



DEPOSIT PROTECTION FUND

**DEPOSIT PROTECTION FUND
ANNUAL REPORT
2022**

Podgorica, May 2023

LIST OF ABBREVIATIONS

CBCG	<i>Central Bank of Montenegro</i>
EBRD	<i>European Bank for Reconstruction and Development</i>
EFDI	<i>European Forum of Deposit Insurers</i>
IADI	<i>International Association of Deposit Insurers</i>
EU	<i>European Union</i>
FSAP	<i>Financial Sector Assessment Program</i>
Fund	<i>Deposit Protection Fund</i>
Methodology	<i>Methodology for calculating the risk-based premium of individual credit institutions</i>
MB	<i>Managing Board</i>
Law	<i>Deposit Insurance Law</i>
Directive 2014/49 EU	<i>Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit-guarantee schemes</i>
Directive 2014/59 EU	<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 (Bank Recovery and Resolution Directive)</i>

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Introductory remarks

Introductory remarks

During the reporting year 2022, the banking sector continued to contribute significantly to the recovery of the domestic economy through intensified lending activity which was followed by the preservation of safety and stability of this sector and supported by a high level of liquid assets and the growth of deposits. At the end of the year, deposits in credit institutions were at their historical maximum, reaching the amount of 5,230 million euros, which represents the annual growth of 24.29%. A significant part of the temporary measures to mitigate the negative impact of the COVID-19 epidemic, which the Central Bank of Montenegro adopted during 2020 and 2021 through eleven sets of measures, remained in effect.

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 point to stable operations of the Montenegrin banking system in the reporting year.

Deposits with credit institutions amounted to 5,230 million euros at end-December 2022 and they increased by 24.49% year-over-year. Of the total amount of deposits deposited with credit institutions, retail deposits accounted for 2,648 million euros or 55.09%, while corporate deposits made up 2,166 million euros or 44.91%. Retail and corporate deposits increased by 26.62% and 28.85% annually, respectively.

The Deposit Protection Fund (Fund) calculated and collected the risk-based premiums in the reporting year in the amount of 18 million euros. Credit institutions are classified into 7 risk categories, with no credit institution being in category 7.

The Fund continued with the payouts of guaranteed deposits for two banks - Invest Banka Montenegro A.D. Podgorica and Atlas banka A.D. Podgorica who had been subject to bankruptcy proceedings in 2019.

Namely, during 2022, guaranteed deposits paid out to depositors totalled 730,144 euros. The outstanding amount is some 7,334,087 euros or 6.51% of the total amount of guaranteed deposits in 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 6.6 million euros (as at 31/12/2022, total funds recovered from the bankruptcy estate amounted to 69.9 million euros or 62.10%).

In order to ensure greater security of deposits in credit institutions, i.e. stability of the entire financial system, the Fund concluded a stand-by arrangement with the EBRD in the amount of 50 million euros (July 2020). This arrangement allows the Fund to use the aforesaid funds for a potential protected event in one of the credit institutions in the system and to pay out guaranteed deposits for a period of 5 years from the date of signing the arrangement and against the repayment period of 7 years. When own funds

currently available to the Fund are also taken into account, it can be concluded that there is a high degree of certainty that the Fund can fulfil its basic task.

* * *

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** ,presents the Fund`s exposure to credit institutions and potential future compensations of guaranteed deposits presented as the coverage ratio.

The **fourth part** of the report discusses the Fund`s activities during the year.

The **fifth part** gives an overview of the Fund`s financial operations. The Fund`s financial indicators and planned activities for 2023 clearly show that the Fund has maintained its operational stability.

**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. Deposit Protection Law (OGM 44/10, 40/11 and 47/15) provided for a further alignment with the Directive 2014/49/EU (increasing the level of insured deposits from 5,000 euros to 50,000 euros, as well as the shortening of the deadline for the compensation of guaranteed deposits from 90 to 20 days), and also the separation of governance and managerial functions of the Fund to the Managing Board and the Director General, respectively. Deposit Insurance Law (OGM 72/19) was further aligned with the Directive 2014/49/EU and Directive 2014/59/EU. The novelties introduced are the level of protection that was increased to 100,000 euros, the deadline for compensation of guaranteed deposits was shortened to 7 working days, a temporary high balance was introduced, as was the obligation to conduct stress testing of the deposit protection system, including the possibility of participating in financing the resolution of credit institutions in order to prevent the occurrence of a protected event, and charging risk-based premiums to credit institutions.

The main activity of the Fund is to protect deposits in credit institutions and it is obliged to compensate guaranteed deposits in the case of a protected event occurrence, as prescribed by the Law. A protected event occurs on the day of passing a decision on initiating bankruptcy proceedings against a credit institution or the adoption of a decision on the unavailability of deposits.. Credit institutions licensed by the CBCG are obliged to pay the deposit guarantee premium under the conditions and in the manner specified in the Law. The deposit insurance scheme comprises deposits placed with a credit institution before or as at the protected event occurrence date. Starting from 1 January 2013, the Fund paid out guaranteed deposits up to the amount of 50,000 euros per depositor, regardless of the number and amount of money that depositor has with the credit institution. With the 2019 Deposit Insurance Law (OGM 72/19), the level of protection was raised to the amount of 100,000 euros, provided that until Montenegro's accession to the EU, the Fund will compensate guaranteed deposits up to the amount of 50,000 euros per depositor, regardless on the number and amount of money that depositor holds with a credit institution.

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

Mission

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

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). The members are 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 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 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 deposit trends, 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 By-Law

The Managing Board composition as at 31/12/2022:

- 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. Golubović Vlastimir, Representative of the Chamber of Economy of Montenegro, Member;

During 2022, the MB held 8 (eight) meetings.

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

Web address: www.fzdcg.org, e-mail: fzd@fzdcg.org

1.2. Harmonization of the legislative and institutional framework with the EU Acquis Communautaire in the field of deposit insurance system

In the process of EU accession, inter alia, Montenegro has undertaken 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 package of legislation at end-2019, i.e. by adopting the Law on Credit Institutions, Law on Resolution of Credit Institutions, Deposit Insurance Law, and Amendments to the Bank Bankruptcy and Liquidation Law.

The Deposit Insurance 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 harmonisation 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 starting from 01/01/2021;
- 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 - temporary 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 funding 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 Deposit Insurance Law is also aligned with the Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurers (IADI), which are applied by the World Bank and the International Monetary Fund in the process of assessing the compliance and meeting the recommendations communicated by the FSAP mission.

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 system has the most prominent role. In 2022, there were 11 (eleven) credit institutions operating in the country, of which non-residents held majority equity in the ten of them.

As at 31/12/2022, deposits in all of the credit institution were protected under the Montenegrin deposit guarantee scheme, in accordance with the Law.

Of the total amount of deposits placed with credit institutions, corporate deposits accounted for 44.91% and retail deposits made up the remaining 55.09% as at the end of the reporting year. Of the total amount of deposits placed with credit institutions, resident deposits accounted for 59.36% and non-resident deposits made up 40.63%.

Deposits held with credit institutions during the reporting year retained a very similar upward trend as in 2021. Compared year-on-year, retail deposits rose 26.62%, and corporate deposits increased by 28.85%.

As at 31/12/2022, deposits not covered under the deposit guarantee scheme accounted for 7.95% of total deposits.

**LEVEL AND STRUCTURE OF
INDIVIDUAL DEPOSIT
CATEGORIES**

2

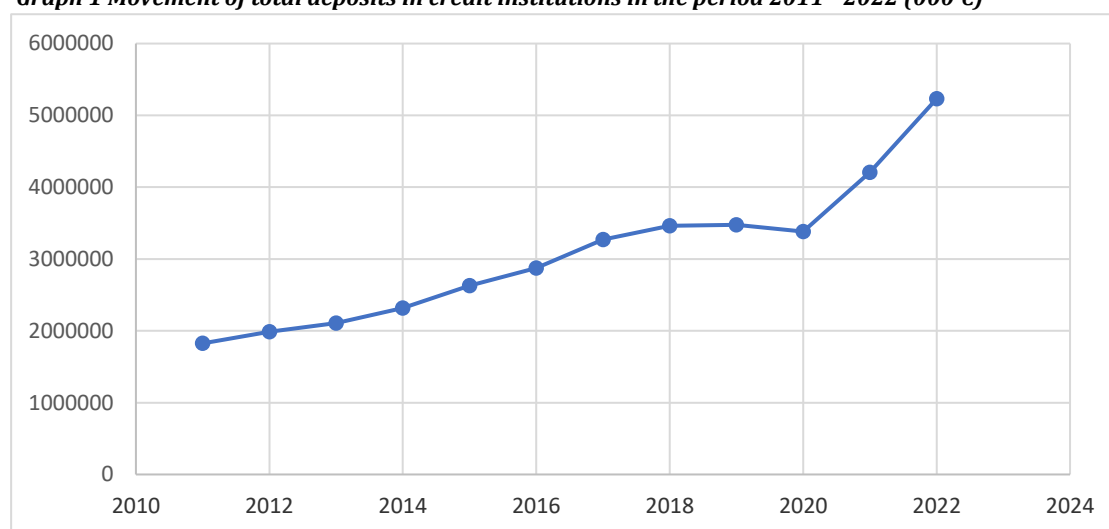
2.LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES

2.1 Total deposits

Total deposits in credit institutions amounted to 5,230,195,527 euros as at 31 December 2022, whereas at end-2021 they totalled 4,208,099,998 euros. This represents the year-on-year increase of 24.49%.

Graph 1 shows the trending of total deposits over the period 2011 - 2022

Graph 1 Movement of total deposits in credit institutions in the period 2011 - 2022 (000 €)



*Source: monthly reports of credit institutions

Total deposits with credit institutions were on a rise during the reporting year, as shown by quarters (1.87% in Q1; 4.26% in Q2, 11.24% in Q3, and 5.19% in Q4).

Table 1 Total deposits in 2022, by quarters (000 €)

	31/ 12/ 2021	31/ 03/ 2022	30/ 06/ 2022	30/ 09/ 2022	31/ 12/ 2022
TOTAL	4,208,100	4,286,752	4,469,522	4,971,978	5,230,196

*Source: monthly reports of credit institutions

The biggest depositors in credit institutions were households and corporates.

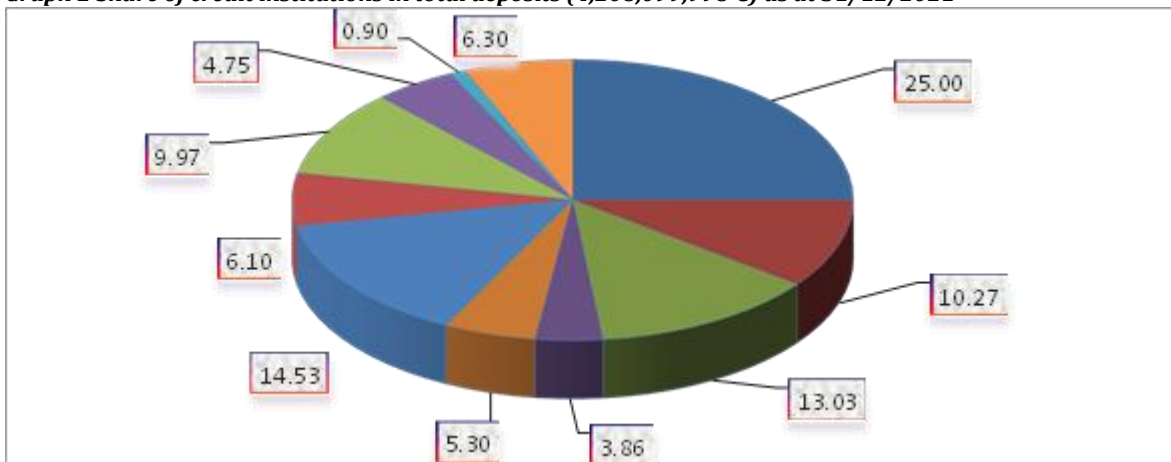
The share of household deposits amounted to 2.6 billion euros or 55.09% of total deposits as at 31 December 2022, making this sector the most significant depositor in the Montenegrin banking system. The number of retail depositors reached 702,536 at end-2022, which is 90.71% of the total number of depositors.

Corporate deposits accounted for 44.91% of total deposits in the system, reaching 2.2 billion euros. The number of corporate depositors totalled 69,282 or 8.29% of the total number of depositors.

The total number of depositors amounted to 774,482 which is 7.78% more than in the previous year (718,579).

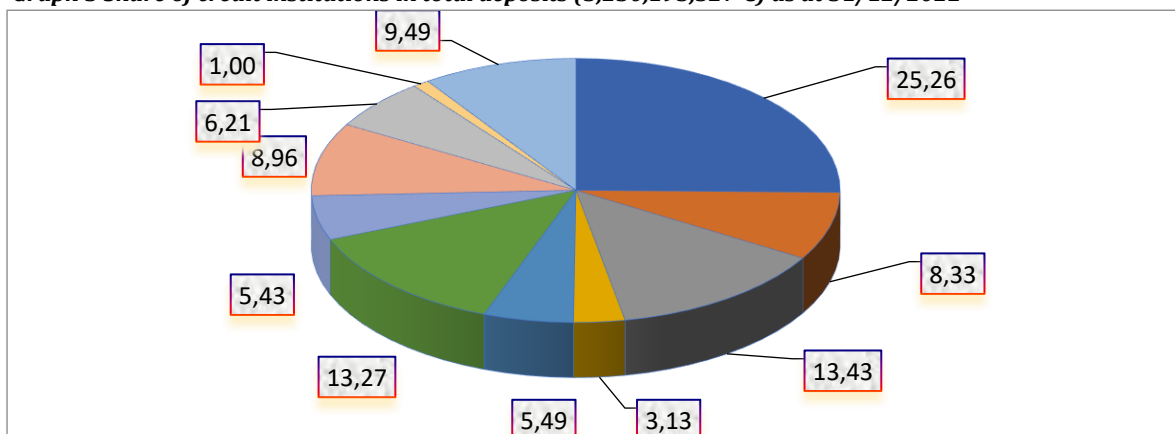
The shares of individual credit institutions in total deposit portfolio at end-2021 and end-2022 are shown in graphs 2 and 3.

Graph 2 Share of credit institutions in total deposits (4,208,099,998 €) as at 31/12/2021



**Source: monthly reports of credit institutions*

Graph 3 Share of credit institutions in total deposits (5,230,195,527 €) as at 31/12/2022



**Source: monthly reports of credit institutions*

From the once extremely concentrated market and the dominant role of the three largest credit institutions, the situation today is so much 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 38.53% at end-2022).

Individual shares of credit institutions in total deposits with other credit institutions remained at almost the same levels as at end-2021.

2.2 Deposits by persons not entitled to the 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 2022).

Quarterly data point to fluctuations of these deposits during the reporting year with increases being recorded in Q1, Q3 and Q4 (1.15%, 12.09%, and 0.02%, respectively), and a decline in Q2 (4.63%), which resulted in the year-on-year deposit increase of 8.15% at end-2022. The number of depositors not entitled to the guaranteed deposit payout amounted to 2,664, which is 0.83% more than at end-2021 (2,642).

Table 2 Deposits by persons not entitled to the guaranteed deposit payout in 2022, by the quarter (in 000€)

	31/12/2021	31/03/2022	30/06/2022	30/09/2022	31/12/2022
Deposits of persons not entitled to payout	384,525	388,947	370,926	415,774	415,847
TOTAL DEPOSITS	4,208,100	4,286,752	4,469,522	4,971,978	5,230,196
% share in deposits	9.14	9.07	8.30	8.36	7.95

**Source: monthly reports of credit institutions*

This category of deposits accounted for 7.95% of total deposits as at 31/12/2022. Their share in total deposits reduced in comparison with end-2021 when it stood at 9.14%.

Deposits by government entities and organisations accounted for the main share of depositors not entitled to the guaranteed deposit payout (57.65%). The share of deposits by investment funds and investment management companies amounted to 11.53%.

The share of deposits by financial institutions made up 7.64%, whereas deposits by legal persons engaged in insurance business accounted for 5.06%, and deposits by legal persons with either direct or indirect share in capital or voting rights of 10% or more in the relevant credit institution made up 11.73%.

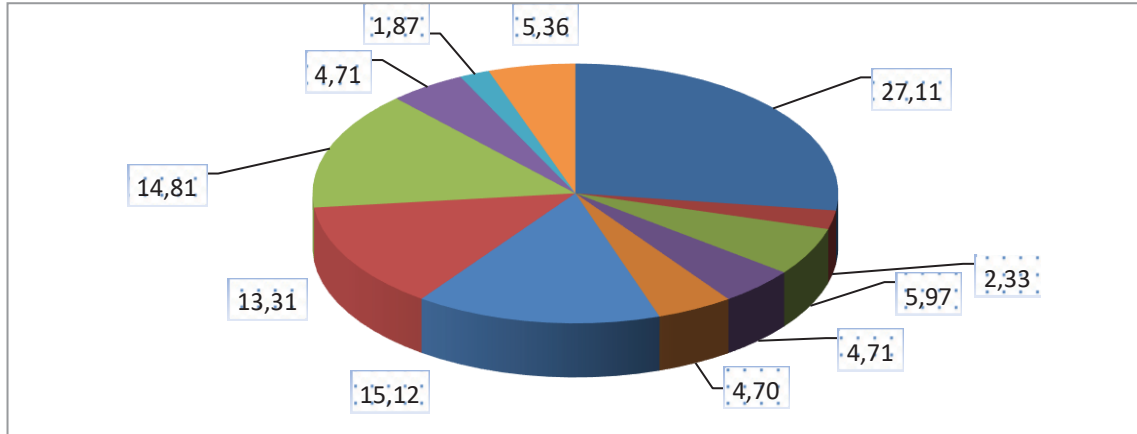
The year-on-year percentage increase in deposits by persons not entitled to the guaranteed deposit payout (of 8.15%) is largely the result of the following:

- deposits by government and municipal bodies and organisations, other forms of local self-government (an increase of 32.49% or 58.8 million euros);
- deposits by persons with a 10% direct or indirect holding (an increase of 65.09% or 12.2 million euros);
- deposits by persons engaged in insurance and reinsurance activities (an increase of 41.29% or 6.2 million euros);

- deposits by investment funds and investment management companies (a decrease of 27.00% or 21 million euros);
- deposits by parent, associated or subsidiary companies of credit institutions (a decrease of 65.60% or 9.5 million euros).

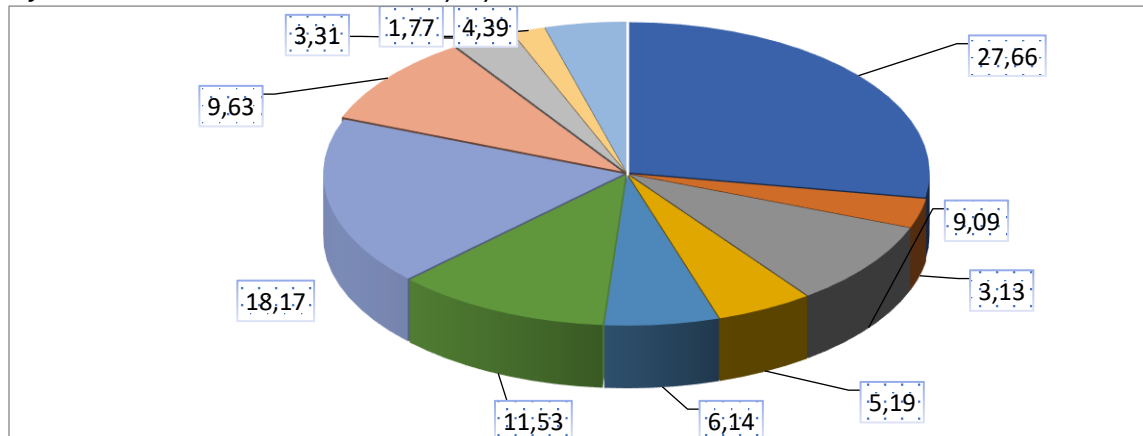
Other categories of deposits by persons not entitled to the guaranteed deposit payout experienced no significant changes in shares at the end of the reporting year as compared to the previous year.

Graph 4 Deposits by persons not entitled to guaranteed deposit payout by individual credit institutions as at 31/12/2021



*Source: monthly reports of credit institutions

Graph 5 Deposits by persons not entitled to guaranteed deposit payout by individual credit institutions as at 31/12/2022



*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 31/12/2022 amounted to 4,814,348,184 euros, as compared to 3,823,575,016 as at 31/12/2021.

Quarterly data for 2022 show the growing trend in all quarters (1.94% in Q1, 5.15% in Q2, 11.16% in Q3, and 5.67% in Q4), resulting in a cumulative year-over-year increase of 25.91%.

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
31/12/2021	3,823,575	2,142,497	1,681,078	56.03	43.97
31/03/2022	3,898,739	2,125,055	1,773,684	54.51	45.49
30/06/2022	4,098,596	2,263,151	1,835,445	55.22	44.78
30/09/2022	4,419,486	2,344,483	2,075,003	53.05	46.95
31/12/2022	4,814,348	2,648,106	2,166,243	55.00	45.00
31/12/22 - 31/12/21	25.91	23.60	28.86		
31/12/22 - 31/12/21	990,773	505,609	485,164		

*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 (92.05%). Retail deposits made up 55% and corporate deposits accounted for 45%.

The structure of these deposits did not significantly change in comparison with end-2021. Both categories of deposits recorded minor changes in the reporting period.

There were 771,818 depositors entitled to the guaranteed deposit payout as at 31/12/2022.

Table 3.1 Number of depositors entitled to the guaranteed deposit payout

	TOTAL	Natural persons LP in % (3/1)	Legal persons	NP in % (2/1)	
	1	2	3	4	5
31/12/2021	715,937	649,374	66,563	90.70	9.30
31/03/2022	693,663	626,625	67,038	90.34	9.66
30/06/2022	717,432	648,918	68,514	90.45	9.55
30/09/2022	700,649	632,835	67,814	90.32	9.68
31/12/2022	771,818	702,536	69,282	91.02	8.98
31/12/22 - 31/12/21	7.81	8.19	4.08		
31/12/22 - 31/12/21	55,881	53,162	2,719		

*Source: monthly reports of credit institutions

In the structure of deposits of persons entitled to the guaranteed deposit payout,

deposits by residents accounted for 57.5% (49.5% deposits by resident natural persons and 50.5% deposits by resident legal persons). Non-residents accounted for 42.5% (62.4% deposits by non-resident natural persons and 37.6% deposits by non-resident legal persons).

Table 3.1 Structure of deposits of persons entitled to guaranteed deposit payout (000 €), residents and non-residents

	DEPOSITS BY PERSONS ENTITLED TO THE GUARANTEED DEPOSIT PAYOUT (000 €)				
	TOTAL	Residents	Non-residents	Residents	Non-residents
	1	2	3	%	%
31/12/2021	3,823,575	2,686,606	1,136,969	70.26	29.74
31/03/2022	3,898,739	2,732,352	1,166,387	70.08	29.92
30/06/2022	4,098,596	2,831,522	1,267,074	69.09	30.91
30/09/2022	4,419,486	3,017,483	1,402,003	68.28	31.72
31/12/2022	4,814,348	2,768,471	2,045,877	57.50	42.50
31/12/22 - 31/12/21	25.91	3.05	79.94		
31/12/22 - 31/12/21	990,773	81,865	908,908		

Of the total number of depositors entitled to the guaranteed deposit payout, 51,308 had liabilities towards banks that exceeded their deposits with the credit institutions (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 (735,601 depositors)

Table 3.2 Number of depositors whose deposits¹ exceed their due liabilities to credit institution and who would receive guaranteed deposit

	TOTAL	Natural persons	Legal persons	NP in % (2/1)
	1	LP in % (3/1)	3	4
31/12/2021	666,218	602,243	63,975	90.40
31/03/2022	654,506	589,837	64,669	90.12
30/06/2022	672,912	606,688	66,224	90.16
30/09/2022	697,008	629,703	67,305	90.34
31/12/2022	735,601	667,827	67,774	90.79
31/12/22 - 31/12/21	1.10	1.11	1.06	
31/12/22 - 31/12/21	69,383	65,584	3,799	

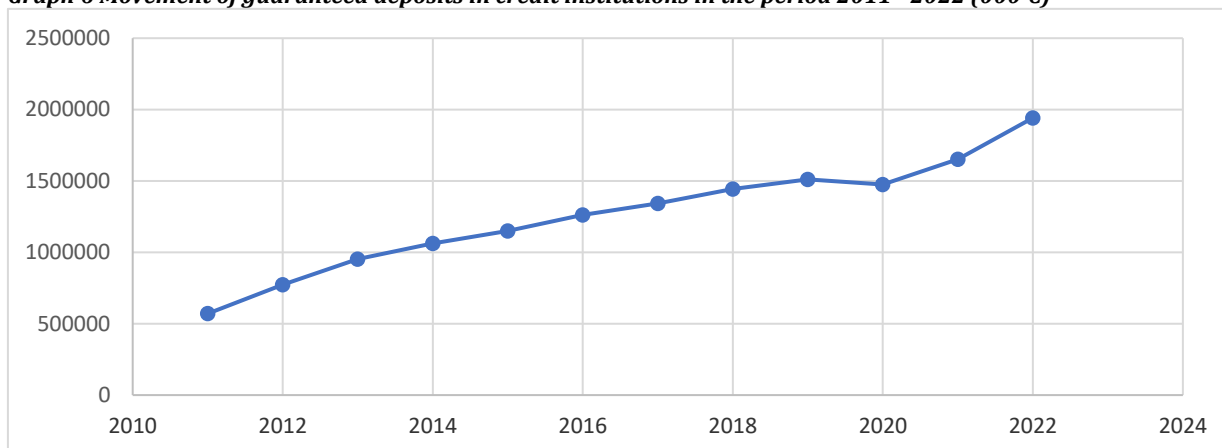
*Source: monthly reports of credit institutions

¹Guaranteed 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).

2.4 Guaranteed deposits

Guaranteed deposits amounted to 1,941,506,339 euros as at 31/12/2022, as compared to 1,651,383,821 euros as at 31/12/2021. **This is the year-on-year decrease of 17.57%.** On 31/12/2022, guaranteed deposits were 290.1 million euros higher than as at 31/12/2021. Graph 6 shows the trending of guaranteed deposits over the period 2011 - 2022.

Graph 6 Movement of guaranteed deposits in credit institutions in the period 2011 - 2022 (000 €)



**Source: monthly reports of credit institutions*

On 2 December 2019, the Parliament of Montenegro adopted the Deposit Insurance Law (OGM 72/19 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 and/or from the moment when such deposits become legally transferable.

From the date of entry into force of the new law until Montenegro's accession to the European Union, the Fund will continue to calculate and pay the guaranteed deposit up to the amount of 50,000 euros per depositor/per credit institution. As of the EU 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 (2.07%) and they rose in all other quarters (6.08% in Q2, 8.81% in Q3, and 4.02% in Q4).

As at 31/12/2021, guaranteed deposits made up 43.19% of eligible deposits and at the end of the reporting year this share was 40.33%. Their respective shares in total deposits amounted to 39.24% and 37.12%.

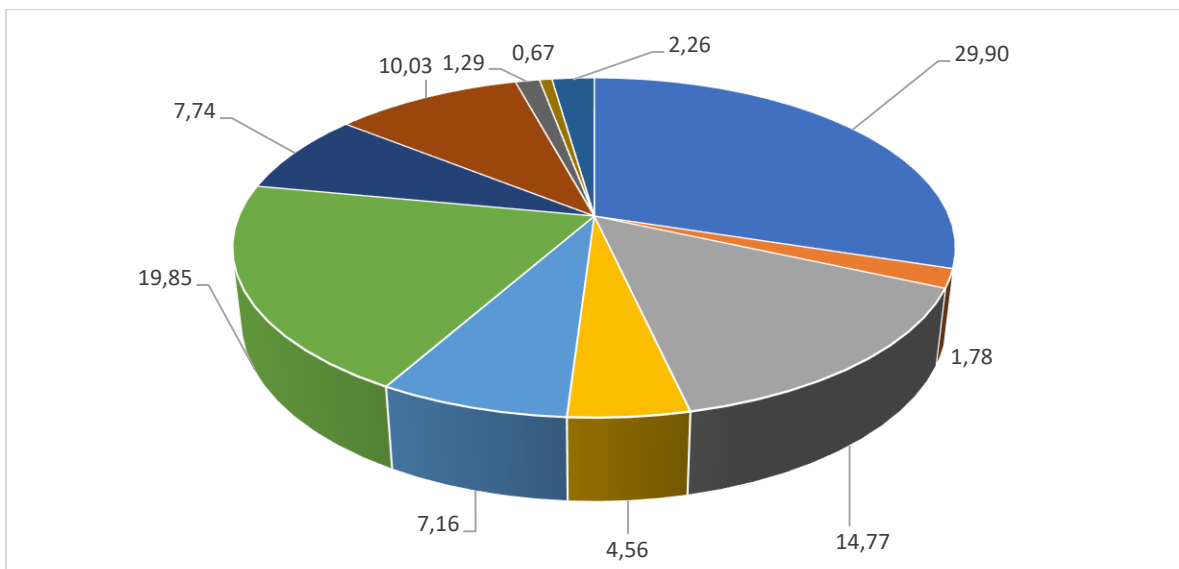
Table 4 Share of guaranteed deposits in eligible deposits in 2022 (000 €)

	31/12/2021	31/03/2022	30/06/2022	30/09/2022	31/12/2022
GUARANTEED DEPOSITS	1,651,384	1,617,139	1,715,399	1,866,509	1,941,506
ELIGIBLE DEPOSITS	3,823,575	3,897,805	4,098,596	4,556,204	4,814,348
SHARE OF GD* IN ED**	43.19%	41.49%	41.85%	40.97%	40.33%

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

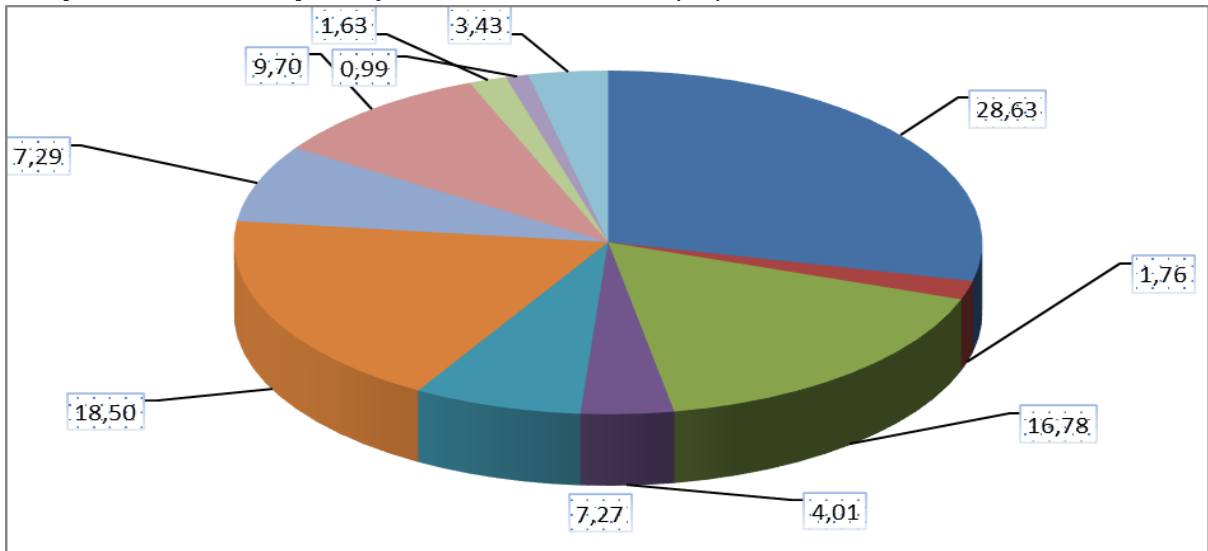
During the reporting period, the structure of guaranteed deposits by individual credit institutions did not significantly change compared to 2021.

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



**Source: monthly reports of credit institutions*

Graph 7-a Guaranteed deposits by credit institutions as at 31/12/2022



**Source: monthly reports of credit institutions*

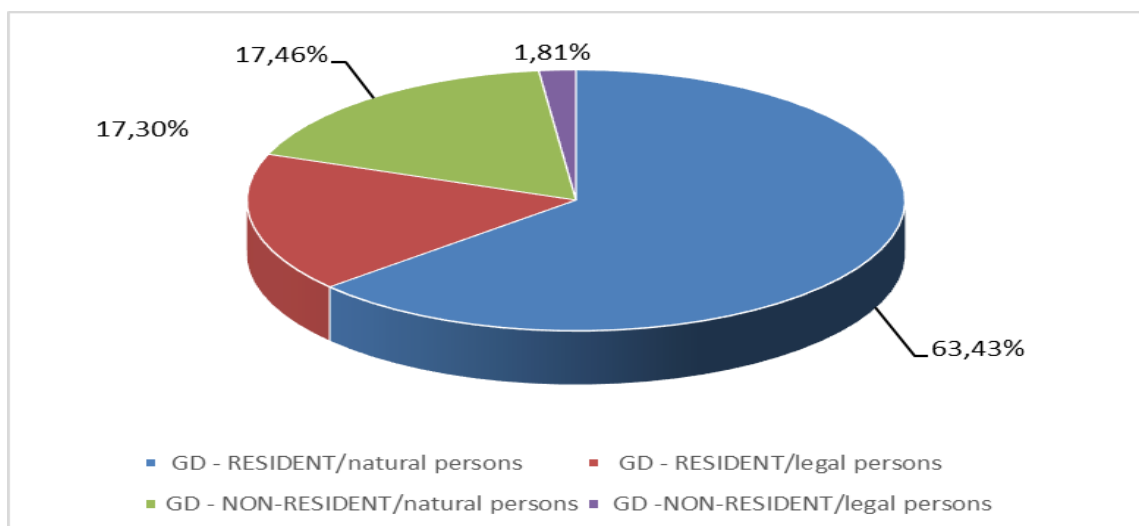
Two credit institutions held 47.14% of total guaranteed deposits in 2022, which is a decrease compared to the end of 2021 when this percentage stood at 49.75%.

One of the credit institution holding the largest share of guaranteed deposits saw its share in total guaranteed deposits decrease from 29.90% to 28.63%. The other credit institution holding the second largest share of guaranteed deposits saw this share decline from 19.85% to 18.50%.

At the end of the reporting period, the two credit institutions holding 38.53% of total deposits also held 47.14% of guaranteed deposits.

From the aspect of the structure of guaranteed deposits by category, deposits by resident natural persons made up 63.43%, deposits by resident legal persons accounted for 17.30%, non-resident natural persons held 17.46% deposits, and non-resident legal persons accounted for 1.81% of total guaranteed deposits.

Graph 7-b Structure of guaranteed deposits - resident/non-resident natural/legal persons as at 31/12/2022



From the aspect of structure by the categories residents - non-residents, graph 7-c presents the share of depositors.

Resident natural persons account for 81.25%, resident legal persons made up 8.96%, while non-resident natural and legal persons accounted for 9.53% and 0.26% of total guaranteed deposits, respectively.

Graph 7-c Number of depositors holding guaranteed deposits - resident/non-resident natural/legal persons as at 31/12/2022

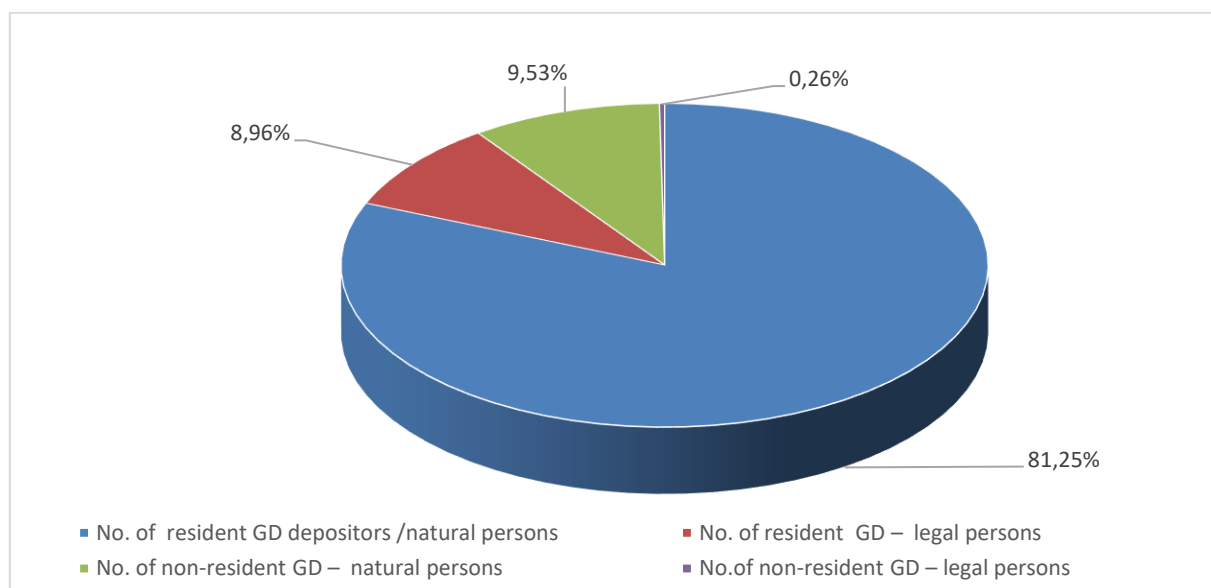


Table 4.1 Guaranteed deposits (natural and legal persons) in 000 €

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1) (=3/1)
	1	2	3	4	5
31/12/2021	1,651,384	1,344,454	306,929	81.41	18.59
31/03/2022	1,617,139	1,315,251	301,887	81.33	18.67
30/06/2022	1,715,399	1,385,361	330,037	80.76	19.24
30/09/2022	1,866,509	1,489,893	376,616	79.82	20.18
31/12/2022	1,941,506	1,570,599	370,907	80.90	19.10
31/12/22 / 31/12/21	17.57	16.82	20.84		
31/12/22 - 31/12/21	290,123	226,145	63,978		

*Source: monthly reports of credit institutions

Compared to 31/12/2021, guaranteed deposits rose 17.57% at the end of the reporting year (those of natural persons increased by 16.82% and those of legal persons 20.84%).

Table 4.2 Number of depositors entitled to guaranteed deposit payout after deduction of their due liabilities

	TOTAL	Natural persons	Legal persons
31/12/2021	666,218	602,243	63,975
31/03/2022	654,506	589,837	64,669
30/06/2022	672,912	606,688	66,224
30/09/2022	697,008	629,703	67,305
31/12/2022	735,601	667,827	67,774
31/12/22 - 31/12/21	1.10	1.11	1.06
31/12/22 - 31/12/21	69,383	65,584	3,799

**Source: monthly reports of credit institutions*

As at 31 December 2022, the number of depositors holding guaranteed deposit after the deduction of their due liabilities with the bank amounted to 735,601, which is 95.30% of the total number of depositors entitled to the payout of guaranteed deposit (771,818). The number of depositors with a deposit \leq 5.00 euros had a large share in the total number of depositors (35.52%).

The number of depositors holding guaranteed deposit \leq 50,000 euros amounted to 723,128 at the end of 2022, which is 98.30% of the total number of depositors holding guaranteed deposit (735,601). Depositors with a guaranteed deposit of \leq 50,000 euros made up 67.87% or 1,317,856,339 euros of total guaranteed deposits with the following structure: 1,134,299,450 euros or 98.69% of the total number of natural persons entitled to the payout of guaranteed deposit and 183,556,889 euros or 94.47% legal persons entitled to the payout of guaranteed deposit.

The number of depositors holding guaranteed deposit $>$ 50,000 euros amounted to 12,473, which is 1.59% of the total number of depositors holding guaranteed deposit. Depositors holding deposits $>$ 50,000 euros accounted for 32.12% of total guaranteed deposits (623,650,000 euros), with the following structure: 8,726 were natural persons (1.30% of total private depositors holding guaranteed deposits) and 3,747 were legal persons (5.53% of total legal depositors holding guaranteed deposits).

Table 4.3 Guaranteed deposits (natural and legal persons)

	Balance as at: 31/12/2022	Amount (in €)	Number of depositors	Due liabilities	Balance	Number of depositors holding GD	% of coverage of GD depositor s ≤50,000 €
		A	B	C	D	E	
I	Deposits by persons entitled to the guaranteed deposit payout (legal and natural = 1 + 3)	4,814,345,579	786,909	25,895,682	4,795,032,112	735,601	
1	Deposits by natural persons entitled to the guaranteed deposit payout	2,648,104,952	717,563	9,219,586	2,645,968,598	667,827	
	≤5,000€	273,222	273,667	1,063,238	245,262	246,286	
1a	>5 ≤50,000€	1,135,694,687	435,162	5,493,442	1,134,054,189	412,815	98.84
1b	>50,000 ≤100,000€	360,084,361	5,429	85,898	359,753,964	5,422	
1c	>100,000€	1,152,052,682	3,305	2,577,008	1,151,915,184	3,304	
	GUARANTEED DEPOSITS BY NATURAL PERSONS				1,570,599,450	667,827	
3	Deposits by legal persons entitled to the guaranteed deposit payout	2,166,239,627	69,346	16,676,096	2,149,063,514	67,774	
	≤5.00€	98,514	15,690	463,751	15,908	14,981	
3a	>5 ≤50,000€	184,048,499	49,910	4,083,442	183,540,981	49,046	95.26
3b	>50,000 ≤100,000€	99,088,085	1,408	1,213,045	98,895,287	1,412	
3c	>100,000€	1,883,004,529	2,338	10,915,858	1,866,611,338	2,335	
4	GUARANTEED DEPOSITIS BY LEGAL PERSONS				370,906,889	67,774	
5	GUARANTEED DEPOSITS (2+4)				1,941,506,339	735,601	98.49

*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 4,795,032,112 euros as at 31/12/2022, whereby eligible deposits by natural persons amounted to 2,645,968,598 euros or 55.18%, while eligible deposits by legal persons totalled 2,149,063,514 euros or 44.82%. Total guaranteed deposits accounted for 40.33% of total eligible deposits.

Total guaranteed deposits by natural persons amounted to 1,570,599,450 euros or 80.89% of total guaranteed deposits (32.75% of total eligible deposits).

The total number of private depositors holding deposits ≤50,000 euros was 659,101 and their deposits amounted to 1,134,299,450 euros or 72.28% of total guaranteed deposits by natural persons (42.87% of total eligible deposits of natural persons).

The number of entitled private depositors with deposit exceeding 50,000 euros amounted to 8,726 and in case of a bank failure they would be repaid 436,300,000 euros or 27.78% of total guaranteed deposits of natural persons (16.50% of total eligible deposits of natural persons).

Total guaranteed deposits by legal persons amounted to 370,906,889 euros or

19.10% of total guaranteed deposits (7.73% of total eligible deposits).

The number of legal depositors holding deposits ≤50,000 euros amounted to 64,027 and their guaranteed deposits totalled 183,556,889 euros or 49.49% of total guaranteed deposits of legal persons (8.71% of total eligible deposits of legal persons).

The number of entitled legal depositors with deposits exceeding 50,000 euros amounted to 3,747 and in case of a bank failure they would be repaid 187,350,000 euros or 51.51% 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 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, as stipulated in the Law.

Average amount of guaranteed deposit is the indicator used to assess the adequacy of the level of guaranteed deposit.²

Table 4.4 Average amount of guaranteed deposit

Average amount of guaranteed deposit			
	31/12/2021	31/12/2022	increase
Legal persons	4,798	5,473	14.07%
Natural persons	2,232	2,232	5.35 %
TOTAL	2,747	2,639	6.48 %

² Taking into account that the number of depositors with a deposit ≤ 5.00 euros accounts for a large share in the total number of depositors (36.45%), i.e. 261,267 depositors are entitled to 261,267 euros worth of guaranteed deposits (average per depositor 0.99 euros), if this category of depositors were to be excluded, the average amount of thus calculated guaranteed deposit would amount to 4,093 euros as at 31/12/2022, which would hypothetically be 55.57% more than the calculated average guaranteed deposit (2,639 euros).

EXPOSURE OF THE FUND 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 142,156,433 euros as at 31/12/2022, while the guaranteed deposits totalled 1,941,506,339 euros.

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 resources at the aggregate level amounted to 7.32% as at 31/12/2022 (for the guaranteed deposit ≤ 50,000 euros), as compared to 7.11% in 2021.

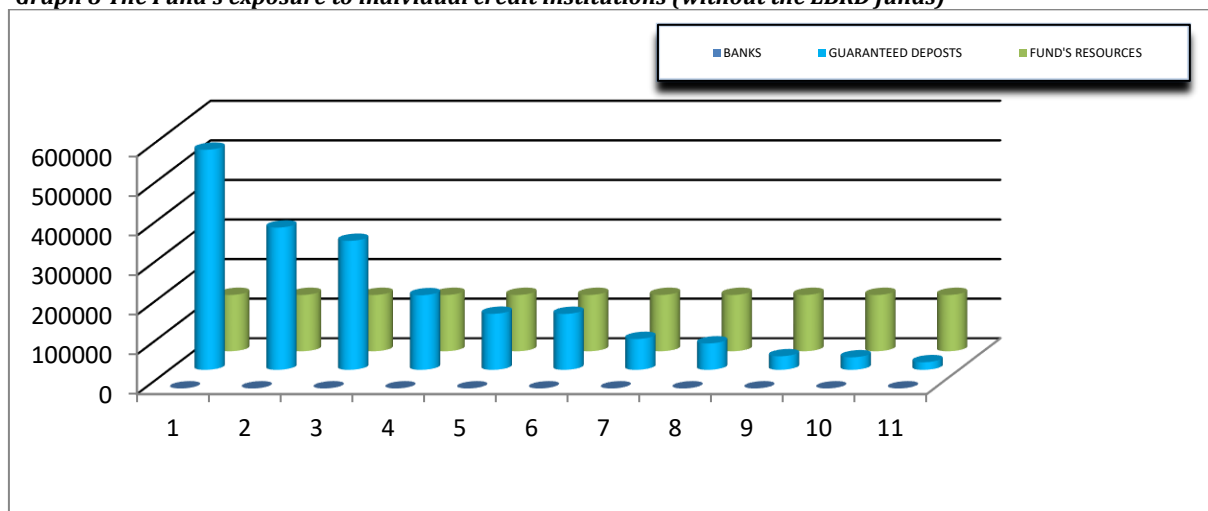
The Fund's exposure to individual credit institutions (the ratio of Fund's resources to the guaranteed deposits in individual credit institutions – the coverage of guaranteed deposits by the credit institution) as at 31 December 2022 is presented in Table 5 and Graph 8 below.

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

CREDIT INSTITUTIONS	GUARANTEED DEPOSITS	ASSETS OF THE FUND	Percentage of coverage 1 (%)	Assets of the Fund with the EBRD funds	Percentage of coverage 2 (%)	Lacking funds 1	Lacking funds 2
1	2	3	4	5	6	7	8
1	555,888	142,156	25.57	192,156	34.57	-413,732	-363,732
2	359,270	142,156	39.57	192,156	53.49	-217,113	-167,114
3	325,780	142,156	43.64	192,156	58.98	-183,624	-133,624
4	188,393	142,156	75.46	192,156	102.00	-46,237	
5	141,502	142,156	100.46	192,156	135.80		
6	141,220	142,156	100.66	192,156	136.07		
7	77,866	142,156	182.56	192,156	246.78		
8	66,628	142,156	213.36	192,156	288.40		
9	34,238	142,156	415.20	192,156	561.24		
10	31,569	142,156	450.30	192,156	608.68		
11	19,151	142,156	742.28	192,156	1,003.36		
TOTAL	1,941,506	142,156	7.32	192,156	9.90		

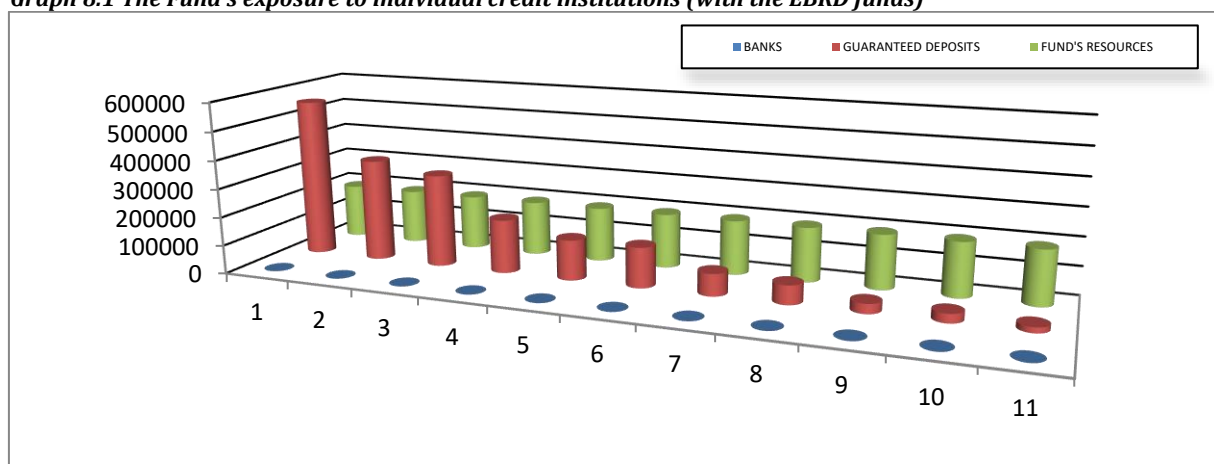
**Source: monthly reports of credit institutions and the Fund's bookkeeping records*

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.

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

With a view to preserving the banking system stability and the protection of 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 entered into a stand-by arrangement with the EBRD which specifies the optional withdrawal of 50 million euros in the following five years for the purpose of guaranteed deposits payout. With these funds that the EBRD has made available to the Fund (only in case of a shortfall in funds necessary for guaranteed deposit payout), the coverage ratio amounts to 9.90% (Table 6).

Table 6 Coverage ratio for guaranteed deposits in the system

Guaranteed deposits 31/ 12/ 2022	Fund's assets 31/ 12/ 2022	of coverage of guaranteed deposits
1	2	2/1
1,941,506,339	142,156,433 ³	7.32%
1,941,506,339	192,156,433 ⁴	9.90%

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

³ Fund's resources (premiums, donations, bankruptcy pool, and operating income of the Fund)

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

**ACTIVITIES OF THE
FUND IN 2022**

4

4. ACTIVITIES OF THE FUND IN 2022

4.1. General remarks

Activities of the Fund in 2022 involved:

- Implementation of the Methodology for calculating the risk-based premium of individual credit institutions (timely collection of the premium from credit institutions);
- Activities on the implementation of the project “Strengthening the practice of asset and investment management of the Deposit Protection Fund” which implies the implementation of the new Investment Policy and Investment Strategy and their supporting acts and methodologies, as well as the selection of a “reputable asset manager and/or the CBCG” with a view to improving the Fund’s investment capacity and risk management by looking for new investment opportunities;
- Continuation of guaranteed deposit payout to depositors of bankrupt credit institutions;
- Stress testing of software for guaranteed deposits payout using real life data from credit institutions;
- Fulfilment of obligations under the Stand-By Arrangement with the EBRD;
- Alignment of the regulations with EU Directives governing deposit insurance.

In addition to the aforementioned activities, other planned activities and tasks were implemented in accordance with the Work Program of the Fund for 2022, as well as other planned objectives and tasks.

The Fund is continuing with the implementation of the Integrity Plan which represents a set of measures of a legal and factual nature that prevent and 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 in July 2020, 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, i.e. a consortium of consultants led by PriceWaterhouseCoopers Consulting d.o.o. Belgrade. The project objective is the preparation of new Investment Policy and Investment Strategy aimed at improving the Fund’s investment capacity and risk management by seeking new investment opportunities.

In the first quarter of 2022, the new documents were adopted, namely the Investment Policy and the Investment Strategy, together with the supporting regulations and methodologies, which marked the completion of one of the project phases. Later on in December, the consultants sent eight invitation letters to proposed renowned companies with a view to selecting a professional asset management company (AMC).

Aiming at ensuring better and faster availability of information on the work of the Fund, the website is the subject to ongoing redesign in order to meet the requirements for informing depositors and good practice.

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

The revenue from deposit insurance premiums are funds that credit institutions in Montenegro are obliged to pay to the Fund in accordance with the Deposit Insurance Law (OGM 72/19) and on the basis of the Decision on regular premium for the current year.

The Fund's premium revenues are provided from:

- initial premiums;
- regular premium.

A credit institution that has been granted a work permit by the CBCG is obliged to pay the initial premium to the Fund's account in the amount of 50,000 euros before starting its operations.

Credit institutions are obliged to pay annual premiums for deposit protection to the Fund in quarterly instalments, that is, through a regular premium, with the beginning of the respective four quarters being counted from the first day of January, April, July, and October of the current year.

The base for calculating the regular premium is the average of the guaranteed deposits of the credit institution on the last day of each month in the previous quarter.

Decision on the amount of the regular premium for the following year is made by the MB, as a rule, by 15 October of the current year. Credit institutions are obliged to pay the regular premium at the beginning of the quarter for the current quarter, no later than eight days from the date of receipt of the Fund's invoice.

In the course of 2022, the Fund calculated the annual premium according to the Decision on the amount of the regular premium for 2022 (OGM 121/21) and in accordance with the Methodology for calculating the risk-based premium of individual credit institutions (OGM 129/20) which entered into force on 1 January 2021. In 2021, the Fund's MB determined the annual target amount of the premium for 2022 in the amount of 18,024,000 euros and, accordingly, the quarterly calculation of the regular premium for 2022 in the amount of 4,506,000 euros.

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 provided for the 2022 regular premium calculation based on the credit institutions` risk classes that were classified into seven risk classes:

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

The calculation of the first and second instalments of the regular premium for 2022 was based on the rating of the credit institutions determined with the data available as at 31/12/2020, while the adjustment of the third instalment (early July 2022) was calculated on the basis of the rating determined with the data available as at 31/12/2021 and average ratios at the level of the Montenegrin banking system for 2021 obtained from the CBCG.

Taking into account that the amount of the premium was set under the aforesaid 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 18,024,000 euros. The adjustment coefficients for the calculation of the first and second instalments of the regular premium for 2021 amounted to 86.98% and 86.65%, respectively, while with the adjustment of the third instalment of the regular premium, it was corrected to the respective amounts of 87.64% and 87.30%. The adjustment coefficients for the third and fourth instalments were 84.60% and 77.70%, respectively.

Rating of credit institutions for the year 2021, based on data from the financial reports of the credit institutions and data submitted by the CBCG with the balance as at 31 December 2021 shows that the year-to-year rating of two credit institutions improved, deteriorated at two credit institutions, and remained unchanged at other credit institutions.

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

The Fund's obligation to compensate guaranteed deposits arises when the CBCG issues a decision on the unavailability of deposits or a decision on the initiation of bankruptcy proceedings against a credit institution. The Fund pays out guaranteed deposits through one or more credit institutions that it selects in the procedure regulated by the Guidelines for the selection of the agent bank. Based on the aforementioned guidelines, the Fund sends a letter to credit institutions every year to express their interest in being the agent bank in case of the protected event occurrence (bankruptcy of a credit institution) that would carry out the payment of guaranteed deposits. The Fund compiles a list of potential credit institutions for the selection of the agent bank after the introduction of bankruptcy in one of the credit institutions.

This was also the case in 2022 when many credit institutions expressed their interest to become agent banks. The shortlisted banks met very strict solvency requirements imposed by the Fund for payout banks.

In 2019, the CBCG revoked licences from Invest banka Montenegro AD Podgorica (4 January) and Atlas banka AD Podgorica (5 April).

The agent banks that have been compensating depositors of these two banks are Crnogorska Komercijalna banka a.d. Podgorica and Hipotekarna banka a.d. Podgorica.

INVEST BANKA MONTENEGRO - in bankruptcy

Total deposits of Invest Bank Montenegro AD Podgorica - in bankruptcy 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 31/12/2022, the total paid out amount reached **21,921,830.98 euros or 97.94%** of total calculated guaranteed deposits, i.e. overall obligation of the Fund for guaranteed deposit compensation (the amount paid in the reporting year was **99,647.58 euros** or 0.44% to compensate 4 depositors).

As at the same date, the total collected amount from the bankruptcy estate of Invest Bank Montenegro amounted to **18,983,240 euros** or 84.81% of total claim (the collected amount in the reporting year was 600,000 euros). The amount remained to be collected is 3,400,000 euros or 15.19%.

ATLAS BANKA - in bankruptcy

Total deposits of Atlas banka AD Podgorica - in bankruptcy 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 31/12/2022, the total paid out amount reached **83,445,714.73 euros or 92.39%** of total calculated guaranteed deposits, i.e. overall obligation of the Fund for guaranteed deposit compensation (the amount paid in the reporting year was **630,496.85 euros** or 0.69% to compensate 74 depositors).

As at the same date, the total collected amount from the bankruptcy estate of Atlas banka in bankruptcy amounted to **51,000,000 euros** or 56.47% of total claim (the collected amount in the reporting year was 6,000,000 euros). The amount remained to be collected is 33,318,000 euros or 43.53%.

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

4.4. Stress testing of software using real life data from credit institutions

Pursuant to Article 41 paragraph 1 of the Deposit Insurance Law (OGM 72/19), in October 2022, the Fund carried out stress testing of the deposit insurance system and the ability of credit institutions to submit data on depositors, deposits and their due

obligations, as well as their ability, if necessary, to take on the role of the agent banks and pay out guaranteed deposits.

The testing was carried out in accordance with the Instructions for testing the resilience of the deposit insurance system to stress and the ability of credit institutions to provide data and the Program for conducting stress tests.

The stress testing program is adopted for a period of three years and it covers intervention scenarios and test areas. According to the 2022 - 2024 Program, testing of three credit institutions was planned and carried out in the first year of testing (2022).

The test results showed that the tested credit institutions have very good records on depositors, their deposits and obligations and the simulated protected event exercise showed that they can be easily retrieved for the purposes of determining the amount of the guaranteed deposits. Also, credit institutions have the capacity to take over the function of the agent bank and start the payment of guaranteed deposits in a short period of time. The purpose of this testing was multiple because during the testing, the credit institutions eliminated the existing deficiencies in their databases in order to harmonize the submitted data for the needs of the protected event, so regardless of the large volume of ongoing work, representatives of the credit institutions expressed their satisfaction with the success of the testing.

Also, employees of the Fund have confirmed their ability to use the software solution to quickly and efficiently calculate and start the payment of guaranteed deposits.

4.5. Litigation

As of 31 December 2022, there were three lawsuits with a total value of 12,487 euros pending against the Fund. The outcome of these litigations cannot be predicted with certainty, but the management of the Fund is of the opinion that the probability that the disputes will be resolved in favour of the Fund is more than 50%. Accordingly, the Fund did not make provisions for legal claims.

Also, on 31 December 2022, the Fund brought an action before the court against one of the agent banks related to complaints based on the payment of the guaranteed deposit with a total value of 100,000 euros.

4.6. Investment activities in 2022

Investment of funds is performed in accordance with the Fund's Investment Policy (no. 55-2/2022 of 28/02/2022) with the primary goal of preserving the Fund's liquidity and capital safety.

In accordance with the stated Investment Policy, the Fund may invest its available funds in:

- 1) Securities issued by Montenegro, an EU Member State or their central banks or securities guaranteed by Montenegro or an EU Member State;

- 2) Securities issued by a credit institution, a financial institution and/or a government other than those specified in point 1) above and which hold high ratings assigned by an internationally recognized rating agency;
- 3) Deposits deposited in central banks and foreign credit institutions holding high ratings assigned by an internationally recognized rating agency;
- 4) Other low-risk assets under the following categories:
 - those falling under the first or second category under Table 1 Article 336 of the EU Capital Requirements Regulation,
 - liquid assets as specified by the CBCG regulations and/or as required by the relevant EU regulatory authority,
 - ESG (environmental, social, governance) securities issued by the OECD countries,
 - the basket of securities issued by the OECD countries,
 - debt securities issued by municipalities, which hold a significantly high yield ratio compared to risk or a very low risk measured by risk assessment methods.

In February 2022, the Fund invested available funds (up to 40% of the Fund's total funds in accordance with the current Investment Policy) in the nominal amount of 1,700,000 euros in long-term debt securities - government Eurobonds MNE-2025, issued by the state of Montenegro, with a total return at an annual coupon interest rate of 3.3750%, which will bring a return in the total amount of 229,500 euros at maturity (21 April 2025),.

In addition to the above, the Fund's portfolio also includes long-term debt securities purchased in previous years - government Eurobonds in the nominal amount of 37,300,000 euros - MNE-2025 (22,180,000 euros) and MNE-2027 (15,120,000 euros).

Bearing in mind the above, the Fund's total investments in government Eurobonds amounted to 39,000,000 euros in nominal amount (38,641,737 euros at book value) with a total coupon yield of 3,709,463 euros at an interest rate of 3.375% for MNE-2025 bonds and 3,042,900 euros at an interest rate of 2.875% for MNE-2027 bonds. Their value is shown in the balance sheet at a value that differs from their actual market value due to the fact that the listed securities are held until the stated maturity date.

The income based on the coupons of the MNE-2025 Eurobonds was paid in the total amount of 805,950 euros and that from the MNE-2027 Eurobonds totalled 434,700 euros, which together make up the total coupon income from government bonds in the amount of 1,240,650 euros in 2022. Interest income from the aforesaid bonds were accounted for in the amount of 1,257,475 euros in 2022 (16,825 euros difference is the adjustment after the discount, i.e. depreciation of premium based on the cost of bond purchase).

In addition to the above, the Fund's portfolio also includes investments made in November 2022 in the nominal amount of 7,000,000 euros (6,895,420 euros at book value) in short-term debt securities - 182-day T-bills issued by Montenegro, at interest rate at a rate of 3% (104,580.53 euros interest yield), without the costs of auction fee.

The aforementioned investment of funds in securities issued or guaranteed by Montenegro, financial income in the amount of 1,279,885 euros was realized in 2022 (of which 1,257,475 euros from the yield based on the annual coupon of government bonds and 22,410 euros from the interest earned on the purchase of the 182-day T-bills due in 2023 - 82,170 euros).

Investment portfolio of the Fund totalled **46,000,000 euros** as at 31/12/2022, expressed in nominal value, which makes up 32.36% of the Fund's total funds invested in Montenegrin securities.

The structure of the Fund's investment portfolio consists of a higher percentage of government Eurobonds MNE-2025 (23,880,000 euros) - 51.9% compared to government Eurobonds MNE-2027 (15,120,000 euros) - 32.8%, while government T-bills make up 15.21%.

Considering that there have been serious disturbances in the financial markets starting from the middle of the first quarter of 2022, which have resulted in an almost constant drop in the prices of all securities, including Montenegrin Eurobonds whose biggest drop has been recorded since the outbreak of the war in Ukraine, when the prices reached their minimum values, it can be stated that these developments have not produced negative effects on the Fund's financial position because the intention is to hold the bonds until the maturity date and keep them in the balance sheet at their nominal value.

4.7. Normative and legal activities

The Fund's Managing Board held eight meetings in 2022 and adopted the following normative acts:

- Investment Policy;
- Investment Strategy;
- Decision on the adoption of the Annual financial statements of the Deposit Protection Fund for 2021 (financial statements had been prepared in line with the IAS);
- Decision on the annual premium for 2023 (targeted premium level);
- Financial Plan of the Fund for 2023;
- Work Program of the Fund for 2023;
- Communication Strategy of the Fund for the period 2022 - 2025, and
- Strategic plan of the Fund for the period 2022 - 2025.

During the reporting year, the MB adopted the Annual Report of the Deposit Protection Fund for 2021 that was submitted to the Parliament and the Government of Montenegro for consideration, and to the President of Montenegro and the CBCG for information purposes.

The Fund's MB also considered the External Audit Report for 2021. The report had been prepared by the audit firm BDO 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 the movement of deposits in the banking system, the balance of the Fund's assets, the fulfilment of planned activities, and the investment of funds.

4.8. 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 Fund's ongoing preoccupation is to strengthen its professional capacities in terms of readiness and specialized knowledge to invest the Fund's resources in the best way possible, through education and training that will be carried out by the chosen asset manager for the management of the Fund's assets and/or the CBCG.

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. In the following period, the Fund will consider the possibility of establishing an internal audit that would be performed by the internal audit unit of another entity, based on the agreement and subject to the prior consent of the Ministry of Finance.

Considering the importance and basic purpose of the Fund, it is necessary to continuously invest in the improvement and upgrading of software for the payment of guaranteed deposits, as well as in improving and upgrading the knowledge of the IT staff.

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

Taking into account the professional development of its employees, in accordance with the financial plan for 2022, the Fund allocated funds for investment in education.

The employees have been given the opportunity to participate in the combined training program by in the form of seminars and workshops organized by the international deposit insurance associations (IADI and EFDI).

As at 31/12/2022 the Fund had eight employees.

4.9. International cooperation

In 2022, representatives of the Fund actively participated in the work of international deposit insurance associations, unlike in the previous year when the coronavirus pandemic had prevented direct contacts at seminars, round tables and conferences and participation had been organized through online means of communication.

As a full-fledged member of the European Forum of Deposit Insurers (EFDI), which represents an association of European funds on voluntary basis and enables the exchange of ideas and experiences on deposit insurance in Europe, the Fund participated in the annual assembly held at the end of May 2022 at Rhodes, Greece, where new board members of this association were elected. Also, representatives of the Fund attended the meetings of all working groups (ERC, PR), and the main topics were new challenges and disruptions in the financial safety net. Representatives of the Fund used this opportunity to make new contacts and exchange experiences with the colleagues attending the conference.

Also, special meetings of the Working Group for PR activities organized by the EFDI were held in Prague, Luxembourg and Berlin where it was agreed that, in the future, the annual financial plan would specify the costs to be related to PR activities (especially those incurred during bankruptcy), which would make up at least 15% of the costs related to the most recent protected case (public information and media appearances). To that end, all participants were surveyed, including representatives of the Fund, and experiences were exchanged on this topic, which will result in defining the necessary percentage range of these costs on the case-by-case basis. The Fund took into account the aforementioned proposal when creating its Communication Strategy.

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, secondment 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 held from 2020 onwards. In the following period, physical presence at the mentioned events is planned, as well as virtual participation, when deemed appropriate.

In the coming period, the Fund's employees will attend the annual EFDI and IADI conferences, workshops and trainings, with the aim of keeping up with the latest events and experiences in deposit insurance in the EU and the world.

It is also planned to participate in the meetings of deposit insurance funds of the Balkan countries (EFDI Balkan Forum).

In case of any new application for the opening of branches of foreign credit institutions in Montenegro, a Memorandum on bilateral cooperation would be signed with the deposit insurance fund in the credit institution's home country.

4.10. Objectives and tasks of the Fund in 2023

The Fund's objectives are defined in its Working Programme for 2023. Improving the institutional and professional 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 in 2023.

According to the Testing instructions adopted in 2022 and the 2022 - 2024 Testing program, three credit institutions will be tested in 2023.

There will be a particular focus on the training of IT specialists in the selected agent 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 and/or the CBCG.

One of the tasks is to conduct a pre-qualification procedure for the selection of the agent 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.

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

The Fund's Work Program defines obligations and tasks in 2023, in order to reach the target level of coverage of guaranteed deposits with the Fund's resources, in accordance with the new Law.

The law stipulates that the target level of the Fund's funds is 10% of guaranteed deposits. To this end, the Deposit Protection Fund started a joint World Bank-FinSac technical support project in November 2022 with the aim of developing a special procedure for calculating the target amount of funds, which will steer the Fund's activities in the coming year 2023.

The payment of guaranteed deposits (in the amount of 105.39 million euros or 93.51% of the total liability for guaranteed deposits) significantly reduced the Fund's resources. However, the return of funds from the bankruptcy estate in the amount of 76.13 million euros or 67.55% (as at 31 March 2023), and the collection of regular

premiums in the previous three years (2020, 2021 and 2022) in in the amount of 50.95 million euros significantly improved the financial situation and sustainability of the Fund.

With funds from the bankruptcy estates of the two credit institutions, which are expected to be collected in 2023 (approx. 8.5 million euros) and the collection of regular premiums in 2023 (21,020,000 euros), including funds based on the payment of government bond coupons and treasury bills (1,240,000 euros and 82,170 euros = 1,322,170 euros), the Fund will be well capitalized and able to guarantee the payment of guaranteed deposits if a protected event occurs in the following period. In addition, the 50 million euro worth credit arrangement with the EBRD, which was extended for a period of 5 years, is an additional guarantee of the Fund`s financial stability.

4.11. Events following 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 2022.

In 2023, the Fund continued to compensate guaranteed deposits to depositors of the two bankrupt banks. Until 28 February 2023, 23,242 euros worth guaranteed deposits were paid to depositors of the bankrupt Atlas banka, while there were no payments to IBM Bank depositors.

Until this date, the collection of the Fund`s claims from the bankruptcy estate totalled 6,100,000 euros (6,000,000 euros from Atlas banka in bankruptcy and 100,000 euros for IBM Bank in bankruptcy), which is 71.76% of the planned amount (8,500,000 euros), so the return of funds at the total level amounted to 76,083,240 euros or 67.51% (IBM 85.26% and Atlas banka 63.11%).

The first instalment of the regular premium in the amount of 5,255,000 euros was calculated and collected.

Total funds as of 28/02/2023 amounted to 153,435,724 euros, of which 39,000,000 euros was held in Montenegrin government bonds (i.e. 38,641,737 euros at book value: MNE 2025 - 23,880,000 euros and MNE 2027 - 15,120,000 euros), 6,895,420 in treasury bills, 106,133,047 euros on the giro account, 560,836 euros in advances to banks for guaranteed deposits payout, 779,262 euros in claims for interest on bonds, and 67,159 euros in other claims.

In accordance with the initiated procedure, activities have been continued on the implementation and finalisation of the project "Strengthening the practice of asset and investment management of the Deposit Protection Fund which will result in the selection of a "reputable asset manager and/or CBCG" in order to improve the investment capacity and risk management of the Fund by seeking new opportunities for the investment of funds.

Bearing in mind the continued trend of instability and turbulences in the international environment caused by the current global economic and financial developments (driven by the events in Ukraine), the repercussions of which have been felt in all developed economies (increase in inflation, oil and food prices), an inevitable impact on the Montenegrin economy is expected and these new circumstances can represent major challenges in business for all economic entities and financial institutions.

However, regardless of the aforesaid, 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 2022**

5.

5. FINANCIAL OPERATIONS OF THE FUND IN 2022

5.1 STATEMENT OF FINANCIAL PERFORMANCE (Income Statement) OF THE FUND AS AT 31/12/2022⁵

5.1.1 TOTAL INCOME OF THE FUND

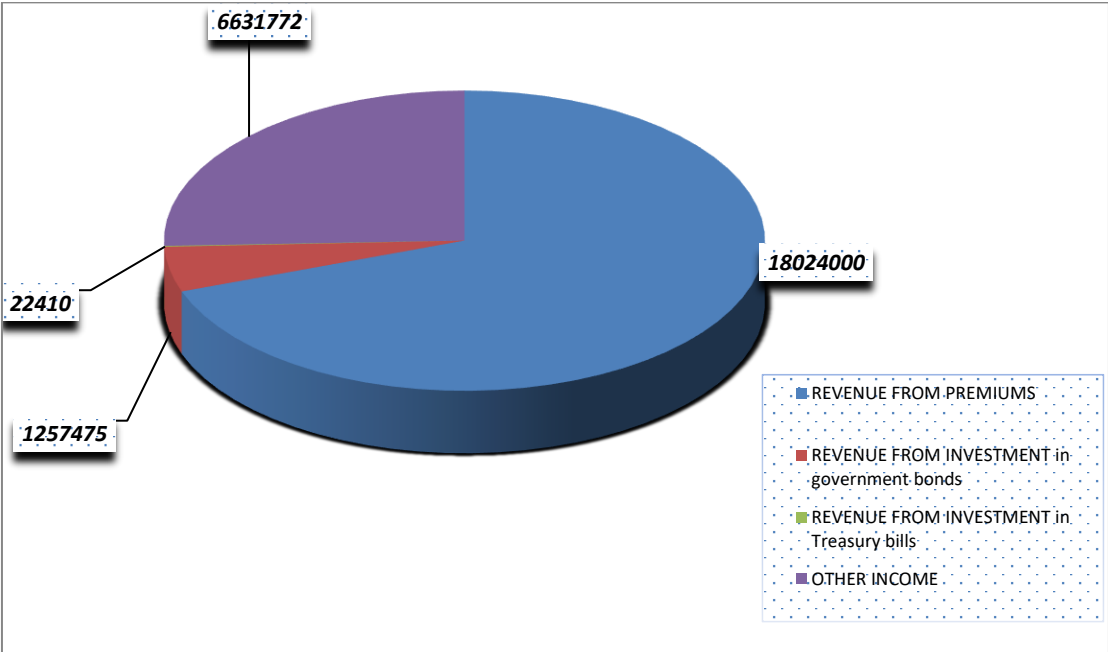
Total Fund's income amounted to 25,935,657 euros in 2022 and they were 0.43% higher than planned but also 2.15% lower than in the previous year when they reached 26,506,077 euros.

The income consisted of:

- operating income and
- financial income

5.1.1.1. Operating income amounted to 24,655,772 euros in 2022 and it was 0.53% higher than planned for the reporting year, yet 4.03% lower than in the previous year when they totalled 25,692,421 euros, and this is because of lower recovery of funds from the bankruptcy estate.

Graph 5.1. Structure of total income for January - December 2022



⁵Overview of income and expenditure in 2021 and 2022 and the plan of income and expenditure for 2022 and 2023 are presented in the ANNEX

5.1.1.1.1.

The most significant operating income item was revenues from premium collection which amounted to 18,024,000 euros and they accounted for 69.49% of total income and they were collected in full (100%). The realized premium was 12.65% lower compared to the previous year when it was collected in the amount of 16 million euros and this is due to the fact that in the course of the reporting year and in order to reach the target amount of the premium, based on the previously performed analysis on the amount (growth) of guaranteed deposits of credit institutions, which is the basis for calculating the premium that credit institutions pay to the Deposit Protection Fund, as well as the amount of accumulated funds based on previous premiums and investments, the Fund calculated the annual premium in the specified amount, in accordance with the Decision on the regular premium rate for 2022 (OGM 121/21) and the Methodology.

The remaining amount of **6,631,772 euros** refers to the refund from the bankruptcy estate of the failed banks of 6,600,000 euros (Invest Bank a.d. Podgorica in bankruptcy 600,000 euros and Atlas Banka a.d. Podgorica in bankruptcy 6,000,000 euros) for which the Fund paid out guaranteed deposits and this amount was 31.84% lower than in 2021 when it totalled 9,683,240 euros, but it was 1.53% higher than planned, and the remainder 31,772 euros referred to revenues from reduced liabilities for the payout of guaranteed deposits in the amount of **209 euros** and revenue from refunds of **31,563 euros** (sick leaves of the employees).

5.1.1.2. Financial income amounted to **1,279,885 euros** and it was 57.30% higher year-over-year and it comprised of the following:

5.1.1.2.1. Investment income:

- **Income from investment in 180-day T-bills of Montenegro** that mature in 2023, in the amount of **22,410 euros** for interest in 2022 and they had not been planned because there were no T-bill issues in 2021 so it could not have been anticipated that the Ministry of Finance would opt for this kind of borrowing November 2022; and
- **Income from interest on government bonds** that reached **1,257,475 euros** and covered investments of 38,641,737 euros (39,000,000 in nominal amount) in government bonds MNE-2025 and MNE-2027 whose interest coupons mature annually and the total amount in 2022 was 1,240,650 euros (annual interest rates for these bonds are 3,375% and 2,875%, respectively).

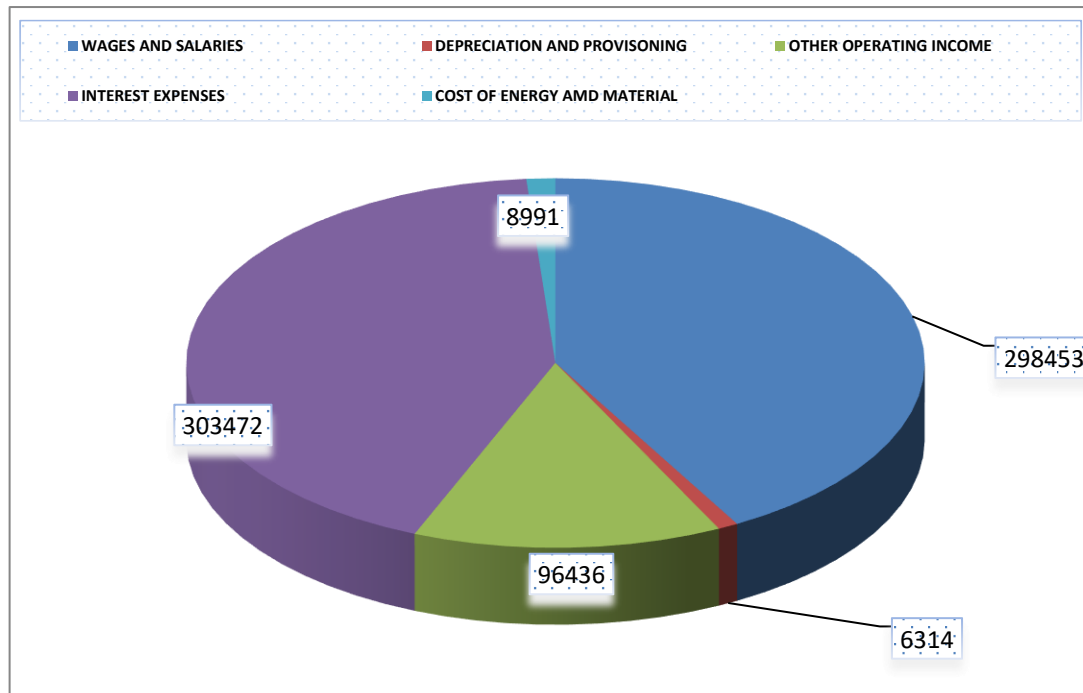
5.1.2 TOTAL EXPENDITURE OF THE FUND

Total expenditure reached **713,665 euros** in 2022 and they were 7.66% lower year-over-year (772,941 euros in 2021).

It is classified in three main groups:

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

Graph 5.2 Structure of operating expenses as at 31/12/2022



**Source: Fund's bookkeeping*

5.1.2.1. Financial expenses amounted to **303,472 euros** and they accounted for 42.52% of total expenditure and included:

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

5.1.2.2. Short-term provisioning expenses in the amount of **6,314 euros** refer to depreciation of fixed assets. These expenses accounted for 0.88% of total expenditure.

5.1.2.3. Operating expenses amounted to **410,194 euros** and they included:

- **cost of material and energy** in the amount of 8,991 euros (cost of lease and maintenance of business premises, cost of office supplies, cost of fuel) and they were 12.68% higher than in 2021 and account for 28.08% of the planned amount for the reporting year;

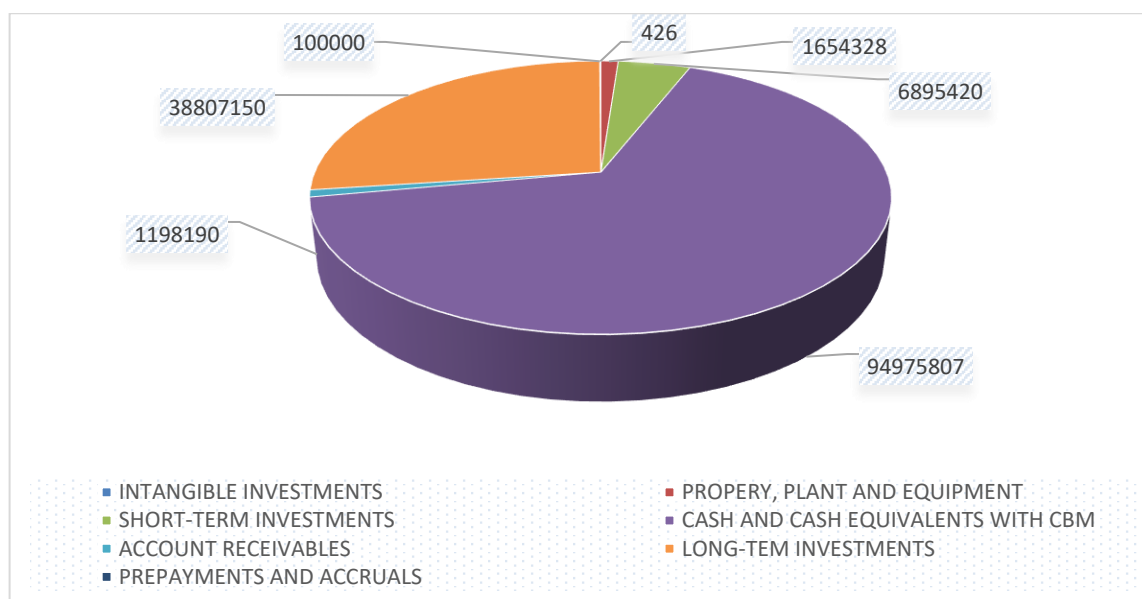
- **expenses for salaries and other fringe benefits** in the amount of 298,453 euros (gross salaries of employees of 183,128 euros, remuneration of MB members in the amount of 82,964 euros, and contributions charged to employer of 13,178 euros) and they were 11.49% higher than in 2021 when they amounted to 267,688 euros;
- **other cost of employee benefits** of 19,182 euros, and
- **other operating expenses** that totalled **96,436 euros** and they were 11.11% lower than planned and 38.23% lower year-over-year and they covered:
 - *cost of advertising and propaganda* that had been initially planned in the amount of 12,000 euros but none of it was spent so it was transferred to the following year;
 - *costs of professional services* that covered the external audit of financial statements, and education and training of employees of **15,195 euros** and they were 39.27% and 25.87% lower than in the previous year and than planned for the reporting year, respectively;
 - *cost of membership in international associations* totalled 22,502 euros and it was 5.92% higher than in 2021 and it was realized in the full amount as planned for the reporting year; This cost increased due to the increased IADI membership fee that could not have been anticipated when drafting the plan for the reporting year.
 - *telephone and postal charges* in the amount of **8,198 euros** and they were 0.87% higher than in the previous year and 2.47% higher than planned;
 - *cost of representation* amounted to **2,566 euros** and it was 15.11% lower than in the previous year and 57.23% lower than planned;
 - *cost of payment services* in the amount of **39,270 euros**, and
 - *other expenses* in the amount of **8,706 euros** (cost of fixed assets maintenance of **2,154.90 euros**, cost of printing the Fund's Annual Report of **1,545.46 euros**, cost of parking services of **1,500.00 euros**, cost of life insurance of **1,341.82 euros**, cost of professional literature of 1,036.11 euros, cost of humanitarian and other assistance of **800 euros**, cost of fees of **300 euros**, cost of publications in the media and newspapers of **20.00 euros**, and cost of administrative/court/local fees of **7.26 euros**).

The 2022 net result is a **profit** in the amount of **25,221,991 euros** and it is 1.98% lower than in the previous year when it amounted to 25,733,136 euros: (business result in the amount of 24,245,579 euros which is 3.87% lower compared to the previous year and the financial result in the amount of 976,413 euros which is 91.38% higher year-over-year).

5.2. STATEMENT OF FINANCIAL POSITION (Balance sheet) FOR THE YEAR ENDING ON 31/12/2022

Total assets and liabilities of the Fund amounted to **143,631,320 euros** as at 31 December 2022. They recorded the year-over-year increase of **24,387,452 euros** or 20.45%, primarily owing to undistributed profit in 2022.

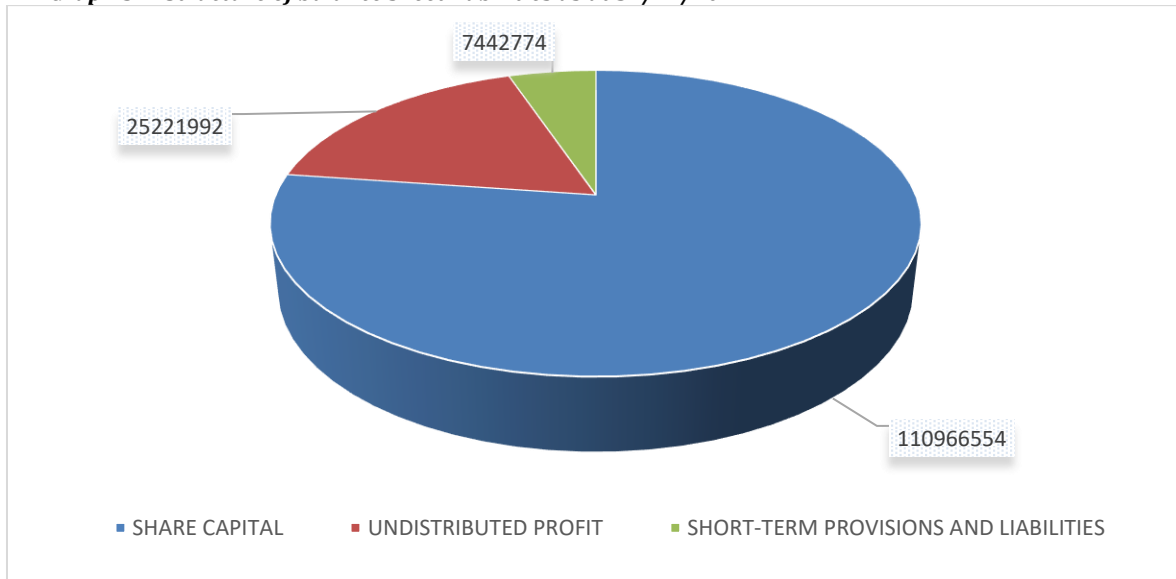
Graph 5.3 Structure of balance sheet assets as at 31/12/2022



**Source: Fund's bookkeeping*

In the structure of total assets, equipment accounted for 1.15% or 1,654,328 euros, receivables made up 0.83% or 1,198,190 euros, long-term financial investments accounted for 27.01% or 38,807,150 euros (government bonds – 38,641,737 euros and employee contributions – 165,412 euros), short-term financial investments made up 4.80% or 6,895,420 euros, 66.12% or 94,975,807 euros were funds in the Fund's giro account and petty cash, while prepayments and accruals accounted for 0.05% (100,000 euros).

Graph 5.4 Structure of balance sheet liabilities as at 31/12/2022



**Source: Fund's bookkeeping*

In the structure of total liabilities, short-term provisions and liabilities ⁶made up 7,442,774 euros (5.18%) and capital accounted for 136,188,546 euros (94.81%), of which 110,966,554 euros were share capital and 25,221,992 euros was undistributed profit.

5.3. STATEMENT OF CHANGES IN CAPITAL

The capital balance as at 31/12/2022 was a **gain of 25,221,992 euros.**

⁶ This amount represents liabilities for the payment of guaranteed deposits of IBM Bank in bankruptcy and Atlas Bank in bankruptcy, trade payables, interest payable to the EBRD, and other short-term liabilities.

Annex: Income and expenditure in 2021 and 2022 and the plan for 2022 and 2023

	DESCRIPTION	EXECUTED IN 2021	2022 PLAN	EXECUTED IN 2022	5/4 %	2023 PLAN
1	2	3	4	5	6	7
A.	TOTAL INCOME	26,506,077	25,824,000	25,935,657	100.43	31,010,000
A.1.	OPERATING INCOME	25,692,421	24,524,000	24,655,772	100.54	29,520,000
A.1.1.	Premium	16,000,000	18,024,000	18,024,000	100.00	21,020,000
A.1.2.	Other (extraordinary income)			31,772		
A.1.3.	Other operating income (from bakruptcy)	9,692,421	6,500,000	6,600,000	101.54	8,500,000
A.1.4.	Fines and penalties					
A.2.	FINANCIAL INCOME	813,656	1,300,000	1,279,885	98.45	1,490,000
A.2.1.	Interest on Treasury bills	51,679		22,410		250000
A.2.2.	Interest on government bonds	761,977	1,300,000	1,257,475	96.73	1,240,000
B.	TOTAL EXPENDITURE	772,940	911,800	713,666	78.27	845,701
B.1.	OPERATING EXPENSES	469,468	611,800	410,194	67.05	545,701
B.1.1.	COST OF MATERIAL AND ENERGY	7,979	32,000	8,991	28.10	32,000
B.1.1.1.	Office supply	1,498	2,000	1,085	54.23	2,000
B.1.1.2.	Lease, fuel, water, energy, maintenance	6,481	30,000	7,906	26.35	30,000
B.1.2.	SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	267,687	321,300	298,453	92.89	324,201
B.1.2.1.	Gross wages and salaries	178,347	197,500	183,128	92.72	191,101
B.1.2.1.1.	Net wages and salaries	119,413	132,325	140,859	106.45	146,850
B.1.2.1.2.	Taxes	16,092	17,775	14,881	83.72	14,630
B.1.2.1.3.	Contributions	42,842	47,400	27,388	57.78	29,621
B.1.2.2.	EMPLOYER CONTRIBUTIONS	17,534	19,400	13,178	67.93	14,200
B.1.2.3.	REMUNERATION TO MB MEMBERS	62,219	85,900	82,964	96.58	85,900
B.1.2.3.1.	Net remuneration to MB members	43,300	60,538	60,412	99.79	60,538
B.1.2.3.2.	Taxes	5,528	7,774	4,953	63.72	7,774
B.1.2.3.3.	Contributions	13,391	17,588	17,599	100.06	17,588
B.1.2.4.	OTHER PERSONAL EXPENSES	9,587	18,500	19,182	103.69	33,000
B.1.2.4.1.	Other personal expenses	2,620	3,000	1,358	45.27	3,000
B.1.2.4.2.	Service contracts	6,967	5,000	5,630	112.60	5,000
B.1.2.4.3.	Daily allowances		2,500	2,855	114.18	5,000
B.1.2.4.4.	Business travel transport		4,000	4,630	115.75	10,000
B.1.2.4.5.	Business travel accommodation		4,000	4,710	117.74	10,000
B.1.3.	DEPRECIATION AND PROVISIONS	37,674	150,000	6,314	4.21	50,000
B.1.3.1.	Depreciation charges	7,816	50,000	6,314	12.63	50,000
B.1.3.2.	Short-term provisions	29,858	100,000		-	
B.1.4.	OTHER OPERATING EXPENSES	156,128	108,500	96,436	88.88	139,500
B.1.4.1.	Cost of advertising and promotion	550	12,000		-	12,000
B.1.4.2.	Cost of professional services	25,022	20,500	15,195	74.12	20,500
B.1.4.2.1.	Audit	10,769	6,000	5,869	97.81	6,000
B.1.4.2.2.	Education and training	3,000	5,500	3,000	54.55	5,500
B.1.4.2.3.	Solicitor fees	1653				
B.1.4.2.4.	Licenses and copyrights	9,600	9,000	6,326	70.29	9,000
B.1.4.3.	Membership fees to international associations	21,243	22,000	22,502	102.28	23,000
B.1.4.4.	Cost of postal services	8,127	8,000	8,198	102.48	8,000
B.1.4.5.	Cost of representation	3,023	6,000	2,566	42.76	6,000
B.1.4.6.	Cost of payment services	30,052	25,000	39,270	157.08	43,000
B.1.4.7.	Cost of complaints for GD payout	50,000				
B.1.4.8.	T-bill auction fees					12,000
B.1.4.9.	Other expenses	18,111	15,000	8,706	58.04	15,000
B.1.4.9.1.	Organisation of Regional EFDI Conference	7,502		0		
B.1.4.9.2.	Other expenses	10,609	15,000	8,706	58.04	15,000
B.2.	FINANCIAL EXPENSES	303,472	300,000	303,472	101.16	300,000
B.2.1.	EBRD contracted interest	253,472	250,000	253,472	101.39	250,000
B.2.2.	Cost of MF guarantees (0.50%)					
B.3.3.	Prepayments and accruals for EBRD loan expenses	50,000	50,000	50,000	100.00	50,000
C	TOTAL RESULT	25,733,137	24,912,200	25,221,991	101.24	30,164,299



DEPOSIT PROTECTION FUND, PODGORICA

**Financial Statements as of and for
the Year Ended 31 December 2022
in accordance with the Accounting Regulations
in Montenegro**

and

Independent Auditor's Report

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

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 2022, 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 2022, 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 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 2022, 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 2022, is consistent, in all material respects, with the financial statements of the Fund as of and for the year ended 31 December 2022;
- The Annual Management Report for the year ended 31 December 2022 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.

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

INDEPENDENT AUDITOR'S REPORT

To the Management Board of Deposit Protection Fund, Podgorica

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

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, 20 April 2023




Milovan Popovic
Certified Auditor

DEPOSIT PROTECTION FUND, PODGORICA

STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT)

For the period from 1 January to 31 December 2022

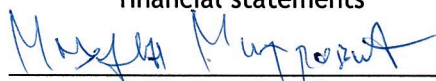
In EUR

	Note	2022	2021
Sales income	4	18,024,000	16,000,000
Other operating income	5	6,631,772	9,692,421
Operating expenses		111,740	151,781
Cost of goods sold and cost of material	6	7,521	6,732
Other operating expenses (provisions and other operating income)	7	97,906	137,233
Depreciation/amortisation expense	8	6,314	7,816
Salaries, compensations and other personnel expenses	9	298,453	267,688
Net salary costs, compensation and personal expenses		219,786	172,195
Tax and contribution costs		78,667	95,493
Taxes		20,415	22,053
Retirement benefits		53,078	49,127
Costs of contributions		5,174	24,313
Other operating expenses		-	50,000
A. OPERATING RESULT		24,245,579	25,222,952
Income from other financial investments and loans (interests, FX differences and contractual hedging effects)	10	1,279,885	813,656
Interest expenses, foreign exchange losses and losses from other contractual hedging effects	11	303,472	303,472
B. FINANCIAL RESULT		976,413	510,184
C. RESULT BEFORE TAXATION		25,221,992	25,733,136
D. TAX EXPENSE OF THE PERIOD		-	-
Current income tax		-	-
Deferred tax expenses or income for the period		-	-
I. NET RESULT		25,221,992	25,733,136

The notes on pages 8 to 23
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 11 April 2023 on behalf of the Fund's management by:

Person responsible for preparing the
financial statements


Mladen Mitrovic



Director


Vojin Vlahovic

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
As of 31 December 2022
In EUR

	Note	31/12/2022	31/12/2021
ASSETS			
A. NON-CURRENT ASSETS (I+II+III)		40,461,904	38,745,295
I INTANGIBLE ASSETS		426	426
II PROPERTY, PLANT AND EQUIPMENT AND BIOLOGICAL ASSETS	12	1,654,328	1,653,200
III LONG-TERM FINANCIAL PLACEMENTS AND LONG-TERM RECEIVABLES	13	38,807,150	37,091,669
Long-term financial investments (loans and securities)		38,641,737	36,913,274
Other long-term financial placements and receivables		165,412	178,395
B. CURRENT ASSETS (IV+V+VI)		103,069,416	80,348,573
IV CURRENT RECEIVABLES	14	1,198,190	1,864,373
V SHORT-TERM FINANCIAL PLACEMENTS	15	6,895,420	-
VI CASH AND CASH EQUIVALENTS	16	94,975,807	78,484,200
C. PREPAYMENTS AND ACCRUED INCOME	17	100,000	150,000
TOTAL ASSETS		143,631,320	119,243,868
LIABILITIES			
D. EQUITY	18	136,188,546	110,966,554
I BASIC CAPITAL		110,966,554	85,233,418
II RETAINED EARNINGS OR LOSSES		25,221,992	25,733,136
E. LONG-TERM PROVISIONS AND LONG- TERM LIABILITIES		-	100,000
I LONG-TERM PROVISIONS		-	100,000
F. SHORT-TERM PROVISIONS AND SHORT- TERM LIABILITIES		7,442,774	8,177,314
I SHORT-TERM PROVISIONS		-	-
II SHORT-TERM LIABILITIES	19	7,442,774	8,177,314
Liabilities based on loans and borrowings from entities other than credit institutions		7,334,090	8,064,234
Other trade payables		1,640	6,177
Other trade payables and other short-term liabilities		107,045	106,903
TOTAL LIABILITIES		143,631,320	119,243,868

The notes on pages 8 to 23
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the period from 1 January to 31 December 20212
In EUR

	<u>Stake capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as of 1 January 2021	56.638.026	28,595,392	85,233,418
Transfer	28.595.392	(28,595,392)	-
Net changes in 2021	-	<u>25,733,136</u>	<u>25,733,136</u>
Balance as of 31 December 2021	85.233.418	25,733,136	110,966,554
Balance as of 1 January 2022	85.233.418	25,733,136	110,966,554
Transfer	25.733.136	(25,733,136)	-
Net changes in 2022	-	<u>25,221,992</u>	<u>25,221,992</u>
Balance as of 31 December 2022	110.966.554	25,221,992	136,188,546

The notes on pages 8 to 23
are an integral part of these financial statements.

CASH FLOW STATEMENT

For the period between 1 January and 31 December 2022

In EUR

	<u>2022</u>	<u>2021</u>
CASH FLOW FROM OPERATING ACTIVITIES		
I. Cash inflow from operating activities	24,756,230	25,683,240
Sales and received advances	18,024,000	16,000,000
Received interest from operating activities	-	-
Other receipts from operating activities	6,732,230	9,683,240
II. Cash outflows from operating activities	858,239	1,138,287
Outflows of guaranteed deposits advances paid	1,606	500,000
Outflows from payments to suppliers and advances paid	328,256	150,203
Salaries, compensations and other personal expenses	275,094	267,505
Interest paid	253,283	220,579
Public revenues paid	-	-
III. Net inflows from operating activities	23,897,991	24,544,953
CASH FLOW FROM INVESTMENT ACTIVITIES		
I. Cash inflows from Investment activities	1,240,600	32,620,891
Interest received from investment activities	1,240,600	1,061,862
Other financial placements (net inflows)	-	31,559,029
II. Cash outflows from Investment activities	8,646,984	34,742,876
Outflow of purchase of property, plant, and equipment	-	1,628,571
Other financial investments (net outflows)	8,646,984	33,114,305
III. Net cash from (used in) investment activities	(7,406,384)	(2,121,985)
CASH FLOW FROM FINANCING ACTIVITIES		
I. Cash inflows from financing activities	-	-
II. Cash outflows from financing activities	-	-
III. Net cash flow from financing activities	-	-
NET CASH FLOW	16,491,607	22,422,968
Cash at the beginning of the accounting period	78,484,200	56,061,232
Cash at the end of the accounting period (Note 18)	94,975,807	78,484,200

The notes on pages 8 to 23
are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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. According to the Deposit Protection Law ("Official Gazette of Montenegro", no. 72/19), adjustments were made for the purpose of complying with Directive 2014/49/EU and Directive 2014/59/EU. The level of protection was increased to EUR 100,000, the payment deadline was shortened to 7 business days, a temporary "high balance", the obligation to carry out "Deposit Protection System stress tests", the possibility of participating in financing the repair of credit institutions in order to prevent the occurrence of a "protected case" and the charging of premiums based on a credit institution risk were introduced.

Credit institutions, 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 ensure deposit protection in credit institutions, whereby the Fund is also required to pay guaranteed deposits in the event when a protected case occurs in accordance with the Deposit Protection Law. The protected case occurs on the date when a decision to initiate bankruptcy proceedings in a credit institution or a decision on deposit unavailability are adopted. Deposit protection includes placed with the credit institution before or on the day of the occurrence of the protected case. Starting from 1 January 2013, the Fund has been required to pay out guaranteed deposits in the amount of up to EUR 50,000 per depositor, regardless of the number and amount that the depositor holds with the credit institution. Pursuant to the Deposit Protection Law ("Official Gazette of Montenegro", no. 72/19), the deposit protection level has been increased up to the amount of EUR 100,000, whereby, until the date of the Montenegro's accession to the European Union, the Fund will pay out guaranteed deposits in the amount of up to EUR 50,000 per depositor, regardless of the number and amount that the depositor holds with the credit institution.

The Fund's head office is located in Podgorica, at Miljana Vukova bb.

As of 31 December 2022, the Fund had 8 employees (31 December 2021: 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 of Montenegro, 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 2022:

- Vesko Lekic, CBM Treasury Director, a Member of the Board of Directors;
- Dejan Vujacic, the Director of the Bank Supervision Department - BoD member;
- Branislava Bozovic, MSc, a Ministry of Finance representative - BoD member;
- Darko Radunovic, a representative of the Association of Banks of Montenegro - BoD member and
- Vlastimir Golubovic, a representative of the Chamber of Commerce of Montenegro - BoD member.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022**All amounts are expressed in EUR, unless otherwise stated**

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**2.1. Basis of Preparation and Presentation of the Financial Statements**

The Fund has an obligation to keep accounting records and prepare financial statements in accordance with the requirements of the Law on Accounting ("Official Gazette of Montenegro", No. 145/2021) 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 and IFRS 14 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 were 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.

2.2. Official Reporting 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.

2.3. 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.

2.4. Going Concern Assumption

The accompanying financial statements for the year ended 31 December 2022 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.

2.5. Comparative Figures

Comparative figures are audited financial statements of the Fund for the year ended 31 December 2022 prepared in accordance with the accounting regulations of Montenegro.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

All amounts are expressed in EUR, unless otherwise stated

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***Revenues from deposit protection premiums***

Income from deposit protection premiums includes funds that credit institutions in Montenegro are obliged to pay to the Fund in accordance with the Deposit Protection Law ("Official Gazette of Montenegro", no. 72/19) based on the Decision on the Regular Annual Premium.

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 until 15 October 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.

In 2022 the Fund calculated the annual premium according to the Decision on the amount of the regular premium for 2022 ("Official Gazette of Montenegro", No. 121/21) 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 2021 the Fund's Board of Directors set the annual target premium amount for 2022 in the amount of EUR 18,024,000 and, accordingly, a quarterly calculation of the regular premium for 2022 was made in the amount of EUR 4,506,000.

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 2022 the rating of credit institutions for 2021 was determined and credit institutions were classified into seven risk classes:

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

All amounts are expressed in EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.1. Revenue Recognition (Continued)*****Revenues from deposit protection premiums (Continued)***

The calculation of the advance I and II instalments of the regular premium for 2022 was based on the rating of credit institutions, determined on the basis of data as of 31 December 2020, while an adjustment of the III instalment of the regular premium (the beginning of July 2022) was calculated on the basis of the rating determined based on data as of 31 December 2021 and coefficient averages at the level of the Montenegrin banking system for 2021, obtained from the Central Bank of Montenegro.

Taking into account that the Decision specified 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 18,024,000. For the calculation of the advance I and II instalments of the regular premium for 2021, the adjustment coefficient was 86.98% and 86.65%, while the adjustment of the III instalment of the regular premium was used to adjust the coefficient to 87.64% and 87.30%. The adjustment coefficient for the 3rd and 4th instalments was 84.60% and 77.70%.

The rating of credit institutions based on data from the financial statements of credit institutions and data provided by the Central Bank as of 31 December 2021 improved in two credit institutions compared to the rating for 2020, declined in two credit institutions, and remained unchanged in other credit institutions.

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 and 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

All amounts are expressed in EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Foreign Exchange Gains and Losses

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

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.

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 Amortisation

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%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022**All amounts are expressed in EUR, unless otherwise stated**

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

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 occurrence of a protected case at some of the credit institutions 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

All amounts are expressed in EUR, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial Instruments (Continued)

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.

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 2022

All amounts are expressed in EUR, unless otherwise stated

4. SALES

Revenues from sale in 2022 amount to EUR 18,024,000 (2021: EUR 16,000,000) 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. 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. 121/21).

5. OTHER OPERATING INCOME

	<u>2022</u>	<u>2021</u>
Revenues from collected receivables based on the payment of guaranteed deposits from the bankruptcy estate of Atlas Bank A.D Podgorica and IBM A.D.	6,600,000	9,683,240
Income from refunds	31,563	-
Liabilities waived	209	9,181
Total	<u>6,631,772</u>	<u>9,692,421</u>

Other operating income in the amount of EUR 6,600,000 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 2022.

6. COST OF GOODS SOLD AND COST OF MATERIALS

	<u>2022</u>	<u>2021</u>
Fuel and energy costs	6,146	5,234
Other material costs	1,375	1,498
Total	<u>7,521</u>	<u>6,732</u>

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

	<u>2022</u>	<u>2021</u>
Provisions	-	28,574
Fees - treasury bills	35,556	26,078
Membership fees	22,502	21,243
Maintenance costs	9,951	14,406
Audit services	5,869	10,769
PTT services	8,198	8,127
Other expenses	15,830	28,036
Total	<u>97,906</u>	<u>137,233</u>

8. DEPRECIATION AND AMORTISATION

Depreciation expense in 2022 amounts to EUR 6,314 (2021: EUR 7,816) and relates to the depreciation of equipment reported under Property, plant and equipment (Note 12).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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9. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	<u>2022</u>	<u>2021</u>
Net salaries	141,059	119,413
Reimbursement to the Management Board members	60,413	43,300
Business trips	13,352	-
Other personal expenses	4,962	9,482
Net salaries, compensations and other personal expenses	<u>219,786</u>	<u>172,195</u>
Payroll taxes	20,415	22,053
Contributions for retirement benefits	53,078	49,127
Payroll contributions	5,174	24,313
Costs of taxes and contributions	<u>78,667</u>	<u>95,493</u>
Cost of salaries, compensations and other personal expenses	<u>298,453</u>	<u>267,688</u>

10. INCOME FROM OTHER FINANCIAL INVESTMENTS AND LOANS

	<u>2022</u>	<u>2021</u>
Interest income - treasury bills	22,410	51,679
Interest income - government bonds	1,257,475	761,977
Total	<u>1,279,885</u>	<u>813,656</u>

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

	<u>2022</u>	<u>2021</u>
Interest expense - EBRD	253,472	253,472
Interest expense - term deposits	50,000	50,000
Total	<u>303,472</u>	<u>303,472</u>

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 17)).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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12. PROPERTY, PLANT AND EQUIPMENT

	<u>Equipment</u>
Cost	
Balance as of 1 January 2021	127,024
Additions	1,473
Sales	-
Balance as of 31 December 2021	<u>128,497</u>
Additions	-
Sales	-
Balance as of 31 December 2022	<u>128,497</u>
Accumulated depreciation	
Balance as of 1 January 2021	(102,177)
Depreciation expense (Note 8)	(7,816)
Sales	-
Balance as of 31 December 2021	<u>(109,993)</u>
Depreciation expense (Note 8)	
Sales	(6,314)
Balance as of 31 December 2022	<u>(116,307)</u>
Construction in progress as of 31 December 2021	<u>1,634,697</u>
Construction in progress as of 31 December 2022	<u>1,642,137</u>
Net carrying value	
Balance as of 31 December 2021	<u>1,653,200</u>
Balance as of 31 December 2022	<u>1,654,327</u>

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

	<u>31 December 2022</u>	<u>31 December 2021</u>
Investments in government bonds	38,641,737	36,913,274
Loans to employees - Housing Loans	165,412	178,395
Total	<u>38,807,150</u>	<u>37,091,669</u>

Investments in government bonds relate to placements in Montenegrin bonds in the amount of EUR 38,641,737 (EUR 39,000,000 in nominal amount) with a maturity of principal in 2025 and 2027 with interest-bearing coupons maturing annually in the total amount of EUR 1,240,650 in 2022 (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 2022, EUR 12,983 was repaid (during 2021: EUR 12,667). The maturity of receivables from long-term loans to employees as of 31 December 2022 and 2021 is shown in the following table (undiscounted future cash flows are shown).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

All amounts are expressed in EUR, unless otherwise stated

13. LONG-TERM FINANCIAL PLACEMENTS AND LONG-TERM RECEIVABLES (Continued)

Maturity	31 December 2022	31 December 2021
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	114,116	127,099
Total loans	178,236	191,219
<i>Less: short-term portion</i>	<i>(12,824)</i>	<i>(12,824)</i>
Total	165,412	178,395

14. CURRENT RECEIVABLES

	31 December 2022	31 December 2021
Receivables from advances provided to banks for the payment of guaranteed deposits	584,079	1,312,599
Interest receivables - treasury bills	22,410	-
Interest receivables - government bonds	578,718	538,791
Housing loans given to employees	12,824	12,824
Other receivables	159	159
Total	1,198,190	1,864,373

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).

Based on these decisions, the Fund informed depositors about the occurrence of the "protected case" and the selected credit institutions 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 credit institutions, of which EUR 101,883,600 was paid to depositors. During 2020, the Fund paid EUR 850,000 to paying intermediary credit institutions, of which EUR 1,668,102 was paid to depositors. During 2021, the Fund paid EUR 500,000 to paying intermediary credit institutions, of which EUR 1,085,699 was paid to depositors. During 2022, the Fund paid the amount of EUR 100,022 to credit institutions as paying intermediaries. (NLB Bank returned the funds paid based on advances in the amount of EUR 52,145.14 for IBM Bank and EUR 46,252.48 for Atlas Bank due to the termination of the Agreement on the performance of the paying bank activities). Receivables in the amount of EUR 584,079 relate to advance payments to paying credit institutions that have not been paid to depositors as of 31 December 2022.

15. SHORT-TERM FINANCIAL PLACEMENTS

Short-term financial investments, amounting to EUR 6,895,420 as of 31 December 2022 (2021: EUR 0) 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 24 May 2023.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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16. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash on the CBM giro account	94,974,228	78,049,374
Custody account of Hipotekarna banka	-	434,700
Cash on hand	1,579	125
Total	94,975,807	78,484,200

In accordance with the Asset Management Agreement, which entered into force on 7 May 2012, the Fund's Board of Directors hired and authorized the Central Bank, as the Asset Manager, to manage the Fund's available funds.

Funds are invested in accordance with the Fund's Investment Policy (No. 55-2/2022 of 28 February 2022).

In accordance with the above mentioned Investment Policy, the Fund can invest its available funds in:

- 1) Securities issued by Montenegro, an EU member state or their central banks or securities guaranteed by Montenegro or an EU member state;
- 2) Securities issued by a credit institution, financial institution and/or state that are not listed in point 1 of this paragraph, and have high ratings assigned to them by an internationally recognized rating agency;
- 3) Deposits placed in central banks and foreign credit institutions with high ratings assigned by internationally recognized rating agencies;
- 4) Other low-risk assets that include the following categories:
 - o which fall into the first or second category from Table 1 of Article 336 of the EU Capital Requirements Regulation,
 - o liquid assets in accordance with the regulations of the Central Bank of Montenegro, i.e. in accordance with the requirements of the competent EU regulatory body,
 - o ESG (environmental, social, governance) securities issued by OECD countries,
 - o basket of government securities issued by OECD countries,
 - o debt instruments issued by the municipality, which have a significantly high profit-to-risk ratio or a very low risk measured by risk assessment methods.

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, 2021 and 2022, the conditions for investing funds were created so that in 2022 the Fund independently invested in government bonds and treasury bills of Montenegro.

17. PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income as of 31 December 2022 amount to EUR 100,000 (31 December 2021: EUR 150,000) and relate to the prepaid loan approval fee under the arrangement with the EBRD (Note 11).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

All amounts are expressed in EUR, unless otherwise stated

18. EQUITY

	<u>31 December 2022</u>	<u>31 December 2021</u>
Basic capital	110,966,554	85,233,418
Retained earnings	<u>25,221,991</u>	<u>25,733,136</u>
Total	<u>136,188,546</u>	<u>110,966,554</u>

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 2022.

19. SHORT-TERM LIABILITIES

Short-term liabilities as at 31 December 2022 and 31 December 2021 are presented in the table below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Liabilities based on the payment of guaranteed deposits	7,334,090	8,064,234
Trade payables	1,640	6,177
Interests payable to the EBRD	100,694	100,000
Other operating liabilities and other current liabilities	<u>6,350</u>	<u>6,903</u>
Total	<u>7,442,774</u>	<u>8,177,314</u>

Pursuant to the decisions of the Central Bank of Montenegro on the introduction of bankruptcy in IBM and Atlas Bank (Note 14) a "protected case" occurred. The total amount of guaranteed deposits amounted to EUR 112,701,633 of which EUR 730,144.43 (was paid to depositors in 2022 (during 2021: EUR 1,085,699)). Liabilities in the amount of EUR 7,334,090 relate to guaranteed deposits whose payment has not been realized by 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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20. FINANCIAL INSTRUMENTS

20.1. Categories of financial instruments

	31 December 2022	31 December 2021
Financial assets		
Cash and cash equivalents	94,975,807	78,484,200
Short-term financial placements	6,895,420	-
Other long-term financial placements	38,807,150	37,091,669
Accounts receivable	1,198,190	1,864,373
Total financial assets	141,876,567	117,440,242
Financial liabilities		
Trade payables	7,334,090	8,070,411
Other short-term liabilities	107,044	106,903
Long-term/short-term provisions	-	100,000
Total financial liabilities	7,442,774	8,277,314

20.2. 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.

20.2.1 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

All amounts are expressed in EUR, unless otherwise stated

20. FINANCIAL INSTRUMENTS (Continued)

20.2. Financial Risk Management (Continued)

20.2.2. 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.

20.2.3. 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.

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 2022		31 December 2021	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	94,975,807	94,975,807	78,484,200	78,484,200
Short-term financial investments	6,895,420	6,895,420	-	-
Other long-term financial investments	38,807,150	38,807,150	37,091,669	37,091,669
Receivables	1,198,190	1,198,190	1,864,373	1,864,373
Total financial assets	141,876,567	141,876,567	117,440,242	117,440,242
Financial liabilities				
Trade payables	7,335,730	7,335,730	8,070,411	8,070,411
Other short - term liabilities and accruals	107,045	107,045	106,903	106,903
Short-term provisions	-	-	100,000	100,000
Total financial liabilities	7,442,774	7,442,774	8,277,314	8,277,314

NOTES TO THE FINANCIAL STATEMENTS
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21. LITIGATION

As of 31 December 2022, 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 2022, 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.

22. 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 2022.

In 2023, the Fund continued paying guaranteed deposits to depositors of banks in bankruptcy. Until 28 February 2023, EUR 23,242 was paid based on guaranteed deposits for the bankrupt Atlas Bank, while there were no payments at IBM Bank.

Collection of receivables of the Fund from the bankruptcy estate until 28 February 2023 was realized in the amount of €6,100,000 (€6,000,000 for Atlas Bank in bankruptcy and EUR 100,000 for IBM Bank in bankruptcy), which is 71.76% of the planned amount (EUR 8,500,000), so the return of funds at the overall level amounted to EUR 76,083,240, i.e. 67.51% (IBM 85.26% and Atlas Bank 63.11%).

The first instalment of the regular premium in the amount of EUR 5,255,000 was calculated and collected. In accordance with the Methodology, credit institutions were classified into 6 (six) risk classes out of 7 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 153,435,724 of which EUR 39,000,000 in bonds of Montenegro (in MNE 2025 - EUR 23,880,000 and MNE 2027 - EUR 15,120,000), EUR 6,895,420 in government bonds, EUR 106,133,047 on the giro account, EUR 560,836 in advances to banks for payment of guaranteed deposits, EUR 779,262 for interest receivables on bonds and EUR 67,159 for other receivables.

In accordance with the initiated procedure, activities are continuing on the implementation and finalization of the project "Strengthening the practice of asset and investment management of the Deposit Protection Fund" which will result in the selection of a respectable "asset manager and/or the Central Bank of Montenegro" in order to improve the investment capacity and risk management of the Fund by looking for new opportunities for the placement of funds.

Bearing in mind that the trend of instability and turbulence in the international environment caused by current global economic and financial movements (caused by events in Ukraine) has continued, the repercussions of which are felt in all developed economies (increase in inflation, oil and food prices) and an inevitable impact is expected on the Montenegrin economy, these new circumstances can represent major challenges in business for all economic entities and financial institutions.

However, despite the foregoing, considering the nature of the Fund's business activities as well as the significant amount of liquid funds at the Fund's disposal, the management does not expect that the aforementioned events will significantly disrupt its activities or affect the possibility of business continuity in the following period.



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