CENTRAL BANK OF MONTENEGRO
PODGORICA

Financial Statements
Year Ended December 31, 2022
and Independent Auditors' Report

CONTENTS

Building a better working world

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This is translation in English of the Auditor's Report prepared in Montenegrin language for Management review purposes

INDEPENDENT AUDITOR'S REPORT

TO THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

Opinion

We have audited the financial statements of Central bank of Montenegro (hereinafter: the Bank), which comprise the statement of financial position as at 31 December 2022, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Standards on Auditing applicable in Montenegro. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Montenegro, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Responsibilities of management and Audit Committee for the financial statements

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

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

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

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Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with International Standards on Auditing, Law on Auditing of Montenegro and Law on Accounting of Montenegro, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Managing Partner for the audit that resulted in the Independent Auditor's Report is Nikola Ribar.

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Nikola Ribar,
Authorised Auditor

Ernst & Young Montenegro d.o.o.

Podgorica, Montenegro

15 March 2023

STATEMENT OF PROFIT OR LOSS
Year Ended December 31, 2022
(In thousands of EUR)

	Notes	2022	2021
Interest income	6	5,496	3,010
Interest expense		(428)	
Net interest income		5,068	3,010
Fee income	7a	14,129	13,595
Fee expense	7b	(378)	(212)
Net fee income		13,751	13,383
NET INTEREST AND FEE INCOME		18,819	16,393
Other income and gains	8	770	1,108
Other financial expense and income, net	9	(2,523)	(2,829)
Foreign currency exchange gains/(losses), net	10	28	29
Losses on financial assets measured at fair value through OCI	11	227	(57)
Losses on financial assets measured at amortized cost (AC)	11	1	(7)
Staff costs	12	(8,928)	(8,454)
Other operating expenses	13	(3,209)	(2,774)
NET PROFIT		5,185	3,409

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

Signed on behalf of the Central Bank of Montenegro, on March 15, 2023 by:

Valentina Ivanović, PhD
Director of Finance,
Accounting and Controlling Department

Radoje Žugić, PhD
Governor of the Central Bank of Montenegro

STATEMENT OF OTHER COMPREHENSIVE INCOME
As of December 31, 2022
(thousands of EUR)

	Notes	2022	2021
Net income		5,185	3,409
Components of other comprehensive income that may be reclassified to profit or loss			
Change in fair value of debt assets measured at fair value through other comprehensive income (OCI)	16	(51,003)	(4,966)
Change in fair value of equity ins. measured at fair value through other comprehensive income (OCI)	18	-	25
Change in provisions for expected credit losses for securities measured at fair value through other comprehensive income (OCI)	16	(192)	68
Components of other comprehensive income that can not be reclassified into profit or loss			
Change in the fair value of property, plant and equipment		-	1,350
Transfer from revaluation reserves to retained earnings		(59)	-
Other comprehensive income		(51,254)	(3,523)
Total result for the period		(46,069)	(114)

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

STATEMENT OF FINANCIAL POSITION
As of December 31, 2022
(thousands of EUR)

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Cash and demand deposits	14	244,878	147,822
Time deposits with foreign banks	15	539,023	417,869
Financial assets at fair value through other comprehensive income (OCI)	16	885,560	941,051
Financial assets at amortized cost (AC)	17	108,203	109,524
Equity financial instrument at fair value through other comprehensive income (OCI)	18	687	687
Assets held with the International Monetary Fund	19	244,941	242,611
Loans and advances measured at amortized cost (AC)	20	1,295	1,348
Receivables measured at amortized cost (AC)	21	4,063	2,332
Inventories	22	692	712
Investment property	23	5,684	5,684
Intangible investments	24	258	176
Property, plant and equipment	25	24,366	24,233
Employee benefits paid in advance	26	606	680
Other assets	27	343	333
Total assets		2,060,599	1,895,062
EQUITY AND LIABILITIES			
Banks and other financial institutions’ accounts	28	1,629,674	1,063,713
Government and other state organizations’ accounts	29	161,745	517,106
Liabilities to the International Monetary Fund	19	238,024	235,093
Other liabilities	30	881	1,163
Total liabilities		2,030,324	1,817,075
EQUITY	31		
Core capital		52,000	52,000
General reserves		2,830	1,131
Special reserves		1,123	1,123
Revaluation reserves for property, plant and equipment		16,577	16,636
Reserves for fair value of financial assets at fair value through other comprehensive income (OCI)		(48,163)	2,840
Reserves for fair value of equity instruments at fair value through other comprehensive income (OCI)		425	425
Provision for expected credit losses for financial instruments measured at fair value through other comprehensive income (OCI)		266	458
Unrealized revaluation gains		-	10
Unrealized revaluation losses		(35)	(45)
Retained earnings		5,252	3,409
Total equity		30,275	77,987
Total equity and liabilities		2,060,599	1,895,062

The accompanying notes on the following pages
form an integral part of these financial statement.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2022
(Thousands of EUR)

	Core capital	General reserves	Special reserves	Revaluation reserves for property, plant and equipment	Fair value reserves for financial assets measured at fair value through OCI	Unrealized revaluation losses / gains	Reserves of fair value for equity instruments measured at fair value through other comprehensive income (OCI)	Provisions for expected credit losses for securities at fair value through other comprehensive income (OCI)	Retained earnings/ (Accumulated losses)	Total
Balance as at January 1, 2021	50,000	571	635	15,286	7,806	(26)	390	400	5,118	80,180
Transfer of retained earnings (Note 31)	-	2,559	512	-	-	-	-	-	(3,071)	-
Increase in capital by reducing of general reserves (Note 31)	2,000	(2,000)	-	-	-	-	-	-	-	-
Distribution of profit in accordance with the Decision on Profit Distribution for 2019 and the Protocol on the Manner of Settlement of Inter-Commitments (Note 31)	-	-	-	-	-	-	-	-	(2,047)	(2,047)
Changes in the fair value of securities measured at fair value through other comprehensive income	-	-	-	-	(4,966)	-	-	-	-	(4,966)
Change in provisions for expected credit losses for securities measured at fair value through other comprehensive income	-	-	-	-	-	-	68	-	-	68
Transfer of revaluation reserves of property, plant and equipment				1,350						1,350
Unrealized revaluation gains	-	-	-	-	-	11	-	-	-	11
Unrealized revaluation losses						(19)				(19)
Change in fair value for equity instruments measured at fair value through other comperhensive income (OCI)	-	-	-	-	-	-	-	25	-	25
Use of special reserves			(24)							(24)
Profit for the current year	-	-	-	-	-	-	-	-	3,409	3,409
Balance as at December 31, 2021	52,000	1,130	1,123	16,636	2,840	(34)	458	425	3,409	77,987

STATEMENT OF CHANGES IN EQUITY (Continued)
Year Ended December 31, 2022
(Thousands of EUR)

	Core capital	General reserves	Special reserves	Revaluation reserves for property, plant and equipment	Fair value reserves for financial assets measured at fair value through other comprehensive income (OCI)	Unrealized revaluation losses / gains	Reserves of fair value for equity instruments measured at fair value through other comprehensive income (OCI)	Provisions for expected credit losses for securities at fair value through other comprehensive income (OCI)	Retained earnings/ (Accumulated losses)	Total
Balance as at January 1, 2022	52,000	1,130	1,123	16,636	2,840	(34)	458	425	3,409	77,987
Transfer of retained earnings (Note 31)	-	1,700	-	-	-	-	-	-	(1,700)	-
Distribution of profit in accordance with the Decision on Profit Distribution for 2021 and the Protocol on the Manner of Settlement of Inter-Commitments (Note 31)	-	-	-	-	-	-	-	-	(1,699)	(1,699)
Changes in the fair value of securities measured at fair value through other comprehensive income	-	-	-	-	(51,003)	-	-	-	-	(51,003)
Change in provisions for expected credit losses for securities measured at fair value through other comprehensive income	-	-	-	-	-	-	(192)		-	(192)
Transfer of revaluation reserves of property, plant and equipment	-	-	-	(59)	-	-	-	-	57	(2)
Unrealized revaluation gains	-	-	-	-	-	(11)	-	-	-	(11)
Unrealized revaluation losses	-	-	-	-	-	10	-	-	-	10
Profit for the current year	-	-	-	-	-	-	-	-	5,185	5,185
Balance as at December 31, 2022	52,000	2,830	1,123	16,577	(48,163)	(35)	266	425	5,252	30,275

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

STATEMENT OF CASH FLOWS
Year Ended December 31, 2022
(thousands of EUR)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		5,684	3,704
Fee receipts		13,989	12,682
Other receipts		1,013	837
Fee expenses		(307)	(212)
Interest expense		(1,573)	(1,736)
Payments to employees		(9,186)	(8,726)
Payments to suppliers		(2,773)	(2,993)
Net inflow of loans and advances		140	130
Net outflow of financial assets measured at fair value through other comprehensive income (OCI)		125	(185,687)
Net inflow/(outflow) of financial assets measured at amortized cost (AC)		3,125	1,304
Net (outflow)/inflow from other assets		-	(217)
Net outflow of the accounts of banks and other financial institutions		565,961	319,595
Net inflow of Government and other organizations' accounts		(355,362)	(383,201)
Net inflow from operating activities		220,836	(244,520)
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows from purchase of fixed assets		(825)	(123)
Inflows from sale of fixed assets		(131)	(81)
Net cash used in financing activities		(956)	(204)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of distributed result - transfer to the budget of Montenegro		(1,699)	(1,592)
Net outflow of cash used in financing activities		(1,699)	(1,592)
Effect of foreign exchange gains and losses		28	29
Net increase in cash and cash Equivalents		218,209	(246,287)
Cash and cash equivalents, beginning of year		565,691	811,978
Cash and cash equivalents, end of year	33	783,900	565,691

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2022

1. FOUNDATION AND ACTIVITY OF THE BANK

The Central Bank of Montenegro (hereinafter: the "Bank" or "CBM") was founded under the Law on the Central Bank of Montenegro (Official Gazette of RM, no. 52/00, 53/00, 47/01 and 4/05), adopted by the Parliament of Montenegro in November 2000.

The Parliament of Montenegro enacted a new Central Bank of Montenegro Law (Official Gazette of Montenegro, no. 40/10, 46/10, 6/13 and 70/17) in October 2017 (hereinafter: "the CBM Law") stipulating the Central Bank of Montenegro's operations.

The status, objectives, functions, performance and organization of the CBM are regulated by the Constitution of Montenegro and the CBM Law.

Pursuant to Article 143 of the Constitution of Montenegro, the CBM is an independent organization, responsible for monetary and financial stability and banking system functioning, governed by the Council of the Central Bank and managed by the Governor of the Central Bank.

The CBM Law created legal preconditions for adjustment of the status, objectives, functions and organization of the CBM to Article 143 of the Constitution of Montenegro in the manner that at the same time optimizes governing and managing the CBM and preserves its independence.

The CBM Law also enabled compliance of the CBM functions and operations with the general principles relating to the operations of national central banks as defined by the relevant European Union regulations, primarily the provisions of the Treaty on the Functioning of the European Union and provisions of the Protocol No. 4 on the Statute of the European System of Central Banks and of the European Central Bank.

The CBM Law defines that CBM shall perform the following functions:

1) oversee the maintenance of stability of the financial system as a whole and pass the pertinent regulations and measures;
2) issue licenses and approvals to banks and financial institutions and supervise banks and financial institutions;
3) carry out bankruptcy and liquidation proceedings against banks and financial institutions;
4) regulate and oversee the national and international payment systems;
4a) issue authorizations for the provision of payment services to payment institutions and control the payment institutions, in accordance with the law;
4b) issues authorizations for issuing electronic money and for providing payment services to electronic money institutions and exercises control of electronic money institutions, in accordance with the law;
4c) arranges business of financial leasing, factoring, purchase of receivables, micro-loans issuance and credit-guarantee operations, issues work permits and exercises control of persons engaged in such work, in accordance with law;
5) may be a payment system owner and operator and a participant in other payment systems;
6) license payment systems other than the one it operates and oversee these payment systems;
7) manage the foreign reserves;
8) act as payment and/or fiscal agent towards international financial institutions and may be a representative of Montenegro in international financial institutions;
9) perform macroeconomic analyses, including monetary, fiscal, financial and the balance of payments analyses, and tender economic policy recommendations to the Government;
10) identify, analyses and assess the impact of certain factors on the financial system stability as a whole, which are in accordance with this law and law governing statistics and statistical system;
11) collect and statistically process data and information of importance for the achievement of objectives and the exercising of functions of the Central Bank; which are in accordance with this law and the law governing the statistics and the statistical system;
11a) performs the tasks of protecting the rights and interests of consumer loan users, payment service users and electronic money holders, in accordance with the law;
12) set up the information system required for undisturbed exercising of its functions;
13) perform transfers in the national and international financial markets;
14) accept deposits of banks, state bodies and organizations and financial institutions and other parties in accordance with the regulations;
15) open accounts for banks and financial institutions, state bodies and organizations, foreign banks, central banks, international financial institutions, organizations donating funds to state bodies and organizations, and other entities in accordance with the law and other regulations, and provide financial services for those accounts;
16) pass regulations and measures pursuant to its authority granted under this and other law;
17) perform other activities in accordance with this and other law.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2022

1. FOUNDATION AND ACTIVITY OF THE BANK (Continued)

The CBM Law regulates the status, goals, functions, performance and organization of the Central Bank:

- monetary and other instruments;
- foreign reserves of Montenegro;
- provision and protection of banknotes and coins and redemption of rare and original currency;
- responsibility for the functioning of the banking system;
- payment transactions and payment systems;
- collection, processing and dissemination of data and information, including statistical data and information;
- relationships between the CBM and other state bodies and organizations;
- governance and management of the Central Bank;
- capital, assets, income and expenses of the CBM;
- internal audit of the CBM.

Pursuant to the Law on CBM, the Council has eight members. Council members are the governor, three vice governors and four members who are not employed with the Central Bank. The Governor is appointed by the Parliament at the proposal of the President of Montenegro. The Governor is appointed for a period of six years and may be appointed two times in a row. The Vice Governors are appointed by the Parliament at the Governor's proposal.

Four members of the Council, who are not employed with the Central Bank, are appointed by the Parliament at the proposal of the working body of the Parliament in charge of finance affairs. The Vice Governors and members of the Council, who are not employed with the Central Bank, are appointed for a period of six years and may be appointed two times in a row.

With regard to the CBM capital and reserves the CBM Law defines the following:

- The Bank's capital shall comprise of the core capital and reserves;
- The Bank's core capital shall amount to EUR 50 million;
- The Bank's core capital shall be the state property;
- The core capital may be increased by amounts suggested by the CBM. Increase of the core capital of the Central Bank is performed from the funds of the general reserves. If the funds of the general reserves are not sufficient for providing the determined amount of increase of core capital, the missing funds can be provided from the Budget of Montenegro,
- The CBM reserves shall comprise general, special and revaluation reserves, where general reserves shall be used for coverage of losses incurred by the Bank;
- The Bank may establish special reserves in order to cover specific operating expenses.

The amount of the core capital of EUR 50,000 thousand is determined by the Law on CBM for the purpose of creating adequate material preconditions for performance of the defined CBM functions. The amount of the core capital was determined based on the Bank's responsibility for maintaining financial and monetary stability by using monetary and other instruments available in the circumstances (approval of loans to banks, open market operations, creditor of last instance, etc.), and with the view to creation of conditions for performance of other CBM functions, imposed the need for the establishment of core capital in the planned amount.

The core capital is ensured from the funds of the Central Bank's founding capital as established by the Law on the Central Bank of Montenegro ("Official Gazette of M", Nos. 40/10, 46/10, 6/13 and 70/17) and from the general reserves that are available to the Central Bank on the date of entry into force of this Law. If those funds are not sufficient to ensure the Central bank's core capital at a set amount, the remaining required funds will be provided from the budget of Montenegro.

The Head Office of the Central Bank is located in Podgorica, at the following street address: Bulevar Svetog Petra Cetinjskog 6.

As of December 31, 2022, the CBM had 384 employees (December 31, 2021: 382 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENT

2.1. Basis of Preparation and Presentation of the Financial Statements

(a) Statement on Financial Statements' Compliance

The accompanying financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

The presentation of the financial statements in accordance with IFRS requires the Bank's management to use certain critical accounting estimates and assumptions in the process of implementing the Bank's accounting policies. The areas demanding higher-level or higher-complexity estimates, or the areas where the estimates and assumptions are materially significant for the financial statements are disclosed in Note 2.1.(d).

The Bank consistently adhered to the accounting policies in line with IFRS that are disclosed in the following paragraphs for all the periods presented in the accompanying financial statements.

Financial statements are prepared in accordance with the going concern principle, which implies that the CBM will continue to operate in the foreseeable future.

In preparation of these financial statements prepared in accordance with IFRS, CBM applied the accounting policies disclosed in Note 3.

(b) Basis of Preparation of the Financial Statement

Financial statements are prepared in accordance with the historical cost method with the exception of financial assets measured at fair value through other comprehensive income (OCI), investment property valued at fair value, the property, plant and equipment carried out using a revaluation model as well as other financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. As at December 31, 2022 as well as at December 31, 2021, the Bank did not have any financial assets and liabilities measured at fair value through profit or loss.

(c) Use of Accounting Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires the usage of certain critical accounting estimates and assumptions that influence the effects of policies applied, and amounts of assets and liabilities, i.e. income and expense amounts stated over the reporting period. Estimates and assumptions are made based on historical experience and other factors, including expectations referring to the future events that are deemed reasonable in the circumstances where the results present a solid basis for appraisal of the carrying value of assets and liabilities and where other sources result in uncertainties. Actual future results may vary from these estimates.

Estimates and assumptions are subject to constant review. Changes to the accounting estimates are recognized in the current period if they relate to that period only or, both in the current period and the ensuing periods if the change effects both the current and the ensuing periods.

Special areas of estimation uncertainty and critical estimates in applying accounting policies that are of great importance for the amounts disclosed in the financial statements are disclosed in Note 5 to the financial statements.

The management continuously monitors the increased factors of uncertainty, including the Russian-Ukrainian war, global inflation and the danger of another recession in the euro area, which may significantly affect the financial performance of the Central Bank in the coming period.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENT (continued)

2.1. Basis of Preparation and Presentation of Financial Statement (continued)

Use of Accounting Estimates and Assumptions

Implementation of new standards and amendments to existing standards in force in the current year

A) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2022:

- IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments had no following impact on the financial statements of the Bank.

- IFRS 16 Leases-C**o**vid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.
The amendments had no following impact on the financial statements of the Bank.

B) New standards issued but not yet in effect

- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENT (continued)

2.1. Basis of Preparation and Presentation of Financial Statement (continued)

Implementation of new standards and amendments to existing standards in force in the current year

B) New standards issued but not yet in effect

- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest and fee Income and Expenses

Interest income and expenses arising from all interest-bearing financial instruments are recognized in the income statement within "interest income" and "interest expenses". The effective interest rate method is a method of calculating repayment costs of a financial asset or liability and of allocating interest income or interest expenses over the relevant period. The effective interest rate is the rate that accurately discounts estimated future cash payments or receipts over the expected life of the financial asset, or when appropriate, over a shorter time period, to the net present value of the financial asset or liability. When calculating interest rate, CBM estimates cash flows considering all the contractual terms of a financial instrument but does not consider future credit losses.

Fee income and expenses from banking services rendered or used, are recognized on the accrual basis when such services are invoiced and rendered. Fees and commissions primarily comprise bank charges for domestic payment transactions, fiscal agency services and other services CBM renders in accordance with the law on CBM. Fee and commission income and expenses, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate. Other income from fees and commissions is recorded at the moment of providing services. CBM had no income and expenses from fees and commissions on the issue of loans during the accounting period.

3.2. Operating Lease

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (leasing).
Assets leased out under operating lease are included in investment property in the statement of financial position. Lease income (net of any incentives granted to lessees) is recognized as income in the statement of profit and loss, on a straight-line basis over the lease term.

3.3. Foreign Currency Translation

Functional and Reporting Currency

Items included in the financial statements of CBM are measured using the currency of the primary economic environment the Bank operates in ("the functional currency''). The amounts in the financial statements are presented in thousands of EUR, the EUR being the functional and reporting currency of the Bank.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transaction. Foreign exchange gains and losses arising from settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies at the end of the year are recognized in the statement of profit and loss.

3.4. Taxes and Contributions

Income Taxes
In accordance with the Central Bank of Montenegro Law, CBM is exempt from income tax payment.

Indirect Taxes and Contributions

Indirect taxes and contributions are included in other operating costs. Tax amounts the CBM is obligated to pay are included in other liabilities as tax payables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Cash and Cash Equivalents

Cash and cash equivalents comprise funds with a maturity of less than three months from the date of acquisition, including cash in treasury and cash register, demand deposits and short-term placements with foreign banks. Cash equivalents also include financial assets measured at fair value through other comprehensive income (OCI) and position at the International Monetary Fund.

Cash, demand deposits and short-term placements with foreign banks as cash equivalents in EUR are recognized at nominal (fair) values. Subsequent measurement of deposits is carried out at amortized cost using the effective interest method.

Precious metals are measured at fair value derived from the precious metal prices on the world market as of the balance sheet date. The effects of the change in fair value are recognized in the statement of profit and loss.

Special Drawing Rights (SDRs) are estimated on the day of preparation of the financial statements at the SDR/EUR exchange rate published by the International Monetary Fund.

For the purposes of preparation of cash flow statements, cash and cash equivalents comprise funds with a maturity of less than three months from the date of acquisition, including cash in treasury and demand deposits and short-term deposits with foreign banks.

3.6. Financial Instruments

Financial Assets

(a) Classification and Measurement of financial assets

IFRS 9 introduces a new classification of financial assets and a new approach to their measurement, based on a business model for managing financial assets and cash flow characteristics.

In accordance with IFRS 9, financial assets will be classified in one of the three categories at initial recognition: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income (FVOCI) and financial assets measured at fair value through profit and loss (FVTPL).

Financial assets will be measured at amortized cost only if the following two conditions are satisfied:

- financial assets are held in a business model aimed at holding a financial asset up to the maturity date and collection of the contractual cash flows; and
- expected cash flows represent exclusively principal payments and interest calculated on the remaining amount of principal.

Financial assets will be valued at fair value through other comprehensive income only if the following two conditions are met:

- financial assets are held in a business model aimed at holding a financial asset for the purpose of collecting the contractual cash flows and for selling;
- expected cash flows represent exclusively principal payments and interest calculated on the remaining amount of principal.

At the initial recognition of equity instruments that are not held for trading, the Bank may make an irrevocable election that all changes in the fair value of these instruments are recognized in the other comprehensive income. This classification is made for each individual equity instrument.

Financial assets that do not meet the above conditions will be classified and valued at fair value through profit or loss (FVTPL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial instruments (Continued)

Financial Assets (continued)

(a) Classification and Measurement of financial assets

Financial assets that meet the requirements to be classified and valued at amortized cost or at fair value through other comprehensive income can be, by activating the fair value option through the profit and loss account, measured at fair value through profit or loss only if by doing so it eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are classified into one of the above categories at initial recognition. However, for financial assets owned by the Bank at the time of the initial application of IFRS 9, the business model assessment is based on applicable circumstances and facts at that time. Also, IFRS 9 allows a new classification as FVTPL or FVOCI on the date of the initial application of the standard, and allows or requires the change of the previous designation at FVTPL if the facts and circumstances on the date of the initial application of the standards indicate.

Subsequent measurement is determined by the classification of a financial asset.

Financial assets at amortized cost - The classification of financial assets at amortized cost shall be applied to debt securities that meet the requirements of the selected business model and the criteria of the cash flow test. Measurement at amortized cost requires the application of the effective interest rate method. Amortized cost of the financial asset is defined as the amount at which the financial asset or financial liability is valued at initial recognition, less principal repayment, plus or minus cumulative depreciation of any difference between the initial amount and the amount at the maturity date using the effective interest rate method and the financial assets adjusted for loss provisioning. Gains and losses on financial assets in this category are recognized in profit or loss. Gains and losses arising from changes in fair value are not recognized for financial assets that are classified in the category at amortized cost.

Financial assets at fair value through profit or loss - Assets measured at fair value through profit or loss are measured at fair value. All gains and losses arising as a result of changes in fair value are recognized in the profit and loss account except for hedging instruments recognized as part of a hedging relationship. Gains and losses arising between the date of the last reporting period and the date of the disposal of assets do not represent special gains and losses on disposal. Such gains and losses arising prior to disposal, while the asset is measured at fair value through profit or loss, are recognized in the profit and loss account.

Financial assets at fair value through other comprehensive income - For debt instruments measured at fair value through other comprehensive income, fair value changes will be recognized in the other comprehensive income, while the following gains and losses will be recognized in the profit and loss account:

- Interest calculated using the effective interest rate method,
- Foreign exchanged gains and losses,
- Impairment gains and losses.

The Bank has determined the classification of financial assets on the basis of business model analysis and cash flow test.

Business Model

The Bank defined three basic business models for managing financial assets:

- Business model aimed at collecting contracted cash flows of financial assets;
- Business model whose objectives, in addition to collection of contracted cash flows of financial assets, also include the sale of financial assets and
- Business models with other strategies, including a business model of holding for trading.

The management of the Bank determines the business models for managing financial assets.

Business Model Assessment

The Bank evaluates the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the manner of managing the business activities and the manner of reporting to the management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial instruments (Continued)

The information to be considered includes:

- Policies and goals that are defined for each of the portfolio of financial assets and the way they are applied in practice. Particular attention will be paid to assessing whether management's strategy is focused on collecting interest income, maintaining a specific interest rate profile, adjusting the maturity of financial assets with the maturity of financial liabilities from which these funds are financed, or the money management strategy directed at monetary flows from the sale of financial assets;
- The manner in which the profitability of the portfolio is monitored and the manner in which the management reports on these performances;
- Risks affecting the profitability of the business model and financial assets managed through the application of a particular business model, as well as the way in which these risks are managed and
- Frequency, volume and moment of sales in the previous period, reasons for sale and expectations for sale in the following period. However, information on sales activities will not be looked at in isolation, but as part of the overall assessment of how the set objectives for managing financial assets have been achieved and how the funds from the financial assets have been collected.

Financial assets held for sale or managed and whose profitability is measured on the basis of a change in fair value will be valued as FVTPL, since the objective of managing these assets is not the collection of contracted cash flows, nor is it the purpose collection and sale of contracted cash flows.

Assessment of solely payments of principal and interest feature

The Bank analyzes the cash flows of a financial asset immediately after acquiring or issuing a particular financial asset, in order to determine whether the cash flows of the financial asset are consistent with the underlying credit transaction, i.e. whether they relate exclusively to the collection of principal and interest on the unpaid principal.

The characteristics of the financial assets that lead to cash flows that are not only related to principal and interest payments will be ignored:

- If these characteristics have an immaterial effect on the total cash flows of the financial asset;
- If these characteristics are realized in business practice exclusively in the occurrence of events that are extremely rare, abnormal and have a very low probability of occurrence.

For the purposes of this assessment, the terms of principal and interest refer to the following definitions:

- principal represents the fair value of the financial asset as at the date of initial recognition;
- interest which satisfies conditions of above-mentioned models consists of the following elements:
  - time value of money;
  - credit risk associated with principal for a certain period of time;
  - other basic risks and costs of ¡ending;
  - profit margin of the Bank.

Financial assets that do not meet the above conditions will be classified and measured at fair value through profit or loss.

In case of modifications to the contractual provisions determining the cash flows of the financial asset held by the Bank, the Bank will make an assessment of whether these changes are material and whether they create conditions in which the Bank must derecognize a financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

The assessment of the effects of changes in cash flows will be based on qualitative and quantitative analysis. The Bank first performs qualitative analysis and assesses whether any of the following events occurred:

- change the currency of a financial asset;
- consolidating more financial resources into one;
- change of the contracting party that is the recipient of the funds that the Bank has placed or is the issuer of the financial asset that the Bank possesses;
- the introduction of additional clauses which imply that future cash flows will not consist solely of principal payments and interest on outstanding principal.

In the event that any of the above conditions are met, the Bank derecognizes the financial asset, recognizes the gain or loss from the derecognition.

In the event that the above conditions are not fulfilled, the Bank conducts a quantitative analysis which implies a comparison of the net present value of the financial asset before the aforementioned changes and the net present value of the cash flows arising from the financial asset after the changes. The difference between the present value of a financial asset before and after the change is recognized as a loss or gain as a result of modification of financial assets. This loss or gain will be linearly amortized over the remaining life of the financial asset.

(b) Impairment of financial assets

The Bank assesses the impairment of financial assets (hereinafter: impairment) on the basis of the expected credit losses (ECL) model in order to predict future losses. The Bank recognizes provisions for expected credit losses for financial assets that are measured at amortized cost and at fair value through other comprehensive income. The Bank recognizes impairment losses on each reporting date.

The Bank will define in its internal documents the financial assets impairment methodology framework.

On each reporting date, the Bank will assess whether there has been a significant increase in credit risk in respect of financial assets in relation to the initially established credit risk for each individual asset.

If there has been a significant increase in credit risk in terms of the preceding paragraph, the Bank will measure the provision for impairment of financial assets in the amount equal to the expected credit losses on a lifelong level. If there is no increase in credit risk for financial assets, impairment provisions will be measured at the 12-month level.

In addition, the Bank may assume that the credit risk of a financial asset has not significantly increased in relation to the moment of initial exposure to credit risk, if it is determined that this asset is of a low credit risk on the reporting date.

The credit risk for a financial asset is considered to be low in terms of the preceding paragraph if it has a low risk of default, or the borrower has a great capacity to regularly repay its contractual monetary liabilities in the short and long term.

The Bank recognizes the gain or loss on the impairment loss in the profit and loss account in the amount of expected credit losses (or cancellations) that is necessary to bring the impairment allowance at the reporting date into line with the amount to be recognized.

The Bank may choose a simplified approach to calculate the expected credit losses for trade receivables, lease receivables and contracted assets.

Recognition of interest income on financial assets-Interest income on financial assets is calculated using the effective interest rate method, by applying the effective interest rate to the gross carrying amount of a financial asset. The effective interest rate is the rate that accurately discounts the estimated future cash flows through the expected duration of a financial asset or a financial liability to the gross carrying amount of the financial asset or to the amortized cost of the financial liability. The calculation does not take into account the expected credit loss, but includes transaction costs, premiums or discounts and fees that are an integral part of the effective interest rate. This approach to the recognition of interest income corresponds to financial resources at twelve-month or lifetime stages (Stage 1 and 2).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Exception to the aforementioned approach to the recognition of interest income, the Bank applies when:

- The purchased or independently issued financial asset is impaired. For such financial assets, the Bank will apply the lending adjusted effective interest rate to the amortized cost of the financial asset from the moment of initial recognition and
- A financial asset that has not been purchased or independently issued as impaired has already been impaired in the coming period. For such financial assets, the Bank will apply the effective interest rate to the amortized cost of the financial asset in the following reporting periods.

For purchased and independently issued financial assets that are impaired (on purchase or subsequently), the Bank will apply a lump-adjusted effective interest rate, which is calculated on the basis of the amortized cost of the gross carrying amount of the financial instrument and includes the impact of the expected credit loss on the estimated future cash flows. The two exemptions listed above correspond to the Stage 3 of the impairment of financial instruments. For such financial assets, the Bank will apply the effective interest rate to the net carrying amount of the financial asset.

The Bank has defined an internal impairment methodology under IFRS 9.

In accordance with the investment policy guidelines and the Bank's existing portfolio, the financial assets of the Bank (with defined exceptions), which are within the scope of impairment, will be classified as low risk portfolios

The credit risk for a financial instrument is considered to be low if there is a low likelihood of default (default), or the borrower has a large capacity to regularly repay its contractual monetary liabilities in the short and long term. In determining the low credit risk, the Bank will use its internal assessment that is consistent with the global definition of low credit risk or external rating (e.g., investment grade financial instruments).

At initial recognition, all financial assets that fall within the scope of IFRS 9 are allocated in Stage 1. All financial assets in the Bank's portfolio are in stage 1. In accordance with the Bank's impairment algorithm, all financial assets are considered to be low credit risk and require the calculation of 12 - month expected losses. Significant increase in credit risk in relation to initial recognition leads to the transition to Stage 2. The eventual occurrence of the default status or objective evidence of impairment leads the assets to stage 3.

For financial instruments for which a significant increase in credit risk is determined, or if some of the following criteria that indicate the transfer of exposure to stage 2 are fulfilled:

- Downgrade on the composite rating scale for more than 2 ratings and / or
- Reduction below BBB- rating in the composite rating scale;
- Minimum delay for more than 30 days in continuity.

The Bank may determine for individual financial Instruments the allocation of a financial instrument in stage 2 based on the analysis. The above criteria refer only to financial instruments that are not allocated in stage 3 or for which there is no objective evidence of impairment. The criterion for stage 3 allocation is to assign the default status to a financial instrument.

The Bank will record impairment for debt securities measured at FVOCI, depending on whether they have been classified in stage 1, 2, 3. However, the expected credit losses will not diminish the carrying amount of these financial assets in the financial position statement, which will remain at fair value. Instead, the amount equal to value adjustments that would arise in the case of measurement at amortized cost will be recognized under other comprehensive income (OCI) as an accumulated impairment loss, with an appropriate calculation in the income statement.

<u>Establishing ECL</u>

Individual calculation of impairment

According to IFRS 9, the Bank is required to calculate the expected credit losses of a financial instrument in a manner that reflects the objective and probable weighted amount determined by evaluating a range of possible outcomes / scenarios. For this reason, for an individual approach, the assessment of impairment at the Bank will be used through three different scenarios.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

In measuring the expected credit losses, the Bank is not required to determine any possible scenario. However, it is obliged to take into account the risk or likelihood of a credit loss in a way that reflects the likelihood of a credit loss and the likelihood of no credit loss, even if the likelihood of a credit loss is very low.

The amount of impairment for exposures subject to an individual assessment is calculated as the difference between the carrying amount of the financial instrument and the probability weighted present value of the estimated cash flows discounted at the effective interest rate.

Definition of default

Criteria for default status are objective evidence of impairment, in particular:

- significant financial difficulties of the issuer of securities;
- breach of contractual obligations in terms of delinquency in principal and interest (minimum delay of more than 90 days in continuity);
- possible restructuring or modification of the existing conditions for repayment of a financial instrument for reasons relating to the financial difficulties of the issuer;
- probability of bankruptcy and / or liquidation or other forms of financial reorganization;
- lack of an active trading market.

In accordance with the above, the Bank will mark the financial instruments in which it identifies the criteria for the status of default. In accordance with classification in phases, all exposures that would be in default status, must be classified in stage 3.

Inputs to assess whether a particular financial asset is in default and their significance can change over time in line with changing circumstances.

Credit ratings and forward-looking information

In its reports on exposure to risk and performance of the international reserves portfolio, the Bank will conduct regular monitoring of its financial assets, which also analyzes forecasts of rating movements in the short and long term. Accordingly, the inclusion of future information in the calculation of expected losses will be made by adjusting the probability of default.

Given that rating prediction is monitored through three different rating agencies (S&P, Moody's and Fitch), the available forecasts of the agencies are weighted with the same probability, which is further reflected in the composite rating. If the prediction of the composite rating on a short-term or long-term basis is less than 2 scores (notches) from the current rating, the weakest available rating agencies, or risk parameters associated with that rating, are taken into account in calculating expected credit losses.

The application of forward-looking information should be enabled and result in:

- Objective results for the amount of expected credit loss;
- No delay in recognizing the expected credit loss.

Movement of macroeconomic indicators is cyclical; therefore, to describe the economic behavior of a portfolio, it is sufficient to observe a selected macroeconomic indicator that has the greatest influence on the basis of the portfolio structure (e.g. GDP, inflation rate, etc.). In addition, rating agencies' ratings methodically include macroeconomic parameters.

Since the Bank has in its portfolio financial instruments from issuers of different structures and geographic distribution, it is not possible to create a single model of future information that would include macroeconomic information, which would describe the foreseen behavior of financial instruments in the future. Therefore, in order to include macroeconomic forecasts in the model for calculating the expected credit losses, the Bank relies on forecasting changes in the rating for individual instruments (issuers) in the portfolio, in a way that incorporates the prediction of the direction of the rating.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

(c) Derecognition of financial assets

Derecognition of a financial asset is made only, and only if:

- termination of the right to collect the expected cash flows;
- transfer of the right to financial assets to another entity;
- significant changes in the cash flows of the financial asset

With the termination of the right to collect cash flows, it is considered that all initially contracted cash flows have been collected and that the financial asset ceases to exist.

In case of transfer of the right to a financial asset to another entity, the Bank considers the elements of transfer of risks and benefits, as well as controls over the financial asset.

By transferring all risks and benefits associated with a financial asset to another entity, the Bank ceases to recognize that asset.

If the Bank has transferred a portion of the risks and benefits associated with a financial asset, it is necessary to determine whether the Bank continues to have control over that asset. If the Bank has not maintained control over a financial asset, it should cease to recognize the asset, otherwise it will continue to recognize the asset as long as a part of the risk is related to the Bank.

Financial Liabilities

Financial liabilities are initially recognized at fair value, which is usually the value of inflows netted of the transaction costs incurred. Financial liabilities are subsequently measured at amortized cost, using the effective interest rate method. The financial liability is derecognized when the obligation is settled, cancelled or transferred to a third party.

3.7. Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance, which are held for use in work processes. The structure of intangible assets consists of: software, licenses, other rights and intangible assets under construction.

Initial measurement of intangible assets is carried at cost increased by the associated acquisition costs consisting of all costs that can be directly attributed to the asset being put into use.

Acquired computer software licenses are capitalized in the amount of expenditure incurred upon purchase and bringing the software into use. Expenses relating to new computer software development are recognized when incurred. Expenditure directly attributable to the development of the existing software applications under CBM control are capitalized only when it is likely that future economic benefits associated with investments into such software will flow to the Bank and when the expenses can be reliably measured. Directly attributable expenses include staff costs of the software development team.

Costs of improving computer program performances so that they extend beyond their original specifications are recognized as increase in value of the computer software in usage. Computer software is amortized on a straight-line basis, over its estimated useful life, but no longer than five years.
Other expenditure arising from development and/or maintenance of computer software programs is recognized as expense when incurred.

Intangible assets are reviewed for impairment whenever events or changes in the circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized in the amount whereby an asset's carrying amount is higher than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Property, Plant and Equipment

CBM's property, plant and equipment are stated at fair value, as described below, less accumulated depreciation.

Land is stated at revaluation value and is not depreciated.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the CBM and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to statement of profit and loss of the reporting period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Depreciation of major categories for 2022 of property, plant and equipment is calculated by applying the following depreciation rates determined based on their estimated useful lives:

Major categories of property, plant and equipment	Depreciation rate after revaluation(%)
Buildings	1.43 -3.03
Ancillary facilities	1.39 -20.00
Substations, power stations and generators	5.00 – 33.33
Money handling equipment	7.69 -25.00
Computers and related equipment	7.14 -100.00
Mobile phones	33.33 -100.00
Telecommunication and postal equipment	11.1 -50.00
Office furniture and equipment	7.69 – 100.00
Motor vehicles	8.33 – 25.00

Gains and losses on disposals of property, plant and equipment are determined as a difference between the cash receipt and the carrying value and are recognized in the income statement as other operating expenses.

Residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each statement of financial position date. Fixed assets are reviewed for impairment whenever events or changes in the circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized in the amount whereby an asset's carrying amount is higher than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the changes in fair values of the assets being revalued. When an asset is revalued, its accumulated revaluation is restated proportionately to the changes in its gross carrying amount up to the date of new revaluation, so that the carrying amount of the asset after revaluation equals its revalued amount. The appraisal was carried out as of May 2021.

Increase in the carrying amount of the property, plant and equipment arising on revaluation is credited to revaluation reserves, within equity. Decrease that offsets previous increase in the value of the same asset is charged against revaluation reserves directly; all other decreases are charged to the statement of profit and loss. The revaluation reserve is transferred directly to retained earnings/(accumulated losses) upon the asset's disposal or sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Investment Property

Investment property comprises business premises not occupied by CBM but rented out mainly to commercial banks. Investment property is stated at cost. Cost of purchased investment property comprises its purchase price and any directly attributable expenditure. Investment properties are subsequently measured at fair value estimated by an independent appraiser, while profit or loss derived from changes in fair value shall be recognized in favor of or against the statement of profit and loss.

Gains or losses that occur during the withdrawal from use (when no future economic benefits are expected from the disposal of investment property) or the sale of investment property are determined as the difference between the sales proceeds and the carrying amount of investment property in the period of withdrawal from the use of the asset and are recognized in the statement of profit and loss as part of operating income or as part of operating expenses.

Some properties include a portion held for the purpose of realizing lease income or capital value increase, while the other part is held for use for own, administrative or service purposes. If these parts can be separately sold, the Bank separately records and calculates those. If the parts can not be separately sold, the property will be an investment property only if an insignificant portion (less than 5%) of that property is intended for use for the purposes of performing the Bank's regular business activities or for administrative purposes. Fair value determining is supported by market evidences. The fair value of an investment property is based on an independent appraiser estimate that has recognized and relevant professional qualifications and recent experience with the location and estimated investment property category.

3.10. Provisions

The provision will be recognized when:

(a) the Central Bank of Montenegro has a current liability (statutory or derived) as a result of the past event;
(b) it is likely that the outflow of funds representing economic benefits will be required to settle liabilities; and
(c) a reliable estimate of the amount of the liability can be made;
(d) is a result of impairment of financial instruments, i.e. expected credit losses at twelve-month or lifetime level.

If these conditions are not met, the provision will not be recognized but the liability shall be disclosed as contingent one. Provisions may differ from other liabilities such as operating liabilities and accruals/deferrals since there is uncertainty as to the maturity or the amount of future expenditure required for settlement.

For provision purposes, an outflow or other event shall be considered likely, when it is more likely to it will occur, i.e. the likelihood that an event will occur is greater than the probability that it will not (more than 50%).

Provisions are made on the basis of best estimates, using prior experience, taking into account known circumstances and available information. Provisions are reviewed on the balance sheet date and adjusted so that they represent the best present estimate. Provisions are cancelled in favor of revenue if it is estimated that no outflow of funds will be made to settle the liability. When the outflow of funds is made on the basis of a liability for which the provision is made, the actual expenditure is not recognized as an expense, but the provision of the previously recognized provision is cancelled.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Employee Benefits

a) Retirement Benefits

CBM pays the following mandatory contributions for all employees to the state funds: pension and disability insurance contribution, healthcare insurance contribution and unemployment insurance contribution. Pension and disability insurance contributions paid by the employee are determined by applying the rate of 15% to the gross salary amount. Pension and disability insurance contributions paid by the employer are determined by applying the rate of 5.5% to the gross salary amount.

Contributions paid are recognized as expenses when incurred and are stated in the statement of comprehensive income within staff costs. CBM is under no obligation to pay any contributions other than the aforedescribed contributions.

b) Severance/Redundancy Payments

Severance or redundancy payments are paid upon employment termination by CBM before retirement or when an employee accepts consensual employment termination in exchange for severance or redundancy payment. CBM recognizes severance or redundancy payments when it is evidently committed to either terminate employment according to a detailed official plan without any possibility of withdrawal; or providing redundancy benefits in order to encourage voluntary redundancy and reduce the number of employees. Benefits falling due within periods exceeding 12 months after the statement of financial position are discounted to the present value.

c) Residential Housing Loans

In accordance with the Employee Housing Rules of Procedure and the Decision of the Employee Housing Commission, CBM approves housing loans to the employees. Housing loans are initially recognized at fair value and subsequently measured at amortized cost based on the effective interest rate. The difference between the initial fair value of the loans and the cash disbursed to the beneficiary employees is recognized as prepaid employee benefits within long-term receivables from employees. The prepaid employee benefits are amortized over the benefit period. The benefit period is the expected service life of the employee that cannot exceed the term of the loan. If the employees terminated employment with the Bank before the end of their working life, the funds recognized at that moment as prepaid benefits are written off and the related loss is recorded in the statement of profit and loss.

d) Bonuses

CBM recognizes the liability and expense for bonuses disbursed to employees in accordance with the Rules on the evaluation of staff performance in CBM.

3.12. Core Capital and Reserves

The new Central Bank of Montenegro Law defines that the Bank's capital shall comprise the core capital and reserves and that the minimum core capital amount shall total EUR 50,000 thousand.

In accordance with the CBM Law, the capital was transformed whereby the founding capital and general reserves were converted into the core capital. The new law introduced new categories of reserves: general, special and revaluation reserves.

As of December 31, 2022, the core capital of the Bank amounted to EUR 52,000 thousand.

3.13. Fair Value

Fair value is defined as an amount an asset can be exchanged for or a liability settled with in a transaction between well informed and willing counterparties.

Fair value is the price achieved in the sale of assets or transfer of liabilities in a transaction with a market participant at the main market, ie. the market with the highest turnover and the most intensive activities of the claimed property and liability. If there is no major market, it is used the winning market price, ie. the market in which the entity could achieve the best price.

The fair value of non-financial asset is measured by the maximum and the best possible use with market participant. If the market or other factors do not indicate otherwise, it is assumed that the current use of resources with the entity is the maximum and the best possible one.

The fair value of a liability or equity instrument of the entity is determined by assuming that the instrument be transferred to the measurement date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Fair Value (Continued)

When transactions are directly visible in the market, the determination of fair value is relatively easy, and if not, three shall be used there valuation techniques that operators may use in determining the fair value, as follows:

- •Market Approach - the CBM uses prices and other pertinent information from the market transactions of identical or comparable (i.e., similar to) assets, an identical or comparable (ie. the similar) liabilities or a group of property and liabilities;
- •Revenue (Income) Approach - the CBM reduces the future amounts (i.e., cash flows or revenues and expenditure) to a current (i.e. discounted) amount.
- •Cost Approach - valuation technique which results in an amount that would be required at the present time to replace the service capacity of an asset (often referred to as current replacement cost).

CBM has an obligation to disclose all information related to the fair value of assets and liabilities for which there is available market information and that are materially different from the carrying value and the fair value. The management of CBM considers that the carrying value of assets and liabilities does not differ from the fair value.

3.14. Inventories

Inventory materials include all inventories of materials, spare parts, tools and fixtures that are generally written off at the moment of giving in use. Inventories of office and other materials are recognized at cost, plus the purchase associated costs. The calculation of the inventories outflow is made using the weighted average price.

The fixtures shall mean:

- an inventory of the value less than EUR 200 and with useful life shorter than one year
- an inventory that is fully written off when issued for use and no value adjustments shall be then made.

The fixture is initially recognized at cost plus any purchase associated costs. When issuing the fixtures into use, a 100% write off is made and recognized as the expense of the period in which the write-off was made.

3.15. Other financial income and expenses

Other financial expenses are expenses incurred as a result of payment of negative interest rate on deposits and securities and other financial expenses related to performing financial operations and investing in securities.

Other financial income includes income from other financial income related to performing financial operations and investing in securities.

3.16. Library Fund

The initial measurement of a library fund is carried at cost and is not subject to depreciation.

4. FINANCIAL INSTRUMENTS

4.1. Risk Management

Owing to the nature of its activities, the Bank is exposed to the following major risks:

- Credit risk,
- Market risk (which includes the interest risk, currency risk and other market risks),
- Liquidity risk and
- Operational risk.

Risk exposure is inherent in the Bank's business operations, and operational risks are their inevitable consequences. It is therefore CBM's objective to achieve appropriate balance between the risks taken and return aimed at and to minimize the potential adverse effects on its financial performance. CBM's adequate response to risks includes risk analysis, estimates and management of certain degree of risk.

CBM's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls and to monitor the risks and adherence to the limits set by means of reliable and up-to-date information system.

Risk management is conducted within the Financial and Banking Operations Sector under policies approved by the CBM Council. the Financial and Banking Operations Sector identifies and assesses financial risks in collaboration with other CBM departments. The Council defines and provides written procedures for overall risk management as well as written procedures to cover specific areas, such as foreign exchange rate risk, interest rate risk, liquidity risk and credit risk.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk

CBM is exposed to credit risk, which represents the risk of negative effects on the Bank's financial result arising from the transaction counterparty's inability to settle its committed liability.

Significant changes in the economies where the Bank's portfolio is concentrated might result in losses different from those stated at the statement of financial position date. Therefore, the management prudently manages the Bank's credit risk exposure. Credit risk exposure is mainly associated with placements with foreign banks and debt securities.

Credit risk management and risk exposure control are centralized within the Financial and Banking Operations Sector, and regularly reported on to the CBM Council.

The Bank is required to measure expected credit losses for financial assets measured at amortized cost and measured at fair value through other comprehensive income.

Assets Overview

			December 31, 2022
	Gross receivable	Adjustment	Net
I Balance Sheet items			
Cash and demand deposits	244,878	-	244,878
Time deposits with foreign banks	539,066	(43)	539,023
Financial assets at fair value through other comprehensive income (OCI)	885,560	-	885,560
Financial assets at amortized cost (AC)	108,295	(92)	108,203
Assets held with the International Monetary Fund	244,941	-	244,941
Loans and advances measured at amortized cost (AC)	1,328	(33)	1,295
Receivables measured at amortized cost (AC)	4,068	(5)	4,063
Total	2,028,136	(173)	2,027,963

Assets Overview

			December 31, 2021
	Gross receivable	Adjustment	Net
I Balance Sheet items			
Cash and demand deposits	147,822	-	147,822
Time deposits with foreign banks	417,909	(40)	417,869
Financial assets at fair value through other comprehensive income (OCI)	941,051	-	941,051
Financial assets at amortized cost (AC)	109,621	(97)	109,524
Assets held with the International Monetary Fund	242,611	-	242,611
Loans and advances measured at amortized cost (AC)	1,381	(33)	1,348
Receivables measured at amortized cost (AC)	2,336	(4)	2,332
Total	1,862,731	(174)	1,862,557

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

Cash and demand deposits

Assets Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Gross book value as of December 31, 2021	147,822	-	-	-	147,822
Changes in gross book value					
– Transfer to Stage 1	147,822	-	-	-	147,822
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	-	-	-
New financial assets	18,854,541	-	-	-	18,854,541
Derecognized financial assets	(18,757,485)	-	-	-	(18,757,485)
Gross book value as of December 31, 2022	244,878	-	-	-	244,878
Allowance for impairment as of December 31, 2022	-	-	-	-	-

Allowance for Impairment Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment as of December 31, 2021	-	-	-	-	-
Changes in allowance for impairment					
– Transfer to Stage 1	-	-	-	-	-
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	-	-	-
Increase in allowance due to change in credit risk	-	-	-	-	-
Decrease in allowance due to change in credit risk	-	-	-	-	-
New financial assets	(1)	-	-	-	(1)
Derecognized financial assets	1	-	-	-	1
Allowance for impairment as of December 31, 2022	-	-	-	-	-

Time deposits with foreign banks

Assets Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Gross book value as of December 31, 2021	417,909	-	-	-	417,909
Changes in gross book value					
– Transfer to Stage 1	417,909	-	-	-	417,909
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	-	-	-
New financial assets	13,951,707	-	-	-	13,951,707
Derecognized financial assets	(13,830,550)	-	-	-	(13,830,550)
Gross book value as of December 31, 2022	539,066	-	-	-	539,066
Allowance for impairment as of December 31, 2022	(43)	-	-	-	(43)

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (continued)

The table below analyzes the movement of allowance for impairment during the year by the classes of assets:

Allowance for Impairment Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment as of December 31, 2021	(40)	-	-	-	(40)
Changes in allowance for impairment					
– Transfer to Stage 1	(40)	-	-	-	(40)
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	-	-	-
Increase in allowance due to change in credit risk	-	-	-	-	-
Decrease in allowance due to change in credit risk	-	-	-	-	-
New financial assets	(114)	-	-	-	(114)
Derecognized financial assets	111	-	-	-	111
Allowance for impairment as of December 31, 2022	(43)	-	-	-	(43)

Financial assets measured at fair value through other comprehensive income

Assets Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Gross book value as of December 31, 2021	941,051	-	-	-	941,051
Changes in gross book value					
– Transfer to Stage 1	941,051	-	-	-	941,051
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	-	-	-
New financial assets	558,575	-	-	-	558,575
Derecognized financial assets	(614,066)	-	-	-	(614,066)
Gross book value as of December 31, 2022	885,560	-	-	-	885,560
Allowance for impairment as of December 31, 2022	-	-	-	-	-

Loans and advances measured at amortized cost (AC)

Assets overview	Stage 1	Stage 2	Stage 3	POCI	Total
Gross book value as of December 31, 2021	109,621	-	-	-	109,621
Changes in gross book value					
– Transfer to Stage 1	109,621	-	-	-	109,621
– Transfer to Stage 2	-	-	-	-	
– Transfer to Stage 3	-	-	-	-	
New financial assets	1,799	-	-	-	1,799
Derecognized financial assets	(3,125)	-	-	-	(3,125)
Gross book value as of December 31, 2022	108,295	-	-	-	108,295
Allowance for impairment as of December 31, 2022	(92)	-	-	-	(92)

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (continued)

The table below analyzes the movement of allowance for impairment during the year by the classes of assets

Allowance for Impairment Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment as of December 31, 2021	(97)	-	-	-	(97)
Changes in allowance for impairment					
– Transfer to Stage 1	-	-	-	-	-
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	-	-	-
Increase in allowance due to change in credit risk	-	-	-	-	-
Decrease in allowance due to change in credit risk	-	-	-	-	-
New financial assets	-	-	-	-	-
Derecognized financial assets	5	-	-	-	5
Allowance for impairment as of December 31, 2022	(92)	-	-	-	(92)

Loans and advances measured at amortized cost (AC)

Assets overview	Stage 1	Stage 2	Stage 3	POCI	Total
Gross book value as of December 31, 2021	1,348	-	-	-	1,348
Changes in gross book value	1,348	-	-	-	1,348
– Transfer to Stage 1			-	-	
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	33	-	33
New financial assets	226	-	-	-	226
Derecognized financial assets	(279)	-	-	-	(279)
Gross book value as of December 31, 2022	1,295	-	33	-	1,328
Allowance for impairment as of December 31, 2022	(10)	-	(23)	-	(33)

The table below analyzes the movement of allowance for impairment during the year by the classes of assets

Allowance for Impairment Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment as of December 31, 2021	(10)	-	(23)	-	(33)
Changes in allowance for impairment					
– Transfer to Stage 1	(10)	-	-	-	(10)
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	(23)	-	(23)
Increase in allowance due to change in credit risk	-	-	-	-	-
Decrease in allowance due to change in credit risk	-	-	-	-	-
New financial assets	(1)	-	-	-	(1)
Derecognized financial assets	1	-	-	-	1
Allowance for impairment as of December 31, 2022	(10)	-	(23)	-	(10)

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

The internal IFRS 9 Impairment Methodology defines that, in view of the structure and classification of portfolios, the Bank will consider any exposure that is assessed as impaired, i.e. at default, as an individually significant exposure and will apply an individual judgment. Accordingly, the Bank has determined that in the individual category of receivables from a former employee on an approved housing loan, the default status has been fulfilled and that there is objective evidence of impairment based on: breach of contractual obligations in terms of late payment of liabilities arising from the principal and interest, and objective estimates that the collateral is difficult to be traded and inadequately market assessed, i.e. with a high likelihood of uncollectability and uncertainty of the timing component of the eventual collateral realization (after exhaustion of legal options for collection, legal proceedings, etc.).

Based on the above argument, a claim for a housing loan from a former employee has the status of default, and is therefore classified in stage 3 and for the same calculated life expectancy loss for the life of this financial instrument.

The net present value of cash flows is calculated in Repayment and amortization plans. The probability of the scenario is determined by the change in the discount rate, as follows: in scenario 1, a discount rate of 4.87% is used, which is used for all receivables from employees on housing loans, which represents the average rate of all CG Eurobond issues, scenario 2 used a discount rate of 2.55% from the last CG Eurobond issue which is the lowest, while scenario 3 used the highest rate on CG Eurobond from 2010 of 7.875%. The amount of the recovery represents the probability-weighted present value, which is calculated as the product of the net present values of the expected cash flows of the three different scenarios and the associated values of those scenarios. Impairment was calculated by reducing the exposure at the time of default (gross book value) by the amount of the recovery.

Receivables measured at amortized cost (AC)

Assets Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Gross book value as of December 31, 2021	2,336	-	-	-	2,336
Changes in gross book value					
– Transfer to Stage 1	2,336	-	-	-	2,336
– Transfer to Stage 2	-	-	-	-	-
– Transfer to Stage 3	-	-	-	-	-
New financial assets	17,810	-	-	-	17,810
Derecognized financial assets	(16,078)	-	-	-	(16,078)
Gross book value as of December 31, 2022	4,068	-	-	-	4,068
Allowance for impairment as of December 31, 2022	(5)	-	-	-	(5)

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (continued)

The table below analyzes the movement of allowance for impairment during the year by the classes of assets:

Allowance for Impairment Overview	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment as of December 31, 2021	(4)	-	-	-	(4))
Changes in allowance for impairment					
– Transfer to Stage 1	-	-	-	-	-
– Transfer to Stage 2	(4)	-	-	-	(4)
– Transfer to Stage 3	-	-	-	-	-
Increase in allowance due to change in credit risk	-	-	-	-	-
Decrease in allowance due to change in credit risk	-	-	-	-	-
New financial assets	(7)	-	-	-	(7)
Derecognized financial assets	6	-	-	-	6
Allowance for impairment as of December 31, 2022	(5)	-	-	-	(5)

4.2.1. Credit Risk Measurement and Set Limit Control

(a) Placements with foreign banks

During 2022, the funds have been deposited by business banks that meet the frameworks set out in the International Reserves Management Guidelines.

(b) Debt securities

As of December 31, 2022, the liquid portfolio included, in addition to deposits, short-term government debt securities with an original maturity of up to one year. The issuers of securities that were part of the liquid portfolio at the end of this reporting period had a composite rating of AA, AA-, A- and BBB. It is important to note that only a limited portion of the assets of the liquid portfolio can be invested in short-term bonds issued by BBB+, BBB and BBB- composite rating issuers.

The International Reserve Management Guidelines, adopted in July 2019, have approved the formation of an operating portfolio. This portfolio includes corporate debt securities whose issuers have a minimum composite rating of A- and are within the chosen benchmark. In addition, these securities must meet all restrictions set forth in the Guidelines.

The investment portfolio is divided into: investment portfolio measured at fair value through other total result - available-for-sale, investment portfolio measured at amortized cost-to-maturity and special investment portfolio measured at amortized cost.

The structure and amount of the investment portfolio to maturity and the specific investment portfolio to maturity are strictly defined in the Guidelines.
The entire debt securities portfolio is denominated in EUR.

The portfolio of investments that is measured at fair value through the rest of the total result - available for sale, as of December 31, 2022, includes debt securities from selected benchmarks whose issuers have a minimum BBB composite rating (there is a minimum exposure limit). The exception is German covered bonds where a minimum composite rating of the issue is prescribed rather than the issuer and it must be A-.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (continued)

4.2.2. Financial instruments - assets and liabilities

The table below shows the net exposure of the Bank on the basis of financial assets and liabilities as of December 31, 2022 and 2021:

	(In thousands of EUR)	
	December 31, 2022	December 31, 2021
Financial assets		
Cash and demand deposits	244,878	147,822
Time deposits with foreign banks	539,023	417,869
Financial assets at fair value through other comprehensive income (OCI)	885,560	941,051
inancial assets at amortized cost (AC)	108,203	109,524
Assets held with the International Monetary Fund	244,941	242,611
Loans and advances measured at amortized cost (AC)	1,295	1,348
Receivables measured at amortized cost (AC)	4,063	2,332
	2,027,963	1,862,557
Financial liabilities		
Banks and other financial institutions' accounts	1,629,674	1,063,713
Government and other state organizations' accounts	161,745	517,106
Liabilities to the International Monetary Fund	238,024	235,093
Other liabilities	200	597
	2,029,643	1,816,509

The tabular overview shows the connection between the items of the statement of financial position and the categories of financial instruments as of December 31, 2022:

	Notes	Classified at FV	Classified at AC	Total
Financial assets				
Cash and demand deposits	14	-	244,878	244,878
Time deposits with foreign banks	15	-	539,023	539,023
Financial assets at fair value through other comprehensive income (OCI)	16	885,560	-	885,560
Financial assets at amortized cost (AC)	17	-	108,203	108,203
Assets held with the International Monetary Fund	19	-	244,941	244,941
Loans and advances measured at amortized cost (AC)	20	-	1,295	1,295
Receivables measured at amortized cost (AC)	21	-	4,063	4,063
		885,560	1,142,403	2,027,963

	Notes	Classified at FV	Classified at AC	Total
Financial liabilities				
Banks and other financial institutions' accounts	30	-	1,629,674	1,629,674
Government and other state organizations' accounts	31	-	161,745	161,745
Liabilities to the International Monetary Fund	32	-	238,024	238,024
Other liabilities	34	-	200	200
		-	2,029,643	2,029,643

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.3. Maximum Exposure to Credit Risk

The following table presents the maximum exposure to credit risk as of December 31, 2022 and December 31, 2021.

	In thousand EUR	
	December 31, 2022	December 31, 2021
Cash and demand deposits	244,878	147,822
Time deposits with foreign banks	539,023	417,869
Financial assets at fair value through other comprehensive income (OCI)	885,560	941,051
Financial assets at amortized cost (AC)	108,203	109,524
Loans and advances measured at amortized cost (AC)	1,295	1,348
Receivables measured at amortized cost (AC)	4,063	2,332
Total	1,783,022	1,619,946

As seen from the table above, the most significant exposure to credit risk is arising from financial assets measured at fair value through other comprehensive income (OCI) 50% (2021: 58%), while 30% of the total maximum exposure as of December 31, 2022 is arising from deposits of foreign banks(2021: 26%). The remainder of the total maximum exposure arises from financial assets measured at amortized cost (AC), cash and sight deposits, loans and advances and receivables measured at amortized cost (AC).

Credit risk is managed by selecting a financial institution – a central bank or a debt securities issuer based on the criteria adopted by the Council. The table below presents the analysis of CBM deposits with foreign banks and debt securities issuers as of December 31, 2022 and 2021.

The following table shows concentration by credit rating:

		December 31, 2022			December 31, 2021
Financial assets at fair value through other comprehensive income (OCI)	AAA	46,208	Financial assets at fair value through other comprehensive income (OCI)	AAA	25,442
	AA	355,203		AA	93,233
	A	292,658		A	510,404
	BBB	191,491		BBB	311,972
Total		885,560	Total		941,051
Financial assets at amortized cost (AC)	AAA	-	Financial assets at amortized cost (AC)	AAA	-
	AA	-		AA	-
	A	-		A	-
	B	52,731		B	53,377
	BBB	55,472		BBB	56,147
Total		108,203	Total		109,524
Cash and deposits with foreign banks (term and demand deposits)	AAA	142,839	Cash and deposits with foreign banks (term and demand deposits)	AAA	78,922
	AA	123,949		AA	8
	A	370,790		A	371,819
	BBB			BBB	
	no rating cash in treasury and cash register	146,323		no rating cash i treasury and cas register	114,942
Total		783,901	Total		565,691
Loans, advances and receivables measured at amortized cost (AC)	No rating	5,358	Loans, advances and receivables measured at amortized cost (AC)	No rating	3,680
Total		1,783,022	Total		1,619,946

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.3. Maximum Exposure to Credit Risk

Within the framework of the regular audit of the investment strategy, for the purposes of precise credit risk monitoring and unambiguous categorization of issuers / securities, a composite rating was introduced at the end of 2015 in the International Reserve Management Guidelines.

A composite credit rating is created as a unique parameter based on the ratings of two or more rating agencies. In practice, it is calculated as the average rating. It is mandatory that ratings from all relevant agencies that have rated the issuer's rating (s & p, Moody's and / or Fitch) are equal to or above the minimum allowed level.

In the case of term deposits, the credit ratings of the banks in which the funds are placed are monitored. The minimum allowed ratings of banks are defined in the Guidelines so that assets can be placed with central banks of countries with a long-term rating of minimum A-by S & P, respectively A3 by Moody's and A- by Fitch and with commercial banks that meet the following two of the suggested three rating agencies:

- short-term rating A-3 according to S & P, P-3 according to Moody's, or F3 by Fitch, and
- long-term rating of minimum A- by S & P, respectively A3 by Moody's and A- by Fitch.

Banks where accounts can be opened and which can be used for dealing in cash-in-cash transactions (banknotes and coins), currency purchase and sale (FX trade), and payment transactions must meet the limitation that their short-term liabilities are rated by two internationally recognized agencies with one of the top three ratings, namely:

- Short-term rating of minimum A-3 according to S & P, P-3 according to Moody's, and F3 by Fitch.

4.2.4. Financial Placements

The following table shows the concentration of credit risk by maturity:

In thousands of EUR

	Cash and demand deposits	Time deposits with foreign banks	Financial assets measured at fair value through OCI	Receivables	Loans and advance	Total
2021						
Not matured	147,822	417,869	1,050,575	-	1,348	1,617,614
Matured, not written off	-	-	-	2,332	-	2,332
Individually written off	-	-	-	-	-	-
Total	147,822	417,869	1,050,575	2,332	1,348	1,619,946

	Cash and demand deposits	Time deposits with foreign banks	Financial assets measured at fair value through OCI	Receivables measured at AC	Loans and advance measured at AC	Total
2022						
Not matured	244,878	539,023	993,763	-	1,295	1,778,959
Matured, not written off	-	-	-	4,063	-	4,063
Total	244,878	539,023	993,763	4,063	1,295	1,783,022

Placements to foreign banks and loans approved to the Government and domestic commercial banks are not collateralized. That is why CBM did not disclose fair value of collaterals accepted for the loans approved.

Receivables from employees based on housing loans are secured by mortgage contracts in favor of the CBM, up to the final repayment of the loan.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Credit Risk (Continued)

4.2.5. Risk Concentration of the Financial Assets with Credit Risk Exposure

Geographical Regions

The following table breaks down the CBM's main credit risk exposures at the assets' carrying amounts per geographical regions as of December 31, 2022. In this table credit risk exposure is based on the country of domicile of the CBM's counterparty banks and institutions.

In thousands of EUR

	EU countries	USA	China	Montenegro	Other	Total
Cash and demand deposits	98,433	306	-	146,139	-	244,878
Time deposits with foreign banks	488,957	50,066	-	-	-	539,023
Financial assets at fair value through other comprehensive income (OCI)	745,677	-	7,890	-	131,993	885,560
Financial assets at amortized cost (AC)	55,472	-	-	52,731	-	108,203
Loans and advances measured at amortized cost (AC)	-	-	-	1,295	-	1,295
Receivables measured at amortized cost (AC)	-	-	-	4,063	-	4,063
Balance as at December 31, 2022	1,388,539	50,372	7,890	204,228	131,993	1,783,022
Balance as at December 31, 2011	1,236,212	48,187	21,562	171,816	142,169	1,619,946

4.3. Market Risk

CBM is exposed to market risks which refer to the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise from outstanding balances due to changes in interest rates, foreign currency exchange rates and prices of securities.
Market risks arising from the CBM portfolio are managed by the Financial and Banking Operations Sector and regularly reported on to the CBM Council.

4.3.1. Market Risk Measurement Techniques

Market risk monitoring implies its identification, measurement and control. VaR, Tracking Error, Sharpe Ratio and modified duration are calculated for market risk measurement purposes.

CBM's Council sets limits on risk assessment that may be acceptable to the bank, which are monitored monthly based on reports from the Financial and Banking Operations Department. This defines the limit for VaR in terms of formation/magnification and significant reinvestment within the investment portfolio available for sale, while after that this parameter is only continuously monitored.
Due to the structure of the CBM portfolio the interest rate risk, as a type of market risk, is particularly monitored. This risk is quantified through the modified duration, which at the end of 2022 for the investment portfolio available for sale amounted to 3.170 bp and was within the limit defined by directions.
The modified duration of the operating portfolio was 1.255bp at the end of the same period and was also within the specified limit.
The modified duration of the investment portfolio to the bottom has had an established upper limit when creating this portfolio.
Since there are no additional investments within this portfolio, this parameter is in decline. At the end of 2022 it was 3.64 bp.
The duration of each of the aforementioned portfolios was within the limits defined by the Guidelines adopted by the CBCG Council.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Foreign Currency Risk

CBM is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on the statement of financial position items and cash flows. The table below summarizes the CBM's exposure to foreign currency exchange rate risk as of December 31, 2022. Included in the table are the CBM's financial assets and liabilities at their carrying amounts and classified by currency.

In thousands of EUR

	EUR	USD	SDR	Total
Balance at December 31, 2022				
Assets	244,572	306	-	244,878
Cash and demand deposits	488,957	50,066	-	539,023
Time deposits with foreign banks	-	-	244,941	244,941
Assets held with the International Monetary Fund	885,560	-	-	885,560
Financial assets at fair value through other comprehensive income (OCI)	108,203	-	-	108,203
Financial assets at amortized cost (AC)	1,295	-	-	1,295
Loans and advances measured at amortized cost (AC)	4,063	-	-	4,063
Receivables measured at amortized cost (AC)				
Total financial assets	1,732,650	50,372	244,941	2,027,963
Liabilities	1,629,674	-	-	1,629,674
Banks and financial institutions' accounts	161,745	-	-	161,745
Government and other organization's accounts	-	-	238,024	238,024
Liabilities to the International Monetary Fund	200	-	-	200
Other liabilities				
Total financial liabilities	1,791,619	-	238,024	2,029,643
Net statement of financial position items	(58,969)	50,372	6,917	(1,680)

In thousands of EUR

	EUR	USD	SDR	Total
Balance at December 31, 2021				
Assets				
Cash and demand deposits	147,544	278	-	147,822
Time deposits with foreign banks	369,960	47,909	-	417,869
Assets held with the International Monetary Fund	-	-	242,611	242,611
Financial assets at fair value through other comprehensive income (OCI)	941,051	-	-	941,051
Financial assets at amortized cost (AC)	109,524	-	-	109,524
Loans and advances measured at amortized cost (AC)	1,348	-	-	1,348
Receivables measured at amortized cost (AC)	2,332	-	-	2,332
Total financial assets	1,571,759	48,187	242,611	1,862,557
Liabilities				
Banks and financial institutions' accounts	1,063,713	-	-	1,063,713
Government and other organization's accounts	517,106	-	-	517,106
Liabilities to the International Monetary Fund		-	235,093	235,093
Other liabilities	597	-	-	597
Total financial liabilities	1,581,416	-	235,093	1,816,509
Net statement of financial position items	(9,657)	48,187	7,518	46,048

As of December 31, 2022, had the USD strengthened/weakened by 10% against EUR and all other variables remained unchanged, net profit for the year would have been EUR 2 thousand lower/higher (December 31, 2021: EUR 46 thousand), as a result foreign exchange losses/gains.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both their fair value and cash flow risks. Interest margins may increase as a result of such changes, but they may also reduce losses in the event when unexpected movements arise. The Council sets limits on the level of mismatch of interest rate repricing, which may be undertaken and which is monitored monthly by the Financial and Banking Operations sector.

The following table summarizes the Bank's exposure to the interest rate risk. It presents financial instruments of the CBM carried at carrying values, categorized by the earlier of contractual repricing or maturity dates.

In thousands of EUR

	Up to 1 month	From 1 to12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total
Balance at December 31, 2022						
Assets						
Cash and demand deposits	244,878	-	-	-	-	244,878
Time deposits with foreign banks	50,066	488,957	-	-	-	539,023
Assets held with the International Monetary Fund	-	-	-	-	244,941	244,941
Financial assets at fair value through other comprehensive income (OCI)		490,775	324,768	70,017	-	885,560
Financial assets at amortized cost (AC)	-	-	52,731	55,472	-	108,203
Loans and advances measured at amortized cost (AC)	-	-	-	-	1,295	1,295
Receivables measured at amortized cost (AC)	-	4,063	-	-	-	4,063
Total financial assets	294,944	983,795	377,499	125,489	246,236	2,027,963
Liabilities						
Banks and other financial institutions' accounts	1,498,136				131,538	1,629,674
Government and other state organizations' accounts	161,745	-	-	-	-	161,745
Liabilities to the International Monetary Fund	-	-	-	-	238,024	238,024
Other liabilities	-	-	-	-	200	200
Total financial liabilities	1,659,881	-	-	-	369,762	2,029,643
Net exposure to change in interest rate risk	(1,364,937)	983,795	377,499	125,489	(123,526)	(1,680)
December 31, 2021						
Net exposure to risk from change in interest rates	(1,276,558)	876,592	362,750	183,325	(100,261)	46,048

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.3. Interest Rate Risk

In thousands of EUR

	Up to 1 month	From 1 to12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total
Balance at December 31, 2022						
Assets						
Cash and demand deposits	147,822	-	-	-	-	147,822
Time deposits with foreign banks	47,909	369,960	-	-	-	417,869
Assets held with the International Monetary Fund	-	-	-	-	242,611	242,611
Financial assets at fair value through other comprehensive income (OCI)	-	506,832	307,041	127,178	-	941,051
Financial assets at amortized cost (AC)	-	-	53,377	56,147	-	109,524
Loans and advances measured at amortized cost (AC)	-	-	-	-	1,348	1,348
Receivables measured at amortized cost (AC)	-	-	2,332	-	-	2,332
Total financial assets	195,731	876,792	362,750	183,325	243,959	1,862,557
Liabilities						
Banks and other financial institutions' accounts	955,183	-	-	-	108,530	1,063,713
Government and other state organizations' accounts	517,106	-	-	-	-	517,106
Liabilities to the International Monetary Fund	-	-	-	-	235,093	235,093
Other liabilities	-	-	-	-	597	597
Total financial liabilities	1,472,289	-	-	-	344,220	1,816,509
Net exposure to change in interest rate risk	(1,276,558)	876,592	362,750	183,325	(100,261)	46,048
December 31, 2021						
Net exposure to risk from change in interest rates	(1,116,824)	374,966	743,875	129,372	(81,253)	50,136

The interest rate risk sensitivity analysis is determined based on the exposure to interest rate risk at the reporting date. As at December 31, 2022, if the interest rate had been by 100 basis points higher/lower, assuming other factors remained unchanged, the Bank's net profit would have increased/decreased by approximately 2 thousand EUR as at December 31, 2022. (2021: approximately EUR 46 thousand).

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to settle its financial liabilities when due and to replace the funds withdrawn. The consequences thereof may be default and breach of contractual obligations.

4.4.1. Liquidity Risk Management Process

The CBM's liquidity risk management process, as conducted within CBM and monitored by an expert team of the CBM Treasury, includes the following:

- day-to-day funding managed by monitoring future cash flows in order to fulfil the expected requirements. This involves replenishment of funds as they mature or as they are borrowed;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruptions to cash flows;
- monitoring statement of financial position liquidity ratios according to internal and regulatory requirements; and
- managing the risk concentration and the maturities of debt securities.

Monitoring and reporting entail cash flow measurement and projections for the following day, week and month as these are the key periods to liquidity management. The starting point for such projections is an analysis of the contractual maturity of the financial liabilities and the expected date of collection of the financial assets.

Funds available to cover all liabilities include cash and demand deposits, bank placements and loans and advances. CBCG can also respond to unexpected cash outflows by selling financial assets measured at fair value through other comprehensive income (OCI) (securities portfolio).

The sector for financial and banking operations continuously controls liquidity risk through the selection of investment instruments, as well as the selection of partner banks and permitted issuers. Liquidity risk with HOV is more precisely defined by the introduction of a limit regarding the minimum emission of HOV, and the difference between bid and ask prices, which refers to the liquidity of a certain instrument, is also operationally monitored. In order to ensure daily liquidity, the Guidelines for the Management of International Reserves define available funds in the maximum amount of up to 25 million euros with commercial banks as part of the liquid portfolio. With central banks, there is no limit on the amount of funds that can be kept in the account. Also, the maturity of deposits is adjusted to the announced needs for liquidity, whereby it is not allowed to place funds in deposits with a maturity of more than 6 months.

4.4.2. Funding Approach

Sources of liquidity are regularly reviewed by CBM's Financial and Banking Operations Sector s as to maintain wide diversification by currency, region, supplier, product and terms.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2021

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk

4.4.3. Non-Derivative Cash Flows

The table below presents the non-derivative cash flows for CBM financial assets and liabilities.

In thousand of EUR

	Up to 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 3 years	Over 3 years	Non-interest bearing	Total
Balance at December 31, 2022								
Assets								
Cash and demand deposits	244,878	-	-	-	-	-	-	244,878
Time deposits with foreign banks	50,066	488,957	-	-	-	-	-	539,023
Assets held with the International Monetary Fund	-	-	-	-	-	-	244,941	244,941
Financial assets at fair value through other comprehensive income (OCI)	-	403,252	87,523	102,951	94,119	197,715	-	885,560
Financial assets at amortized cost (AC)						108,203	-	108,203
Equity financial instrument measured at fair value through other comprehensive income (OCI)	-	-	-	-	-	-	687	687
Loans and advances measured at amortized cost (AC)	-	-	-	-	-	-	1,295	1,295
eceivables measured at amortized cost (AC)	-	-	-	-	-	-	4,063	4,063
Total financial assets	294,944	892,209	87,523	102,951	94,119	305,918	250,986	2,028,650
Liabilities								
Banks and other financial institutions' accounts	1,629,674	-	-	-	-	-	-	1,629,674
Government and other state organizations' accounts	161,745	-	-	-	-	-	-	161,745
Liabilities to the International Monetary Fund	-	-	-	-	-	-	238,024	238,024
Other liabilities	200	-	-	-	-	-	-	200
Total financial liabilities	1,791,619	-	-	-	-	-	238,024	2,029,643
Maturity Gap	(1,496,675)	892,209	87,523	102,951	94,119	305,918	12,962	(993)
Balance at December, 31, 2021								
Total assets	195,731	553,242	323,550	63,400	72,628	407,715	246,978	1,863,244
Total liabilities	1,581,416	-	-	-	-	-	235,093	1,816,509
Maturity Gap	(1,385,685)	553,242	323,550	63,400	72,628	407,715	11,885	46,735

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2021

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk

4.4.3. Non-Derivative Cash Flows (continued)

In thousand of EUR

	Up to 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 3 years	Over 3 years	Non-interest bearing	Total
Balance at December 31, 2021								
Assets								
Cash and demand deposits						-	-	147,822
Time deposits with foreign banks	147,822	-	-	-	-	-	-	417,869
Assets held with the International Monetary Fund	47,909	369,960	-	-	-	-	242,611	242,611
Financial assets at fair value through other comprehensive income (OCI)	-	-	-	-	-	298,191	-	941,051
Financial assets at amortized cost (AC)	-	183,282	323,550	63,400	72,628	109,524	-	109,524
Equity financial instrument measured at fair value through other comprehensive income (OCI)	-	-	-	-	-	-	687	687
Loans and advances measured amortized cost (AC)	-	-	-	-	-	-	1,348	1,348
eceivables measured at amortized cost (AC)	-	-	-	-	-	-	2,332	2,332
Total financial assets	195,731	553,242	323,550	63,400	72,628	407,715	246,978	1,863,244
Liabilities								
Banks and other financial institutions' accounts	1,063,713	-	-	-	-	-	-	1,063,713
Government and other state organizations' accounts	517,106	-	-	-	-	-	-	517,106
Liabilities to the International Monetary Fund	-	-	-	-	-	-	235,093	235,093
Other liabilities	597 -	-	-	-	-	-	-	597
Total financial liabilities	1,581,416	-	-	-	-	-	235,093	1,816,509
Maturity Gap	(1,385,685)	553,242	323,550	63,400	72,628	407,715	11,885	46,735
Balance at December, 31, 2020								
Total assets	437,012	443,786	330,436	97,458	64,062	309,851	168,536	1,851,141
Total liabilities	1,644,092	-	-	-	-	-	156,251	1,800,343
Maturity Gap	(1,207,080)	443,786	330,436	97,458	64,062	309,851	12,285	50,798

4. FINANCIAL INSTRUMENTS (Continued)

4.4. Liquidity Risk(Continued)

4.4.3. Non-Derivative Cash Flows (Continued)

Existing GAP is a consequence of the nature of the sources of international reserves themselves, the situation in the international market and the assumptions on the basis of which it is managed by the total assets of international reserves (asset side).

GAP manages regular audits of all of the above-mentioned factors at the meetings of the Investment Committee and the CBM Council.

The liquidity risk is permanently controlled by the choice of investment instruments as well as by partner banks and licensed issuers. The liquidity risk with securities is more precisely defined by the introduction of restrictions on the minimum securities emission, while the difference between bid and ask prices reflecting the liquidity of a particular instrument is being operatively monitored. For the purpose of securing day-to-day liquidity, the International Reserves Management Guidelines specifically defined the available portfolio. In addition to the above, it is not allowed to place funds in deposits with maturities of more than 6 months.

Assets available for settlement of all liabilities include cash and demand deposits, placements held with foreign banks and loans and advances. CBM can also respond to the unexpected cash outflows by selling financial assets measured at fair value through OCI (securities portfolio).

4.5. Fair value of Financial Assets and Liabilities

CBM establishes fair value of financial assets measured at fair value through OCI on the basis of official market prices in active markets for identical instruments.

The carrying value of cash and demand deposits as well as accounts of banks and financial institutions and accounts of the Government and other organizations in itself represents fair value.

The Bank's management has assessed the fair value of assets and liabilities carried at amortized cost using the method of discounting future cash flows, taking into account prevailing market conditions when determining the discount rate. Following the opinion of management, this assessment did not lead to material differences between the fair value and the carrying value of these assets and liabilities.

The following table shows the hierarchy of the fair value of financial assets relating to financial assets measured at fair value through other comprehensive results. The Bank measures the fair value of the financial assets that are measured through other comprehensive income using the Stage 1 hierarchy with regard to the quality of input data used in the official market price valuation for the identical market for the identical instruments.

Hierarchy of fair value of financial assets carried at fair value:

Financial assets December 31, 2021				In thousands of EUR
	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value through other comprehensive income (OCI)	885,560	-	-	885,560
Equity financial instrument at fair value through other comprehensive income (OCI)	687	-	-	687
Total	886,247	-	-	886,247

Financial liabilities December 31, 2020				In thousands of EUR
	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value through other comprehensive income (OCI)	941,051	-	-	941,051
Equity financial instrument at fair value through other comprehensive income (OCI)	687	-	-	687
Total	941,738	-	-	941,738

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair value of Financial Assets and Liabilities (Continued)

Hierarchy of financial assets and liabilities that are not carried at fair value:

Financial assets December 31, 2022				In thousands of EUR
	Stage 1	Stage 2	Stage 3	Total
Cash and demand deposits	-	244,878	-	244,878
Time deposits with foreign banks	-	539,023	-	539,023
Financial assets at amortized cost (AC)	-	108,203	-	108,203
Assets held with the International Monetary Fund	-	-	244,941	244,941
Loans and advances measured at amortized cost (AC)	-	-	1,295	1,295
Receivables measured at amortized cost (AC)	-	-	4,063	4,063
Total	-	892,104	250,299	1,142,403

Financial liabilities December 31, 2022				In thousands of EUR
	Stage 1	Stage 2	Stage 3	Total
Banks and financial institutions' accounts	-	-	1,629,674	1,629,674
Government and other state organizations' accounts	-	-	161,745	161,745
Liabilities to the International Monetary Fund	-	-	238,024	238,024
Other liabilities	-	-	200	200
Total	-	-	2,029,643	2,029,643

Hierarchy of financial assets and liabilities that are not carried at fair value

Financial assets December 31, 2021				In thousands of EUR
	Stage 1	Stage 2	Stage 3	Total
Cash and demand deposits	-	147,822	-	147,822
Time deposits with foreign banks	-	417,869	-	417,869
Financial assets at amortized cost (AC)	-	109,524	-	109,524
Assets held with the International Monetary Fund	-	-	242,611	242,611
Loans and advances measured at amortized cost (AC)	-	-	1,348	1,348
Receivables measured at amortized cost (AC)	-	-	2,332	2,332
Total	-	675,215	246,291	921,506

Financial liabilities December 31, 2021				In thousands of EUR
	Stage 1	Stage 2	Stage 3	Total
Banks and other financial institutions' accounts	-	-	1,063,713	1,063,713
Government and other state organizations' accounts	-	-	517,106	517,106
Liabilities to the International Monetary Fund	-	-	235,093	235,093
Other liabilities	-	-	597	597
Total	-	-	1,816,509	1,816,509

Stage 1 - Quoted prices of identical financial instruments that are quoted in active markets.

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Fair value of Financial Assets and Liabilities (Continued)

Hierarchy of financial assets and liabilities that are not carried at fair value (Continued)

Stage 1 - Price listed prices of identical financial instruments that are priced in active markets

Stage 2 - Parameters that can be directly identified in the market but that are not on the prior stage. The information are available and noticeable either directly (for example, in terms of price) or indirectly (derived from the prices).

Stage 3 - Parameters for valuation of financial instruments that are not based on observable market data (non-identifiable parameters). This category covers all instruments whose estimation is made on an input base that is unavailable and noticeable and as such have a significant effect on the evaluation of instrument values. This category includes instruments valued at the official price for similar instruments where significant adjustments or assumptions are required to reflect differences between instruments.

4.6. Capital Management

The bank's objectives when managing capital, which is a broader concept than equity stated in the statement of financial position, are the following:

- To comply with the capital requirements defined by the CBM Law;
- To preserve the Bank's ability to continue as a going concern in the foreseeable future and fulfil all its functions defined by the CBM Law; and
- To maintain sufficient capital level to support further development of its activities.

The CBM Law defines the following:

(a) the CBM capital shall comprise the core equity and reserves;
(b) the core equity shall amount to EUR 50,000 thousand.

Pursuant to the CBM Law, in the year 2010 the capital was transformed in such a manner that the founding capital and general reserves were transformed into the core equity.

As of December 31, 2022, the core equity amounted to EUR 52,000 thousand which is pursuant to Decision numbered 0101-2837-3/2021 and dated April 28, 2021, on the basis of which there was an increase in share capital from general reserves in the amount of EUR 2,000 thousand.

5. REVIEW OF SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The CBM makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and judgments are continually assessed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

a) Fair Value of Assets

The fair value is the price that can be received for the sale of an asset or paid for the transfer of some obligation in a normal transaction in the main (or most favorable) market on the date of measurement under current market conditions regardless of whether the price is directly determined or estimated using another valuation technique.

The Bank's business policy is to disclose information on the fair value of an asset or liability for which there are official market information or information coming from alternative measurement techniques. According to information obtained from the Bank's management, the amounts presented in the financial statements reflect a real value that is most probable in the circumstances most useful for financial reporting purposes in accordance with international financial reporting standards.

b) Impairment of financial assets

The CBM determines that there has been an impairment of financial assets measured at fair value through other comprehensive income (OCI) when a significant or prolonged decrease in their fair value is reached i.e. below their purchase value. Determining what is significant or prolonged requires judgement. Impairment may be justified when there is evidence that there has been a deterioration in the financial position of the entity which the investment is made in, the business line or sector, as well as to cash flows from operating and financing activities. The CBM determines that there has been a decrease in the fair value of the financial assets being measured at amortized cost (AC) in accordance with IFRS 9.

c) Provisions

The provisions are largely based on judgment, especially in cases of legal disputes. The CBM estimates the likelihood of a negative outcome resulting from past events and if this probability is greater than 50%, the CBM establishes a provision for the total amount of the liability. The management of CBM's is very cautious in these estimates, but due to a significant degree of uncertainty, in some cases there are possible deviations between the expected and the actual outcome of the event.

d) Depreciation and depreciation rate

The depreciation calculation and depreciation rates are based on the projected economic lifetime of property, plant, equipment and intangible assets. The economic lifetime of fixed assets is determined by an assessment made by an independent appraiser.

6. INTEREST INCOME EXPENSES

In thousands of EUR

	Year ended December 31, 2022	2021
Time deposits held with foreign banks	1,909	-
Financial assets measured at fair value through OCI	1,788	1,189
Financial assets measured at amortized cost (AC)	1,799	1,821
	5,496	3,010

Revenue overview by country:

In thousands of EUR

	Montenegro	EU countries	Other countries	Total
Time deposits held with foreign banks	-	1,891	18	1,909
Securities	1,038	2,039	510	3,587
Total in 2022	1,038	3,930	528	5,496
Total in 2021	1,051	1,870	89	3,010

7. FEE INCOME AND EXPENSES

a) Fee income

	In thousands of EUR Year ended December 31, 2022	2021
Participation in RTGS	265	280
Order processing in RTGS	1,719	1,481
Order processing in DNS	844	768
State Treasury order processing	2,726	2,203
Processing orders for public duties payables	345	321
Cash payments and disbursements through customers' accounts	813	481
Fee for overnight balances at transaction bank accounts in the RTGS system	1,738	2,205
Forced collection orders issuance and realization	378	734
Registration of state commercial papers	78	-
Servicing of foreign debt	675	932
Inspection of banks and microcredit financial institutions	3,516	3,035
Credit regulatory body services	668	562
Transfers from the CBM accounts held abroad	30	406
Other fees	334	187
	14,129	13,595

DNS account-based fee income refers to the Deferred Net Settlement Payment System (hereinafter: DNS) in which payment transactions are executed that amount to less than the minimum value of payment transactions that must be processed in the RTGS system established by the CBM regulation.

Fee income from the services provided by the CBM are calculated and charged in the manner determined by the Decision on fixing the tariff at which fees for the performance of the services provided by the CBM are calculated (Official Gazette of Montenegro, No. 29/11, 22/12, 58/13, 12/14,22/14, 48/14, 32/15, 15/17 ,18/17, 24/18 and 109/21).

b) Fee expenses

	In thousands of EUR Year ended December 31, 2022	2021
Import and export of foreign money	236	141
Registration of the state commercial papers	24	-
Maintenance of custody accounts	72	48
Payment transactions	15	15
Other fee expenses	31	8
	378	212

8. OTHER INCOME AND GAINS

	2022	2021
	In thousands of EUR Year ended December 31,	
Operating lease of business premises	205	213
Sales of bills of exchange forms	344	356
Sale of precious metals	37	13
Income from sale of fixed assets and non-material investments	-	239
Other income and gains	184	287
	770	1,108

9. OTHER FINANCIAL EXPENSE AND INCOME, NET

	2022	2021
	In thousands of EUR Year ended December 31,	
Financial income		
Repayment of negative interest rates based on time deposit	-	752
Financial expenses		
Other financial expenses - negative interest rate of securities	(1,596)	(1,586)
Other financial expenses - negative interest rate foreign banks	(927)	(1,995)
	(2,523)	(3,581)
	(2,523)	(2,829)

Other financial expenses include the effects of negative interest rates of interest-bearing financial assets and relate to expenses arising from negative interest rates on deposits held by the Central Bank of Montenegro with the foreign commercial banks and negative returns on investments in securities.

10. FOREIGN CURRENCY EXCHANGE GAINS/(LOSSES), NET

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	2022	2021
	In thousands of EUR Year ended December 31,	
Foreign exchange gains:		
- CBM's foreign bank accounts	237	849
- Cash in treasury	8	6
- Treasury	1	-
	246	855
Foreign exchange losses:		
- CBM's foreign bank accounts	(212)	(819)
- Cash in treasury	(5)	(7)
- Treasury	(1)	-
	(218)	(826)
	28	29

11. NET LOSSES ON FINANCIAL ASSETS MEASURED THROUGH OTHER TOTAL RESULTS AND AT AMORTIZED COST

	In thousands of EUR Year ended December 31, 2022	2021
Losses on financial assets measured through other total results		
Net increase in provisions for FV OCI financial assets (Note 16)	192	(68)
Profits from the sale of securities	35	11
	227	(57)
Net losses on financial assets measured through other total results:		
Net increase in provisions measured at amortized cost (Note 17)	5	(3)
Net decrease in provisions for term deposits (Note 15)	(3)	(5)
Net increase in provisions for receivables measured by amortized cost (Note 21)	(1)	(1)
Net increase in provisions for loans and advances (Note 20)	-	2
	1	(7)

12. STAFF COSTS

	In thousands of EUR Year ended December 31, 2022	2021
Gross salaries	6,387	5,493
Contributions paid by the employer and employee	1,760	2,491
Other employee benefits	781	470
	8,928	8,454

13. OTHER OPERATING EXPENSES

	In thousands of EUR Year ended December 31, 2022	2021
Costs of materials	124	95
Fuel and energy costs	197	190
Marketing and advertising	27	18
Service contracts	3	12
The Governor, Council members and Audit Committee members payments	74	75
Other fee payables to individuals	62	36
Professional services	47	65
Property maintenance	617	490
Property insurance	18	15
Telecommunications and postal services	305	296
Tax expenses	42	37
Depreciation and amortization	662	612
Humanitarian actions	203	150
Entertainment	28	25
Seminars	95	54
Provisions for potential litigation losses and operational risks (Note 30)	-	5
Provisions for severance payments to employees (Note 30)	99	23
Write-off of uncollectible receivables	136	134
Other operating expenses	470	348
Effect of real estate assessment, plant and equipment	-	94
	3,209	2,774

14. CASH AND DEMAND DEPOSITS

	December 31, 2022	In thousands of EUR December 31, 2021
Cash in treasury and cash on hand:		
- in EUR	146,134	114,717
- in foreign currency	7	43
- IMF – cash payment	182	182
	146,323	114,942
Interest-bearing demand deposits	97,363	31,676
Allowance for impairment	1,095	1,109
Non interest-bearing demand deposits – foreign currency	25	25
Non interest-bearing demand deposits – EUR	72	70
Allowance for impairment	-	-
	244,878	147,822

Interest rates on term euro deposits located at commercial banks and central banks ranged from -0.70% to 2%. Interest rate on deposits located at FED on 31 Decembar 2021 was 4.3%.

14. CASH AND DEMAND DEPOSITS (continued)

Table overview of value adjustment movements:

	December 31, 2021	Reduction in allowance for impairment	Increase in allowance for impairment	December 31, 2022
Allowance for impairment	-	1	(1)	-

As of December 31, 2022, CBM placed short-term interest-bearing deposits with central and commercial banks in the amount of EUR 97,363 thousand (December 31, 2021: EUR 31,676 thousand).

15. TIME DEPOSITS WITH FOREGIN BANKS

In thousands of EUR

	December 31, 2022	December 31, 2021
Short-term time deposits held with central banks that are measured at AC	50,066	47,909
Short-term deposits with commercial banks that are measured at amortized cost	489,000	370,000
Allowance for impairment	(43)	(40)
	539,023	417,869

The interest rate on euro funds held in accounts with commercial banks and central banks ranged from 0.65% to 2.95%. Deposited placements with foreign banks have maturities ranging from 1 to 6 months.

Table overview of the allowance for impairment movements:

	December 31, 2021	Reduction in allowance for impairment	Increase in allowance for impairment	December 31, 2022
Allowance for impairment	(40)	111	(114)	(43)

Deposited placements with foreign banks have maturities ranging from 1 to 6 months.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI)

Financial assets measured at fair value through other comprehensive income in the amount of EUR 885,560 milion as at December 31, 2022 (December 31, 2021: 941,051 milion) comprised euro debt securities of the following issuers:

- a country whose official currency is euro up to 10 years,
- a country whose original currency is not the euro, supranational institutions, federal provinces, agencies, funds and development and specialized banks with a guarantee and / or ownership of a maturity of up to 5 years,
- German banks issuing Pfandbrief bonds with maturity up to 5 years and
- Commercial banks that issue corporate bonds for up to 5 years.

All issuers must meet the minimum rating defined in the Guidelines and must be in the prescribed benchmarks.

The yields on securities in this portfolio as of December 31, 2022 ranged from 2.22% to 4.945%.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI) (continued)

Securities exposures measured at fair value through OCI are sold by country:

Country	December 31, 2022	December 31, 2021
Germany	75,098	64,951
France	147,531	36,974
Spain	195,417	278,678
Italy	159,456	275,176
China	7,890	21,562
Ireland	27,749	32,334
Poland	14,747	14,406
Other EU countries	23,897	14,259
Belgium	73,228	33,581
UAE	80,670	87,471
Other countries out of EU	51,323	54,699
Finland	4,776	-
Great Britain	23,778	26,960
Total	885,560	941,051

The table of changes in the fair value of financial assets measured at fair value through other comprehensive income (OCI) for 2022 and 2021:

	December 31, 2021	Change in fair value during 2022	December 31, 2022
Fair Value	2,840	(51,003)	(48,163)

	December 31, 2020	Change in fair value during 2021	December 31, 2021
Fair Value	7,806	(4,966)	2,840

Tabular presentation of fair value provisions for financial instruments measured at fair value through other comprehensive income for 2022 and 2021:

	December 31, 2021	Decrease in provisions (statement of changes in equity)	Increase in provisions (statement of changes in equity)	December 31, 2022
Provision	(458)	-	192	(266)

	December 31, 2020	Decrease in impairment (statement of changes in equity)	Increase in impairment (statement of changes in equity)	December 31, 2021
Provision	(390)	-	(68)	(458)

17. FINANCIAL ASSETS AT AMORTIZED COST

		In thousands of EUR
	December 31, 2022	December 31, 2021
Debt securities – Republic of Romania	55,522	56,198
Debt securities – Montenegro	52,773	53,423
Allowance for impairment	(92)	(97)
	108,203	109,524

The weighted yield on securities measured at amortized cost is 1.661%.

Table overview of impairment movements:

	December 31, 2021	Decrease in impairment (note 11)	Increase in impairment (note 11)	December 31, 2022
Impairment	(97)	5	-	(92)

	December 31, 2020	Decrease in impairment (statement of changes in equity)	Increase in impairment (statement of changes in equity)	December 31, 2021
Impairment	(94)	8	(11)	(97)

18. EQUITY FINANCIAL INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI)

As of December 31, 2022, the equity investments refer to investments into the capital of Centralno Klirinško Depozitarno Društvo AD, Podgorica (hereinafter referred to as CKDD ad Podgorica) in the amount of 687 thousand (December 31, 2021: EUR 687 thousand). From January 1, 2019, in accordance with IFRS 9, the Bank made an irrevocable choice and classified this foundation investment as Equity financial instrument measured at fair value through other comprehensive income. The Bank determines the value of these equity investments once a year (at year-end).

		In thousands of EUR
	December 31, 2022	December 31, 2021
Investment in capital CKDD	262	262
Fair value-debt instruments CKDD	425	425
	687	687

18. EQUITY FINANCIAL INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI) (continued)

The table of changes in the fair value of financial assets measured at fair value through other total results for 2022 and 2021:

	December 31, 2020	Change in fair value during 2021	December 31 2021
Fair value	400	25	425

	December 31, 2021	Change in fair value during 2022	December 31 2022
Fair value	425	-	425

19. ASSETS HELD WITH THE INTERNATIONAL MONETARY

In thousands of EUR

	December 31, 2022	December 31, 2021
ASSETS		
Reserve funds with the IMF	18,607	18,378
Note for IMF membership	57,002	56,298
Nota- Rapid financial instrument	75,801	74,868
SDR holding	92,773	92,385
Interest, compensation and expense	758	682
	244,941	242,611

In thousands of EUR

	December 31, 2022	December 31, 2021
LIABILITIES		
SDR allocation	105,005	103,712
Note for IMF membership	57,002	56,298
Nota-Rapid financial instrument	75,801	74,868
Account number 1	193	192
Account number 2	1	1
Other financial institutions	22	22
	238,024	235,093

The Central Bank of Montenegro ia a government fiscal agent in transactions with the IMF and the depository for IMF funds. Membership in the IMF is based on quotas.

Membership quota

The membership quota is determined upon admission to membership and is periodically revised as part of general quota revisions. The quota forms the basis for the financial and organizational relationship of the members with the IMF and it, inter alia, determines the relative voting power of the members, the maximum access to IMF financing and the member's share in any SDR (Special Drawing Rights) allocation.

The membership quota with the IMF represents the initial and subsequent payments of the quota and constitutes the funds of the IMF members. In 2007, the IMF Board determined the amount of the membership quota for Montenegro in the amount of SDR 27,500 thousand. In February 2016, there was an increase in the quota in accordance with the 14th General Quotas Revision, after which the quota for Montenegro's membership in the IMF was SDR 60,500 thousand, which amounted to EUR 75,801 thousand as at December 31, 2022 and EUR 74,868 thousand for 2021.

The membership quota consists of IMF reserve funds, Membership note and funds in IMF accounts No. 1 and 2.

19. ASSETS HELD WITH THE INTERNATIONAL MONETARY (continued)

Reserve Funds

The funds of reserve with the IMF (Reserve Tranche) - Montenegro paid 24% of its quota in cash, in the amount of SDR 14,851 thousand, which amounted to EUR 18,607 thousand as at December 31, 2022 after the translation;

Note for IMF Membership

The remaining part of the membership quota consists of the IMF Membership Note issued by the Ministry of Finance and IMF Account No. 1 and 2 in the amount of SDR 45,650 thousand, which as at December 31, 2022 after the translation amounted to EUR 57,002 thousand. The note for IMF membership is recorded in the balance sheet in the Statement of Financial Position.

Rapid Financial Instrument Note

Funds received by the state of Montenegro as RFI (Rapid Financial Instrument) were recorded in the total amount of 60,5 million SDR, which as at December 31, 2022 after translation amounted to EUR 75,801 thousand. For these received funds, the Ministry of Finance issued a new Note in favor of the IMF, which is also presented on the balance sheet by the Central Bank of Montenegro. Funds received from the IMF for direct financing of the budget in accordance with the RFI, are the obligation of Montenegro. Servicing liabilities to the IMF under the RFI are fulfilled without a financial burden for the Central Bank, i.e. redemption and all costs, including interest and other costs, are the responsibility of the Ministry of Finance. With each repayment of the due installment to the IMF, the nominal value of the Note in euros will decrease, reflecting the amount returned to the IMF on this basis. RFI shall be repaid over a period of 5 years including a 3 year grace period.

SDR holding

Funds transferred to Montenegro on the basis of SDR allocation from the IMF were recorded in the assets of SDR holding in assets. As at 31 December 2022, those amounted to EUR 92,773 thousand. SDR funds are sight funds denominated in SDR on an account opened with the IMF for Montenegro. The Central Bank of Montenegro holds special drawing rights as part of its international reserve management function.

SDR Allocation

The SDR allocation represents funds obtained through the allocation of the IMF's general reserves in 2009 in accordance with Amendment IV of the IMF Statute based on the existing quota of each member state. On December 31, 2022 it amounts to EUR 105,005 thousand. In 2021, the International Monetary Fund (IMF) Executive Board approved the allocation of 650 billion (about 453 billion SDR), the largest in the history of the international financial institution, with the aim of increasing liquidity and reserves of the 190 IMF member states and addressing the long-term global need for reserves, strengthening confidence, resilience and stability of the global economy. In particular, the assets of the site are expected to help the most vulnerable countries to better manage the crisis caused by the 19th century Covid pandemic. The created SDR was attributed to IMF members on August 23, 2021 proportionate to existing quotas in the IMF. The total amount of funds approved to Montenegro through this distribution is EUR 70,193,195.97 Eur (57,986,529 SDR), which was recorded through an increase in balance sheet positions related to IMF funds.

Account No. 1 and 2

Account number 1 is used for IMF business transactions, while account number 2 is used to pay IMF operating expenses in the currency of the member country.

Liabilities to Other Financial Institutions

Liabilities to other financial institutions relate to funds in World Bank accounts - IDA account, in the amount of EUR 21,816 thousand.

20. LOANS AND ADVANCES MEASURED AT AMORTIZED COST (AC)

As of December 31, 2022, loans and advances measured at amortized cost in the amount of EUR 1,295 thousand (December 31, 2021: EUR 1,348 thousand) mostly related to housing loans approved to CBM employees.
Housing loans were approved to employees in accordance with the Employee Housing Rulebook and the Decision of the Employee Housing Commission, under the following terms:

- housing loans approved to employees are non-interest bearing, with 1 to 2-year grace period and 30 to 35-year maturity;
- for the purpose of credit risk protection, the borrowing employees are under obligation to sign mortgage agreements for the account of CBM during the grace period at the latest and verify the agreements with the competent court; the mortgages are assigned until the date of full loan repayment.

	December 31, 2021	Decrease in impairment (note 11)	Increase in impairment (note 11)	December 31, 2022
Impairment	(33)	1	(1)	(33)

	December 31, 2020	Decrease in impairment (note 11)	Increase in impairment (note 11)	December 31, 2021
Impairment	(34)	-	1	(33)

21. RECEIVABLES MEASURED AT AMORTIZED COST (AC)

In thousands of EUR

	December 31, 2022	December 31, 2021
Receivables from bank charges	409	322
Receivables from execution of forced payment orders	913	980
Receivables from fees for the control of banks and micro-loan financial institutions	296	255
Receivables for prepaid expenses	277	229
Loan register receivables	171	158
Receivables based on interest on deposits measured by AC	1,656	-
Other receivables	346	392
Allowance for impairment	(5)	(4)
	4,063	2,332

22. INVENTORIES

In thousands of EUR

	December 31, 2022	December 31, 2021
Materials and fixtures	11	15
Bill of exchange forms	4	3
Inventories of silver readily convertible into cash	22	21
Jubilee gold and silver coins	190	187
Montenegrin coins	465	486
	692	712

23. INVESTMENT PROPERTY

Investment properties reported as of December 31, 2022 in the amount of EUR 5,684 thousand (December 31, 2021: EUR 5,684 thousand) related to the facilities leased to third parties.

	Investment property
Cost	
Balance, January 1, 2021	5,456
Change of fair value (note 13)	228
Balance, December 31, 2021	5,684
Balance, January 1, 2022	5,684
Change of fair value	-
Balance, December 31, 2022	5,684

Appraisal of the investment property was performed on May 31, 2021 by a certified appraiser. The appraisal was performed in order to perform a detailed analysis of the condition and value of real estate-buildings of the Central Bank of Montenegro which are kept in the Bank’s books as investment real estate, in accordance with IAS 40 - Investment Property, in order to determine the fair value of investment properties.

24. INTANGIBLE ASSETS

	In thousands of EUR Intangible assets
Cost	
Balance at January 1, 2021	388
Procurement	80
Valuation of intangible assets	(270)
Balance at December 31, 2021	198
Allowance for Impairment	
Balance at January 1, 2021	341
Depreciation	31
Valuation of intangible assets	(350)
Balance at December 31, 2021	22
Cost	
Balance at January 1, 2021	198
Procurement	131
Balance at December 31, 2021	329
Allowance for Impairment	
Balance at January 1, 2021	22
Depreciation	49
Balance at December 31, 2021	71
Carrying value	
- as of December 31, 2022	258
- as of December 31, 2021	176

25. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR

	Land	Buildings	Equipment	Fixed assets under construction	Total
Cost					
Balance at January 1, 2021	4,901	18,177	3,551	292	26,921
Increase/Decrease	-	39	83	2	124
Assessment	74	(831)	(1,937)	-	(2,694)
Donation	-	19	170	-	189
Write off	-	-	(9)	-	(9)
Balance at December 31, 2021	4,975	17,404	1,858	294	24,531
Balance at January 1, 2022	4,975	17,404	1,858	294	24,531
Increase/decrease	-	176	655	3	834
Write off	-	-	(106)	-	(106)
Balance at December 31, 2022	4,975	17,580	2,407	297	25,259
Allowance for impairment					
Balance at January 1, 2021	-	1,245	2,357	3	3,605
Depreciation	-	156	140	-	296
Assessment	-	(1,245)	(2,355)	-	(3,600)
Write off	-	-	(3)	-	(3)
Balance at December 31, 2021	-	156	139	3	298
Balance at January 1, 2022	-	156	139	3	298
Depreciation	-	270	347	-	617
Write off	-	-	(22)	-	(22)
Balance at December 31, 2022	-	426	464	3	893
Carrying value	4,975	17,154	1,943	294	24,366
- December 31, 2021	4,975	17,154	1,943	294	24,366
- December 31, 2022	4,975	17,248	1,719	291	24,233

Land, property and equipment of the CBM are assessed as of May 31, 2021, by authorized appraisers.

There is no restriction on ownership, nor are real estate, facilities and equipment pawned as a guarantee of liabilities.

26. PREPAID BENEFITS TO EMPLOYEES

Prepayments to employees stated as of December 31, 2022 in the amount of EUR 606 thousand (December 31, 2021: EUR 680 thousand) are prepaid benefits to employees, obtained as a difference between the remaining nominal amount of interest-free housing loans granted to employees and amortized (fair) value of the loan on the balance sheet date. The amount is amortized through the collection of loans from employees during the period of service of the employees with the Bank.

27. OTHER ASSETS

As of December 31, 2022, other assets amounting to EUR 343 thousand (December 31, 2021: EUR 333 thousand) refer to the CBM library fund.

28. BANKS AND OTHER FINANCIAL INSTITUTIONS' ACCOUNTS

In thousands of EUR

	December 31, 2022	December 31, 2021
Demand deposits	1,364,815	846,652
Mandatory reserves of commercial banks in the country	179,744	133,730
Mandatory reserves of commercial banks abroad	83,331	83,331
Central Bank of Montenegro - Rehabilitation Fund	1,617	-
Interest on mandatory reserve	167	-
	1,629,674	1,063,713

The Central Bank of Montenegro prescribes the obligation of banks to, in accordance with the Law on the Central Bank of Montenegro ("Official Gazette of Montenegro", No. 40/10, 46/10, 06/13 and 70/17), and based on the provisions of the Decision on the obligatory reserve banks with the Central Bank of Montenegro ("Official Gazette of Montenegro", No. 88/17 and 43/20), calculate, allocate and maintain the obligatory reserve applying the rate of 5.5% to the portion of the base consisting of demand deposits and deposits with maturity up to one year, and rates of 4.5% per share of the base constituted by deposits agreed with maturity exceeding one year. Deposits with a maturity of more than one year that have a clause on the possibility of separation within a shorter period than one year apply a rate of 5.5%.

The Central Bank pays the banks a monthly fee on the 50% of the required reserve funds set aside by the eighth day each month for the previous month. The fee is calculated at the rate of EONIA (Euro OverNight Index Average), reduced by 10 basis points per annum; however, this rate cannot be less than zero.

Banks may use interest free up to 50% of the required reserve requirement to maintain daily liquidity if they repay the amount used on the same day.

On the amount of the used funds of the required reserve not returned on the same day and on the amount of the difference between the calculated and incorrectly calculated or untimely allocated reserve requirement, a bank shall pay the fee at the rate determined by a special regulation of the Central Bank.

29. GOVERNMENT AND OTHER STATE ORGANIZATIONS' ACCOUNTS

In thousands of EUR

	December 31, 2022	December 31, 2021
Government's accounts	110,808	468,396
Other state organizations' accounts	50,937	48,710
	161,745	517,106

The government, state organizations and other organizations have their own accounts with the Central Bank through which they participate in domestic payment operations.

30. OTHER LIABILITIES

	December 31, 2022	In thousands of EUR December 31, 2021
Provisions for litigations	37	37
Provisions for operational risk	33	33
Provisions for severance payments to employees	410	323
Provision for consulting services	201	-
Passive time limits	200	173
Other liabilities		597
	881	1,163

Provisions for litigations

As at December 31, 2022, several litigations of legal and natural parties are pending against the Bank.

Occasionally, and within the normal course of business, the CBM receives claims for compensation. Based on its own judgment and the assessment of internal professional advice, the management of the Central Bank is of the opinion that there may be losses from litigations and, accordingly, provisions on this basis are included in these financial statements amounting to EUR 37 thousand as at December 31, 2022.

The table of changes in provisions for litigation during 2021 is presented as follows:

Type of litigation	Provision for litigations January 1, 2022	Terminated disputes during 2022	Provision expenses during 2022 (Note 13)	Provision for litigation as of December 31, 2022
1	2	3	4	5=(2-3+4)
Property - law litigation	19	-	-	19
Labor litigation	18	-	-	18
Total	37	-	-	37

Provisions for severance payments to employees

Provisions for severance payments for employees were determined by applying the provisions of International Accounting Standard 19 - Employee Benefits as of December 31, 2022 for the Central Bank of Montenegro and relate to the amounts of liabilities for the current and the previous year for severance payments for retirement.

The calculation method used was the method of the projected credit unit, which is the only permitted method of calculation in accordance with IAS 19.

CBM has engaged a licensed actuary for the purpose of producing a proactive estimate of long-term employee benefits as of December 31, 2022 (calculated in accordance with IAS 19).

The assumptions used when calculating provisions for severance payments for retirement are:

Provisions for severance payments to employees (continued)

The assumptions used when calculating severance provisions	2022	2021
Discount annual rate	2.88%	2.88%
Salaries increase	0%	0%
Annual turnover of employees	1%	0%

30. OTHER LIABILITIES (continued)

Changes in employee severance payments are shown in the following table:

		In thousands of EUR
	2022	2021
Amount of provision for severance pay as at January 1 of the current year	323	303
Additional provision during the year (Note 13)	99	26
The amount of cancellation during the current year of the previously formed provision as at December 31 of the previous year on the basis of severance payments	(12)	(6)
Amount of provisions liabilities for severance payments as at December 31 of the current year	410	323

31. EQUITY

Article 11 of the CBM Law (Official Gazette of Montenegro no. 40/10, 41/10, 6/13 and 70/17) defines the CBM equity as comprising of the core equity and reserves. Article 12 of the same Law sets the core equity in the amount of EUR 50,000 thousand.

The CBM core equity as of December 31, 2022 totalled EUR 52,000 thousand and was entirely in the form of monetary assets.1

The CBM reserves consist of general, special and revaluation reserves.

The total capital at December 31, 2022 is EUR 30,275 thousand (2021: EUR 77,987 thousand).

The capital structure is presented in the overview that follows:

		In thousands of EUR
	December 31, 2022	December 31, 2021
Core equity	52,000	52,000
General reserves	2,830	1,130
Special reserves	1,123	1,123
Revaluation reserves and fair value reserves	(30,930)	20,325
Retained earnings	5,252	3,409
Total equity	30,275	77,987

Net profit or loss of the CBM is determined for each fiscal year in accordance with the International Financial reporting Standards. Pursuant to Article 68 of the CBM Law, profit available for distribution is determined by subtracting unrealized revaluation gains from the net profit and adding to it unrealized revaluation gains subtracted from the net profit in prior years and realized in the current year.

Profit available for distribution allocated to general reserves in the amount of 50% of the realized profit, until the level of general reserves reaches 10% of the total CBM financial liabilities. A portion of profit available for distribution may be allocated to special reserves in the amount defined by the CBM Council but not exceeding 10% of the determined profit available for distribution. The remaining amount of the profit available for distribution comprises income of the Montenegro Budget, as stipulated by the CBM Law.

32. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. CBM has a related party relationship with the Government of Montenegro, its ministries and agencies.

The review of receivables and payables, as well as income and expenses and off-statement of financial position items from the related party transactions as of December 31, 2022 is presented in the following table:

In thousands of EUR

	December 31, 2022	December 31, 2022
Receivables and payables		
Receivables		
Financial assets measured at amortized costs (AC)	52,773	53,423
Receivables	(43)	(45)
Allowance for impairment	295	185
	53,025	53,563
Payables		
Payables on the accounts of the Government and other state institutions	161,745	517,106
	161,745	517,106

	December 31, 2022	December 31, 2022
Income and expenses		
Income	2,728	2,206
Fee income	1,038	1,051
Interest income	3,766	3,257

During 2022, the gross remunerations disbursed to the key management totalled EUR 402 thousand (2021: EUR 396 thousand). During 2022, CBM disbursed gross remunerations in the amount of EUR 58 thousand (2021: EUR 44 thousand) to the Council members who are not CBM's employees

33. CASH AND CASH EQUIVALENTS
(for the purpose of Statement of Cash Flows preparation)

In thousands of EUR

	December 31, 2022	December 31, 2021
Cash and demand deposits	244,878	147,822
Short-term time deposits with foreign banks	539,023	417,869
	783,901	565,691

34. SUBSEQUENT EVENTS

There were no significant events after the date of the statement of financial position that would require disclosure in the notes with the Bank's attached financial statements for 2022.

35. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of statement of financial position components denominated in foreign currencies into EUR as of December 31, 2022 and 2021, were as follows

	December 31, 2022	December 31, 2021
USD	1.06600	1.1334
CHF	0.98470	1.03630
GBP	0.88693	0.83930
SDR	0.79814	0.80809
CAD	1.44400	1.4481

Signed on behalf of the Central Bank of Montenegro, on March 15, 2023 by:

Valentina Ivanović, PhD
Director of Finance,
Accounting and Controlling Department

Radoje Žugić, PhD
Governor of the Central Bank of Montenegro