity risk using the following ratios:

- Daily regulatory liquidity ratio;
- Decade regulatory liquidity ratio;
- Gap liquidity analysis;
- Liquidity coverage ratio (LCR); and
- Concentration of the source of financing.

5. RISK MANAGEMENT (Continued)

5.4. Liquidity risk (Continued)

Maturity match of financial assets and liabilities according to remaining contractual maturity as of December 31, 2025 (undiscounted cash flows)

<i>In EUR thousand</i>	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and deposit accounts with central banks	28,180	-	-	-	7,288	-	35,468
<i>Financial assets at amortised cost</i>							
Loans and advances to banks	31,868	-	-	-	-	-	31,868
Loans and advances to customers	12,964	13,269	14,185	37,067	102,458	690	180,633
Securities	-	-	-	117	28,291	-	28,408
Other financial assets	1,925	-	-	-	-	-	1,925
<i>Financial assets at FVOCI</i>							
Securities	-	-	12,534	69	20,518	463	33,584
<i>Financial assets held for trading</i>							
Securities for trading	-	-	-	-	-	151	151
Derivatives held for risk protection	-	-	-	-	-	-	-
Other assets	1,377	-	314	136	92	-	1,919
Total financial assets	76,314	13,269	27,033	37,389	158,647	1,304	313,956
<i>Financial liabilities at amortized cost</i>							
Deposits of customers	179,396	5,892	1,191	11,289	70,767	164	268,699
Loans to non-bank customers	-	48	32	316	2,145	5	2,546
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	-
Other liabilities	5,277	883	232	77	371	-	6,840
Subordinated debt	-	-	-	-	-	-	-
Total financial liabilities	184,673	6,823	1,455	11,682	73,283	169	278,085
<i>Maturity GAP</i>							
December 31, 2025	(108,359)	6,446	25,578	25,707	85,364	1,135	35,871
Cumulative GAP	(108,359)	(101,913)	(76,335)	(50,628)	34,736	35,871	
<i>% of the total source of assets</i>	(34.5%)	(32.5%)	(24.3%)	(16.1%)	11.1%	11.4%	
December 31, 2024	32,360	(10,519)	23,562	12,497	(22,330)	(721)	34,849
Cumulative GAP	32,360	21,841	45,403	57,900	35,570	34,849	
<i>% of the total source of assets</i>	9.1%	6.1%	12.8%	16.3%	10.0%	9.8%	

5. RISK MANAGEMENT (Continued)

5.4. Liquidity risk (Continued)

Based on the historical trend of demand deposits, the Bank has developed a Methodology for determining the stable level of these deposits, based on which it has carried out an adequate reallocation of demand deposits, according to which the cumulative GAP covers all negative GAPs in other time intervals.

The Methodology for determining the stable level of deposits under the first step involves the withdrawal of the daily balance of corporate and retail demand deposits for the period from 2019, and ending with October 31, 2025.

After withdrawing the database, the minimum, maximum and average value of the deposit from the observed series is calculated. Based on the level of the minimum or maximum value, the level of the bucket is determined, for which the frequency of repetition by amount is determined in the following iterations. Based on the processed data with the help of Histogram analysis, the stable part of the average deposit is determined as the ratio of minimum/average amount x 100, that is, minimum/weighted average amount x 100, and for prudential reasons, a lower value is applied.

Maturity of financial liabilities according to the remaining expected maturity as of December 31, 2025

In EUR thousand

31 December 2025	On demand	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
<i>Financial liabilities at amortized cost</i>							
Customers' deposits	52,070	21,012	11,245	18,519	165,689	164	268,699
Loans to non-bank customers	-	48	32	316	2,145	5	2,546
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	-
Other liabilities	5,277	883	232	77	371	-	6,840
Subordinated debt	-	-	-	-	-	-	-
Total financial liabilities	57,347	21,943	11,509	18,912	168,205	169	278,085

In EUR thousand

31 December 2024	On demand	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
<i>Financial liabilities at amortized cost</i>							
Customers' deposits	55,183	29,662	35,341	28,087	160,891	1,559	310,723
Loans to non-bank customers	-	65	43	355	2,438	665	3,566
Derivative financial liabilities as a hedging instrument	-	-	-	-	-	-	-
Other liabilities	5,168	21	3	1,297	2	-	6,491
Subordinated debt	-	-	-	-	-	-	-
Total financial liabilities	60,351	29,748	35,387	29,739	163,331	2,224	320,780

5. RISK MANAGEMENT (Continued)

5.5. Fair Value of Financial Assets and Liabilities

Comparison between the fair and carrying values of financial assets

<i>In EUR thousand</i>	Carrying value		Fair value	
	2025	2024	2025	2024
Cash and deposit accounts with central banks	35,468	50,884	35,468	50,884
<i>Financial assets at amortized cost</i>				
Loans and advances to banks	31,868	37,247	31,868	37,247
Loans and advances to customers	180,633	165,583	180,633	165,583
Securities	28,408	52,719	27,862	51,361
Other financial assets	1,925	1,607	1,925	1,607
<i>Financial assets at FVOCI</i>				
Securities	33,584	45,156	33,584	45,156
<i>Financial assets held for trading</i>				
Securities for trading	151	435	151	435
Derivatives held for risk protection	-	-	-	-
Other assets	1,919	1,774	1,919	1,774
Total financial assets	313,956	355,405	313,410	354,047
<i>Financial liabilities at amortized cost</i>				
Customers' deposits	268,698	310,723	268,698	310,723
Loans to non-bank customers	2,546	3,566	2,546	3,566
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	6,028	5,552	6,028	5,552
Subordinated debt	-	-	-	-
Total financial liabilities	277,272	319,841	277,272	319,841

There are no available market prices for a certain part of the Bank's financial instruments. In circumstances when no market prices are available, the fair value is estimated using cash flow discounting models or other models. Changes in the assumptions underlying the estimates, including discount rates and estimated cash flows, significantly affect the estimates. Therefore, the estimated fair values may differ from those obtained during the actual sale of a financial instrument.

In estimating the fair value of financial instruments for which such a value can be determined, the following methods and assumptions have been applied:

Loans and advances to banks

Advances to other banks include interbank placements and positions in the collection process. The fair value of fixed interest rate placements and overnight deposits approximates the carrying amount of these financial assets stated at the balance sheet date.

5. RISK MANAGEMENT (Continued)

5.5. Fair Value of Financial Assets and Liabilities (Continued)

Loans and advances to customers

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

The Bank's Board of Directors believes that the Bank's interest rates do not deviate significantly from the prevailing market interest rates in the banking sector of Montenegro and accordingly, the fair value of loans is calculated for clients as the present value of future cash flows discounted by applying current market rates, i.e. weighted average interest rates for the banking sector, and it does not deviate significantly from the stated carrying amounts of loans at the balance sheet date. According to the Board of Directors, the amounts in the financial statements reflect a realistic value that is the most reliable and useful for the purposes of financial reporting in the given circumstances.

Securities

Bonds are valued at fair value based on market prices. As of 31 December 2024, the market prices of bonds measured at fair value in the Bank's portfolio were available.

Financial liabilities

As regards demand deposits, as well as deposits with a remaining maturity of less than one year, it is assumed that the estimated fair value does not deviate significantly from the book values. According to the Board of Directors, the Bank's interest rates are adjusted to current market interest rates and accordingly, the amounts in the financial statements reflect the realistic value which in the given circumstances most accurately reflects the fair value of fixed interest rate deposits with a remaining maturity of more than one year.

The fair value of variable interest rate borrowings is assumed to be approximate to the carrying amount of these liabilities at the reporting date.

5.5.1. Fair value hierarchy

The applicable accounting regulations in Montenegro, as well as the application of IFRS 13, require the disclosure of fair value measurements according to the following hierarchical levels:

- quoted prices (unadjusted) on an active market for the same assets or the same liabilities (level 1);
- information other than quoted prices included in level 1, which is based on available market data for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices) (level 2),
- information on an asset or a liability that is not based on available market data (level 3).

5. RISK MANAGEMENT (Continued)**5.5. Fair Value of Financial Assets and Liabilities (Continued)****5.5.1. Fair value hierarchy (Continued)**

The fair value of financial instruments traded in an active market is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined using various evaluation techniques. The Bank applies various methods and makes assumptions based on market conditions prevailing at the balance sheet date. These methods include quoted market prices or quoted prices for similar instruments and estimated discounted cash flow values.

In EUR thousand

December 31,2025	Stage 1	Stage 2	Stage 3	Total
<i>Financial assets at FVTOCI</i>				
Securities	33,584	-	-	33,584
<i>Financial assets held for trading</i>				
Securities for trading	151	-	-	151
Derivatives held as a hedging instrument	-	-	-	-
Total assets	33,735	-	-	33,735
Derivative financial liabilities as a hedging instrument	-	-	-	-
Total liabilities	-	-	-	-
December 31,2024	Stage 1	Stage 2	Stage 3	Total
<i>Financial assets at FVTOCI</i>				
Securities	45,156	-	-	45,156
<i>Financial assets held for trading</i>				
Securities for trading	435	-	-	435
Derivatives held as a hedging instrument	-	-	-	-
Total assets	45,591	-	-	45,591
Derivative financial liabilities as a hedging instrument	-	-	-	-
Total liabilities	-	-	-	-

5. RISK MANAGEMENT (Continued)**5.5. Fair Value of Financial Assets and Liabilities (Continued)****5.5.1. Fair value hierarchy (Continued)***Fair value hierarchy of financial instruments not measured at fair value*

The estimated fair value of financial instruments not measured at fair value, according to the fair value hierarchy, is provided in the following table:

31 December 2025	Stage 1	Stage 2	Stage 3	Total
Financial assets:				
Cash and deposit accounts with central banks	x	-	-	35,468
<i>Financial assets at amortized cost</i>				
Loans and advances to banks	31,868	-	-	31,868
Loans and advances to customers	-	-	180,633	180,633
Securities	28,408	-	-	28,408
Other financial assets	-	-	1,925	1,925
Other assets	-	-	2,130	2,130
Total	95,744	-	184,688	280,432
31 December 2024	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and deposit accounts with central banks	50,884	-	-	50,884
<i>Financial assets at amortized cost</i>				
Loans and advances to banks	37,247	-	-	37,247
Loans and advances to customers	-	-	165,583	165,583
Securities	52,719	-	-	52,719
Other financial assets	-	-	1,607	1,607
Other assets	-	-	2,189	2,189
Total	140,850	-	169,379	310,229

5. RISK MANAGEMENT (Continued)

5.6. Capital Management

The capital management objective is:

- compliance with regulatory regulations,
- protection of the Bank's ability to continue as a going concern in order to be able to provide shareholder payments and compensations to other owners. And
- provision of capital to support the Bank's further development.

The Bank's Board of Directors controls capital adequacy using the methodology and limits prescribed by the Central Bank of Montenegro in the Decision on Credit Institution Capital Adequacy ("Official Gazette of Montenegro", no. 128/20, 140/21, 144/22 and 52/24). In accordance with regulations, the Bank submits quarterly reports on the state and capital structure to the Central Bank of Montenegro.

The capital adequacy ratio is calculated as follows:

- The adequacy ratio of the regular core capital is calculated as the ratio of the regular core capital of the credit institution and the total amount of risk exposure, expressed as a percentage;
- The core capital adequacy ratio is calculated as the ratio of the credit institution's core capital and the total amount of risk exposure, expressed as a percentage;
- The total capital adequacy ratio is calculated as the ratio of the credit institution's regulatory capital to the total amount of risk exposure, in percentages.

Regulatory capital (own funds) of the Bank consists of a sum of Tier 1 capital and Tier 2 capital. Tier 1 capital includes common equity Tier 1 capital (CET1) and additional Tier 1 capital (AT1).

Tier 1 capital of the Bank's common equity Tier 1 capital consists of:

- paid-in share capital at nominal value, excluding cumulative preference shares;
- collected issuance premiums;
- reserves for estimated losses upon regulatory requirement, allocated in accordance with the decision prescribing minimum standards for credit risk management in banks;
- reserves made and charged to profit after tax (legal, statutory and other reserves);
- retained earnings from previous years;
- the amount of profit in the current year if the General Meeting of Shareholders has made a decision to be included in the stake capital of the Bank.

Deductible items in the calculation of the Bank's stake capital:

- losses from previous years;
- loss from the current year;
- intangible assets in the form of goodwill, licenses, patents, trademarks and concessions;
- a nominal amount of acquired own shares, excluding cumulative preference shares;
- unrealised loss from value adjustments of financial assets available for sale, at fair value;
- a positive difference between the amount of accrued provisions for potential losses and the sum of the impairment allowance for balance sheet assets and provisions for off-balance sheet items.

5. RISK MANAGEMENT (Continued)

5.6. Capital Management (Continued)

- the amount of the exceeded investment limit in property and fixed assets, determined by a separate regulation of the Central Bank.
- Additional Valuation Adjustment (AVA) (the Bank applies the Simplified approach for determining AVA in line with Article 110 of the Decision on Capital Adequacy of Financial Institutions). Under this approach, AVA is determined as 0.1% of a sum of absolute values of assets measured at fair value (the Bank does not have liabilities measured at fair value).

The sum of supplementary elements of supplementary capital, minus the sum of deductible items, represents the Bank's supplementary capital.

Additional capital of the Bank consists of:

- a nominal amount of paid-in preference cumulative shares;
- collected issuance premiums based on cumulative priority shares;
- the amount of general reserves of up to 1.25% of total risk-weighted assets;
- subordinated debt for which the conditions from the CBM Decision on Capital Adequacy are met;
- hybrid instruments for which the conditions from the CBM Decision on capital adequacy are met;
- revaluation reserves for property owned by the Bank.

Deductible items in the calculation of supplementary capital:

- acquired own preference cumulative shares;
- receivables and contingent liabilities secured by hybrid instruments or a subordinated debt of the Bank up to the amount in which these instruments are included in supplementary capital.

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to meet at all times the following capital requirements prescribed by Article 134 of the Law on Credit Institutions ("Official Gazette of Montenegro", No. 72/19, 82/20, 8/21 and 24/25):

- Common Equity Tier 1 capital adequacy ratio of 4.5%;
- Core Equity Tier 1 capital adequacy ratio of 6%; and
- Total Capital Adequacy Ratio of 8%.

The Bank is obliged to align the volume of its operations with the prescribed indicators, i.e. to align the volume and structure of its risky placements with the Law on Credit Institutions and the regulations of the Central Bank of Montenegro. As of 31 December 2025, the total capital adequacy ratio calculated by the Bank is 24.26% (2024: total capital adequacy ratio is 27.36%). As of 31 December 2025, the combined buffer applicable to the Bank is 4.42%, the capital requirement for Pillar 2 risks (P2R) is 2.45%, and the total minimum capital requirement for the Bank is 14.87%. The Bank's compliance with regulatory indicators is provided in Note 29.

5. RISK MANAGEMENT (Continued)**5.6. Capital Management (Continued)**

Regulatory capital structure as of 31 December 2025:

<u>REGULATORY CAPITAL</u>	<u>30,923</u>
Tier 1	30,923
Equity instruments that are recognized as regular core capital common equity capital	30,923
Retained earnings	13,124
Accumulated other comprehensive income - FVOCI	22,771
(-)valuation adjustments due to prudential valuation requirements (AVA)	178
(-)Other intangible assets	34
(-)Common equity tier 1 instruments of financial sector subject if a credit institution has a significant investment in these subject	1,312
(-) Positive difference between the amount of the calculated provisions for potential losses and the sum of the amount of the value adjustment for balance sheet assets and provisions for off-balance sheet items classified as performing assets	307
(-) Positive difference between the amount of the calculated provisions for potential losses and the sum of the amount of the value adjustment for balance sheet assets and provisions for off-balance sheet items classified as non-performing exposure to which the deductible items of common tier 1 capital from Article 18 item 13 of the Decision of Capital Adequacy of Credit Institutions (occurred before the start of application of that decision)	3,402
AT1	95
Equity instruments that are recognized as regular core capital common equity capital	-
Tier 2	-
Risk exposure per type of risk:	
<u>U TOTAL AMOUNT OF RISK EXPOSURE</u>	<u>127,472</u>
AMOUNTS OF RISK-WEIGHTED EXPOSURE TO CREDIT RISK, COUNTERPARTY CREDIT RISK AND FREE DELIVERY	101,916
Standardised approach	101,916
TOTAL AMOUNT OF EXPOSURE TO OPERATIONAL RISK	25,556
Simple approach to operational risk	25,556

5. RISK MANAGEMENT (Continued)**5.6. Capital Management (Continued)**

Regulatory capital structure as of December 31, 2025:

Tier 1 capital ratio of - min 4.5%	24.26%
Surplus (+)/shortage (–) of CET 1 capital	25,187
Surplus (+)/shortage (–) of CET 1 capital including the buffer	19,550
Surplus (+)/shortage (–) of OCR of CET 1	17,793
Tier 1 capital ratio of - min 6%	24.26%
Surplus (+)/shortage (–) of Tier 1 capital	23,275
Surplus (+)/shortage (–) of OCR of Tier 1 capital	15,296
Total capital ratio (TCR) - min 8%	24.26%
Surplus (+)/shortage (–) of total capital	20,725
Surplus (+)/shortage (–) of OCR of total capital	11,965

5. RISK MANAGEMENT (Continued)

5.7. Sensitivity Analyses

5.7.1. Foreign exchange risk sensitivity analysis

Apart from an analysis of the Bank's foreign currency receivables and payables, the foreign exchange risk management also includes a foreign exchange risk sensitivity analysis. A scenario of exchange rate changes ranging from +10% to -10% in comparison to EUR is provided below.

<i>In EUR thousand</i>	Total	Foreign currency amount	10%	-10%
Cash and deposit accounts with central banks	35,468	192	19	(19)
<i>Financial assets at amortized cost</i>				
Loans and advances to banks	31,868	11,168	1,117	(1,117)
Loans and advances to customers	180,633	-	-	-
Securities	28,408	-	-	-
Other financial assets	1,925	852	85	(85)
<i>Financial assets at FVTOCI</i>				
Securities	33,584	-	-	-
<i>Financial assets held for trading</i>				
Securities for trading	151	-	-	-
Other assets	1,919	44	4	(4)
Total financial assets	313,956	12,256	1,225	(1,225)
<i>Financial liabilities carried at amortised cost</i>				
Deposits due to banks and central banks	20	-	-	-
Customers' deposits	268,679	11,340	1,134	(1,134)
Loans to non-bank customers	2,546	-	-	-
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	6,028	853	85	(85)
Subordinated debt	-	-	-	-
Total financial liabilities	277,273	12,193	1,219	(1,219)
<i>Net foreign currency exposure:</i>				
December 31,2025			6	(6)
December 31,2024			6	(6)

On 31 December 2025, assuming that all other parameters remain unchanged by a change in the EUR exchange rate against other currencies by +10% or -10%, the Bank's profit would increase or decrease by EUR 6 thousand (31 December 2024: EUR 6 thousand). The reason for the Bank's low exposure to exchange rate changes is the fact that the majority of the Bank's receivables and liabilities are denominated in EUR, as well as the fact that, through derivatives used to hedge against exchange rate risk, the Bank's open position to exchange rate risk is reduced. The open position is monitored and closed on a daily basis.

5. RISK MANAGEMENT (Continued)**5.7. Sensitivity Analyses (Continued)****5.7.2 Interest rate risk sensitivity analysis**

During the interest rate risk management, the Bank performs sensitivity analysis of changes in receivables and payables with variable interest rates. The effects of changes in variable interest rates on receivables and payables denominated in EUR ranging from +0.4% p.p. to -0.4% p.p. are presented below.

<i>In EUR thousand</i>	Total	Interest bearing	+ 0.4%	- 0.4%
Cash and deposit accounts with central banks	35,468	7,288	29	(29)
<i>Financial assets at amortized cost</i>				
Loans and advances to banks	31,868	17,797	71	(71)
Loans and advances to customers	180,633	180,633	723	(723)
Securities	28,408	28,408	114	(114)
Other financial assets	1,925	-	-	-
<i>Financial assets at FVOCI</i>				
Securities	33,584	33,584	134	(134)
<i>Financial assets held for trading</i>				
Securities for trading	151	151	1	(1)
Derivatives held for risk protection	-	-	-	-
Other assets	1,919	-	-	-
Total financial assets	313,956	267,861	1,072	(1,072)
<i>Financial liabilities carried at amortised cost</i>				
Deposits due to banks and central banks	20	-	-	-
Customers' deposits	268,679	88,689	355	(355)
Loans to non-bank customers	2,546	2,546	10	(10)
Derivative financial liabilities as a hedging instrument	-	-	-	-
Other liabilities	-	-	-	-
Subordinated debt	-	-	-	-
Total financial liabilities	271,245	91,235	365	(365)
<i>Interest rate risk exposure:</i>				
December 31,2025			707	(707)
December 31,2024			709	(709)

Assuming that all other parameters remain unchanged, an increase or decrease in the variable interest rate for receivables and payables in EUR by 0.4 p.p. would increase or decrease the Bank's profit by EUR 707 thousand (31 December 2024 EUR: 709 thousand).

6. INTEREST INCOME AND EXPENSES**6.1. Interest income and similar income**

<i>In EUR thousand</i>	2025	2024
Deposits with banks	456	852
Loans		
To the State	1,210	1,570
To Companies	5,865	4,860
To Financial Entities and Insurance	63	86
To Individuals	588	539
	7,726	7,055
Securities		
at amortized cost	1,736	2,347
at fair value through other comprehensive income	210	796
at fair value through profit or loss	-	-
	1,946	3,143
Income from loan fees	219	199
Total	10,347	11,249

6.2. Income from interest on impaired placements

<i>In EUR thousand</i>	2025	2024
Loans		
impaired placements to companies	71	89
impaired placements to individuals	50	11
Total	121	100

6.3. Interest expense and similar expenses

<i>In EUR thousand</i>	2025	2024
Deposits of		
foreign banks	2	16
Companies	937	1,216
Financial entities and insurance	76	57
individuals	883	770
	1,898	2,059
Loans and other borrowings	15	24
Expenses from interest on leased assets	15	5
Total	1,928	2,088

7. FEE AND COMMISSION INCOME AND EXPENSES**7.1. Fee and Commission Income**

<i>In EUR thousand</i>	2025	2024
International payment transactions	2,525	2,738
Payment operations and cash management	639	975
VISA and MC card operations	637	690
Domestic payment transactions	618	584
Custody and brokerage operations	93	141
E-banking	280	245
Fees for issued guarantees	281	199
Other fees and commissions	86	273
Total	5,159	5,845

7.2. Fees and commission expenses

<i>In EUR thousand</i>	2025	2024
Deposit insurance premium fees	364	326
Fees and commissions payable to the Central Bank	186	223
VISA and MC card operations	517	570
International payment transactions	401	379
Custody and brokerage operations	89	112
Expenses for securities	7	4
E-banking	193	169
Other fees and commissions	7	2
Total	1,764	1,785

8. NET GAIN/ LOSS ON DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>In EUR thousand</i>	2025	2024
Securities at fair value through other comprehensive income	(4)	-
Financial instruments at amortized cost	-	-
Total	(4)	-

9. NET LOSSES FROM FINANCIAL INSTRUMENTS HELD FOR TRADING

<i>In EUR thousand</i>	2025	2024
Equity instruments	77	16
Debt instruments	-	6
Total	77	22

10. NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

<i>In EUR thousand</i>	2025	2024
Realised foreign exchange differences – operations with customers	970	872
Value adjustment between assets and liabilities	7	(1)
Total	977	871

10.1 Net gain / loss on derecognition of other assets

<i>In EUR thousand</i>	2025	2024
Gains on sale of property, plant and equipment	-	(6)
Losses on write-off of property, plant and equipment	-	1
Capital gains/(losses) on sale of assets acquired for the collection of receivables	(125)	17
Total	(125)	12

11. OTHER INCOME/EXPENSES

<i>In EUR thousand</i>	2025	2024
Income from collection of written-off loans	6	9
Valuation of investment properties	2	(5)
Sundry income	27	33
Revenue from leases	2	1
Total	37	38

<i>In EUR thousand</i>	2025	2024
Expenses from the write-off of receivables	8	77
Expenses of other taxes and fees	46	44
Other extraordinary expenses	14	7
Total	68	128

12. EMPLOYEE COSTS

<i>In EUR thousand</i>	2025	2024
Net salaries	2,413	1,992
Payroll taxes, surtaxes and contributions	747	850
Remunerations to members of the Supervisory Board	127	120
Travel and subsistence expenses	22	39
Fees for occasional jobs	42	34
Employee training	29	35
Other employee benefits	21	26
Total	3,401	3,096

13. DEPRECIATION EXPENSES

<i>In EUR thousand</i>	2025	2024
Property, plant and equipment (note 22)	315	256
Leased assets (note 22)	124	123
Intangible assets (note 23)	184	165
Total	623	544

14. OPŠTI I ADMINISTRATIVNI TROŠKOVI

<i>In EUR thousand</i>	2025	2024
Representative Office Costs – Dubai	-	11
Marketing and Sponsorships	279	411
IT Equipment Maintenance	568	451
Business Space Lease and Maintenance	131	90
Intellectual Services	536	558
Representation	86	79
Telecommunications	146	131
Security	140	109
Donations	82	49
Water, electricity, utilities and fuel costs	73	66
Insurance	76	73
Membership fees	33	26
Travel and accommodation	27	35
Lawyers' fees and court costs	16	117
Money transport	27	27
Office supplies	15	18
Card transaction costs	27	105
Other	145	76
Total	2,407	2,432

15. NET IMPAIRMENT GAINS/LOSSES OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>In EUR thousand</i>	2025	2024
Loans and receivables from banks	(14)	13
Loans and receivables from customers	862	(790)
Securities at amortized cost	(256)	(15)
Securities at fair value through other comprehensive income	(117)	(34)
Off-balance sheet exposures subject to credit risk	(129)	697
Investments in subsidiaries	-	-
Other assets	(83)	(5)
Total	263	(134)

Changes in impairment and provision accounts

The allowance accounts include all financial and non-financial asset positions, except for intangible assets, property, plant and equipment and investment property (disclosed in Notes 22-24), as positions of calculated provisions for potential losses and long-term employee benefits. The calculation of impairment of financial assets and off-balance sheet exposures subject to credit risk is based on IFRS 9: Financial instruments, other assets and IAS 36: Impairment of assets, while provisions for long-term employee benefits are based on IAS 19: Employee benefits. The calculation of provisions for litigation is based on IAS 37: Provisions, contingent liabilities and contingent assets.

Below is a table showing the changes in impairment and provision accounts during 2025.:

	Loans and advances from banks	Loans and advances from customers	Securities - AC (note 18.3)	Securities - FVOCI (note 19.1)	Off-balance sheet exposures	Ostala aktiva	Retirement benefits	Provisions for litigation	Total
Balance as of 31 December 2024.	20	7,819	569	359	995	1,764	3	35	11,564
Increase during the year	103	5,080	11	20	718	17	2	65	6,016
Cancellation during the year	(117)	(4,218)	(273)	(131)	(847)	(101)	-	-	(5,687)
Write-off of receivables	-	(16)	-	-	-	-	-	-	(16)
Decrease in income from interest on impaired placements	-	259	-	-	-	-	-	-	259
Balance as of 31 December 2025.	6	8,924	307	248	866	1,680	5	100	12,136

16. INCOME TAXES**16.1. Income tax components**

<i>In EUR thousand</i>	2025	2024
Calculated current income tax	868	1,222
Calculated deferred income tax	33	(25)
Total	901	1,197

16.2. Reconciliation of the amount of income tax in the income statement and the product of results before tax and tax rate

<i>In EUR thousand</i>	2025	2024
Result in the income statement before tax	6,070	8,206
Capital losses/gains	(129)	(17)
Depreciation expense in the income statement	623	544
Depreciation expense for tax purposes	(605)	(612)
Tax effect of expenses and income not recognised for tax purposes, net	148	346
The amount of taxable profit	6,107	8,467
Capital gains	-	-
Tax base	6,107	8,467
Income tax	868	1,222
Deferred tax expense/income	33	(25)
Reduction of tax liability based on early payment	-	-
Total cost of income tax	901	1,197
Effective tax rate	14.84%	14.59%

16. INCOME TAXES (Continued)**16.3. Deferred Income Tax**

Movements on accounts of deferred income taxes in 2025 are provided below:

In EUR thousand

	Deferred tax assets – equity securities at FVOCI	Deferred tax assets – acquired assets	Deferred tax assets – temporary differences arising from the expense recognition for tax purposes	Deferred tax liabilities - temporary differences arising from depreciation calculation	Deferred tax liabilities - debt securities at fair value through other comprehensive income
Balance as of 31 December 2024	118	83	32	(158)	53
Deferred tax income / (expense) for the period	-	(26)	(9)	2	-
Deferred other tax result for the period	-	-	-	-	(83)
Balance as of 31 December 2025	118	57	23	(156)	(30)

Deferred tax liabilities are income taxes payable in future periods against taxable temporary differences. Deferred tax assets are income taxes recoverable in future periods, which are related to: a) deductible temporary differences; b) unused tax losses carried forward to the next period; c) unused tax credit carried forward to the next period.

Temporary differences are differences between the carrying amount of an asset or a liability stated in the balance sheet and their tax base. They can be:

- *Taxable temporary differences* – their result will be taxable amounts during the determination of taxable profit (or tax loss) of future periods when the carrying amount of an asset or a liability is recovered or settled;
- *Deductible temporary differences* – their result will be amounts that can be deducted during the determination of taxable profit (or tax loss) when the carrying amount of an asset or a liability is recovered or settled.

The Bank has unused tax losses from previous years in the amount of EUR 696 thousand.

17. CASH AND DEPOSIT ACCOUNTS WITH CENTRAL BANKS

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
Cash on hand:		
- in EUR	44	60
- in foreign currency	-	4
Cash in vault:		
- in EUR	1,852	5,844
- in foreign currency	192	250
Cash at ATMs	1,255	1,236
Gyro account	17,549	26,784
Reserve requirement with the Central Bank of Montenegro	14,576	16,706
Total	35,468	50,884

For the purposes of preparing the Individual Statement of Cash Flows, the table below is presented, which includes cash and deposit accounts with central banks and funds in correspondent accounts with foreign banks:

	December 31, 2025	December 31, 2024
Cash in hand:		
- in EUR	44	60
- in foreign currency	-	4
Cash in vault:		
- in EUR	1.852	5.844
- in foreign currency	192	250
Cash in ATMs	1.255	1.236
Giro account	17.549	26.784
Mandatory reserve with the Central Bank of Montenegro	14.576	16.706
Loans and receivables from banks (note 18.1)	31.874	37.268
Total cash and cash equivalents	67.342	88.152

The mandatory reserve with the balance as of December 31, 2025 was allocated in accordance with the Decision of the Central Bank of Montenegro on the mandatory reserve of credit institutions with the Central Bank of Montenegro ("Official Gazette of Montenegro" 19/22 and 78/24) (hereinafter: the Decision), which stipulates that banks allocate mandatory reserves by applying the rate of:

- 5.5% on the part of the base consisting of demand deposits and deposits contracted with a maturity of up to one year, i.e. up to 366 days and
- 4.5% on the part of the base consisting of deposits contracted with a maturity of over one year, i.e. over 366 days.

The Bank allocates the calculated mandatory reserve to the mandatory reserve account in the country and/or to the accounts of the Central Bank of Montenegro abroad. The mandatory reserve is allocated in EUR.

17. CASH AND DEPOSIT ACCOUNTS WITH CENTRAL BANKS (Continued)

In the period from January 3, 2022 to August 2024, the Central Bank paid monthly to credit institutions a fee calculated at the rate of the last published EONIA reduced by 10 basis points annually on 50% of the required reserve funds, provided that this rate cannot be less than zero, and from August 2024 to December 2025, the fee calculated at the rate of 0 (zero).

The Bank may use up to 50% of the allocated required reserve funds to maintain daily liquidity. The Bank does not pay a fee on the used amount of required reserve that is returned on the same day. The Bank is obliged to pay a monthly fee on the amount of required reserve funds that is not returned on the same day at the rate set by a special regulation of the Central Bank of Montenegro. During 2025, the Bank did not use required reserve funds to maintain daily liquidity.

18. FINANCIAL ASSETS AT AMORTIZED VALUE**18.1. Loans and receivables from banks**

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
Correspondent accounts with foreign banks	14,074	37,267
Term funds with foreign banks	17,800	-
	31,874	37,267
Impairment (Note 15)	(6)	(20)
Total	31,868	37,247

Gross balances on accounts with foreign banks:

December 31,2025	12m PD	Stage 1	Stage 2	Stage 3	Total
<i>Credit rating</i>					
Aaa - Aa	0.00-0.22%	8,238	-	-	8,734
A	0.06%	7,895	-	-	6,643
Baa	0.16%	14,126	-	-	7,170
Ba	0.64%	-	-	-	-
B	3.32%	1,615	-	-	1,615
Individually observed		-	-	-	-
Total		31,874	-	-	31,874
December 31,2024	12m PD	Stage 1	Stage 2	Stage 3	Total
<i>Credit rating</i>					
Aaa - Aa	0.02-0.63%	8,734	-	-	8,734
A	0.02-0.16%	6,643	-	-	6,643
Baa	0.02-0.16%	7,170	-	-	7,170
Ba	0.02-0.16%	3,990	-	-	3,990
B	0.16-3.32%	10,730	-	-	10,730
Individually observed		-	-	-	-
Total		37,267	-	-	37,267

18. FINANCIAL ASSETS AT AMORTIZED COST (Continued)**18.2. Loans and advances to customers**

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
<i>Loans</i>		
- Government of Montenegro	15,732	23,859
- privately owned companies	156,888	136,418
- individuals	9,460	9,840
- other: entrepreneurs and non-governmental organizations	370	273
- financial entities and insurance	4,346	1,000
	186,796	171,390
<i>Interest receivable</i>		
<i>Accruals</i>		
- interest on loans	3,041	2,233
- fees on loans	(280)	(221)
<i>Depreciation</i>		
- loan impairment (note 15)	(7,932)	(7,027)
- impairment of interest (note 15)	(992)	(792)
Total loans and receivables from clients	180,633	165,583

Short-term loans to companies are mostly granted for working capital with a term of one month to 12 months, while long-term loans are approved for a period of 12 to 240 months and mainly relate to public administration and defence, companies from hotel management, transport and storage, trade, construction, arts and entertainment, etc.

Household loans include cash loans, loans for housing construction, tourist loans, pensioner loans, and micro loans, approved for a period of 12 to 244 months.

Detailed information on the Bank's loan portfolio is disclosed in Note 5.2.4

18.3. Securites

	December 31, 2025	December 31, 2024
<i>Debt securities</i>		
Government of Montenegro bonds	28,715	53,288
Impairment of debt securities (note 15)	(307)	(569)
Total	28,408	52,719

All bonds at amortized cost are Eurobonds with a maturity date from December 2027 to October 2029 and an annual fixed interest rate of 2.55%-2.88% and government - retail bonds (EUR 1,000 thousand) with a maturity date until November 2027 and an interest rate of 3.75%.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS HELD FOR TRADING

19.1. Securities at fair value through other comprehensive income

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
Debt securities		
Government bonds of Montenegro	21,161	27,984
Foreign government bonds	6,955	2,719
Corporate bonds	511	1,525
Treasury bills (foreign)	4,957	12,928
Total	33,584	45,156
Impairment of debt securities (Note 15)	(248)	(359)

Securities at fair value through other comprehensive income are Eurobonds (corporate and government) with a fixed annual interest rate of 0.5%-4.75%. Government bonds have a maturity date from April 2026 to October 2029 and corporate bonds have a maturity date until November 2039. Treasury bills (foreign) have a maturity date until May 2026, with an effective interest rate of 2.08%.

Unrealized gains from the reduction of securities to fair value as of 31.12.2025 amount to EUR 178 thousand and are included in other reserves (note 27b).

19.2 Securities held for trading

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
Debt securities	-	361
Equity securities	151	74
Total	151	435

20. INVESTMENTS IN SUBSIDIARIES ACCORDING TO THE EQUITY METHOD

Investments in subsidiaries according to the equity method include investments in the following legal entities:

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
Universal Capital Bank Financial Service, Dubai	907	907
Portokali Adriatic d.o.o. Podgorica	215	215
Investment value impairment	(815)	(815)
Total	307	307

Having obtained approval from the Central Bank of Montenegro, the Bank established the legal entity Universal Capital Bank Financial Service headquartered in Dubai on 1 April 2022, which will provide consultancy on financial products and services.

Related legal entity Portokali Adriatic d.o.o. Podgorica was founded in 2015 and investments in this legal entity in previous years were classified as securities at fair value through other comprehensive income. The bank reclassified this investment, so that this investment in the related legal entity Portokali Adriatic d.o.o. Podgorica in 2022 is classified as an investment in dependent legal entities according to the equity method.

Based on the results of operations of dependent legal entities, the Bank did not depreciate investments in 2025.

21. INVESTMENT PROPERTY

	2025	2024
<i>Cost</i>		
Balance as of 1 January	58	57
Additions	-	-
Decrease	-	-
Reduction to net realizable value	-	1
Balance as of 31 December	58	58
<i>Allowance for impairment</i>		
Balance as of 1 January	28	23
Transfers	(3)	5
Depreciation (Note 13)	-	-
Balance as of 31 December	25	28
Carrying value as of 31 December	33	30

22. PROPERTY, PLANT AND EQUIPMENT

<i>In EUR thousand</i>	Right to use assets					Total
	Buildings	Equipment and other assets	Buildings – business premises	Cars	Construction in progress	
<i>Cost</i>						
Balance as of January 1 2024	3,351	1,932	452	78	-	5,813
Additions – IFRS 16	-	-	-	-	-	-
Transfers to intangible assets	-	468	9	-	288	765
Transfers	-	(118)	-	(21)	-	(139)
Decrease - write-offs	-	-	-	-	(288)	(288)
Balance as of December 31 2024	3,351	2,282	461	57	-	6,151
<i>Increases</i>						
Reduction-write-off	-	151	78	123	-	352
Transfers	-	(54)	(38)	(46)	-	(138)
Balance as of December 31 2025	3,351	2,379	501	134	-	6,365
<i>Impairment</i>						
Balance as of January 1 2024	(256)	(1,022)	(338)	(34)	-	(1,650)
Depreciation (Note 13)	(34)	(222)	(97)	(26)	-	(379)
Write-off and disposal	-	112	-	20	-	132
Balance as of December 31 2024	(290)	(1,132)	(435)	(40)	-	(1,897)
Depreciation (Note 13)	(34)	(281)	(91)	(33)	-	(439)
Write-off and disposal	-	54	415	46	-	514
Balance as of December 31 2025	(324)	(1,359)	(111)	(27)	-	(1,821)
<i>Net book value as of:</i>						
- December 31 2025	3,027	1,020	390	107	-	4,544
- December 31 2024	3,061	1,150	26	17	-	4,254

As of December 31, 2025, the Bank has no pledged property that serves as an instrument for securing repayment of loans and other obligations.

23. INTANGIBLE ASSETS

Intangible assets consist mainly of licenses and software. The following overview shows the movements in intangible assets during 2025 and 2024:

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
<i>Cost</i>		
Balance as of 1 January	2,040	1,981
Transfers from property, plant and equipment	-	-
Additions	757	287
Preparation	89	-
Write-off	-	(229)
Balance as of 31 December	2,886	2,039
<i>Accumulated amortization</i>		
Balance as of 1 January	1,390	1,454
Amortization (Note 13)	184	165
Write-off	-	(230)
Balance as of 31 December	1,574	1,389
Carrying value as of 31 December	1,312	650

24. OTHER ASSETS

	December 31, 2025	December 31, 2024
Reposessed assets	211	415
Trade receivables	1,025	1,074
Receivables for card operations	314	277
Unallocated payments	31	70
Prepaid expenses	319	152
Receivables for payment operations and cash management	214	173
Other receivables	16	28
Total	2,130	2,189

The bank sold the acquired property with a realized loss in the amount of EUR 125 thousand (note 10.1).

25. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST**25.1. Deposits of banks and central banks and customer deposits****Deposits of banks and central**

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
<i>Demand deposits</i>		
Privately owned banks, residents	20	15
Total	20	15
Client deposits		
<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
<i>Demand deposits</i>		
- privately owned companies	89,826	127,318
- state-owned companies	1,449	238
- Montenegro Government	2,227	3,281
- other financial institutions that are not banks	942	765
- public services of local self-government units	5	13
- other: regulatory agencies, non-profit organisations and entrepreneurs	528	349
- individuals	83,611	86,435
	178,588	218,399
<i>Short-term deposits</i>		
- privately owned companies	2,909	1,772
- state-owned companies	2,500	3,000
other financial institutions that are not banks	-	-
other: regulatory agencies, non-profit organisations and entrepreneurs	-	200
- individuals	5,427	2,585
	10,836	7,557
<i>Long-term deposits</i>		
- privately owned companies	41,198	48,598
- Montenegro Government	-	2,000
- other: regulatory agencies, non-profit organisations and entrepreneurs	5	5
- individuals	2,000	-
<i>Long-term deposits</i>	34,649	33,203
	77,852	83,806
Interest on deposits	1,402	946
Total	268,678	310,708

No interest is charged on demand deposits of individuals. No interest is charged for companies, public and other organizations, unless otherwise agreed with the client. Deposits are placed for a period of 3 to 36 months with an interest rate of 1.20%-2.90% for individuals, and 1.00%-2.80% for legal entities. The bank joined the campaign of banks that offer stimulating interest rates on deposit placement and offered an interest rate increased by 50 bp for all maturity periods, both for individuals and legal entities. Thus, for individuals, the interest rate ranged from 1.70%-3.40% for a period of 3 months to 36 months, and for legal entities from 1.50%-3.30% for the same time interval. The offer was valid until the end of December 2025.

25. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST(Continued)**25.2. Loans to non bank customers**

	December 31, 2025	December 31, 2024
Ministry of Finance and Social Welfare - CEB program	1,808	2,170
Investment and Development Fund A.D. Podgorica	738	1,396
Total	2,546	3,566
<i>Maturity by year</i>		
Up to 1 year	577	644
Up to 2 years	580	648
Up to 3 years	543	652
Up to 4 years	446	632
Up to 5 years	392	506
Over 5 years	8	484
Total	2,546	3,566

As of 31 December 2025, liabilities under loans and borrowings in the amount of EUR 738 thousand (31 December 2024: EUR 1,396 thousand) relate to liabilities to the Investment and Development Fund of Montenegro a.d. Podgorica based on several long-term loans. The interest rate ranges from 1.5% to 2%. The approved maturity is from 7 to 14 years. The Bank is not obliged to meet financial indicators under the aforementioned loans.

During 2021, the Ministry of Finance and Social Welfare of the Government of Montenegro, in cooperation with the CEB (Council of Europe Development Bank), launched a program to stimulate the recovery of the economy from the negative effects of the Covid-19 pandemic. In accordance with the program, the Bank provides 50% of the funds for the placement of loans at market interest rates, while the Ministry of Finance and Social Welfare provides the remaining 50% of the funds at an interest rate of 0.00%. The program excludes certain activities, and financing is provided for a period of up to 9 years (which includes a grace period of up to 2 years). The program can finance investment loans and loans for working capital.

26. OTHER LIABILITIES

<i>In EUR thousand</i>	December 31, 2025	December 31, 2024
Custody operations	2,300	1,590
Lease liabilities - IFRS 16	500	51
Trade payables	185	236
Brokerage operations	64	102
Advances received	1,987	2,279
Liabilities from unallocated payments	638	729
Other liabilities	354	565
Total	6,028	5,552

27. CAPITAL

The Bank's equity is comprised of:

	December 31, 2025	December 31, 2024
Issued capital - ordinary shares (a)	13,124	13,124
Accumulated gain (c)	23,407	19,898
Effects of the application of IFRS 9	(636)	(636)
Other reserves (b)	178	(299)
Profit for the year	5,169	7,009
Total	41,242	39,096

- a) As of 31 December 2025, the Bank's share capital consists of 25,935 thousand ordinary shares (31 December 2024: 25,935 ordinary shares), with an individual nominal value of EUR 0.50605821 (31 December 2024: individual nominal value of EUR 0.50605821). The Law on Credit Institutions ("Official Gazette of Montenegro" No. 72/19, 82/20, 8/21 and 24/25) defined the minimum amount of bank capital in the amount of EUR 7,500 thousand.

27. CAPITAL (Continued)

The Bank's ownership structure as of 31 December 2025 and 2024 was as follows:

Shareholder	No. of shares	In EUR thousand	No. of shares	In EUR thousand
Sigma Delta Holdings doo	21,606,260	10,934	21,606,260	10,934
Sigma Delta Investments doo	2,288,200	1,158	2,288,200	1,158
MRI CONSULTING DMCC	1,980,532	1,002	1,980,532	1,002
Seriatos Gerasimos	20,000	10	20,000	10
Saveljić Tijana	15,000	8	15,000	8
Others	24,654	12	24,654	12
Total	25,934,646	13,124	25,934,646	13,124

b) Other reserves

Other reserves refer to revaluation reserves formed as a result of adjusting the value of debt instruments with the market value.

Movements in the *revaluation reserves of debt instruments* measured through other comprehensive income:

	December 31, 2025	December 31, 2024
Opening balance as of 1 January	(299)	(2.240)
Increase/decrease in revaluation reserves	558	2.283
Decrease based on deferred taxes	(81)	(342)
Balance as of	178	(299)

c) Dividend payment

The dividend payment in the gross amount of EUR 3,500 thousand was made based on the Decision on the payment of dividends of the Bank's Shareholders' Assembly, number 5342/25-3 dated 29.04.2025. The gross value of the dividend was EUR 0.134954609 per share. The right to the payment of dividends under the aforementioned decision was granted to shareholders of paid-up shares, who were registered in the Central Clearing and Depository Company AD Podgorica on the date of adoption of the Decision.

28. OFF-BALANCE SHEET ITEMS

<i>in EUR thousand</i>	December 31, 2025	December 31, 2024
<i>Off-balance sheet items exposed to credit risk</i>		
Irrevocable loan liabilities – undrawn credit facilities	4,897	7,411
Irrevocable documentary letters of credit issued for payment abroad	-	-
Issued payment guarantees	16,433	15,125
Issued performance guarantees	4,518	4,584
	25,848	27,120
<i>Other off-balance sheet items</i>		
Custody assets	88,794	134,448
Collateral for receivables	234,716	188,790
Payment operations and cash management	112,391	89,927
Other	38	350
	435,939	413,515
Total	461,787	440,635
Provisions for expected credit losses on off-balance sheet items (Note 15)	(866)	(995)

29. COMPLIANCE WITH REGULATIONS OF CENTRAL BANK OF MONTENEGRO

Pursuant to the Decision on Capital Adequacy passed by the Central Bank of Montenegro ("Official Gazette of Montenegro" no. 128/20 and 140/21), credit institutions are required at all times to meet the following capital requirements stipulated under Article 134 of the Law on Credit Institutions ("Official Gazette of Montenegro" no. 72/19, 82/20 and 8/21):

- Common equity Tier adequacy ratio of 4.5%;
- Tier 1 capital adequacy ratio of 6%; and
- Total capital adequacy ratio of 8%.

The Bank is required to adjust its scope of work with the prescribed ratios, i.e. to adjust the scope and structure of its risk-weighted placements with the Law on Credit Institutions and the regulations of the Central Bank of Montenegro.

Ratio	2025	2024	Regulatory limit
Common equity Tier adequacy ratio (CET1)	24.26%	27.36%	≥ 4.5%
Tier 1 capital adequacy ratio (Tier1)	24.26%	27.36%	≥ 6%
Total capital adequacy ratio (TCR)	24.26%	27.36%	≥ 8%
Financial leverage ratio	9.42%	7.63%	≥ 3%
Liquid coverage ratio	372%	402%	≥ 100%
Daily liquidity ratio as of 31 December	1.69	1.84	≥ 0.9
Decade liquidity ratio as of 31 December	1.64	1.85	≥ 1
The Bank's exposure to a single person or group of related parties	23.84%	23.64%	≤ 25% RK
Exposure to Bank's related parties after applying credit risk mitigation techniques	16.19%	15.74%	≤ 25% RK

30. RELATED PARTY TRANSACTIONS

The Law on Credit Institutions ("Official Gazette of Montenegro," no. 72/19, 82/20 and 8/21) stipulates that persons that appoint at least one representative in the Supervisory Board or a similar body have a significant influence on the Bank's operations either through ownership of shares, based on shareholders' consent, or in any other manner. In accordance with the Law on Credit Institutions, transactions with related parties are shown in the following tables:

<i>Customer deposits (principal)</i>	December 31,2025	December 31,2024
Retail customers	293	428
legal entities:		
Sigma Delta Holdings doo Podgorica	28	83
Golden Estate doo Podgorica	19	70
Adriatic Properties doo Budva	43	24
Nova Pobjeda doo Podgorica	3	1
Epidaurus Hoteli and SPA D.O.O.	25	5
Portokali Adriatic doo Podgorica	3	3
Sigma Delta Investments doo	373	155
MRI Consulting DMCC	29	4
SDS Gulf limited	52	71
Portal Press doo Podgorica	15	2
Vires doo Podgorica	-	1
Novi Tender Oglasi doo	-	1
Monterock Internacional limited UAE	58	1.314
RMR Europe Investments LTD Kipar	6	25
Benaturayou Limited Gibraltar	12	4
Nightsapphire Resorts LTD Kipar	-	1
Pure Angel doo Budva	12	18
Seven Hills Holdings Limited	25	2
RMR Innovative Recycling Internacional	-	5
Kalerosi services LTD	19	1
RMR Blue Essence Investment LTD Kipar	8	-
Pure Larimar resorts LTD Kipar	1	21
Tiger Eye resorts LTD Kipar	-	8
Diceto LTD Kipar	-	26
Stuerza properties ltd	25	-
Nammos Restaurant London Limited UK	22	1.173
NARDO LTD Kipar	20	-
MRINLON2SUB LTD Kipar	-	1
MRI luxury holding limited	49	-
Maferiosa LTD Kipar	9	-
Monterock assets ltd	560	-
Acquis Solutions DMCC	-	40
Durmitor Hotel and Villas	4	2
Monterock Investments - M - RINIT1	699	69
Victo LTD	-	4
One Mykonos – FZCO	14	7
Benestar Property S.A.	22	22
Marque arque facility management services L.L	-	21
Wisy management LTD	763	606
UC bank financial services LTD UC	10	7
FG Central Europe S.A.	91	55
Monterock Hotel Management - FZCO	29	22
Monterock inv Nedafushi Maldives	359	392
Gosnipron LTD	-	109
Amicross LTD	21	51
Others	103	66
Total client deposits (principal)	3,824	4,920

30. RELATED PARTY TRANSACTIONS (Continued)

	December 31, 2025	December 31, 2024
Loans and advances to customers (principal)		
retail customers:	-	160
corporate customers:		
Nova Pobjeda doo Podgorica	194	114
Marque Facility management services I.I.	4,606	3,602
Portokali Adriatic doo Podgorica	110	150
Monterock Internacional limited UAE		
	45,334	45,334
Total Loans and advances to customers (principal)	50,244	49,360
	December 31, 2025	December 31, 2024
Guarantees		
corporate customers:		
Adriatic Properties doo Budva	30	-
Nova Pobjeda doo Podgorica	19	14
Durmitor Hotel and Villas doo Žabljak	1,000	1,000
Total Guarantees	1,049	1,014
	December 31, 2025	December 31, 2024
Unused loan amount		
corporate customers:		
Marque facility management services L.L. UAE	4	-
Portal Press doo Podgorica	30	-
Nova Pobjeda doo Podgorica	81	36
Total Unused loan amount	115	36
	December 31, 2025	December 31, 2024
Interest income		
Retail customers	6	7
legal entities:		
Nova Pobjeda doo Podgorica	11	2
Portokali Adriatic doo Podgorica	2	4
Marque facility management services L.L. UAE	201	161
Portal Press doo Podgorica	1	1
Monterock Internacional limited UAE	1,528	1,545
Total Interest income	1,749	1,720

30. RELATED PARTY TRANSACTIONS (Continued)

Income from fees from domestic and international payment transactions	December 31, 2025	December 31, 2024
Retail customers	2	2
legal entities:		
Golden Estate doo Podgorica	-	1
Adriatic Properties doo Budva	2	4
Nova Pobjeda doo Podgorica	2	2
Kalerosi services LTD	1	1
Monterock Internacional limited UAE	5	3
FG Central Europe S.A.	3	-
Namos Restaurant London Limited UK	-	1
Pure Larimar resorts LTD Kipar	-	1
SDS Gulf limited	1	1
Universal Capital bank FSL UAE	-	1
Monterock investment Kipar	2	3
Wisy management LTD	2	2
Others	13	11
	33	33
	December 31, 2025	December 31, 2024
Fee income from guarantees		
Legal entities:		
Nova Pobjeda doo Podgorica	1	1
Durmitor Hotel and Villas doo Žabljak	10	10
Innovative Recycling S.A. Švajcarska	-	2
	11	13
	December 31, 2025	December 31, 2024
Income from exchange rate differences		
Retail customers:	5	8
legal entities:		
Monterock Internacional limited UAE	52	45
Namos Restaurant London Limited UK	6	-
SDS Gulf limited	2	6
MRI Consulting DMCC	-	1
MRI luxury holding limited	21	-
UC bank financial services LTD UC	-	10
Total income from exchange rate differences	86	70

30. RELATED PARTY TRANSACTIONS (Continued)

Income from commission business	December 31, 2025	December 31, 2024
legal entities:		
Nightsapphire Resorts LTD Kipar	10	8
Ocean Jasper resorts LTD Kipar	4	4
RMR Blue Essence Investment LTD Kipar	3	3
Morsino LTD Kipar	-	91
Monterock Internacional limited UAE	59	4
Victo LTD Kipar	-	24
Tabathar LTD Kipar	-	49
Tiger Eye resorts LTD Kipar	2	2
RMR Star Bright Investment LTD Kipar	1	2
MRI consultanting DMCC Dubai UAE	-	2
Nardo LTD	9	8
	88	197
Net income	1,967	2,033

Remuneration to the Management and Supervisory Board based on gross salaries and fees in 2025 amounts to EUR 565 thousand (2024: EUR 519 thousand)

31. EARNINGS PER SHARE

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

	2025	2024
Net profit for the year (<i>in EUR thousand</i>)	5,169	7,009
No. of ordinary shares at year's end	25,934,646	25,934,646
Weighted average number of shares at year's end	25,934,646	25,934,646
Basic earnings per share in EUR	0.1993	0.2703
Diluted earnings per share in EUR	0.1993	0.2703

32. LITIGATIONS

As of December 31, 2025, there are several lawsuits filed against the Bank by natural and legal persons, in which the lawsuits seek annulment or determination, i.e. action, and they are not aimed at compensation for damages and therefore the amount of the lawsuit has not been determined (2024: EUR the amount of the lawsuit has not been determined).

As of December 31, 2025, the Bank's Board of Directors believes that there may be a negative outcome based on court disputes in the amount of EUR 100 thousand. This amount is higher by EUR 65 thousand compared to last year (2024: EUR 35 thousand) due to the fact that the earlier misdemeanor proceedings were completed in favor of the Bank, while the new ones were assessed at a lower amount.

In addition to the above, the Bank is conducting several proceedings against legal entities and natural persons for the purpose of collecting claims in the total amount of EUR 2,530 thousand (2024: EUR 2,051 thousand).

33. EXCHANGE RATES

The official exchange rates used for the translation of foreign currency balance sheet items into EUR as of December 31, 2025 and 2024 were:

Currency	December 31, 2025	December 31, 2024
USD	1.175700	1.044400
CHF	0.929300	0.943500
GBP	0.871200	0.829500
CAD	1.610399	1.503499
AUD	1.754300	1.675600
CNY	8.221588	7.623404
PLN	4.226293	4.247296
DKK	7.468873	7.460014
NOK	11.826060	11.845530
RUB	92.798810	112.0197000
SEK	10.817940	11.427400
AED	4.320000	3.815905

34. SUBSEQUENT EVENTS

The Bank's Board of Directors believes that there are no significant events after the reporting date that would affect the separate financial statements for 2025.