CRNOGORSKA KOMERCIJALNA BANKA AD, PODGORICA
MEMBER OF OTP GROUP

SEPARATE FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2020
AND INDEPENDENT AUDITORS' REPORT

CONTENTS

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This Report is translation of the Separate Financial Stataments and the Independent Auditors' Report issued in the Montenegrin language. In the case of any discrepancy between the Montenegrin and English versions, the Montenegrin shall prevail.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Crnogorska Komercijalna Banka AD, Podgorica, Member of OTP Group

Auditor's Report on the separate financial statements

Opinion

We have audited the separate financial statements (pages 5 to 113) of Crnogorska Komercijalna Banka AD, Podgorica, Member of OTP Group ("the Bank"), which comprise the separate balance sheet as at December 31, 2020, and the separate income statement, separate statement of changes in equity and separate cash flow statement for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the for the year then ended in accordance with Law on Accounting and regulations of the Central Bank of Montenegro governing the financial reporting of banks.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing applicable in Montenegro. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements relevant for our audit of the financial statements in Montenegro, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(Continued)

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INDEPENDENT AUDITOR'S REPORT (Continued)

To the Board of Directors and Shareholders of Crnogorska Komercijalna Banka AD, Podgorica, Member of OTP Group (Continued)

Key Audit Matters (Continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Expected credit losses on loans and provisions under guarantees</td></tr>
<tr><td>
Loan receivables and accounts receivable amounted to EUR 955.206 thousand as at December 31, 2020, while the total amount of the Bank's allowance for impairment was EUR 34.620 thousand as at December 31, 2020.

Measuring the costs of loan impairment and provisions for guarantees is considered a key audit matter, since determining the assumptions for expected credit losses is subjective because of the significant level of professional judgment exercised by the Management.

The most significant judgements refer to:

assumptions used in models of expected credit loss to estimate the credit risk associated with exposure and the client's expected future cash flows.
timely identification of exposures with a significant increase in credit risk exposure and credit impairment.
valuation of collateral and assumptions of future cash flows on individually estimated credit exposures.
potential impact on these assumptions, increases in credit risk and impairments, and valuations of collateral and future cash flows as a result of the socio-economic consequences of the COVID-19 virus crisis, including the moratorium and other events.

The Management disclosed additional information on costs of loan impairment and provisions for guarantees in the Notes 2, 3.6, 3.7, 12, 17 and 27 to the separate financial statements.
</td><td>
Based on our risk assessment and industry knowledge, we have examined the costs of loan impairment and provisions, and assessed the methodology applied, as well as the assumptions used, in accordance with the description in the key audit matters.

Our procedures included the following elements:

Assessment of key controls over assumptions used in expected credit loss models to estimate credit risk associated with exposure and the client's expected future cash flows.
Detailed testing of the calculation of risk parameters, based on the official methodology of the Bank, which is subject to compliance assessment with accounting requirements. This testing also includes the assessment of model assumptions with special reference to assumptions concerning the impact of the crisis caused by the COVID 19 virus on expected credit losses.
Assessment of key controls and testing their effectiveness over the timely identification of exposures with a significant increase in credit risk and the timely identification of loan impairment exposures.
Compiling and detailed testing of evidences on a sample basis that support the appropriate identification of assumptions for loan impairment expenses and provisions for guarantees, including the measurement of collateral and assumptions of future cash flows for individually assessed loan impairment exposures.
Assessment of key changes in high-risk portfolios from prior periods in relation to industry standards and historical data.
Assessment of adequacy of various Management decisions identified regarding assumptions related to calculation of expected credit losses for individually assessed loans, as well as the decision on approach to estimating expected credit losses for collectively assessed loans. Evaluation of applied methodologies made with use of our industry knowledge and experience.
We have engaged our IT and Credit Risk Specialists in areas that required specific expertise.
Assessment of adequacy of Management analysis and adjustments resulting from the impact made by the COVID-19 virus crisis on all aspects of the estimation of Expected Credit Losses. The impact analysis include Management assessment of various scenario analyzes and sensitivity analyzes.

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INDEPENDENT AUDITOR'S REPORT (Continued)

To the Board of Directors and Shareholders of Crnogorska Komercijalna Banka AD, Podgorica, Member of OTP Group (Continued)

Other information included in the Bank's Annual report

Management is responsible for the other information. Other information consists of the information included in the Annual Report, which includes the Annual Management Report and Corporate Governance Statement, other than the separate financial statements and our Auditor's report thereon. Our opinion on the separate financial statements does not cover the Other information including the Annual Management Report and Corporate Governance Statement.

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

With respect to the Annual Management Report and Corporate Governance Statement, we also performed procedures required by the Law on Accounting Those procedures include considering whether the Annual Management Report includes the disclosures required by Article 11 of the Law on Accounting and whether the Corporate Governance Statement includes the information specified in Article 14 of the Law on Accounting.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. The information given in the enclosed Annual Management Report for the 2020 financial year are consistent, in all material respects, with the enclosed separate financial statements.

2. The enclosed Annual Management Report for 2020 financial year is prepared in accordance with requirements of Article 11 of the Law on Accounting.

3. The enclosed Corporate Governance Statement for the year 2020 is prepared in accordance with requirements of Article 14 of the Law on Accounting and is consistent, in all material respects, with the enclosed separate financial statements.

In addition, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Annual Management Report or Corporate Governance Statement. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the Law on Accounting and regulations of the Central Bank of Montenegro governing the financial reporting of banks, 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 separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 International Standards on Auditing applicable in Montenegro will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

(Continued)

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INDEPENDENT AUDITOR'S REPORT (Continued)

To the Board of Directors and Shareholders of Crnogorska Komercijalna Banka AD, Podgorica, Member of OTP Group (Continued)

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

As part of an audit in accordance with International Standards on Auditing applicable in Montenegro, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to this 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 omission, misrepresentation or the override of internal controls,
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls,
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as 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 separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charges 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 the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Boban Čabarkapa.

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Boban Cabarkapa, Certified Auditor
Deloitte d.o.o. Podgorica
March 19, 2021

SEPARATE INCOME STATEMENT
For the year ended December 31, 2020
(thousands of EUR)

	Notes	2020	2019
Interest and similar income	3.1,6a	27.597	25.530
Interest income on impaired placements		611	632
Interest and similar expense	3.1,6b	(296)	(158)
Net interest income		**27.912**	**26.004**
Fee and commission income	3.1,7a	15.382	18.361
Fee and commission expense	3.1,7b	(8.594)	(10.039)
Net fee and commission income		**6.788**	**8.322**
Net gains/losses from FX revaluation	3.2,8	762	886
Net gains/losses from derecognition of other assets		-	22
Other income	9	1.558	3.001
Personnel expenses	10	(13.631)	(18.851)
Depreciation expenses	3.9,3.10	(4.322)	(3.240)
General and administrative expenses	11	(8.529)	(8.973)
Net gains/losses from impairment of financial instruments not carried at fair value through profit and loss	3.6,12a,c	(8.059)	426
Provisions	12,c	(248)	(319)
Other expenses	3.11, 13	(105)	(1.876)
PROFIT BEFORE TAX		2.126	5.402
Income tax	3.4, 14	(278)	(457)
NET PROFIT		**1.848**	**4.945**

The accompanying notes on the following pages (9 to 113) form an integral part of these separate financial statements.

Podgorica, March 19, 2021

Signed on behalf of Crnogorska Komercijalna Banka AD, Podgorica by:

Pal Kovacs	Maja Krstić	Slobodan Vujović
Chief Executive Officer	Executive Director for Strategy and Finance Division	Director of Accounting and Reporting Directorate

SEPARATE STATEMENT OF FINANCIAL POSITION
As of December 31, 2020
(thousands of EUR)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Cash and balances with the Central Bank	3.5,3.6, 15	253.884	160.024
Loans and advances to banks at amortized cost	3.6,16	62.113	37.934
Loans and advances to customers at amortized cost	3.6,17	920.586	477.300
Securities at amortized cost	3.6,18	27.282	79.566
Other financial assets at amortized cost	24	1.769	1.300
Securities at fair value through other comprehensive income	3.6,19	2.043	520
Investments in affiliates and joint ventures according to equity method	3.8,20	335	41.810
Property, plant and equipment	3.3, 3.9, 21	23.616	11.540
Intangible assets	3.9, 22	6.847	3.616
Current tax assets	3.4, 14c	8	11
Deferred tax assets	3.4, 14d	807	603
Non-current assets held for sale and discontinued operations	23	10	-
Other assets	24	5.163	2.344
Total assets		**1.304.463**	**816.568**
LIABILITIES			
Deposits from banks and central banks at amortized cost	3.6,25	1.145	838
Deposits of customers at amortized cost	3.6,25	890.788	609.083
Loans to banks and central banks at amortized cost	3.6,26	138.675	10.000
Loans to client other than banks at amortized cost	3.6,26	31.101	3.913
Reserves	27	6.629	4.441
Current tax liabilities	3.4, 14c	536	1.665
Deferred tax liabilities	3.4, 14d	610	238
Other liabilities	28	30.321	18.702
Total liabilities		**1.099.805**	**648.880**
EQUITY			
Share capital	29	181.876	181.876
Retained earnings/(loss)		18.900	(36.961)
Profit for the year		1.848	4.945
Revaluation reserves		(259)	-
Other reserves		2.293	17.828
Total equity		**204.658**	**167.688**
Total liabilities and equity		**1.304.463**	**816.568**

The accompanying notes on the following pages (9 to 113) form an integral part of these separate financial statements.

Podgorica, March 19, 2021

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SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2020
(thousands of EUR)

	Share Capital	Revalorization Reserves	Other Reserves	Retained earnings	Profit for the year	Total
Balance at January 1, 2019	136.876	2.286	17.976	(51.920)	10.079	115.297
Issue of shares	45.000	-	-	-	-	45.000
Transfers/Other reserves	-	-	-	10.079	(10.079)	-
Net increase in fair value of securities at fair value through other comprehensive income	-	2.594	-	-	-	2.594
Decrease in fair value of securities at fair value through other comprehensive income due to sale of securities	-	(4.880)	-	4.880	-	-
Actuarial loss	-	-	(148)	-	-	(148)
Net profit for the year	-	-	-	-	4.945	4.945
Balance at December 31, 2019	181.876	-	17.828	(36.961)	4.945	167.688
Balance at December 1, 2020	181.876	-	17.828	(36.961)	4.945	167.688
Transfers/ Other reserves	-	-	(15.520)	20.465	(4.945)	-
Net increase in fair value of securities at fair value through other comprehensive income	-	(259)	-	-	-	(259)
Actuarial profit	-	-	48	-	-	48
Effect of IFRS 16 application	-	-	(63)	-	-	(63)
Loss for the current year	-	-	-	-	1.848	1.848
Effect of bargain purchase (Note 5)	-	-	-	26.901	-	26.901
Net profit of the Podgorička banka in period from August 01, 2019 to December 11, 2020 (Note 5)	-	-	-	8.495	-	8.495
Balance at December 31, 2020	181.876	(259)	2.293	18.900	1.848	204.658

The accompanying notes on the following pages (9 to 113)
form an integral part of these separate financial statements.

Podgorica, March 19, 2021
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Pal Kovacs	Maja Krstić	Slobodan Vujović
Chief Executive Officer	Executive Director for Strategy and Finance Division	Director of Accounting and Reporting Directorate

SEPARATE STATEMENT OF CASH FLOWS
For the year ended December 31, 2020
(thousands of EUR)

	Notes	2020	2019
Cash flows from operating activities			
Interest and similar income received		29.271	27.315
Interest and similar charges paid		(411)	(191)
Fee and commission received		14.649	17.886
Fee and commission paid		(8.566)	(10.018)
Cash payments to employees and suppliers		(23.079)	(22.245)
Net increase in loans and other assets		(39.526)	(88.144)
Net increase in customer deposits and other liabilities		856	56.152
Taxes paid		(2.307)	(1.705)
Other income		702	488
Net cash (outflows) from operating activities		(28.411)	(20.462)
Cash flows from investing activities			
Purchase of property and equipment		(2.219)	(2.175)
Purchase of intangible assets		(938)	(1.140)
Treasury bills and other securities		51.279	8.612
Cash outflows from purchase of Podgorička banka		-	(41.475)
Cash and cash equivalents inflow from Podgorička banka on merger day, December 11, 2020		84.263	-
Income from sold of tangable assets		-	32
Net cash inflows/(outflows) from investing activities		132.385	(36.146)
Cash flows from financing activities			
Net increase in other borrowed funds		9.895	11.181
Issue of common shares		-	45.000
Net cash inflows from financing activities		9.895	56.181
Effect of exchange rate changes		896	371
Net increase/(decrease) in cash and cash equivalents		114.765	(56)
Cash and cash equivalents at beginning of period		151.729	151.785
Cash and cash equivalents at the end of period	32	266.494	151.729

The accompanying notes on the following pages (9 to 113)
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Podgorica, March 19, 2021

Signed on behalf of Crnogorska Komercijalna Banka AD, Podgorica by:

Pal Kovacs	Maja Krstić	Slobodan Vujović
Chief Executive Officer	Executive Director for Strategy and Finance Division	Director of Accounting and Reporting Directorate

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

1. INCORPORATION AND OPERATIONS OF THE BANK

Crnogorska Komercijalna Banka AD, Podgorica (hereinafter: the "Bank") was incorporated as an independent bank and registered with the Commercial Court in Podgorica on January 15, 1997.

OTP Bank Plc. Budapest holds 100 percent equity interest in the Bank's equity.

The Bank is registered as a shareholding company. The Bank's registration number in the Central Registry of the Commercial Court is 4-0001633.

The Bank obtained the operating license from the Central Bank of Montenegro based on the Decision number 0101-72/1-2002 dated December 18, 2002.

The Bank is registered with the Securities Commission entered into the Register of Issuers of Securities under number 51 (Decision number 02/3-47/2-01 as of July 12, 2001).

Pursuant to the Banking Law, Decision on Incorporation and Articles of Association, the Bank is engaged in the business of keeping deposits and other assets of private individuals and legal entities and approving loans and other placements from these assets, entirely or in part, for its own account.

In addition to these operations, the Bank may also perform the following activities:

- to issue guarantees and undertake other off-balance sheet commitments;
- to purchase, sell and collect receivables;
- to issue, process and record payment instruments;
- to perform payment transactions in the country and abroad;
- to perform finance lease operations;
- to trade in its own name for its own account or for the account of a customer with foreign payment instruments and financial derivatives;
- to prepare analysis and provide information and advice on the company and entrepreneur creditworthiness;
- depositary operations;
- safekeeping of assets and securities and
- other operations as in accordance with the approval of the Central Bank of Montenegro.

The Bank is headquartered at Moskovska Street, no number, Podgorica.

The Bank is 100% owner of OTP Debt Collection d.o.o. Podgorica.

The Bank as the owner of OTP Debt Collection, doo Podgorica was officially registered in the Central Registry of Business Entities on December 17, 2018.

On July 16, 2019, the Bank became the owner of 90.56% of the share capital of Societe Generale Montenegro AD Podgorica, Montenegrin branch of Societe Generale Group.
On December 20, 2019, by purchasing the remaining 9.44% of shares, the Bank becomes 100% owner of Podgorička banka, AD Podgorica.

The process of merging Podgorička banka AD Podgorica, member of OTP Group ("Podgorička banka") into Crnogorska Komercijalna Banka AD Podgorica was completed on December 11, 2020 with the registration of the merger of Podgorička banka into CKB banka in the Central Registry of Business Entities (Decision No. 4-0001633-070 of 11/12/2020).

As of December 31, 2020, the Bank consists of its head office in Podgorica, 18 branches, 15 sub-branches and 1 counter on the territory of Montenegro (December 31, 2019: the Bank consisted of its head office in Podgorica, 13 branches, 11 sub-branches and 5 counters on the territory of Montenegro).

As of December 31, 2020, the Bank has 552 employees (December 31, 2019: 457 employees).

1. INCORPORATION AND OPERATIONS OF THE BANK (Continued)

As of December 31, 2020, the members of the Board of Directors of the Bank are as follows:

First name and surname	Position
Dr. Németh Miklós	Chairman
Nyitrai Győző József	Member
Kovács Pál József	Member
Krizsanovich Péter	Member
Olchvary Balazs	Member
Tamas Kamarasi	Member
Ilona Torok	Member

As of December 31, 2020, the members of the Audit Committee of the Bank are as follows:

First and last name	Function
Mr. Peter Krizsanovich	Chairman
Mr. Attila Kozsik	Member
Mr. Andreas Szalay	Member

As of December 31, 2020, Executive Directors of the Bank are:

First and last name	Key area
Mr. Pál Kovács	Chief Executive Officer
Mr. Viktor Vorobej	Executive Director of Risk Management Division
Mrs. Branislava Maja Vukčević	Executive Director of Corporate Governance Division
Mr. Ivan Vučinić	Executive Director of IT and Operations Division
Mrs. Sandra Kordić	Executive Director for Retail and Corporate Business Division
Mrs. Maja Krstić	Executive Director for Strategy and Finance Division

As of December 31, 2020, Head of Compliance Department is Dora Todorović.

As of December 31, 2020, Internal Auditor is Alenka Mugoša.

2. BASIS OF PREPARATION AND PRESENTATION OF SEPARATE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Separate Financial Statements

The Bank compiles separate financial statements (hereinafter: “financial statements”) in accordance with the Law on Accounting (“Official Gazette of Montenegro”, No. 52/16) and decisions of the Central Bank of Montenegro which regulate financial reporting of banks.

The enclosed financial statements have been prepared in accordance with the Decision on the content, deadlines and manner of compiling and submitting bank's financial statements ("Official Gazette of Montenegro", No. 15/12, 18/13 and 24/18).

In compiling these separate financial statements, the Bank has applied policies that are in accordance with the regulations of the Central Bank of Montenegro, but which differ from the requirements of International Accounting Standards (“IAS”) and International Financial Reporting Standards (“IFRS”) applicable on December 31, 2020, in recording of receivables for which the conditions have been met for exclusion from the Bank's balance sheet and the format of presentation of separate financial statements standards. Additionally, the application of IFRS 16 - Leases has been postponed to January 1, 2020, in accordance with the letter of the Central Bank of Montenegro number 03-105-1/2019 dated January 9, 2019. This standard introduces a new accounting treatment for lease contracts which has been applied by the Bank beginning from January 1, 2020 (Note 3.3).

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

2.1. Basis of Preparation and Presentation of Separate Financial Statements (Continued)

In accordance with the Law on Accounting of Montenegro, IAS and IFRS published by the International Accounting Standards Board must be translated by the appropriate competent authority of Montenegro which has the right to translate and publish them, approved by the International Federation of Accountants (IFAC). Therefore, only IAS and IFRS officially translated, approved and published by the Institute of Certified Accountants of Montenegro can be applied. The latest official translations were published for the part of IAS in force since 1 January 2009, i.e., the part of IFRS in force since 1 January 2013, which includes only the basic text of standards and interpretations and does not include basis for conclusion, illustrative examples, instructions for application, comments, opinions and other explanatory material. In addition, the said translation does not contain a translation of the Basis of the Preparation and Presentation of Financial Statements. Also, amendments and improvements to IAS after 1 January 2009 and IFRS after 1 January 2013 have not been translated or published. In exeption to the above mentioned, in accordance with CBoM regulation, application of IFRS 9 Financial instruments is obligatory for banks starting from January 01, 2018.

Having in mind the effects that the stated deviations of accounting regulations of Montenegro from IFRS and IAS may have on the presentation of separate financial statements of the Company, the enclosed financial statements differ in that part and deviate from IFRS and IAS and cannot be treated as financial statements prepared in accordance with IFRS and IAS.

Pursuant to the Law on Accounting, companies are obliged to prepare, submit and publish separate and consolidated financial statements when they have control (parent legal entities) over one or more legal entities (dependent legal entities) in accordance with IAS and IFRS.

The enclosed separate financial statements represent the separate financial statements of the Bank, as of December 31, 2020.

The dependent legal entity 100% owned by the Bank is OTP Debt Collection d.o.o. Podgorica.

In preparing these separate financial statements, the Bank has applied the accounting policies set out in Note 3.

The separate financial statements of the Bank are presented in euros (EUR), which is the functional currency of the Bank and the official currency in which the financial statements are submitted in Montenegro. Unless otherwise stated, all amounts are in thousands of EUR.

2.2. Use of Estimates

The preparation of separate financial statements requires the use of estimates and assumptions that affect the effects of policy implementation, the reported amounts of assets and liabilities, and the reported amounts of income and expense during the reporting period. The estimates and judgments are made based on historical experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances, the results of which provide a good basis for estimating the carrying values of assets and liabilities that cannot be clearly seen from other sources. Actual results may differ from these estimates.

The estimates and judgments are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or, in the period of the revision and future periods if the revision affects both current and future periods. Specific areas of uncertainty of estimates and critical assumptions in applying accounting policies that have the most significant effect on the amounts disclosed in the financial statements are:

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

2.2. Use of Estimates (Continued)

(a) Loss on impairment of loans and placements

The Bank reviews its loan portfolio at least once a month to determine whether an impairment loss should be recognized in the income statement. The Bank assesses whetherthere is any observable evidence to suggest that there has been a measurable decrease in the estimated future cash flows of the loan portfolio before such a decrease can be identified for each individual loan within the loan portfolio. Such evidence may include observable data indicating that there have been changes that may have an adverse effect, namely a change in the debtor's status with respect to loan repayment to the Bank, or in economic conditions in the country that are directly related to the impact that outstanding contractual payment obligations may have on the assets of the Bank. Management relies on estimates based on historical loss experience for assets with credit risk characteristics, as well as objective evidence of impairment, similar to those mentioned in the loan portfolio when estimating future cash flows. The methodology and assumptions used in estimating the amount of future cash flows and their timing are subject to constant review, with the aim of minimizing the difference between the estimated and actual loss.

(b) Impairment of the securities at fair value through other comprehensive income and investments in affiliates, subsidiaries and joint ventures using the equity method

The Bank determines that there has been an impairment of securities at fair value through other comprehensive income and investments in subsidiaries when there is a significant or prolonged decline in their fair value below their cost. Determining what is significant or prolonged requires judgment. Impairment may be justified when there is evidence that there has been a deterioration in the financial position of the investee, industry or sector, as well as in cash flows from operating and financing activities.

(c) Severance pay and other long-term employee benefits

The present value of assets for retirement benefits and other long-term benefits depends on a number of factors determined by an independent certified actuary using certain assumptions. Any changes in these assumptions would affect the present value of these assets. The key assumptions for severance pay and other long - term employee benefits are set out in Note 27.

(d) Provisions

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate. If it is no longer probable that an outflow of resources representing economic benefits will be required to settle the obligation, the provisions are reversed through the income statement. Provisions are recognized when it is expected that the Bank, as a result of past events, will have a current legal or derived obligation which can be reliably measured and the settlement of which is expected to result in an outflow of resources that represent economic benefits to the Bank.

(e) Impairment of non-monetary assets

The Bank analyzes the values at which intangible assets and property, plant and equipment of the Bank are presented. If there is an indication that an asset is impaired, the recoverable amount of the asset is estimated to determine the amount of impairment. If the recoverable amount of an asset is estimated to be lower than the asset's carrying amount, the asset's present value is reduced to its recoverable amount. Impairment assessment requires the management to make estimates in respect to the cash flows, growth rates and discount rates for cash-generating units subject to assessment.

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

2.2. Use of Estimates (Continued)

(f) Useful lives of property, plant and equipment and intangible assets

Determining the useful lives of property, plant and equipment and intangible assets is based on previous experience with similar assets, as well as on anticipated technical developments and changes affected by a number of economic or industrial factors (Note 3.9 and 3.10).

The adequacy of a particular useful life is reviewed annually or whenever there is an indication that there has been a significant change in the factors underlying the estimates of useful life.

(g) Fair value of financial instruments

The fair value of financial instruments traded in an active market at the balance sheet date is based on quoted market prices. The fair value of financial instruments that are not quoted on an active market is determined using certain valuation techniques that involve some degree of judgment in estimating fair value. The valuation methods, assumptions and techniques used to determine fair value are explained in detail in Note 4.7.

2.3. Going Concern

The separate financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate for an indefinite period of time in the foreseeable future.

On December 31, 2020, the Bank had a positive result in the amount of EUR 1.848 thousand (December 31, 2019: EUR 4.945 thousand). The result has been influenced by costs incurred due to the merger with Podgorička banka. Additionaly, significant increase of expenses related to impairment of financial instruments not carried at fair value through profit and loss had effect on the net result (Note 2.6, 3.6, 12a,c, i 17).

Costs incurred due to the merger with Podgorička banka amount to EUR 1,754 thousand. The most significant amounts are related to:

- costs of professional services and other dependent costs of engagement in the amount of EUR 550 thousand
- IT costs related to software development, hiring additional IT staff and other IT costs, in the amount of EUR 790 thousand.
- training costs, bonus payments, hiring additional non-IT employees in the amount of EUR 214 thousand

As per its business plans, the Bank plans to achieve a positive result in the coming period. During 2020, the Bank maintained a very strong capital position, which is reflected in the fact that the Bank's solvency ratio on December 31, 2020 was 20.07%, which is significantly above the statutory minimum of 10%.

Additionally, the daily liquidity ratio on December 31, 2020 is 1.79, which is also above the legally prescribed minimum of 0.9.

2.4. Netting

Assets and liabilities or income and expenses may not be netted unless there is a legally enforceable right to netting and there is an intention to realize the asset and settle the liability simultaneously or on a net basis or as permitted by other IFRSs. The Bank's assets and liabilities, and income and expenses, are presented separately, except when netting reflects the substance of the transaction or other event.

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

2.5. Comparative data

For financial statements, prepared on December 31, 2020, as comparative data, the Bank presented data from audited separate financial statements as of December 31, 2019.

2.6. Impact of the Covid – 19 crisis to the Bank's operation

During 2020, due to negative effects of the Covid-19 pandemic to business, the Central Bank of Montenegro and Government of Montenegro (hereinafter referred to as: CBoM) have prescribed a set of measures to mitigate the negative effect. Firstly, in March 2020, Decision on interim measures to mitigate the adverse effects of the new coronavirus on the financial system ("Official Gazette of MN“ No. 19/20) came to force (moratorium I). In accordance with the Decision, both private individuals and legal entities have the right to apply for moratorium on the repayment of loan obligations upon submitting the request. The moratorium was possible to activate on credit exposures approved before March 23, 2020. The moratorium on repayment of liabilities could be activated for a period of 3 months with the capitalization of interest, where interest in this period would be calculated in accordance with the repayment schedule, and then added to the principal at the end of moratorium.

During the year, the measures were amended a number of times. The main prerequisites for applying for each of the moratoriums were the following:

- On December 31, 2019, the borrower is not in delay for more than 90 days;
- As of December 31, 2019, the loan is not classified as non-performing;
- The loan for which the moratorium is being applied for has not been restructured in 2020.

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

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

2.6. Impact of the Covid – 19 crisis to the Bank's operation (Continued)

Second set of the CBoM measures, moratorium II, began on June 01, 2020. Commercial banks were in change of determining criteria for customers that can apply to moratorium. The conditions of the Bank were mainly related to customers that lost their jobs due to the pandemic, or have decrease of the salary. Also, for moratorium II, seafarers also have the opportunity to apply with the submission of the necessary documentation.

The moratorium III started on September 1, 2020. Within these measures, customers from the tourism sector and from the agriculture, forestry and fisheries sectors are entitled to a moratorium on loan repayment in the period from September 1, 2020 to August 31, 2021.

Starting from November 6, 2020, customers had possibility to apply for moratorium IV with duration of 6 months, in case they lost their jobs in the period after March 2020, due to effects of crisis caused by Covid-19 on economic system, or loan restructuring, if their salaries are reduced in this period, due to the crisis.

Loans that were subject to moratorium are presented in the following table (balance of loans as of December 31, 2020):

CBoM	**Total**			Legal entities			Private individuals and cards		
classification	Gross loans	Moratorium used	Moratorium active	Gross loans	Moratorium Used	Moratorium active	Gross loans	Moratorium used	Moratorium active
A	877.614	321.867	12.533	448.533	99.235	8.694	429.081	222.632	3.839
B	63.090	46.781	1.677	54.600	38.097	1.034	8.490	8.684	643
C	3.802	3.930	30	1.382	1.842	27	2.420	2.088	3
D	1.081	795	-	644	643	-	437	152	-
E	9.619	885	-	4.488	281	-	5.131	604	-
Total	**955.206**	**374.258**	**14.240**	**509.647**	**140.098**	**9.755**	**445.559**	**234.160**	**4.485**

Allowances for credit losses are increased during the year in order to reflect effects of the COVID-19 crisis. The increase is realised through change of Probability of Loss (PL) and Loss Given Loss (LGL) vectors that present inputs for calculation of expected losses (EL) primarily for loans in stage 1.

Impact of Covid-19 crisis on liquidity was assessed through: 1)potential deposit outflows; 2) expected lower credit activity; 3) funding sources eligibility projections; and 4) CBoM loan moratorium rules effects. It is concluded that, even with high deposit outflows, Bank is able to maintain high liquidity levels and sustainable and stable operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

Interest income and expense, including default interest and other expenses related to interest-bearing assets, i.e., interest-bearing liabilities, calculated according to the principle of causality of income and expenses and conditions of the contractual relationship defined by the contract between the Bank and the customer. Interest income and expense are recognized on an accrual basis using the effective interest rate method for the period in which they are earned, and accrued interest is accrued on the term of the contractual obligation. Interest income is mainly calculated on placements to the customers, deposits with other financial institutions, investment securities, and interest expenses are calculated on financial liabilities on deposits and loans. The loan approval fee, which forms a part of the effective interest rate, is recorded within fee income and expense. Loan approval fees are calculated and charged once and are recorded as deferred income, and are recognized in income for the period in proportion to the elapsed time of use of the loan. Fee and commission income and expense also include fees based on the issuance of guarantees and letters of credit by the Bank, domestic and international payments and transactions in foreign currencies, intermediary and other services of the Bank. Other income and expenses from fees and commissions are recorded at the time of provision of services.

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into Euros at the official middle exchange rates, at the date of each transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euros by applying the official middle exchange rates, prevailing at that date. Net foreign exchange gains or losses arising from foreign currency transactions and from the translation of foreign currency balance sheet items are credited or charged to the income statement as foreign exchange gains or losses. Commitments and contingent liabilities denominated in foreign currencies are translated into EUR at the middle exchange rate valid at that date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases

IFRS 16 "Leases" sets forth new principles for recognizing, measuring, presenting and disclosing leases. The published standard, IFRS 16 “Leases”, is effective for annual periods beginning on or after 1 January 2020. It repeals the previous standard IAS 17 - Leases.

In accordance with the standard, lessees are required to recognize fixed assets with the right of use longer than 12 months as fixed assets, while recognizing the obligation under these leases. The exceptions are short-term leases and low-value leases.

As disclosed in Note 2.1, the application of IFRS 16 Leases has been postponed to 1 January 2020, in accordance with the letter of the Central Bank of Montenegro dated 11 January 2019. By a letter dated February 6, 2020, the Central Bank of Montenegro informed the banks about the possibility of applying the so-called modified retrospective method, which includes uncorrected comparative data and recognition of the cumulative effect as a correction of the initial capital balance at the beginning of the current period (date of initial application). The application of this method enables banks to form the initial balance, which includes changes that were recorded in 2019 at the request of the parent bank. Modified retrospective method has been applied by the Bank beginning from January 1, 2020.

(a) *The Bank as a lessee*

At conclusion of a contract, the Bank shall assess whether the lease contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement of the lease term, the Bank recognizes a right-of-use asset and a lease liability. Exemptions are:

- Short term leases, and
- Leases, where the underlying asset is of low value (individual asset with a value of $5,000 or less when new).

The Bank recognizes lease expense on a straight-line basis over the term of the lease or on another systematic basis if that basis is more representative.

At the commencement date, the right-of-use asset is measured at cost.

The cost of the right-of-use asset comprises:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred by the lessee; and
- An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date.

The discount rate applied to calculate the present value – unless the contract has other provisions – is the incremental borrowing rate determined which is based on government securities zero coupon yield curves increased by the spread reflecting the risk of the Bank. OTP Bank defined methodology for calculation of discount rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

At the commencement date, the lease payments included in the measurement of the lease liability comprise:

- Fixed payments less any lease incentives receivable;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Bank always separates the non-lease components of the lease contracts (e.g. insurance fee, utility bills) and books them as an expense.

Lease payments must be included in the measurement of the lease liability without pertaining taxes.

In case of contracts with definite term:

- If the lessee does not have any extension or termination option according to the contract, the lease term is the contractual term;
- If the lessee has termination or extension option, and it is reasonably certain that the lessee will exercise that option, the lease term is the contractual term, extended or shortened with the period based on the option.

Contracts on indefinite term usually contain termination options. If the lessee and the lessor have also right to terminate the contract at any time during the lease term with no more than an insignificant penalty, the lease term that can be considered enforceable is the notice period, so the lease term is equal to the notice period of the contract termination.

The lease liability is calculated in the contractual currency. When determining the contractual currency, substance is over form.

(b) The Bank as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Bank. Rental income from operating leases is recognized over the term of the relevant lease.

(c) First application of IFRS 16 “Leases”

The purpose of the new standard IFRS 16 - Leases is to facilitate the comparability of financial statements, presenting both finance and operating leases in the balance sheet and to provide appropriate information to users of financial statements about the risks associated with contracts. The new standard abolishes the distinction between business and finance leases in the lessee's books, and requires the recognition of the right to use assets and the lease obligations in relation to all lease contracts.

The basic element that differentiates the definition of leases from IAS 17 and IFRS 16 is the requirement to control the used, specific assets, which are directly or indirectly specified in the contract.

Expenses related to the use of leased assets, most of which were previously recognized in external service expenses, will now be classified as depreciation and interest expenses. Use rights are amortized on a straight-line basis, while lease obligations are settled using the effective discount rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

In the Statement of Cash Flows, cash flows from the principal of the lease liability, payments for short-term leases, leases of low value assets and variable lease payments that are not included in the measurement of the lease liability are classified as cash flows from operating activities. Payment of interest in respect of a lease liability is classified as an outflow from interest and similar expenses.

For lessors, the recognition and measurement requirements in IFRS 16 are similar to those in IAS 17. Leases are classified as finance and operating leases in accordance with IFRS 16. Compared to IAS 17, IFRS 16 requires lessors to disclose more information than before, however the main characteristics of accounting treatment are unchanged.

The Bank used the following practical means:

- Applies a single discount rate to lease portfolio with moderately similar characteristics.
- Applies the simplified method to contracts maturing within 12 months from the date of first application.
- Excludes initial direct costs from measuring the asset with the right of use on the date of first application.
- Uses subsequent insight into determining the lease term if the contract contains options to extend or terminate the lease.

(d) IFRS 16 Project

During 2018, at the request of OTP Group, the Bank launched the IFRS 16 Implementation Project. For the needs of OTP Group, the Bank started applying the standard on January 1, 2019. As stated earlier, local implementation in accordance with the CBoM regulation has started on January 1, 2020.

The project was implemented in three phases:

Phase I - Contract analysis, data collection

During the analysis of all signed contracts, the classification of contracts was performed, whether it is a lease of services or goods. The analysis covered all relevant contracts regardless of their current classification. In addition, in order to calculate the value of the right-of-use-assets and liabilities under the lease, all relevant information was collected.

In the balance sheet, the Bank presents the following types of assets with the right of use:

- Office building
- Branch

Average lease term:

- Business building 5.67 years
- Branch 5.20 years

Phase II - Contract evaluation, calculations

In accordance with the application of IFRS 16, an analysis was prepared, which included:

- Impact on the balance sheet on the date of first application
- The impact of leases that are recognized and measures in accordance with IFRS 16 on the balance sheet and income statement.

By applying the tool for calculating the lease, the value of the right-of-use-assets and the liability based on lease was determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

Stage III - Implementation of IFRS 16 based on the developed concept, Developing accounting policy and disclosures

In case of leases previously classified as operating lease (applying IAS 17), the Bank recognizes:

- The Lease liability,
  - as the present value of the remaining lease payments,
  - discounted using incremental borrowing rate at the date of applications

- The right-of–use-assets,
  - at an amount equal to the lease liability,
  - adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before application, excluding initial cost from the measurement.

In accordance with developed concept, the Bank will use the application which OTP Group developed for these purposes.

Recognition of lease liabilities

The Bank has recognized lease liabilities relating to leases previously classified as “operating leases” in accordance with IAS 17 Leases. The amount of the liability is equal to the present value of the remaining leases at the date of application of IFRS 16. Payment under the lease is discounted using the interest rate implied in the lease or, if that rate cannot be easily determined, the incremental borrowing rate. The average interest rate applied by the Bank is 3.12%, depending on the maturity of the lease contract.

At the date of initial recognition, lease payments contained in lease liabilities include the following types of payments for the right to use a fixed asset for the duration of the lease:

- fixed lease costs less any incentives (discounts),
- variable lease payments that depend on market indices,
- amounts expected to be paid by the lessee under residual value guarantees,
- the exercise price of the purchase option, if it is certain that this option will be exercised, and
- payment of a contractual penalty for termination of the lease contract, if the lease period shows that the lessee has used the possibility of terminating the lease.

The Bank uses assets related to short-term leases (less than 12 months), as well as in the case of leases in connection with which the fixed asset has a small value (less than USD 5,000). These types of payments will be recognized by the Bank as an expense, on a straight-line basis over the term of the lease.

Recognition of assets with the right of use

Assets with the right of use are initially measured at cost.

The cost of the assets with right of use includes:

- initial assessment of lease liabilities,
- all lease payments made on or before the commencement date, less any amount of incentive/discount,
- initial costs incurred by the lessee immediately after the conclusion of the lease contract,
- estimates of the costs to be borne by the lessee as a result of the obligation to dismantle and remove the fixed asset or renovation/restoration.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

Application of estimates

The application of IFRS 16 requires certain estimates and calculations to be made that affect the measurement of finance lease liabilities and assets with the right of use. This among others includes:

• designation of contracts that are subject to IFRS 16,
• determining the duration of such contracts (including contracts of indefinite duration or renewable),
• determining the interest rates to be applied for the purpose of discounting future cash flows,
• determining depreciation rates.

Formation of opening balance - application of IFRS 16 - Leases on January 1, 2020

As the Bank has already implemented the standard for the purpose of OTP Group reporting and based on the letter from the Central Bank of Montenegro No. 03-937-1/2020 dated 06/02/2020, the Bank recognized the following changes in the balance sheets on January 1, 2020.

	January 1, 2020
Assets with the right of use	3.202
Liabilities based on lease	3.265
Cumulative effect recognized as an adjustment to equity at the date of first application	(63)

In accordance with the above letter, the Bank had the option of applying a modified retrospective method, according to IFRS 16. C5 (b), which involves unadjusted comparative data and recognition of the cumulative effect as an adjustment to the opening balance equity at the beginning of the current period (date of initial application).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Taxes and Contributions

Profit Tax

Current Profit Tax

Profit tax is calculated and paid in accordance with the Law on Corporate Profit Tax ("Official Gazette of Montenegro" No. 65/01, 12/02, 80/04, 40/08, 86/09, 40/11, 14/12, 61/13 and 55/16). The profit tax rate is proportional and amounts to 9% of the tax base. Taxable profit is determined on the basis of the Bank's profit shown in the separate income statement with the adjustment of income and expenses in accordance with the provisions of the Law on Corporate Profit Tax.

The Law on Corporate Profit Tax stipulates that a loss based on the tax balance in the current year cannot be carried back. Losses on the tax balance of the current year can reduce the taxable profit of the future period, except for those arising from capital gains and losses, not longer than 5 years.

Deferred Profit Tax

Deferred profit tax is determined using the balance sheet liability method, for the temporary differences arising between the tax bases of assets and liabilities, and their carrying values. The applicable tax rates at the balance sheet date are used to determine the accrued amount of profit tax. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and tax losses and credits, which can be carried in the next fiscal periods, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Taxes, contributions and other duties not related to operating results

Taxes and contributions which not depend on the Bank’s operating result include property tax, value added tax, contributions on salaries borne by the employer, and other taxes, duties and contributions paid pursuant to various state and municipal tax regulations.

3.5. Cash and Cash Equivalents

In the separate statement of cash flows, cash and cash equivalents include banknotes and coins in cash and ATMs, funds in accounts with the Central Bank of Montenegro, funds in accounts with commercial banks and other highly liquid financial assets with a maturity of up to three months.

3.6. Financial Instruments

The Bank recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the financial instrument.

The Bank classifies its financial assets in the following categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss based on: business model for financial assets management and the characteristics of the contractual cash flows of the financial asset. Management determines the classification of financial assets at initial recognition in accordance with the adopted business model and the result of SPPI tool prepared in accordance with SPPI procedure.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

(a) Business model

The business models reflect how groups of financial assets are managed together to achieve particular business objectives. The business models are not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. The Bank's business model refers to how the Bank manages its financial assets in order to generate cash flows. The Bank's cash flows will result from collecting contractual cash flows, selling financial assets or both. If cash flows are generated in a way that is different from the expectations at the date on which the Bank assessed its business model, that does not give rise to a prior error in the Bank's separate financial statements nor does it change the classification of the remaining financial assets held in that business model.

The business model is determined by the Bank's key management.

(i) Business model: collecting contractual cash flows

In determining whether cash flows are going to be generated by collecting the financial assets' contractual cash flows, the Bank considers the frequency, value and timing of sales during past periods, the reasons for those sales and expectations about future sales activity. The Bank considers information about past sales within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions. Although the objective of this business model may be to hold financial assets in order to collect contractual cash flows, the Bank need not hold all of these instruments until maturity. The business model may be to hold assets to collect contractual cash flows even if the Bank sells financial assets when there is an increase in the assets' credit risk.

Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a business model whose objective is to hold financial assets to collect contractual cash flows. Credit risk management activities that are aimed at minimizing potential credit losses due to credit deterioration are integral to such a business model.

(ii) Business model: collecting contractual cash flows and selling financial assets

The Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the Bank's key management brings a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales.

(iii) Other business models

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets. For such portfolios, the collection of contractual cash flows is only incidental to achieving the business model's objective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

(b) Contractual cash flow characteristics of financial assets

Classification of a financial asset is based on the characteristics of its contractual cash flows if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Bank should determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

For the purpose of applying these paragraphs:

- principal is the fair value of the financial asset at initial recognition
- interest consists of consideration for the time value of money for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic risks and lending costs, as well as a profit margin.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank assess whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

Time value of money is the element of interest that provides consideration only for the passage of time. However, in some cases, the time value of money element may be modified. In such cases, the Bank assesses the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. When assessing a modified time value of money element, the objective is to determine how different the undiscounted contractual cash flows could be from undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). The benchmark instrument can be an actual or a hypothetical financial asset.

If undiscounted contractual cash flows differ significantly - over 2% - from undiscounted benchmark cash flows, the financial asset should be subsequently measured at fair value through the balance sheet. The Bank will consider the possible effect of the characteristics of the contractual cash flow in each reporting period and cumulatively over the entire life of the financial asset.

(c) Measurement of financial instruments

The Bank at initial recognition measures a financial asset or financial liability at transaction price which represents the market (fair) value plus or minus (in the case of a financial asset or financial liability not measured at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Bank uses settlement date, i.e., date on which the asset was delivered to the relevant party, including financial instruments in case of recognition and derecognition.

For the purpose of measuring a financial asset after initial recognition, the Bank classifies financial assets into these categories:

- Financial assets at fair value through profit or loss
- Financial assets at fair value in other comprehensive income
- Securities at amortized cost using the effective interest method
- Loans and receivables at amortized cost using the effective interest method

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

After initial recognition, the Bank measures financial assets at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- loans and receivables, which shall be measured at amortized cost using the effective interest method;
- securities, which shall be measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, which shall be measured at cost.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment.

The Bank subsequently measures all financial liabilities at amortized cost, except financial liabilities at fair value through profit or loss.

The Bank can irrevocably designate that at initial recognition a financial liability is measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The Bank classifies financial liabilities according to the category of measurement at amortized cost.

(a) *Financial asset or financial liability at fair value through profit or loss*

(i) Financial assets at fair value through profit or loss, which are held for trading

The Bank requires that only those instruments and group of instruments can be classified into this category, at which trading generally reflects active and frequent buying and selling, and which are generally used with the objective of generating a profit from short-term fluctuations in price or dealer's margin.

Financial instruments are also classified in this category, if those are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

In the interpretation of Bank, a period of up to 12 months should be considered as short-term in this regard. This term is, however, only an indication that the intention of the conclusion of the transaction was the short-term generation of a profit. The actual length of time held can depend on the development of the situation in the market and exceed the defined term.

(ii) Financial assets at fair value through profit or loss, which are not held for trading

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. The Bank shall measure investments in equity instruments at fair value through profit or loss. However, the Bank can make an irrevocable decision at initial recognition to present subsequent changes in fair value of investments in equity instruments in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

(iii) Designated as at fair value through profit or loss upon initial recognition ('Fair Value Option')

The Bank may use this option only in following cases:

- the classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases ('accounting mismatch').
- the group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group on that basis is provided internally to the entity's key management personnel.

The use of the Fair Value Option is limited only to special situations, and it can be based only on direct decision of management of the Bank.

(b) *Financial assets at fair value through other comprehensive income*

The financial assets shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset define specific dates for cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Bank may make an irrevocable decision to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading.

(c) *Financial instruments at amortized cost*

The financial assets shall be measured at amortized cost if both of the following conditions are met:

- the business model's objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset contain specific dates for cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank subsequently measures all financial liabilities at amortized cost, except financial liabilities at fair value through profit or loss.

(d) *Impairment of financial instruments*

The Bank requires that for all financial assets, with the exception of those measured at fair value through profit or loss, the assessment for impairment is performed in accordance with IFRS 9.

Pursuant to IFRS 9, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the financial assets must be allocated to one of the following three stages:

- Stage 1 – performing,
- Stage 2 – performing, but compared to the initial recognition it shows significant increase in credit risk,
- Stage 3 – non-performing.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

At each reporting date, an entity shall assess whether the credit risk on a financial asset has increased significantly since initial recognition. When making the assessment an entity shall use the change in the risk of a default occurring over the expected life of the financial asset instead of the change in the amount of expected credit losses. To make that assessment, an entity shall compare the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition.

The impairment of the receivables equals the difference of the receivable's gross book value on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change).

For the portfolio of loans of legal entities that are in stage 3, the Bank individually estimates the impairment. If the loan is secured by collateral, the assessment is made on the basis of cash flows from collateral, taking into account the forced sale value and the liquidation value of the collateral. Estimated impairment may be zero when the expected collection is higher than the exposure amount, i.e., in cases when the value of the collateral based on the presented scenarios is higher than the customer’s exposure.

(e) *Derecognition*

(i) Financial assets

A financial asset (or part of a financial asset or group of financial assets) is derecognized if:

- The contractual rights to receive cash flows from the asset expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed to pay cash received from the asset in full amount, without materially significant delay of payment to a third party based on transfer agreement; and
- The Bank carried out the transfer of all risks and rewards of the asset, or has not transferred nor retained substantially all risks and rewards of the asset, but has transferred control over it.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into transfer arrangement, and has neither transferred nor retained all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank’s involvement in the asset. Further involvement of the Bank that takes the form of a guarantee over the transferred asset is measured at the original carrying amount of the asset or the maximum amount of consideration the Bank would be required to pay, whichever is lower.

(ii) Financial liabilities

A financial liability is derecognized when the contractual obligation is fulfilled, cancelled or expired. In case that the existing financial liability is replaced by another liability towards the same creditor, but under significantly changed conditions or the conditions of existing liability are substantially modified, such replacement or change of conditions is treated as a derecognition of the original liability and the recognition of new liability, and the difference between the original and new value of the liability is recognized in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Implementation of the Decision on Minimum Standards for Credit Risk Management in Banks

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" No. 22/12, 55/12, 57/13, 44/17, 82/17, 86/18, 42/19) as of January 1, 2013, the Bank applies its own methodology for estimating the impairment of balance sheet assets and probable loss on off-balance sheet items, which is in line with the requirements of International Accounting Standards.

In addition to valuing asset items and off-balance sheet items in accordance with International Accounting Standards, the Bank is required to classify asset items into one of the following classification categories, depending on the probability of incurring a loss:

1. category A - "pass"; Classification category "A" includes loans and other receivables for which there is firmly documented evidence that they will be collected in accordance with the contracted conditions in full amount.
2. category B - "special mention", with subgroups "B1" and "B2"; Classification category "B", subgroups "B1" and "B2", includes a loan for which there is a low probability of incurring loss, but this loan must be subject to special attention of the Bank, because the potential risk, if not adequately monitored, could lead to weaker prospects in terms of its collection.
3. category C - "substandard", with subgroups "C1" and "C2"; Classification category "C" includes a loan for which there is a high probability of loss, due to clearly identified weaknesses that jeopardize its repayment.
4. category D - "doubtful"; Classification category "D" includes a loan for which collection in full amount is unlikely, having in mind the creditworthiness of the debtor, the value and the possibility of collateral enforcement.
5. category E - "loss"; Classification category E - "loss" incudes a loan that will be completely uncollectible, or will be collected in a negligible amount.

The amount of provisions for potential losses for the Bank's advances classified in category A is calculated by applying a percentage of 0.5%. The estimated amount of the provisions for potential losses is calculated by applying estimates of 2% to 7% to advances classified in category B, from 20% to 40% to advances in category C, 70% to advances in category D and 100% to advances in category E.

The Decision on Amendments to the Decision on Minimum Standards for Credit Risk Management in Banks of ("Official Gazette of Montenegro" No. 57/13) defines, if the conditions for exclusion of receivables from the Bank's balance sheet are met, the Bank is obliged to write off that receivable and to keep it, in due amount, in the internal records until the end of the collection procedure. Exclusion of receivables from the Bank's balance sheet occurs if the Bank in the process of collection of receivables assesses that the value of receivables measured at amortized cost will not be reimbursed and that the conditions for derecognition of financial asset are met, which includes the following cases:

- for an unsecured receivable when bankruptcy proceedings have been opened against the debtor for more than one year, or if the debtor is late with payment for more than two years;
- for secured receivable, when the debtor is late with payment for more than four years, i.e., if the Bank has not received any payment from the collateral enforcement in that period.

The Decision on Amendments to the Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" No. 82/17) abolishes the obligation for banks to exclude receivables from the balance sheet.

The Bank is obliged to develop a comprehensive strategy for dealing with non-performing loans for a period of three years and sets annual targets related to reducing the level of non-performing loans (operational objectives).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Investments in Affiliates, Subsidiaries and Joint Ventures Using Equity Method

The Bank initially recognizes an investment in the balance sheet after gaining control over the investment beneficiary. The date of acquisition of control is the date of registration of the investment in the Central Registry of Business Entities unless there is a written agreement with a defined date. The initially recognized value consists of the purchase value and any other costs that are directly attributable to the acquisition less any impairment.

At each reporting date, the Bank assesses whether there is any indication that the value of these assets may be impaired. If such an indication exists, the Bank performs a return assessment. The value of an asset is considered impaired when its carrying amount exceeds the return on assets. The Bank records an impairment loss as an expense in the income statement.

The Bank recognizes income from investments only if the subsidiaries have distributed the results, i.e., if the subsidiaries have made a decision on the distribution of profits. These revenues are recorded in the income statement.

Subsidiaries are those legal entities in which the reporting legal entity has an ownership stake above 50% or more than half of the voting rights or the right to manage the financial or business policy of the subsidiary.

3.9. Property, Plant and Equipment

As at 11 December 2020, property, plant and equipment are stated at cost less impairment losses. The cost is the value per supplier's invoice, increased by the dependent costs based on the purchase and the costs of bringing the assets into a state of functional readiness.

The estimated useful life of property and equipment is as follows:

	2020	2019
Buildings	40	40
Computers and computer equipment	4 - 5	4 - 5
Furniture and office equipment	4 - 10	4 - 10
Motor vehicles	8	8
ATM machines	7	7
Other equipment	8	8

Investments in assets based on current maintenance are recognized as an expense in the period in which they are incurred.

3.10. Intangible Assets

Acquired licenses are stated at cost. Licenses have a limited life and are stated at cost less accumulated impairment losses. Depreciation is calculated in accordance with the period of use determined by the contract if the agreed period of use is shorter than eight years, if the agreed period of use is longer than eight years, depreciation is calculated using the proportional method, at a rate of 12.50% (2019 – 12.50%), in order to allocate the costs of licenses during their estimated useful life. The costs of computer software are capitalized in the amount of costs incurred in acquiring and putting them into use. Thesecosts are amortized over their estimated useful lives. Depreciation is calculated using the proportional method, at a rate of 12.50% (2019 - 12.50%) in order to allocate the costs of the software over their estimated useful lives.

The value of client base provides information of how much value the Bank can achieve from "old" customers in the coming years. The value of the client base was determined on July 31, 2019 in the business combination of the acquisition of Podgorička banka by the Bank. The client base value will be depreciated by 2023.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Impairment of Tangible and Intangible Assets

At each statement of financial position date, the Bank's management reviews the carrying amounts of the Bank's tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognized as an expense of the current period and is recorded under other operating expenses. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset in prior years.

3.12. Acquired Assets

Acquired assets are assets that became the property of the Bank based on collection of receivables that were secured by that property. The Bank records the received assets at the lower than net carrying amount of receivables or market value of the collateral less costs of sale.

Initially, the acquired assets are measured at the value determined in the process of acquisition. Subsequently, the acquired assets are valued at a lower than the carrying amount and estimated value, determined by an independent appraiser.

In accordance with the Decision on Minimum Standards for Investments of Banks in Immovable Property and Fixed Assets ("Official Gazette of Montenegro", No. 24/09, 66/10, 58/11, 61/12, 13/13, 51/13, 16/15 and 82/17) the total investments of the bank in immovable property and fixed assets may not exceed 50% of the bank's own funds. Exceptionally, a bank may have investments in immovable property and fixed assets above the level of 50% of its own funds, if the following conditions are met:

1) the amount of investment in immovable property and fixed assets exceeding 50% of the bank's own funds is treated as a deductible item when calculating the total amount of the bank's own funds;

2) after the reduction of the bank's own funds, performed in accordance with item 1), the level of own funds and the bank's solvency ratio exceed the legally prescribed minimum.

For immovable property acquired in exchange for receivables in the debt restructuring procedure, in the bankruptcy procedure or the liquidation procedure over the bank's debtor, in the debtor's reorganization procedure in accordance with the regulations governing bankruptcy, or in the enforcement procedure to settle claims, when calculating the total amount of investment in immovable property and fixed assets, the bank is obliged to include in the calculation the value of that immovable property at least in the following percentages:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Acquired Assets

1) 0% if no more than four years have passed since the date of acquisition of the immovable property;
2) 30% if more than four, but not more than five years have passed since the date of acquisition of the immovable property;
3) 50% if five, but not more than six years have passed since the date of acquisition of the real estate;
4) 75% if more than six years have passed since the date of acquisition of the immovable property.

3.13. Capital and Provisions

The Bank's capital is the remainder of the Bank's assets after deducting all of its liabilities. Capital is not valued or measured separately. The Bank's total capital consists of share capital, provisions, accumulated loss and profit for the current year.

3.14. Provisions

Provisions are liabilities with an uncertain maturity or amount.

They are recognized when:

- the Bank has a valid legal or contractual obligation that results from past events;
- when it is more likely that the settlement of the obligation will require an outflow of funds and
- when the amount of the liability can be estimated reliably.

Provisions are measured at the present value of the estimated expenditure required to settle the present obligations. Provisions are re-examined at each statement of financial position date and adjusted so as to reflect the best present estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and credited to the income statement.

The Bank does not recognize provisions against contingent liabilities until it has determined the existence of a present obligation which can result in an outflow of resources embodying economic benefits required to settle the obligation, or if a reliable estimate cannot be made of the amount of the obligation, in which case it is disclosed.

3.15. Employee Benefits

In accordance with the regulations prevailing in Montenegro, the Bank has an obligation to pay contributions to state funds for the employee social security. These obligations include the payment of contributions on behalf of the employee and the employer in an amount calculated by applying the legally prescribed rates. The Bank is also legally obliged to withhold the calculated contributions from gross salaries of the employees, and on behalf of the employees, to transfer the withheld portions directly to appropriate state funds.

These contributions payable on behalf of the employee and employer are booked to expenses in the period in which they arise.

In accordance with the Collective Agreement, the Bank has an obligation to disburse a retirement benefit to a retiree, in an amount equal to six average net salaries effective in the Bank in the month of disbursement. The Bank's separate financial statements as of December 31, 2020, include provisions calculated by independent authorized actuary. The mentioned liabilities are valued at the present value of future cash outflows, taking into account the future increase in salaries, which is distributed over the past and future length of service in accordance with the compensation plan. All actuarial gains and losses arising from changes in assumptions and experiential adjustments are recognized immediately in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Financial Guarantees

A financial guarantee agreement is an agreement by which the Bank, as the issuer of a guarantee, obliges to make payments up to the amount indicated on the guarantee at the request of the guarantee beneficiary, in case the ordering party of the guarantee does not make the payment or does not fulfill the contractual obligations.

Financial guarantees are initially recognized in the financial statements at fair value with the received fee. Subsequent measurement of guarantees is performed at a higher than the amortized cost of the fee and the best estimate of the amounts required to settle the obligation that may arise as a result of the issued guarantee.

3.17. Management Assets (Custody services)

The Bank provides services with securities to legal entities and private individuals, holding and managing assets or investing funds received in various financial instruments on the customers's order. The Bank recognizes fee income for the provision of these services. Managed assets are not assets of the Bank and are not recognized in the financial statements, while cash received is recognized within the Bank's liabilities. The Bank is not exposed to credit risk related to such placements, as it does not guarantee these investments.

3.18. Transactions with Related Parties

The related parties are:

- members of the bank's bodies, shareholders, employees of the bank, as well as members of their immediate family (spouse and children),
- a legal entity in which a person who has a qualified share in a bank also has a qualified share,
- a legal entity in which one of the persons from indents 1 and 2 of this item has a significant influence or the person referred to in indent 1 of this item is a director or a member of the Board of Directors or another appropriate body of that legal entity,
- a person who has a share in the capital or voting rights of at least 50% in a legal entity that has a qualified share in the bank.

When observing any transaction with related party, the attention should be paid to the essence of the relationship, not merely on the legal form.

3.19. Fair Value

Accounting regulations in force in Montenegro define fair value as the value that would be charged for the sale of an asset or paid to settle a liability in a regular transaction between market participants on the measurement date in the given market circumstances.

The Bank's obligation is to disclose all information regarding the fair value of assets, receivables and liabilities for which available market information exists and for which a material difference between the carrying amount and fair value is identified.

In Montenegro, there is insufficient market experience, stability and liquidity in the purchase and sale of financial assets and liabilities, as well as other financial instruments, and official market information is not available at all times. Therefore, fair value cannot be reliably determined in the absence of an active market, as required by the accounting regulations in force in Montenegro. In the opinion of management, the amounts disclosed in the separate financial statements reflect the fair value that is most reliable and useful for reporting purposes in the circumstances. For the amount of identified assessed risks that the book value will not be realized, the value adjustment is made based on the decision of the Bank's management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20. Earnings per share

Basic earnings per share are calculated by dividing the annual net profit attributable to ordinary shares owners with a weighted average number of ordinary shares that were outstanding during the period. Diluted earnings per share are calculated using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if convertible debt securities, options, warrants or other contracts on ordinary shares issue were converted or exercised into ordinary shares.

4. FINANCIAL INSTRUMENTS

4.1. Risk Management

In its Strategy for Risk Assumption, the Bank has identified the following list of materially significant type of risks it is exposed to:

- Credit risk – represents the risk of loss due to a customer’s failure to meet their obligations towards the Bank.
- Operational risk – defined as the risk of loss resulting from inadequate internal processes, human factor and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk.
- Market risk – represents the probability of incurring losses on bank balance and off-balance sheet items due to changes in interest rates, foreign exchange rates, securities prices, market indices or other factors impacting the value of financial instruments, as well as the risks related with the marketability of financial instruments.
- Country risk - represents the probability of incurring losses by the Bank due to inability of collecting receivables from debtors outside of Montenegro for reasons pertaining to political, social and economic environment of the country in which debtor has its head office or residence (hereinafter: debtor's country).
- Liquidity risk – defined as the risk that the bank will not be able to provide a sufficient amount of cash to meet its obligations as they become due, or risk that the bank may obtain cash with significant expenses to meet its due obligations.
- Reputational risk - represents the potential loss in reputational capital of the bank based on either real or perceived losses in its reputational capital.

The Bank has organized the risk management process as an integral part of its governance structure which is embedded in all key processes from the product development to collection of non-performing receivables.

The Bank’s risk management has the following set of strategic goals:

- Balance risk and return
- Keep potential losses within the risk-bearing capacity and the risk appetite
- Measure, assess and ensure adequate coverage of all relevant risks
- Provide support to business lines in achieving their strategic goals

In order to fulfil the stated goals, the risk management function is using the following set of tools:

- Identification of main risks inherent in its value creating processes
- Assessment of the level of risk based on historical data and estimation of future trends
- Risk control
- Risk mitigation techniques such as setting up exposure limits, collateral requirements, hedging, establishing control environment, etc.

4. FINANCIAL INSTRUMENTS (Continued)

4.1. Risk Management (Continued)

Credit risk represents a risk of loss due to a customer's failure to meet their obligations towards the Bank.

The basic goal of credit risk management is to help the lines of business to achieve their growth targets without generating excessive losses in the process. In order to achieve this basic goal, the Bank is seeking to develop and maintain a well-diversified portfolio able to sustain shocks in any particular industry, geographic region or a customer group it is exposed to.

The following represent the main principles for the sound credit risk management:

- Primary source of repayment of loans should be a cash flow from a customer's main activity/income
- All of the Bank's products and services should be developed on sound credit risk management principles in order to ensure implementation of the Bank's credit policy

Credit risk management is implemented through credit policy and various operating procedures governing the process of risk identification, system of limits, decision-making and control.

The Bank is placing a special emphasis on development of analysis and modelling tools for credit risk management such as approval scorecards. The results of risk assessment are incorporated into product conditions in order to maintain the desired risk profile of the loan portfolio.

To ensure that the risk profile stays within the defined risk appetite, the Bank is using the following credit risk control tools:

- credit approval and credit control procedures
- monitoring of compliance with the risk appetite
- monitoring introduction and implementation of policies and products
- portfolio management
- reporting
- control of the practical implementation of competences using sampling techniques

4.2. Credit Risk

In its operations, the Bank strives to do business with customers of good creditworthiness, in order to reduce as much as possible the exposure to credit risk, which is the risk that debtors will not be able to settle debts to the Bank in full and on time. The Bank allocates provisions for impairment losses, which relate to losses incurred on the balance sheet date. When making a decision on lending, account is taken of changes in the economy, i.e., the state of certain industries that form part of the Bank's loan portfolio, which may lead to losses that differ from the losses on which the provisions were allocated on the balance sheet date.

The Central Bank of Montenegro adopted Decision on Minimum Standards for Credit Risk Management in Banks ("Official Gazette of Montenegro" No. 22/12, 55/12, 57/13, 44/17 and 82/17, 86/18 and 42/19), which is applied from 1 January 2013, and which implies the application of International Financial Reporting Standards in the valuation and presentation of balance sheet asset and off-balance sheet items. Pursuant to the aforementioned Decision, the Bank established a methodology for estimating the impairment of balance sheet assets and probable loss on off-balance sheet items. The Bank consistently applies the methodology, reviews it at least once a year and, if necessary, adjusts it to the results of the review, as well as adjusts the assumptions on which the methodology is based.

Credit risk mitigation means maintaining risk at an acceptable level of the Bank, i.e., maintaining an acceptable loan portfolio. Credit risk mitigation is implemented through contracting adequate collateral.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.1. Credit Risk Management

Exposure to credit risk manifests itself as the risk of financial loss arising as a result of the inability of the debtor to meet all contractual obligations to the Bank. The Bank manages the assumed credit risk by setting limits in relation to large loans, individual borrowers and related parties. The mentioned risks are continuously monitored and are subject to control, which is performed once a year or more often. All loans above the prescribed limit are approved by the Credit Risk Management Committee.

In accordance with the limits prescribed by the Central Bank of Montenegro, the branch concentration of loans is subject to continuous monitoring.

The risk exposure by individual borrowers, including other banks and financial institutions, is further limited by setting a sub-limit on on-balance sheet and off-balance sheet exposures. The actual exposure in relation to the established limits is regularly monitored.

Credit risk exposure is managed by regularly analyzing the ability of borrowers and potential borrowers to repay liabilities. The Bank approves the rescheduling of receivables for customer s with certain business problems, in order to make the most of the available possibilities for settling receivables, while at the same time maintaining the ability of the borrower to properly service debts.

Commitments and contingent liabilities based on loans

The primary purpose of these instruments is to ensure that funds are available to the customer in accordance with the requirements. Guarantees and activated letters of credit represent irrevocable guarantees of the Bank that it will make payment in the event that the customer is unable to meet its obligations to third parties, and therefore carry the same credit risk as loans. Documentary and commercial letters of credit - which are a written statement of the Bank's obligation undertaken on behalf of the customer, authorizing a third party to draw bills of exchange with the Bank up to the amount agreed in special terms - are secured by the basic delivery of the goods to which they relate, therefore, they carry lower risk than direct borrowing.

4.2.2. Provisions for Impairment Losses in Accordance with Accounting Regulations Applicable in Montenegro

In accordance with the requirements of accounting regulations in force in Montenegro, the Bank allocates financial assets that are measured at amortized cost and at fair value through other comprehensive income in three stages (hereinafter “Stage”):

- Stage 1 – performing assets without significant increase in credit risk since initial recognition
- Stage 2 – performing assets with significant increase in credit risk since initial recognition but not credit-impaired
- Stage 3 – non-performing, credit-impaired assets

Performing (stage 1) assets include all financial assets in which the events and conditions listed in stage 2 and stage 3 do not exist at the reporting date.

The customer or loan must qualify as a delay if one or both of the following two conditions occur:

- if the customer is more than 90 days past due. That is an objective criterion.
- there is a possibility that the customer does not pay all their obligations. This condition is tested based on the delay probability criterion.

The subject of the delay qualification is the exposure (on-balance sheet and off-balance sheet) that causes credit risk (so that it arises from credit obligations, risk-taking agreements).

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.2. Provisions for Impairment Losses in Accordance with Accounting Regulations Applicable in Montenegro (Continued)

When financial assets show a significant increase in credit risk, they are allocated to stage 2 if any of the following triggers exist at the reporting date, without meeting any of the conditions for classification as non-performing assets (stage 3):

- payment delay exceeds 30 days,
- classified as quality restructured assets (performing forborne),
- based on an individual decision, the currency of the contract has suffered a significant "shock" from the moment of loan disbursement and there is no hedging position in this regard,
- monitoring the classification of corporate and municipal customers above the various thresholds defined at the Group level.

A financial asset is of poor quality, i.e., an asset is allocated to stage 3 when any of the following events or conditions exist at the reporting date:

- in arrears (*default status* - based on the definition of arrears at the Bank level),
- classified as non-performing forborne, based on the definition of restructuring at the Bank level,
- classification of monitoring of corporate and municipal customers above various thresholds defined at the Bank level

When calculating the loss provision for phased categorized exposures, the following phased process is required:

- Stage 1 (quality asset): recognition of provisions for losses in the amount equal to the 12-month expected credit loss,
- Stage 2 (significant increase in credit risk): recognition of provisions for losses in the amount equal to the expected credit loss during its duration,
- Stage 3 (non-performing): recognition of provisions for losses in the amount equal to the expected credit loss over the term of the loan.

For expected credit losses over the term of the loan, the entity shall assess the risk of default on the financial asset over its expected life. Twelve-month expected credit losses represent a portion of expected credit losses over the term of the loan and represent cash deficits that will arise if the default occurs within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months), weighted for the probability of that default occurring.

The entity shall estimate the expected credit losses of the financial asset in a manner that reflects:

- an impartial and weighted amount determined by evaluating a range of possible outcomes
- the time value of money, and
- reasonable and useful information that is available without undue expense or effort at the date of reporting past events, current conditions and forecasts of future economic conditions.

(i) Defining the expected credit loss on an individual and collective basis

The following exposures are subject to collective assessment:

- exposures to retail regardless of the amount,
- exposures to micro and small enterprises regardless of the amount,
- all other exposures that are insignificant on an independent basis and are not within the competence of special credit handling,
- non-stage 3 exposures,
- exposures that are in stage 3, but not significant on an independent basis,
- acquired or arisen impaired assets that comply with the above conditions.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.2. Provisions for Impairment Losses in Accordance with Accounting Regulations Applicable in Montenegro (Continued)

On an individual basis, exposures that are not from retail or micro and small enterprises of significant amounts are estimated on an independent basis:

- stage 3 exposure,
- exposure in the competence of special credit handling that do not relate to retail segment,
- acquired or arisen impaired assets that comply with the above conditions

The calculation of impairment must be prepared and approved by the Bank's risk management organizational units. Calculation, all relevant factors (value of receivables, initial and current effective interest rate, contracted and expected cash flows (from business and/or collateral) for individual periods of the entire useful life of the asset, other relevant information applied during the assessment) and their criteria (including the factors on which the classification as stage 3 is based) must be documented individually, i.e., by receivables.

Impairment of receivables is equal to the difference between the receivables account (gross carrying amount) at the valuation date and the present value of expected cash flows of receivables discounted to the valuation date by original effective interest rate (EIR) calculated at initial recognition, or in the case of variable rate, restated interest rate).

The assessment of expected future cash flows should be forward-looking and must also include the effects of a possible change in the macroeconomic outlook. At least two scenarios must be used to estimate the expected cash flow. Probability weights must be assigned to individual scenarios. To calculate the impairment of transaction, the present value calculated as a weighted average of the individual scenarios must be applied. The estimate must reflect the probability of occurrence and non-occurrence of credit loss, even if the most likely result is non-occurrence of loss.

On a collective basis:

In the collective provisioning methodology, credit risk and changes in credit risk can be properly captured by understanding the risk characteristics of the portfolio. To achieve this, major risk drivers are identified and used to form homogeneous segments that have similar risk characteristics. Segmentation is expected to remain stable from month to month, however regular (at least once a year) audits of the segmentation process should be established to cover changes in risk characteristics. Segmentation must be performed separately for each parameter, because different factors may be relevant in each individual case.

OTP Group Provisioning Committee prescribes guidelines related to the collective impairment methodology at the group level. In addition, the Committee has the right to agree with the risk parameters (PD - probability of default, LGD - loss due to delay, EAD - exposure in delay) and segmentation criteria proposed by the Bank.

The parameters must be reviewed at least once a year and the results must be approved by the Group's Provisioning Committee.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.2. Provisions for Impairment Losses in Accordance with Accounting Regulations Applicable in Montenegro (Continued)

Provisioning parameters should be tested, at least once a year.

In case of performing (stage 1) exposure, 12-month probability of default should be calculated (PD - probability of delay). In the case of exposures that show a significant increase in credit risk (stage 2) or non-performing (stage 3) exposures, PD (probability of delay) must be used for the life of the asset. PD (probability of delay) of the life must be calculated by multiplying the transition matrix according to the remaining contractual maturity or the expected duration of the exposure. During multiplication, the same matrix should be used for the entire life expectancy, except when the "number of years elapsed since payment" is a segmentation factor, in which case the matrices relating to different years of remaining duration are different.

The Bank uses two different methods for collectively assessed exposures:

• Retail mortgage loans and non-retail portfolios (small and medium-sized enterprises and large enterprises) that are significantly secured by a mortgage: a modified LGL (loss given loss) methodology based on an asset quality review (AQR). The primary source of data is the collateral itself, but refunds are also considered.
• Consumer loans, car financing and unsecured exposures: LGL methodology based on recovery estimated based on historical data

It is important that the parameters PD (probability of delay) and LGD (loss due to delay) are consistent in terms of recovery and recovery rates.

The calculation of expected losses should be future-oriented, including forecasts of future economic conditions. This can be achieved by applying 3-5 different macroeconomic scenarios, which can be integrated into parameters PD (probability of delay), LGD (loss due to delay) and EAD (exposure after delay).

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items

		In thousands of EUR
	December 31, 2020	**December 31, 2020**
ASSETS		
Loans and advances to banks at amortized cost	62.113	37.934
Loans and advances to customers at amortized cost	920.586	477.300
Securities at amortized cost	27.282	79.566
Other financial assets at amortized cost	1.769	1.300
Securities at fair value through other comprehensive income	2.043	520
Investments in affiliates and joint ventures according to equity method	335	41.810
Other financial assets	4.111	1.848
	1.018.239	**640.278**
Off-balance sheet items		
Payment guarantees	34.375	14.987
Performance guarantees	44.691	17.379
Unused documented letters of credit	789	542
Undrawn credit facilities	89.648	40.091
	169.503	**72.999**
Total credit risk exposure	**1.187.742**	**713.277**

Exposure to credit risk is controlled by obtaining collaterals and guarantees of legal entities and private individuals.

Before approving loans and other advances, the Bank assesses the debtor's creditworthiness, taking into account the criteria established by internal act, as well as the legal validity and estimated value of collateral.
The value of collateral is calculated as its net value, which means the market value less all costs related to the collateral enforcement.

In addition, private individuals are required to receive their monthly income through a transaction account with the Bank in order to reduce credit risk.

The types of collaterals are:

- deposits;
- the right of pledge on industrial machines, securities, stocks and vehicles;
- mortgages on properties and fiduciary transfer of ownership;
- bills of exchange;
- authorizations;
- attachments of salary; and
- guarantors and insurance policies.

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

Loans and advances are presented in the following tables:

		Gross carrying amount					Accumulated impairment				
December 31, 2020.	**Total, net exposure**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total gross**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total Accumulated impairment**
Loans and advances to banks at amortized cost	62.113	62.113	-	-	-	62.113	-	-	-	-	-
- Housing loans	156.855	143.147	13.229	1.583	616	158.575	(362)	(453)	(894)	(11)	(1.720)
Current account overdrafts	3.856	2.541	1.330	136	19	4.026	(8)	(52)	(101)	(9)	(170)
- Consumer loans	216.442	210.312	4.796	4.350	662	220.120	(544)	(383)	(2.557)	(194)	(3.678)
- Credit cards	3.764	3.183	472	297	21	3.973	(12)	(16)	(179)	(2)	(209)
- Special purpose loans	423	392	5	28	12	437	(1)	-	(10)	(3)	(14)
- Other loans to individuals, covered by mortgage	53.830	38.469	14.215	1.900	682	55.266	(89)	(481)	(814)	(52)	(1.436)
- Other loans	1.880	939	498	1.620	-	3.057	(9)	(41)	(1.127)	-	(1.177)
- Car loans	202	180	24	-	-	204	(1)	(1)	-	-	(2)
- Loans to micro and small entities	14.069	11.112	1.982	2.144	725	15.963	(72)	(245)	(1.472)	(105)	(1.894)
Loans to medium and large entities	299.991	223.136	76.778	18.773	1.642	320.329	(5.740)	(8.889)	(5.600)	(109)	(20.338)
- Loans to Government and municipalities	163.765	167.580	-	-	-	167.580	(3.815)	-	-	-	(3.815)
- Treasury LOB	5.509	5.676	-	-	-	5.676	(167)	-	-	-	(167)
Loans and advances to customers at amortized cost	920.586	806.667	113.329	30.831	4.379	955.206	(10.820)	(10.561)	(12.754)	(485)	(34.620)
Securities at amortized cost	27.282	27.865	-	-	-	27.865	(583)	-	-	-	(583)
Other financial assets at amortized cost	1.769	1.770	-	-	-	1.770	(1)	-	-	-	(1)
Securities at fair value through other comprehensive income	2.043	2.043	-	-	-	2.043	-	-	-	-	-
Investments in affiliates and joint ventures according to equity method	335	335	-	-	-	335	-	-	-	-	-
Other financial assets	4.111	3.835	129	9.147	-	13.111	(88)	(19)	(8.893)	-	(9.000)
	1.018.239	**904.628**	**113.458**	**39.978**	**4.379**	**1.062.443**	**(11.492)**	**(10.580)**	**(21.647)**	**(485)**	**(44.204)**
Undrawn credit facilities	88.091	86.519	2.928	155	46	89.648	(1.389)	(80)	(62)	(26)	(1.557)
Payment and performance guarantees and unused documented letters of credit	78.575	78.037	1.100	438	280	79.855	(994)	(110)	(112)	(64)	(1.280)
	166.666	**164.556**	**4.028**	**593**	**326**	**169.503**	**(2.383)**	**(190)**	**(174)**	**(90)**	**(2.837)**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

Loans and advances are presented in the following tables:

In thousands of EUR

December 31, 2019	Gross carrying amount					Accumulated impairment			
	Total, net exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total gross**	**Stage 1**	**Stage 2**	**Stage 3**	**Total Accumulated impairment**
Loans and advances to banks at amortized cost	37.934	37.934	-	-	37.934	-	-	-	-
- Housing loans	66.688	55.380	10.967	1.544	67.891	(130)	(129)	(944)	(1.203)
- Current account overdrafts	2.095	1.249	841	71	2.161	(4)	(4)	(58)	(66)
- Consumer loans	89.507	86.979	2.086	2.073	91.138	(207)	(54)	(1.370)	(1.631)
- Credit cards	2.745	2.176	542	180	2.898	(18)	(12)	(123)	(153)
- Special purpose loans	22	12	-	10	22	-	-	-	-
- Other loans to individuals, covered by mortgage	32.272	22.313	9.851	647	32.811	(47)	(95)	(397)	(539)
- Other loans	2.149	1.159	440	1.606	3.205	(8)	(21)	(1.027)	(1.057)
- Car loans	265	233	33	-	266	(1)			(1)
- Loans to micro and small entities	10.699	8.927	1.492	1.243	11.662	(28)	(27)	(908)-	(963)
Loans to medium and large entities	167.228	154.692	5.441	15.010	175.143	(2.348))	(635)	(4.932)	(7.915)
- Loans to Government and municipalities	100.038	102.383	-	-	102.383	(2.345)	-		(2.345)
- Treasury LOB	3.592	3.656	-	-	3.656	(64)	-	--	(64)
Loans and advances to customers at amortized cost	477.300	439.159	31.693	22.384	493.236	(5.200)	(977)	(9.759)	(15.936)
Securities at amortized cost	79.566	80.001	-	-	80.001	(435)	-	-	(435)
Other financial assets at amortized cost	1.300	1.301	-	-	1.301	(1)	-	-	(1)
Securities at fair value through other comprehensive income	520	520	-	-	520	-	-	-	-
Investments in affiliates and joint ventures according to equity method	41.810	41.810	-	-	41.810	-	-	-	-
Other financial assets	1.848	1.755	64	8.896	10.715	(72)	(7)	(8.788)	(8.867)
	640.278	602.480	31.757	31.280	665.517	(5.708)	(984)	(18.547)	(25.239)
Undrawn credit facilities	39.695	39.361	682	48	40.091	(372)	(5)	(19)	(396)
Payment and performance guarantees and unused documented letters of credit	32.648	32.745	163	-	32.908	(245)	(15)	-	(260)
	72.343	**72.106**	**845**	**48**	**72.999**	**(617)**	**(20)**	**(19)**	**(656)**

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

In thousands of EUR

December 31, 2020	Neither Past due nor Impaired	Past due but not Individually Impaired	Individually Impaired	Total, Gross	Individual Allowance for Impairment	Collective Allowance for Impairment	Total Allowance for Impairment	Total, net exposure
Housing loans	123.293	35.282	-	158.575	-	(1.720)	(1.720)	156.855
Current account overdrafts	11	4.015	-	4.026	-	(170)	(170)	3.856
Consumer loans	166.612	53.508	-	220.120	-	(3.678)	(3.678)	216.442
Credit cards	2.379	1.552	42	3.973	(29)	(180)	(209)	3.764
Special purpose loans	255	182	-	437	-	(14)	(14)	423
Other loans to individuals, covered by mortgage	36.222	19.044	-	55.266	-	(1.436)	(1.436)	53.830
Other loans	1.599	1.458	-	3.057	-	(1.177)	(1.177)	1.880
Car loans	190	14	-	204	-	(2)	(2)	202
Loans to micro and small entities	8.776	5.402	1.785	15.963	(770)	(1.124)	(1.894)	14.069
Loans to medium and large entities	218.921	81.351	20.057	320.329	(5.481)	(14.857)	(20.338)	299.991
Loans to Government and municipalities	159.914	7.666	-	167.580	-	(3.815)	(3.815)	163.765
Treasury LOB	5.676	-	-	5.676	-	(167)	(167)	5.509
	723.848	**209.474**	**21.884**	**955.206**	**(6.280)**	**(28.340)**	**(34.620)**	**920.586**
Loans and advances to banks	62.113	-	-	62.113	-	-	-	62.113
	785.961	**209.474**	**21.884**	**1.017.319**	**(6.280)**	**(28.340)**	**(34.620)**	**982.699**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

In thousands of EUR

	Neither Past due nor Impaired	Past Due but not Individually Impaired	Individually Impaired	Total, Gross	Individual Allowance for Impairment	Collective Allowance for Impairment	Total Allowance for Impairment	Total, net exposure
December 31, 2019								
Housing loans	67.420	471	-	67.891	-	(1.203)	(1.203)	66.688
Current account overdrafts	2.054	107	-	2.161	-	(66)	(66)	2.095
Consumer loans	90.166	972	-	91.138	-	(1.631)	(1.631)	89.507
Credit cards	2.747	134	17	2.898	(17)	(136)	(153)	2.745
Special purpose loans	22	-	-	22	-	-	-	22
Other loans to individuals, covered by mortgage	32.546	265	-	32.811	-	(539)	(539)	32.272
Other loans	2.417	788	-	3.205	-	(1.056)	(1.056)	2.149
Car loans	266	-	-	266	-	(1)	(1)	265
Loans to micro and small entities	10.448	858	356	11.662	(217)	(746)	(963)	10.699
Loans to medium and large entities	159.616	517	15.010	175.143	(4.934)	(2.981)	(7.915)	167.228
Loans to Government and municipalities	102.382	1	-	102.383	-	(2.345)	(2.345)	100.038
Treasury LOB	3.656	-	-	3.656	-	(64)	(64)	3.592
	473.740	**4.113**	**15.383**	**493.236**	**(5.168)**	**(10.768)**	**(15.936)**	**477.300**
Loans and advances to banks	37.934	-	-	37.934	-	-	-	37.934
	511.674	**4.113**	**15.383**	**531.170**	**(5.168)**	**(10.768)**	**(15.936)**	**515.234**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

Tables below show the exposures by asset classes:

In thousands of EUR

		Gross carrying amount					Accumulated impairment				
December 31, 2020	**Total, net exposure**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Category A - Loans and advances to banks at amortized cost	62.113	62.113	-	-	-	62.113	-	-	-	-	-
- Category A	858.651	776.309	97.088	2.439	1.778	877.614	(10.092)	(8.180)	(609)	(82)	(18.963)
- Category B	55.619	30.264	16.232	16.344	250	63.090	(727)	(2.380)	(4.364)	-	(7.471)
- Category C	2.446	94	9	3.509	190	3.802	(1)	(1)	(1.323)	(31)	(1.356)
- Category D	868	-	-	424	657	1.081	-	-	(213)	-	(213)
- Category E	3.002	-	-	8.115	1.504	9.619	-	-	(6.245)	(372)	(6.617)
Loans and advances to customers at amortized cost	920.586	806.667	113.329	30.831	4.379	955.206	(10.820)	(10.561)	(12.754)	(485)	(34.620)
Category A - Securities at amortized cost	27.282	27.865	-	-	-	27.865	(583)	-	-	-	(583)
Category A - Other financial assets at amortized cost	1.769	1.770	-	-	-	1.770	(1)	-	-	-	(1)
Category A - Securities at fair value through other comprehensive income	2.043	2.043	-	-	-	2.043	-	-	-	-	-
Category A - Investments in affiliates	335	335	-	-	-	335	-	-	-	-	-
- Category A	3.747	3.835	-	-	-	3.835	(88)	-	-	-	(88)
- Category B	110	-	129	-	-	129	-	(19)	-	-	(19)
- Category C	218	-	-	364	-	364	-	-	(146)	-	(146)
- Category D	33	-	-	55	-	55	-	-	(22)	-	(22)
- Category E	3	-	-	8.728	-	8.728	-	-	(8.725)	-	(8.725)
Other financial receivables	4.111	3.835	129	9.147	-	13.111	(88)	(19)	(8.893)	-	(9.000)
Total	**1.018.239**	**904.628**	**113.458**	**39.978**	**4.379**	**1.062.443**	**(11.492)**	**(10.580)**	**(21.647)**	**(485)**	**(44.204)**
- Category A	78.548	78.428	1.352	58	12	79.850	(1.237)	(43)	(17)	(5)	(1.302)
- Category B	9.485	8.091	1.576	28	1	9.696	(152)	(37)	(22)	-	(211)
- Category C	27	-	-	40	-	40	-	-	(13)	-	(13)
- Category D	1	-	-	2	4	6	-	-	(1)	(4)	(5)
- Category E	30	-	-	27	29	56	-	-	(9)	(17)	(26)
Undrawn credit facilities	**88.091**	**86.519**	**2.928**	**155**	**46**	**89.648**	**(1.389)**	**(80)**	**(62)**	**(26)**	**(1.557)**
- Category A	69.449	69.396	779	12	280	70.467	(886)	(65)	(3)	(64)	(1.018)
- Category B	9.075	8.641	321	375	-	9.337	(108)	(45)	(109)	-	(262)
- Category C	51	-	-	51	-	51	-	-	-	-	-
- Category D	-	-	-	-	-	-	-	-	-	-	-
- Category E	-	-	-	-	-	-	-	-	-	-	-
Payment and performance guarantees and unused documented letters of credit	**78.575**	**78.037**	**1.100**	**438**	**280**	**79.855**	**(994)**	**(110)**	**(112)**	**(64)**	**(1.280)**
	166.666	**164.556**	**4.028**	**593**	**326**	**169.503**	**(2.383)**	**(190)**	**(174)**	**(90)**	**(2.837)**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

Tables below show the exposures by asset classes:

In thousands of EUR

	Gross carrying amount					Accumulated impairment			
December 31, 2019	**Total, net exposure**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Category A - Loans and advances to banks at amortized cost	37.934	37.934	-	-	37.934	-	-	-	-
- - Category A	450.171	427.712	27.162	1.038	455.912	(5.032)	(282)	(427)	(5.741)
- - Category B	23.118	11.364	4.434	10.542	26.340	(167)	(688)	(2.367)	(3.222)
- - Category C	836	83	97	996	1.176	(1)	(7)	(332)	(340)
- - Category D	98	-	-	192	192	-	-	(94)	(94)
- - Category E	3.077	-	-	9.616	9.616	-	-	(6.539)	(6.539)
Loans and advances to customers at amortized cost	477.300	439.159	31.693	22.384	493.236	(5.200)	(977)	(9.759)	(15.936)
Category A - Securities at amortized cost	79.566	80.001	-	-	80.001	(435)	-	-	(435)
Category A - Other financial assets at amortized cost	1.300	1.301	-	-	1.301	(1)	-	-	(1)
Category A - Securities at fair value through other comprehensive income	520	520	-	-	520	-	-	-	-
Category A - Investments in affiliates	41.810	41.810	-	-	41.810	-	-	-	-
- - Category A	1.683	1.755	-	-	1.755	(72)	-	-	(72)
- - Category B	57	-	64	-	64	-	(7)	-	(7)
- - Category C	74	-	-	119	119	-	-	(45)	(45)
- - Category D	30	-	-	48	48	-	-	(18)	(18)
- - Category E	4	-	-	8.729	8.729	-	-	(8.725)	(8.725)
Other financial receivables	1.848	1.755	64	8.896	10.715	(72)	(7)	(8.788)	(8.867)
Total	**640.278**	**602.480**	**31.757**	**31.280**	**665.517**	**(5.780)**	**(984)**	**(18. 547)**	**(25.239))**
- - Category A	37.459	37.122	671	26	37.819	(346)	(4)	(10)	(360)
- - Category B	2.222	2.238	11		2.249	(26)	(1)	-	(27)
- - Category C	2	1	-	1	2	-	-	-	-
- - Category D	1	-	-	1	1	-	-	-	-
- - Category E	11	-	-	20	20	-	-	(9)	(9)
Undrawn credit facilities	39.695	39.361	682	48	40.091	(372)	(5)	(19)	(396)
- - Category A	30.930	31.104	63	-	31.167	(233)	(4)	-	(237)
- - Category B	1.718	1.641	100	-	1.741	(12)	(11)	-	(23)
Payment and performance guarantees and unused documented letters of credit	32.648	32.745	163	-	32.908	(245)	(15)	-	(260)
	72.343	**72.106**	**845**	**48**	**72.999**	**(617)**	**(20)**	**(19)**	**(656)**
	57.920	**58.465**	**39**	**284**	**58.788**	**(830)**	**(6)**	**(32)**	**(868)**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

Tables below provide the analysis of exposure trends by asset classes:

In thousands of EUR

Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount on December 31, 2019	439.159	31.693	22.384	-	493.236
Changes in gross book value					
- Transfer to stage 1	28.675	(28.544)	(131)	-	-
- Transfer to stage 2	(72.481)	72.849	(368)	-	-
- Transfer to stage 3	(951)	(1.934)	2.885	-	-
Payments of annuities during the year for placements active on January 1, 2020	(32.186)	(4.047)	(881)	28	(37.086)
Financial assets ceased to be recognized, active on January 1, 2020	(33.450)	(1.814)	(1.076)	-	(36.340)
Write-offs of exposures	(28)	(5)	(1.523)	-	(1.556)
New financial assets, as of December 31, 2020	122.308	5.954	148	-	128.410
Gross exposures of Podgorička banka on the date of merger, December 11, 2020	356.018	39.766	25.034	-	420.818
POCI classification on the merger date December 11, 2020	-	-	(15.418)	15.418	-
Netting S3 on the merger date December 11, 2020 - POCI classification	-	-	-	(11.067)	(11.067)
Effects of purchase price allocation, S2 discount	(397)	(589)	(223)	-	(1.209)
Gross carrying amount on December 31, 2020	806.667	113.329	30.831	4.379	955.206
Accumulated impairment on December 31, 2020	(10.820)	(10.561)	(12.754)	(485)	(34.620)
Net carrying amount on December 31, 2020	**795.847**	**102.768**	**18.077**	**3.894**	**920.586**

In thousands of EUR

Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount on December 31, 2018	376.211	9.180	24.523	409.914
Changes in gross book value				
- Transfer to stage 1	1.201	(1.091)	(110)	-
- Transfer to stage 2	(27.210)	27.418	(208)	-
- Transfer to stage 3	(775)	(341)	1.116	-
Payments of annuities during the year for placements active on January 1, 2019	(26.125)	(3.676)	(2.035)	(31.836)
Financial assets ceased to be recognized, active on January 1, 2019	(46.815)	(3.855)	(511)	(51.181)
Write-offs of exposures	(107)	(2)	(178)	(287)
Sold exposures during the year	-	-	(280)	(280)
New financial assets, as of December 31, 2019	162.779	4.060	67	166.906
Gross carrying amount on December 31, 2019	439.159	31.693	22.384	493.236
Accumulated impairment on December 31, 2019	(5.200)	(977)	(9.759)	(15.936)
Net carrying amount on December 31, 2019	**433.959**	**30.716**	**12.625**	**477.300**

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

In thousands of EUR

Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Accumulated impairment on December 31, 2019	(5.200)	(977)	(9.759)	-	(15.936)

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

Changes in Accumulated impairment					
- Transfer to stage 1	(2.001)	1.954	47	-	-
- Transfer to stage 2	886	(906)	20	-	-
- Transfer to stage 3	51	209	(260)	-	-
Changes due to change in credit risk (net) for exposures active on January 1, 2020	3.446	(7.824)	(1.104)	(230)	(5.712)
Financial assets that have ceased to be recognized for placements active on January 1, 2020	302	143	107	-	552
Accumulated impairment for written-off exposures	3	1	1.507	-	1.511
Accumulated impairment for new financial assets, as of December 31, 2020	(1.918)	(286)	(42)	-	(2.246)
Accumulated impairment of the exposure of Podgorička banka on the merger date December 11, 2020	(6.389)	(2.875)	(3.270)	(11.322)	(23.856)
Netting S3 on the date of merger December 11, 2020 - POCI classification	-	-	-	11.067	11.067
Accumulated impairment on December 31, 2020	**(10.820)**	**(10.561)**	**(12.754)**	**(485)**	**(34.620)**

Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Accumulated impairment on December 31, 2018	**(4.657)**	**(1.418)**	**(10.667)**	**(16.742)**
Changes in Accumulated impairment				
- Transfer to stage 1	(179)	164	15	-
- Transfer to stage 2	221	(311)	90	-
- Transfer to stage 3	12	77	(89)	-
Changes due to change in credit risk (net) for exposures active on January 1, 2019	674	287	377	1.338
Financial assets that have ceased to be recognized for placements active on January 1, 2019	625	540	155	1.320
Accumulated impairment for written-off exposures	43	1	167	211
Accumulated impairment for sold exposures	-	-	216	216
Accumulated impairment for new financial asets, as of December 31, 2019	(1.939)	(317)	(23)	(2.279)
Accumulated impairment on December 31, 2019	**(5.200)**	**(977)**	**(9.759)**	**(15.936)**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

Undrawn credit facilities, financial guarantees and unused documented letters of credit	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount on December 31, 2019	72.106	845	48	-	72.999
Changes in gross book value					
- Transfer to stage 1	15.869	(15.837)	(32)	-	-
- Transfer to stage 2	(3.590)	3.590	-	-	-
- Transfer to stage 3	(52)	(46)	98	-	-
Financial assets ceased to be recognized, active on January 1, 2020	(35.856)	(2.385)	-	-	(38.241)
Changes of limit (net) for exposures active on January 1, 2020	3.456	(1.676)	(18)	23	1.785
New financial assets, as of December 31, 2020	38.734	110	-	-	38.844
Gross exposures of Podgorička banka on the date of merger, December 11, 2020	73.889	19.427	497	303	94.116
Gross carrying amount on December 31, 2020	164.556	4.028	593	326	169.503
Accumulated impairment on December 31, 2020	(2.383)	(190)	(174)	(90)	(2.837)
Net carrying amount on December 31, 2020	**162.173**	**3.838**	**419**	**236**	**166.666**

In thousands of EUR

Undrawn credit facilities, financial guarantees and unused documented letters of credit	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount on December 31, 2018	58.465	39	284	58.788
Changes in gross book value				
- Transfer to stage 1	219	(1)	(218)	-
- Transfer to stage 2	(777)	777	-	-
- Transfer to stage 3	(10)	-	10	-
Financial assets ceased to be recognized, active on January 1, 2019	(22.022)	(13)	(29)	(22.064)
Changes of limit (net) for exposures active on January 1, 2019	(9.843)	(186)	-	(10.029)
New financial assets, as of December 3t, 2019	46.074	229	1	46.304
Gross carrying amount on December 31, 2019	72.106	845	48	72.999
Accumulated impairment on December 31, 2019	(617)	(20)	(19)	(656)
Net carrying amount on December 31, 2019	**71.489**	**825**	**29**	**72.343**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)
4.2.3. Maximum Exposure to Credit Risk per Balance and Off-Balance Sheet Items (Continued)

In thousands of EUR

Undrawn credit facilities, financial guarantees and unused documented letters of credit	Stage 1	Stage 2	Stage 3	POCI	Total
Accumulated impairment on December 31, 2019	(617)	(20)	(19)	-	(656)
Changes in Accumulated impairment					
- Transfer to stage 1	(339)	325	14	-	-
- Transfer to stage 2	36	(36)	-	-	-
- Transfer to stage 3	-	3	(3)	-	-
Changes due to change in credit risk (net) for exposures active on January 1, 2020	351	(78)	(11)	(10)	252
Financial assets that have ceased to be recognized for placements active on January 1, 2020	370	82	-	-	452
Accumulated impairment new exposures, as of December 31, 2020	(539)	(9)	-	-	(548)
Accumulated impairment for new financial assets, as of December 31, 2020	(1.645)	(457)	(155)	(80)	(2.337)
Accumulated impairment of the exposure of Podgorička banka on the merger date, December 31, 2020	**(2.383)**	**(190)**	**(174)**	**(90)**	**(2.837)**

In thousands of EUR

Undrawn credit facilities, financial guarantees and letters of credit	Stage 1	Stage 2	Stage 3	Total
Value adjustment on December 31, 2018	(830)	(6)	(32)	(868)
Changes in Accumulated impairment				
- Transfer to stage 1	(1)	-	1	-
- Transfer to stage 2	17	(17)	-	-
- Transfer to stage 3	-	-	-	-
Changes due to change in credit risk (net) for exposures active on January 1, 2019	335	14		349
Financial assets that have ceased to be recognized for placements active on January 1, 2019	245	1	12	258
Accumulated impairment for new financial assets, as of December 31, 2019	(383)	(12)	-	(395)
Accumulated impairment on December 31, 2019	**(617)**	**(20)**	**(19)**	**(656)**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Advances

a) Fair value of collateral up to the amount of collateralized exposure

		In thousands of EUR
	31 December 2020	**31 December 2019**
Deposits and guarantees	60.720	24.484
Securities	1.236	2.221
Pledge	25.305	4.146
Mortgages	485.276	262.442
Total	572.537	293.293

b) Fair value of collateral up to the amount of collateralized exposure according to the exposure assessment method

		In thousands of EUR
	31 December 2020	**31 December 2019**
For advances assessed at group level		
Deposits and guarantees	60.639	24.321
Securities	1.044	1.345
Pledge	24.828	3.745
Mortgage	430.496	217.686
Total	517.007	247.097

		In thousands of EUR
	31 December 2020	**31 December 2019**
For advances assessed at individual level		
Deposits and guarantees	81	163
Securities	192	876
Pledge	477	401
Mortgage	54.780	44.756
Total	**55.530**	**46.196**

In order to disburse a loan, the Bank takes as mortgage the property whose value based on the appraisal made by authorized appraisers must have minimum LTV ratio of 30% (estimated value of property/loan amount * 100). Properties taken as collateral is residential premises, family residential buildings, business facilities and business premises.

When taking pledge on securities, the Bank monitors the price of securities taken as collateral on a daily basis. The market value of the pledge must be 50% higher than the value of the placement.

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)

4.2.4. Loans and Advances (Continued)

d) Restructured loans and advances

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

a. extended the repayment period for principal or interest;
b. reduced the interest rate on the approved loan;
c. reduced the amount of debt, principal or interest;
d. took over the debt;
e. capitalized interest;
f. replaced the existing one with a new loan;
g. made other similar benefits that facilitate the financial position of the borrower.

During the loan restructuring, the Bank performs a financial analysis of the borrower and assesses the borrower's ability, after the loan restructuring, to generate cash flows that will be sufficient to repay the principal and interest of the loan.

As of December 31, 2020, the Bank had EUR 26,738 thousand of restructured loans (2019: EUR 17,653 thousand). As of December 11, 2020, the Bank took over EUR 20,796 thousand of restructured loans from Podgorička banka (gross amount).

e) Geographic concentration

The geographic concentration of the Bank's exposure to credit risk is shown in the following table:

In thousands of EUR

	Montenegro	European Union	USA and Canada	Other	Total
Loans and advances to banks at amortized cost	-	33.650	25.032	3.431	**62.113**
Loans and advances to customers at amortized cost	914.421	120	273	5.772	**920.586**
Securities at amortized cost	27.282	-	-	-	**27.282**
Other financial assets at amortized cost	1.769	-	-	-	**1.769**
Securities at fair value through other comprehensive income	1.974	57	-	12	**2.043**
Investments in subsidiaries	335				**335**
Other financial assets	4.111				**4.111**
December 31, 2020	**949.892**	**33.827**	**25.305**	**9.215**	**1.018.239**

In thousands of EUR

	Montenegro	European Union	USA and Canada	Other	Total
Loans and advances to banks at amortized cost	-	37.012	346	576	37.934
Loans and advances to customers at amortized cost	471.556	206	26	5.512	477.300
Securities at amortized cost	79.566	-	-	-	79.566
Other financial assets at amortized cost	1.300	-	-	-	1.300
Securities at fair value through other comprehensive income	471	49	-	-	520
Investments in subsidiaries	41.810	-	-	-	41.810
Other financial assets	1.848	-	-	-	1.848
December 31, 2019	**596.551**	**37.267**	**372**	**6.088**	**640.278**

4. FINANCIAL INSTRUMENTS (Continued)
4.2. Credit Risk (Continued)

4.2.4. Loans and Advances (Continued)

e) Geographic concentration (Continued)

In order to identify, measure, assess and monitor the exposure to country risk, the Bank uses the methodologies and experiences of OTP Group, as well as the decision of the Central Bank of Montenegro.

Risk exposure is measured and evaluated for all countries in which the seat or residence of the Bank's debtor is located. The Bank's exposure to country risk is measured on the basis of an individual placement, determined by an act, which involves controlling the rating of the debtor's country, taking into account the political, economic and social circumstances in the debtor's country.

The Bank ranks all debtors' countries in the following risk categories:
1) risk-free countries;
2) low risk countries;
3) medium risk countries and
4) high risk countries.

The ranking of debtors' countries serves the Bank to determine the required capital for country risk and to limit the Bank's exposure to individual debtor's countries, groups.

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4 Loans and Advances (Continued)

f) Industrial concentration

The concentration of the Bank's exposure to credit risk by industries is shown in the following table:

In thousands of EUR

	Loans and advances to customers at amortized cost	Loans and advances to banks at amortized cost	Securities at amortized cost	Other financial assets at amortized cost	Securities at fair value through other comprehensive income	Investments in subsidiaries	Total
Agriculture. forestry and fishing	6.979	-	-	-	-	-	**6.979**
Mining and quarrying	3.142	-	-	-	-	-	**3.142**
Manufacturing industry	13.376	-	-	-	1.489	-	**14.865**
Electricity supply	-	-	-	-	162	-	**162**
Water supply	330	-	-	-	-	-	**330**
Construction	41.962	-	-	-	-	-	**41.962**
Wholesale and retail trade and repair of motor vehicles and motorcycles	117.425	-	-	-	-	-	**117.425**
Traffic and storage	5.927	-	-	-	-	-	**5.927**
Accommodation and catering services	85.136	-	-	-	-	-	**85.136**
Information and communication	25.493	-	-	-	-	-	**25.493**
Financial and insurance activities	11.796	62.113	27.282	1.769	330	335	**103.598**
Real estate business	2.163	-	-	-	-	-	**2.163**
Professional. scientific and technical activities	3.519	-	-	-	-	-	**3.519**
Administrative and support service activities	3.889	-	-	-	-	-	**3.889**
Public administration and defense and compulsory social security	157.868	-	-	-	-	-	**157.868**
Education	84	-	-	-	-	-	**84**
Healthcare and social protection	917	-	-	-	-	-	**917**
Arts, entertainment and recreation	152	-	-	-	-	-	**152**
Other service activities	605	-	-	-	19	-	**624**
Individuals - residents	435.164	-	-	-	-	-	**435.164**
Non-residents	5.966	-	-	-	70	-	**6.036**
Total net loans, factoring and forfeiting and guarantees	**921.893**	**62.113**	**27.282**	**1.769**	**2.043**	**335**	**1.015.435**
Interest receivables and impairment of interest receivables	163	**-**	**-**	**-**	**-**	**-**	**163**
Net interest and fees accruals and deferrals	(1.470)	-	-	-	-	-	**(1.470)**
December 31, 2020	**920.586**	**62.113**	**27.282**	**1.769**	**2.043**	**335**	**1.014.128**

*This table does not include other financial assets in the amount of EUR 4.111 thousand.

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4 Loans and Advances (Continued)

f) Industrial concentration (Continued)

In thousands of EUR

	Loans and advances to customers at amortized cost	Loans and advances to banks at amortized cost	Securities at amortized cost	Other financial assets at amortized cost	Securities at fair value through other comprehensive income	Investments in subsidiaries	Total
Agriculture. forestry and fishing	5.919	-	-	-	-	-	5.919
Mining and quarrying	1.986	-	-	-	-	-	1.986
Manufacturing industry	2.943	-	-	-	-	-	2.943
Electricity supply	-	-	-	-	206	-	206
Water supply	242	-	-	-	-	-	242
Construction	26.599	-	-	-	-	-	26.599
Wholesale and retail trade and repair of motor vehicles and motorcycles	60.388	-	-	-	-	-	60.388
Traffic and storage	4.173	-	-	-	-	-	4.173
Accommodation and catering services	64.367	-	-	-	-	-	64.367
Information and communication	3.227	-	-	-	-	-	3.227
Financial and insurance activities	5.065	37.934	79566	1.300	247	41.810	165.922
Real estate business	201	-	-	-	-	-	201
Professional. scientific and technical activities	2.171	-	-	-	-	-	2.171
Administrative and support service activities	819	-	-	-	-	-	819
Public administration and defense and compulsory social security	100.457	-	-	-	-	-	100.457
Education	32	-	-	-	-	-	32
Healthcare and social protection	162	-	-	-	-	-	162
Arts, entertainment and recreation	212	-	-	-	-	-	212
Other service activities	184	-	-	-	18	-	202
Individuals - residents	193.389	-	-	-	-	-	193.389
Non-residents	5.985	-	-	-	49		6.034
Total net loans, factoring and forfeiting and guarantees	**478.521**	**37.934**	**79.566**	**1.300**	**520**	**41.810**	**639.651**
Interest receivables and impairment of interest receivables	60	-	-	-	-	-	60
Net interest and fees accruals and deferrals	(1.281)	-	-	-	-	-	(1.281)
December 31, 2019	**477.300**	**37.934**	**79.566**	**1.300**	**520**	**41.810**	**638.430**

*This table does not include other financial assets in the amount of EUR 1,848 thousand.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4 Loans and Advances (Continued)

f) Industrial concentration (Continued)

The maturity of off-balance sheet items based on which the Bank is exposed to credit risk is as follows:

In thousands of EUR

	Undrawn Loan Facilities	Payment and performance guarantee	Unused Letters of credit	**Total**
December 31, 2020				
Up to one year	79.094	68.976	789	148.859
From 1 to 5 years	10.554	10.090	-	20.644
	89.648	79.066	789	169.503

In thousands of EUR

	Undrawn Loan Facilities	Payment and performance guarantee	Unused Letters of credit	**Total**
December 31, 2019				
Up to one year	30.447	32.215	542	63.204
From 1 to 5 years	9.644	151	-	9.795
	40.091	32.366	542	72.999

4.3. Market Risk

The Bank is exposed to market risks. Market risk is the potential loss caused by adverse changes in the market: interest rates, foreign exchange positions, prices, indices and/or other factors that affect the value of financial instruments. Most often, the main sources of market risk are foreign exchange positions and interest rate risk. Limits for exposure to market risks are internally prescribed and harmonized with the limits prescribed by the Central Bank of Montenegro.

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Foreign Exchange Risk

Foreign exchange or currency risk is the risk that a bank will incur losses in its operations due to changes in foreign exchange rates. Foreign exchange risk is defined primarily as the potential loss on an uncovered and unprotected open foreign exchange position (assets, receivables, capital and liabilities denominated in a foreign currency). Exposure to foreign exchange risk is regularly monitored through compliance with the limits prescribed by the Central Bank of Montenegro.

The exposure to the risk of changes in exchange rates on December 31, 2020 is shown in the following table:

In thousands of EUR

	USD	Other Currencies	Total Foreign Currencies	Local Currency (EUR)	Total
ASSETS					
Cash and balances with the Central Bank	1.131	1.886	3.017	250.867	253.884
Loans and advances to banks at amortized cost	24.934	3.848	28.782	28.708	62.113
Loans and advances to customers at amortized cost	-	-	-	920.586	920.586
Securities at amortized cost	-	-	-	27.282	27.282
Other financial assets at amortized cost	1.738	-	1.738	31	1.769
Securities at fair value through other comprehensive income	-	-	-	2.043	2.043
Investments in subsidiaries	-	-	-	335	335
Other financial assets	-	-	-	4.111	4.111
Total assets	**27.803**	**5.734**	**33.537**	**1.238.586**	**1.272.123**
LIABILITIES					
Deposits from banks and central banks at amortized cost	-	-	-	1.145	1.145
Deposits of clients at amortized cost	26.781	5.522	32.303	858.485	890.788
Loans to banks and central banks at amortized cost	-	-	-	138.675	138.675
Loans to clients other than banks at amortized cost	-	-	-	31.101	31.101
Other financial liabilities	1.028	195	1.223	17.869	19.092
Total liabilities	**27.809**	**5.717**	**33.526**	**1.047.275**	**1.080.801**
Net Open Position:					
- December 31, 2020	**(6)**	**17**	**11**	**191.311**	**191.322**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Foreign Exchange Risk (Continued)

The exposure to the risk of changes in exchange rates on December 31, 2019 is shown in the following table:

In thousands of EUR

	USD	Other Currencies	Total Foreign Currencies	Local Currency (EUR)	Total
ASSETS					
Cash and balances with the Central Bank	322	1.794	2.116	157.908	160.024
Loans and advances to banks at amortized cost	21.723	2.761	24.484	13.450	37.934
Loans and advances to customers at amortized cost	-	-	-	477.300	477.300
Securities at amortized cost	-	-	-	79.566	79.566
Other financial assets at amortized cost	1.268	-	1.268	32	1.300
Securities at fair value through other comprehensive income	-	-	-	520	520
Investments in subsidiaries	-	-	-	41.810	41.810
Other financial assets	-	-	-	1.848	1.848
Total assets	**23.313**	**4.555**	**27.868**	**772.434**	**800.302**
LIABILITIES					
Deposits from banks and central banks at amortized cost	2	-	2	836	838
Deposits of customets at amortized cost	22.852	4.469	27.321	581.762	609.083
Loans to banks and central banks at amortized cost	-	-	-	10.000	10.000
Loans to clients other than banks at amortized cost	-	-	-	3.913	3.913
Other financial liabilities	452	1	453	9.159	9.612
Total liabilities	**23.306**	**4.470**	**27.776**	**605.670**	**633.446**
Net Open Position:					
- December 31, 2019	**7**	**85**	**92**	**166.764**	**166.856**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Foreign Exchange Risk (Continued)

The following table shows the Bank's net foreign exchange position as at 31 December 2020. The Bank is exposed to the effects of changes in foreign exchange rates of major currencies, which affect its financial position and cash flows. Management establishes limits on the degree of exposure by currencies that are regularly monitored. The share capital was calculated in accordance with the Decision on Capital Adequacy ("Official Gazette of Montenegro" No. 38/11, 55/12 and 82/17).

In thousands of EUR

	USD	GBP	CHF	Other foreign currencies	Total
Foreign currency funds	27.803	1.954	3.058	722	33.537
Liabilities in foreign currencies	27.809	1.978	3.054	685	33.526
Net Open Position:					
- December 31, 2020	(6)	(24)	4	37	
% of own capital:					
- December 31, 2020	(0,01)%	(0,02)%	0,00%	0,04%	
Aggregate open position:					
- December 31, 2020	11				
% of own capital:					
- December 31, 2020	0,01%				

	USD	GBP	CHF	Other foreign currencies	Total
Foreign currency funds	23.313	1.795	2.154	606	27.868
Liabilities in foreign currencies	23.306	1.807	2.157	506	27.776
Net Open Position:					
- December 31, 2019	7	(12)	(3)	100	
% of own capital:					
- December 31, 2019	0,01%	(0,01)%	0,00%	0,10%	
Aggregate open position:					
- December 31, 2019	92				
% of own capital:					
December 31, 2019	0,10%				

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Interest Rate Risk

Interest rate risk represents the potential negative impact of interest rate movements on the Bank's financial result. In order to minimize this risk, the Bank strives to maintain a balance between interest-sensitive assets and liabilities in its operations. Also, the Bank does not use active strategies aimed at creating open positions in order to take advantage of a certain trend of interest rate changes. Given the volume and complexity of the Bank's operations, the difference between interest-bearing assets and liabilities is the largest source of this type of risk. To assess the risk of changes in interest rates, the Bank uses the technique of the difference between the maturity of assets and liabilities ("gap" maturity) and analyzes the potential impact of changes in interest rates on the income statement, but also on the economic value of its capital.

The following table shows the Bank's interest-bearing and non-interest-bearing assets and liabilities as at 31 December 2020:

In thousands of EUR

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash and balances with the Central Bank	24.794	229.090	253.884
Loans and advances to banks at amortized cost	62.113	-	62.113
Loans and advances to customers at amortized cost	920.586	-	920.586
Securities at amortized cost	26.717	565	27.282
Other financial assets at amortized cost	1.737	32	1.769
Securities at fair value through other comprehensive income	-	2.043	2.043
Investments in subsidiaries	-	335	335
Other financial assets	-	4.111	4.111
Total assets	**1.035.947**	**236.176**	**1.272.123**
LIABILITIES			
Deposits from banks and central banks at amortized cost	226	919	1.145
Deposits of customets s at amortized cost	710.063	180.725	890.788
Loans to banks and central banks at amortized cost	138.675	-	138.675
Loans to clients other than banks at amortized cost	27.282	3.819	31.101
Other financial liabilities	-	19.092	19.092
Total liabilities	**876.246**	**204.555**	**1.080.801**
Interest Sensitive Gap:			
- December 31, 2020	**159.701**	**31.621**	**191.322**

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Interest Rate Risk (Continued)

The following table shows the Bank's interest-bearing and non-interest-bearing assets and liabilities as at 31 December 2019:

In thousands of EUR

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash and balances with the Central Bank	23.157	136.867	160.024
Loans and advances to banks at amortized cost	37.932	2	37.934
Loans and advances to customers at amortized cost	477.300	-	477.300
Securities at amortized cost	79.566	-	79.566
Other financial assets at amortized cost	1.267	33	1.300
Securities at fair value through other comprehensive income	-	520	520
Investments in subsidiaries	-	41.810	41.810
Other financial assets	-	1.848	1.848
Total assets	**619.222**	**181.080**	**800.302**
LIABILITIES			
Deposits from banks and central banks at amortized cost	205	633	838
Deposits of customets at amortized cost	479.073	130.010	609.083
Loans to banks and central banks at amortized cost	10.000	-	10.000
Loans to clients other than banks at amortized cost	2.560	1.353	3.913
Other financial liabilities	-	9.612	9.612
Total liabilities	**491.838**	**141.608**	**633.446**
Interest Sensitive Gap:			
- December 31, 2019	127.384	39.472	166.856

4.4. Operational Risk

Operational risk is the risk of possible negative effects on the financial result and capital of the Bank due to failures (unintentional and intentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, and due to unforeseen external events, including events with a low probability of occurrence.

Exposure to operational risk is regularly monitored through compliance with the limits prescribed by the Central Bank of Montenegro. The goal of operational risk management is to ensure that the level of operational risk exposure is in accordance with the Bank's Risk Management Strategy and policies, i.e., to minimize losses based on operational risks.

Proactive risk identification and assessment is performed once a year and thus the exposure to operational risks is assessed, taking into account the possibility, i.e., frequency of occurrence, as well as their potential impact on the Bank. In addition, at least once a year, a scenario analysis is performed that refers to less probable events of much more serious potential impact on the Bank, such as natural disasters, attacks on IT system, collapse of the payment system, significant withdrawal of deposits, etc. Scenarios are harmonized at the level of OTP Group.

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Reputational Risk

Risk of current and future income and capital due to negative public opinion on the way the Bank operates. The issue of reputation is very complex and basically arises as an assessment given by customers, about the provision of services. In the short term, the Bank's reputation risk is affected by advertising and marketing activities.

4.6. Liquidity Risk

Liquidity management is one of the key tasks of the Bank. Liquidity risk is the risk that the Bank will not be able to provide sufficient funds to settle liabilities when they fall due, or the risk that the Bank will be required to provide funds to settle due obligations from other sources at a reasonable cost and in a timely manner.

4.6.1. Liquidity Risk Management

For the purposes of measuring and monitoring liquidity risk, the Bank measures and monitors net cash flows by monitoring the Bank's receivables and liabilities for the period remaining to maturity, measuring and comparing cash inflows and outflows, i.e., GAP analysis. The Bank makes a liquidity projection on a daily basis, relying on all available information on expected inflows and outflows from the business division, as well as other organizational units of the Bank, whose activities have an impact on this risk.

Compliance and controlled mismatch of maturities and interest rates based on assets and liabilities are of great importance to the Bank's management. It is not common that the Bank has a fully matched position, as business transactions often have an indefinite maturity and are of different types. An unmatched position potentially increases profitability, but also increases the risk of loss.

Maturities of assets and liabilities and the Bank's ability to provide sources of funds at reasonable costs upon maturity of liabilities are important factors in assessing the Bank's liquidity and its exposure to changes in interest rates and exchange rates.

Liquidity needs to cover guarantees or activated letters of credit are significantly less than the amount of commitments, as the Bank does not expect a third party to withdraw the contracted funds. The total outstanding amount of a contractual obligation by which a loan is approved with extended maturity does not necessarily lead to future liquidity requirements, as many of these obligations will expire or be terminated without financing.

The Bank's liquidity as its ability to meet due obligations on time depends, on the one hand, on the balance sheet structure (asset structure, diversification and availability of liability positions), and on the other hand on the harmonization of inflows and outflows. The structure of financial assets and liabilities on December 31, 2020 indicates the existence of maturity mismatch of the remaining maturity period of assets and liabilities of 1 to 5 years. The main reason for this maturity mismatch is that short-term sources of funds with a maturity of up to one month, primarily demand deposits, are placed for a longer period of time, mostly as loans and receivables from customers. The Bank has developed and applied a stress resistance testing procedure and a procedure for calculating the stable level of a-vista deposits used for the purpose of monitoring maturity match. The analyzes used in accordance with the Procedure for calculation of stable deposits allow the Bank to use short-term sources to place funds for a longer period. In order to overcome the liquidity deficit, the Bank plans the following activities:

In order to overcome the maturity mismatch, the Bank plans to carry out the following activities:

- The Bank will give priority to short-term placements, up to one year,
- The Bank will contact the customers whose deposits mature in a period of up to 365 days, in order to prepare a plan for potential, significant outflows,
- If necessary, the Bank will withdraw funds from OTP Bank Plc. Budapest in order to overcome the negative gap

During 2020, the Bank did not have any issues with maintaining liquidity. The liquidity ratio on December 31, 2020 was 1.79 (December 31, 2019: 1.06).

The maturity match of financial assets and financial liabilities in the review that follows with the balance as of December 31, 2020 is shown according to the expected maturity.

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.6. Liquidity Risk (Continued)

4.6.1. Liquidity Risk Management (Continued)

In thousands of EUR

	Up to One Month	From One to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2020						
ASSETS						
Cash and balances with the Central Bank	204.295	-	-	49.589	-	253.884
Loans and advances to banks at amortized cost	62.113	-	-	-	-	62.113
Loans and advances to customers at amortized cost	14.590	23.975	149.394	462.953	269.674	920.586
Securities at amortized cost	-	-	-	27.282	-	27.282
Other financial assets at amortized cost	-	-	-	1.769	-	1.769
Securities at fair value through other comprehensive income	-	-	-	-	2.043	2.043
Investments in subsidiaries					335	335
Other financial assets	4.111	-	-	-	-	4.111
Total assets	285.109	23.975	149.394	541.593	272.052	1.272.123
LIABILITIES						
Deposits from banks and central banks at amortized cost	1.145	-	-	-	-	1.145
Deposits of customets s at amortized cost	62.897	30.812	34.343	762.646		890.788
Loans to banks and central banks at amortized cost	-	66.675	72.000	-	-	138.675
Loans to clients other than banks at amortized cost	9.393	273	4.235	17.200	-	31.101
Other financial liabilities	19.092	-	-	-	-	19.092
Total liabilities	92.617	97.760	110.578	779.846	-	1.080.801
Net Open Position:						
December 31, 2020	192.492	(73.785)	38.816	(238.253)	272.052	191.322

The liquidity gar „from 1-3 months" is negative as of December 31, 2020 due to significant amount of short term borrowings from the mother bank, which was due in the period (EUR 66.675 thousand). Taking into account that this amount refers to borrowing from OTP that is being periodically renewed (roll-over) depending on the needs for liquidity, this gap is not problematic from liquidity aspect. In addition, the table presents separate and not cummulative liquidity gaps, which means thar there would be no liqudity problem even in case the Bank repays the borrowed amount of EUR 66.675 thousand.

NOTES TO SEPARATE FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.6. Liquidity Risk (Continued)

4.6.1. Liquidity Risk Management (Continued)

In thousands of EUR

	Up to One Month	From One to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2019						
ASSETS						
Cash and balances with the Central Bank	113.711	-	-	46.313	-	160.024
Loans and advances to banks at amortized cost	37.934	-	-	-	-	37.934
Loans and advances to customers at amortized cost	10.709	15.659	60.063	245.565	145.304	477.300
Securities at amortized cost	-	35.056	17.210	27.300	-	79.566
Other financial assets at amortized cost		-	-	1.300	-	1.300
Securities at fair value through other comprehensive income	-	-	-	-	520	520
Investments in subsidiaries					41.810	41.810
Other financial assets	1.848	-	-	-	-	1.848
Total assets	164.202	50.715	77.273	320.478	187.634	800.302
LIABILITIES						
Deposits from banks and central banks at amortized cost	838	-	-	-		838
Deposits of customets at amortized cost	43.278	21.057	23.471	521.277	-	609.083
Loans to banks and central banks at amortized cost	10.000	-	-	-	-	10.000
Loans to clients other than banks at amortized cost	-	9	160	607	3.137	3.913
Other financial liabilities	9.612	-	-	-	-	9.612
Total liabilities	63.728	21.066	23.631	521.884	3.137	633.446
Net Open Position: December 31, 2019	100.474	29.649	53.642	(201.406)	184.497	166.856

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments

4.7.1. Fair Value of Financial Instruments Measured at Fair Value

Fair value of financial assets and liabilities

In thousands of EUR

	Carrying Amount		Fair Value	
	December 31, 2020	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
FINANCIAL ASSETS				
Cash and balances with the Central Bank	253.884	160.024	253.884	160.024
Loans and advances to banks at amortized cost	62.113	37.934	62.113	37.934
Loans and advances to customers at amortized cost	920.586	477.300	920.586	477.300
Securities at amortized cost	27.282	79.566	27.282	79.566
Other financial assets at amortized cost	1.769	1.300	1.769	1.300
Securities at fair value through other comprehensive income	2.043	520	2.043	520
Investments in subsidiaries	335	41.810	335	41.810
Other financial assets	4.111	1.848	4.111	1.848
Total financial assets	**1.272.123**	**800.302**	**1.272.123**	**800.302**
FINANCIAL LIABILITIES				
Deposits from banks and central banks at amortized cost	1.145	838	1.145	838
Deposits of customets at amortized cost	890.788	609.083	890.788	609.083
Loans to banks and central banks at amortized cost	138.675	10.000	138.675	10.000
Loans to clients other than banks at amortized cost	31.101	3.913	31.101	3.913
Other financial liabilities	19.092	9.612	19.092	9.612
Total financial liabilities	**1.080.801**	**633.446**	**1.080.801**	**633.446**

Fair value is the value that would be charged to sell an asset or paid to settle an obligation in a regular transaction between market participants at the measurement date in the given market circumstances. However, there are no available market prices for a certain part of the Bank's financial instruments. In conditions where no market prices are available, fair value is estimated using cash flow discounting model or other models. Changes in the assumptions underlying the estimates, including discount rates and estimated cash flows, significantly affect the estimates.

Hierarchy of fair value of financial instruments measured at fair value

Accounting regulations in force in Montenegro define a hierarchy of valuation techniques based on whether the inputs required by those valuation techniques are available or not. Available inputs reflect market data obtained from independent sources; inputs not available include the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted values (unadjusted) in an active market for the same assets and liabilities. This level includes quoted equity instruments.
- Level 2 - Entries that do not represent quoted values included in level 1 and that are available and relate to a given asset or liability, either directly (i.e. in terms of prices/values) or indirectly (in terms of conclusions based on prices/values). The Bank does not have financial instruments measured at fair value included in level 2.

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

4.7.1. Fair Value of Financial Instruments Measured at Fair Value (Continued)

- Level 3 - entries for assets and liabilities that are not based on available market data. This level includes equity investments under the Bank's market assumptions (no data available). The Bank does not have financial instruments measured at fair value included in level 3.

This hierarchy requires the use of available market data when they exist. In estimating fair value, the Bank takes into account available market values whenever possible. As at 11 December 2020, market prices of securities measured at fair value in the Bank's portfolio were available.

December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities at fair value through other comprehensive income – equity instruments	1.768	263	12	2.043
Total assets	1.768	263	12	2.043

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities at fair value through other comprehensive income– equity instruments	520	-	-	520
Total assets	520	-	-	520

Valuation techniques and assumptions used to measure financial instruments at fair value

The fair value of securities measured at fair value through other comprehensive income is based on market prices. If information on market prices is not available, market prices of quoted securities with similar characteristics are used. As at 31 December 2020, market prices of securities measured at fair value in the Bank's portfolio were available.

Hierarchy of fair value of financial instruments that are not measured at fair value

The estimated fair value of financial instruments, according to the fair value hierarchy is given in the following table:

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

4.7.1. Fair Value of Financial Instruments Measured at Fair Value (Continued)

December 31, 2020	Level 1	Level 2	Level 3	Total	Carrying Amount
Cash and balances with the Central Bank	-	253.884	-	253.884	253.884
Loans and advances to banks at amortized cost	-	-	62.113	62.113	62.113
Loans and advances to customers at amortized cost	-	-	920.586	920.586	920.586
Securities at amortized cost	-	27.282	-	27.282	27.282
Other financial assets at amortized cost	-	-	1.769	1.769	1.769
Investments in subsidiaries			335	335	335
Other financial assets	-	-	4.111	4.111	4.111
Total assets	**-**	**281.166**	**988.914**	**1.270.080**	**1.270.080**
Deposits from banks and central banks at amortized cost	-	-	1.145	1.1455	1.145
Deposits of customets at amortized cost	-	-	890.788	890.788	890.788
Loans to banks and central banks at amortized cost			138.675	138. 675	138.675
Loans to clients other than banks at amortized cost	-	-	31.101	31. 101	31. 101
Other financial liabilities	-	-	19.092	19.092	19.092
Total financial liabilities	**-**	**-**	**1.080.801**	**1.080.801**	**1.080.801**

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

4.7.2 Fair Value of Financial Instruments Not Measured at Fair Value

December 31, 2019	Level 1	Level 2	Level 3	Total	Carrying Amount
Cash and balances with the Central Bank	-	160.024	-	160.024	160.024
Loans and advances to banks at amortized cost	-	37.934		37.934	37.934
Loans and advances to customers at amortized cost	-	-	477.300	477.300	477.300
Securities at amortized cost	-	79.566	-	79.566	79.566
Other financial assets at amortized cost	-	-	1.300	1.300	1.300
Investments in subsidiaries	-		41.810	41.810	41.810
Other financial assets	-	-	1.848	1.848	1.848
Total assets		**277.524**	**522.258**	**799.782**	**799.782**
Deposits from banks and central banks at amortized cost	-	-	838	838	838
Deposits of customets at amortized cost	-	-	609.083	609.083	609.083
Loans to banks and central banks at amortized cost	-	-	10.000	10.000	10.000
Loans to clients other than banks at amortized cost	-	-	3.913	3.913	3.913
Other financial liabilities	-	-	9.612	9.612	9.612
Total financial liabilities	**-**	**-**	**633.446**	**633.446**	**633.446**

Valuation techniques and assumptions used to measure financial instruments that are not measured at fair value

The fair value of financial instruments that are not measured at fair value is calculated for disclosure purposes only, with no effect on balance sheet or income statement items. In addition, given that there is no active trading in these instruments, determining their fair value requires the use of management estimates to a significant extent.

Fair value is the price that can be received to sell an asset or paid to transfer a liability in an ordinary transaction in the principal (or most favorable) market at the measurement date under current market conditions, regardless of whether the price is directly identifiable or estimated using another valuation technique. However, there are no available market prices for a certain part of the Bank's financial instruments, which are therefore classified in level 2 and level 3 of the fair value hierarchy. In conditions where no market prices are available, fair value is estimated using cash flow discounting models or other models. Changes in the assumptions underlying the estimates, including discount rates and estimated cash flows, significantly affect the estimates.

In estimating the fair value of financial instruments that are not measured at fair value and are classified as level 2 and level 3, the following assumptions have been applied:

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

4.7.2 Fair Value of Financial Instruments Not Measured at Fair Value (Continued)

Loans and receivables from banks

Receivables from other banks include interbank placements and positions in the collection process, related to variable interest rates. Future cash flows are discounted to present value using effective interest rates. For loans and receivables from banks with contracted variable interest rate, changes in variable interest rates are reflected in changes of effective interest rates, so that the fair value of variable interest rate placements and overnight deposits is approximately equal to the carrying amount of these financial assets stated at balance sheet date.

Loans and receivables from customets

Fair value is determined using a discounted cash flow model, which includes assumptions about exposure to credit risk, interest rate risk, “PD”, “LGD”, to the extent applicable. Given that a significant portion of loans to customets is granted at fixed interest rates, in order to determine the fair value of loans to customets customets with fixed interest rates stated at amortized cost, a comparison is made of interest rates at which loans were granted to customets with available information on prevailing market interest rates in the banking sector of Montenegro, i.e., average weighted interest rates by activities, as shown in the following table:

- in percentages-	**Average weighted effective interest rate for the period from January 1 to December 31, 2020**	
Industry Sector	**Bank**	**Banking Sector in Montenegro**
Financial institutions	4,24	3,10
Corporate	3,94	4,63
Other nonfinancial institutions	4,44	5,49
General Government	3,43	3,46
Households	7,66	7,45
Other	6,23	4,09

*Average weighted interest rates are published by CBoM at the end of month

In the opinion of the Bank's management, the fair value of loans to customets calculated as the present value of future cash flows discounted using current market rates, i.e., weighted average interest rates for the banking sector, does not deviate significantly from the carrying amounts of loans at the balance sheet date. In the opinion of management, the amounts in the financial statements reflect the fair value that is the most reliable and useful for the purposes of financial reporting in the given circumstances.

Securities at amortized cost

Securities at amortized cost include long-term debt instruments of the Ministry of Finance of the Government of Montenegro.

In the opinion of the Bank's management, the carrying amount at which these financial instruments are stated does not deviate significantly from the fair value of similar instruments in the market as at 31 December 2020.

Investments in affiliates, subsidiaries and joint ventures using the equity method

In order to determine the fair value of investments in subsidiaries, the Bank's management believes that there is no objective evidence of impairment and that the carrying amount of these investments reflects the fair value at the reporting date, which in the circumstances is the most reliable and useful for disclosing the fair value of these instruments.

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

4.7.2 Fair Value of Financial Instruments Not Measured at Fair Value (Continued)

Deposits and liabilities under loans

For demand deposits, as well as deposits with a remaining maturity of less than one year, it is assumed that the estimated fair value does not deviate significantly from the carrying amounts.

The estimated fair value of interest-bearing deposits with a fixed interest rate and a residual maturity of over one year, excluding the stated market price, is based on the discounted cash flow by applying the applicable interest rate to new liabilities with similar remaining maturities. In the opinion of management, the Bank's interest rates are adjusted to current market interest rates, and accordingly the amounts in the financial statements reflect the fair value which in the circumstances most accurately reflects the fair value of these financial instruments.

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

Other assets and other liabilities

In the opinion of the management, the amounts of other assets and other liabilities in the financial statements reflect the fair value, which is in the given circumstances the most reliable and useful for financial reporting purposes.

4.8. Capital Management

Capital management is aimed at:

- compliance with regulatory acts,
- protecting the Bank's ability to maintain business continuity in order to be able to provide shareholder payments and compensation to other owners, and
- providing capital to support the further development of the Bank.

The Bank's management controls capital adequacy using the methodology and limits prescribed by the Central Bank of Montenegro ("Official Gazette of Montenegro" No. 38/11, 55/12 and 82/17). In accordance with the regulations, the Bank submits quarterly reports on the state and structure of capital to the Central Bank of Montenegro.
The Bank's own funds consist of:

- share capital (paid-in share capital, retained earnings from previous years, profit for the current year, less loss);
- supplementary capital (reserves formed at the expense of profit after its taxation: legal, statutory and other reserves, subordinated loan),
- less intangible assets, missing reserves and direct or indirect investments in another bank or other credit or financial institution in the amount of more than 10% of the capital of those institutions.

Risk assets consist of the asset items and credit equivalents of the Bank's off-balance sheet items that are exposed to risk. Credit equivalents of off-balance sheet asset items represent the amount that results from multiplying the carrying amount of off-balance sheet items by the prescribed conversion factors. Total risk-weighted assets consist of the sum of balance sheet asset items and credit equivalents of off-balance sheet items exposed to risk (the Bank's risk assets), classified into nine categories and multiplied by the appropriate prescribed risk weights.

In accordance with the regulations of the Central Bank of Montenegro, the Bank is obliged to maintain a minimum capital solvency ratio of 10%. The Bank is obliged to harmonize the scope of its operations with the prescribed indicators, i.e., to harmonize the scope and structure of its risky placements with the Banking Law on and the regulations of the Central Bank of Montenegro. As of December 31, 2020, the solvency ratio calculated by the Bank in the statutory financial statements is 20.07%.

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.9. Sensitivity Analysis

4.9.1. Sensitivity Analysis (Foreign Exchange Risk)

Managing exposure to foreign exchange risk, in addition to the analysis of the Bank's receivables and liabilities denominated in foreign currencies, also includes the analysis of sensitivity to changes in foreign exchange rates. The following table shows the scenario of exchange rate changes in the range from + 10% to -10% in relation to EUR.

In thousands of EUR

		December 31, 2020	**Change in Exchange Rate**	
	Total	**Amount in foreign currencies**	**10%**	**-10%**
ASSETS				
Cash and balances with the Central Bank	253.884	3.017	302	(302)
Loans and advances to banks at amortized cost	62.113	28.782	2.878	(2.878)
Other financial assets at amortized cost	1.769	1.738	174	(174)
Total assets	**317.766**	**33.537**	**3.354**	**(3.354)**
LIABILITIES				
Deposits of customets at amortized cost	890.788	32.303	3.230	(3.230)
Other financial liabilities	19.092	1.223	122	(122)
Total liabilities	**909.880**	**33.526**	**3.352**	**(3.352)**
Net Open Position:				
- December 31, 2020			**2**	**(2)**

4. FINANCIAL INSTRUMENTS (Continued)

4.9. Sensitivity Analysis

4.9.1. Sensitivity Analysis (Foreign Exchange Risk)

In thousands of EUR

	Total	December 31, 2019 Amount in foreign currencies	Change in Exchange Rate 10%	-10%
ASSETS				
Cash and balances with the Central Bank	160.024	2.116	212	(212)
Loans and advances to banks at amortized cost	37.934	24.484	2.448	(2.448)
Other financial assets at amortized cost	1.300	1.268	127	(127)
Total assets	**199.258**	**27.868**	**2.787**	**(2.787)**
LIABILITIES				
Deposits from banks and central banks at amortized cost	838	2	-	-
Deposits of customets at amortized cost	609.083	27.321	2.732	(2.732)
Other financial liabilities	9.612	453	45	(45)
Total liabilities	**619.533**	**27.776**	**2.777**	**(2.777)**
Net Open Position:				
- December 31, 2019			**10**	**(10)**

As of December 31, 2020, assuming that all other parameters are unaffected by the change in the exchange rate of EUR in relation to other currencies by + 10% or -10%, the Bank's profit would decrease or increase by EUR 2 thousand (December 31, 2019: profit would increase or decrease by the amount of EUR 10 thousand). The reason for the Bank's low exposure to changes in foreign exchange rates is the fact that most of the Bank's receivables and liabilities are denominated in EUR.

4.9.2. Sensitivity Analyses (interest rate risk)

During the process of managing interest rate risk, the Bank performs sensitivity analysis of changes in receivables and liabilities with variable interest rates. The following table shows the effect of changes in variable interest rates on receivables and liabilities denominated in EUR and foreign currency in the range of +0.4 b.p. to -0.4 b.p.

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.9. Sensitivity Analysis

4.9.2. Sensitivity Analysis (Interest Rate Risk)

			In thousands of EUR
	Net effect of movements in interest rates		
		+0.4 b.p.	-0.4 b.p.
	December 31, 2020	EUR/FX KS	EUR/FX KS
ASSETS			
Cash and balances with the Central Bank	253.884	-	-
Loans and advances to banks at amortized cost	62.113	-	-
Loans and advances to customers at amortized cost	920.586	1.401	(1.401)
Securities at amortized cost	27.282	-	-
Other financial assets at amortized cost	1.769	-	-
Securities at fair value through other comprehensive income	2.043	-	-
Investments in subsidiaries	335	-	-
Other financial assets	4.111	-	-
Total assets	**1.272.123**	**1.401**	**(1.401)**
LIABILITIES			
Deposits from banks and central banks at amortized cost	1.145	-	-
Deposits of customets at amortized cost	890.788	-	-
Loans to banks and central banks at amortized cost	138.675		
Loans to clients other than banks at amortized cost	31.101	25	(25)
Other financial liabilities	19.092	-	-
Total liabilities	1.080.801	25	(25)
Net Interest Sensitive Gap:			
- December 31, 2020		1.376	(1.376)

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.9. Sensitivity Analysis

4.9.2. Sensitivity Analysis (Interest Rate Risk) (Continued)

			In thousands of EUR
		Net effect of movements in interest rates	
		+0.4 b.p.	-0.4 b.p.
	December 31, 2019	EUR/FX KS	EUR/FX KS
ASSETS			
Cash and balances with the Central Bank	160.024	-	-
Loans and advances to banks at amortized cost	37.934	-	-
Loans and advances to customers at amortized cost	477.300	533	(533)
Securities at amortized cost	79.566	-	-
Other financial assets at amortized cost	1.300	-	-
Securities at fair value through other comprehensive income	520	-	-
Investments in subsidiaries	41.810	-	-
Other financial assets	1.848	-	-
Total assets	**800.302**	**533**	**(533)**
LIABILITIES			
Deposits from banks and central banks at amortized cost	838	-	-
Deposits of customets at amortized cost	609.083	-	-
Loans to banks and central banks at amortized cost	10.000	-	-
Loans to clients other than banks at amortized cost	3.913	-	-
Other financial liabilities	9.612	-	-
Total liabilities	633.446	-	-
Net Interest Sensitive Gap:			
- December 31, 2019		**533**	**(533)**

Assuming that all other parameters remain unaffected by increasing or decreasing the variable interest rate on receivables and liabilities in EUR and foreign currency by 0.4 b.p., the Bank's profit would increase or decrease by the amount of EUR 1,376 thousand (31 December 2019: by EUR 533 thousand).

The reason for the Bank's low exposure to changes in variable interest rates is the fact that most of the Bank's receivables and liabilities are contracted at a fixed interest rate.

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

5. MERGER OF PODGORIČKA BANKA

The merger of Podgorička banka AD Podgorica, member of OTP Group ("Podgorička banka") into Crnogorska Komercijalna Banka AD Podgorica was completed on December 11, 2020. Podgorička banka was 100% owned by Crnogorska Komercijalna Banka AD Podgorica.

Podgorička banka had carried out the final posting procedures on the specified date, after which the data were transferred to the system of Crnogorska Komercijalna Banka, AD Podgorica.

The table below shows the balances transferred on the date of merger, the effects of netting internal relations, as well as measuring the effects of bargain purchase from the date of acquisition of Podgorička banka by the Bank, July 31, 2019 to the date of merger, December 11, 2020:

In thousands of EUR

	Separate statements of financial position of Podgorička banka, as of December 11, 2020	Reclassification due to differences in account mapping	Adjustments for purchase price allocation and consolidation effects	Adjusted statements of financial position, as of December 11, 2020
ASSETS				
Cash and balances with the Central Bank (Note 15)	100.411	(1)	-	100.410
Loans and advances to banks at amortized cost (Note 16)	9.135	(8.063	-	1.072
Loans and advances to customers at amortized cost (Note 17)	398.161	(821)	(1.587)	395.753
Other financial assets at amortized cost (Note 24)	50	-	(50)	-
Securities at fair value through other comprehensive income (Note 19)	-	-	1.437	1.437
Securities at fair value through profit and loss, not held for trading	1.437	-	(1.437)	-
Property, plant and equipment (Note 21)	9.067	-	-	9.067
Intangible assets (Note 22)	159	-	3.318	3.477
Deferred tax assets (Note 14)	240	-	-	240
Non-current assets held for sale and discontinued operations (Note 24)	10	-	-	10
Other assets (Note 24)	1.272	8.885	50	10.207
Total assets	**519.942**	**-**	**1.731**	**521.673**
LIABILITIES				
Deposits from banks and central banks at amortized cost (Note 25)	289.560	(405)	-	289.155
Loans to banks and central banks at amortized cost (Note 26)	118.854	-	-	118.854
Loans to clients other than banks at amortized cost (Note 26)	27.354	-	-	27.354
Reserves	3.000	-	-	3.000
Current tax liabilities (Note 14)	366	-	-	366
Deferred tax liabilities (Note 14)	222	-	-	222
Other liabilities (N Note 28)	5.701	405	(2)	6.104
Total liabilities	**445.057**	**-**	**(2)**	**445.055**
KAPITAL				
Share capital	24.731	-	-	24.731
Retained earnings	42.751	6.668	1.733	51.152
Profit for the year	6.239	(6.239)	-	-
Other reserves	1.164	(429)	-	735
Total equity	**74.885**	**-**	**1.733**	**76.618**
Total liabilities and equity	**519.942**	**-**	**1.731**	**521.673**

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

5. MERGER OF PODGORIČKA BANKA (Continued)

The table below shows the balance sheet of the Bank and the adjusted balance sheet of Podgorička banka, on the day of merger December 11, 2020:

SEPARATE STATEMENT OF FINANCIAL POSITION
On December 11, 2020
(In thousands of EUR)

	CKB banka	Podgorička banka - Adjusted statements of financial position	Reconciliation due to the merger	CKB banka – Balances after the merger
SREDSTVA				
Cash and balances with the Central Bank	147.266	100.410	-	247.676
Loans and advances to banks at amortized cost	55.500	1.072	-	56.572
Loans and advances to customers at amortized cost	523.588	395.753	-	919.341
Securities at amortized cost	27.190	-	-	27.190
Other financial assets at amortized cost	1.776	-	-	1.776
Securities at fair value through other comprehensive income	461	1.437	-	1.898
Investments in affiliates and joint ventures according to equity method (*2)	41.810	-	(41.475)	335
Property, plant and equipment	14.656	9.067	-	23.723
Intangible assets	3.313	3.477	-	6.790
Current tax assets	5	-	-	5
Deferred tax assets	620	240	-	860
Non-current assets held for sale and discontinued operations	-	10	-	10
Other assets	1.556	10.207	(8.063)	3.700
Total assets	**817.741**	**521.673**	**(49.538)**	**1.289.876**
LIABILITIES				
Deposits from banks and central banks at amortized cost	1.025	-	-	1.025
Deposits of clients at amortized cost	586.628	289.155	-	875.783
Loans to banks and central banks at amortized cost	20.012	118.854	-	138.866
Loans to clients other than banks at amortized cost	3.811	27.354	-	31.165
Reserves	4.897	3.000	-	7.897
Current tax liabilities	-	366	-	366
Deferred tax liabilities	341	222	-	563
Other liabilities (*1)	35.729	6.104	(8.063)	33.770
Total liabilities	**652.443**	**445.055**	**(8.063)**	**1.089.435**
EQUITY				
Share capital (*2)	181.876	24.731	(24.731)	181.876
Retained earnings (*2)	(16.496)	51.152	(42.657)	(8.001)
Retained earnings – effects of bargain purchases (*2)	-	-	26.901	26.901
Profit/loss for the year	(2.237)	-	-	(2.237)
Other reserves (*2)	2.155	735	(988)	1.902
Total equity	**165.298**	**76.618**	**(41.475)**	**200.441**
Total liabilities and equity	**817.741**	**521.673**	**(49.538)**	**1.289.876**

5. MERGER OF PODGORIČKA BANKA (Continued) (Continued)

*On the day of merger, December 11, 2020, the Bank made adjustments for:

1) transfer of funds from the correspondent accounts of Podgorička banka to the correspondent accounts of the Bank in the amount of 8,063 thousand. Namely, in the period from December 8 to December 11, 2020, funds were transferred from the correspondent accounts of Podgorička banka to the correspondent accounts of the Bank in the total amount of EUR 8,063 thousand. The Bank recorded these funds within Other liabilities. By account mapping, these funds were mapped within Other assets. During the reconciliation process, Other assets and Other liabilities were netted in the amount of EUR 8,063 thousand (Note 16).
2) Derecognition of investments in subsidiaries and recognition of the effects of bargain purchases. The effects are shown in more detail in the table below:

In thousands of EUR	**December 11, 2020**
Share capital (Podgorička banka)	24.731
	24.731
Retained earnings from previous years	40.926
PPA – non-amortized value of Stage 2 discount *	(1.209)
PPA - difference in provision *	(378)
PPA – Net present value of customer base value*	3.318
Total retained earnings	42.657
Other reserves	988
	988
Total equity which is included in the effects of bargain purchases	68.376
Investments in affiliates and joint ventures according to equity method	(41.475)
Retained earnings – effects of bargain purchases (*2)	**26.901**

* These items are part of the Purchase value allocation (PPA). S2 discount refers to adjustment to fair value of loans that were in S2 stage in the moment of purchase of Podgorička banka.

In the moment of status change, profit from bargain purchase is recognized in the balance sheet of the legal entity that is successor and to which the subsidiary is being merged, on the position of the retained earnings.

Retained earnings accumulated from previous years in the amount of EUR 40,926 thousand consists of retained earnings as of July 31, 2019 in the amount of EUR 29,410 thousand, profit of Podgorička banka realized in the period from January 1 to July 31, 2019 in the amount of EUR 6,420 thousand, reclassified balance of provisions for estimated losses according to regulatory requirements in the amount of EUR 4,666 thousand and effects of reclassification of securities in the amount of EUR 430 thousand.

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

6. INTEREST INCOME AND EXPENSE

a) Interest income and impaired advances income

In thousands of EUR

	2020	2019
Deposits with:		
- foreign banks	135	377
	135	377
Loans operations:		
- state organizations	3.646	2.496
- companies	7.023	6.148
- private individuals	14.796	13.306
- others	256	209
	25.721	22.159
Liabilities for loans and other borrowings:		
- foreign banks	24	15
Securities at amortized cost	1.717	2.979
	27.597	25.530

b) Interest expense

In thousands of EUR

	2020	2019
Deposits from:		
- state and local organizations and companies	7	7
- companies	29	16
- private individuals	61	63
Other	-	7
Liabilities for loans and other borrowings:		
- foreign banks	48	-
- financial institutions	17	19
- state organizations	19	46
Leasing (IFRS 16)	115	-
	296	158

7. FEE INCOME AND EXPENSE

a) Fee and commission income

In thousands of EUR

	2020	2019
Fee income from issued guarantees and other contingent liabilities	372	349
Fee and commission income arising from domestic and international payment transfers	9.226	11.135
Credit card related fees and commissions	3.325	4.590
Fee income form forfeiting	36	96
Fee income from custody operations	149	210
Other fee and commission income	2.274	1.981
	15.382	18.361

b) Fee and commission expense

In thousands of EUR

	2020	2019
Fees payable to the Central Bank	127	78
Fee for overnight balances on bank transaction accounts	367	315
Fee and commission expense arising from domestic and international payment transfers	1.222	1.328
Deposit insurance premium fees	3.026	2.763
Commission expenses arising on guarantees and other contingent liabilities	15	12
Fee and commission expense for cards and ATM transactions	3.777	5.463
Other fee and commission expenses	60	80
	8.594	10.039

8. NET FOREIGN EXCHANGE GAINS

In thousands of EUR

	2020	2019
Realized foreign exchange gains, net	760	893
Unrealized foreign exchange gains, net	2	(7)
	762	886

9. OTHER INCOME

In thousands of EUR

	2020	2019
Income from collection of receivables from internal records	1.103	1.794
Revenue from the sale of receivables from internal records	-	1.063
Other income	455	144
	1.558	3.001

10. EMPLOYEE COSTS

In thousands of EUR

	2020	2019
Net salaries	6.686	6.944
Restructuring costs - severance payments	-	5.483
Taxes and contributions on earnings	4.610	4.875
Bonus expenses	2.464	1.279
Release of provisions/(Provisions) for pensions and jubilee awards	(244)	92
Remunerations to members of the Board of Directors	81	86
Business trip expenses	34	92
	13.631	18.851

Plan for integration of the Bank and Podgorička banka included closing of a number of branches and decreasing of number of employees in network and head offices of the banks. Decrease of number of employees is done in accordance with the Labor Law, Collective Agreement and individual employment contracts. Based on the plan, in December 2019, Board of Directors of the Bank brought the decision on allocation of provisions for restructuring expenses related to severance payment to employees. As of December 31, 2019, the Bank booked the accrued expenses for severance payment to employees in the amount of EUR 5,483 thousand, for the expected decrease in number of employees of 122.

In period from January 1 to December 31, 2020 the Bank paid severance pay in the amount of EUR 3,260 thousand, for 89 employees, in accordance with the concluded agreements on termination of employment.

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

11. GENERAL AND ADMINISTRATIVE COSTS

In thousands of EUR

	2020	**2019**
Lease of business premises (Note 29)	98	1.174
Other lease costs	163	161
Property maintenance costs	2.232	1.836
Insurance costs	454	279
Tax expense	198	23
Sponsorship and donation costs	63	53
Marketing costs	482	537
Electricity and fuel costs	345	338
Representation costs	9	55
Transportation costs	770	788
Telecommunications and postage services	556	542
Office Supplies	198	277
Payment card procurement costs	303	147
Professional services	2.066	1.931
Accommodation costs	7	25
Other expenses	585	807
	8.529	**8.973**

A significant reduction in the cost of renting business premises EUR 98 thousand as of 31 December 2020 (31 December 2019: EUR 1,174 thousand) is due to the application of IFRS 16 – Leases, while on the same basis the depreciation charge has been increased by EUR 868 thousand (31 december 2019: nill) (Note 21).

12. NET INCOME/EXPENSE BASED ON IMPAIRMENT OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS AND PROVISIONING COSTS

a) Net income/expense based on impairment of financial instruments not measured at fair value through profit or loss

In thousands of EUR

	2020	2019
Loans at amortized cost, net	6.932	(595)
Impairment of interest receivables	251	311
Impairment of protested guarantees	-	-
Impairment of receivables from forfeiting	135	(58)
Impairment of securities	149	(306)
Impairment of other assets	746	434
Release of impairment of off-balance sheet exposures	(154)	(212)
	8.059	(426)

b) Provisioning costs

In thousands of EUR

	2020	2019
Provision for pending legal issues and tax litigation	41	305
Provisions for received guarantees	(2)	(7)
Provisions for loan repayment	209	-
Provisions for the costs of terminating the lease agreement	-	21
	248	319

12. NET INCOME/EXPENSE BASED ON IMPAIRMENT OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS AND PROVISIONING COSTS (Continued)

c) Changes in the net income/expense accounts based on impairment of financial instruments not measured at fair value through profit or loss:

	Cash assets (Note 15)	Loans (Note 17)	Protested guarantees (Note 17)	Interest receivables (Note 17)	Forfeiting receivables (Note 17)	Securities (Note 18)	Financial and other receivables (Note 24)	Employee benefits (Note 27)	Provisions for off-balance sheet exposures (Note 27)	Other provisions (Note 27)	Total
Opening balance, January 1, 2020.	86	13.437	-	1.059	1.440	435	9.042	1.409	656	2.376	29.940
Change for the year, net	-	6.933	-	251	135	148	747	-	(155)	248	8.307
Impairment usage due to write offs		(93)	-	(18)	(1.400)	-	(820)	-		-	(2.331)
Actuarial losses	-		-	-	- -	-		(75)			(75)
Release of impairment	-	-	-	-	- -	-	-	-	(1)	(829)	(830)
Effects related to POCI exposures and other changes	-	71	-	16	-	-	-	-	-	-	87
Closing balance, December 31, 2020.	86	20.348	-	1.308	175	583	8.969	1.334	500	1.795	35.098
Balance transfer by data migration	-	12.687	-	102	-	-	32	223	2.337	440	15.821
Balance after data migration, December 11, 2020	86	33.035	-	1.410	175	583	9.001	1.557	2.837	2.235	50.919

	Cash assets (Note 15)	Loans (Note 17)	Protested guarantees (Note 17)	Interest receivables (Note 17)	Forfeiting receivables (Note 17)	Securities (Note 18)	Financial and other receivables (Note 24)	Employee benefits (Note 27)	Provisions for off-balance sheet exposures (Note 27)	Other provisions (Note 27)	Total
Opening balance, January 1, 2019	86	14.453		791	1.498	741	15.699	1.182	868	2.349	37.667
Change for the year, net	-	(595)	-	311	(58)	(306)	434	-	(212)	411	(15)
Impairment usage due to sale of receivables	-	(144)	-	(33)	- -	-	(1)	-	-	-	(178)
Impairment usage due to write offs	-	(277)	-	(10)	- -	-	(7.090)	-	-	-	(7.377)
Actuarial losses	-		-	-	- -	-		227		(91)	136
Release of impairment	-	-	-	-	- -	-	- -	-	-	(293)	(293)
Closing balance, December 31, 2019.	86	13.437	-	1.059	1.440	435	9.042	1.409	656	2.376	29.940

13. OTHER EXPENSES

In thousands of EUR

	2020	2019
Impairments of real estate owned by the Bank (Note 21)	-	1.673
Impairments of equipment and other assets (Note 21)	-	77
Impairments of intangible assets (Note 22)	-	1
Other expenses	105	125
	105	1.876

After the plan for new network of branches has been adopted within process of integration with Podgorička banka in 2019, based on accounting estimates, the Bank has decreased value of investment in real estate and recognised impairement losses on real estate amount of EUR 1.673 thousand. Also, based on the assounting estimates, the Bank has decreased value and recognised impairment of the related equipment and other assets in the amount of EUR 77 thousand, as well as intangible assets in the amoount of EUR 1 thousand.

14. PROFIT TAX

a) Components of profit tax

In thousands of EUR

	2020	2019
Current income tax	(71)	(1.123)
Deferred tax expense (income)	(207)	666
	(278)	(457)

b) Reconciliation between profit tax amount in the income statement and results before taxation multiplied by the applicable tax rate

In thousands of EUR

	2020	2019
Reconciliation of profit tax amounts		
Profit before tax	2.126	5.402
Tax of 9% on taxable profit	(191)	(486)
Expenses not recognized for tax purposes	21	(697)
Current income tax liabilities	(170)	(1.183)
Decrease of liabilities based on payments in currency	99	60
Current profit tax	(71)	(1.123)
The difference between the present value of tangible assets and intangible assets recognized in the financial statements and tax report	(42)	6
Salary costs that are recognized for tax purposes after disbursement	(193)	502
Impairment of assets that are not recognized for tax purposes	28	158
Deferred tax	(207)	666
Total tax expenses	(278)	(457)
Effective tax rate	*13,08%*	*8,46%*

14. PROFIT TAX (Continued)

c) Current tax assets and liabilities

Current tax assets in the amount of EUR 8 thousand (December 31, 2019: EUR 11 thousand) refer to the prepayments of withholding tax based on revenues collected abroad.

Current tax liabilities

	December 31, 2020	December 31, 2019
Current tax liabilities	170	1.183
Current tax liabilities from sale of securities at FVtOCI	-	482
Current tax liabilities migrated from Podgorička banka	366	-
	536	1.665

By the merger of Podgorička banka, the transfer of balance was made based on current tax liability in the amount of EUR 366 thousand.

d) Deferred tax assets and liabilities

Deferred tax assets and liabilities in the balance sheet refer to the following:

In thousands of EUR

	December 31, 2020			December 31, 2019		
	Deferred tax assets	Deferred tax liabilities	Deferred tax	Deferred tax assets	Deferred tax liabilities	Deferred tax
The difference between the present value of tangible assets and intangible assets recognized in the financial statements and tax report	-	593	(593)	-	374	(374)
Impairment of assets that are not recognized for tax purposes	382	-	382		(158)	158
Salary costs that are recognized for tax purposes after disbursement	415	-	415	593	-	593
Change in fair value of securities at fair value through other comprehensive income	-	17	(17)	10	10	-
Actuarial losses on defined benefit pension plans according IAS19	10	-	10	-	12	(12)
Deferred tax assets / (liabilities)	807	610	197	603	238	365

14. PROFIT TAX (Continued)

By the merger of Podgorička banka, the transfer of balance was made based on and deferred tax assets and liabilities as of December 11, 2020, as shown in the table below:

	December 11, 2020		In thousands of EUR
	Deferred tax assets	Deferred tax liabilities	Deferred tax
The difference between the present value of tangible assets and intangible assets recognized in the financial statements and tax report	-	177	(177)
Impairment of assets that are not recognized for tax purposes	225	-	225
Salary costs that are recognized for tax purposes after disbursement	15	-	15
Change in fair value of securities at fair value through other comprehensive income	-	33	(33)
Actuarial losses on defined benefit pension plans according IAS19	-	12	(12)
Deferred tax assets / (liabilities)	240	222	18

15. CASH AND DEPOSIT ACCOUNTS WITH CENTRAL BANKS

		In thousands of EUR
	December, 31 2020	December, 31 2019
Cash on hand in EUR	41.623	27.450
Cash on hand in foreign currencies	3.009	2.116
Cash in the course of collection	1.787	1.597
Gyro account	157.962	82.635
Obligatory reserve held with the Central Bank	49.589	46.312
Less: Allowance for impairment	(86)	(86)
	253.884	160.024

The increase in cash and deposits with central banks due to the merger of Podgorička banka amounts to EUR 100,410 thousand, of which the most significant amounts relate to:

- Cash on hand in the amount of EUR 9,187 thousand,
- Gyro account in the amount of EUR 74,298 thousand,
- Reserve requirement in the amount of EUR 17,220 thousand,
- Transfer account for payment per card transaction in the amount of EUR (294) thousand,
- Due to reclassification, cash was reduced by the balance on the transfer account of card transactions in the amount of EUR 1 thousand which was reclassified from other liabilities on the merger date.

The reserve requirement of the Bank as of December 31, 2020 represents the minimum allocated funds in accordance with the Decision on Bank Reserve Requirement to be held with the Central Bank of Montenegro ("Official Gazette of Montenegro", No. 40/10, 06/13, 70/17, 88/17, 43/20). In accordance with the aforementioned Decision, banks calculate the reserve on demand deposits and term deposits.

Banks calculate the reserve requirement by applying the rate of:

- 5.5% - on the part of the base consisting of demand deposits and deposits with a maturity of up to one year, i.e., up to 365 days;

- 4.5% - on the part of the base consisting of deposits with a maturity of over one year, i.e., over 365 days;

- 5.5% - on deposits with a maturity of over 365 days, which have a clause on the possibility of terminating these deposits within less than one year, or within less than 365 days.

Banks deposit the calculated reserve requirement to the reserve requirement account in the country and/or to the accounts of the Central Bank abroad, and they may not allocate or deposit reserve requirement in any other form.
The reserve requirement is allocated in EUR.

Reserve requirement funds allocated to the accounts of the Central Bank abroad cannot be transferred to other accounts abroad, but can be transferred exclusively to the bank's transaction account in RTGS system.

16. LOANS AND ADVANCES TO BANKS AT AMORTIZED COST

In thousands of EUR

	December, 31 2020	December, 31 2019
Correspondent accounts in foreign banks	62.113	16.572
Placements with foreign banks	-	21.360
Interest on term deposits	-	2
	62.113	37.934

The value of loans and advances to banks at amortized cost that are migrated from Podgorička banka is EUR 1,072 thousand. Due to the merger of Podgorička banka within the process of migration of receivables and liabilities in period from December 8 to December 11, transfer of funds was made from correspondent accounts of Podgorička banka held with foreign banks to the Bank's correspondent accounts in the total amount of EUR 8,063 thousand. The Bank recorded these assets within Other liabilities. By account mapping, these funds were mapped within Other assets. During the reconciliation process, Other assets and Other liabilities were netted in the amount of EUR 8,063 thousand (Note 5).

17. LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

In thousands of EUR

	December, 31 2020	December, 31 2019
Loans to financial institutions	6.214	4.465
Loans to the non-financial sector	775.954	381.261
Loans to Government of Montenegro and other budgetary beneficiaries	167.672	102.604
	949.840	488.330
Allowance for impairment on loans	(33.035)	(13.437)
Net loans	916.805	474.893
Factoring and forfeiting	5.262	5.067
Allowance for impairment on factoring and forfeiting	(175)	(1.440)
Net factoring and forfeiting	5.087	3.627
Receivables from outstanding protested guarantees	1	1
Allowance for impairment on receivables from outstanding protested guarantees	-	-
Net receivables from outstanding protested guarantees	1	1
Interest receivables from loans	1.573	1.119
Allowance for impairment on interest receivables from loans	(1.410)	(1.059)
Net interest receivables from loans	163	60
Accruals and prepaid expenses	2.335	1.130
Unamortized deferred fee	(3.805)	(2.411)
Fees and expenses accruals	(1.470)	(1.281)
	920.586	477.300
Loans and advances from customers (gross)	959.011	495.647
Unamortized deferred fee	(3.805)	(2.411)
Total gross loans	**955.206**	**493.236**
Allowance for impairment	(34.620)	(15.936)
	920.586	**477.300**

The increase in loans and advances to the customers at amortized cost due to the merger of Podgorička banka, on December 11, 2020 is shown in the table below (Note 5):

In thousands of EUR

	Separate statements of financial position of Podgorička banka, as of December 11, 2020	Reclassifica tion effects	Purchase price allocation, Stage 2 Discount	The difference between an separate and consolidated impairment calculation	Netting POCI exposures	Adjusted statements of financial position, as of December 11, 2020
Loans and advances from customers (gross)	421.640	(821)	(1.209)	-	(11.067)	408.543
Allowance for impairment	(23.479)	-	-	(378)	11.067	(12.790)
Total loans and advances from customers	**398.161**	**(821)**	**(1.209)**	**(378)**	**-**	**395.753**

17. LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (Continued)

The reclassification effects resulted from differences in account mapping and related to:

- Commission transactions - installments cards, in the amount of EUR 851 thousand. Reclassification reduces the balance of loans and advances from customers,
- Receivables based on credit cards commissions and fees in the amount of EUR 4 thousand. Reclassification reduces the balance of loans and advances from customers,
- Accruals of fees on issued guarantees and letters of credit, which increase the balance of this position in amount of EUR 34 thousand.

These amounts adjust the position Other assets.

Overview of loans by business activities (gross) is shown in the following table:

		In thousands of EUR
	December 31, 2020	**December 31,2019**
Agriculture, forestry and fishing	9.282	6.046
Mining and quarrying	3.230	2.030
Manufacturing industry	13.915	3.066
Electricity supply	0	-
Water supply	338	248
Construction	44.252	27.478
Wholesale and retail trade and repair of motor vehicles and motorcycles	124.579	66.514
Traffic and storage	6.252	4.380
Accommodation and catering services	92.309	65.629
Information and communication	26.418	3.311
Financial and insurance activities	13.742	5.391
Real estate business	2.218	203
Professional. scientific and technical activities	3.644	2.221
Administrative and support service activities	4.096	836
Public administration and defense and compulsory social security	162.201	103.273
Education	85	33
Health and social protection	941	164
Arts, entertainment and recreation	198	216
Other service activities	614	188
Individuals - residents	444.507	198.311
Non-residents	6.190	6.109
	959.011	495.647

Short-term loans to the non-financial sector (companies) in 2020 were mostly approved for working capital with a maturity of 1 to 12 months, while long-term loans were approved for a period of 1 to 10 years and mainly relate to companies in the field of trade.

Companies are most often granted short-term loans with interest rate (NIR) of 2% to 12% per annum, while long-term loans are granted with interest rate of 2.3% to 12% per annum.

Short-term loans to citizens are approved in 2020 with interest rate (NIR) ranging from 6.5% (cash loans) to 20% (allowed minus - overdraft and credit cards) on an annual basis. Long-term loans to citizens which include loans for the purchase of housing units, adaptation of housing and business premises, financing the purchase of consumer goods and other purposes, are approved for a period of 1 to 25 years with a nominal interest rate ranging from 2.99% to 6.99% annually. Loans within the Government project "1000+" are granted at a rate of 2.99%. The geographic concentration of loans placed to customers by the bank in the loan portfolio covers mainly customers based in Montenegro.

18. SECURITIES AT AMORTIZED COST

In thousands of EUR

	December 31, 2020	December 31, 2019
Long-term debt instruments - Eurobonds issued by Ministry of Finance of the Government of Montenegro	-	33.885
Long - term debt instruments – issued by the Ministry of Finance of the Government of Montenegro	27.300	44.510
	27.300	78.395
Interest receivables	565	1.606
Allowance for impairment for securities at amortized cost	(583)	(435)
	27.282	79.566

	Gross carrying amount with maturity date over 1 year	Nominal Interest rate	Value date
Long - term debt instruments – issued by Ministry of Finance of the Government of Montenegro	27.300	3%	11 / 2024
	27.300		

19. SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In thousands of EUR

	December 31, 2020	December 31, 2019
Banks and financial institutions:		
- Montenegroberza, Podgorica (the Bank's equity interest 4,88%)	98	105
- Beogradska berza a.d., Beograd	6	-
- SWIFT Brisel	57	49
- Centralna depozitarna agencija, Podgorica (the Bank's equity interest 15%)	143	143
- CG Broker AD, Podgorica (the Bank's equity interest 11,57%)	63	-
	367	297
Other legal entities:		
- Elektroprivreda Crne Gore (the Bank's equity interest 0,04%)	163	205
- Lutrija Crne Gore (the Bank's equity interest 0,47%)	18	18
- Tržište Novca AD, Beograd	4	-
- Plantaze AD, Podgorica (the Bank's equity interest 9,23%)	1.490	-
- Montenegro Airlines	1	-
	1.676	223
	2.043	520

For the purposes of preparation of separate financial statements, the Bank classified securities at fair value through profit or loss, which are not held for trading for future measurement as securities at fair value through other comprehensive income, in accordance with the Bank's business model.

19. SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

On the merger date, December 11, 2020, the Bank recognized securities at fair value through other comprehensive income in the amount of EUR 1,437 thousand. Net impairment of fair value in the amount of EUR 429 thousand was reclassified within equity, from Retained earnings to Other reserves.

Due to the merger of Podgorička banka, the Bank took over the ownership of the following securities (Note 5):

	In thousands of EUR
	December 11, 2020
Banks and financial institutions:	
- Beogradska berza a.d., Beograd	6
- SWIFT Brisel	6
- CG Broker AD, Podgorica (the Bank's equity interest 11,57%)	63
	75
Other legal entities:	
- Plantaze AD, Podgorica (the Bank's equity interest 9,23%)	1.356
- Tržište Novca AD, Beograd	5
- Montenegro Airlines	1
	1.362
	1.437

20. INVESTMENTS IN AFFILIATES, SUBSIDIARIES AND JOINT VENTURES USING THE EQUITY METHOD

Investments in affiliates, subsidiaries and joint ventures using the equity method amount to EUR 335 thousand (31 December 2019: EUR 41,810 thousand).

After the migration of data conditioned by the merger of Podgorička banka into Crnogorska Komercijalna Banka AD Podgorica, the Bank stopped recognizing the investment in Podgorička banka in the amount of EUR 41,475 thousand.

In 2018, the Bank purchased 100% stake in OTP Debt Collection, d.o.o. Podgorica for the consideration of EUR 335 thousand. For this transfer, the Bank obtained the consent of the Central Bank of Montenegro No. 0102-07700-2/2018 dated October 24, 2018. The Bank, as the owner of OTP Debt Collection d.o.o. Podgorica was officially registered in the Central Registry of the Commercial Court on December 17, 2018.

The Bank deems that in the period from the date of payment of the consideration to the reporting date, market conditions have not changed significantly and that there are no internal and external indications that would affect the value of investments.

21. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR

	Buildings	Equipment and Other Assets	Assets under construction	Right of use assets	Total
Cost					
Balance at January 1, 2019	10.168	22.737	-	-	32.905
Additions during the year	149	2.027	-	-	2.176
Sales and disposals	(15)	(86)	-	-	(101)
Accumulated impairment	(1.673)	(77)	-	-	(1.750)
Balance at December 31, 2019	8.629	24.601	-	-	33.230
First implementation IFRS16	-	-	-	3.202	3.202
Balance at January 01,2020	8.629	24.601	-	3.202	36.432
Additions during the year	19	2.200	-	726	2.945
Transfer of balances by data migration date	11.590	5.222	31	871	17.714
Netting-the value adjustment of migra.assets	(3.201)	(3.820)	-	-	(7.021)
Activation of fixed assets		31	(31)	-	-
Balance at December 31, 2020	17.037	28.234	-	4.799	50.070
Accumulated depreciation					
Balance at January 1, 2019	2.289	17.337	-	-	19.626
Depreciation	248	1.907	-	-	2.155
Sales and disposals	(15)	(76)	-	-	(91)
Balance at December 31, 2019	2.522	19.168	-	-	21.690
Depreciation	232	2.038	-	868	3.138
Transfer of balances on migration date	3.704	4.368	-	575	8.647
Netting-the value adjustment of migra.assets	(3.201)	(3.820)	-	-	(7.021)
Balance at December 31, 2020	3.257	21.754	-	1.443	26.454
Net book value:					
- December 31, 2020	13.780	6.480	-	3.356	23.616
- December 31, 2019	6.107	5.433	-	-	11.540

As at 31 December 2020, the Bank has no pledged assets to secure repayment of loans and other liabilities.

During 2019, the Bank impaired construction facilities in the amount of EUR 1,673 thousand and equipment and other assets in the amount of EUR 77 thousand (Note 13).

By merging Podgorička banka, the Bank became the owner of property, plant and equipment in the net value of EUR 9,067 thousand (Note 5).

In thousands of EUR

	Buildings	Equipment and Other Assets	Assets under construction	Right of use assets	Total
Cost					
Transfer of balances by data migration	11.854	4.971	31	871	17.727
Accumulated impairment	-	(13)	-	-	(13)
Reclassification due to mapping	(264)	264	-	-	-
Balance at December 11, 2020	**11.590**	**5.222**	**31**	**871**	**17.714**
Accumulated depreciation	-	-	-	-	-
Transfer of balances on migration date	3,965	4,107	-	575	8,647
Reclassification due to mapping (bruto)	(261)	261	-	-	-
Balance at December 11, 2020	**3.704**	**4.368**	**-**	**575**	**8.647**
Net book value:					
- December 11, 2020	**7.886**	**854**	**31**	**296**	**9.067**

The accumulated impairment of equipment that belonged to Podgorička banka amounts to EUR 13 thousand. The mentioned equipment was impaired during 2019.

Property, plant and equipment recognized on the merger date, December 11, 2020, with cost of EUR 17,714 thousand and value adjustment of EUR 8,647 thousand include a netting amount of EUR 7,021 thousand. Netting of cost and value adjustment of intangible assets was performed by the Bank after the merger date.

22. INTANGIBLE ASSTES

In thousands of EUR

	License	Software	Client base value	Total
Cost				
Balance at January 1, 2019	4.522	9.134	-	13.656
Additions during the year	776	363	-	1.139
Accumulated impairment	-	(1)	-	(1)
Balance at December 31, 2019	5.298	9.496	-	14.794
Additions during the year	818	120	-	938
Transfer of balances on migration date	2.257	5	3.580	5.842
Transfer of balances on migration date Accumulated impairment	(259)	-	-	(259)
Netting-the value adjustment of migra.assets	(1.618)	(3)	-	(1.621)
Balance at December 31, 2020	6.496	9.618	3.580	19.694
Accumulated depreciation				
Balance at January 1, 2019	2.123	7.970	-	10.093
Depreciation	812	273	-	1.085
Balance at December 31, 2019	2.935	8.243	-	11.178
Depreciation	886	285	13	1.184
Transfer of balances on migration date	1.841	3	262	2.106
Netting-the value adjustment of migra.assets	(1.618)	(3)	-	(1.621)
Balance at December 31, 2020	4.044	8.528	275	12.847
Net book value:				
- December 31, 2020	**2.452**	**1.090**	**3.305**	**6.847**
- December 31, 2019	**2.363**	**1.253**	**-**	**3.616**

At the merger date, the Bank recognized intangible assets with a net present value of EUR 3,477 thousand, consisting of the cost of 5,842 thousand less accumulated impairment of 259 thousand and the value adjustment of 2,106 thousand.

The value of the customer base was calculated within the allocation of the purchase price on the acquisition date of Podgorička banka, July 31, 2019 (Note 5). Other intangible assets are mostly related to IT intangible assets.

Intangible assets recognized on the merger date, December 11, 2020, as the transfer of balances by data migration with cost of EUR 5,842 thousand and value adjustment of EUR 2,106 thousand includes a netting amount of EUR 1,621 thousand. Netting of cost and value adjustment of intangible assets was performed by the Bank in post merge period.

The balance transferred by data migration based on the impairment of intangible assets amounts to EUR 259 thousand, which was impaired during 2019.

23. ASSETS INTENDED FOR SALE

Assets intended for sale as at 31 December 2020, in the amount of EUR 10 thousand relate to part of the assets acquired on the basis of collection of receivables that Podgorička banka had in its ownership in a period of less than 12 months.

Assets as at the reporting date relate to properties acquired by Podgorička banka on the basis of collection of receivables from one natural person. Acquired assets are recorded at a lower than the total value of receivables and the estimated value of the asset, i.e., at the value determined in the acquisition process. Assets that were stated within assets intended for sale as at 31 December 2019 were sold during 2020 or reclassified to acquired assets under other assets.

24. OTHER FINANCIAL ASSETS AT AMORTIZED COST AND OTHER ASSETS

In thousands of EUR

	December 31, 2020	December 31, 2019
Other financial assets at amortized cost		
Nostro-covered letters of credit and guarantees	1.738	1.268
Temporary accounts for payment of funds	32	33
Allowance for impairment, nostro-covered letters of credit and guarantees	(1)	(1)
Other financial assets at amortized cost	1.769	1.300
Other assets		
Other receivables on fees and commissions	2.274	2.358
Temporary accounts	1.930	1.092
Other receivables from customers	987	810
Placements from commission business	871	-
Prepayments	166	128
Receivables from buyer	180	77
Other business receivables	29	39
Deferred expenses	381	323
Receivables from checks	2	3
Receivables from state funds	115	-
Receivables in respect of the legal suits assets and other assets in delay	6.557	6.556
	13.492	11.386
Allowance for impairment	(9.001)	(9.042)
	4.491	2.344
Assets acquired from receivables collection	2.459	-
Impairment of acquired assets	(1.787)	-
	672	-
	5.163	2.344

As at 31 December 2020, nostro-covered letters of credit and guarantees in foreign banks in the amount of EUR 1,738 thousand relate to deposits given by the Bank as a guarantee for transactions with VISA credit cards, in the Visa International Service Association in the amount of EUR 1,530 thousand, and American Express credit cards, in Deutsche Bank Frankfurt in the amount of EUR 208 thousand.

24. OTHER FINANCIAL ASSETS AT AMORTIZED COST AND OTHER ASSETS (Continued)

The structure of value adjustment on other assets is shown in the table below:

		In thousands of EUR
	December 31, 2020	**December 31, 2019**
Receivables in delay	2.444	2.486
Receivables in respect of the legal suits assets and other assets	6.557	6.556
	9.001	9.042

The impairment on other assets in the amount of EUR 9,001 thousand as at 31 December 2020 (31 December 2019: EUR 9,042 thousand) includes:

- provisions for receivables based on court proceedings initiated against former employees of the Bank in the amount of EUR 6,229 thousand (31 December 2019: EUR 6,229 thousand);
- provisions for uncollectible receivables based on payment operations fees, electronic banking fees, cards in the amount of EUR 1,899 thousand (31 December 2019: EUR 2,486 thousand); and
- other uncollectible receivables in the amount of EUR 873 thousand (31 December 2019: EUR 327 thousand).

Assets acquired through collection in the amount of EUR 2,459 thousand relate to assets acquired on the basis of activation of loan collateral, which are owned by the Bank for a period longer than 12 months. Assets acquired on the basis of collection of receivables are recorded at a lower than the total value of receivables and the estimated value of the asset, i.e., at the value determined in the acquisition process.

24. OTHER FINANCIAL ASSETS AT AMORTIZED COST AND OTHER ASSETS (Continued)

Other assets

The following table shows the values of other assets transferred by data migration, following the reconciliation after the merger:

In thousands of EUR

	December 11, 2020	Reclassification and adjustments (Note 5)	Adjusted statements of financial position, as of December 11, 2020
Other receivables on fees and commissions (Note 18)	181	(34)	147
Other receivables from customers	169	(63)	106
Prepayments	22	-	22
Receivables from buyer	50	-	50
Other business receivables	59	(55)	4
Deferred expenses	186	-	186
Receivables from state funds	130	-	130
Transfer of funds from correspondent accounts of Podgorička banka to correspondent accounts of the Bank	-	8.063	8.063
Other receivables on fees and commissions – *reclassification from loans and advances from* customers *pozicije Krediti i potraživanjaod klijenata (Napomena 18)*	-	4	4
Placements from commission business – *reclassification from loans and advances from* customers *(Note 18)*	-	853	853
	797	8.768	9.565
Allowance for impairment	(197)	167	(30)
	600	8.935	9.535
Assets acquired from receivables collection	2.459	-	2.459
Impairment of acquired assets	(1.787)	-	(1.787)
	672	-	672
	1.272	8.935	10.207
Adjustments due to migration of data - Transfer of funds from correspondent accounts of Podgorička banka to correspondent accounts of the Bank	-	(8.063)	(8.063)
Total other assets	**1.272**	**872**	**2.144**

Within other assets, netting of receivables and related value adjustment was performed for other receivables from customers (receivables based on litigation) in the amount of EUR 63 thousand and other receivables in the amount of EUR 55 thousand.

25. DEPOSITS OF BANKS AND CUSTOMERS

	December 31, 2020	In thousands of EUR December 31, 2019
Demand deposits		
Banks, other financial institutions and companies	15.976	12.032
Public and private funds	3.561	1.147
Companies	264.279	170.989
Entrepreneurs	5.980	5.396
Public services of local self-government units	21.446	13.678
Government of Montenegro	45.229	29.384
Regulatory agencies	2.213	2.016
Non-governmental and other non-profit organizations	24.880	17.109
Private individuals	378.018	283.924
Funds on escrow account and other	315	273
	761.897	535.948
Short-term deposits		
Banks, other financial institutions and companies	-	2
Companies	19.654	5.978
Public services of local self-government units	272	-
Government of Montenegro	83	60
Non-governmental and other non-profit organizations	308	9
Private individuals	79.552	43.772
	99.869	49.821
Long-term deposits		
Banks and other financial institutions and companies	405	280
Public and private funds	203	216
Companies	2.244	6.859
Public organizations of local municipalities	4	-
Government of Montenegro	100	-
Non-governmental and other non-profit organizations	50	-
Private individuals	26.714	16.674
	29.720	24.029
Interest liabilities	13	13
Accrued interest	434	110
	891.933	609.921

At the merger date, the transferred balance of customer deposits amounted to EUR 289,560 thousand. Due to the reclassification effects resulting from the differences in the account mapping, the balance of demand deposits was adjusted, i.e., decreased by EUR 405 thousand.

Reclassification refers to:

• Increase of EUR 20 thousand for payment to merchants based on card transactions. Reclassification was performed from other liabilities.
• Decrease of EUR 425 thousand for demand deposits - dedicated account for repurchase of shares by public offering. Reclassification was performed on other liabilities.

After reclassification, the structure of migrated balances of deposits is shown in the table below:

	In thousands of EUR
Demand deposits	220.965
Short-term deposits	54.503
Long-term deposits	13.346
Interest liabilities	301
Accrued interest	40
	289.155

25. DEPOSITS OF BANKS AND CUSTOMERS (Continued)

As at 31 December 2020, liabilities based on deposits in the amount of EUR 891,933 thousand (31 December 2019: EUR 609,921 thousand) consist of:

- Deposits of banks and central banks stated at amortized cost in the amount of EUR 1,145 thousand (31 December 2019: EUR 838 thousand) and
- Deposits of customers stated at amortized cost in the amount of EUR 890,788 thousand (31 December 2019: EUR 609,083 thousand).

Newly deposited or redeposited funds (demand deposits of private individuals in EUR) are deposited at interest rate of 0.01% to 0.05% per annum. Demand deposits of private individuals in foreign currency are deposited at interest rate of 0.05% per annum.

Interest rates in the range of 0.01% to 0.50% per annum were calculated on term deposits of companies in EUR with a maturity in 2020, depending on the depositing period and the deposited amount.

New term deposits of private individuals in EUR were deposited at an interest rate of 0.01% to 0.05% per annum during 2020.

The interest rate on demand deposits of companies in 2020 ranged from 0% to 0.01% per annum.

26. LOANS OF BANKS AND CLIENTS PRESENTED AT AMORTIZED COST

	Currency	December 31, 2020	In thousands of EUR December 31, 2019
Liabilities to banks:			
OTP Bank Plc. Budapest	EUR	138.643	10.000
		138.643	10.000
Accrued interest liabilities		32	-
		138.675	10.000
Liabilities to other creditors:			
Directorate for Development of Small and Medium Sized Enterprises	EUR	458	485
Government of Montenegro - – 1000+ housing	EUR	8.964	3.428
European Bank for Reconstruction and Development („EBRD“)	EUR	2.568	-
European Investment Bank („EIB“)	EUR	13.301	-
European Fund for Southeast Europe („EFSE")	EUR	5.890	-
		31.181	3.913
Deferred loan fees	EUR	(80)	-
		31.101	3.913
		169.776	13.913

Loans received from Directorate for Development of Small and Medium Enterprises in the amount of EUR 458 thousand (31 December 2019: EUR 485 thousand) relate to long-term loans, with a repayment period of three to eight years, with an interest rate of up to 7% per annum.

Liabilities to the Government of Montenegro under the Project "1000+" for granting housing loans to socially disadvantaged categories of population amount to EUR 8,964 thousand (31 December 2019: EUR 3,428 thousand) and relate to three contracts:

- Liabilities in the amount of EUR 979 thousand (31 December 2019: EUR 1,067 thousand) relate to the Business Cooperation Agreement concluded in October 2010, for a period of 20 years, with a grace period of up to 5 years and a fixed interest rate of 0.98%,
- Liabilities in the amount of EUR 947 thousand (31 December 2019: EUR 1,008 thousand) relate to the Cooperation Agreement for the implementation of 1000+ apartments project concluded in October 2016, for a period of 20 years, with a grace period of up to 5 years and a fixed interest rate of 0.75%,
- Liabilities in the amount of EUR 1.423 thousand (31 December 2019: EUR 1,353 thousand) relate to the Cooperation Agreement for the implementation of 1000+ apartments project - Phase III concluded in June 2019, for a period of 20 years, with a grace period up to 3 years and an interest rate of 0%.

On the merger date, December 11, 2020, the Bank took over the liabilities to the Government of Montenegro on the basis of a long-term loan for the 1000+ project in the amount of EUR 5,615 thousand intended for the approval of housing loans for private individuals. As of December 31, 2020, liabilities for this loan are amounted at EUR 5,615 thousand.

During 2020, the Bank used short-term borrowings from the parent company, at interest rates (0.36)% - 0.615%. As at 31 December 2020, liabilities for short-term borrowings from the parent bank amount to EUR 138,675 thousand and liabilities assumed due to the merger of the banks amount to EUR 118,854 thousand.

26. LOANS OF BANKS AND CLIENTS PRESENTED AT AMORTIZED COST (Continued)

- European Bank for Reconstruction and Development on the basis of a long-term loan in the total amount of EUR 2,568 thousand intended for the approval of housing loans for individuals. The loan is approved for a period of up to 7 years and an annuity repayment method, for loans with an agreed variable rate and a fixed interest rate. In accordance with the terms of the agreement, the European Bank for Reconstruction and Development requires that the Bank's solvency ratio is above the defined level and compliance with the requirements of the Central Bank of Montenegro in terms of other financial indicators. As of December 31, 2020, the financial indicators of the Bank comply with the terms of the agreement on the aforementioned basis.
- European Investment Bank on the basis of long-term loans in the amount of EUR 13,301 thousand which are intended to finance development of small and medium enterprises in Montenegro. Loans are approved for a period of up to 7 years.
- European Fund for Southeast Europe on the basis of a long-term loan in the amount of EUR 5,890 thousand intended for the approval of housing loans for individuals. The loan is approved for a period of 10 years. In accordance with the terms of the agreement, the European Fund for Southeast Europe requires that the Bank's solvency ratio is above the defined level and compliance with the requirements of the Central Bank of Montenegro in terms of other financial indicators. Also, the Bank is required to maintain other ratios in accordance with the defined level, such as: credit exposure ratio, large capital exposure ratio, cumulative maturity gap and others. As of December 31, 2020, the financial indicators of the Bank comply with the terms of the agreement on the aforementioned basis.

On the merger date, the Bank recognized the following liabilities based on loan liabilities.

In thousands of EUR	**December 11, 2020**
Liabilities to banks:	
OTP Bank, Budapest, Hungary	118.854
Liabilities to other creditors:	
European Bank for Reconstruction and Development („EBRD“)	2.564
European Investment Bank („EIB“)	13.295
European Fund for Southeast Europe („EFSE")	5.884
Government of Montenegro	5.613
Accrued fees and commissions for EBRD loans	(2)
	27.354
	146.208

27. PROVISIONS

	December 31, 2020	In thousands of EUR December 31, 2019
Provisions on off-balance sheet items		
- Provisions for losses per off-balance sheet items	500	656
- Provisions for losses per off-balance sheet items – transfer as part of the migration of receivables and liabilities	2.337	-
Total provisions on off-balance sheet items	2.837	656
Employee benefits		
- Provisions for retirement benefits and Jubilee awards	729	804
- Provisions for retirement benefits and Jubilee awards – transfer as part of the migration of receivables and liabilities	223	-
	952	804
- Provisions for unused vacations	605	605
Total employee benefits	1.557	1.409
Other provisions		
- Provisions for potential litigation losses	1.552	1.935
- Provisions for potential litigation losses – transfer as part of the migration of receivables and liabilities	441	-
- Provision for termination of contract	-	21
- Provisions for losses based on operational risk	242	420
Total other provisions	2.235	2.376
	6.629	4.441

On the merger date, December 11, 2020, the Bank took over the following provisions for potential losses and provisions for retirement benefits and jubilee awards.

In thousands of EUR	**December 11, 2020**
Provisions for contingent losses on:	
- off-balance sheet items	2.337
- litigations	440
- operational risk	-
Provisions for retirement benefits and jubilee awards	223
	3.000

As of 31 December 2020, the Bank made provisions for retirement benefits and jubilee awards based on an independent actuary's estimate of EUR 952 thousand (2019: EUR 804 thousand). Provisions are made based on the following assumptions:

- Discount rate - 2.875%,
- Growth rate of expected future earnings 0%.

In accordance with the Collective Agreement, the Bank is obliged to pay the employee a retirement benefit in the amount of 6 average net salaries of the Bank's employees, valid in the month preceding the month in which the payment is made.

28. OTHER LIABILITIES

		In thousands of EUR
	December 31, 2020	December 31, 2019
Custody obligations	4.488	3.501
Liabilities for commission business	7.248	4.134
Advances received	4.317	655
Liabilities for other taxes	217	141
Obligations to suppliers	524	87
Lease obligations	3.520	-
Temporary account	1.158	482
Accruals for employee payments	2.254	1.131
Accruals for employee benefits - severance pay	2.223	5.483
Accruals and prepaid income	2.349	1.620
Accruals of received guarantees	881	856
Other liabilities	1.140	611
	30.321	18.702

On the merger date, December 11, 2020, the balance transferred based on other liabilities amounted to EUR 5,699 thousand. Due to reclassification effects resulting from differences in account mapping, the balance of other liabilities increased by the amount of EUR 405 thousand (Note 5).

Reclassification refers to:

- Decrease of EUR 20 thousand for payment obligation to merchants based on card transactions. Reclassification was performed on liabilities based on deposits,
- Increase of EUR 425 thousand based on funds on a dedicated account for the repurchase of shares under a public offering. Reclassification was made from demand deposits

After reclassification, the balance of other liabilities amounts to EUR 6,104 thousand.

Liabilities under leases

	In thousands of EUR
Future lease payments under operating lease arrangement as of December 31, 2019, VAT excluded	5.236
Present value of the future lease payments as of the first-time adoption date January 01, 2020, VAT excluded	3.265
Lease liability recognized as at January 1, 2020	3.265
Of which:	
- lease liability maturing over a year	3.265
- lease liability within a year	-
Lease liability recognized as at January 1, 2020	3.265
Interest on lease liabilities	115
Adjustments during the year due to new leases and terminations of contracts	724
Payments during the year	(867)
Transfer of balances on migration date	283
Lease liability recognized as at December 31, 2020	3.520
Of which:	
- lease liability maturing over a year	1.914
- lease liability within a year	1.606

29. SHARE CAPITAL

As at 31 December 2020, the share capital of the Bank consists of 355,717 ordinary shares (31 December 2019: 355,717 ordinary shares), with an individual nominal value of EUR 511.2919. The registered amount of capital is EUR 181,876 thousand. All issued shares are fully paid.

As of December 31, 2020, the sole shareholder of the Bank is OTP Bank Plc. Budapest with 100% share in the capital.

In accordance with the regulations of the Central Bank of Montenegro, on December 31, 2020, the Bank is obliged to maintain a minimum capital solvency ratio of 10%. The Bank's solvency ratio on December 31, 2020 was 20.07%.

The Bank is obliged to harmonize the scope of its operations with the prescribed indicators, i.e., to harmonize the scope and structure of its risky placements with the Banking Law and the regulations of the Central Bank of Montenegro. On December 31, 2020, the Bank does not deviate from the prescribed limits.

29.1. Own funds

According to the Banking Law (“Official Gazette of Montenegro” No. 17/08, 44/10 and 40/11), the amount of the founding capital cannot be less than EUR 5,000 thousand. As prescribed by the Decision on Capital Adequacy ("Official Gazette of Montenegro" No. 38/11, 55/12 and 82/17), the Bank is obliged to determine capital adequacy on the basis of own funds, as an absolute and solvency ratio as a relative indicator. The Bank's own funds represent the sum of paid-in share capital and other basic and additional elements of own funds, less deductible items.

The amount of own funds must always be at a level equal to or greater than:

a) the amount of the minimum monetary part of the founding capital;
b) the total amount of capital requirement for all risks.

The total amount of the Bank's capital requirement is the sum of:

1. capital requirement for credit risk, market risks and operational risk calculated by applying adequate methodologies;
2. capital requirement for country risk calculated in accordance with the regulations of the Central Bank of Montenegro which prescribe the methodology for calculating the capital requirement for country risk; and
3. capital requirement for other risks calculated using selected methodologies.

29. SHARE CAPITAL (Continued)

29.1. Own Funds (Continued)

Own funds of the Bank as at December 31, 2020 are:

	In thousands of EUR	
	December 31, 2020	December 31, 2019
Basic elements of own funds		
Share capital	181.876	181.875
Provisions established against profit after taxation	757	921
LLP according to regulatory requirement, allocated in accordance with the Decision prescribing minimum standards for credit risk management in banks	(777)	(777)
The amount that mitigates the negative effects on own funds due to first application of IFRS 9	544	660
Total: Basic elements of own funds	182.400	182.679
Deductible items in calculation of core capital		
Loss from previous years	(15.718)	(41.064)
Loss of the year	-	-
Intangible assets	(6.847)	(3.616)
Unrealized loss on fair value adjustment of financial assets available for sale, at fair value	(259)	-
Positive difference between the amount of accrued provisions for contingent losses and the sum of value adjustments for items of balance sheet assets and provisions for off-balance sheet items	(8.560)	-
Total: Deductible items of the Bank's own funds	(31.384)	(44.680)
Core capital	151.016	137.999
Deductible items from own funds - direct or indirect investments in another bank or another credit or financial institution in the amount exceeding 10% of capital of those institutions	(206)	(41.618)
Own capital decreased by 50% of deductible items of own funds	150.913	117.190
Supplementary capital decreased by 50% of deductible items of own funds	(103)	(20.809)
Core capital, decreased as needed	150.810	96.381
OWN FUNDS	**150.810**	**96.381**

29. SHARE CAPITAL (Continued)

29.2. Solvency Ratio of the Bank

Pursuant to the provisions of the Decision on Capital Adequacy of Banks ("Official Gazette of Montenegro" No. 38/11, 55/12 and 82/17), the Bank calculated the capital requirement for the risks it is exposed to during operations, as well as the solvency ratio. The solvency ratio must not be less than 10%.

The solvency ratio represents the percentage ratio of the Bank's own funds to the sum of:

1. the total amount of risk-weighted assets for credit risk;
2. the amount of risk-weighted assets for market risks;
3. the amount of risk-weighted assets for operational risk; and
4. the amount of risk-weighted assets for other risks.

As at 31 December 2020, according to the Bank's calculation, the solvency ratio was:

In housands of EUR

	December 31, 2020	**December 31, 2019**
Own capital decreased by 50% of deductible items of own funds	150.913	117.190
Supplementary capital decreased by 50% of deductible items of own funds	(103)	(20.809)
Total own funds (Note 30.1)	150.810	96.381
Risk-weighted balance sheet assets	622.620	320.549
Risk-weighted off-balance sheet items	56.117	25.583
Amount that mitigates the negative effects on own funds due to first application of IFRS 9	544	660
Total risk-weighted balance sheet assets	679.281	346.792
Capital requirement for operational risk	7.025	5.742
Capital requirement for country risk	1.883	3.053
Bank's solvency ratio	20,07%	23.67%

30. OFF-BALANCE SHEET ITEMS

In thousands of EUR

	December 31, 2020	December 31, 2019
Guarantees, guarantees and irrevocable obligations:		
- Payment guarantees	34.375	14.987
- Performance bonds	44.691	17.379
- Letters of credit	789	542
- Undrawn credit facilities	89.648	40.091
Total credit risk exposure by off-balance sheet items	169.503	72.999
Collateral:		
- mortgages	1.182.232	681.063
- pledge / Other	231.235	1.997.771
- securities	2.471	3.413
- insurance policy	181.354	-
- Deposits	13.612	-
	1.610.904	2.682.247
Provided collaterals:		
- bill of exchanges	1.352	1.352
Loro:		
- Loro letter of credits	933	-
- Loro guarantees	74.175	-
	75.108	-
Other off-balance sheet items:		
- re-transferred loans	40.209	42.315
- service loans	7.383	-
- written off receivables in internal evidence	38.726	30.683
- Accrued interest	3.206	442
	89.524	73.440
Off-balance sheet records without credit risk impact	1.776.888	2.757.039
Total off-balance evidence	1.946.391	2.830.038

During 2020, for the purpose of harmonization with Podgorička banka, the Bank made a decision to change the manner of collateral booking for bills of exchange, attachments of salary, and similar collateral, in a way that these collaterals are not assigned a carrying amount. Total amount of collaterals as of December 31,2020 is EUR 1.610.904 thousand, and as of December 31,2019 the amount is EUR 2.682.247 thousand. As at 31 December 2019, the total amount of these collaterals is EUR 1,870,185 thousand. In addition, the Bank presented deposits as collateral in its off-balance sheet records.

30. OFF-BALANCE SHEET ITEM

Off-balance sheet items migrated in the merging process of Podgorička banka are presented in the table below:

	In thousands of EUR December 11, 2020
Guarantees, guarantees and irrevocable obligations:	
- Payment guarantees	17.230
- Performance bonds	29.616
- Letters of credit	371
- Undrawn credit facilities	46.896
Total credit risk exposure by off-balance sheet items	94.113
Collateral:	
- mortgages	449.068
- pledge / Other	101.401
- insurance policy	174.022
- Deposits	3.510
	728.001
Loro:	
- Loro letter of credits	933
- Loro guarantees	74.175
	75.108
Other off-balance sheet items:	
- service loans	4.165
- written off receivables in internal evidence	11.342
-other off-balance items	11.066
- Accrued interest	2.260
	28.833
Off-balance sheet records without credit risk impact	831.942
Total off-balance evidence	926.055

31. TRANSACTIONS WITH RELATED PARTIES

Parties related to the Bank are the parent bank, members of OTP Group and employees of the Bank.

Overview of receivables and liabilities to related parties as of December 31, 2020 is given in the following table:

	December 31, 2020	In thousands of EUR December 31, 2019
Loans and advances to banks at amortized cost:		
− OTP Bank Plc. Budapest, Hungary	5.449	26.869
- OTP banka Hrvatska dd	-	28
- Vojvođanska banka dd, Srbija	3	3
Loans and advances to customers at amortized cost:		
- Bank's employees	11.233	9.066
	16.685	35.966
Investments in subsidiaries:		
- OTP Debt Collection doo, Podgorica	335	335
- Podgorička banka ad Podgorica	-	41.475
	335	41.810
Other assets:		
− OTP Bank Albanija	-	23
− OTP Debt Collection doo,Podgorica	1	-
Total receivables	17.021	77.799
Deposits of customers at amortized cost:		
− Bank's employees	5.002	4.811
− OTP Debt Collection doo, Podgorica	833	2.530
− Debt Management Project Montenegro doo, Podgorica	609	1.089
− - OTP Albania	192	-
	6.636	8.430
Loans to banks and central banks at amortized cost:		
- OTP Bank Plc. Budapest, Hungary	138.643	10.000
Other liabilities:		
OTP Bank Plc. Budapest, Hungary	32	-
Total liabilities	145.311	18.430
Net liabilities/receivables	(128.290)	59.370
Off-balance-sheet items		
Received guaranties:		
OTP Bank Plc. Budapest, Hungary	-	1.956
Vojvođanska banka dd, Serbia	157	-
Total off-balance	157	1.956

Short-term and long-term loans to the Bank' employees were approved for a period of 1 to 25 years. Short-term placements to the employee (cash loans) were approved with interest rate (NIR) ranging from 2.05% to 7.49% annually, while housing loans (new placements) were approved with interest rate (NIR) ranging from 3.99% per annum, and mortgage loans were approved with interest rate (NIR) ranging from 3.99% to 4.99% per annum.

31. TRANSACTIONS WITH RELATED PARTIES (Continued)

Long-term loans to the Bank's employees include loans for the purchase of housing units, mortgage loans, while short-term loans mainly consisted of cash loans. The employees deposited funds under the standard conditions of the Bank at a given time during 2020.

Revenues and expenses arising from transactions with related legal entities are as follows:

		In thousands of EUR
	2020	**2019**
Interest and similar income:		
- OTP Bank Plc. Budapest, Hungary	142	361
- Bank's employees	433	443
	575	804
Fee and commission income:		
- OTP Bank Plc. Budapest, Hungary	1	4
- OTP Debt Collection doo, Podgorica	1	2
- Debt Management Project Montenegro doo, Podgorica	-	5
- OTP Albania	15	-
	17	11
Total income	592	815
Interest and similar expense:		
- OTP Bank Plc. Budapest, Hungary	(72)	(179)
	(72)	(179)
Fee and commission expense:		
- OTP Bank Plc. Budapest, Hungary	(97)	(15)
	(97)	(15)
General and administrative expenses:		
- OTP Bank Plc. Budapest, Hungary	(298)	(8)
- Podgorička banka ad Podgorica		(8)
	(298)	(16)
Total expenses	(467)	(210)
Income, net	125	605

In the period from January 1 to December 31, 2020, benefits paid to persons with special authorizations and responsibilities amount to EUR 1,258 thousand (31 December 2019: EUR 1,216 thousand).

32. CASH AND CASH EQUIVALENTS (for statement of cash flow preparation)

		In thousands of EUR
	December 31, 2020	December 31, 2019
Cash on hand in EUR	41.623	27.450
Cash on hand in foreign currencies	3.009	2.116
Gyro account	157.962	82.635
Correspondent accounts in foreign banks	62.113	16.571
Placements with foreign banks	-	21.360
Other	1.787	1.597
	266.494	151.729

Inflow of cash and cash equivalents based on the merger of Podgorička banka amounts to EUR 84,263 thousand, consisting of:

- Cash on hand in the amount EUR 9,187 thousand,
- Gyro account in the amount of EUR 74,298 thousand,
- Cash in the correspondent accounts in foreign banks in the amount of EUR 1,072 thousand,
- Transfer account for payment per card transaction in the amount of EUR (294) thousand.

Cash and cash equivalents in separate financial statements of Podgorička banka amount to EUR 109,546 thousand, which includes the transfer of funds from Podgorička banka's correspondent accounts in foreign banks to the Bank's correspondent accounts in the total amount of EUR 8,063 thousand.

A difference in the amount of EUR 25,283 thousand includes:

- the transfer of funds from Podgorička banka's correspondent accounts in foreign banks to the Bank's correspondent accounts in the total amount of EUR 8,063 thousand
- the balance of mandatory reserve in the amount of EUR 17,220 thousand, which the Bank does not present in the statement of cash flows.

33. LITIGATIONS

As of December 31, 2020, the Bank is involved in a number of litigations arising from its day-to-day operations and relating to commercial and contractual matters, as well as labor relationships. According to the estimates of Legal Affairs Department of the Bank and the law office representing the Bank, the total value of disputes amounts to EUR 7,364 thousand, which does not include court costs. Additionally, this amount does not include any default interest that may be determined upon termination of litigation, as management is unable to determine the potential effects of default interest that may arise from these disputes until the date of these separate financial statements.

As of 31 December 2020, the Bank has allocated provisions for potential losses based on litigation in the amount of EUR 1,993 thousand (31 December 2019: EUR 1,935 thousand) (Note 27). The outcome of ongoing disputes, for which no provisions have been made, cannot be reliably estimated at this time, but the opinion of management and legal adviser is that no additional negative outcome of disputes is expected that could have material effects on the Bank's financial statements.

As of 31 December 2020, the Bank conduced lawsuits against legal entities and private individuals in the amount of EUR 23,576 thousand for 2,908 loan agreements.

34. CONFORMITY WITH INDICATORS OF THE CENTRAL BANK OF MONTENEGRO

The Bank is obliged to perform its operations in accordance with the provisions of the Banking Law and bylaws adopted on the basis of that Law.

Conformity with the performance indicators prescribed by the Central Bank of Montenegro on December 31, 2020 is presented as follows:

	Realized indicators	
	December 31, 2020	**December 31, 2019**
Core capital (the minimum amount – EUR 5 million)	150.810	96.381
Own funds of the Bank (the minimum amount - EUR 5 million)	150.810	96.381
Solvency ratio (the minimum amount of 10%)	20,07%	23,67%
Daily liquidity ratio as of December 31, 2020 (the minimum ratio 0.9)	1.79	1,06
Decade liquidity ratio for the decade ending December 31, 2020 (minimum ratio 1)	1,80	1,06
Exposure of the bank to one person or group of related parties (limit 25% of the bank's own funds)	16,62%	16,69%
Sum of large exposures (limit 800% of the bank's own funds)	45,08%	30,48%
Total exposure to persons related to the Bank (limit 200% of the bank's own funds)	13,96%	13,36%
Total exposure to the Bank's employee (limit 1% of the bank's own funds)	0,10%	0,14%
Ratio of investment in fixed assets	15,77%	8,52%

The Bank regularly monitors and controls the aforementioned prescribed performance indicators. During 2020, the Bank was in conformity with the prescribed performance indicators.

35. TAXATION RISKS

Montenegrin tax laws are often interpreted differently and are subject to frequent amendments. The interpretation of tax laws by the tax authorities in relation to the Bank's transactions and activities may differ from the interpretation of the Bank's management. As a result, transactions may be challenged by the tax authorities and an additional amount of taxes, penalties and interest may be imposed on the Bank. The statute of limitations for the tax liability is five years. This practically means that the tax authorities have the right to order the payment of outstanding liabilities within five years from the time the obligation arose.

36. FOREIGN EXCHANGE RATES

The official exchange rates used to convert foreign currency balance sheet items into EUR were:

	December 31, 2020	**December 31, 2019**
USD	0,8143	0,8937
CHF	0,9211	0,9199
GBP	1,1073	1,1736

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

37. EVENTS AFTER THE REPORTING PERIOD

There were no events that would affect the corrections and/or disclosures in separate financial statements as of December 31, 2020.

38. GENERAL INFORMATION ABOUT THE BANK

In accordance with the Decision on the content, deadlines and manner of preparation and submission of financial statements of banks ("Official Gazette of Montenegro" No. 15/12 and 18/13), general information on the Bank are presented below:

Name of the bank: Crnogorska komercijalna banka AD, Podgorica
Address: 81000 Podgorica, Moskovska no number
Tax identification number: 02239108
Phone/Fax: +382 20 403 371; +382 20 403 243
Registration number: 4-0001633
Date of incorporation: January 17, 1997
Ownership structure: Shareholding company with 100% share of foreign capital
Business activity: Other monetary mediation
Activity code: 6419
Website:www.ckb.me
E-mail: info@ckb.me
The bank has headquarters in Podgorica, 18 branches, 15 sub-branches and 1 counter on the territory of Montenegro.
The number of employees on December 31, 2020 is 552.
Gyro account: 907-510001-86, with the Central Bank of Montenegro

Information on the chairman and members of the Board of Directors.

	Name and last name	Place of residence
Chairman	Dr. Németh Miklós	Budapest, Hungary
Member	Nyitrai Győző József	Budapest, Hungary
Member	Kovács Pál József	Podgorica, Montenegro
Member	Krizsanovich Péter	Budapest, Hungary
Member	Olchvary Balays	Budapest, Hungary
Member	Tamas Kamarasi	Budapest, Hungary
Member	Ilona Torok	Budapest, Hungary
Chief Executive Officer	Kovács Pál József	Podgorica, Montenegro
Executive Director authorized for signing	Kovács Pál József	Podgorica, Montenegro

OTP Bank Plc. Budapest has 100% share in the Bank's capital.

38. GENERAL INFORMATION ABOUT THE BANK (Continued)

Issues of shares and their designations:

Issue designation	Nominal share value	Number of shares
MECKBPRA0PG8	511,2919	355.717

International Common Stock Identification Number (ISIN): MECKBPRA0PG8.

Stock exchange and quotations in which the shares are listed:

Name of stock exchange	Quotation
Montenegroberza AD. Podgorica	CKBP

Share price on the stock exchange:

	Ordinary shares	
	Lowest	Highest
in the previous year	2.959,76	2.959,76
in the current year	2.959,76	2.959,76

During 2020, there was no trading in the Bank's shares.

Share price at the beginning and end of the reporting period:

	Ordinary shares	
	Lowest	Highest
in the previous year	2.959,76	2.959,76
in the current year	2.959,76	2.959,76

The market capitalization amounted to EUR 792,342 thousand.

	Net profit per share	The ratio of the market price of a share to net profit per share	Book value per share
in the previous year	14	213 / 1	471
in the current year	5	569 / 1	575

Note: The data in the report related to the share price and market capitalization are the last recorded values on the stock exchange. The last change recorded on the stock exchange concerning the Bank's shares was on December 18, 2006.

Podgorica, March 19, 2020

Signed on behalf of Crnogorska Komercijalna Banka AD, Podgorica by:

Pal Kovacs	Maja Krstić	Slobodan Vujović
Chief Executive Officer	Executive Director for Strategy and Finance Division	Director of Accounting and Reporting Directorate

Report of the Management of Crnogorska Komercijalna Banka a.d. Podgorica for the year ended December 31, 2020

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INTRODUCTION

Crnogorska Komercijalna Banka AD, Podgorica (hereinafter: "the Bank") prepares financial statements (hereinafter: "the financial statements") in accordance with the Law on Accounting ("Official Gazette of Montenegro" No. 52/16) and decisions of the Central Bank of Montenegro that regulate financial reporting of banks.

Financial statements were prepared in accordance with the Decision on the content, deadlines and manner of compiling and submitting bank's financial statements ("Official Gazette of Montenegro", No. 15/12, 18/13 and 24/18).

In compiling these separate financial statements, the Bank has applied policies that are in accordance with the regulations of the Central Bank of Montenegro, but which differ from the requirements of International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") applicable on December 31, 2020, in recording of receivables for which the conditions have been met for exclusion from the Bank's balance sheet and the format of presentation of separate financial statements standards. Additionally, the application of IFRS 16 - Leases has been postponed to January 1, 2020, in accordance with the letter of the Central Bank of Montenegro number 03-105-1/2019 dated January 9, 2019. This standard introduces a new accounting treatment for lease contracts which has been applied by the Bank beginning from January 1, 2020.
In accordance with the Law on Accounting of Montenegro, IAS and IFRS published by the International Accounting Standards Board must be translated by the appropriate competent authority of Montenegro which has the right to translate and publish them, approved by the International Federation of Accountants (IFAC). Therefore, only IAS and IFRS officially translated, approved and published by the Institute of Certified Accountants of Montenegro can be applied. The latest official translations were published for the part of IAS in force since 1 January 2009, i.e., the part of IFRS in force since 1 January 2013, which includes only the basic text of standards and interpretations and does not include basis for conclusion, illustrative examples, instructions for application, comments, opinions and other explanatory material. In addition, the said translation does not contain a translation of the Basis of the Preparation and Presentation of Financial Statements. Also, amendments and improvements to IAS after 1 January 2009 and IFRS after 1 January 2013 have not been translated or published. In exeption to the above mentioned, in accordance with CBoM regulation, application of IFRS 9 Financial instruments is obligatory for banks starting from January 01, 2018.

Having in mind the effects that the stated deviations of accounting regulations of Montenegro from IFRS and IAS may have on the presentation of separate financial statements of the Company, the enclosed financial statements differ in that part and deviate from IFRS and IAS and cannot be treated as financial statements prepared in accordance with IFRS and IAS.

For the preparation of this report, the overview and information for all items of the financial statements of the current period with an overview and information from the previous period were used. The information was prepared based on the same principles and for the same period of time.

I. DESCRIPTION OF BUSINESS ACTIVITIES

The Bank was issued the license for operation by the Central Bank of Montenegro, by Decision No. 0101-72/1-2002 of 18 February 2002.

In addition, the Securities Commission registered it in the Register of Issuers of Securities under No. 51 (Decision No. 02/3-47/2-01 of 12 July 2001).

In accordance with the Banking Law, the Decision on Incorporation and the Articles of Association, the Bank performs the activities of receiving deposits and other funds of private individuals and legal entities and approval of loans and other placements from these funds, in whole or in part, for its own account.

In addition to these, the Bank may also perform the following activities:

- Issue guarantees and take on other off-balance sheet obligations,
- Buy, sell and collect receivables,
- Issue, process and record payment instruments,
- National and international payment operations,
- Financial leases,
- Trade, in its name and for its own account or for the account of its customers, with foreign currencies and financial derivatives,
- Prepares analyses and provides information and advice on creditworthiness of business organizations and entrepreneurs,
- Custody activities,
- Safekeeping in safe-deposit boxes,
- Other activities in accordance with the approval of the Central Bank of Montenegro.

In the course of 2020, the Bank revised and updated a significant number of internal policies and procedures, worked on improvement of efficiency and modernization of processes.

The Bank's headquaters is in Moskovska Street, no number, Podgorica.

The Bank performs its business operations in the entire territory of Montenegro, through its widespread network of business units.

As of 31 December 2020, the Bank was comprised of the head office in Podgorica, 18 branches, 15 sub-branch offices and 1 counter in the territory of Montenegro.

As of 31 December 2020, the Bank had 552 employees (31 December 2019: 457 employees).

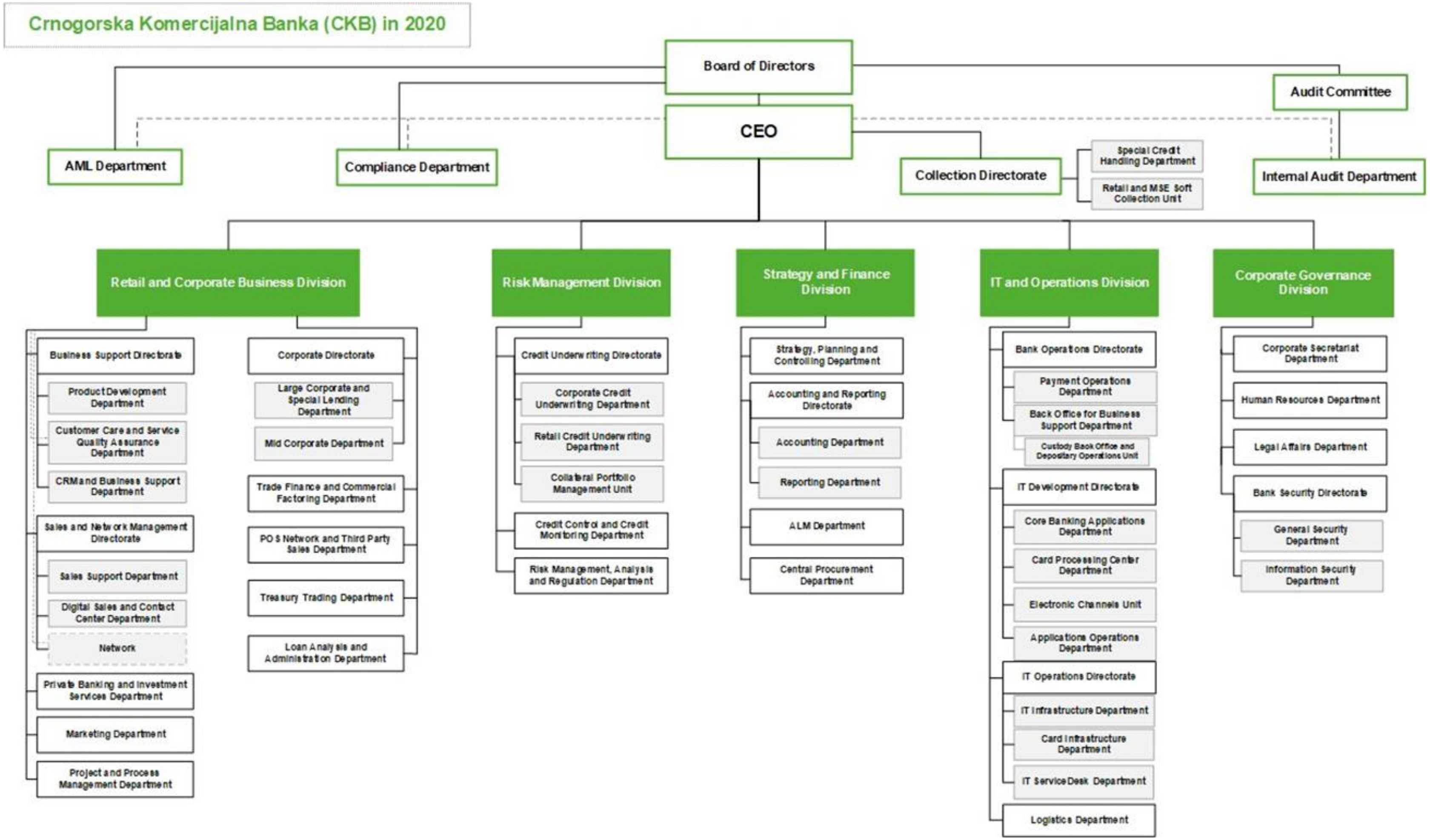
Based on the decision of the Board of Directors and Assignment Agreement on the transfer of share in OTP Debt Collection doo Podgorica, the Bank became the owner of 100% of the capital in OTP Debt Collection, doo Podgorica for a fee of EUR 335 thousand. The Bank as the owner of OTP Debt Collection, doo Podgorica, was officially registered in the Central Registry of Business Entities on 17 December 2018.

On 16 July 2019, the Bank became the owner of 90.56% of the share capital of Societe Generale Montenegro AD Podgorica, a Montenegrin subsidiary of Societe Generale Group. On 20 December 2019, by acquiring the remaining 9.44% of minority shareholders' shares, the Bank became the owner of 100% of Podgorička Banka shares.

In June 2019, pursuant to the Decision of the General Meeting of Shareholders No. 128/2019, the shareholder increased its capital in the amount of EUR 45,000 thousand, consisting of 88,012 shares with a nominal value of 511.2919.

The merger of Podgorička banka AD Podgorica, member of OTP Group ("Podgorička banka") with Crnogorska Komercijalna Banka AD Podgorica was completed on December 11, 2020, by decision issued by the Central Registry of the Commercial Court on deleting Podgorička banka from the Registry and decision on registering the merger of Podgorička banka into CKB banka.
In 2020, the Bank did not repurchase its own shares.

II. ORGANISATIONAL STRUCTURE



III. INFORMATION ON THE WORK OF THE BOARD OF DIRECTORS AND MANAGEMENT COMMITTEE

The members of the Board of Directors of the Bank as of 31 December 2020 were:

Name and last name	Function
Dr. Németh Miklós	Chairman
Nyitrai Győző József	Member
Kovács Pál József	Member
Krizsanovich Péter	Member
Olchvary Balazs	Member
Tamas Kamarasi	Member
Ilona Torok	Member

The members of the Audit Committee of the Bank as of 31 December 2020 were:

Name and last name	Function
Mr. Peter Krizsanovich	Chairman
Mr. Attila Kozsik	Member
Mr. Andras Szalay	Member

Executive Directors of the Bank as of 31 December 2020 were:

Name and last name	Key area
Mr. Pál Kovács	Chief Executive Officer
Mr. Viktor Vorobej	Executive Director of Risk Management Division
Mrs. Branislava Maja Vukčević	Executive Director of Corporate Governance Division
Mr. Ivan Vučinić	Executive Director of IT and Operations Division
Mrs. Sandra Kordić	Executive Director for Retail and Corporate Business Division
Mrs. Maja Krstić	Executive Director for Strategy and Finance Division

As of 31 December 2020, Dora Todorović was Head of Compliance Department.

As of 31 December 2020, Alenka Mugoša was Internal Auditor.

The Board of Directors sets the Bank's tone, reinforcing the importance of, and establishing oversight responsibilities for enterprise risk management. Culture pertains to ethical values, desired behaviors and understanding of risk in the Bank. The Board of Directors provides special attention to the improvement of internal control system that relates to:

- Improvements in corporate governance,
- Transparent information and communication flow in the Bank,
- Strengthening of the integrity and ethical values of all employees,
- Strengthening staff potential,

- Improvements in risk management with particular emphasis on country risk management, market risk, establishing of the procedure for creation of black list,
- Improvement of existing products and services,
- Improvement of accounting and reporting and implementation of IAS and IFRS,
- Improvement of internal audit regulatory framework,
- Improvement of the security of the Bank's information system.

During 2020, the Board of Directors held 25 regular and written meetings, at which the members considered all important issues and made pertaining decision. The Board of Directors is provided with Bank's Performance Report - Management Information System (MIS) on a monthly level, which presents key parameters of the Bank's operations. The Board of Directors monitored disbursements in each of the business segments and thus closely monitored the Bank's activities and advised on further steps.

The Board of Directors provided continuous support to the Bank Management in organizing the operations according to effective regulations. Therefore, it could be concluded that the BoD members supervised the Bank's work, carefully monitoring its operations and contributing to the successful work of the Bank.

The Bank's internal regulations were revised on annual basis, and new regulations were adopted in some organizational units, on an as-needed basis.

In line with regulatory requirements, in the corporate and retail segment, regular review of regulations and established processes was performed in the Bank in order to ensure adequacy of adopted administrative controls (policies, procedures, guidelines, limits, etc.) and their compliance with regulatory requirements.

In the risk segment Due Diligence, Policy for Market Risk Management, Credit Policy for Retail, Corporate and SMEs and Procedure of Operations with Bank Related Parties were adopted.

In the compliance segment, Code of Ethics, Compliance Policy and Rules on Transfer of Confidential Banking and Securities Information were adopted.

In the security segment, Bank Security Regulations and Rulebook on Investigation of Extraordinary Events were adopted.

In the legal segment, the Bank adopted ROO, Rules on Preparation and Enactment of Internal Regulations, Rules on Extraordinary Reporting and Data Disclosure Obligations, etc.

In the internal audit segment, the following regulations were adopted: Internal Audit Quality Assurance and Improvement Program of CKB AD Podgorica, Internal Audit Quality Assurance Manual, Annual Audit Planning Methodology. A decision was made to engage KPMG and Deloitte to provide non-audit services that are not prohibited. Changes were made where necessary.

In anti-money laundering segment, yearly and quarterly reports were adopted. Training program for employees of Crnogorska Komercijalna Banka a.d. Podgorica related to prevention of money laundering and terrorist financing was prepared.

In the corporate governance segment, the Bank adopted the Instruction on collection, processing, input and control of data for OTP CSR annual report, CSR Strategy 2020-2022, as well as revised all regulations in the domain of this department.

In the human resources segment, the following regulations were adopted: Rulebook on Annual Leaves, International Employment Rules, Rulebook on Performance Measurement and Motivation System for CKB Employees, as well as Rulebook on Internal Organization and Job Systematization. A review of all human resource procedures was also done where necessary.

At the meeting of the Board of Directors on November 28, 2019, the Tara Project was adopted with a detailed plan of integration, which was successfully completed on December 14, 2020.

After 17 months of intensive work, the legal and technical merger of CKB and Podgorička banka was successfully completed on December 13, 2020. The new, unified CKB Bank, with the largest branch network in the country, with a share in the Montenegrin market of about 30%, started operating on December 14, 2020. More than 114,000 clients were successfully transferred from the system of Podgoricka banka to CKB, which meant the migration of about 44 million records and records with accompanying data. To make all this possible, a number of software solutions have been developed and tested in recent months. Verification and intensive testing of the developed solutions lasted 9 months. During this period, a group of 14 Core Test Team members and 56 key business users tested more than 2,500 possible, prepared scenarios on a daily basis, thanks to which the integration of the two banks was carried out on time and according to plan.
In the period when the merger was performed, and after two general rehearsals, data was extracted from the system of Podgorička banka, checks and transformations were done on time and without critical events. Thanks to that, it was possible to continue with the transfer and loading of data into the CKB system. The next step was to validate the loaded data. The key integration goals showed that all data sets were transferred and 100% aligned. This whole series of timely and correctly performed steps resulted in the fact that on December 14, 2020, without major complaints and crowds in the counter halls, we opened our doors to clients as one, united bank.

In accordance with its legal powers, the Board of Directors has made a number of important decisions within its competence and proposed to the General Meeting of Shareholders the adoption of several decisions within the competence of the General Meeting of Shareholders. Four extraordinary and one regular assembly were held in 2020.

The operation of Crnogorska Komercijalna Banka a.d. Podgorica, in all its segments, has been compliant with the laws and other regulations, good practice of corporate governance, business strategy, business policy and key internal documents. The Bank will continue to work on improvement of procedures and processes to meet customer expectations and maintain good reputation on the market regarding flexibility and efficiency.

The Management Committee (hereinafter: "the Committee") is a permanent administrative body established by the Board of Directors which makes decisions independently and prepares decisions related to its activities in accordance with the Bank's Rules of Organization and Operation and other relevant regulations in accordance with the assigned competence. The Committee is authorized to resolve issues within its competence relating to investments and expenses that do not fall within the competence of any other body or manager, in accordance with the Decision/Approval Matrix.

During 2020, the Committee reviewed and passed 677 decisions, whether at regular or written sessions, all in accordance with the legislation.

Considering the scope and complexity of its operations, the Bank has developed and continuously works on maintenance and improvement of an effective risk management system that is capable of responding to the needs of ever-changing business environment. For this purpose, the Bank constantly manages all relevant risks in accordance with the laws and regulations of the CBMNE, taking into account the risk management standards at the level of OTP Group.

III.1 Macro-economic indicators

Economic activity in the eurozone, after a record decline of 12.1% in the second quarter of 2020, recorded a growth of 12.7% in the third quarter. However, compared to the third quarter of 2019, the economy in the

Eurozone recorded a decline of 4.3%. According to IMF, economic activity in the Eurozone in 2020 will fall by 8.3%.

The results of the preliminary calculation of the quarterly gross domestic product show that the gross domestic product of Montenegro in the third quarter of 2020 amounted to EUR 1,213.4 million, while in the same period last year it amounted to EUR 1,646.5 million. The real GDP growth rate in the third quarter of 2020 was -26.9%.

Due to the crisis caused by the Covid-19 pandemic, the World Bank's estimate of economic growth for 2020 for Montenegro is -12.4%, IMF -12.0%, EBRD -9.0%, S&P -7.8%, while the European Commission gave an estimate of -14.3%.

During the first nine months of the current year, negative trends were recorded in the field of tourism (decrease of 77% in the number of tourist arrivals, i.e., 79.7% in the number of overnight stays), construction (decrease of 7.9% in the value of construction work, i.e., 3.8% in effective working hours), industrial production (decrease of 1.5%), etc. There was a significant decrease in consumption, which is reflected in the decline in turnover of goods in retail trade of 23.4% on an annual basis.

The crisis has increased the vulnerability of Montenegro's public finances, which, on the one hand, are facing declining revenues due to declining economic activity and, on the other hand, the need to increase funding to repair the effects of the pandemic. The recent issue of Eurobonds has reduced the risk in the fiscal area, as funds have been provided to repay public debt and finance public spending in the coming year, which will also be characterized by high uncertainty due to the unpredictability of the further course of the pandemic.

According to the available indicators for 2020, consumer prices in November 2020, compared to the previous month, decreased by 0.3%. The largest decrease in prices was recorded in the category of clothing and footwear (-1.2%), mostly due to the decrease in prices of footwear by 1.7%. Prices increased in the categories of hotels and restaurants (-0.5%), transportation (-0.3%), food, non-alcoholic beverages and housing, water, electricity, gas and other fuels (-0.2%) and recreation and culture (-0.1%). Prices remained unchanged in the categories: alcoholic beverages and tobacco, furniture, household equipment and routine maintenance of dwellings, , communication, education and other goods and services.
Annual inflation in October 2020, measured by consumer prices, was (-1%), while inflation measured by the harmonized index of consumer prices was (-1.4%).

In the first eleven months of 2020, industrial production achieved the same volume as in the comparable period of the previous year. The production decreased in the sectors of manufacturing (-0.2%) and electricity, gas and steam supply (-2%), while the mining and quarrying sector grew by 7.4%. In the manufacturing industry, in this period, eleven areas recorded a decline in production. The largest decline was recorded in the manufacture of furniture (-40%), followed by manufacture of beverages (-32.2%), manufacture of wearing apparel (-31.4%), manufacture of machinery and equipment not elsewhere classified (-29.4%), while the smallest decrease was recorded in the field of printing and duplication of audio and video recordings (-5.6%). The highest growth was achieved in the area of production of tobacco products (51.8%), and the lowest in the area of production of products from other non-metal minerals (-0.7%).

In the first eleven months of 2020, a total of 261,313 m2 of forest assortments were produced in forestry, which is 10.2% more than in the same period in 2019.

According to preliminary data, the number of tourist arrivals in collective accommodation in the first eleven months of 2020 amounted to 261,042, which is 79.1% less than in the same period last year. A total of 923,453 overnight stays were realized, which is 79.9% less than in the same period in 2019.

In November 2020, according to MONSTAT records, 163,851 persons were employed, which is 1.3% less than in the previous month, and 19.3% less than in November 2019. The largest number of persons is employed in the following activities: wholesale and retail trade, repair of motor vehicles and motorcycles (19.8%), state administration and defense, compulsory social security (12.5%), education (7.7%), accommodation and food services (7.3%), health and social protection (7.2%), manufacturing (6.4%) and transport and storage (6.4%).

The number of unemployed persons in November 2020, compared to the previous month, increased by 5%, and compared to the same month of the previous year, by 24.1%. Average gross and net salaries in November 2020 remained unchanged compared to the previous month. The average net real earnings without taxes and contributions in November 2020 increased by 0.3% compared to the previous month.

According to preliminary data in the period January-November 2020, the net inflow of foreign direct investments amounted to 411.1 million euros, which is 49.5% more compared to the same period in 2019. The total inflow of foreign direct investments amounted to EUR 591.2 million (a decrease of 17.1%), which is a result of the decline in equity investments.

The original revenues of the budget of Montenegro and state funds in November 2020, according to the Ministry of Finance, amounted to EUR 154 million or 3.3% of estimated GDP, and were higher by 21.4% compared to the planned, and by 4.6% compared to November 2019.

In the structure of source revenues, in November, the largest share, 47.3%, was realized by tax revenues, followed by contributions 28.5%, donations 19%, receipts from loan repayments and funds transferred from the previous year 1.9%, fees 1.5%, other income 1.2% and fees 0.6%. In November, tax revenues were lower than in the same month of the previous year by 16.8%, and compared to the plan by 10.7%. Collection of excise duties amounted to EUR 16.6 million, which is 11.2% lower than in November 2019.

Consolidated budget expenditures (total expenditures less debt repayments) in November 2020 amounted to EUR 165.4 million or 3.6% of GDP, which is 16.1% lower than in the same month last year (due to the reduction of capital expenditures, i.e. reduced intensity of works on the construction of the priority section of the Highway), and 1.5% more compared to the plan.

The budget of Montenegro, in November 2020, recorded a deficit of 11.4 million euros or 0.3% of GDP.

The banking sector is currently showing good resilience to the crisis. The solvency ratio at the end of the third quarter of this year was 19.3%, which is slightly lower than at the end of the second quarter when it was 19.6%. Bank liquidity is also at a satisfactory level. There was a slight increase in the share of NPLs, which, at the end of the third quarter, amounted to 5.6%. The materialization of the newly emerging crisis in the form of the growth of non-performing loans does not currently have a systemic dimension, but is about individual banks, although with significant market shares.

The balance sheet total of banks at the end of November 2020 amounted to EUR 4,628.5 million and recorded an increase of 1.7% compared to the previous month, while compared to November 2019 it decreased by 1.5%. In the structure of banks' assets, in November 2020, the dominant share of 70.1% was achieved by total loans, followed by cash and deposit accounts with central banks with 18.3%, securities with 9.6%, while 2% referred to the remaining asset items. In the structure of liabilities, the dominant share of 72.7% was achieved by deposits, followed by capital with 13.5%, loans with 10%, while other items accounted for 3.8% of total liabilities.

The total capital of banks at the end of November 2020 amounted to EUR 626.3 million and recorded a growth of 1% on a monthly basis, while on an annual basis it recorded a growth of 5%.
The total approved bank loans at the end of November 2020 amounted to EUR 3,246.6 million and recorded an increase of 1.2% on a monthly basis, while compared to November 2019 they increased by 5%.

The loans/deposits ratio was 0.96 at the end of November 2020 and is higher than in November 2019, when it was 0.87. On the basis of loans, at the end of November 2020, banks demanded the most (77.7%) from the non-financial sector and retail.

Deposits with banks in November 2020 amounted to EUR 3,364.7 million, and recorded an increase of 1.9% on a monthly basis, while on an annual basis they were lower by 5.2%. In the maturity structure of total deposits at the end of November, demand deposits had the largest share of 70.8%, while time deposits accounted for 28.5% of total deposits. The remaining 0.7% related to funds in the escrow account. In the structure of total time deposits, deposits with a maturity of three months to one year (45.3%) and one to three years (34.2%) had the largest share.

Observed by sectors, at the end of November 2020, total deposits were dominated by retail deposits with 36.5%.

Liquid assets of banks in November 2020 amounted to EUR 1,022.5 million and were by EUR 50.4 million or 5.2% higher than in the previous month, while compared to November 2019 it was lower by EUR 79.6 million or 7.2%. In November 2020, the liquidity ratios for the banking system as a whole on a daily and decadal level were above the prescribed minimums.

At the end of November 2020, the total required reserve of banks with the Central Bank amounted to EUR 177.9 million and decreased by EUR 181,178 or 0.1% on a monthly basis, while compared to November 2019 it decreased by EUR 80.2 million or 31.1%.

The weighted average nominal interest rate of banks on total approved loans in November 2020 was 5.32%, while the weighted average effective interest rate was 5.82%. On a monthly basis, the nominal and effective interest rates decreased by 0.03 percentage points each. On an annual basis, the nominal interest rate decreased by 0.05 percentage points, while the effective interest rate decreased by 0.26 percentage points.

The average weighted nominal interest rate of banks on newly approved loans in November 2020 was 4.73%, while the weighted average effective interest rate was 5.14%. On a monthly basis, the nominal interest rate decreased by 0.83 percentage points, while the effective interest rate decreased by 0.95 percentage points. On an annual basis, the nominal interest rate increased by 0.35 percentage points, while the effective interest rate increased by 0.40 percentage points.

The weighted average effective deposit interest rate was 0.39% in November 2020 and was 0.01 percentage points lower compared to the previous month, while compared to the same period last year it was lower by 0.03 percentage points.

The value of realized payment operations in RTGS system and DNS system amounted to EUR 1,261.3 million in November 2020, which is 3.7% higher than in the previous month, and 8% less than in the same month last year.

In the structure of total realized payment operations, 94.5% referred to the value of payment operations realized in the RTGS system.Observed according to the share of realized orders, the dominant share of 65.1% was achieved by orders in DNS system with 597,463 realized orders.

III.2. Bank's business activities

The Bank endeavored to maintain its leading position in the banking sector of Montenegro by developing new products, improvement of existing ones and providing active support in all business segments. At the same time, the Bank was focused on improving the quality of loan portfolio to minimize the risk costs, upgrading of IT system to support planned business activities and harmonization with international business standards.

By trust, dedicated approach which is primarily based on the quality of products and services, the Bank tried to be a reliable, long-term partner to its customers. Adequate response of the Bank to the needs of the customers and market is a result of a wide range of not only credit and deposit products, but also other products and services from the area of modern electronic channels, payment operations, custody business, private banking, etc.

Crnogorska Komercijalna Banka, member of OTP Group, received the prestigious award "Best Bank in Montenegro for 2020" awarded by the eminent financial magazine Euromoney as part of its Annual Awards for Excellence. Based in London, Euromoney magazine belongs to the group of the most influential financial magazines, and the "Award for Excellence" is considered one of the world's most prestigious awards in the field of finance and banking.

Reputable financial magazine Global Finance published a list of winners of the prestigious award for the best banks in Central and Eastern Europe. For the second year in a row, CKB was named the best bank in Montenegro, while the award for the best bank in Hungary went to OTP Bank, the owner of CKB.

Reputable financial magazine The Banker, published by the Financial Times media group, named Crnogorska Komercijalna Banka the bank of the year in Montenegro.

In December 2020, after almost a year of preparatory, organizational, development and business activities, CKB banka and Podgorička banka merged under the name CKB banka, both in legal and in information technology and business terms. The process of integration of the two banks resulted in the creation of the largest banking institution on the Montenegrin market in terms of assets, number of branches, loan and deposit portfolios.

During 2020, the Bank organized several prize games, of which we single out:

- For all its customers, Apple Pay and CKB Mastercard users, CKB launched a prize campaign. In the period from August 15 to September 15, in all Cosmetics markets, pharmacies and perfumeries in Montenegro, pay up to EUR 100 with CKB Mastercard cards using Apple Pay and immediately receive 10% cashback.

- For Apple Pay and CKB Visa card users, in the period from July 10 to August 7, at all ECO gas stations in Montenegro, pay for fuel in the amount of up to EUR 100 with CKB Visa cards using Apple Pay and immediately receive 10% cashback.

During 2020, the Bank continued to focus on providing support to all segments of socially responsible business: health, education, culture, local communities, social activities and sports. Support projects in the field of culture, education, sports, health, environmental protection continued, as well as numerous projects that contribute to the preservation of tradition and culture at the local community level. The Bank provided support to the health care system by purchasing new equipment and thus providing better conditions for health care institutions and recipients of their services. Confirmation of the importance of our social engagement was brought to us by recognitions in this area. We especially emphasize the cooperation with the Blood Transfusion Institute of Montenegro, in which the Bank's employees organized a voluntary blood donation campaign, as well as a savings week for all children born in the savings week. In the week of savings, i.e., in the period from October 31 to November 6, the Central Bank of Montenegro donated an additional EUR 200, while the Bank donated EUR 200. The total amount of EUR 400 is deposited on a period of 12 months, after which parents can reschedule or withdraw funds.

In line with the current situation and activities undertaken to prevent the spread of coronavirus, Crnogorska Komercijalna Banka and Podgorička banka, members of OTP Group, donated EUR 100 thousand to the National Coordination Team for Infectious Diseases (NCD), following donation in the amount of EUR 20 thousand in March to the Clinical Center of Montenegro.

In this way, banks want to contribute to the timely health care of citizens, as well as the implementation of preventive measures that are jointly implemented by health institutions with the help and coordination of NCT and the Government of Montenegro.

The trade unions of both banks also paid certain funds and thus showed the solidarity of the employees in both banks.

Hoping that this serious pandemic that affects the whole world will have milder and easier consequences in our country, banks, in addition to significant donations, have activated numerous electronic channels and provided a number of benefits to help citizens fulfill their daily obligations in this unexpected situation. Both banks, members of OTP Group, follow the guidelines of the Institute of Public Health and the Government of Montenegro and implement measures to prevent the spread of the coronavirus pandemic in order to protect their employees and customers.

The Bank continued to improve the working environment in order to increase the level of employee motivation.

The strategic goal of the Bank is to develop as a universal bank, i.e., a bank that provides products and services to retail and corporate customers.

Impact of the crisis caused by COVID-19 pandemic on the Bank's operations

Due to the crisis caused by COVID-19 pandemic, the Bank had to adjust its operations in several main directions:

a. Implementation of measures prescribed by the National Coordination Body
b. Implementation of measures prescribed to mitigate the negative impact of the crisis caused by Covid-19 pandemic (moratorium on loans)
c. Protection of the employees' health and insuring the continuation of regular work flow
d. Proactive assessment of negative impact of the crisis on the Bank's operations
e. Special offer for the customers in healthcare, education and law enforcement sectors

a. Implementation of measures prescribed by the National Coordination Body

The Bank promptly reacted to the crisis and implemented measures introduced by the National Coordination Body (including all of the following updates of those measures). The measures mainly implied procurement and usage of protection masks in the Bank's premises, keeping 2m distance between employees and customers, procurement of disinfectants, etc.

b. Implementation of measures prescribed to mitigate the negative impact of the crisis caused by Covid-19 pandemic (moratorium on loans)

The Government of Montenegro published decision on implementing moratorium on loans in an effort to mitigate negative effects of the new coronavirus pandemic and this decision was amended several times during the year.

The Bank implemented all measures prescribed by the regulator and offered to its customers the possibility to apply for moratorium on their loans in accordance to those measures.

c. Protection of the employees' health and insuring the continuation of regular work flow

In addition to complying with the measures prescribed by the National Coordination Body, the Bank adopted a number of additional measures to protect the employees and ensure business continuity.

In accordance with the above, the Bank introduced "Home office", the concept of working from home, for over 70% of employees at the Bank's headquaters, who were provided with special workstations and the possibility to remotely access all necessary data and applications.

In addition, almost all meetings, which were necessary in order to ensure the continuity of the Bank's operations, took place via Internet video-communication platforms.

At the same time, all trainings and education programs in the mentioned period were organized through online platforms. Also, in cooperation with a private laboratory, the Bank provided the possibility of cost-free Covid-19 testing for all employees. Special attention was paid to timely and continuous informing of employees and providing guidance regarding Covid-19.

d. Proactive assessment of negative impact of the crisis on the Bank's operations

The crisis caused by Covid-19 pandemic affected almost all sectors, primarily tourism and transport, but also indirectly trade, hospitality, agriculture and, of course, the banking sector, which through business relations with its customers incorporates these and other industries, both through its lending and deposit operations. The negative impact on the Bank's operations is reflected in the reduction of income due to reduced economic activities, as well as the reduction of income resulting from the application of certain measures implemented by the Bank, decline in creditworthiness of customers and other impacts that directly or indirectly affected the Bank's operations.

The decline in economic activity and the rise in unemployment primarily reflected in the demand for loans, which also resulted in reduced lending activity. In addition, the Bank, adapting to the new circumstances, reduced or cancelled certain fees and commissions, which resulted in a decrease in net income from these sources, which also affected the decline in profitability (e.g., cancelation of ATM withdrawal fees, temporary cancellation of transaction fees in domestic payment operations performed via e-channels, etc.). Also, the decline in profitability was influenced by the increase in the cost of provisions as a result of the implementation of new parameters in the calculation of provisions, in line with the anticipation of the effects of COVID-19.

In order to adjust the Bank's operations to the new situation, the Bank updated its financial plans.

e. Special offer for the customers in healthcare, education and law enforcement sectors

The Bank recognized the efforts made by employees in the healthcare, education and law enforcement systems, and accordingly created special pricing offers for these customers, with the purpose of financing their current needs and addressing their housing issues. Also, the offer was expanded to cash loans under more favorable conditions for all customers employed in A-classified companies, but also retirees, for which Bank lowered the interest rate and loan approval fee.

Campaigns for the employees in healthcare institutions started on August 1, cash loans IR 5.99%, housing loans IR 3.99%, home equity IR 4.99%, loans for adaptation and refinancing 4.49%.

Under the same conditions, the campaign for the customers in education sector began on September 1 and on October 1 for the customers in the law enforcement and the Ministry of Defense. Also, campaign for loans for pensioners with a paid life insurance policy started on September 15, where the Bank offered more favorable conditions when it comes to interest and fee for loan approval, while for all customers whose employers are classified as A companies, the Bank has offered special price conditions for cash loans starting from August 1.

Asset Quality Review (AQR)

In September 2019, the Central Bank od Montenegro organized a workshop for banks on which project for Asset Quality Review for the banks on the Montenegrin market was announced and introduced. AQR is very significant and at the same time very demanding project for the banking sector. Process formally began in November 2020 and, according to operational plan provided by the Central Bank, it is set to last until the end of April 2021.

Previously, all banks selected and enlisted AQR auditors. In line with the aforementioned operational plan, project activities were divided into several work blocks, as follows:

1. Analysis of the process, policies and accountancy in banks
2. Creation of credit files and validation of data integrity
3. Sampling
4. Checking of credit file
5. Estimation of collaterals and real estate values
6. Projection of credit file findings
7. Analysis of collective impairment
8. Analysis of fair value exposure
9. Post AQR CET1 % estimation

After the completion of all work blocks, AQR auditors will submit a report to the Central Bank.

The Bank selected KPMG Belgrade as its auditor and signed a contract with them. In the previous period, the Bank prepared necessary documentation for work blocks 1 and 2, which were analyzed with the auditor. The AQR auditor determined the priority and random sample for verification within work block 4. Preparation of documentation for work block 4 is still ongoing. In the meantime, the documentation for work block 7 has been submitted, and work on work block 5 is commenced.

III.3. Retail banking

Main business lines in retail lending segment are still cash, housing and mortgage loans, while in deposit segment, current accounts and classic savings are still dominant. Loan and deposit interest rates were adjusted during 2020, in line with the Bank's Pricing Policy and market trends.

Gross loans of retail, residents, on December 31, 2020 amounted to EUR 442,695 thousand, which is 46.35% of the total portfolio. Gross loans of retail, non-residents, amounted to EUR 3,332 thousand, which is 0.35% of the total portfolio.

At the same time, retail deposits, residents, participated in the total deposits of the Bank with 43.59%, in the amount of EUR 388,595 thousand. Retail deposits, non-residents, amounted to EUR 95,688 thousand, i.e., 10.73% of the total deposits of the Bank.

Loan and deposit portfolios of the Bank include mainly customers residing in Montenegro.

III.4. Corporate banking

Main business lines in corporate lending segment are still investment loans and working capital loans, while in the segment of deposits of legal entities, current accounts and classic savings are still dominant.

In 2020, business cooperation with large and medium-sized legal entities continued. Emphasis is placed on quality improvement and product development through adequate selection of creditworthy customers, with appropriate collateral.

In the segment of business with micro and small legal entities, the Bank continued its cooperation with the European Investment Fund (EIF), and thus expanded its loan offer to these companies.

Total loans and receivables of legal entities on December 31, 2020 amounted to EUR 349,453 thousand, and in the total portfolio amounted to 36.59%. Total deposits of legal entities amounted to EUR 406.057 thousand, i.e., 45.61%. Escrow account funds amounted to EUR 315.

Loan and deposit interest rates on these products were adjusted in 2020, in line with the Bank's pricing policy and market developments.

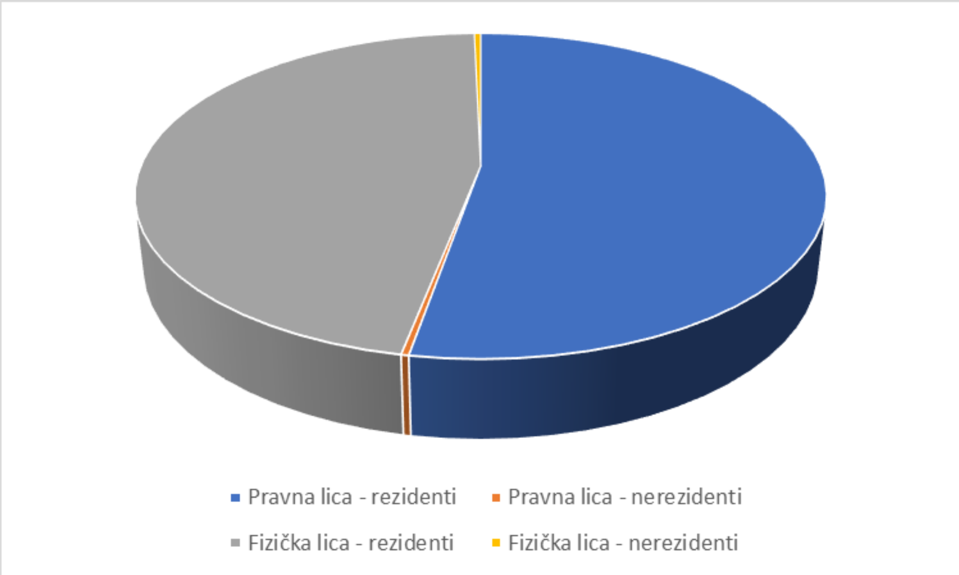
III.5. Transactions with the Government of Montenegro and other budgetary beneficiaries

The Bank continued the cooperation with the Government of Montenegro and other budgetary beneficiaries through loan arrangements and transaction services. By that, the Bank continued to build partner relationship with state institutions in Montenegro.

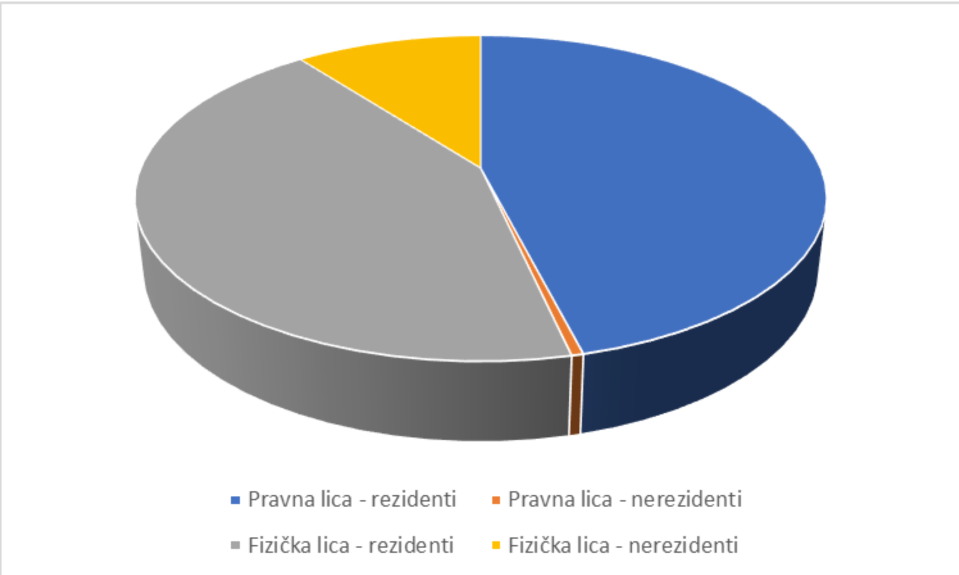
Total loans of the Government of Montenegro and other budgetary beneficiaries participated with 16.42% in the total portfolio.

III.6. Graphic representation of the Bank's loan and deposit portfolios

Loan portfolio by customers' segments on day of migration, December 31, 2020.



Deposit portfolio by customers' segments on day of migration, December 31, 2020



Breakdown of portfolio by regions on December 31, 2020:

Region	Municipality	Net exposure per municipality	Net exposure per region
	Cetinje	11.121	
	Danilovgrad	12.700	
	Niksic	37.269	
Center	Podgorica	679.439	**740.529**
	Bar	27.514	
	Budva	22.502	
	Herceg Novi	28.372	
	Kotor	23.181	
	Tivat	14.597	
South	Ulcinj	9.298	**125.464**
	Andrijevica	1	
	Berane	14.470	
	Bijelo Polje	19.556	
	Kolasin	4.856	
	Mojkovac	2.637	
	Plav	71	
	Pljevlja	6.006	
	Rožaje	6.010	
North	Zabljak	986	**54.593**
Total		**920.586**	**920.586**

IV. ANALYSIS OF THE FINANCIAL POSITION AND RESULTS OF THE BANK

On December 31, 2020 the following financial instruments were crucial for assessing the financial position of the Bank:

- Cash and deposit accounts with central banks
- Loans and receivables from banks, at amortized value
- Loans and receivables from customers, at amortized value
- Investments in securities
- Bank deposits
- Customer deposits
- Borrowed funds from banks and other customers
- Capital

SEPARATE STATEMENT OF FINANCIAL POSITION
On December 11, 2020
(thousands of EUR)

	December 31, 2020	December 31, 2020
ASSETS		
Cash and balances with the Central Bank	253.884	160.024
Loans and advances to banks at amortized cost	62.113	37.934
Loans and advances to customers at amortized cost	920.586	477.300
Securities at amortized cost	27.282	79.566
Other financial assets at amortized cost	1.769	1.300
Securities at fair value through other comprehensive income	2.043	520
Investments in associates and joint ventures according to equity method	335	41.810
Property, plant and equipment	23.616	11.540
Intangible assets	6.847	3.616
Current tax assets	8	11
Deferred tax assets	807	603
Non-current assets held for sale and discontinued operations	10	-
Other assets	5.163	2.344
Total assets	**1.304.463**	**816.568**
LIABILITIES		
Deposits from banks and central banks at amortized cost	1.145	838
Deposits of customers at amortized cost	890.788	609.083
Loans to banks and central banks at amortized cost	138.675	10.000
Loans to customers other than banks at amortized cost	31.101	3.913
Reserves	6.629	4.441
Current tax liabilities	536	1.665
Deferred tax liabilities	610	238
Other liabilities	30.321	18.702
Total liabilities	**1.099.805**	**648.880**
EQUITY		
Share capital	181.876	181.876
Retained earnings	18.900	(36.961)
Profit / loss for the year	1.848	4.945
Revaluation reserves	(259)	-
Other reserves	2.293	17.828
Total equity	204.658	167.688
Total liabilities and equity	**1.304.463**	**816.568**

Total assets on December 31, 2020 amounted to EUR 1,304,463 thousand, which is an increase of 59.75% compared to December 31, 2019.

Total net loans amounted to EUR 920,586 thousand with a growth of 92.87% compared to the previous year.

The increase in total assets and net loans was mainly result by the merger of Podgorička banka, along with regular growth of loan portfolio.
Also, the growth of customer deposits of 46.25% was conditioned by the merger of Podgorička banka.

SEPARATE INCOME STATEMENT
In the period from January 01 to December 31, 2020
(thousands of EUR)

	Period from January 1 to December 31, 2020	Period from January 1 to December 31, 2019
Interest and similar income	27.597	25.530
Interest income on impaired placements	611	632
Interest and similar expense	(296)	(158)
Net interest income	**27.912**	**26.004**
Fee and commission income	15.382	18.361
Fee and commission expense	(8.594)	(10.039)
Net fee and commission income	**6.788**	**8.322**
Net gains/losses from FX revaluation	762	886
Net gains/losses from derecognition of other assets	-	22
Other income	1.558	3.001
Personnel expenses	(13.631)	(18.851)
Depreciation expenses	(4.322)	(3.240)
General and administrative expenses	(8.529)	(8.973)
Net losses/gains from impairment of financial instruments not carried at fair value through profit and loss	(8.059)	426
Provisions	(248)	(319)
Other expenses	(105)	(1.876)
PROFIT BEFORE TAX	2.126	5.402
Income tax	(278)	(457)
NET PROFIT	**1.848**	**4.945**

Interest income recorded an inclineof 7.82% which is a consequence of the general trend of a slight decrease in interest rates and the positive effect of the merger of Podgorička banka, which affected the growth of income in December 2020

Net fee income decreased by 16.22%. The most significant decline in fee-based income was caused by a decline in card and payment operation activities.

A significant decline in other revenues was caused by a reduced collection of receivables from internal evidence.

Significant amount of other expenses in 2019 was due to the impairment of buildings in the amount of EUR 1,673 thousand, which is the main reason for the significant difference in relation to the 2020.

The achieved performance indicators are shown in the table below:

	Realized indicators	
	December 31, 2020	December 31, 2019
Core capital	150.810	96.381
Own funds of the Bank	150.810	96.381
Solvency coefficient (the minimum amount of 10%)	20,07%	23,67%
Daily liquidity ratio as of December 11, 2020 (the minimum ratio 0,9)	1,79	1,06
Ten-daily liquidity ratio for the decade ending December 31, 2020 (minimum ratio 1)	1,80	1,06
Exposure of the bank to one person or group of related parties (limit 25% of the bank's own funds)	16,62%	16,69%
Sum of large exposures (limit 800% of the bank's own funds)	45,08%	30,48%
Total exposure to persons related to the Bank (limit 200% of the bank's own funds)	13,96%	13,36%
Total exposure to the Bank's employee (limit 1% of the bank's own funds)	0,10%	0,14%
Ratio of investment in fixed assets	15,77%	8,52%

IV.1. Capital analysis

As at 31 December 2020, the share capital of the Bank consists of 355,717 ordinary shares with an individual nominal value of EUR 511.2919. All issued shares are fully paid.

As of December 31, 2020, the sole shareholder of the Bank is OTP Bank Plc. Budapest with a 100% share in the capital.

In accordance with the regulations of the Central Bank of Montenegro, on December 31, 2020, the Bank was obliged to maintain a minimum capital solvency ratio of 10%. The Bank's solvency ratio on December 31, 2020 was 20.07%.

The Bank is obliged to harmonize the volume of its business with the prescribed indicators, i.e., to align the volume and structure of its risk placements with the Banking Law and the regulations of the Central Bank of Montenegro. As of 31 December 2020, the Bank does not deviate from the prescribed limits.

IV.1.1. Own funds

According to the Banking Law ("Official Gazette of Montenegro" No. 17/08, 44/10 and 40/11), the amount of founding capital may not be less than EUR 5,000 thousand. As prescribed by the Decision on Capital Adequacy ("Official Gazette of Montenegro" No. 38/11, 55/12 and 82/17), the Bank is obliged to determine the capital adequacy based on own funds, as an absolute and solvency ratio, as a relative indicator. The Bank's own funds represent the sum of paid-in share capital and other basic and supplementary elements of own funds less deductible items.

The amount of own funds must always be at a level equal to or higher than:
• the amount of the minimum monetary share of the founding capital;
• the total amount of capital requirement for all risks.

Bank's own funds as at 31 December 2020 consisted of:

	December 31, 2020	In thousands of EUR December 31, 2019
Basic elements of own funds		
Share capital	181.876	181.875
Provisions established against profit after taxation	757	921
LLP according to regulatory requirement, allocated in accordance with the Decision prescribing minimum standards for credit risk management in banks	(777)	(777)
The amount that mitigates the negative effects on own funds due to first application of IFRS 9	544	660
Total: Basic elements of own funds	182.400	182.679
Deductible items in calculation of core capital		
Loss from previous years	(15.718)	(41.064)
Loss of the year		-
Intangible assets	(6.847)	(3.616)
Unrealized loss on fair value adjustment of financial assets available for sale, at fair value	(259)	-
Positive difference between the amount of accrued provisions for contingent losses and the sum of value adjustments for items of balance sheet assets and provisions for off-balance sheet items	(8.560)	-
Total: Deductible items of the Bank's own funds	(31.384)	(44.680)
Core capital	151.016	137.999
Deductible items from own funds - direct or indirect investments in another bank or another credit or financial institution in the amount exceeding 10% of capital of those institutions	(206)	(41.618)
Own capital decreased by 50% of deductible items of own funds	150.913	117.190
Supplementary capital decreased by 50% of deductible items of own funds	(103)	(20.809)
Core capital, decreased as needed	150.810	96.381
OWN FUNDS	**150.810**	**96.381**

Pursuant to the provisions of the Decision on the Capital Adequacy of Banks ("Official Gazette of Montenegro" No. 38/11, 55/12 and 82/17), the Bank has made the calculation of the required capital for the risks to which it is exposed in its operations, as well as the solvency coefficient. Solvency coefficient must not be less than 10%. The solvency ratio represents the percentage relation of the Bank's own funds to the sum of:

- total amount of the risk weighted assets for credit risk;
- amount of risk weighted assets for market risks;
- amount of risk weighted assets for operational risk;
- amount of risk weighted assets for other risks.

During the year, the Bank maintained a very strong capital position, which is reflected in the fact that the consolidated solvency ratio of the Bank ranged from 17.14 % to 20.07%, significantly above the statutory minimum.

	December 31, 2020	In thousands of EUR December 31, 2019
Own capital	150.913	117.190
Supplementary capital	(103)	(20.809)
Total own funds	150.810	96.381
Risk-weighted balance sheet assets	622.620	320.549
Risk-weighted off-balance sheet items	56.117	25.583
Amount that mitigates the negative effects on own funds due to first application of IFRS 9	544	660
Total risk-weighted balance sheet assets	679.281	346.792
Capital requirement for operational risk	7.025	5.742
Capital requirement for country risk	1.883	3.053
Bank's solvency ratio	**20,07%**	**23,67%**

IV.2. Investment in shares of legal entities

	December 31, 2020	In thousands of EUR December 31, 2020
Banks and financial institutions:		
- Montenegroberza, Podgorica (share of the Bank 4,88%)	98	105
- Beogradska berza a.d., Beograd	6	-
- SWIFT Brisel	57	49
- Centralna depozitarna agencija, Podgorica (share of the Bank 15%)	143	143
- CG Broker AD, Podgorica (share of the Bank 11,57%)	63	-
	367	297
Other legal entities:		
- Elektroprivreda Crne Gore, Nikšić (share of the Bank 0,04%)	163	205
- Lutrija Crne Gore, Podgorica (share of the Bank 0,47%)	18	18
- Tržište Novca AD, Beograd	4	-
- Plantaze AD, Podgorica (share of the Bank 9,23%)	1.490	-
- Montenegro Airlines, Podgorica	1	-
	1.676	223
	2.043	520

Due to the merger of Podgorička banka, the Bank took over the ownership of the following securities:

- Beogradska berza a.d., Beograd
- Tržište Novca AD, Beograd
- S.W.I.F.T. SCRL

- CG Broker-Dealer JSC Podgorica
- Plantaze
- Montenegro Airlines
- Poslovno Logisticki Centar Moraca Ad. Podgorica

Investments in affiliates, subsidiaries and joint ventures using the equity method amounted to EUR 335 thousand (2019: EUR 41,810 thousand).

After the migration of data from Podgorička banka, the Bank stopped recognizing the investment in Podgorička banka in the amount of EUR 41,475 thousand.

The Bank bought a 100% stake in OTP Debt Collection, d.o.o. Podgorica for a fee of EUR 335 thousand. For this transfer, the Bank obtained the consent of the Central Bank of Montenegro No. 0102-07700-2/2018 dated October 24, 2018. The bank, as the owner of OTP Debt Collection d.o.o. Podgorica was officially registered in the Central Registry of the Commercial Court on December 17, 2018.

As of 31 December 2020, the Bank had no securities under pledge.

V. RISK MANAGEMENT

In the Risk Management Strategy, the Bank identified the following risks as materially significant risks to which it is exposed in its operations:

- Credit risk - represents the risk of loss as a result of the customer's failure to fulfill the obligations towards the bank.
- Operational risk - is defined as the risk of losses in the bank's operations due to inadequate internal processes, human factor and systems or external events. This definition includes legal risk, but excludes strategic and reputational risk.
- Market risk – represents the likelihood of incurring loss on balance sheet and off-balance sheet items, as a result of changes in interest rates, foreign exchange rates, securities prices, market index values or other factors of importance for the value of financial instruments, as well as the risk of marketability of financial instruments.
- Country risk - is the probability of incurring losses for the bank because of the impossibility of collecting claims from persons outside Montenegro, for reasons related to the political, social and economic environment of the country in which the head office or residence of the debtor is located (the debtor's country).
- Liquidity risk - is defined as likelihood that the bank will not be able to provide sufficient funds to settle its obligations at the time of their maturity, or the likelihood that the bank will have to get funds with significant costs for settling its due liabilities.
- Reputational risk - represents a potential loss of bank's reputation as a result of real or perceived loss of confidence in the bank.

The Bank has organized a risk management process as an integral part of its management structure that is embedded in all key processes - from product development to the collection of non-performing receivables.

Regarding risk management, the Bank defined the following strategic goals:

- Balancing risk and return
- Maintaining potential losses within capacity and appetite for risk taking
- Measurement, assessment and ensuring adequate coverage of all relevant risks
- Supporting business lines to achieve their strategic goals

In order to achieve these objectives, the risk management function uses the following set of tools:

- identification of major risks inherent in its value creation processes
- assessment of the level of risk based on historical data and the assessment of future trends
- risk control
- risk mitigation techniques such as defining of the exposure limit, collateral requirements, hedging, establishing a controlled environment, etc.

V.1. Credit risk and valuation of balance sheet assets items and off-balance sheet items

The main sources of credit risk are loans approved to retail, SMEs and corporate legal entities.

The Bank's loan portfolio increased as a result of efforts to increase placements with minimum increase of risk tolerance in certain segments.

Retail portfolio consisted of consumer loans (unsecured products) which accounted for 53% and mortgage loans (secured products) which accounted for 47% of retail portfolio. In 2020, the Bank continued its activity in Retail segment. Retail segment recorded the extensive approval of new loans, as defined in the general strategy of OTP Group that puts accent on this segment. New product offering and targeted campaigns enabled the Bank to have more placements than regular repayments, which resulted in the overall increase in the portfolio compared to the previous year. At the same time, the portfolio quality was maintained at the last year level with relatively low share of NPLs for which adequate loan loss provisions were set aside.

In the segment of micro and small legal entities, the Bank managed to maintain the same level of credit quality as in the previous year by applying high quality risk monitoring policy.

Corporate portfolio of the Bank, i.e., portfolio of large and medium legal entities, which included loans approved to the public sector, consisted mainly of investment loans and loans for working capital. The focus in corporate segment was on the increase of placements and maintenance of loan portfolio quality.

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro, No. 22/12, 55/12, 57/13, 44/17 and 82/17) since 1 January 2013 the Bank has been applying its own methodology for assessment of the impairment of balance sheet assets and probable loss under off-balance sheet items which is harmonized with IAS requirements. In the Notes to the financial statements, the Bank disclosed the methodology for calculating the impairment of the balance sheet assets and the probable loss on off-balance sheet items, as well as the amounts of calculated value adjustments.

Besides the valuation of balance and off-balance sheet items according to the International Accounting Standards, the Bank is obliged to classify balance sheet asset items into one of the following classification categories depending on their loss incurring probability:

1. group A - "pass"; Loans and other receivables with hard documentary evidence that they will be fully collected in accordance with the contractual terms are classified into the classification category A
2. group B - "special mention", with subcategories „B1“ and „B2“; Loans with a small probability of incurring losses are classified into the classification category B (subcategories B1 and B2). However, such loans must be subject to special attention of the bank since their potential risk, if inadequately monitored, may result in poor prospects regarding its repayment.
3. group C - "substandard", with subcategories „C1“ and „C2“; Loans with high probability of incurring losses due to clearly established weaknesses jeopardizing their repayment are classified into the classification category C.
4. group D - "doubtful"; Loans with a low probability of full collection taking into consideration the debtor's credit capacity, value and possibility of collateral enforcement are classified into classification category D.
5. group E - "loss"; Loans which are fully uncollectible or which will be collected in an insignificant amount are classified into classification category E.

The Bank has developed a comprehensive strategy for dealing with non-performing loans for a period of three years and has defined annual operational objectives related to the reduction of the level of non-performing loans. The main goal in managing non-performing placements is to improve the quality of the portfolio, which reduces the risk costs and improves the overall financial position and liquidity position of the bank.

The amount of loan loss provisions for the Bank's placement classified in A category has been calculated by applying the percentage of 0.5%. Estimated amount of the loan loss provisions is calculated by application of 2% to 7% to the placements classified in B category, from 20% to 40% to the placements classified in C category, 70% to the placements classified in D category and 100% to the placements classified in E category.

Summing up the results of the examination of on-balance and off-balance assets of the Bank in terms of collectability and the need for allocating provisions for protecting the Bank from potential losses, in accordance with the presented approach the following relations and indicators as of 31 December 2020 were obtained:

December 31, 2020.	**Total, net exposure**	**Gross carrying amount**						**Accumulated impairment**				
		Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total gross**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total Accumulated impairment**
Loans and advances to banks at amortized cost	62.113	62.113	-	-	-	62.113	-	-	-	-	-
- Housing loans	156.855	143.147	13.229	1.583	616	158.575	(362)	(453)	(894)	(11)	(1.720)
Current account overdrafts	3.856	2.541	1.330	136	19	4.026	(8)	(52)	(101)	(9)	(170)
- Consumer loans	216.442	210.312	4.796	4.350	662	220.120	(544)	(383)	(2.557)	(194)	(3.678)
- Credit cards	3.764	3.183	472	297	21	3.973	(12)	(16)	(179)	(2)	(209)
- Special purpose loans	423	392	5	28	12	437	(1)	-	(10)	(3)	(14))
- Other loans to individuals, covered by mortgage	53.830	38.469	14.215	1.900	682	55.266	(89)	(481)	(814)	(52)	(1.436)
- Other loans	1.880	939	498	1.620	-	3.057	(9)	(41)	(1.127)	-	(1.177)
- Car loans	202	180	24	-	-	204	(1)	(1)	-	-	(2)
- Loans to micro and small entities	14.069	11.112	1.982	2.144	725	15.963	(72)	(245)	(1.472)	(105)	(1.894)
Loans to medium and large entities	299.991	223.136	76.778	18.773	1.642	320.329	(5.740)	(8.889)	(5.600)	(109)	(20.338)
- Loans to Government and municipalities	163.765	167.580	-	-	-	167.580	(3.815)	-	-	-	(3.815)
- Treasury LOB	5.509	5.676	-	-	-	5.676	(167)	-	-	-	(167)
Loans and advances to customers at amortized cost	920.586	806.667	113.329	30.831	4.379	955.206	(10.820)	(10.561)	(12.754)	(485)	(34.620)
Securities at amortized cost	27.282	27.865	-	-	-	27.865	(583)	-	-	-	(583)
Other financial assets at amortized cost	1.769	1.770	-	-	-	1.770	(1)	-	-	-	(1)
Securities at fair value through other comprehensive income	2.043	2.043	-	-	-	2.043	-	-	-	-	-
Investments in affiliates and joint ventures according to equity method	335	335	-	-	-	335	-	-	-	-	-
Other financial assets	4.111	3.835	129	9.147	-	13.111	(88)	(19)	(8.893)	-	(9.000)
	1.018.239	**904.628**	**113.458**	**39.978**	**4.379**	**1.062.443**	**(11.492)**	**(10.580)**	**(21.647)**	**(485)**	**(44.204)**
Undrawn credit facilities	88.091	86.519	2.928	155	46	89.648	(1.389)	(80)	(62)	(26)	(1.557)
Payment and performance guarantees and unused documented letters of credit	78.575	78.037	1.100	438	280	79.855	(994)	(110)	(112)	(64)	(1.280)
	166.666	**164.556**	**4.028**	**593**	**326**	**169.503**	**(2.383)**	**(190)**	**(174)**	**(90)**	**(2.837)**

V.2. Country and counterparty risk

The Bank has developed its own regulatory framework for risk management based on national legislation, as well as parent bank standards and defined the approach, methods and responsibilities in country risk management.

Counterparty risk is managed by a system of exposure limits to parties residing in foreign countries to which the Bank is exposed. The exposure limit system is based on country risk rating and the Bank's capital position in line with the parent bank methodology and statutory requirements.

The Bank did not have exposures to foreign central governments. Apart from the exposure towards Hungary as the medium risk country, which entirely consisted of exposure towards the parent bank, the Bank placed major part of its assets in risk-free countries.

Counterparty risk is managed by a system of exposure limits to various counterparties the Bank has cooperation with. The exposure limit system is based on counterparty risk rating and the Bank's capital position in accordance with the parent bank methodology and statutory requirements.

V.3. Market risk

The Bank is exposed to the market risks. Market risk is defined as a potential loss arising from unfavorable changes on the market such as interest rate, foreign exchange positions, prices, indices and/or other factors impacting the value of financial instruments. Most often, the main sources of market risk are foreign exchange positions and interest rate risk.

Considering its business model, size and complexity of operations, and in relation to market risk, the Bank is mainly exposed to foreign exchange risk (FX). FX or currency risk is the risk that the Bank may incur losses in its operations due to the changes in foreign exchange rates. FX risk is primarily defined as a potential loss regarding unsecured and unprotected open FX position (assets, receivables, capital and liabilities in foreign currency). Exposure to FX risk is regularly monitored through the harmonization with the limits prescribed by the Central Bank of Montenegro. In order to limit and mitigate FX risk, the Bank has established a system of internal limits for FX risk in accordance with the structure of the Bank's balance, business activities and market conditions, as well as limits defined by the Central Bank of Montenegro and OTP Group.

The Bank determines position limits (intraday and overnight) and VaR (Value-at-Risk) limit which are continuously monitored.

Limits are monitored daily while the reports are submitted to the Bank's management quarterly.

V.4. Liquidity risk

Liquidity risk represents likelihood that the Bank will not be able to provide for sufficient monetary assets to meet the obligations at their due date or likelihood that the Bank will have to obtain monetary assets for settlement of due obligations at significant costs.

The Bank manages liquidity risk by introducing the system of controls, risk mitigating measures and contingency plans. The main objective of liquidity risk management is establishment of a liquidity monitoring system of the Bank, its quality, composition and maturity in order to achieve an optimal liquidity structure to support primary business activities.

In order to monitor liquidity positions, the Bank prepares daily (RLS) and ten-day reports (DPL) in accordance with the regulation of the Central Bank of Montenegro.

In 2020, the Bank maintained strong liquidity position and operated with the liquidity coefficient above the prescribed statutory minimum. As of 31 December 2020, liquidity coefficient was 1.79%, while the legally prescribed minimum is 0.9%.

Daily Liquidity Report, RLS:

		In thousands of EUR
	31, December 2020	**31 December 2019**
Cash	45.956	30.691
Gyro account	158.048	82.640
Funds kept with payment transaction agents	453	471
Funds kept in correspondent banks accounts (sight deposits)	62.097	37.932
Mandatory reserves kept with the Central Bank (50%)	24.794	23.157
Liquid assets/receivables	291.348	174.890
Due obligations for credits	63	8
Due liabilities for interests and fees	11	13
Due liabilities for term deposits	1.316	865
30% sight deposit	152.321	160.784
10% approved but unused, irrevocable loan obligations (credit lines)	8.885	4.009
Other matured liabilities	185	56
	162.781	165.735
Surplus/Deficit	128.567	9.156
Liquidity indicators	**1.79**	**1,06**

V.5. Operational risk

The centralized function of operational risk management is placed within Risk Management analysis and regulatory deportment and is in charge of monitoring and coordinating operational risk management at the level of the entire organization through development of policies, methodologies and tools used by all the other organizational units of the Bank. Operational risk is managed in a decentralized way which means that potential incidents are managed by organizational units where such incidents occur. Considering the importance of operational risk management for the successful operation of the entire organization, an effective system of reporting to the Bank's management on the exposure to operational risk and related activities has been put in place.

Using the operational risk management system in place, the level of the Bank's exposure to this type of risk was assessed as moderate. The operational risk management system is being constantly improved in order to be able to respond to changes and challenges in external and internal environment.

The Bank has adopted the Disaster Recovery Plan which ensures business continuity i.e. timely restoration of critical business activities of the Bank in the cases of disrupted or interrupted operations. The Plan is updated and tested on a regular basis.

Pursuant to Article 242 of the Decision on Capital Adequacy in Banks (Official Gazette of Montenegro, No. 38/11 and 55/12), the Bank uses a simple method for calculating the capital requirements for the operational risk.

As of 31 December 2020, the Bank allocated provisions for potential losses resulting from the court proceedings in the amount of EUR 1.993 thousand, Provision for termination of contract in amount of EUR 20 thousand and other losses based on operational risk in amount of EUR 222 thousand.

V.6. Reputational risk

Reputational risk is the risk of current and future income and capital arising from negative public opinion about the manner of the Bank's operation. Reputation is rather a complex issue and basically represents the customers' assessment of the manner of providing of services. Marketing and advertisements can have a short-term effect on the reputational risk of the Bank.

VI. EDUCATION OF THE EMPLOYEES

Human resources management and continuous investment in their development is one of the key goals of the Bank, which was paid special attention in 2020. By introducing new standards in the field of human resources management, we want to provide our employees with good conditions for continuous personal and professional development.

Special attention in 2020 was dedicated to improving the know-how and skills of our sales team, through intensive online internal training programs in order to improve efficiency and faster response to customers' needs.

In accordance with modern standards of human resources management, this year the Bank has continuously applied, in all organizational parts, the established system of performance measuring and employee motivation system. With this tool, the employees who contributed the most to the successful operation of the Bank were identified and awarded.

In 2020, the Bank employees attended numerous seminars and courses, organized by external partners, as well as internal trainings implemented by our employees.

In addition to the abovementioned trainings, at the beginning of the year the Bank organized visits to the parent company, OTP Bank Plc. Budapest and other members of OTP Group, where employees could share experiences with colleagues.

In July 2019, the integration project with Podgorička banka started. During the Tara project, most employees had the opportunity to develop and refine their knowledge and skills, both through mutual cooperation and with the continued support of the parent bank and its subsidiaries.

Education levels of employees as of 31 December 2020:

	Number of employees	in %
University degree	423	76.63%
College degree	21	3.80%
High school degree	108	19,57%
	552	100%

VII. PLANNED ACTIVITIES

By introducing new products, adapting and further developing existing products, as well as by digitalization of products and processes and introducing new sales channels, the Bank plans to keep its leading position in the banking sector of Montenegro, both when it comes to loan portfolio and the segment of payments and cards and in terms of development, to maintain its leading position in digitalization and providing of alternative sales channels.

In addition, in 2020, taking into account the merger with Podgorička banka, the activities were aimed at harmonizing products and processes in order to keep the customers of both banks in the future bank and to apply best practice from both banks in the strategy of development and innovation. In this regard, teams have been formed consisting of employees of both banks that need to follow the expected processes strategically and operationally.

At the same time, the Bank places a significant emphasis on improvement of credit quality in all business segments. The increase in the loan portfolio is planned to be achieved mainly through loan disbursement to customers. Potential customers are natural persons and legal entities that fulfill all necessary preconditions defined by products' parameters and Bank's business procedures. Care for customers at the highest professional level and control of products' quality is the key to keeping the market share and ensuring customer satisfaction.

In the coming period, the Bank will continue to focus on active asset and liquidity management for the purpose of smooth operation of the Bank. The main objective of asset management is to improve the structure and relation between own and borrowed funds, maintain current liquidity and provide adequate liquidity reserves, as well as maintain optimal currency structure.

VIII. ENVIRONMENTAL AND SOCIAL RESPONSIBILITY ISSUES

The Bank implements its policy being ecologically aware and committed in accordance with the Environmental Law and Law on Environmental Impact Assessment.

Environmental protection is becoming increasingly important in the European Union's policy. The objectives of environmental policy within the European Union are as follows:

- preservation of the environment and improving the quality of protective measures;
- protection of human health;
- cautious and rational use of natural resources and
- improvement of measures at the international level to overcome regional and global environmental issues.

According to the criteria defined by the Law, the Bank is not identified as subject that, by unlawful or improper action provides for or allows pollution of the environment, and on that basis it does not pay any penalties. In addition, in the foreseeable future, it does not plan any project that could have a negative impact on the environment.

In accordance with the Law on Environmental Impact Assessment, the Bank will continue to pay attention while performing its business activities not to cause, either directly or indirectly, a danger to the environment, human life and health.

IX. CORPORATE GOVERNANCE RULES AND INTERNAL CONTROL SYSTEM

The Bank has continuously paid attention to improving the functioning of the internal control system by improving internal regulations, establishing the "four eyes principle" and management control function, by implementing the recommendations given by the Central Bank of Montenegro, external and internal auditors, by improving business processes, etc.

In 2020, the improvement of the internal control system in the CKB continued with the improvement of all system components. Relevant policies and procedures were improved and updated on a regular basis. In addition, the Bank continued with full implementation of international accounting standards that have expanded the necessary preconditions for the proper functioning of the internal control system.

The rules of corporate governance and internal control systems are to verify their compliance with the risk profile, the business model, and the size and complexity of the Bank's operations, as well as the extent to which

the Bank complies with the regulations, standards of prudent business and good business practices related to corporate governance, risk management and internal control system.
The assessment of this part serves as important information in assessing the individual risk management, as well as in the assessment of capital adequacy and liquid assets.

The rules of corporate governance in the Bank are based on legal regulations - the provisions of the Banking Law and the Law on Business Organizations, as well as the competencies and powers of the Bank's bodies (General Meeting, Board of Directors and other bodies), regulations and internal documents of the Bank (Memorandum of Incorporation, the Articles of Association of the Bank and other internal documents).

The competence and powers of all the Bank's bodies are based on the aforementioned legal regulations, defined by internal documents and established banking practice.

The Bank's internal control system is designed to provide reasonable assurance for achievement of goals in the following categories:

- Efficient and effective operations,
- Reliability of financial reporting and
- Compliance with the effective laws and regulations.

During the development of the internal control system, CKB used COSO 2017 framework as the best practice guidelines. The components of the successful internal control system are given in the table below:

Management and culture	Strategy and goals setting	Performance/Implementation	Review and audit	Information, communication and reporting
1. Enables risk control by the Board	6.Analizes business context	10. Identifies risks	15. Evaluates significant change	18. Uses information and technology
2. Establishes the operating structure	7. Defines risk appetite	11. Assesses the severity of the risk	16. Considers the risk and performance/ implementation	19. Communicates information on the risk
3. Defines the desired culture	8. Evaluates alternative strategies	12. Defines priority risks	17. Seeks to improve the risk management in the company	20.Reports about risk, culture and performance / implementation
4. Demonstrates commitment to key values	9. Formulates business goals	13. Responds to risks		
5. Attracts, develops and keeps a capable individual		14. Develops review at the portfolio level		

Podgorica, March 19, 2020

Signed on behalf of Crnogorska Komercijalna Banka AD, Podgorica by:

Pal Kovacs	Maja Krstić	Slobodan Vujović
Chief Executive Officer	Executive Director for Strategy and Finance Division	Director of Accounting and Reporting Directorate