



DEPOSIT PROTECTION FUND

**DEPOSIT PROTECTION  
FUND  
ANNUAL REPORT 2021**

**Podgorica, May 2022**

## LIST OF ABBREVIATIONS

<b>CBCG</b>	<i>Central Bank of Montenegro</i>
<b>EBRD</b>	<i>European Bank for Reconstruction and Development</i>
<b>EFDI</b>	European Forum of Deposit Insurers
<b>IADI</b>	<i>International Association of Deposit Insurers</i>
<b>EU</b>	<i>European Union</i>
<b>FSAP</b>	<i>Financial Sector Assessment Program</i>
<b>Fund</b>	<i>Deposit Protection Fund</i>
<b>Methodology</b>	<i>Methodology for calculating the risk-based premium of individual credit institutions</i>
<b>MB</b>	<i>Managing Board</i>
<b>Law</b>	<i>Deposit Protection Law</i>
<b>Directive 2014/49 EU</b>	<i>Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit-guarantee schemes</i>
<b>Directive 2014/59 EU</b>	<i>Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms</i>

# TABLE OF CONTENT

<b>LIST OF ABBREVIATIONS .....</b>	<b>2</b>
<b>INTRODUCTORY REMARKS .....</b>	<b>5</b>
<b>1. BASIC INFORMATION ON DEPOSIT INSURANCE .....</b>	<b>8</b>
1.1. DEPOSIT PROTECTION FUND .....	8
1.2. HARMONISATION OF THE LEGISLATIVE AND INSTITUTIONAL FRAMEWORK WITH THE EU ACQUIS IN THE FIELD OF DEPOSIT INSURANCE SYSTEM.....	10
1.3. MEMBERS OF THE DEPOSIT PROTECTION FUND.....	10
<b>2. LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES .....</b>	<b>13</b>
2.1 TOTAL DEPOSITS.....	13
2.2 DEPOSITS BY PERSONS NOT ENTITLED TO GUARANTEED DEPOSIT PAYOUT .....	15
2.3 DEPOSITS BY PERSONS ENTITLED TO THE GUARANTEED DEPOSIT PAYOUT.....	16
2.4. GUARANTEED DEPOSITS.....	19
<b>3. EXPOSURE OF THE FUND TO CREDIT INSTITUTIONS .....</b>	<b>26</b>
<b>4. ACTIVITIES OF THE FUND IN 2021 .....</b>	<b>30</b>
4.1. GENERAL REMARKS.....	30
4.2. 4.2 METHODOLOGY FOR CALCULATING THE RISK-BASED PREMIUM OF INDIVIDUAL CREDIT INSTITUTIONS .....	31
4.3 INFORMATION ON THE PAYOUT OF GUARANTEED DEPOSITS TO DEPOSITORS OF INVEST BANKA MONTENEGRO IN BANKRUPTCY AND ATLAS BANKA IN BANKRUPTCY .....	32
4.3. LITIGATION .....	34
4.4. INVESTMENT ACTIVITIES IN 2021 .....	34
4.5. NORMATIVE AND LEGAL ACTIVITIES .....	35
4.6. HUMAN RESOURCES AND EDUCATION OF EMPLOYEES.....	36
4.7. INTERNATIONAL COOPERATION.....	37
4.8. OBJECTIVES AND TASKS OF THE FUND IN 2022 .....	37
4.9. EVENTS AFTER THE REPORTING PERIOD.....	38
<b>5. FINANCIAL OPERATIONS OF THE FUND IN 2021 .....</b>	<b>41</b>
<b>5.1. STATEMENT OF FINANCIAL PERFORMANCE (INCOME STATEMENT) OF THE FUND AS AT         31/12/2021 .....</b>	<b>41</b>
<b>5.1.1. TOTAL INCOME .....</b>	<b>41</b>
<b>5.1.2. TOTAL EXPENDITURE.....</b>	<b>42</b>
<b>5.2. STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) .....</b>	<b>44</b>
<b>5.3. STATEMENT OF CHANGES IN CAPITAL.....</b>	<b>46</b>



# **Introductory remarks**

## Introductory remarks

Since the outbreak of the COVID-19 epidemic in Montenegro, the Central Bank of Montenegro has managed not only to divert liquidity from the banking sector to the economy and households, but also to preserve the health of the banking and financial system of Montenegro, and the financial sector has proved to be very resilient.

Montenegro's banking sector remained stable in the period January - December 2021, with high indicators of liquidity and capitalisation. The financial result of Montenegrin credit institutions was positive and the profits were higher compared to the same period last year. Liquidity and capitalisation indicators, as well as the positive financial result recorded point to stable operations of the Montenegrin banking system in the reporting year. High liquidity of the banking sector of Montenegro was achieved, as shown by the basic liquidity indicators which, at the aggregate level, were above the prescribed minimum, while the share of non-performing loans decreased.

NLB Montenegrobanka A.D. Podgorica and Komercijalna banka A.D. Podgorica successfully completed the integration process in November 2021. The integrated credit institution has continued to operate under the name NLB Montenegrobanka A.D. Podgorica.

Deposits with credit institutions amounted to 4,208 million euros at the end of December 2021 and they increased by 24.49% compared to December 2020. Of the total amount of deposits placed with credit institutions, retail deposits accounted for 2,142 million euros or 51.47%, while corporate deposits made up 1,681 million euros or 48.53%. Retail and corporate deposits grew by 25.27% annually, while corporate deposits rose by 23.67%.

At the end of 2019, the Parliament of Montenegro adopted a package of banking laws. While the application of the Law on Credit Institutions and the Law on Resolution of Credit Institutions was subsequently postponed to the beginning of 2022, the Deposit Protection Law was fully implemented by applying the Methodology for calculating the risk-based premium of individual credit institutions starting from 1 January 2021.

Instead of calculating the flat-rate premium, the Fund calculated and collected the risk-based premiums in 2021 in the amount of 16 million euros. The basis for calculating the premium consists of guaranteed deposits (instead of the previous total deposits), the premium rate is uniform (1.2% annually), and credit institutions are classified into 7 risk categories (with a higher risk ratio meaning a higher contribution to total annual regular premium).

The Covid-19 pandemic did not significantly affect the fulfilment of the Fund's obligations during 2021. In 2021, the Fund continued with the activities on the compensation of guaranteed deposits for two banks - Invest Bank Montenegro AD. Podgorica and Atlas Bank AD Podgorica, both being under the bankruptcy proceedings as of 2019.

The Covid-19 pandemic affected the dynamics of compensation of guaranteed deposits during 2021. Namely, during 2021, guaranteed deposits paid out to depositors totalled 1,085,699 euros. Given that non-residents were in the majority of depositors who have not been paid a guaranteed deposit and that travel during the pandemic was risky and restricted, then it is logical that the outstanding amount of guaranteed deposits at the end of the year amounted to some 8,064,232 euros or 7.15% of the total amount of guaranteed deposits of both banks.

On the other hand, activities of bankruptcy trustees in this period were significantly limited in terms of the possibility of selling the assets of banks in bankruptcy, which led to the recovery of funds from the bankruptcy estate in the reporting period of 9.6 million euros (total funds to be recovered from the bankruptcy estate amounted to 63.4 million euros or 56.23% as at 31/12/2021).

In order to ensure greater security of deposits in credit institutions, i.e. the stability of the entire financial system, the Fund concluded a stand-by arrangement with the EBRD in the amount of 50 million euros (June 2020). This arrangement allows the Fund to withdraw the aforesaid funds for the compensation of guaranteed deposits of a bankrupt credit institution for a period of 5 years following the arrangement date, with the repayment period of 7 years. Also, when the own funds currently available to the Fund are taken into account, it can be concluded that there is a high degree of certainty that the Fund can fulfil its basic task, if necessary.

\* \* \*

This Annual Report consists of five parts.

The **first part** gives an overview of the basic features of the deposit guarantee scheme and the assessment of compliance with the EU *acquis Communautaire* in the field of deposit guarantee, which is very important given the connection of the Montenegrin economy with international economic and financial flows.

The **second part** discusses trends and shares of various types of deposits.

The **third part** talks about the Fund's exposure to credit institutions and potential future compensations of guaranteed deposits presented via the coverage ratio.

The **fourth part** discusses the Fund's activities, with a particular focus on the Methodology.

The final **fifth part** gives an overview of the Fund's financial operations. The stability of the Fund's operations can be clearly seen from the indicators of its financial operations and planned activities in 2022.

# **BASIC INFORMATION ON DEPOSIT INSURANCE**

1

# 1. BASIC INFORMATION ON DEPOSIT INSURANCE

## 1.1. Deposit Protection Fund

The Deposit Protection Fund was set up under the Deposit Protection Law (OGRM 40/2003) and it started operating on 18 November 2004 when it was entered into the registry of the Statistical Office of Montenegro. A new Deposit Protection Law (OGM 72/19) was further aligned with the Directive 2014/49/EC and Directive 2014/59/EU. The Law stipulates that the Fund shall 1) calculate the premium; 2) test the resilience of the deposit insurance system and finances resolution of credit institutions; 3) invest its funds; 4) calculate and perform the payout of the guaranteed deposits; 5) pass secondary legislation provided for under this law, and 6) perform other activities in accordance with the Law.

The main activities of the Fund include the protection of deposits held in credit institution and the obligation to compensate guaranteed deposits to depositors in case of the occurrence of a protected event (unavailability of deposits or initiated bankruptcy proceedings against a credit institution), up to the amount prescribed by the Law. Credit institutions licensed by the CBCG are obliged to pay the deposit guarantee premium in the manner established by the Law. The deposit insurance scheme covers deposits placed with a credit institution before or as at the protected event occurrence date. A protected event occurs on the day of passing a decision on initiating bankruptcy proceedings against a credit institution. The Fund compensates guaranteed deposits in the amount of 50,000 euros per depositor/per credit institution and/or 100,000 euros as of Montenegro's EU accession date, regardless of the number and amounts held by a depositor in the credit institution subject to bankruptcy proceedings.

The Fund's bodies are the Managing Board and the Director General.

### ***The Mission***

The Fund's mission is to ensure efficient and expedient payout of guaranteed deposits in a case of bankruptcy initiated in any of the credit institutions in Montenegro.

### ***The Vision***

A stable financial system based on confidence, safety, and protection of depositors.

### ***Objectives***

The main objectives of the Fund are improved confidence of depositors in the Montenegrin banking system and the protection of depositors against loss in case of a bank failure. The Fund attains the aforesaid objectives with clearly defined obligations towards depositors, the promotion of public confidence in the deposit guarantee scheme, and the providing of funds for the protection of insured deposits.



## ***Governance and Management***

The Fund is governed by a five-member Managing Board (MB) appointed by the President of Montenegro, provided that one member is nominated by the Ministry of Finance, one member is nominated by the Central Bank, one member is nominated by the Association of Montenegrin Banks, one member by the Chamber of Economy, and one member is nominated by the President of Montenegro. In accordance with the Law, the MB's meetings are held at least once every three months.

In addition to the powers specified in the Law, the Fund's By-Law specifies that the MB shall adopt internal general acts, consider the implementation of activities, discuss quarterly reports on the movement of deposits, consider annual and semi-annual reports on the investment of funds, decide on the acquisition of immovable property, determine the way of cooperation with government authorities, organisations, and other institutions in Montenegro, define the manner of cooperation with international financial institutions, organisations and deposit insurance schemes, decide on the transfer of certain powers to the Director General of the Fund, and perform other tasks stipulated by the Law and the Fund's By-Law.

Pursuant to its Rules of Procedure, the MB informs the public about its work, decisions, conclusions and positions, as well as other significant issues discussed via press releases posted on the Fund's website, press conferences, interviews, and in other suitable ways.

The Managing Board composition as at 31/12/2021:

- Mr Vesko Lekić, Director of the CBCG Vault, Chairman;
- Mr Dejan Vujačić, Director of the CBCG Supervision Department, Member;
- Ms. Branislava Božović, Ministry of Finance, Member;
- Mr. Darko Radunović, Association of Montenegrin Banks and Financial Institutions, Member
- Mr Vlastimir Golubović, Chamber of Economy of Montenegro, Member;

There was a change in the composition of the Management Board in the reporting year with a new member, Mr. Darko Radunović, being appointed on 12 November 2021 instead of the member Mr. Nebojša Đoković.

In 2021, the Managing Board held 11 (eleven) meetings.

The seat of the Fund is in Podgorica, Miljana Vukova bb Street.

Web address: [www.fzdcg.org](http://www.fzdcg.org) and e-mail: [fzd@fzdcg.org](mailto:fzd@fzdcg.org).

## 1.2. Harmonisation of the legislative and institutional framework with the EU acquis in the field of deposit insurance system

In the process of EU accession, Montenegro has undertaken, inter alia, the obligation to harmonize its financial legislation with the Directive 2014/49/EU and Directive 2014/59/EU. This alignment was done by adopting a legislative package, i.e. the Law on Credit Institutions, Law on Resolution of Credit Institutions, Deposit Protection Law, and Law Amending the Bank Bankruptcy and Liquidation Law.

Deposit Protection Law and the Law Amending the Bank Bankruptcy and Liquidation Law entered into force in early 2020, while the Law on Credit Institutions and the Law on Resolution of Credit Institutions entered into force in early 2022.

The harmonization of the Montenegrin deposit protection system with Directive 2014/49/EU and Directive 2014/59/EU consists of the following:

- Risk-based premium calculation for individual credit institutions applied as of 1 January 2021;
- Deadline for payout commencement of 10 working days in the period 1 January 2021 - 31 December 2023 that is to be shortened to 7 working days afterwards;
- Expanded scope of guaranteed deposit - temporarily high balance introduced;
- The Fund is granted greater autonomy, responsibility and independence through the following activities:
  - testing the resilience of the deposit protection system to stress;
  - possibility of participating in the resolution of credit institutions with a view to preventing the protected event occurrence;
  - possibility of borrowing from other deposit guarantee schemes in the EU member states.

The new Law is also aligned with the Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurance Systems (IADI), which are applied by the World Bank and the International Monetary Fund in the process of assessing compliance and meeting the recommendations of the joint FSAP missions.

## 1.3. Members of the Deposit Protection Fund

In the Montenegrin financial system, which includes credit institutions, microcredit financial institutions, insurance companies, leasing companies, and other financial institutions, the banking sector has the prevailing role. There were twelve credit institutions operating in the country in the reporting year, of which non-residents hold majority equity in ten of them.

On 12 October 2021, NLB Montenegrobanka A.D. Podgorica signed the Agreement on the purchase of Komercijalna banka A.D. Podgorica. The process of integration of these two credit institutions was successfully completed in November 2021. The integrated credit institution continued to operate under the name NLB Montenegrobanka A.D. Podgorica, so on 31/12/2021 there were eleven credit institutions operating in Montenegro`s banking system.

As at 31 December 2021, deposits of all depositors were insured under the Montenegrin deposit guarantee scheme, in accordance with the Law.

Of the total amount of deposits placed with banks, corporate deposits accounted for 48.53% and retail deposits made up the remaining 51.47% of total deposits at the end of the reporting period. Of the total amount of deposits placed with banks, deposits placed by residents accounted for 70.26% and non-resident deposits made up the remaining 29.74% of total deposits at the end of the year.

There was an uptrend in deposits held with credit institutions during the reporting year. Compared year-over-year, retail deposits rose by 25.27% and corporate deposits increased by 23.67% in 2021.

As at 31/12/2021, deposits not covered under the deposit guarantee scheme accounted for 9.14% of total deposits.

# **LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES**



2

## 2. LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES

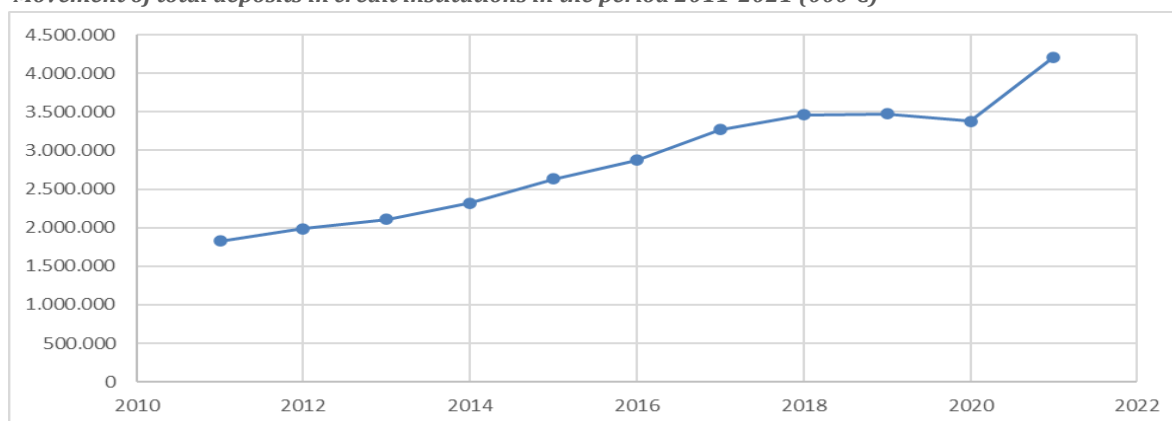
### 2.1 Total deposits

Total deposits in credit institutions amounted to 4,208,099,998 euros as at 31 December 2021, whereas at end-2020 they totalled 3,380,290,799 euros. This is the year-on-year decrease of 24.49% (after the year-on-year decline in 2020 of 2.78%).

Graph 1 shows the trending of total deposits over the period 2011 - 2021.

**Graph 1**

*Movement of total deposits in credit institutions in the period 2011-2021 (000 €)*



\*Source: monthly reports of credit institutions

Total deposits with credit institutions were on a rise during the reporting period, as shown quarterly (2.48% in Q1; 6.30% in Q2, 8.51% in Q3, and 5.32% in Q4).

**Table 1 Total deposits in 2021, by quarters (000 €)**

	31/12/2020	31/03/2021	30/06/2021	30/09/2021	31/12/2021
<b>TOTAL</b>	3,380,291	3,464,040	3,682,118	3,995,461	4,208,100

\*Source: monthly reports of credit institutions

The biggest depositors in credit institutions were households and corporates.

The share of household deposits amounted to 2.16 billion euros or 51.47% of total deposits as at 31 December 2021, making this sector the most significant depositor in the Montenegrin banking system. The number of retail depositors reached 649,374 at end-2021, which is 90.37% of the total number of depositors.

Corporate deposits accounted for 48.53% of total deposits in the system, reaching 2.04 billion euros. The number of wholesale depositors totalled 69,205 at end-2021, which is 9.63% of the total number of depositors.

The total number of depositors was 718,579 at end-2021, which is the year-on-year increase of 3.54% (694,040 in 2020).

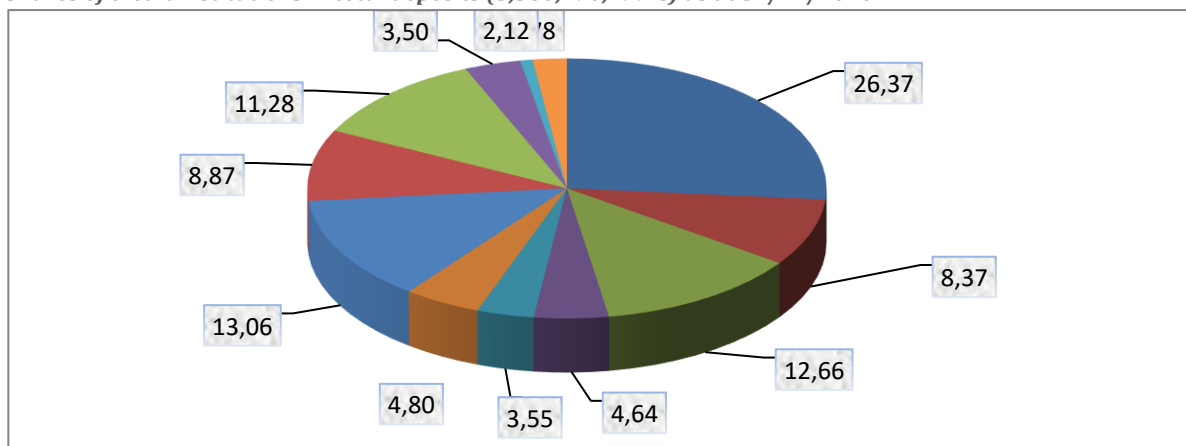
From the once extremely concentrated market and the dominant role of the three largest banks, the situation today is visibly different and the market of credit institutions

is getting closer to the competitive market (at the end of 2008, two banks accounted for 60.33% of the deposit portfolio of the banking sector, while this share of two largest banks stood at 39.52% at end-2021).

The shares of individual credit institutions in total deposit portfolio at end-2020 and end-2021 are shown in Graphs 2 and 3.

**Graph 2**

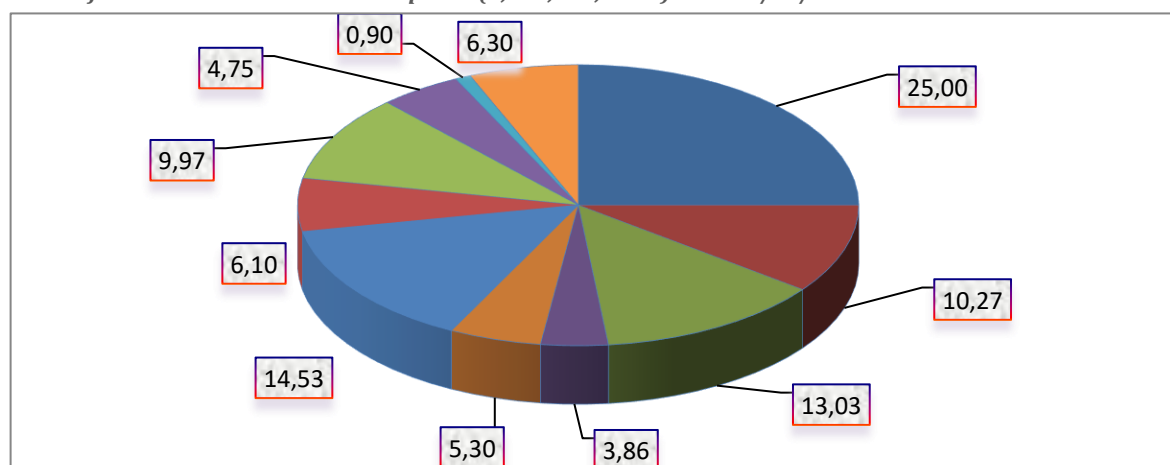
*Shares of credit institutions in total deposits (3,380,290,799 €) as at 31/12/2020*



*\*Source: monthly reports of credit institutions*

**Graph 3**

*Shares of credit institutions in total deposits (4,208,099,998 €) as at 31/12/2021*



*\*Source: monthly reports of credit institutions*

At end-2020, the largest credit institution in terms of total deposits had held 26.37% of total deposits, whereas this share dropped to 25.00% in the reporting year. The second largest credit institution saw the year-on-year increase in its share in total deposits from 13.06% to 14.53%.

Individual shares of credit institutions in total deposits with other credit institutions remained at almost the same levels as at end-2020.

## 2.2 Deposits by persons not entitled to guaranteed deposit payout

Deposits by persons not entitled to the guaranteed deposit payout in line with Article 6 paragraph 2 points 1 to 19 of the Law are presented in Table 2 (data as at end-quarters in 2021).

The 2021 quarterly data point to the increase of these deposits in Q1, Q2, and Q4 (of 2.18%, 8.71%, and 4.08%, respectively), and a minor decline in Q3 (of 0.60%), which resulted in the year-on-year deposit increase of 14.92%. The number of depositors not entitled to the guaranteed deposit payout amounted to 2,642, which is 1.15% more than in the previous year (2,612).

*Table 2 Deposits by persons not entitled to the guaranteed deposit payout, quarterly (in 000 €)*

	31/12/2020	31/03/2021	30/06/2021	30/09/2021	31/12/2021
<b>Deposits of persons not entitled to payout</b>	<b>334,602</b>	<b>341,906</b>	<b>371,683</b>	<b>369,467</b>	<b>384,525</b>
TOTAL DEPOSITS	3,380,291	3,464,040	3,682,118	3,995,461	4,208,100
<b>% share in deposits</b>	<b>9.90</b>	<b>9.87</b>	<b>10.09</b>	<b>9.25</b>	<b>9.14</b>

*\*Source: monthly reports of credit institutions*

This category of deposits accounted for 9.14% of total deposits as at 31/12/2021. Their share in total deposits slightly declined in comparison with end-2020 when it stood at 9.90%.

Deposits by government entities and organisations accounted for the main share of depositors not entitled to the guaranteed deposit payout (47.06%). The share of deposits by investment funds and investment fund management companies amounted to 15.44%.

The share of deposits by financial institutions made up 8.00%, whereas deposits by legal persons engaged in insurance business accounted for 5.25%, and deposits by legal persons with either direct or indirect participation in capital or voting rights of 10% or more in the relevant credit institution made up 6.29%.

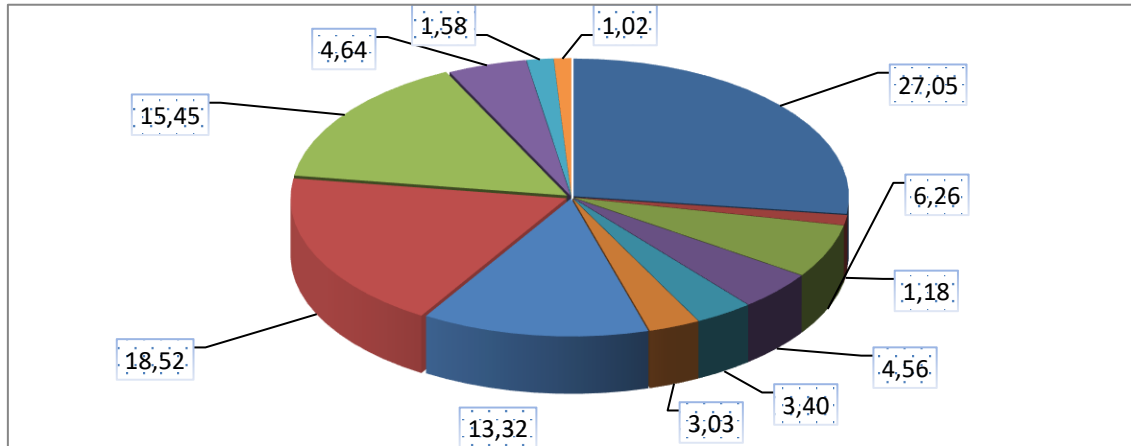
The year-on-year percentage increase of deposits by persons not entitled to the guaranteed deposit payout (of 5.00%) is largely the result of the following changes:

- deposits by government entities and organisations and municipal or other forms of local self-government organisations (an increase of 3.57% or 5.6 million euros);
- deposits by investment funds and investment fund management companies (an increase of 40.77% or 20.6 million euros);
- deposits by investment companies (an increase of 81.50% or 5.8 million euros);
- deposits by obligatory Health Care Fund and Pension and Disability Insurance Fund (an increase of 40.00% or 4.5 million euros);

- deposits by financial institutions (a decline of 34.64% or 9.12 million euros.)

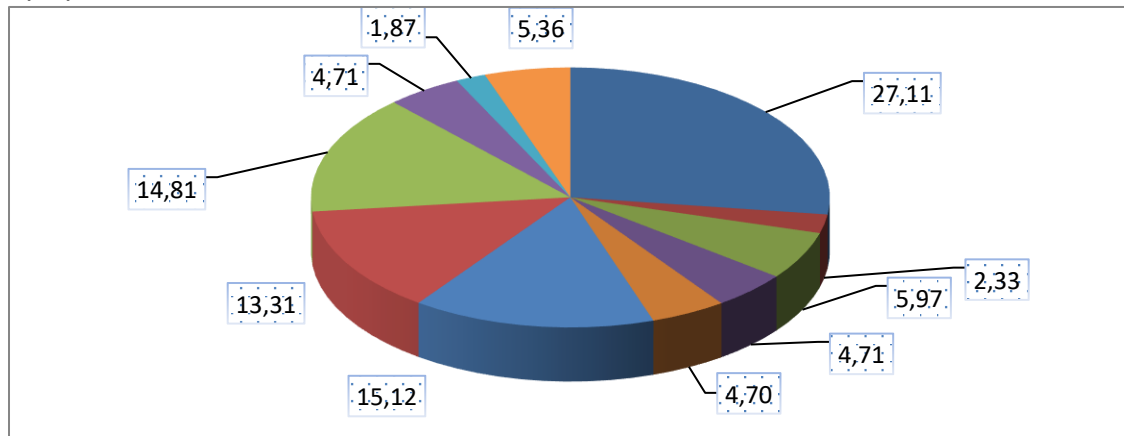
Other categories of deposits by persons not entitled to the guaranteed deposit payout experienced no significant changes at the end of the reporting year as compared to the previous year.

*Graph 4 Deposits by persons not entitled to the guaranteed deposit payout by individual credit institutions as at 31/12/2020*



\*Source: monthly reports of credit institutions

*Graph 5 Deposits by persons not entitled to the guaranteed deposit payout by individual credit institutions as at 31/12/2021*



\*Source: monthly reports of credit institutions

The movement of deposits by depositors not entitled to the guaranteed deposit payout has no direct impact on the deposit protection scheme but it is necessary to track their trending from the aspect of the ratio of total deposits to guaranteed deposits.

### **2.3 Deposits by persons entitled to the guaranteed deposit payout**

All depositors whose deposits are not excluded within the meaning of Article 6 paragraph 2 points 1-19 of the Law are entitled to the guaranteed deposit payout (Table 3).



Deposits by persons entitled to the guaranteed deposit payout, i.e. total deposits by natural and legal persons included in the deposit guarantee scheme as at 31/12/2021 amounted to 3,823,575,016 euros, as compared to 3,045,688,829 as at 31/12/2020. This category of deposits recorded the year-on-year growth of 25.54%.

Quarterly data for 2021 show the growing trend in all quarters (2.51% in Q1, 6.06% in Q2, 9.53% in Q3, and 5.45% in Q4), resulting in a cumulative increase of 25.54% compared to the previous year.

*Table 3 Deposits by persons entitled to the guaranteed deposit payout (000 €)*

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
<b>31/12/2020</b>	3,045,689	1,723,347	1,322,342	56.58	43.42
<b>31/03/2021</b>	3,122,133	1,749,388	1,372,745	56.03	43.97
<b>30/06/2021</b>	3,310,436	1,786,034	1,524,402	53.95	46.05
<b>30/09/2021</b>	3,625,994	1,885,665	1,740,329	52.00	48.00
<b>31/12/2021</b>	<b>3,823,575</b>	<b>2,142,497</b>	<b>1,681,078</b>	<b>56.03</b>	<b>43.97</b>
<b>31/12/2021 / 31/12/2020</b>	25.54	24.32	27.13		
<b>31/12/2021 / 31/12/2020</b>	777,886	419,150	358,736		

\*Source: monthly reports of credit institutions

Deposits by natural persons accounted for the main share in the structure of deposits by persons entitled to the guaranteed deposit payout (90.86%). Retail deposits made up 56.03% and wholesale deposits accounted for 43.97%.

The structure of these deposits did not significantly change in the reporting year in comparison with 2020. Both categories of deposits recorded minor changes in the reporting period.

There were 715,937 depositors entitled to the guaranteed deposit payout as at 31/12/2021.

*Table 3.1 Number of depositors entitled to the guaranteed deposit payout*

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
<b>31/12/2020</b>	691,428	626,363	65,065	90.59	9.41
<b>31/03/2021</b>	675,752	610,981	64,771	90.41	9.59
<b>30/06/2021</b>	685,485	621,182	64,303	90.62	9.38
<b>30/09/2021</b>	696,929	630,149	66,780	90.42	9.58
<b>31/12/2021</b>	<b>715,937</b>	<b>649,374</b>	<b>66,563</b>	<b>90.70</b>	<b>9.30</b>

<b>31/12/2021 / 31/12/2020</b>	3.54	3.67	2.30		
<b>31/12/2021 / 31/12/2020</b>	24,509	23,011	1,498		

\*Source: monthly reports of credit institutions

In the structure of deposits of persons entitled to the guaranteed deposit payout, deposits by residents account for 70.26% (52.70% deposits by natural persons - residents entitled to the payout and 47.30% deposits by legal entities - residents entitled to the payout). Non-residents accounted for 29.74% (63.90% deposits by natural persons - non-residents entitled to the payout and 36.10% deposits by legal entities - non-residents entitled to the payout).

*Table 3.1.1 Structure of deposits of persons entitled to guaranteed deposit payout (000 €), residents and non-residents*

	Deposits by persons entitled to the guaranteed deposit payout u 000 €				
	TOTAL	Resident	Non-resident	Resident	Non-resident
	1	2	3	%	%
<b>31/12/2020</b>	<b>3.045.688.829</b>	2.297.180.799	748.508.030	75,42	24,58
<b>31.03.2021.</b>	<b>3.122.133.255</b>	2.320.535.084	801.598.171	74,33	25,67
<b>30.06.2021.</b>	<b>3.310.435.589</b>	2.401.999.847	908.435.742	72,56	27,44
<b>30.09.2021.</b>	<b>3.625.993.914</b>	2.641.796.909	984.197.005	72,86	27,14
<b>31/12/2021.</b>	<b>3.823.575.016</b>	<b>2.686.605.930</b>	<b>1.136.969.086</b>	<b>70,26</b>	<b>29,74</b>
<b>31.12.21. / 31.12.20.</b>	<b>25,54</b>	<b>16,95</b>	<b>51,90</b>		
<b>31.12.21. - 31.12.20.</b>	<b>777.886.187</b>	<b>389.425.131</b>	<b>388.461.056</b>		

Of the total number of depositors entitled to the guaranteed deposit payout, 49,714 had liabilities towards banks that exceeded their deposits with the banks (these depositors would not be repaid their guaranteed deposits as they would be set off against their due liabilities). Column 1 in Table 3.2 shows the number of depositors whose deposits exceeded their liabilities to banks, that is, the number of depositors who would be entitled to the guaranteed deposit payout by the Fund in case of hypothetical bankruptcy of all banks (666,218 depositors).

*Table 3.2 Number of depositors with deposits<sup>1</sup> exceed their due liabilities to banks*

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
<b>31/12/2020</b>	646,788	586,060	60,728	0.91	0.09
<b>31/03/2021</b>	625,541	565,314	60,227	0.90	0.10
<b>30/06/2021</b>	634,471	572,853	61,618	0.90	0.10
<b>30/09/2021</b>	645,048	582,306	62,742	0.90	0.10
<b>31/12/2021</b>	<b>666,218</b>	<b>602,243</b>	<b>63,975</b>	<b>0.90</b>	<b>0.10</b>

Guaranteed deposit is established for every individual depositor by reducing due liabilities of a depositor with a bank, including any accrued interest, from aggregate deposits held by the depositor with that bank as at the protected event date (hence the difference in the number of depositors in Table 3.2 and Table 3.1 because a certain number of depositors have due liabilities that exceed their deposits).

31/12/2021 / 31/12/2020	1.03	1.03	1.05		
31/12/2021 / 31/12/2020	19,430	16,183	3,247		

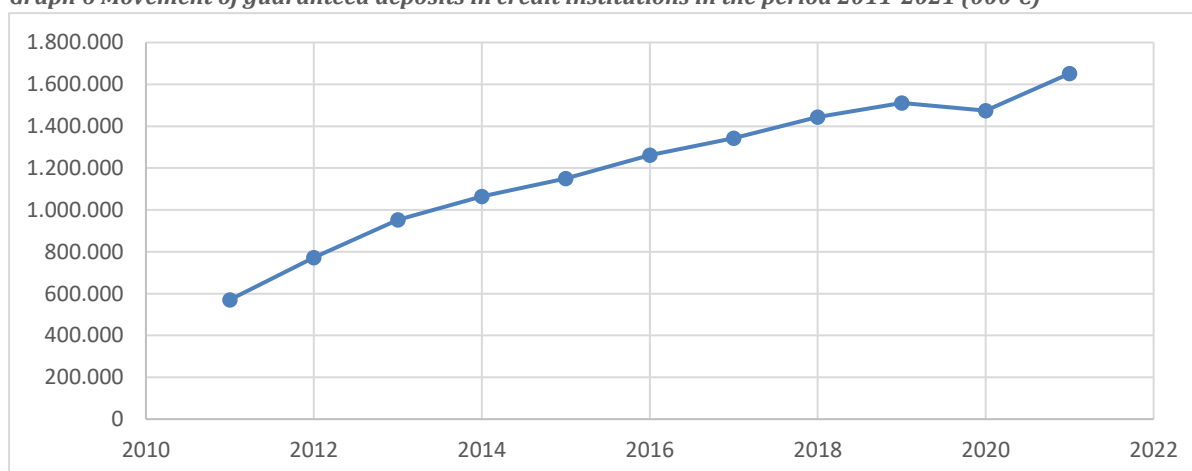
\*Source: monthly reports of credit institutions

## 2.4. Guaranteed deposits

Guaranteed deposits amounted to 1,651,383,821 euros as at 31/12/2021, as compared to 1,474,729,638 euros as at 31/12/2020. **This is the year-on-year increase of 11.98%.** On 31/12/2021, guaranteed deposits were 176.6 million euros higher than as at 31/12/2020.

Graph 6 shows the trending of guaranteed deposits over the period 2011 - 2021.

*Graph 6 Movement of guaranteed deposits in credit institutions in the period 2011-2021 (000 €)*



\*Source: monthly reports of credit institutions

On 2 December 2019, the Parliament of Montenegro adopted the Deposit Protection Law ("Official Gazette of Montenegro" no. 072/19 of 26 December 2019), which entered into force on 3 January 2020.

Deposits representing a temporary high balance are insured in the additional amount of up to 30,000 euros, six months after the amount has been credited or from the moment when such deposits become legally transferable.

***From the date of entry into force of the new law until the accession of Montenegro to the European Union, the Fund shall continue to calculate and pay the guaranteed deposit up to the amount of 50,000 euros per depositor/per credit institution. As of the accession date, the coverage will increase to 100,000 euros.***

Deposits by persons entitled to the guaranteed deposit payout were on a mild downtrend in Q1 (0.36%) and they rose in all other quarters (2.09% in Q2, 6.69% in Q3, and 3.18% in Q4).

As at 31/12/2020, guaranteed deposits made up 48.42% of eligible deposits, while at the end of the reporting year this share was 43.19%. Their respective shares in total deposits amounted to 43.63% and 39.24%.

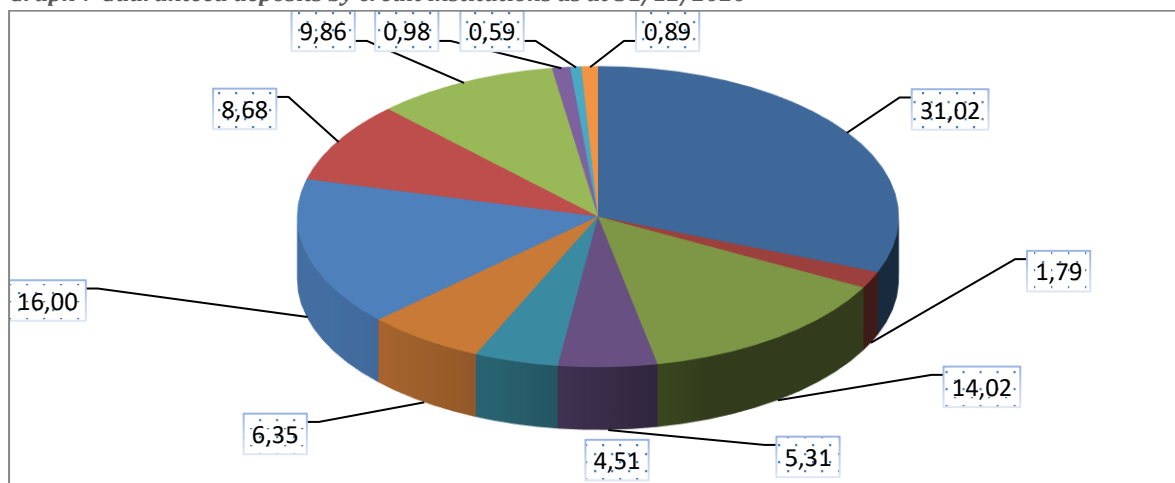
**Table 4 Share of guaranteed deposits in eligible deposits in 2021 (000 €)**

	31/12/2020	31/03/2021	30/06/2021	30/09/2021	31/12/2021
<b>GUARANTEED DEPOSITS</b>	<b>1,474,730</b>	<b>1,469,484</b>	<b>1,500,169</b>	<b>1,600,524</b>	<b>1,651,384</b>
<b>ELIGIBLE DEPOSITS</b>	3,045,689	3,122,133	3,310,436	3,625,994	3,823,575
<b>SHARE OF GD* IN ED</b>	<b>48.42%</b>	<b>47.07%</b>	<b>45.32%</b>	<b>44.14%</b>	<b>43.19%</b>

\*Source: monthly reports of credit institutions; \*Guaranteed deposits = GD; \*\* Eligible deposits = ED;

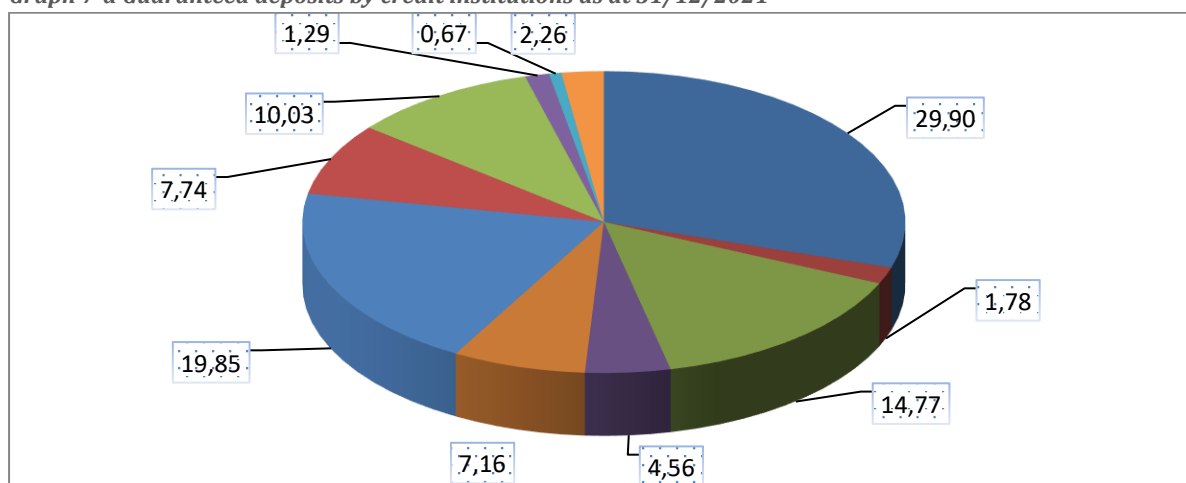
The structure of guaranteed deposits by individual credit institutions was significantly different at end-2021 compared to 2020.

**Graph 7 Guaranteed deposits by credit institutions as at 31/12/2020**



\*Source: monthly reports of credit institutions

**Graph 7-a Guaranteed deposits by credit institutions as at 31/12/2021**



\*Source: monthly reports of credit institutions

Two credit institutions held 49.75% of total guaranteed deposits, which is an increase compared to the end of 2020 when this percentage stood at 47.02%.

The credit institution holding the majority of guaranteed deposits saw a minor decline in the share in total guaranteed deposits from 31.02% to 29.90%. The second

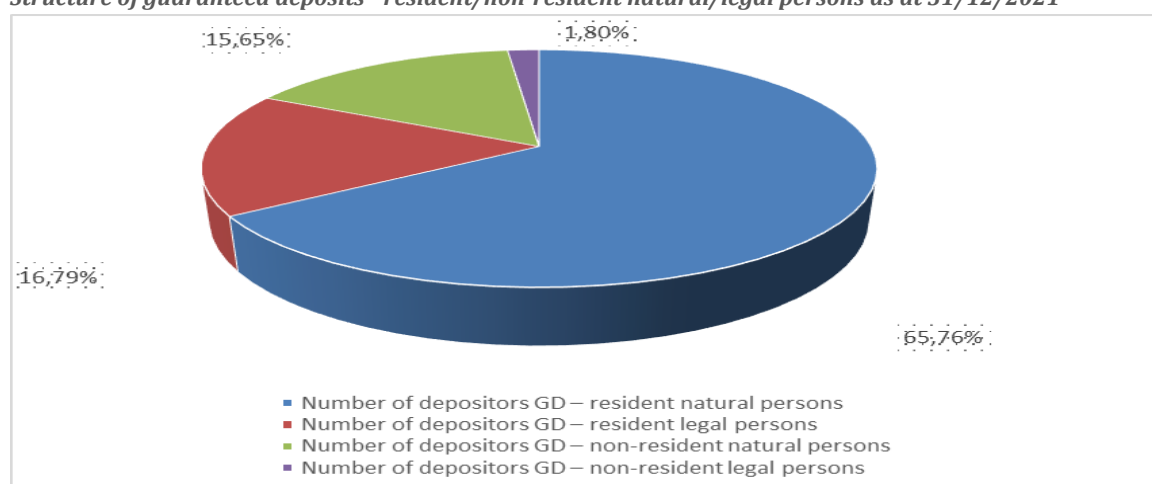
largest credit institution in terms of size of guaranteed deposits saw a more pronounced increase in their share from 16.00% to 19.85%.

At the end of the reporting period, two credit institutions holding 39.52% of total deposits also held 49.75% of guaranteed deposits.

From the aspect of the structure of guaranteed deposits by category, deposits by resident natural persons made up 65.76%, deposits by resident legal persons accounted for 16.79%, deposits by non-resident natural persons made up 15.65%, and non-resident legal persons' deposits accounted for 1.80% of total guaranteed deposits.

*Graph 7-b*

*Structure of guaranteed deposits - resident/non-resident natural/legal persons as at 31/12/2021*



*Table 4.1 Guaranteed deposits (natural and legal persons) in 000 €*

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
31/12/2020	1,474,730	1,214,452	260,277	82.35	17.65
31/03/2021	1,469,484	1,214,249	255,234	82.63	17.37
30/06/2021	1,500,169	1,225,709	274,459	81.70	18.30
30/09/2021	1,600,524	1,282,726	317,798	80.14	19.86
31/12/2021.	<b>1,651,384</b>	<b>1,344,454</b>	<b>306,929</b>	<b>81.41</b>	<b>18.59</b>
<b>31/12/2021 / 31/12/2020</b>	<b>11.98</b>	<b>10.70</b>	<b>17.92</b>		
<b>31/12/2021 / 31/12/2020</b>	<b>176,654</b>	<b>130,002</b>	<b>46,652</b>		

\*Source: monthly reports of credit institutions

Compared to 31/12/2020, guaranteed deposits increased by 11.98% at the end of the reporting year (those of natural persons rose 10.70% and those of legal persons increased by 17.92%).

*Table 4.2 Number of depositors entitled to payout and the number of depositors whose deposit exceeds their due liabilities to the bank who hold the guaranteed deposit*

	NUMBER OF DEPOSITORS ENTITLED TO THE GUARANTEED DEPOSIT PAYOUT			NUMBER OF DEPOSITORS (AFTER DEDUCTING THEIR DUE LIABILITIES) HOLDING GUARANTEED DEPOSIT ≤ 50,000 €					
	TOTAL	Natural persons	Legal persons	TOTAL	Natural persons	Legal persons	Coverage %	Coverage %	Coverage %
	1	2	3	4	5	6	7 (=4/1)	8 (=5/2)	9 (=6/3)
31/12/2020	691,428	626,363	65,065	646,788	586,060	60,728	93.54	93.57	93.33
31/03/21	675,747	610,975	64,772	625,541	565,314	60,227	92.57	92.53	92.98
30/06/21	687,381	621,562	65,819	634,471	572,853	61,618	92.30	92.16	93.62
30/09/21	696,924	630,144	66,780	645,048	582,306	62,742	92.56	92.41	93.95
<b>31/12/2021</b>	<b>715,932</b>	<b>649,368</b>	<b>66,564</b>	<b>666,218</b>	<b>602,243</b>	<b>63,975</b>	<b>93.06</b>	<b>92.74</b>	<b>96.11</b>

\*Source: monthly reports of credit institutions

As at 31 December 2021, the number of depositors holding guaranteed deposits after the deduction of their due liabilities amounted to 666,218, which is 93.06% of the total number of depositors entitled to the payout of guaranteed deposit (715,932). The number of depositors with a deposit ≤ 5 euros had a large share in the total number of depositors (30.15%).

The number of depositors holding guaranteed deposit ≤ 50,000 euros at the end of 2021 amounted to 656,186, which is 98.50% of the total number of depositors holding guaranteed deposit (666,218). Depositors with a guaranteed deposit of ≤ 50,000 euros made up 69.63% of total guaranteed deposits (1,651,383,821 €) with the following structure: 595,246 or 98.98% of the total number of depositors were natural persons entitled to the payout of guaranteed deposit and 60,940 or 95.25% were legal persons entitled to the payout of guaranteed deposit.

The number of depositors holding guaranteed deposit > 50,000 euros amounted to 10,032, which is 1.50% of the total number of depositors holding guaranteed deposits. Depositors entitled to guaranteed deposit payout holding > 50,000 euros worth of deposits accounted for 28.66% of total guaranteed deposits (501,600,000 €), with the following structure: 6,997 were natural persons (1.61% of total private depositors holding guaranteed deposits) and 3,035 were legal persons (4.74% of legal depositors holding guaranteed deposits).

Table 4.3 Guaranteed deposits (natural and legal persons) in 000 €

	Balance as at: 31/12/2021	Amount (in €)	Number of depositors	Due liabilities	Balance	Number of depositors holding GD	% of coverage of GD depositors ≤ 50,000 €
		A	B	C	D	E	

<b>I</b>	<b>Deposits by persons entitled to the guaranteed deposit payout (legal and natural = 1 + 3)</b>	<b>3,823,574,940</b>	<b>715,932</b>	<b>19,743,350</b>	<b>3,820,605,946</b>	<b>666,218</b>	
<b>1</b>	<b>Deposits by natural persons entitled to the guaranteed deposit payout</b>	<b>2,142,496,750</b>	<b>649,368</b>	<b>3,605,635</b>	<b>2,139,655,367</b>	<b>602,243</b>	
	≤5,000€	1,417,667	243,755	1,333,236	220,573	226,263	
<b>1a</b>	>5 ≤50,000€	995,752,353	398,571	2,113,400	994,383,876	368,983	<b>98.84</b>
<b>1b</b>	>50,000 ≤100,000€	294,992,464	4,541	3,921	294,858,387	4,514	
<b>1c</b>	>100,000€	850,334,266	2,501	155,079	850,192,532	2,483	
	<b>GUARANTEED DEPOSITS BY NATURAL PERSONS</b>				<b>1,344,454,448</b>	<b>602,243</b>	
<b>3</b>	<b>Deposits by legal persons entitled to the guaranteed deposit payout</b>	<b>1,681,078,190</b>	<b>66,564</b>	<b>16,137,715</b>	<b>1,680,950,579</b>	<b>63,975</b>	
	≤5€	37,996	17,468	1,038,226	38,432	16,623	
<b>3a</b>	>5 ≤50,000€	156,252,069	45,979	5,494,842	155,140,940	44,317	<b>95.26</b>
<b>3b</b>	>50,000 ≤100,000€	81,878,722	1,165	400,816	81,722,471	1,140	
<b>3c</b>	>100,000€	1,442,909,404	1,952	9,203,830	1,444,048,736	1,895	
<b>4</b>	<b>GUARANTEED DEPOSITS BY LEGAL PERSONS</b>				<b>306,929,372</b>	<b>63,975</b>	
<b>5</b>	<b>GUARANTEED DEPOSITS (2+ 4)</b>				<b>1,651,383,821</b>	<b>666,218</b>	<b>98.49</b>

\*Source: monthly reports of credit institutions

Total deposits of depositors entitled to guaranteed deposit payout (eligible deposits) after the deduction of their due liabilities amounted to 3,820,605,946 euros as at 31/12/2021, of which eligible deposits by natural persons amounted to 2,139,655,367 or 56.01%, while eligible deposits by legal persons totalled 1,680,950,579 or 43.19%. Total guaranteed deposits accounted for 48.48% of total eligible deposits.

Total guaranteed deposits of natural persons amounted to 1,344,454,448 euros or 81.41% of total guaranteed deposits (35.19% of total eligible deposits).

The total number of private depositors holding deposits up to 50,000 euros was 595,246 and their deposits amounted to 994,604,448 euros or 73.98% of total guaranteed deposits of natural persons (46.48% of total eligible deposits of natural persons).

The number of entitled private depositors with deposit exceeding 50,000 euros amounted to 6,997 and in case of a bank failure they would be repaid 349,850,000 euros or 26.02% of total guaranteed deposits of natural persons (16.35% of total eligible deposits of natural persons).

Total guaranteed deposits of legal persons amounted to 306,929,372 euros or 18.59% of total guaranteed deposits (8.03% of total eligible deposits).

The number of legal depositors holding deposits up to 50,000 euros amounted to 60,940 and their guaranteed deposits total 155,179,372 euros or 50.56% of total guaranteed deposits of legal persons (9.23% of total eligible deposits of legal persons).

The number of entitled legal depositors with deposit exceeding 50,000 euros amounted to 3,035 and in case of a bank failure they would be repaid 151,750,000 euros or 49.44% of total guaranteed deposits of legal persons (9.03% of total eligible deposits of legal persons).

As the deposit insurance system is basically designed to protect small and unsophisticated depositors (depositors who either do not have or have very limited knowledge of financial management), such a high coverage of depositors (98.49%) that would be fully compensated is an indication that the amount of 50,000 euros is a well-designed coverage and in line with the economic power of depositors.

Pursuant to Directive 2014/49/EU, the mandatory coverage of guaranteed deposits in the EU Member States is 100,000 euros. Given that the coverage percentage in our system is very high, we consider it justifiable to retain the amount of guaranteed deposit at the level of 50,000 euros until Montenegro's EU accession date, as stipulated in the Law.

Average amount of guaranteed deposit is the indicator used to assess the adequacy of the level of guaranteed deposit.<sup>2</sup>

**Table 4.4** *Average amount of guaranteed deposit*

<b>Average amount of guaranteed deposit</b>			
	<b>31/12/2020.</b>	<b>31/12/2021</b>	Increase
Legal persons	4,286	4,798	11.94 %
Natural persons	2,072	2,232	7.73 %
<b>TOTAL</b>	<b>2,280</b>	<b>2,479</b>	<b>8.71 %</b>

---

<sup>2</sup>Taking into account that the number of depositors with a deposit below 5 euros has a large share in the total number of depositors (36.45%), i.e. 242,886 depositors are entitled to 259,000 euros worth of guaranteed deposits (average per depositor 1.06 euros), if this category of depositors were excluded, the average amount of thus calculated guaranteed deposit would amount to 4,055 euros as at 31/12/2021, which would hypothetically be 63.57% more than the calculated average guaranteed deposit (2,479 euros).



## **FUND`S EXPOSURE TO CREDIT INSTITUTIONS**

3

### 3. Exposure of the Fund to credit institutions

Total exposure of the Fund to credit institutions is represented with the coverage ratio, i.e. the Fund's assets to liabilities ratio in case of a hypothetical bankruptcy of all banks (the Fund's assets/total guaranteed deposits).

The Fund's resources amounted to 117,440,242 euros as at 31/12/2021, while the guaranteed deposits totalled 1,651,383,821.

The coverage ratio is the internationally recognized ratio for the measurement and indication of the degree of coverage of guaranteed deposits. The coverage of guaranteed deposits with the Fund's assets at the aggregate level amounted to 7.11% as at 31/12/2021 (for the guaranteed deposit ≤ 50.000 €), as compared to 6.22% the year before.

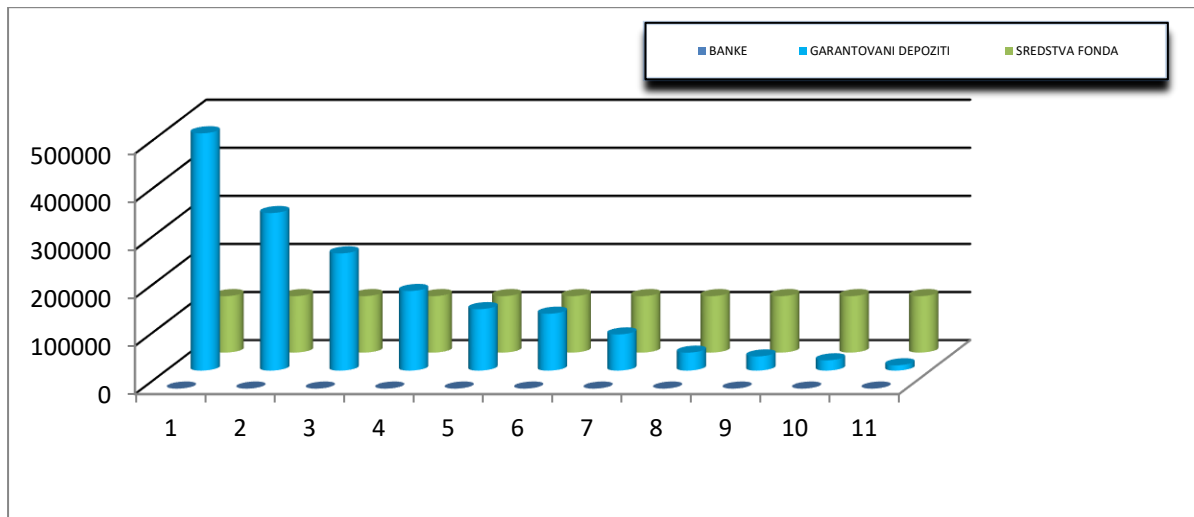
The Fund's exposure to individual credit institutions (the ratio of Fund's assets to the guaranteed deposits in individual credit institutions – the coverage of guaranteed deposits by the credit institutions) as at 31 December 2021 is presented in Table 5 and Graph 8 below.

**Table 5**  
Percentage of coverage of guaranteed deposits with the Fund's resources (000 €)

CREDIT INSTITUTIONS	GUARANTEED DEPOSITS	FUND'S ASSETS	Coverage 1 (%)	Fund's assets with the EBRD funds	Coverage 2 (%)	Lacking funds 1	Lacking funds 2
1	2	3	4	5	6	7	8
1	493,714	117,440	23.79	167,440	33.91	-376,273	-326,274
2	327,804	117,440	35.83	167,440	51.08	-210,364	-160,364
3	243,859	117,440	48.16	167,440	68.66	-126,419	-76,419
4	165,609	117,440	70.91	167,440	101.11	-48,169	
5	127,830	117,440	91.87	167,440	130.99	-10,389	
6	118,287	117,440	99.28	167,440	141.55	-847	
7	75,234	117,440	156.10	167,440	222.56		
8	37,282	117,440	315.00	167,440	449.11		
9	29,427	117,440	399.09	167,440	569.01		
10	21,336	117,440	550.42	167,440	784.76		
11	11,001	117,440	1,067.57	167,440	1,522.08		
<b>TOTAL</b>	<b>1,651,384</b>	<b>117,440</b>	<b>7.11</b>	<b>167,440</b>	<b>10.14</b>		

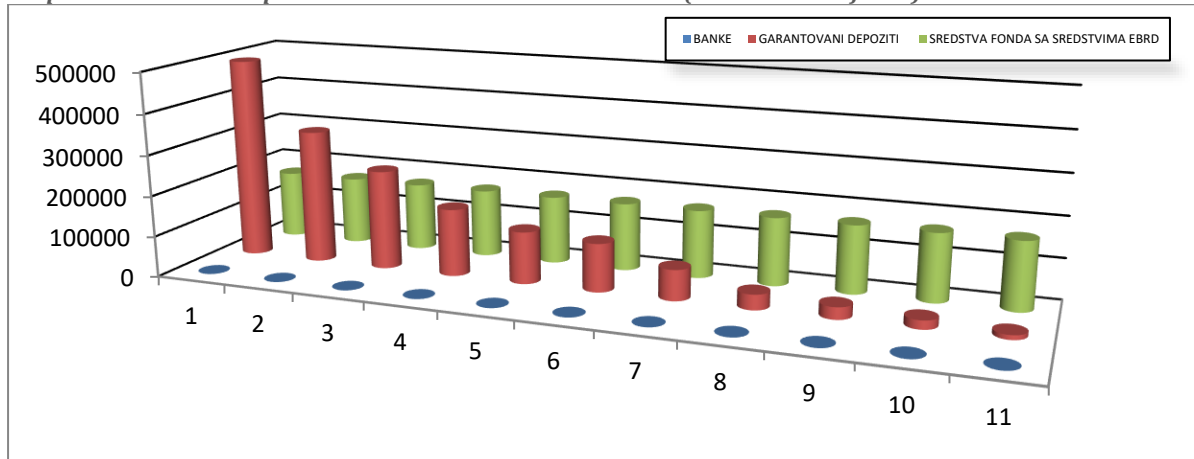
\*Source: monthly reports of credit institutions and the Fund's bookkeeping records

Graph 8 The Fund's exposure to individual credit institutions (without the EBRD funds)



\*Source: monthly reports of credit institutions and the Fund's bookkeeping records

**Graph 8.1 The Fund's exposure to individual credit institutions (with the EBRD funds)**



\*Source: monthly reports of credit institutions and the Fund's bookkeeping records

In case of introduction of bankruptcy in any of the 8 credit institutions, the Fund's assets and funds provided from the Stand-by arrangement with the EBRD (this arrangement is valid until 2025) would be sufficient for the compensation of all depositors in any of the 8 credit institutions (as represented in Table 5, column **"lacking funds 2"**).

The Fund would provide the lacking funds from additional sources in one of the manners prescribed in the Law (charging the extraordinary premium; borrowing from the Budget of Montenegro; borrowing from foreign banks and financial institutions; and issuing securities; or a combination of two or more of the listed sources).

Pursuant to the Law, the aimed coverage ratio is at least 10% of the guaranteed deposits. When the Fund's resources reach the level of 10% of guaranteed deposits, the MB of the Fund is obliged to pass a decision on reducing the regular premium rate and/or temporary discontinuation of the regular premium collection.

Should the Fund's resources fall below 6% of total guaranteed deposits in all credit institutions, the regular premium rate will be specified so as to ensure the reaching of the minimum targeted level within six years.

With a view to preserving the banking system stability and protecting depositors, the new Law provides for the option to use the Fund's resources for the resolution of credit institutions.

In July 2020, the Fund concluded the stand-by arrangement with the EBRD regulating the withdrawal of 50 million euros in the following five year for the purpose of guaranteed deposits payout. With these funds, which the EBRD made available to the Fund (only in case of a shortfall in funds necessary for guaranteed deposit payout), the coverage ratio amounts to 10.14% (Table 6).

*Table 6 Coverage ratio for guaranteed deposits in the system*

<b>Guaranteed deposits</b> <b>31/ 12/ 2021</b>	<b>Fund's assets</b> <b>31/ 12/ 2021</b>	<b>% of coverage of</b> <b>guaranteed deposits</b>
<b>1</b>	<b>2</b>	<b>2/1</b>
1,651,383,821	117,440,242 <sup>3</sup>	7.11%
1,651,383,821	167,440,242 <sup>4</sup>	10.14%

\*Source: monthly reports of credit institutions and the Fund's bookkeeping records

---

<sup>3</sup>Fund's resources (premiums, donations and operating income of the Fund)

<sup>4</sup>Fund's resources increased for the funds secured from the EBRD loan (50 million euros)

**ACTIVITIES OF THE FUND  
IN 2021**

4

## 4. ACTIVITIES OF THE FUND IN 2021

### 4.1 General remarks

Activities of the Fund in 2021 were realized in three segments:

- the priority activity that involved the drafting of the Methodology for calculating the risk-based premium of individual credit institutions and communication with credit institutions in order to more adequately clarify and present the advantages of this premium calculation;
- activities within the joint project with the EBRD aimed at strengthening the Fund` assets and investment management capabilities;
- continuation of guaranteed deposit payout to depositors of bankrupt credit institutions.
- Regional cooperation

In addition to the aforementioned activities, other planned activities and tasks were implemented in accordance with the Work Program of the Fund for 2021.

The Fund has continued with the implementation of the Integrity Plan which represents a set of measures of a legal and factual nature that prevent and/or eliminate potential and actual risks that could affect the lawful, efficient, economic, effective, and professional functioning of the Fund and favour the occurrence and development of corruption and other misuses.

A donor-funded assistance was extended by the EBRD, which ensures the funding of the project ***“Strengthening the practice of asset and investment management of the Deposit Protection Fund”***. For the implementation of the project, a contract was concluded with the selected consultant, a consortium of consultants led by PriceWaterhouseCoopers Consulting d.o.o. Belgrade.

During the reporting period, work was done on the new Investment Policy and Investment Strategy and supporting acts and methodologies, as well as the preparation of materials for the selection of a professional company for asset and investment management of the Fund. The obligation of the consultant is to prepare a new Investment Policy and Strategy with supporting acts and methodologies as well as the selection of a professional asset management company (AMC).

Also, the Fund hosted a regional EFDI conference at end-September with an emphasis on the exchange of experiences during the Covid-19 pandemic. The former Director General, Mr. Predrag Marković, thanked his colleagues from the region on a successful longstanding cooperation and announced his retirement.

Aiming at better and faster availability of information on the work of the Fund, the website is continuously upgraded with a view to meeting the requirements for informing depositors and good practice.

## **4.2 Methodology for calculating the risk-based premium of individual credit institutions**

The legal basis for the adoption of the Methodology for calculating the risk-based premium of individual credit institutions is contained in Article 36 paragraph 1 of the Law.

Directive 2014/49/EU harmonizes the mechanisms of the deposit protection system and requires the collection of risk-based premiums and in accordance with Article 13 thereof, the amount of deposit protection premium collected by the Fund is based on the amount of guaranteed deposits and risk profile of each credit institution.

This Methodology allows the Fund to calculate the risk profile of each individual credit institution in the system for the purposes of calculating the deposit protection premium. The Methodology was adopted by the Management Board of the Fund, subject to the prior approval by the Central Bank of Montenegro. After Montenegro's accession to the EU, the Fund shall submit the Methodology to the European Banking Authority.

The Methodology is systematized within 5 chapters:

- I. Basic provisions
- II. Methodology objectives and principles
- III. Calculation of risk profile of individual credit institutions
- IV. Premium calculation
- V. Transitional and final provisions

### **Methodology for calculating the risk-based premium of individual credit institutions is applied as of 1 January 2021.**

One of the basic activities of the Fund during 2021 was the implementation of the Methodology and communication with credit institutions with a view to ensuring a transparent and adequate explanation and application of the premium calculation. At the event organised by the Association of Montenegrin Banks on 16 February 2021, the Fund presented the Methodology to credit institutions to acquaint them with the new methods of calculating and charging the risk-based premium.

In accordance with the Law and the Methodology, and based on the application of the calculation of the annual target amount, in Q3 2020, the MB of the Fund set the annual target amount of premium for 2021 at 16 million euros and performed a quarterly calculation of the regular premium for 2021 accordingly. Taking into account that the amount of the premium was set by a decision, the adjustment coefficient was used to adjust the sum of unadjusted quarterly premiums of all credit institutions in order to reach the annual target amount of 16 million euros.

The calculation of the first and second instalments of the regular premium for 2021 was based on the rating determined with the data available as at 31/12/2019 while the correction of the third instalment (early July 2021) was calculated on the basis of the rating determined with the data obtained from the Central Bank of Montenegro and available as at 31/12/2020 and averages at the level of the Montenegrin banking system for 2020.

Based on the aforesaid Methodology, credit institutions are classified into seven risk classes (the basis for classification into risk classes is the data as at 31 December 2020) as follows:

Overview of rating/risk classes of credit institutions in 2021

Three credit institutions with a share in total guaranteed deposit of 39.16% are classified in class 3, i.e. being of average risk and with 100% premium calculation.

Two credit institutions with a share in total guaranteed deposit of 10.44% are classified in class 2, with 90% premium calculation.

Four credit institutions with a share in total guaranteed deposit of 24.81% are classified in class 4, with 110% premium calculation.

There is one credit institution in each of the other risk classes.

Risk class	No of credit institution	%
1	1	0,89
2	2	10,44
3	3	39,16
4	4	24,83
5	1	15,99
6	1	8,69
7		

Compared to 2019, the rating of credit institutions in 2020, based on information and data on their operations in that year (used to calculate their risk profiles in order to determine the regular premium for 2021), improved in the case of two credit institutions, deteriorated for three credit institutions, and remained unchanged for other credit institutions.

The application of the Methodology in calculating the premium shows the Fund's exposure to every individual credit institution expressed through the calculated degree of business risk of an individual credit institution and reflects the possibility of a protected event in the credit institution, i.e. in accordance with the law, the use of the Fund's resources for resolution of a credit institution.

### **4.3 Information on the payout of guaranteed deposits to depositors of Invest banka Montenegro in bankruptcy and Atlas banka in bankruptcy**

#### **a) INVEST BANKA MONTENEGRO - in bankruptcy**

On 4 January 2019, the Central Bank of Montenegro adopted a Decision no. 0101-10202-3/2018 on initiating bankruptcy proceedings against Invest Bank Montenegro A.D. Podgorica, which triggered the occurrence of the protected event as of the same



date, in accordance with the provisions of the Deposit Protection Law (Official Gazette of Montenegro 44/10, 40/11, and 47/15).

Total deposits amount to 39,867,785.50 euros for 2,981 depositors and **calculated guaranteed deposits total 22,383,240.36 euros for 2,732 depositors.**

**As at 31/12/2021, the total amount of paid out deposits reached 21,822,183.40 euros, which accounts for 97.50% of total calculated guaranteed deposits**, i.e. overall obligation of the Fund for guaranteed deposit compensation (the amount paid out in the reporting year was **89,792.20 euros** or 0.40% to compensate 7 depositors).

As at the same date, the total collected amount from the bankruptcy estate of Invest Bank Montenegro amounted to **18,383,240 euros** or **82.12% of total claims** (the collected amount in the reporting year was **683,240 euros**).

#### **b) ATLAS BANKA - in bankruptcy**

On 5 April 2019, the Central Bank of Montenegro adopted a Decision no. 0101-3292-4/2019 on initiating bankruptcy proceedings against Atlas Banka A.D. Podgorica, which triggered the occurrence of the protected event as of the same date, in accordance with the provisions of the Deposit Protection Law (Official Gazette of Montenegro 44/10, 40/11, and 47/15).

Total deposits amount to 186,510,193.11 euros for 93,729 depositors and **calculated guaranteed deposits total 90,318,393 euros for 90,098 depositors.**

**As at 31/12/2021, the total paid out amount reached 82,815,217.88 euros**, which accounts for **91.70%** of total calculated guaranteed deposits, i.e. overall obligation of the Fund for guaranteed deposit compensation (the amount paid out in the reporting year was **995,907.24 euros** or 1.10% to compensate 185 depositors).

As at the same date, the total collected amount from the bankruptcy estate of Atlas banka amounted to **45,000,000 euros** or **49.82%** of total claim (the collected amount in the reporting year was **9,000,000 euros**).

The coronavirus pandemic affected the activities related to the payment of guaranteed deposits through payout banks. In 2021, around 1 million euros were compensated to the Atlas banka depositors and 0.08 million euros for Invest banka Montenegro depositors, all together resulting in around 8.30% and 2.5% of unpaid guaranteed deposits for the respective banks. The pandemic prevented depositors (a large number of depositors are non-residents) from taking their guaranteed deposit, but it is expected that after the stabilisation of the health situation in the country and the world, depositors will take over their guaranteed deposits.

Also, the Covid-19 pandemic also impacted the recovery of the Fund's resources from the bankruptcy estate. To wit, in order to recover funds from the bankruptcy estate, the

bankruptcy trustees of these two credit institutions must sell the institutions' assets, as well as collect the loan receivables from the depositors of these credit institutions. Considering that the health situation affected the interest in buying real estate, this reflected on the inflow of funds on this basis, which was significantly lower than expected. Thus, in the reporting year, Atlas banka in bankruptcy and Invest banka Montenegro in bankruptcy repaid 9 million euros and 0.68 million euros, respectively. Total amount recovered from Atlas banka is 45 million euros (49.82%) and that from Invest Bank Montenegro is 18.4 million euros (82.12%).

As for the service and cooperation of the payout banks, we can express satisfaction with their organisation of work and communication with the Fund, which has given immeasurable results in maintaining and increasing the confidence of depositors in the banking system.

It should be emphasized that every year the Fund shortlists credit institutions which could take on the role of payout bank in the event of a protected case occurrence in one of the credit institutions. This was also the case in 2021 when many credit institutions expressed their interest to become payout banks. The shortlisted banks met very strict solvency requirements imposed by the Fund for payout banks.

### **1.1. Litigation**

In 2019, depositors of Invest Bank Montenegro a.d. Podgorica filed 4 lawsuits with the Administrative Court against the Decision on exclusion from the right to guaranteed deposit payout in the total amount of 150,178 euros, and all were ended in favour of the Fund.

Of 20 lawsuits filed by depositors of Atlas Banka Montenegro a.d. Podgorica with the Administrative Court against the Decision on exclusion from the right to guaranteed deposit payout in the total amount of 278,366 euros, 14 were ended in favour of the Fund and with the total value of 222,330 euros, 3 were ended in favour of the plaintiffs (43,549 euros), while 3 are still pending (12,487 euros).

A lawsuit has been filed by the Fund before the Commercial Court of Montenegro against one of the payout banks for the compensation of damages in the amount of 100,000 euros incurred by the Fund during the payout of guaranteed deposits.

### **1.2. Investment activities in 2021**

Funds are invested in accordance with the Law and the Fund's Investment Policy (no. 356/3 of 18.12.2015, No. 105/2 dated 03.04.2020) with the primary goal of preserving the liquidity and safety of the Fund's capital.

The current Investment Policy stipulates that the Fund may invest in securities issued by the State of Montenegro up to the amount of 40% of available funds.

As the Ministry of Finance issued 7-year Eurobonds (MNE-2027) at end-2020 of the total value of 750 million euros and thus did not opt for short-term borrowing through the issue of discounted bonds (T-bills), the Fund continued to invest in Montenegro's long-term securities on the secondary international financial market (government bonds) in 2021 as well.

Based on the November 2020 investment in 5-year government Eurobonds (MNE-2025) in the nominal amount of 4,240,000 euros and at the annual coupon interest rate of 3.3750% until maturity and in the total amount of 715,500 euros for the 5-year period (143,100 annual coupon yield), the Fund generated income in the amount of 278,050 euros that was paid in April 2021. Calculated interest income arising from bonds in 2021 amounts to 108,019 euros.

Taking into account the inflow of funds from the bankruptcy estate, collection of regular premiums, income from the matured T-bills in 2021, and the abovementioned income from investments, in 2021, the Fund invested a part of its funds in government Eurobonds MNE-2025 (coupon interest rate of 3.375% - 2,764,463 euros) and MNE-2027 (coupon interest rate of 2.875% - 3,042,900 euros) which are traded on the international financial market in the nominal amount of 33,060,000 euros. Calculated interest income arising from bonds purchased in 2021 amounts to 653,958 euros.

The Fund's investment portfolio totalled 37,300,000 euros as at 31 December 2021. Government Eurobonds MNE-2025 account for the main share in the portfolio structure with 22,180,000 euros, followed by MNE-2027 with 15,120,000 euros.

The income based on the coupons of the MNE-2025 Eurobonds was paid in the total amount of 485,662.50 euros (including the 278,050 euros indicated above), and that from the MNE-2027 Eurobonds totalled 434,700.00 euros, which together make up the total coupon income from government bonds in the amount of 920,363 euros in 2021. Interest income from the aforesaid bonds were accounted in the amount of **761,977 euros** (158,386 euro difference related to deducted cost of bond purchase).

The prices of government bonds MNE-2025 and MNE-2027 which make up the Fund's investment portfolio did not fluctuate significantly on the international stock market in reporting year, but their movement was rather balanced, without any major oscillations, and the trading of these securities was frequent enough for potential need to sell them before their maturity.

The highest and lowest purchase price for a MNE-2025 bond were 104% and 95.75%, respectively, while the corresponding prices for a MNE-2027 bond were 98.10% and 93.20%, respectively.

### **1.3. Normative and legal activities**

The Managing Board of the Fund held eleven meetings in 2021 and adopted the following normative acts:

- Decision on the adoption of the Annual financial statements of the Deposit Protection Fund for 2020 (financial statements in line with the IAS);
- Decision amending the Decision on the adoption of the Financial plan of the Deposit Protection Fund for 2021;
- Decision on the annual premium for 2022 (targeted premium level);
- Financial plan of the Deposit Protection Fund for 2022;
- Work program of the Deposit Protection Fund for 2022;

During the reporting year, the MB adopted the Annual Report of the Deposit Protection Fund for 2020 that was submitted to the Parliament and the Government of Montenegro for consideration, and to the President of Montenegro and the Central Bank of Montenegro for information purposes. The MB also considered the External audit Report for 2020 prepared by the audit firm “Ernst & Young Montenegro” d.o.o. Podgorica. The opinion of the independent external auditor is that “the financial statements fairly and accurately present the position of the Fund and they have been prepared in accordance with the laws of Montenegro and the IAS”.

In addition to the aforementioned reports, the MB considered monthly and quarterly reports on deposit trends in the banking system, the balance of the Fund's assets, the fulfilment of planned activities, and the investment of funds.

#### **1.4. Human resources and education of employees**

Systematization of jobs and tasks and duties in the Fund is specified in the Job Classification Rulebook of the Fund. Tasks and duties are divided into: legal and administrative tasks, planning and analysis, risk assessment of credit institutions, IT, investments, and finances and accounting.

The procedures for the use of software for the payout of guaranteed deposits are elaborated in detail in the Instructions for the actions of employees in the case of a protected case occurrence, which were followed in the payout of guaranteed deposits of the two bankrupt banks.

In accordance with the changed circumstances related to the coronavirus pandemic, the organisation of seminars, workshops and education by the IADI and the EFDI was made possible through the organisation of virtual events.

Until 1 October 2021, the work of the Fund's Director General was carried out by Mr. Predrag Marković whose mandate ended due to fulfilment of the conditions for an old-age pension. In accordance with Articles 28 and 60 of the Deposit Protection Law, Director General of the Fund is appointed by the MB of the Fund on the basis of a public competition

After the completed procedure, at its meeting held on 29 September 2021, the MB passed a Decision on the appointment of Mr. Vojin Vlahović, MBsc Economics, as the Director General for a period of four years.

As at 31/12/2021 the Fund had seven employees.

### 1.5. International cooperation

Although the pandemic prevented direct contacts through seminars, roundtables and conferences, the means of communication enabled the Fund's representatives to actively participate in the work of international associations that bring together deposit insurers.

The Fund is a full-fledged member of the European Forum of Deposit Insurers (EFDI), which is an association of European deposit insurance funds on voluntary basis.

Representatives of the Fund continue to actively participate in surveys used as the main guidelines for the harmonisation of deposit insurance systems in all EFDI member countries. The EFDI goals are achieved by exchanging data on the situation in the financial and banking sector, participation in research projects, improving the regulatory framework and practice, educating expert bodies, exchange and education of employees, and the like.

Also, as a full-fledged member of the International Association of Deposit Insurers (IADI), the Fund took part in virtual conferences and seminars.

### 1.6. Objectives and tasks of the Fund in 2022

The Fund's objectives are defined in its Working Programme for 2022. Improving the institutional capacity of the Fund for the purpose of timely intervention at the moment of the protected event occurrence is an ongoing task of the Fund.

Activities on the realization of the payout of the remaining guaranteed deposits to the depositors of Atlas banka a.d. in bankruptcy and Invest Bank Montenegro a.d. in bankruptcy remain one of the tasks of the Fund for 2022.

The law specifies that the Fund is obliged to carry out **stress testing of the Deposit Protection System and the ability of credit institutions to submit data on depositors, deposits and their obligations and the ability to, if necessary, take on the role of payout bank**, i.e. to payout guaranteed deposits. The testing is mandatory for all credit institutions and it is carried out in every individual institution once every three years.

To that end, we have been working on the Testing Instructions that will be adopted in 2022. Taking into account the number of credit institutions in Montenegro's banking system, and as the testing will be carried out once every three years in each of the credit institutions, it is envisaged in the first three-year plan (2022-2024), that three credit institutions will be tested in 2022.

There will be a particular focus on the training of IT specialists in the selected payout bank, which is at the same time the "credit institution in which the protected event has occurred", for the use of software for the payout of guaranteed deposits.

Activities will continue on the implementation of the project "Strengthening the practice of asset and investment management of the Deposit Protection Fund", which implies the implementation of a new Investment policy, Investment strategy with supporting regulations and methodologies, as well as the selection of a reputable asset manager.

One of the tasks is to conduct a pre-qualification procedure for the selection of payout bank, where the Fund makes a shortlist of credit institutions every year that meet strict prudential requirements set by the Fund and which could take on the role of payout bank in the case of a protected event with one of the credit institutions.

When it comes to internal controls, the current staffing does not allow for the setting up of a separate internal control department, so the Director General of the Fund uses the four-eye principle to control the work of the Fund's employees. The Fund will consider the possibility of outsourcing the internal audit to be performed by an external auditor or amending the existing job systematisation to hire an internal auditor.

Timely calculation and collection of the premium is an ongoing task of the Fund, the fulfilment of which ensures the income of the Fund.

### **1.7. Events after the reporting period**

After the reporting period, there were no events that would require adjustments or disclosures in the Fund's financial statements for the period from 1 January to 31 December 2021.

In 2022, the Fund continued to pay out guaranteed deposits to depositors of the two bankrupt banks. Until 28 February 2022, 8,703.12 euros worth guaranteed deposits were paid to depositors of the bankrupt Atlas Bank, and 50,000 euros was paid IBM Bank depositors. Such a low amount of compensations is a consequence of the coronavirus pandemic, which made it impossible for depositors (a large number of unpaid depositors are non-residents) to take over their guaranteed deposits.

The impact of the pandemic was also reflected in the collection of the Funds claims from the bankruptcy estate. Due to less interest in the sale of real estate owned by the bankrupt credit institutions, by the end of April 2022 another 200,000 euros and 1,000,000 euros were collected from IBM bank and Atlas Bank, respectively, so that the total amount of funds recovered is 64,583,240 euros, i.e. 57.30% (IBM 83.02% and Atlas Bank 50.98%).

Since the issuing of bonds of Montenegro (MNE-2027) in the amount of 750,000,000 euros ended the need for short-term borrowing by the Ministry of Finance through the issuing of short-term securities (treasury bills), the Fund continued to invest

funds by purchasing long-term securities of Montenegro (government bonds) on the secondary international financial market, so another 1,700,000 euros worth of MNE-2025 government bonds were bought on the international financial market.

The first installment of the regular premium in the amount of 4,506,000 euros was calculated and collected. In accordance with the Methodology, credit institutions are classified into 7 risk classes, so that the least risky credit institutions (risk class 1) paid the premium based on the aggregate risk coefficient of 75%, and the most risky credit institutions (risk class 6) according to the aggregate risk coefficient risk 130%.

Total funds as of 31 March 2022. amounted to 123,068,507 euros, of which 39,000,000 euros are in government bonds (MNE-2025 - 23,880,000 euros and MNE-2027 - 15,120,000 euros), 82,015,016 euros are in the giro account, 1,159,241 euros are in advances to banks for the payout of guaranteed deposits, 884,632 euros for interest claims, and 9,618 euros are other claims.

In the first quarter of 2022, new documents of the Fund - Investment Policy and Investment Strategy with supporting acts and methodologies were adopted, which marked the completion of phase 1 of the aforesaid project, followed by activities on the selection of a professional asset management company (AMC).

Considering the current health situation regarding the coronavirus epidemic in Montenegro, which has greatly improved, especially bearing in mind the extremely unstable international environment, the repercussions of which will inevitably affect Montenegro's economy, these new circumstances can present major challenges in business to all economic entities and financial institutions.

However, taking into account the nature of the Fund's business activities as well as the significant amount of liquid assets that the Fund has at its disposal, the management does not expect that the mentioned events will significantly disrupt its activities or affect its business continuity in the following period.

# **FINANCIAL OPERATIONS OF THE FUND IN 2021**

5



## 5. FINANCIAL OPERATIONS OF THE FUND IN 2021

### 5.1 Statement of financial performance (Income statement) of the Fund as at 31/12/2021<sup>5</sup>

#### 5.1.1. TOTAL INCOME

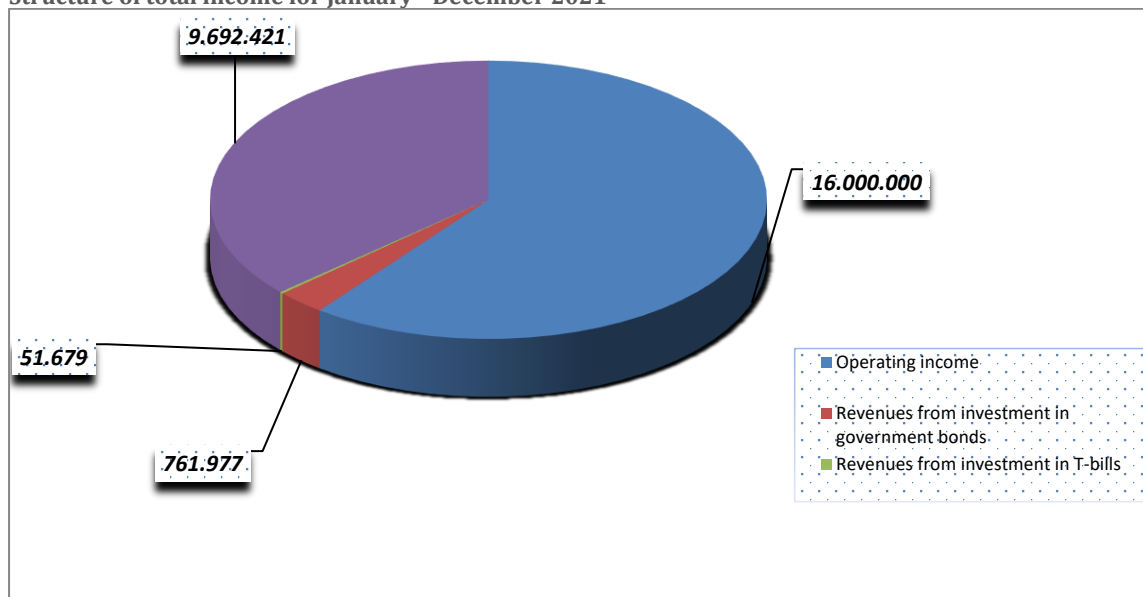
**Total Fund's income** amounted to **26,506,077 euros** in 2021 and they were 0.42% higher than planned but also 10.74% lower than in the previous year when they reached 29,697,429 euros.

The income consisted of:

- operating income and
- financial income

**5.1.1.1.** Operating income amounted to 25,692,421 euros in 2021 and they were 0.39% higher than planned for the reporting year, yet 12.64% lower than in the previous year when they totalled 29,411,444 euros, and this is because of lower recovery of funds from the bankruptcy estate.

*Graph 5.1*  
Structure of total income for January - December 2021



\*Source: Fund's bookkeeping

The most significant operating income item was revenues from premium collection which amounted to 16,000,000 euros and they accounted for 60.36% of total income and they were collected in full (100%). The realized premium is 5.51% lower by compared to the premium realized in the previous year, due to the application of the

<sup>5</sup>Overview2 of income and expenditure in 2020 and 2021 and the plan of income and expenditure for 2021 and 202 are presented in the ANNEX.

new calculation of the premium on the base of guaranteed deposits (the base in 2020 was total deposits), i.e. the application of the new Methodology for the calculation of the risk-based premium of individual credit institutions and the Decisions on the regular premium rate for 2021 to be paid by credit institutions to the Fund (“Official Gazette of Montenegro”, no. 111/20).

The remaining amount of 9,692,421 euros refers to the refund from the bankruptcy estate of the failed banks (Invest Bank a.d Podgorica in bankruptcy 683,240 euros and Atlas Banka a.d Podgorica in bankruptcy 9,000,000 euros) for which the Fund paid out guaranteed deposits and this amount was 21.90% lower than in 2020 when it totalled 12,400,000 euros, but it was 1.04% higher than planned, and the remainder 9,181 euros referred to revenues from reduced liabilities for the payout of guaranteed deposits.

**5.1.1.2. Financial income** amounted to **813,656 euros** and it was 184.51% higher than in the previous year and it comprised of:

**5.1.1.2.1. Investment income:**

- **Income from 2020 investment in 180-day T-bills of Montenegro** that matured in 2021, in the amount of **51,679 euros** and they were 28.32% higher than planned but also 73.70% lower than in the previous year because there were no T-bill issues in 2021. This income accounted for 6.35% of financial income.
- **Income from interest on government bonds** that reached **761,977** and covered investments of 36,913,274 euros (37,300,000 in nominal amount) in government bonds MNE-2025 and MNE-2027 whose interest coupons mature annually and the total amount in 2021 was 920,363 euros (annual interest rates for these bonds are 3,375% and 2,875%, respectively).

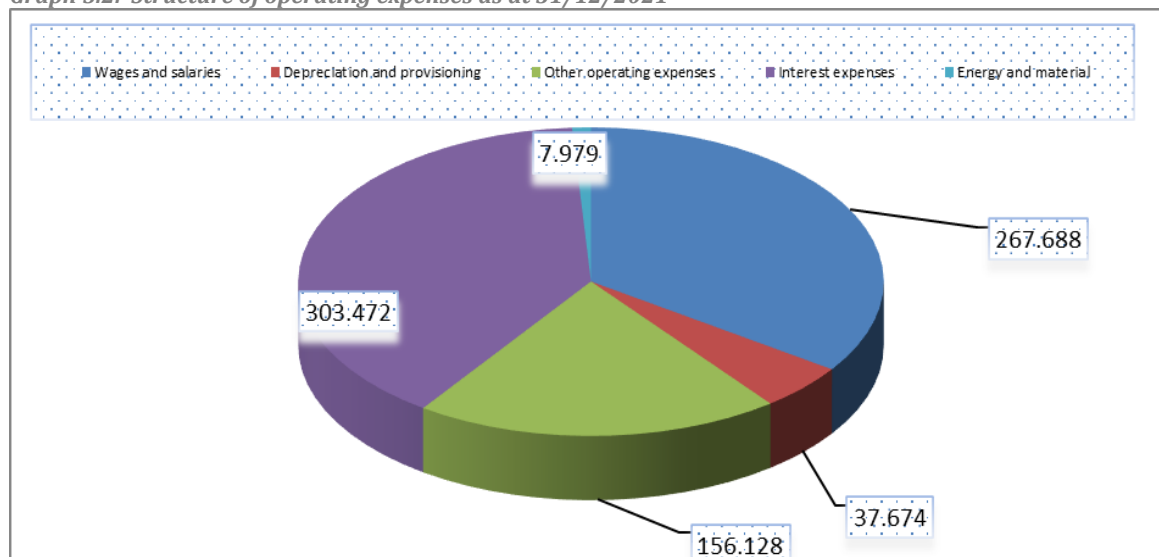
**5.1.2 TOTAL EXPENDITURE**

Total expenditure reached **772,941 euros in 2021** (1,102,037 euros in the previous year).

It is classified in three groups:

- financial expenses
- operating expenses, and
- short-term provisioning expenses.

Graph 5.2. Structure of operating expenses as at 31/12/2021



\*Source: Fund's bookkeeping

**5.1.2.1. Financial expenses** amounted to **303,472 euros** and they accounted for 39.26% of total expenditure, and they included:

- cost of EBRD commitment fee - **253,472 euros**
- cost of prepayments and accruals for EBRD credit processing (250,000 euros over a 5-year repayment period, 50,000 euros each year).

**5.1.2.2. expenses for short-term provisioning** in the amount of **37,674 euros** that include subsequently established liabilities for the payout of guaranteed deposits of the bankrupt Atlas bank of 29,858 euros and 7,816 euros for depreciation of fixed assets.

**5.1.2.3. Operating expenses** amounted to **469,469 euros** and they included:  
**cost of material and energy** in the amount of 7,979 euros (cost of lease and maintenance of business premises, cost of office supplies, cost of fuel) and they were 66.68% lower than in 2020 and 35.65% lower than planned for 2021;

**expenses for salaries and other fringe benefits** in the amount of 267,688 euros (gross salaries of employees of 178,347 euros, remuneration of MB members in the amount of 62,219 euros and contributions charged to employer of 17,534 euros) and they were 9.46% higher than in 2020 when they amounted to 244,537 euros;

**other cost of employee benefits** of 9,587 euros, and

**other operating expenses** that totalled **156,128 euros** and they covered:

- cost of advertising and propaganda that had been initially planned in the amount of 2,500 euros, and the amount spent was **550 euros** or 22% of the planned amount;
- cost of professional services of **25,022 euros** that included the external audit of financial statements, and education and training of employees and they were

94.45% higher than in the previous year and 8.76% lower than planned for the reporting year;

- cost of membership in international associations totalled **21.243 euros** and it was 0.06% higher than in 2020 and as planned for the reporting year;
- telephone and postal charges in the amount of **8,127 euros** and they were 3.87% lower than in the previous year and 16.11% higher than planned;
- cost of representation amounted to **3,023 euros** and it was 75.75% higher than in the previous year and 24.42% lower than planned;
- cost of payment system services in the amount of **30,052 euros**;
- cost of complaints on guaranteed deposit payout of **50,000 euros** and they refer to the obligation of the Fund to reimburse funds to a damaged depositor due to their deposit being wrongfully paid to another depositor as a result of an abuse,
- other expenses in the amount of **18,111 euros** that cover cost of organisation of the regional EFDI conference of 7,502 euros, cost of fixed assets maintenance of **3.558,98 euros**, cost of humanitarian and other assistance of **3,100 euros**, cost of publications in the media and newspapers of **42.50 euros**, cost of printing and distribution of flyers and printing of the Annual Report of **1,422.67 euros**, cost of parking services of **548.33 euros**, cost of life insurance of **1,102.78 euros**, cost of professional literature of **800.11 euros**, and cost of fees of **33.50 euros**.

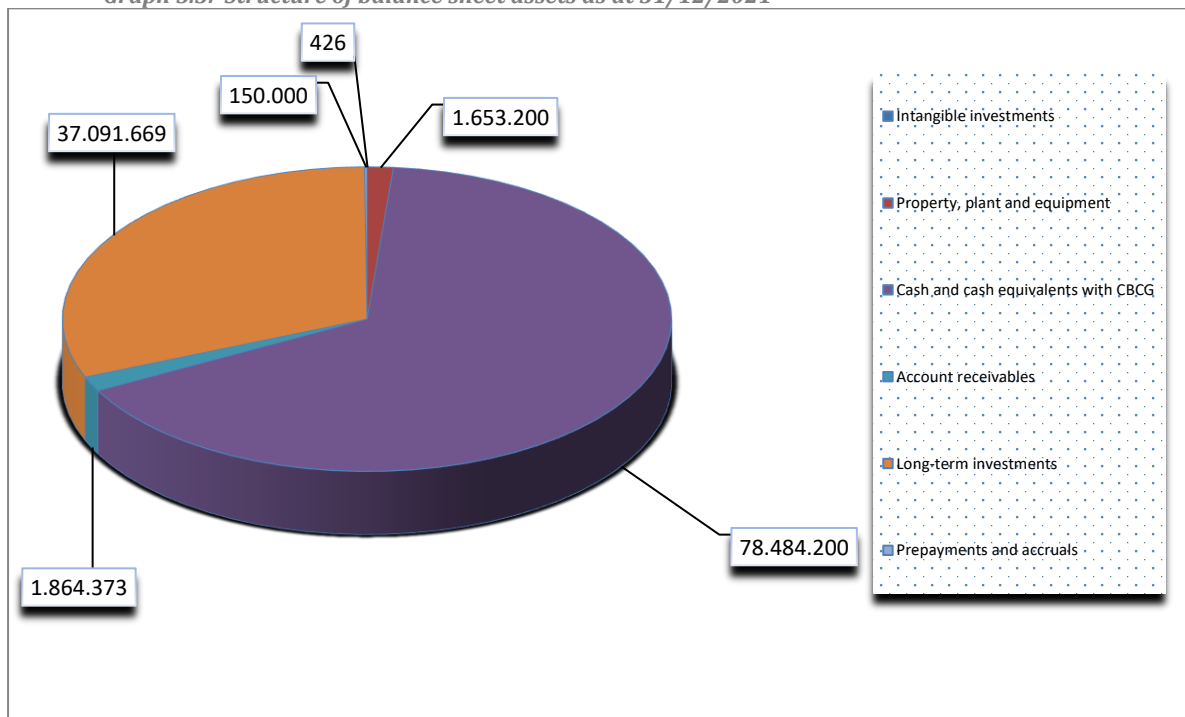
\* \* \*

The 2021 net result is a **profit** in the amount of **25,733,136 euros**.

## **5.2. STATEMENT OF FINANCIAL POSITION (Balance sheet)**

Total assets and liabilities of the Fund amounted to **119,243,868 euros** as at 31 December 2021. They increased year-on-year by **24,710,700 euros** or 26.13%.

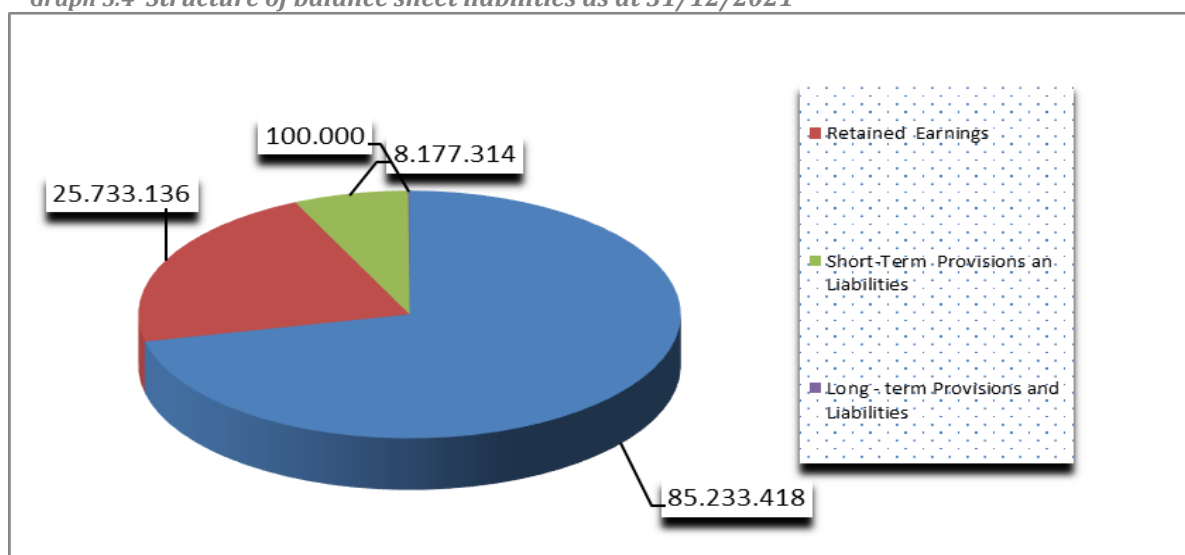
Graph 5.3. Structure of balance sheet assets as at 31/12/2021



\*Source: Fund's bookkeeping

In the structure of total assets, equipment accounted for 1.38% (1,653,200 euros), receivables made up 1.56% (1,864,373 euros), long-term financial investments accounted for 31.10% or 37,091,669 euros (government bonds – 36,913,274 euros and employee contributions – 178,395 euros), 65.81% or 78,484,200 euros were funds in the Fund's giro account and in the Fund's petty cash, while prepayments and accruals accounted for 0.12% (150,000 euros).

Graph 5.4 Structure of balance sheet liabilities as at 31/12/2021



\*Source: Fund's bookkeeping

In the structure of total liabilities, long-term provisions and liabilities made up 100,000 euros<sup>6</sup> (0.08%), short-term provisions and liabilities accounted for 78,177,314 euros (6.85%), and capital made up 110,966,554 euros (93.05%), of which 85,233,418 euros was initial capital and 25,733,136 euros was retained earnings.

### 5.3. STATEMENT OF CHANGES IN CAPITAL

The capital balance as at 31/12/2021 was a **gain** of 25,733,136 euros.

---

<sup>6</sup>This amount represents provisions for complaints on guaranteed deposit payouts.

<sup>7</sup> This amount represents liabilities for the payment of guaranteed deposits of IBM Bank in bankruptcy and Atlas Bank in bankruptcy, trade payables, interest to the EBRD, and other short-term liabilities.

*Annex: Income and expenditure in 2020 and 2021 and the plans for 2021 and 2022*

	DESCRIPTION	EXECUTED IN 2020	2021 PLAN	EXECUTED IN 2021	5/4 (%)	2022 PLAN
1	2	3	4	5	6	7
<b>A.</b>	<b>TOTAL INCOME</b>	<b>29.697.429</b>	<b>26.392.644</b>	<b>26.506.077</b>	<b>100,43</b>	<b>25.824.000</b>
<b>A.1.</b>	<b>OPERATING INCOME</b>	<b>29.411.444</b>	<b>25.592.371</b>	<b>25.692.421</b>	<b>100,39</b>	<b>24.524.000</b>
A.1.1.	Premium	16.933.210	16.000.000	16.000.000	100	18.024.000
A.1.2.	Other (extraordinary income)	50.000				
A.1.3.	Other operating income (from bankruptcy)	12.400.000	9.592.371	9.692.421	101,04	6.500.000
A.1.4.	Fines and penalties	28.234				
<b>A.2.</b>	<b>FINANCIAL INCOME</b>	<b>285.985</b>	<b>800.273</b>	<b>813.656</b>	<b>101,67</b>	<b>1.300.000</b>
A.2.1.	Interest on T-bills	196.529	40.273	51.679	113,6	
A.2.2.	Interest on government bonds	89.456	760.000	761.977	101,65	1.300.000
<b>B.</b>	<b>TOTAL EXPENDITURE</b>	<b>1.102.037</b>	<b>927.952</b>	<b>772.941</b>	<b>83,3</b>	<b>911.800</b>
<b>B.1.</b>	<b>OPERATING EXPENSES</b>	<b>643.690</b>	<b>627.952</b>	<b>469.469</b>	<b>74,76</b>	<b>611.800</b>
<b>B.1.1.</b>	<b>COST OF MATERIAL AND ENERGY</b>	<b>23.949</b>	<b>12.400</b>	<b>7.979</b>	<b>64,35</b>	<b>32.000</b>
B.1.1.1.	Cost of office supply	797	1.400	1.498	107	2.000
B.1.1.2.	Cost of lease, fuel, water, energy, maintenance	23.152	11.000	6481	58,92	30.000
<b>B.1.2.</b>	<b>SALARIES, FRINGE BENEFITS AND OTHER PER</b>	<b>244.537</b>	<b>272.480</b>	<b>267.688</b>	<b>98,24</b>	<b>321.300</b>
<b>B.1.2.1.</b>	<b>Gross wages and salaries</b>	<b>158.180</b>	<b>185.000</b>	<b>178.347</b>	<b>96,4</b>	<b>197.500</b>
B.1.2.1.1.	Net wages and salaries	105.979	123.950	119.413	96,34	132.325
B.1.2.1.2.	Taxes	14.237	16.650	16.092	96,65	17.775
B.1.2.1.3.	Contributions	37.964	44.400	42.842	96,49	47.400
<b>B.1.2.2.</b>	<b>CONTRIBUTIONS PAID BY EMPLOYER</b>	<b>15.466</b>	<b>15.725</b>	<b>17.534</b>	<b>111,5</b>	<b>19.400</b>
<b>B.1.2.3.</b>	<b>REMUNERATION TO MB MEMBERS</b>	<b>67.228</b>	<b>59.755</b>	<b>62.219</b>	<b>104,12</b>	<b>85.900</b>
B.1.2.3.1.	Net remuneration to MB members	47.392	42.117	43.300	102,81	60.538
B.1.2.3.2.	Taxes	6.054	5.407	5.528	102,24	7.774
B.1.2.3.3.	Contributions	13.782	12.231	13.391	109,48	17.588
<b>B.1.2.4.</b>	<b>OTHER PERSONAL EXPENSES</b>	<b>3.663</b>	<b>12.000</b>	<b>9.587</b>	<b>79,89</b>	<b>18.500</b>
B.1.2.4.1.	Other personal expenses	1.253	3.500	2.620	74,86	3.000
B.1.2.4.2.	Service contracts	1.626	7.000	6.967	99,53	5.000
B.1.2.4.3.	Daily allowances		500		0	2.500
B.1.2.4.4.	Business travel transport	386	500		0	4.000
B.1.2.4.5.	Business travel accommodation	398	500		0	4.000
<b>B.1.3.</b>	<b>DEPRECIATIONS AND PROVISIONS</b>	<b>71.885</b>	<b>193.574</b>	<b>37.674</b>	<b>19,46</b>	<b>150.000</b>
B.1.3.1.	Cost of depreciation	6.910	15.000	7.816	52,11	50.000
B.1.3.2.	Short-term provisions	64.975	178.574	29.858	16,72	100.000
<b>B.1.4.</b>	<b>OTHER OPERATING EXPENSES</b>	<b>303.319</b>	<b>149.498</b>	<b>156.128</b>	<b>104,43</b>	<b>108.500</b>
<b>B.1.4.1.</b>	<b>Cost of advertising and promotion</b>	<b>6.000</b>	<b>2.500</b>	<b>550</b>	<b>22</b>	<b>12.000</b>
<b>B.1.4.2.</b>	<b>Cost of professional services</b>	<b>12.868</b>	<b>27.427</b>	<b>25.022</b>	<b>91,23</b>	<b>20.500</b>
B.1.4.2.1.	Audit	10.769	10.769	10.769	100	6.000
B.1.4.2.2.	Education and training	980	5.500	3.000	54,55	5.500
B.1.4.2.3.	Lawyer fees	1.119	1.680	1.653	98,39	
B.1.4.2.4.	Cost of licences and copyrights		9.478	9.600	101,29	9.000
<b>B.1.4.3.</b>	<b>Membership fees to international associatic</b>	<b>21.229</b>	<b>21.243</b>	<b>21.243</b>	<b>100</b>	<b>22.000</b>
<b>B.1.4.4.</b>	<b>Cost of postal services</b>	<b>8.455</b>	<b>7.000</b>	<b>8.127</b>	<b>116,1</b>	<b>8.000</b>
<b>B.1.4.5.</b>	<b>Cost of representation</b>	<b>1.720</b>	<b>4.000</b>	<b>3.023</b>	<b>75,58</b>	<b>6.000</b>
<b>B.1.4.6.</b>	<b>Cost of payment system services</b>	<b>5.482</b>	<b>25.000</b>	<b>30.052</b>	<b>120,21</b>	<b>25.000</b>
<b>B.1.4.7.</b>	<b>Cost of complaints to GD payouts</b>	<b>50.000</b>	<b>50.000</b>	<b>50.000</b>	<b>100</b>	
<b>B.1.4.8.</b>	<b>T-bills auction fees</b>	<b>59.600</b>				
<b>B.1.4.9.</b>	<b>Other expenses</b>	<b>137.965</b>	<b>12.328</b>	<b>18.111</b>	<b>146,91</b>	<b>15.000</b>
B.1.4.9.1.	Organisation of regional EFDI conference		7.502	7.502		
B.1.4.9.2.	Other expenses		4.826	10.609	0	15.000
<b>B.2.</b>	<b>FINANCIAL EXPENSES</b>	<b>458.347</b>	<b>300.000</b>	<b>303.472</b>	<b>101,16</b>	<b>300.000</b>
B.2.1.	EBRD contract interest	158.347	250.000	253.472	101,39	250.000
B.2.2.	Cost of MF guarantees (0.50%)	250.000				
B.3.3.	Prepayments and accruals for EBRD loan	50000	50.000	50.000		50.000
<b>C</b>	<b>TOTAL RESULT</b>	<b>28.595.392</b>	<b>25.464.692</b>	<b>25.733.136</b>	<b>101,05</b>	<b>24.912.200</b>



# DEPOSIT PROTECTION FUND, PODGORICA

Financial Statements as of and for  
the Year Ended 31 December 2021

and

Independent Auditor's Report



CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-3
FINANCIAL STATEMENTS	
Statement of Comprehensive Income (Income Statement)	4
Statement of Financial Position (Balance Sheet)	5
Statement of Changes in Equity	6
Cash Flow Statement	7
Notes to the Financial Statements	8 - 26

*This is an English translation of Independent Auditor's Report and  
Financial Statements*

**INDEPENDENT AUDITOR'S REPORT**

To the Management Board of Deposit Protection Fund, Podgorica

**Opinion**

We have audited the accompanying financial statements of the Deposit Protection Fund, Podgorica (hereinafter: the Fund), which comprise the statement of financial position (balance sheet) as of 31 December 2021, and the statement of comprehensive income (income statement), cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the regulations prevailing in Montenegro and accounting policies disclosed in Note 3 to the financial statements.

**Basis for Opinion**

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

**Other Matters**

The financial statements of the Fund as of and for the year ended 31 December 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements on 21 April 2021.

**Other Information Contained in the Fund's Annual Management Report**

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

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

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



## INDEPENDENT AUDITOR'S REPORT

To the Management Board of Deposit Protection Fund, Podgorica

Other Information Contained in the Fund's Annual Management Report (Continued)

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting regulations prevailing in Montenegro, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

### 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

## INDEPENDENT AUDITOR'S REPORT

To the Management Board of Deposit Protection Fund, Podgorica

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 Fund'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 Fund 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.

Podgorica, 15 April 2022

  
M. Popović  
Certified Auditor



**STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT)**  
**For the period from 1 January to 31 December 2021**  
**In EUR**

	Note	2021	2020
Sales income	4	<u>16,000,000</u>	<u>16,933,210</u>
Other operating income	5	<u>9,692,421</u>	<u>12,478,234</u>
<b>Operating expenses</b>		<b>151,781</b>	<b>349,335</b>
Cost of goods sold and costs of material	6	6,732	6,771
Other operating expenses (provisions and other operating income)	7	137,233	335,654
Depreciation/amortisation expense	8	7,816	6,910
<b>Salaries, compensations and other personnel expenses</b>	<b>9</b>	<b>267,688</b>	<b>244,355</b>
Net salary costs, compensation and personal expenses		172,195	155,682
Tax and contribution costs		95,493	88,673
Taxes		22,053	20,514
Retirement benefits		49,127	46,208
Costs of contributions		24,313	21,951
Other operating expenses	10	<u>50,000</u>	<u>50,000</u>
<b>A. OPERATING RESULT</b>		<b><u>25,222,952</u></b>	<b><u>28,767,754</u></b>
Income from other financial investments and loans (interests, FX differences and contractual hedging effects)	11	813,656	285,985
Expenses from interest, exchange rate differences and contractual hedging effects	12	<u>303,472</u>	<u>458,347</u>
<b>B. FINANCIAL RESULT</b>		<b><u>510,184</u></b>	<b><u>(172,362)</u></b>
<b>C. RESULT BEFORE TAXATION</b>		<b><u>25,733,136</u></b>	<b><u>28,595,392</u></b>
<b>D. TAX EXPENSE OF THE PERIOD</b>		<b>-</b>	<b>-</b>
Current income tax		-	-
Deferred tax expenses or income for the period		-	-
<b>I. NET RESULT</b>		<b><u>25,733,136</u></b>	<b><u>28,595,392</u></b>

The notes on pages 8 to 26  
are an integral part of these financial statements.

The accompanying financial statements were approved for the issuance by the Fund's Management Board as of 12 April 2022 on behalf of the Fund's management by:

Person responsible for preparing the  
financial statements

  
Mladen Mitrović



Director

  
Vojin Vlahović

## STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

As of 31 December 2021

In EUR

	Note	31/12/2021	31/12/2020
<b>ASSETS</b>			
A. NON-CURRENT ASSETS (I+II+III)		38,745,295	4,612,637
I INTANGIBLE ASSETS	13	426	166
II PROPERTY, PLANT AND EQUIPMENT AND BIOLOGICAL ASSETS	14	1,653,200	24,846
III LONG-TERM FINANCIAL PLACEMENTS AND LONG-TERM RECEIVABLES	15	37,091,669	4,587,625
Long-term financial investments (loans and securities)		36,913,274	4,396,563
Other long-term financial placements and receivables		178,395	191,062
B. CURRENT ASSETS (IV+V+VI)		80,348,573	89,720,531
IV CURRENT RECEIVABLES	16	1,864,373	2,100,273
V SHORT-TERM FINANCIAL PLACEMENTS	17	-	31,559,026
VI CASH AND CASH EQUIVALENTS	18	78,484,200	56,061,232
C. PREPAYMENTS AND ACCRUED INCOME	19	150,000	200,000
<b>TOTAL ASSETS</b>		<b>119,243,868</b>	<b>94,533,168</b>
<b>LIABILITIES</b>			
D. EQUITY	20	110,966,554	85,233,418
I BASIC CAPITAL		85,233,418	56,638,026
II RETAINED EARNINGS OR LOSSES		25,733,136	28,595,392
E. LONG-TERM PROVISIONS AND LONG- TERM LIABILITIES		100,000	-
I LONG-TERM PROVISIONS	21	100,000	-
F. SHORT-TERM PROVISIONS AND SHORT TERM LIABILITIES		8,177,314	9,299,750
I SHORT-TERM PROVISIONS	21	-	100,000
II SHORT-TERM LIABILITIES	22	8,177,314	9,199,750
Liabilities based on loans and borrowings from entities other than credit institutions		8,064,234	9,130,540
Other trade payables		6,177	1,738
Other trade payables and other short-term liabilities		106,903	67,472
<b>TOTAL LIABILITIES</b>		<b>119,243,868</b>	<b>94,533,168</b>

The notes on pages 8 to 26  
are an integral part of these financial statements.

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

	<u>Basic capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as of 1 January 2020	<u>(770,719)</u>	<u>57,408,743</u>	<u>56,638,024</u>
Transfer	57,408,743	(57,408,743)	-
Net changes in 2020	<u>-</u>	<u>28,595,392</u>	<u>28,595,392</u>
Balance as of 31 December 2020	<u>56,638,026</u>	<u>28,595,392</u>	<u>85,233,418</u>
Balance as of 1 January 2021	<u>56,638,026</u>	<u>28,595,392</u>	<u>85,233,418</u>
Transfer	28,595,392	(28,595,392)	-
Net changes in 2021	<u>-</u>	<u>25,733,136</u>	<u>25,733,136</u>
Balance as of 31 December 2021	<u>85,233,418</u>	<u>25,733,136</u>	<u>110,966,554</u>

The notes on pages 8 to 26  
 are an integral part of these financial statements.

## CASH FLOW STATEMENT

For the period between 1 January and 31 December 2021

In EUR

	2021	2020
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
I. Cash inflow from operating activities	25,683,240	29,411,444
Sales and received advances	16,000,000	16,933,210
Received interest from operating activities	-	-
Other receipts from operating activities	9,683,240	12,478,234
II. Cash outflows from operating activities	1,138,287	2,083,727
Outflows of guaranteed deposits advances paid	500,000	850,000
Outflows from payments to suppliers and advances paid	150,203	336,872
Salaries, compensations and other personal expenses	267,505	244,355
Interest paid	220,579	652,500
Public revenues paid	-	-
III. Net inflows from operating activities	24,544,953	27,327,717
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
I. Cash inflows from Investment activities	32,620,891	2,280,764
Interest received from investment activities	1,061,862	67,941
Other financial placements (net inflows)	31,559,029	2,212,823
II. Cash outflows from Investment activities	34,742,876	17,829,947
Outflow of purchase of property, plant, and equipment	1,628,571	20,393
Other financial investments (net outflows)	33,114,305	17,809,554
III. Net cash from (used in) investment activities	(2,121,985)	(15,549,183)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
I. Cash inflows from financing activities	-	-
II. Cash outflows from financing activities	-	-
III. Net cash flow from financing activities	-	-
<b>NET CASH FLOW</b>	<b>22,422,968</b>	<b>11,778,534</b>
Cash at the beginning of the accounting period	56,061,232	44,282,698
Cash at the end of the accounting period (Note 18)	78,484,200	56,061,232

The notes on pages 8 to 26  
are an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

---

## 1. CORPORATE INFORMATION

The Deposit Protection Fund, Podgorica ("the Fund") was established in accordance with the Law on Deposit Protection ("Official Gazette of Montenegro" No. 40/2003) and officially started to operate on 18 November 2004 upon the registration in the Statistical Bureau of Montenegro. Through the amendments of the Law on Deposit Protection (Official Gazette of Montenegro 44/10, 40/11, 47/15 and 72/19), further harmonization with the EU Directive 94/19 EC was carried out (the increase of the level of protection from EUR 5,000 to EUR 50,000, as well as shortening deadlines for payment of guaranteed deposits from 90 to 20 days), as well as the separation of the governing and managerial function of the Fund itself, by separating the Fund governing bodies into the Management Board and the Director of the Fund.

Commercial banks, licensed by the Central Bank of Montenegro, are obliged, to pay a Premium to the Fund in the name of deposit protection under the conditions and in the manner prescribed by the Law on Deposit Protection.

The main activity of the Fund is to secure deposit protection in banks and it is obligated to pay guaranteed deposits when required in accordance with the Law on Deposit Protection (occurrence of the "protected case"). Deposit protection relates to deposits placed with the bank before or on the day of the occurrence of the protected case. The protected case arises as of the date on which a decision to initiate bankruptcy proceedings in a bank is adopted. Starting from 1 January 2013, the Fund is obligated to make a payment of up to EUR 50,000 per depositor, regardless of the number and amount that the depositor holds with the bank in which bankruptcy proceedings have been initiated. In the transitional period from 1 January to 31 December 2011, this amount was EUR 20,000, and from 1 January to 31 December 2012, EUR 35,000. The Law on Deposit Protection (Official Gazette of Montenegro No. 72/19) stipulates that, from the date of Montenegro's accession to the European Union, the guaranteed deposit will be in the amount of EUR 100,000, the payment deadline has been reduced to 7 working days, a temporary "high balance" and the obligation to implement "testing the System for Protection of stress Deposits" has been introduced. The premium will be charged based on the risk of individual credit institution.

The Fund's headquarters are located in Podgorica, Miljana Vukova bb Street.

As of 31 December 2021, the Fund has 7 employees (31 December: 7 employees).

### Members of the Fund's Management Board

Members of the Fund's Board are appointed by the President of Montenegro, with one member appointed at the proposal of the state administration authority in charge of finance affairs, one at the proposal of the Central bank, one at the proposal of Association of Banks of Montenegro, one at the proposal of the Chamber of Commerce of Montenegro and one at the proposal of the President of Montenegro.

### Members of the Fund's Board of Directors in 2020 are:

- Vesko Lekić, Director of the CBM Treasury, Member of the Board of Directors;
- Dejan Vujačić, Director of the Sector for Control of Banks - Member of the Board of Directors;
- Mr. Branislava Božović, the Ministry of Finance representative - BoD member;
- Darko Radunović, representative of the Association of Banks of Montenegro - BoD member and
- Vlastimir Golubović, representative of the Chamber of Commerce of Montenegro - BoD member.

In the reporting period, there was a change in the composition of the Board of Directors by replacing the member of the Management Board, Nebojsa Djokovic, with a new member Darko Radunovic from 12 November 2021.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

---

**1. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS****1.1. Basis of preparatio and presentation of the financial statements**

The Fund has an obligation to maintain its accounting records and prepare financial statements in accordance with the requirements of the Law on Accounting ("Official Gazette of Montenegro", No. 52/16) and the Rulebook on the content and form of financial statements for companies and other legal entities ("Official Gazette of Montenegro", No. 5/2011, " Official Gazette of Montenegro", No. 52/2016, "Official Gazette of Montenegro", No. 011/20).

In accordance with the Accounting Law of Montenegro, International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRSs") published by the International Accounting Standards Board, must be adopted and published by the relevant competent authority of Montenegro authorised by the appropriate authority of the International Federation of Accountants (IFAC) to translate and publish them. Accordingly, only IFRSs and IAS officially translated and published by the appropriate competent authority in Montenegro can be applied. The last IFRS and IAS which have been officially translated are from 2009 (other than 7), as well as IFRS 10, 11, 12 and 13 applied from 2013 and the newly adopted IFRS 16 applied from 2021. Bearing in mind the effects the departures of the accounting regulations of Montenegro from IFRS and IAS may have to the presentation of the financial statements of the Company, the accompanying financial statements differ in that part and depart from IFRS and IAAS and cannot be treated as financial statements in conformity with IFRS and IAS.

The financial statements have been prepared under the historical cost basis, except where otherwise stated in accounting policies. In the preparation of the accompanying financial statements, the Fund has adhered to the accounting policies described in Note 3, which are based on the accounting and tax regulations of Montenegro.

**1.2. Functional currency**

The financial statements are presented in euros (EUR) - the official currency in Montenegro and the reporting currency of the Fund, and all numerical values are displayed in Euros (EUR), unless stated otherwise.

**1.3. Use of estimates**

The presentation of the financial statements requires the Company's management to make best estimates and reasonable assumptions that affect the disclosure of potential receivables and liabilities as of the date of the preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available as of the date of preparation of the financial statements. However, future actual results may vary from these estimates. These estimates mostly relate to the assessment of impairment of trade receivables, estimated useful lives of equipment.

**1.4. Going Concern Assumption**

The accompanying financial statements for the year ended 31 December 2021 have been prepared in accordance with the going concern concept and do not include any adjustments which would be necessary if the Fund was unable to continue in accordance with the going concern principle.

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

---

1. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS  
(Continued)

1.5. Going Concern Assumption (Continued)

Considering the declared pandemic caused by the COVID-19 virus, the Fund has taken all preventive measures prescribed by the World Health Organization and the Institute for Public Health of Montenegro. The Fund does not expect significant effects from the impact of the COVID-19 virus on the going concern principle.

1.6. Comparative Data

Comparative data are audited financial statements of the Fund for the year ended 31 December 2020 prepared in accordance with the accounting regulations of Montenegro.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies that have been applied by the Fund in preparation of the financial statements for the year ended 31 December 2021 are set out in the following paragraphs.

3.1. Revenue Recognition

*3.1.1. Revenues from deposit protection premiums*

Income from deposits protection premiums represents funds that commercial banks in Montenegro are obliged to pay to the Fund in accordance with the Law on Deposit Protection (Official Gazette of Montenegro, no. 44/10, 40/11, 47/15, 72/19) and the Decision on the Amount of the Annual Premium Payable and the Method of Calculation of the Annual Premium Payable by Banks to the Fund (Official Gazette of Montenegro, no. 111/20).

Income from Deposits Protection Premiums comprises:

- initial premiums;
- annual premiums.

A credit institution to which the license for operations has been issued by the Central Bank of Montenegro, shall, prior to starting the operations, pay to the Fund's account the initial premium in the amount of EUR 50,000.

Credit institutions are obliged to pay to the Fund annual premiums for deposit protection in quarterly instalments, i.e., through regular premium, whereat the commencement of the quarter is on 1 January, April, July and October of the current year.

The basis for calculating the annual premium instalments is the average amount of total deposits as of the last day of each month in the previous quarter.

The Decision on the ordinary premium rate and methodology for calculation of the premium is adopted by the Board at the end of November of the current year for the next year. Credit institutions are obliged to pay the regular premium at the beginning of the quarter for the current quarter, at the latest within eight days from the day of receiving the invoice of the Fund.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.1. Revenue Recognition (Continued)

##### 3.1.1. Revenues from deposit protection premiums (Continued)

During 2021, the Fund calculated the annual premium according to the Decision on the amount of the regular premium for 2021 ("Official Gazette of Montenegro", No. 111/20) and in accordance with the Methodology for calculating the risk-based premium of individual credit institutions, which entered into force on 1 January 2021. In the third quarter of 2020, the Board of the Fund set the annual target amount of premium for 2021 in the amount of EUR 16,000,000 and, accordingly, performed a quarterly calculation of the regular premium for 2021 in the amount of EUR 4,000,000.

The Fund uses the Methodology to determine the method of calculating the degree of risk of each individual credit institution in the system for the purposes of calculating the deposit protection premium. In accordance with the Methodology, for the calculation of the regular premium for 2021, the rating of credit institutions for 2020 was determined and credit institutions were classified into seven risk classes, the rating of credit institutions for 2020, as follows (data as of 31 December 2020):

Risk class 1 (one credit institution); Risk class 2 (two credit institutions); Risk class 3 (three credit institutions); Risk class 4 (four credit institutions); Risk class 5 (one credit institution); Risk class 6 (one credit institution); Risk class 7 (no credit institution).

The calculation of the advance I and II instalments of the regular premium for 2021 was based on the rating of credit institutions, determined with data as of 31 December 2019, while the correction of the III instalment of the regular premium (beginning of July 2021) was calculated on the basis of the rating determined with the data as of 31 December 2020 and the averages at the level of the Montenegrin banking system for 2020, obtained from the Central Bank of Montenegro. Therefore, with the calculation of the third instalment of the regular premium, the harmonization of advance premiums based on data for 2020 was performed.

Taking into account that the decision determined the amount of the premium, the adjustment coefficient was used to adjust the sum of unadjusted, quarterly premiums of all credit institutions, to reach the annual target of EUR 16,000,000. For the calculation of the advance I and II instalments of the regular premium for 2021, the adjustment coefficient was 87.14% and 87.66%, while with the correction of the III instalment of the regular premium it was adjusted to 85.44% and 85, 22%. The adjustment coefficient for the 3rd and 4th installments was 83.80% and 79.39%.

The rating of credit institutions based on data from the financial statements of banks and data provided by the Central Bank as of 31 December 2020 for 2020 in two credit institutions has improved compared to the balance as of 31 December 2019, decreased in three credit institutions and remained unchanged at other credit institutions. After Montenegro's accession to the European Union, the Fund will be obliged to submit the Methodology to the European Banking Agency.

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

---

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Employee Benefits

3.2.1. *Employee Taxes and Contributions for Social Security*

In accordance with the regulations prevailing in Montenegro, the Fund has an obligation to pay contributions to various State Social Security Funds.

These obligations involve the payment of contributions on behalf of an employee, by the employer in an amount calculated by applying the specific, legally prescribed rates. The Fund is also legally obliged to withhold contributions from gross salaries to employees, and on behalf of employees, to transfer the withheld portions directly to government funds. Contributions paid by employer and those paid by employees are charged to expenses of the related period.

3.2.2. *Retirement Benefits*

The present value of other future liabilities according to the Collective Bargaining Agreement, such as retirement benefits after required conditions have been fulfilled, pursuant to the estimations made by the Fund's management, does not have a materially significant effect on the financial statements regarded as a whole. Accordingly, provisions for employee benefits are not disclosed in these financial statements.

3.3. Foreign exchange gains/losses

All assets and liabilities denominated in foreign currencies are translated into EUR using the exchange rates prevailing as of the reporting date, published by the Central Bank of Montenegro.

Business transactions in foreign currencies during the year are translated into EUR at the official exchange rates prevailing at the dates of transactions.

Foreign exchange gains/losses arising from the translation of assets and liabilities denominated in foreign currencies and from the translation of transactions during the year are credited/debited to the statement of comprehensive income.

3.4. Taxes

Prior to the Amendments to the Law on Deposit Protection from July 2015, the Fund was exempt from paying taxes, duties and fees while performing its activities of deposit protection. Pursuant to the amendments and supplements to the Law on Deposit Protection from July 2015, the Fund is a taxpayer in accordance with the Law. The Fund is obliged to pay taxes and contributions on employee salaries in accordance with the regulations applicable in Montenegro. In accordance with Article 6 Of the Corporate Income Tax Law ("Official Gazette of Montenegro", no. 65/01 of 31 December 2001, 12/02 of 15 March 2002, 80/04 of 29 December 2004, Official Gazette of Montenegro, no. 40/08 of 27 June 2008, 86/09 of 25 December 2009, 40/11 of 8 August 2011, 14/12 of 7 March 2012, 61/13 of 30 December 2013 and 055/16 of 17 August 2016) which is a *Lex Specialis*, public funds are exempt from paying income taxes.

3.5. Intangible Assets

Intangible assets are stated at cost and primarily include acquired computer software. Cost of intangible assets represents the price invoiced by suppliers increased by all expenses incurred in putting intangible assets into functional use.

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.6. Property, plant and equipment

Equipment is stated at cost less accumulated depreciation and impairment losses, if any. Cost represents the price invoiced by suppliers, increased by all expenses incurred in putting the new assets into functional use.

Additional expenses, such as replacements of the equipment parts (installation of new parts), are recognized as an increase in cost of the respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Fund, and when the cost can reliably be measured.

The maintenance and repair expenses are recognized as an increase to cost of the respective assets in the period to which they relate. Gains or losses arising upon disposal and/or sale of buildings and equipment are disclosed in the income statement within other operating income/expenses.

#### 3.7. Depreciation and Amortization

The amortization of intangible assets and depreciation of property, plant and equipment are provided for on a straight-line basis in order to fully write off the cost of the assets over their estimated useful life.

Depreciation and amortization rates in use are as follows:

Principal groups of assets	Rate (%)
Software usage licenses	20.00%
Computers and related equipment	20.00 - 33.33%
Technical equipment a	12.50 - 20.00%
Office furniture	10.00 - 12.50%

#### 3.8. Financial Instruments

Financial assets are classified into the following categories: “Long-term placements”, “Short-term financial placements held to maturity“, “receivables“ and “cash and cash equivalents“. The classification depends on the nature and purpose of financial assets and is determined upon initial recognition.

##### 3.8.1. *Effective interest rate method*

The effective interest rate method is a method of calculating the amortised cost of financial assets and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, the shorter period, on current value of financial assets or financial liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

---

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## 3.8. Financial Instruments (Continued)

*3.8.2. Long-term placements*

Long-term financial placements include bonds held to maturities and loans extended to employees.

Bonds issued by Montenegro in April 2018, with maturity of principal on 21 April 2025 and interest-bearing vouchers that mature annually, were purchased at the nominal value (interest rate of 3.375%) and bonds issued in December 2020, with maturity of principal until 16 December 2027, purchased at a discount (interest rate of 2.875%), are accounted for as securities held to maturity se. The Fund may sell bonds in the event of a lack of liquid assets for the payment of a guaranteed deposit in case of bankruptcy of one or more commercial banks in Montenegro.

Loans are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method. The difference between the fair value at the recognition and disbursed funds is recognised as prepaid employee benefits in long-term receivables from employees. The prepaid employee benefits are amortised over the period of receiving benefits. The period of receiving benefits is the expected service period of employees, and it may not be longer than the period for which the loan was granted.

*3.8.3. Short-term financial placements held to maturity*

Short-term financial placements held to maturity are non-derivate financial assets with fixed and determinable payments and fixed maturity, and for which the Fund's management has the intention and the ability to hold it to maturity. Investments that are held to maturity are related to Treasury bills issued by the Ministry of Finance of Montenegro.

These investments are stated at amortised cost using the effective interest rate method less the reduction of value based on management's assessment of their prospected recoverability.

*3.8.4. Accounts receivable*

Receivables from premiums and other accounts receivable that have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method, less any impairment in accordance with the estimations made by the Management on the probability of their collection.

*3.8.5. Cash and cash equivalents*

In the cash flow statement, cash and cash equivalents comprise cash on bank accounts held by the Central Bank of Montenegro and time deposits placed with the Central Bank of Montenegro for the period up to three months, which could be easily converted into the exact amounts of cash followed by insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.8. Financial Instruments (Continued)

##### *3.8.6. Impairment of financial assets*

An entity shall assess at each reporting date whether there is any indication that a financial asset may be impaired.

A financial asset is impaired if the estimated future cash flows pertaining to that asset have been changed as a result of one or more events which occurred upon the initial recognition of a financial asset.

Objective evidence of financial assets' impairment could include the following:

- significant financial difficulty of the legal entity; or
- delay or default in payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization procedure.

Carrying value of accounts receivable is reduced through the allowance for impairment account. When an account receivable is not collectible, it is written off through the impairment account. Subsequent collections of previously written off amounts are disclosed as a decrease in the allowance for impairment. Changes in carrying value of allowance for impairment are recognized in the statement of comprehensive income.

If the amount of impairment recognized is decreased in future period and that decrease can be related to the event occurred upon the recognition of an impairment loss, such impairment loss can be adjusted through the statement of comprehensive income until the carrying value of the asset becomes greater than the amortized loss would have been, had the impairment loss not been recognized as of the date when the impairment was reversed.

##### *3.8.7. Derecognition of financial assets*

The Fund ceases to recognize financial assets only when the contracting rights on cash flows arising from financial assets expire, or if it transfers the financial assets and thus transfers substantially all the risks and rewards of ownership. If the Fund neither transfers nor substantially retains any of the risks and property returns, and if it retains control over financial assets, it continues to recognize financial assets.

##### *3.8.8. Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

##### *3.8.9. Derecognition of financial liabilities*

The Fund derecognises financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire.



NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

4. SALES

Revenues from sale in 2021 amount to EUR 16,000,000 (2020: EUR 16,933,210) and relate to revenues from deposit protection premiums. Revenues from deposit protection premiums represent the funds commercial banks in Montenegro are obliged to pay to the Fund in accordance with the Law on Deposit Protection ("Official Gazette of Montenegro", no. 44/10, 40/11, 47/15 and 72/19) and Decision on the Amount of the Annual Premium Payable and the Method of Calculation of the Annual Premium Payable by Banks to the Fund (Official Gazette of Montenegro no. 111/20).

5. OTHER OPERATING INCOME

	<u>2021</u>	<u>2020</u>
Revenues from collected receivables based on the payment of guaranteed deposits from the bankruptcy of Atlas Bank A.D Podgorica and IBM A.D.	9,683,240	12,400,000
Liabilities waived	9,181	-
Revenues based on fines and penalties	-	28,234
Extraordinary income	-	50,000
<b>Total</b>	<b><u>9,692,421</u></b>	<b><u>12,478,234</u></b>

Other operating income in the amount of EUR 9,683,240 relates to collected receivables based on the payment of guaranteed deposits from the bankruptcy estate of Atlas Bank A.D. Podgorica and IBM AD Podgorica during 2021.

6. COST OF GOODS SOLD AND COST OF MATERIALS

	<u>2021</u>	<u>2020</u>
Fuel and energy costs	5,234	5,326
Other material costs	1,498	1,445
<b>Total</b>	<b><u>6,732</u></b>	<b><u>6,771</u></b>

7. OTHER OPERATING EXPENSES (PROVISIONS AND OTHER OPERATING EXPENSES)

	<u>2021</u>	<u>2020</u>
Provisions	28,574	164,975
Fees - treasury bills	26,078	59,600
Membership fees	21,243	21,229
Maintenance costs	14,406	17,906
Audit services	10,769	10,769
PTT services	8,127	8,455
Advertising and marketing	-	6,000
Other expenses	28,036	46,720
<b>Total</b>	<b><u>137,233</u></b>	<b><u>335,654</u></b>

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

8. DEPRECIATION AND AMORTISATION

Depreciation expense in 2021 amounts to EUR 7,816 (2020: EUR 6,910) and relates to the depreciation of equipment reported under Property, plant and equipment. (Note 14).

9. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	<u>2021</u>	<u>2020</u>
Net salaries	119,413	105,979
Reimbursement to the Management Board members	43,300	47,396
Business trips	-	784
Other personal expenses	9,482	1,523
Net salaries, compensations and other personal expenses	<u>172,195</u>	<u>155,682</u>
Payroll taxes	22,053	20,514
Contributions for retirement benefits	49,127	46,208
Payroll contributions	24,313	21,951
Costs of taxes and contributions	<u>95,493</u>	<u>88,673</u>
Cost of salaries, compensations and other personal expenses	<u><u>267,688</u></u>	<u><u>244,355</u></u>

10. OTHER OPERATING EXPENSES

Other operating expenses relate to complaints based on the payment of guaranteed deposits in the amount of EUR 50,000 in 2021 (in 2020 EUR 50,000).

11. INCOME FROM OTHER FINANCIAL INVESTMENTS AND LOANS

	<u>2021</u>	<u>2020</u>
Interest income - treasury bills	51,679	196,529
Interest income - government bonds	761,977	89,456
Total	<u>813,656</u>	<u>285,985</u>

12. INTEREST EXPENSES, FOREIGN EXCHANGE DIFFERENCES AND OTHER CONTRACTUAL HEDGING EFFECTS

	<u>2021</u>	<u>2020</u>
Interest expense - EBRD	253,472	158,347
Interest expense - term deposits	50,000	300,000
Total	<u>303,472</u>	<u>458,347</u>

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

12. INTEREST EXPENSES, FOREIGN EXCHANGE DIFFERENCES AND OTHER CONTRACTUAL HEDGING EFFECTS (Continued)

On 8th November 2010, the Fund signed a Stand-By Arrangement with the EBRD - a credit line in the amount of EUR 30,000,000. These funds are available to the Fund in case that the Fund's assets are not sufficient to cover the guaranteed deposit in case of bankruptcy of one or more banks in the system. The loan is granted on 15 years, with the possibility to use it in the next 7 years. Interest rate of 0.50% is calculated and paid in the period until the funds are withdrawn, and 1.00% in the period after the withdrawal.

In order to preserve financial stability and to prevent possible events that could cause the confidence of depositors to fall into the banking system, the Fund, with the approval of the Ministry of Finance, signed the Annex in November 2017, which extended this contract for one year. In November 2018, the Agreement was renewed for the second time (Annex II) for one year under the same conditions as the original agreement, with the withdrawal period of one year and the repayment period of 6 (six) years.

In 2020, a new Contract was signed that increase the amount of available funds to EUR 50,000,000 with a 5 (five) year withdrawal period and a repayment period of 7 (seven) years.

Expenses in the amount of EUR 303,472 relate to liabilities under the EBRD loan agreement ("Stand-by" arrangement), in the amount of EUR 50,000,000, and consist of a fee for reserving EBRD funds as a "commitment fee" in the amount of EUR 253,472 and costs in the amount of EUR 50,000 based on the accrual of costs of processing EBRD loans (total EUR 250,000, and in accordance with the repayment period allocated to 5 years per EUR 50,000 (Note 19)).

13. INTANGIBLE ASSETS

	<u>Intangible assets</u>
Cost	
Balance as of 1 January	42,884
Additions	-
Balance as of 31 December 2020	<u>42,884</u>
Additions	260
Balance as of 31 December 2021	<u>42,884</u>
Accumulated amortisation	
Balance as of 1 January	(42,718)
Amortisation expense (Note 8)	-
Balance as of 31 December 2020	<u>(42,718)</u>
Amortisation expense (Note 8)	-
Balance as of 31 December 2021	<u>(42,718)</u>
Net carrying value	
Balance as of 31 December 2020	<u>166</u>
Balance as of 31 December 2021	<u>426</u>

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

14. PROPERTY, PLANT AND EQUIPMENT

	<u>Equipment</u>
Cost	
Balance as of 1 January 2020	106,631
Additions	20,393
Sales	-
Balance as of 31 December 2020	<u>127,024</u>
Additions	1,473
Sales	-
Balance as of 31 December 2021	<u>128,497</u>
Accumulated depreciation	
Balance as of 1 January 2020	(95,267)
Depreciation expense (Note 8)	(6,910)
Sales	-
Balance as of 31 December 2020	<u>(102,177)</u>
Depreciation expense (Note 8)	(7,816)
Sales	-
Balance as of 31 December 2021	<u>(109,993)</u>
Construction in progress as of 31 December 2021	<u>1,634,697</u>
Net carrying value	
Balance as of 31 December 2020	<u>24,847</u>
Balance as of 31 December 2021	<u>1,653,200</u>

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

15. LONG-TERM FINANCIAL PLACEMENTS AND LONG-TERM RECEIVABLES

	31 December 2021	31 December 2020
Investments in government bonds	36,913,274	4,396,563
Loans to employees - Housing Loans	178,395	191,062
<b>Total</b>	<b>37,091,669</b>	<b>4,587,625</b>

Investments in government bonds relate to placements in Montenegrin bonds in the amount of EUR 36,913,274 (EUR 37,300,000 in nominal amount) with a maturity of principal in 2025 and 2027 with interest-bearing coupons maturing annually in the total amount of EUR 920,363 in 2021 (interest rate 3.375% - MNE 2025 and 2.875% - MNE 2027 annually).

Loans provided to employees relate to housing loans approved in 2015. Loans were initially approved with a maturity of 15 and 30 years, respectively. They are repaid in monthly annuities. During 2021, EUR 12,667 was repaid (during 2020: EUR 12,824). The maturity of receivables from long-term loans to employees as of 31 December 2021 and 2020 is shown in the following table (undiscounted future cash flows are shown).

Maturity	31 December 2021	31 December 2020
Up to 1 year	12,824	12,824
1 to 3 years	25,648	25,648
3 to 5 years	25,648	25,648
Over 5 years	127,099	139,765
Total loans	191,219	203,885
Less: short-term portion	(12,824)	(12,824)
<b>Total</b>	<b>178.395</b>	<b>191.061</b>

16. CURRENT RECEIVABLES

	31 December 2021	31 December 2020
Receivables from advances provided to banks for the payment of guaranteed deposits	1,312,599	1,898,298
Interest receivables - treasury bills	-	89,295
Interest receivables - government bonds	538,791	99,582
Housing loans given to employees	12,824	12,823
Other receivables	159	275
<b>Total</b>	<b>1,864,373</b>	<b>2,100,273</b>

On 4 January 2019, the Council of the Central Bank of Montenegro issued a decision number 0101-10202-3/2018 pursuant to which Invest Bank Montenegro A.D. (IBM) introduces bankruptcy, while on 5 April 2019, pursuant the decision of the Central Bank of Montenegro no. 0101-3292-4/2019 bankruptcy was introduced in Atlas Bank AD Podgorica (Atlas Bank).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

## 16. CURRENT RECEIVABLES (Continued)

Based on these decisions, the Fund informed depositors about the occurrence of the "protected case" and the selected banks that will be intermediaries in the payment of guaranteed deposits as well as the place and time where depositors can take their guaranteed deposit in accordance with the Decision on the method of payment of guaranteed deposits (Official Gazette of Montenegro No. 76/17 and 17/19). The total amount of guaranteed deposits in Atlas and IBM Bank was EUR 112,617,267. During 2019, the Fund paid EUR 104,600,000 to paying intermediary banks, of which EUR 101,883,600 was paid to depositors. During 2020, the Fund paid EUR 850,000 to paying intermediary banks, of which EUR 1,668,102 was paid to depositors. During 2021, the Fund paid EUR 500,000 to paying intermediary banks, of which EUR 1,085,699 was paid to depositors. Receivables in the amount of EUR 1,312,599 relate to advance payments to paying banks that were not paid to depositors as at 31 December 2021.

## 17. SHORT-TERM FINANCIAL PLACEMENTS

Short-term financial investments, amounting to EUR 0 as of 31 December 2021 (EUR 31,559,026 in 2020) relate to treasury bills and represent six-month debt securities issued by the Central Bank of Montenegro on behalf of the Ministry of Finance of Montenegro due on 13 January 2021, 24 February 2021 and 29 April 2021.

## 18. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash on the CBM giro account	78,049,374	56,061,113
Custody account of Hipotekarna banka	434,700	-
Cash on hand	125	119
<b>Total</b>	<b>78,484,200</b>	<b>56,061,232</b>

In accordance with the Asset Management Agreement, which entered into force on May 7, 2012, the Fund's Board of Directors hired and authorized the Central Bank, as the Asset Manager, to manage the Fund's available funds. Accordingly, the Central Bank may issue orders to invest in deposits, purchase, and sell portfolio investments on behalf of the Fund with the bank or dealer of its choice and which, according to information available to the Central Bank, offers security, liquidity and the most favourable return for the Fund at that particular moment.

The primary goal of all investment decisions is security, in order to protect the Fund's capital. The Fund invests in debt instruments, which are ranked at least by one of the internationally recognized rating agencies: Standard & Poor's A/A-1, Moody's A2/P-1, and Fitch A/F1. Investments in stocks and investments that carry higher risk are excluded:

- debt securities in EUR issued by a bank, financial institution or country with a credit rating determined by internationally recognized rating agencies, which is not lower than the rating "A" or "P1";
- deposits denominated in EUR, placed with banks in the EU and/or OECD member countries rated by internationally acclaimed credit rating agencies, which is not lower than "P1".

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

18. CASH AND CASH EQUIVALENTS (Continued)

As an exception to the above, the Fund may also invest assets into debt securities denominated in EUR and issued and backed by the State of Montenegro up to 20% of total investment portfolio, as well as into deposits in EUR held with the Central Bank.

After the return of a significant part of the funds from the bankruptcy estate of IBM and Atlas Bank, and the collection of premiums in 2020 and 2021, the conditions for investing funds were created so that in 2021 the Fund independently invested in government bonds of Montenegro.

Cash in the amount of EUR 434,700 relates to the coupon yield on government bonds MNE 2027, which matured on 16 December 2021 and was kept in the custody account of Hipotekarna banka for the purpose of future bond purchases.

19. PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income as of 31 December 2021 amount to EUR 150,000 (31 December 2020: EUR 200,000) and relate to the prepaid loan approval fee under the arrangement with the EBRD (Note 12).

20. EQUITY

	31 December 2021	31 December 2020
Basic capital	85,233,418	56,638,026
Retained earnings	25,733,136	28,595,392
<b>Total</b>	<b>110,966,554</b>	<b>85,233,418</b>

The Deposit Protection Fund was established in 2003, pursuant to the Law on Deposit Protection (Official Gazette of the Republic of Montenegro No. 40/2003). Since the Fund was established by law, the founding contribution was not paid, but the total capital represents the accumulated profit for the period from the establishment to 31 December 2021.

21. LONG-TERM PROVISIONS

Long-term provisions as of 31 December 2021 relate to provisions for complaints based on the payment of guaranteed deposits in the amount of EUR 100,000. As of 31 December 2020, this amount was stated within the balance sheet item Short-term provisions.

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

## 22. SHORT-TERM LIABILITIES

Short-term liabilities as at 31 December 2021 and 31 December 2020 are presented in the table below:

	31 December 2021	31 December 2020
Liabilities based on the payment of guaranteed deposits	8,064,234	9,130,540
Trade payables	6,177	1,738
Interests payable to the EBRD	100,000	66,667
Other operating liabilities and other current liabilities	6,903	805
<b>Total</b>	<b>8,177,314</b>	<b>9,199,750</b>

Pursuant to the decisions of the Central Bank of Montenegro on the introduction of bankruptcy in IBM and Atlas Bank (Note 16), a "protected case" occurred. The total amount of guaranteed deposits amounted to EUR 112,617,267, of which EUR 1,085,699 was paid to depositors in 2021 (during 2020: EUR 1,668,102). Liabilities in the amount of EUR 8,064,234 relate to guaranteed deposits whose payment has not been realized by 31 December 2021. Following the Decision of the Administrative Court, the total amount of guaranteed deposits as of 31 December 2021 is EUR 112,701,633.

## 23. FINANCIAL INSTRUMENTS

### 23.1. Categories of financial instruments

	31 December 2021	31 December 2020
<i>Financial assets</i>		
Cash and cash equivalents	78,484,200	56,061,232
Short-term financial placements	-	31,559,026
Other long-term financial placements	37,091,669	4,587,625
Accounts receivable	1,864,373	2,100,273
<b>Total financial assets</b>	<b>117,440,242</b>	<b>94,308,156</b>
<i>Financial liabilities</i>		
Trade payables	8,070,411	9,132,278
Other short-term liabilities	106,903	67,472
Long-term/short-term provisions	100,000	100,000
<b>Total financial liabilities</b>	<b>8,277,314</b>	<b>9,299,750</b>



## 23. FINANCIAL INSTRUMENTS (Continued)

### 23.2. Financial Risk Management

In its regular course of business, the Fund is exposed to a variety of financial risks:

- *Market risk,*
- *Liquidity risk and*
- *Credit risk.*

The Fund's risk management is focused towards minimizing the potential negative impacts on the financial state and operating activities of the Fund due to uncertainties on the financial markets. The Fund does not use derivative financial instruments in any form in order to mitigate risk losses. A formal framework for financial risk management has been established in the Fund and it is within the jurisdiction of the Fund's Management Board.

#### 23.2.1 Market risk

##### *Foreign currency risk*

The Fund is not exposed to the risk of changes in exchange rates because it conducts its operations in the functional currency of the environment.

##### *Interest rate risk*

The Fund is exposed to various risks that, through the effects of changes in market interest rates, affect its financial position and cash flows. The Fund's operations are exposed to the risk of changes in interest rates to the extent that interest-bearing assets and interest-bearing liabilities are due for collection at different times or in different amounts.

##### *Price risk*

Risk of changes in other prices includes changes in the price of capital, changes in the price of goods, the risk of early payment and the risk of residual value. The fund is not significantly exposed to these types of risks.

#### 23.2.2. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to finance its assets with appropriate sources of funding in respect of related maturities and interest rates the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe, as well as the risk of being unable to pay off its obligations within maturity. The Management Board of the Fund is responsible for monitoring the level of short-term funding and adjust the needs of short-term and long-term funding in accordance with defined investment policies.

#### 23.2.3. Credit risk

Credit risk is the risk of financial losses of the Fund as a result of delays of the client or other counterparty in the settlement of contractual obligations. Credit risk is primarily linked to the Fund's exposure to cash and cash equivalents, short-term and long-term financial placements.

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

23. FINANCIAL INSTRUMENTS (Continued)

23.2. Financial risk management (Continued)

23.2.3. Credit risk (Continued)

The business policy of the Fund is to disclose information on the fair value of assets and liabilities for which there is official market information and when fair value varies significantly from its carrying amount. There is no sufficient market experience in Montenegro, nor stability nor liquidity in the purchase and sale of receivables and other financial assets and liabilities, as official market information is not always available. Therefore, the fair value cannot be reliably determined with the absence of an active market.

The management of the Fund assesses risks, and in cases where it is estimated that the value at which property is kept in the accounting records will not be realized, accounts for impairment.

The management of the Fund considers that the amounts in the accompanying financial statements reflect the value that in the given circumstances is the most credible and useful for the use of reporting under the given circumstances.

	31 December 2021		31 December 2020	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	78,484,200	78,484,200	56,061,232	56,061,232
Short-term financial investments	-	-	31,559,026	31,559,026
Other long-term financial investments	37,091,669	37,091,669	4,587,625	4,587,625
Receivables	1,864,373	1,864,373	2,100,273	2,100,273
<b>Total financial assets</b>	<b>117,440,242</b>	<b>117,440,242</b>	<b>94,308,156</b>	<b>94,308,156</b>
<b>Financial liabilities</b>				
Trade payables	8,070,411	8,070,411	9,132,278	9,132,278
Other short - term liabilities and accruals	106,903	106,903	67,472	67,472
Short-term provisions	100,000	100,000	100,000	100,000
<b>Total financial liabilities</b>	<b>8,277,314</b>	<b>8,277,314</b>	<b>9,299,750</b>	<b>9,299,750</b>

24. LITIGATION

As of 31 December 2021, there are three lawsuits against the Fund with a total value of EUR 12,487. The outcome of these disputes cannot be predicted with certainty, but the Fund's management is of the opinion that the probability that the dispute will be resolved in favour of the Fund is over 50%. Accordingly, the Fund has not made a provision for potential litigation losses.

Furthermore, as of 31 December 2021, according to the lawsuit filed by the Fund, there is a lawsuit initiated against one of the banks - the payer, which relates to complaints based on the payment of guaranteed deposits with a total value of EUR 100,000.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

All amounts are expressed in EUR, unless otherwise stated

---

## 25. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events subsequent to the reporting date that would require adjustments or disclosures in the Fund's financial statements as of and for the year 1 January to 31 December 2021.

In 2022, the Fund continued to pay guaranteed deposits to depositors of bankrupt banks. By 28 February 2022, EUR 8,703 had been disbursed based on guaranteed deposits for Atlas banka in bankruptcy, while EUR 50,000 had been disbursed for IBM banka. Such a small amount of disbursed funds is a consequence of the coronary virus pandemic - COVID-19, which prevented depositors (a large number of unpaid depositors relate to non-residents) to take their guaranteed deposit.

The impact of the pandemic was also reflected in the collection of the Fund's receivables from the bankruptcy estate. Due to lower interest in the sale of property owned by bankrupt credit institutions, EUR 50,000 was collected from IBM, so that the return on the total level amounted to EUR 63,433,240, or 56.23% (IBM 82.35% and Atlas banka 49.82%).

As the issuance of Montenegro bonds 2027 in the amount of EUR 750,000,000 eliminated the need for short-term borrowing of the Ministry of Finance through the issuance of short-term securities (treasury bills), the Fund continued to invest by buying government bonds - long-term securities of Montenegro on secondary international financial market, so that in 2022 another EUR 1,700,000 government bonds MNE 2025 were realized on the international financial market.

The first instalment of the regular premium in the amount of EUR 4,506,000 was calculated and collected. In accordance with the Methodology, credit institutions were classified into 6 (six) risk classes out of 7 (seven), so that the least risky credit institutions (risk class 1) paid a premium at a cumulative risk ratio of 75%, and the most risky credit institutions risk class 6) according to the cumulative risk coefficient 130%.

The total funds on 28 February 2022 amount to EUR 122,140,751, of which EUR 39,000,000 in bonds of Montenegro (in MNE 2025 - EUR 23,880,000 and MNE 2027 - EUR 15,120,000), on the giro account EUR 81,096,906, EUR 1,253,895 in advances to banks for payment of DG, EUR 779,262 for interest receivables and EUR 10,687 other receivables.

In the first quarter of 2022, new documents of the Fund - Investment Policy and Investment Strategy with accompanying acts and methodologies were adopted, thus completing one phase of the project, followed by activities to select a professional asset management company (AMC).

Considering the current health situation regarding the coronavirus epidemic in Montenegro, which has greatly improved, especially given the extremely unstable international environment, whose repercussions will inevitably affect the Montenegrin economy, these new circumstances can pose major challenges for all businesses and financial institutions.

However, taking into account the nature of the Fund's business activities and the significant amount of liquid assets available to the Fund, management does not expect that these events will significantly disrupt its activities or affect the possibility of business continuity in the future.



## **BDO d.o.o. Podgorica**

Bulevar Svetog Petra Cetinjskog 149

81000 Podgorica

Montenegro

Tel: +382 20 228 449

Fax: +382 20 228 449

[www.bdo.co.me](http://www.bdo.co.me)

BDO d.o.o. Podgorica, privredno društvo osnovano u Crnoj Gori, je članica BDO International Limited, kompanije sa ograničenom odgovornošću sa sjedištem u Velikoj Britaniji i dio je međunarodne BDO mreže firmi članica.

BDO je brend ime za BDO mrežu i za svaku BDO firmu članicu.

BDO d.o.o. Podgorica, a limited liability company incorporated in Montenegro, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO member firms.

