

Consolidated Management Report of Crnogorska Komercijalna Banka a.d. Podgorica for Q3 of 2022

Contents

Introduction.....	3
I. Description of business activities.....	4
II. Organizational structure.....	5
III. Information on the work of the Management Board and Supervisory Board.....	6
III.1. Macro-economic indicators	8
III.2. Bank's business activities	10
III.3. Retail banking.....	10
III.4. Corporate banking.....	11
III.5. Transactions with the Government of Montenegro and other budgetary beneficiaries ..	12
III.6. Graphic representation of the Bank's loan and deposit portfolio.....	12
IV. Analysis of the financial position and results of the Bank	13
IV.1. Capital analysis	16
IV.2. Investment in shares of legal entities	19
V. Related party transactions	19
VI. Risk management	20
VI.1. Credit risk and valuation of balance sheet assets items and off-balance sheet items...22	
VI.2. Country and counterparty risk.....	26
VI.3. Market risk	26
VI.4. Liquidity risk.....	27
VI.5. Operational risk.....	28
VI.6. Reputational risk	28
VII. Education of the employees	29
VII. Planned activities.....	30
IX. Environmental and social responsibility issues	31
X. Corporate governance rules and internal control system	32

Introduction

Crnogorska Komercijalna Banka AD, Podgorica (hereinafter: the Bank) prepares consolidated financial statements (hereinafter: financial statements) in accordance with the Law on Accounting ("Official Gazette of Montenegro" No. 145/21) and decisions of the Central Bank of Montenegro that regulate financial reporting of banks.

The Bank is the parent legal entity in the Group, which, in addition to the Bank, also includes the subsidiary OTP Debt Collection DOO, Podgorica (hereinafter: "Group" and "ODC", respectively). ODC has been part of the Group since December 17, 2018, as well as the dependent legal entity South Invest Montenegro doo, Podgorica (this dependent legal entity was liquidated in 2019). Until the day of joining the Bank, i.e. in the period from July 31, 2019 to December 11, 2020, Podgorička banka AD, Podgorica (hereinafter: "PGB") was also a subsidiary of the Bank and part of the Group.

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. 34/22).

In compiling consolidated financial statements, the Group applied policies that are in accordance with the regulations of the Central Bank of Montenegro, which differ from the requirements of International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") applicable as at 30 September 2022 in the part related to recording of receivables which met the conditions for exclusion from the balance sheet of the Group and the form of presenting financial statements.

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. In exception 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 financial statements of the Group, 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 reviews and information for all items of the financial report 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, it was registered by the Securities Commission 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 Law on Credit Institutions, the Decision on Incorporation and the Articles of Association, the Bank performs the tasks 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.

The Bank conducts banking operations in accordance with the Law on Credit Institutions.

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

- 1) issuing guarantees and assuming other off-balance sheet liabilities,
- 2) purchase, sale and collection of receivables (factoring, forfeiting, etc.),
- 3) issuance, processing and recording of payment instruments,
- 4) payment operations in the country and abroad, in accordance with the regulations governing payment operations,
- 5) financial leasing,
- 6) transactions with securities, in accordance with the law governing securities,
- 7) trading in its own name and for its own account or for the account of the client: - foreign means of payment, including foreign exchange transactions, - financial derivatives,
- 8) depot operations,
- 9) preparation of analyzes and providing information and advice on the creditworthiness of companies and entrepreneurs and other business issues,
- 10) renting safes,
- 11) activities that are part of banking operations, ancillary operations in relation to the operations of the Bank and operations directly related to the operations of the Bank, in accordance with the law and this Statute.

The Bank performs insurance representation activities, in accordance with the approval of the Central Bank of Montenegro and the consent of the Insurance Supervision Agency.

During the third quarter of 2022, the Bank reviewed and updated a significant number of internal policies and procedures, working on both efficiency improvements and process modernization.

The Group's headquarters is in Bulevar revolucije 17, Podgorica.

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

As of 30 September 2022, the Group is comprised of the head office in Podgorica, 18 branches, 14 sub-branches and and 1 counter on the territory of Montenegro.

As of 30 September 2022, the Group has 545 employees (30 June 2022: 549 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 July 16, 2019, the Bank became the owner of 90.56% of the share capital of Societe Generale Montenegro AD Podgorica, the Montenegrin subsidiary of Societe Generale Group. On December 20, 2019, by purchasing the remaining 9.44% of the shares of minority shareholders, the Bank becomes the owner of 100% of the shares of Podgorička banka. The merger of Podgorička banka AD Podgorica, Member of OTP Group ("PGB") with Crnogorska komercijalna banka AD Podgorica was completed on December 11, 2020, by issuing a decision by CRPS deleting Podgorička banka from the register and a decision by which the merger of Podgorička banka with CKB banka is registered.

In the third quarter of 2022, the Bank did not repurchase its own shares.

III. Information on the work of the Management Board and Supervisory Board

The members of the Supervisory Board as of 30 September 2022 are:

<u>Name and surname</u>	<u>Function</u>
Daniel Gyuris	Chairman
Bernadett Dancsne Engler	Member
Pal Gombos	Member
Kalman Kiss	Member
Igor Noveljić	Member

The members of the Audit Committee of the Bank as of 30 September 2022 were:

<u>Name and surname</u>	<u>Function</u>
Mr. Attila Kozsik	Chairman
Mr. Igor Noveljić	Member
Mr. Tamas Bali	Member

Management Board of the Bank as of 30 September 2022 consists of:

<u>Name and surname</u>	<u>Key area</u>
Mr. Tamás Kamarási	Chairperson of Management Board
Mr. Viktor Vorobej	Management Board member competent for Risk Management Division
Mr. Nikola Perišić	Management Board member competent for Corporate Business Division
Mr. Ivan Vučinić	Management Board member competent for IT and Operations Division
Mrs. Maja Krstić	Management Board member competent for Strategy and Finance Division
Mrs. Stela Bošković	Management Board member competent for Corporate and Legal Affairs Division
Mr. Dino Redžepagić	Management Board member competent for Retail Business Division

As of 30 September 2022, Dora Todorović is Head of Compliance Department.

As of 30 September 2022, Slobodan Vujović is Chief Internal Auditor.

The management bodies of the credit institution are the Supervisory Board, which performs the function of supervising the operations of the credit institution, and the board of directors, which performs the executive function and is responsible for the day-to-day management of the credit institution and its representation.

The Supervisory Board 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. Supervisory Board 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 third quarter of 2022, the Supervisory Board held 6 regular and written meetings, at which the members reviewed all important issues and made relevant decisions.

The Supervisory Board 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 Supervisory Board monitored disbursements in each of the business segments and thus closely monitored the Bank's activities and advised on further steps.

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

The Bank will continue to work to improve procedures and processes to meet customer expectations and maintain a good market reputation in terms of flexibility and efficiency.

The Management Board manages the affairs of the credit institution and is obliged to ensure that the credit institution operates in accordance with the regulations governing the operations of the credit institution.

The Management board of a credit institution is obliged to establish and implement a reliable management system of the credit institution in accordance with the Law on Credit Institutions.

During the third quarter of 2022, the Board reviewed and passed 93 decisions, whether at regular or written sessions, in all respects in accordance with the legislation.

Considering the scope and complexity of its operations, the Group 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 Central Bank of Montenegro (CBM), considering the risk management standards at the level of OTP Group.

III.1. Macro-economic indicators

The results of the preliminary calculation of the quarterly gross domestic product (GDP) show that the GDP of Montenegro in the second quarter of 2022 amounted to 1,282,013 million euros. The real GDP growth rate in the second quarter of 2022 was 12.7%.

Despite strong uncertainties, inflationary pressures and increasing risks of recession in most economies and countries in Europe, the Montenegrin economy recorded favorable results and positive macroeconomic trends in the first half of 2022. Anticipating the upcoming economic, energy and inflationary uncertainties, the short-term parameters of the Montenegrin economy are favorable for now: private consumption is at a high level, investment activity is recovering, the external position has improved with record exports, while the banking sector is highly capitalized and liquid. The labor market is gradually recovering from the crisis and approaching pre-pandemic trends.

The main sources of risk are related to the current geopolitical situation, pronounced inflationary pressures, uncertainty regarding the further course of the pandemic, the expected tightening of the monetary policy of the leading central banks, and unfavorable fiscal trends in Montenegro. In such circumstances, it is necessary to conduct a cautious and targeted economic policy, in order to mitigate risks and preserve the standard of living of citizens and the growth potential of the economy. The priority of economic policy should be measures aimed at suppressing inflation and ensuring fiscal sustainability. Fiscal sustainability can only be achieved if fiscal consolidation is accompanied by deep structural reforms.

According to the autumn forecasts of the European Bank for Reconstruction and Development, growth of 3.7% in 2022 and 4% in 2023 is predicted for Montenegro, but there is great uncertainty about further prospects for growth. Key risks include elevated inflation and political instability, both of which could threaten public investment and delay reforms.

The World Bank predicts an economic growth of 6.9% for Montenegro this year, which is the highest expected growth in the Western Balkans. For the next year, the expected growth is 3.4%. The forecast is based on more moderate commodity prices (but remaining at a high level), as well as on a global environment characterized by more restrictive global financing conditions, softening of external demand and loosening of "bottlenecks" in the supply chain.

According to preliminary data from Monstat, industrial production in the first six months of 2022, compared to the same period of the previous year, recorded a decrease of 2.3%. The decline in production was realized in the electricity, gas and steam supply sector by 21.3%, while the growth was realized in the manufacturing industry by 12.9% and the extraction of ore and stone by 11.9%.

In the processing industry, in this period, 9 areas recorded an increase in production. The highest growth was recorded in the area of production of rubber and plastic products of 155.2%, while the lowest growth was recorded in the area of beverage production of 9.8%. The largest decrease was achieved in the area of production of metal products, except for machines and devices of 35.0%, and the smallest in the area of wood, cork and similar products of 12.7%.

The production of forest assortments from state forests in the first six months of 2022 amounted to 66,302 m³, which is over 200% more compared to the comparative period.

According to preliminary data, the number of tourist arrivals, in collective accommodation, in the first 6 months of 2022 was 413,987, which is 137.43% more compared to the comparative period of the previous year. In the same period, 1.3 million overnight stays were achieved, which represents a growth of 138.34%.

In June 2022, according to MONSTAT records, 230,765 people were employed, which is 3.53% more compared to the previous month, and 24.51% more compared to June 2021. The largest number of people are employed in the following activities: wholesale and retail trade, repair of motor vehicles and motorcycles (19.56%), accommodation and catering services (11.76%), state administration and defense, mandatory social insurance (9.96%), education (6.81%), construction (6.69%) and health and social care (6.20%). The number of unemployed persons in June 2022, compared to the previous month, is lower by 2.99%, and compared to the same month of the previous year by 17.13%.

Annual inflation in June 2022, measured by the consumer price index, was 13.5%, while inflation measured by the harmonized consumer price index was 11.9%.

In June 2022, compared to the previous month, consumer prices recorded an increase of 1.8%. The highest increase in prices was recorded in the category of restaurants and hotels (7.6%), mostly due to the increase in prices of accommodation services of 16.7%. Growth was also recorded in the categories housing, water, electricity, gas and other fuels by 4.4%, alcoholic beverages and tobacco, furniture, household equipment and routine apartment maintenance and health by 2.0%, other goods and services by 1.6%, food and soft drinks 1.5%, transport 1.1%, recreation and culture 0.2% and communications 0.1%. A drop was recorded in the clothing and footwear category by 1.8%, while prices in the education category remained unchanged.

According to preliminary data in the period January - June 2022, the net inflow of foreign direct investments amounted to 355.87 million euros, which is 73.05% more compared to the

same period in 2021. The total inflow of foreign direct investments amounted to 508.03 million euros (a growth of 45.30%), which is the result of the growth of equity investments.

Source revenues of the budget of Montenegro and state funds in June 2022, according to the estimate of the Ministry of Finance, amounted to 169.06 million Euros or 3.19% of the estimated GDP, and were higher by 3.36% compared to the planned, while compared to June 2021, they achieved a growth of 6.35%.

Consolidated budget expenditures (total expenditures minus debt repayments), in June 2022, amounted to 167.72 million euros or 3.16% of GDP, which is 4.95% less than the plan, and higher by 7.55% compared to the same month of the previous year.

III.2. Group's business activities

The Group 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 Group 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 Group makes efforts to be a reliable, long-term partner to its clients. Adequate response of the Group to the needs of the clients 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, etc.

Also, the Group continued to improve the working environment in order to increase the level of employee motivation.

The Group had an adequate response to the crisis caused by the Covid-19 pandemic, which did not have a significant impact on the Group's result.

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

ODC activities consisted in the collection of existing receivables.

III.3. Retail banking

Main business lines in retail lending segment are still cash, housing and mortgage loans, as well as MC Shopping card with new conditions and innovated features of the previous card (cash withdrawal at ATM, the possibility of repayment in 24 installments at any POS, as well as the use of the same card anywhere in the world). In the part of cash loans, by merging two entities, we are limited by the length of the repayment period from the former 8 years to 6 years. In deposit segment, current accounts and classic savings are still dominant. Lending

and deposit interest rates were adjusted in the third quarter of 2022, in line with the Group's Pricing Policy and market trends.

In the previous quarter, a campaign for mortgage loans was implemented. The bank offered special conditions for the realization of the loan in the form of a lower interest rate and paid appraisal costs as well as notary services.

The Bank has recognized the synergy between the legal entities of the bank's clients and employees in these companies, which it sees as a potential for further good cooperation through mutual interest of both the company as a bank's client, and employees in these companies.

The bank has created special offers for these groups of clients, for both loans for current consumption and for solving the housing issue. The offer refers to the categories of companies A, B1 and B2. Offers are submitted to all pre-selected companies by the Bank, in which there is potential for cooperation as well as to all companies that show interest in cooperation.

Gross retail loans, of residents, as of 30 September 2022 amount to EUR 501,126 thousand, accounting for 45.14% of the total portfolio. Gross retail loans of non-residents, amount to EUR 3,596 thousand, i.e. 0.32% of total portfolio.

At the same time, retail deposits of residents participated in the total deposits of the Bank with 38.05% and amounted to EUR 470,253 thousand, while retail deposits of non-residents, amounted to EUR 93,446 thousand or 7.56% of total deposits of the Bank.

Loan and deposit portfolios of the Bank include mainly clients 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 the third quarter of 2022 business cooperation with large and medium legal entities continued. The emphasis was placed on quality improvement and product development through adequate selection of credit worthy clients that have adequate security instruments.

In the segment of business operations with micro and small legal entities, the Group continued to cooperate with the European Investment Fund (EIF), thus extending the offer of the loans for these companies.

Total loans and receivables of legal entities as at 30 September 2022 amounted to EUR 491,090 thousand, and in the total portfolio they accounted for 44.25%. Total deposits of legal entities amounted to EUR 672,219 thousand, i.e. 54.34%. The funds in the escrow account amounted to EUR 15 thousand.

Lending and deposit interest rates on these products were adjusted in the third quarter of 2022, in line with the Bank's pricing policy and market developments.

III.5. Transactions with the Government of Montenegro and other budgetary beneficiaries

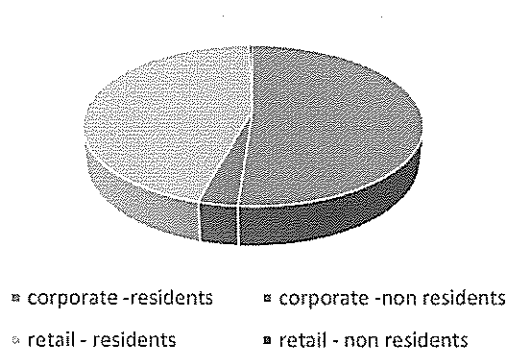
The Bank continued the cooperation with the Government of Montenegro and other budgetary beneficiaries through credit arrangements and transaction services. By that, the Group continued to build partnership relationship with state institutions in Montenegro.

Cooperation with the Government of Montenegro was further intensified by signing an agreement on cooperation in the implementation of measures to support the economy and citizens in the fourth quarter of 2021. The agreement envisions providing support to the economy and citizens with the aim of resolving the consequences of the crisis caused by the Covid-19 pandemic.

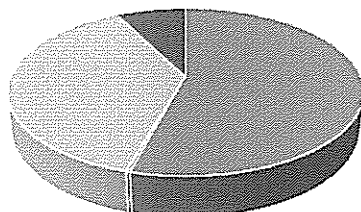
Total loans of the Government of Montenegro and other budgetary beneficiaries participate with 10.28% in the total portfolio.

III.6. Graphic representation of the Group's loan and deposit portfolio

Loan portfolio by clients' segments as of 30 September 2022:



Deposits by clients' segments as of 30 September 2022:



■ corporate -residents ■ corporate -non residents
● retail - residents ■ retail - non residents

Breakdown of portfolio by regions as of 30 September 2022:

Region	Municipality	Net exposure by municipalities	Net exposure by regions
Center	Cetinje	10,895	835,199
	Danilovgrad	12,663	
	Nikšić	45,678	
	Podgorica	765,963	
South	Bar	25,759	125,091
	Budva	21,684	
	Herceg Novi	27,086	
	Kotor	26,662	
	Tivat	16,146	
	Ulcinj	7,754	
North	Andrijevica	-	59,152
	Berane	14,534	
	Bijelo Potje	18,556	
	Kolašin	5,188	
	Mojkovac	3,603	
	Plav	41	
	Pljevlja	7,879	
	Rožaje	7,642	
	Žabljak	1,709	
Total		1,019,442	1,019,442

IV. Analysis of the financial position and results of the Bank

As of 30 September 2022, the following financial instruments were crucial for assessing the financial position of the Group:

- Cash and deposit accounts with central banks
- Loans and receivables from banks, at amortized value

- Loans and receivables from clients, at amortized value
- Investments in securities held to maturity
- Deposits from banks
- Client deposits
- Borrowed funds from banks and other clients
- Capital

STATEMENT OF FINANCIAL POSITION

As of 30 September 2022

(in thousands of EUR)

	30 September 2022	31 December 2021
ASSETS		
Cash and balances with the Central Bank	265,243	231,096
Loans and advances to banks at amortized cost	178,307	121,662
Loans and advances to customers at amortized cost	1,019,442	927,939
Securities at amortized cost	91,489	69,341
Other financial assets at amortized cost	2,228	1,924
Securities at fair value through other comprehensive income	3,414	2,542
Investments in associates and joint ventures according to equity method	-	-
Property, plant and equipment	21,559	22,936
Intangible assets	5,973	7,330
Current tax assets	7	9
Deferred tax assets	574	369
Non-current assets held for sale and assets of discontinued operations	-	-
Other assets	7,828	5,343
TOTAL ASSETS	1,596,064	1,390,491
LIABILITIES		
Deposits from banks and central banks at amortized cost	1,242	1,389
Deposits of clients at amortized cost	1,234,996	1,048,109
Loans to banks and central banks at amortized cost	50,200	36,792
Loans to customers that are not banks at amortized cost	33,609	31,081
Other financial liabilities	459	-
Reserves	10,596	30,993
Current tax liabilities	3,301	2,217
Deferred tax liabilities	653	341
Other liabilities	28,175	27,276
TOTAL LIABILITIES	1,363,231	1,178,198
EQUITY		
Share capital	181,875	181,875
Retained earnings	27,682	24,390
Profit / loss for the year	19,834	3,294
Other reserves	3,442	2,734

Total equity	232,833	212,293
TOTAL LIABILITIES AND EQUITY	1,596,064	1,390,491

Total assets as at 30 September 2022 amounted to EUR 1,596,064, which represents an incline of 14.78% in relation to 31 December 2021.

Total net loans amounted to EUR 1,019,442 thousand, and they are higher by 9.86% compared to 31 December 2021.

STATEMENT OF PROFIT OR LOSS

In the period from 1 January to 30 September 2022
(in thousands of EUR)

	30 September 2022	30 September 2021
Interest and similar income	38,394	35,048
Interest income on impaired placements	801	1,026
Interest expense and similar charges	(818)	(916)
Net interest income	38,377	35,158
Fee and commission income	25,966	19,217
Fee and commission expense	(15,560)	(12,071)
Net fee and commission income	10,406	7,146
Net foreign exchange gains / losses	1,328	833
Net gains / losses based on the termination of recognition of other assets	(96)	252
Other income	1,343	1,380
Employee expenses	(13,056)	(11,342)
Depreciation costs	(4,070)	(3,972)
General and administrative costs	(6,496)	(6,988)
Net income / expense from modification and reclassification of financial instruments	(21)	-
Net income / expense on impairment financial instruments that are not valued at fair value value through profit or loss	(25,656)	(4,827)
Provisioning costs	21,028	(67)
Other expenditures	(151)	(86)
OPERATING PROFIT	22,936	17,487
Profit tax	(3,102)	(1,517)
NET PROFIT	19,834	15,970

Net interest income increased by 9.16%.

Net fee income increased by 45.62% compared to the same quarter of the previous year. This growth is the result of the weakening of the negative impact of the Covid-19 pandemic and the recovery of the economy during 2022, as well as the excellent results of the pre-tourist season. The revival of economic activities combined with inflationary effects resulted in an

increase in the volume of realized transactions in national and international payment transactions. Also, the Bank achieved an increase in net income from card operations.

In accordance with the provisions of the Law on Accounting, and due to the acquisition of qualified participation in OTP Debt Collection, doo Podgorica, the Bank is obliged to prepare and publish consolidated financial statements. In accordance with Article 313 of the Law on Credit Institutions, and based on the approval of the CBM, this company was excluded from consolidation for the purposes of supervision on a consolidated basis, and the indicators of compliance of the Bank's operations with CBM regulations are shown below, as indicated.

The achieved performance indicators of the Bank's compliance with the CBM regulations are shown in the table below:

	30 September	31
	2022	December
		2021
Regulatory capital	191,878	187,792 ¹
Common Equity Tier 1 capital (CET1) ratio - min 4.5%	19.82%	22.84%*
Tier 1 capital ratio – min 6%	19.82%	22.84%*
Total capital ratio (TCR) - min 8%	19.82%	22.84%*
Daily liquidity ratio (minimal ratio 0.9)	1.60	1.51
Ten-daily liquidity ratio (minimum ratio 1)	1.60	1.53
Exposure of the bank to one person or group of related parties (more than 10% of the bank's CET1 capital)	14.92%	19.43%
Sum of large exposures	99.82%	61.43%
Total exposure to parties related to the Bank	4.40%	14.13%
Ratio of investment in fixed assets	11.38%	12.35%

IV.1. Capital analysis

As of 30 September 2022, the Bank's share capital was made of 355,717 ordinary shares of individual nominal value of EUR 511.2919. All issued shares have been fully paid.

As of 30 September 2022, the only shareholder of the Bank was OTP Bank Plc. Budapest with 100% equity share.

In accordance with the regulations of the Central Bank of Montenegro, as of 30 September 2022, the Bank was obliged to maintain a minimum capital solvency ratio of 10%. The Bank's solvency ratio as of 30 September 2022 was 19.82%.

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 Law on Credit Institutions

* Due to the application of the new regulations of the Central Bank of Montenegro, which is valid from 01.01.2022, in order to present comparative data, the data as of 01 January 2022 were used.

and the regulations of the Central Bank of Montenegro. As of 30 September 2022, the Bank does not deviate from the prescribed limits.

IV.1.1 Regulatory capital

As prescribed by the Decision on Capital Adequacy of Credit Institutions ("Official Gazette of Montenegro" No. 128/20 and 140/21), the Bank is obliged to determine the capital adequacy based on the basis of regulatory capital, Common Equity Tier 1 capital (CET1) ratio, Tier 1 capital ratio and Total capital ratio (TCR).

Bank's regulatory capital as of 30 September 2022 consisted of:

	In thousands EUR	
	30 September 2022	1 January 2022 ²
OWN FUNDS	191,878	187,792
TIER 1	191,878	187,792
COMMON EQUITY TIER 1 (CET 1)	191,878	187,792
Capital instruments eligible as CET1 capital	181,875	181,875
paid up capital instruments	181,875	181,875
Retained earnings	23,573	20,748
previous years retained earnings	23,573	20,748
profit or loss attributable to owners of the parent	19,201	2,294
Part of interim or year-end profit not eligible	(19,201)	(2,294)
Accumulated other comprehensive income	911	196
Gains or losses on revaluation of available-for-sale instruments determined in accordance with IFRS 9	911	196
Other reserves	995	1,003
Adjustments to CET1 due to prudential filters	(3)	(3)
value adjustments due to the requirements for prudent valuation (AVA)		
additional value adjustments (AVA) under the simplified approach	(3)	(3)
Other intangible assets	(5,963)	(7,314)
other intangible assets before deduction of deferred tax liabilities	(5,963)	(7,314)
Positive difference between the amount of calculated loan loss provisions and the sum of the impairments for balance sheet items and provisions for off-balance sheet items classified as "good assets"	(2,643)	(2,438)

² Due to the application of the new regulations of the Central Bank of Montenegro, which is valid from 01.01.2022, in order to present comparative data, the data as of 01 January 2022 were used.

Positive difference between the amount of accrued provisions for potential losses and the sum of the amount of impairment for balance sheet assets and provisions for off-balance sheet items classified as non-performing exposures to which the deductible item from regular core capital referred to in Article 18 item 13 of the Credit Institutions Capital Adequacy Decision because they arose before the application of this decision)	(7,061)	(6,469)
CET1 Capital elements or deductions – other	194	194

During the third quarter of 2022, the Bank maintained a very strong capital position, which is reflected in the fact that the total capital ratio in the third quarter of 2022 is significantly above the statutory minimum.

	In thousands EUR	
	30 September 2022	1 January 2022 ³
OWN FUNDS STRUCTURE		
TIER 1 CAPITAL	191,878	187,792
COMMON EQUITY TIER 1 CAPITAL (CET 1)	191,878	187,792
ADDITIONAL TIER 1 CAPITAL (AT1)	-	-
TIER 2 CAPITAL (T 2)	-	-
Total own funds	191,878	187,792
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 capital (CET1) ratio - min 4.5%	19.82%	22.84%
Tier 1 capital ratio – min 6%	19.82%	22.84%
Total capital ratio (TCR) - min 8%	19.82%	22.84%
CAPITAL BUFFERS		
capital conservation buffer	0.625%	0.625%
countercyclical capital buffer	0.014%	0.000%
structural systemic risk buffer	1.500%	1.500%
global systemically important credit institution (G-SICI) buffer	0.000%	0.000%
other systemically important credit institution (O-SICI) buffer	1.000%	1.000%
Combined buffer that applies to a credit institution	2.139%	2.125%
RISK EXPOSURE PER THE RISK TYPE		
TOTAL RISK EXPOSURE AMOUNT	968,071	822,155
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT RISKS AND FREE DELIVERIES	866,070	736,295
Standardised approach (SA)	866,070	736,295
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	101,807	85,860
OpR Basic Indicator approach (BIA)	101,807	85,860

³ Due to the application of the new regulations of the Central Bank of Montenegro, which is valid from 01.01.2022, in order to present comparative data, the data as of 01 January 2022 were used.

Other exposure amount	194
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IV.2. Investment in shares of legal entities

	In EUR thousands	
	30 September 2022	31 December 2021
Banks and financial organizations:		
- Montenegroberza, Podgorica (Bank's share 4,88%)	98	98
- Beogradska berza A.D., Beograd	6	6
- SWIFT Brussels	73	61
- CDA, Podgorica (Bank's share 15%)	143	143
- CG Broker AD, Podgorica (Bank's share 11,57%)	52	56
	372	364
Other legal entities:		
- Elektroprivreda Crne Gore, Nikšić (Bank's share 0,04%)	189	168
- Lutrija Crne Gore, Podgorica (Bank's share 0,47%)	18	18
- Tržište Novca AD, Beograd	5	5
- Plantaže AD, Podgorica (Bank's share 9,23%)	2,829	1,986
- Montenegro Airlines, Podgorica	1	1
	3,042	2,178
	3,414	2,542

As of 30 September 2022, the Group had no securities under pledge.

V. Related party transactions

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

Overview of the most significant receivables and liabilities to related parties as of September 30, 2022 is in the following table.

	In thousand EUR	
	30 September 2022	31 December 2021
Loans and receivables from banks at amortized cost		
- OTP Bank Plc., Budapest	674	5,842
- Vojvođanska banka dd, Srbija	100	104
Loans and receivables from clients at amortized cost		
- Group employees	13,661	12,465
	14,435	18,411

Clients deposits at amortized cost		
- Bank employees	4,294	4,614
- Debt Management Project Montenegro d.o.o. Podgorica	1,401	925
- OTP Albania	365	288
	6,059	8,526
Loans to customers other than banks stated at amortized cost		
- OTP Bank Plc., Budapest	50,200	36,643

As of 30.09.2022, total revenues from related parties amounted to EUR 713 thousand, while total expenses amounted to EUR 1,085 thousand.

VI. Risk management

In the Risk Management Strategy, the Group identified the following risks as materially significant risks to which it is exposed in its operations:

- Credit risk - defined as the risk of loss due to a client's failure to honor its obligations towards the Group. In addition to the counterparty or basic credit risk, it includes the following sub-categories:
 - a. concentration risk - a risk of occurrence of negative effects for the Group arising from the existence of individual, direct and indirect, exposure to one counterparty, group of connected counterparties or central counterparties, or arising from existence of a set of exposures related to the common risk factors;
 - b. country (sovereign) risk - represents a probability of incurring losses by the Group stemming from inability of debtors headquartered outside of Montenegro to meet their payment obligations or original contract conditions due to reasons pertaining to political, social and economic environment of the country in which debtor has its head office or residence;
 - c. residual risk - a risk of loss for the Group occurring if the results of application of the recognised credit risk mitigation techniques used by the Group are less effective than expected. Residual risk also means the risk of large-scale devaluation or the limited enforceability of collateral behind credit exposures.
- Operational risk - defined as the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or external events, including legal risk.
- Market risk - defined as the probability of incurring losses on bank balance sheet and off-balance sheet financial instruments arising from changes in interest rates, foreign exchange rates, prices, indices and/or other market factors impacting the value of financial instruments, as well as the risks related with the marketability of financial instruments.
- Interest Rate Risk in the Banking Book (IRRBB) - a possibility of adverse changes in net interest income (NII) and/or economic value of equity (EVE) related to banking book instruments due to fluctuations in market interest rates.

- Liquidity risk - is 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 the matured obligations.
- Reputational risk - represents the potential loss in reputational capital based on either real or perceived losses in reputational capital.
- Strategic and Profitability risk - risk of losses from deteriorated earnings either due to an inadequate business strategy or its inadequate implementation. This definition implies that losses due to strategic and profitability risk occur through negative net earnings diminishing the institutions' available own funds.
- ESG risk – it refers to Environmental, Social, and Governance factors, i.e. the three central factors in measuring the sustainability and societal impact of an investment, credit exposure, or activity. ESG risks refer to risks related to or coming from ESG factors.
- Compliance risk – represents the potential legal risk, the risk of supervisory or other official sanctions, of significant financial losses, or of reputational damage due to a failure to adhere to legislation or other non-legislative standards and internal rules applicable to the financial organisation and pertaining to its service activities.

The Group 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 Group defined the following strategic goals:

- Increasing the level of automation of the loan approval process as well as its speed
- Creating a standardized process for approving loans to legal entities
- Improving existing databases in order to develop better models for automatic decision making
- Strengthening and improving the control framework in the field of operational risk, market risk, country risk and other counterparties
- Development of human resources and risk management organization that will be able to respond to the challenges of market trends and support the achievement of the Group's business 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.

VI.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 Group's loan portfolio increased as a result of efforts to increase placements with minimum increase of risk tolerance in certain segments.

In accordance with the Decision on the Criteria and the Manner of Classification of Assets and Calculation of Provisions for Potential Loan Losses of a Credit Institution (Official Gazette of Montenegro, No. 127/20 and 140/21) 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 Group 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 Group 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 Group 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 Group'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 30 September 2022 we obtained:

(In thousands of EUR)

Stavke aktive bilansa	Cash collateral	Other collateral	Classification					Total	Stage of the financial assets			
			A	B	C	D	E		stage 1	stage 2	stage 3	ukupno
Financial assets at amortised cost	6,404	5,899,442	1,253,152	45,943	17,197	849	14,746	1,331,887	1,192,820	101,620	37,447	1,331,887
loans and receivables from banks			178,512	0	0	0	0	178,512	178,512	0	0	178,512
loans and receivables from clients	6,404	5,899,442	981,262	45,943	17,196	847	11,094	1,056,342	920,930	101,620	33,792	1,056,342
securities			91,146	0	0	0	0	91,146	91,146	0	0	91,146
other financial assets			2,232	0	1	2	3,652	5,887	2,232	0	3,655	5,887
Financial assets at fair value through other comprehensive income	0	0	585	0	2,829	0	0	3,414	585	0	2,829	3,414
Securities			585	0	2,829	0	0	3,414	585	0	2,829	3,414
Total gross loans	6,404	5,737,245	971,774	45,572	16,853	830	10,699	1,045,728	911,069	101,620	33,039	1,045,728
interest receivables	0	0	2,275	128	35	22	889	3,349	2,211	191	947	3,349
interest on loans and receivables from clients			377	128	35	22	889	1,451	313	191	947	1,451
interest on securities			1,898	0	0	0	0	1,898	1,898	0	0	1,898
interest on gross loans			377	128	35	22	889	1,451	313	191	947	1,451
Total amount of securities	0	0	-1,067	8	-17	-4	-33	-1,113	-1,036	-1	-77	-1,114
Other financial assets, total			-1,067	8	-17	-4	-33	-1,113	-1,036	-1	-77	-1,114
Accruals and prepayments			-830	16	-15	-4	-33	-866	-791	-1	-75	-867
Accruals and prepayments on loans and receivables from clients	6,404	5,899,442	1,159,084	46,079	17,214	865	11,950	1,235,192	1,098,719	101,810	34,662	1,235,191
Gross loans and receivables, total	0	0	1,648	117	84	20	1,040	2,909	1,586	179	1,144	2,909
Securities, total	0	0	93,629	0	2,829	0	0	96,458	93,629	0	2,829	96,458
Other financial assets, total	0	0	2,232	0	1	2	3,652	5,887	2,232	0	3,655	5,887
investments in associates, joint ventures and subsidiaries under equity method			335	0	0	0	0	335	335	0	0	335
Other asset items for which provisions for potential losses are allocated			4,377	226	2,247	142	25,269	32,261	4,377	226	27,657	32,260
Total assets for which provisions for potential losses are allocated	6,404	5,899,442	1,259,657	46,305	22,291	1,009	40,871	1,370,133	1,199,292	102,036	68,803	1,370,131
Provisions for potential losses			6,277	1,720	4,924	610	15,636	29,167	6,999	1,029	21,139	29,167
Loans and receivables from credit institutions			893	0	0	0	0	893	893	0	0	893
Loans and receivables from clients			4,906	1,717	4,912	593	11,094	23,222	5,628	1,026	16,568	23,222
Securities			456					456	456			456
Other financial assets			11	0	0	1	3,653	3,665	11	0	3,654	3,665



Total gross loans	4,859	1,700	4,843	581	10,700	22,683	5,564	1,014	16,106	22,684
Interest on loans and receivables from clients	2	3	12	16	889	922	2	3	917	922
Interest on securities	9	0	0	0	0	9	9	0	0	9
Interest on gross loans	2	3	12	16	889	922	2	3	917	922
Value adjustment	20,099	3,286	5,800	529	13,949	43,663	12,544	9,824	21,295	43,663
Loans and receivables from credit institutions	205	0	0	0	0	205	205	0	0	205
Loans and receivables from clients	18,084	3,159	5,765	506	9,364	36,878	10,593	9,634	16,651	36,878
Securities	1,555	0	0	0	0	1,555	1,555	0	0	1,555
Other financial assets	7	0	0	1	3,650	3,658	7	0	3,651	3,658
Total gross loans	17,823	3,150	5,738	506	9,332	36,549	10,322	9,634	16,593	36,549
Interest on loans and receivables from clients	248	127	35	22	935	1,367	184	190	993	1,367
Interest on gross loans	248	127	35	22	935	1,367	184	190	993	1,367
Difference between provisions and value adjustments - net principle	-13,822	-1,566	-876	81	1,687	-14,496	-5,545	-8,795	-156	-14,496
Loans and receivables from credit institutions	688	0	0	0	0	688	688	0	0	688
Loans and receivables from clients	-13,178	-1,442	-853	87	1,730	-13,656	-4,965	-8,608	-83	-13,656
Securities	-1,099	0	0	0	0	-1,099	-1,099	0	0	-1,099
Other financial assets	4	0	0	0	3	7	4	0	3	7
Total gross loans	-12,964	-1,450	-895	75	1,368	-13,866	-4,758	-8,620	-487	-13,865
Interest on loans and receivables from clients	-246	-124	-23	-6	-46	-445	-182	-187	-76	-445
Interest on securities	9	0	0	0	0	9	9	0	0	9
Interest on gross loans	-246	-124	-23	-6	-46	-445	-182	-187	-76	-445
Positive difference between provisions and value adjustments - individually per the sub-account	873	632	1,011	105	5,168	7,789	1,537	7	6,245	7,789
Loans and receivables from clients	873	632	1,011	105	5,168	7,789	1,537	7	6,245	7,789
Total gross loans	873	624	969	101	4,806	7,373	1,529	7	5,837	7,373
Provisions for potential losses for investments in associates, joint ventures and subsidiaries under equity method	2					2	2			2
Difference between provisions and value adjustments for investments in associates, joint ventures and subsidiaries under equity method - net principle	2	0	0	0	0	2	2	0	0	2
Provisions for losses for other asset items	22	7	851	99	25,269	26,248	22	7	26,219	26,248
Value adjustment for other asset items	175	34	1,993	57	25,269	27,528	175	34	27,318	27,527
Difference between provisions and value adjustments for other asset items - net principle	-153	-27	-1,142	42	0	-1,280	-153	-27	-1,099	-1,279

	6,301	1,727	5,775	709	40,905	55,417	7,023	1,036	47,358	55,417
Total of loan loss provisions for all asset positions for which provisions are allocated	20,274	3,320	7,793	586	39,218	71,191	12,719	9,858	48,613	71,190
Total of value adjustment for all asset positions for which provisions are allocated	-13,973	-1,593	-2,018	123	1,687	-15,774	-5,696	-8,822	-1,255	-15,773
Total of difference between provisions and value adjustments – net principle	1,678	649	1,582	150	5,168	9,227	2,349	17	6,861	9,227
Total lacking amount of provisions	689	0	.	0	0	689	689	0	0	689
loans and receivables from credit institutions	948	640	1,000	93	2,265	4,946	1,619	8	3,318	4,945
loans and receivables from clients	3	0	566	0	0	569	3	0	566	569
securities	4	0	0	1	0	5	4	0	1	5
other financial assets	948	631	958	89	1,902	4,528	1,610	8	2,910	4,528
total gross loans	0	0	16	13	2,903	2,932	0	0	2,933	2,933
Interest on loans and receivables from clients	9	0	0	0	0	9	9	0	0	9
Interest on securities	0	0	16	13	2,903	2,932	0	0	2,932	2,932
Interest on gross loans	2	0	0	0	0	2	2	0	0	2
investments in associates, joint ventures and subsidiaries under equity method	23	9	0	43	0	75	23	9	43	75
other asset items for which provisions for potential losses are allocated										
Balance sheet assets for which provisions for potential losses are not allocated						296,266				296,266
TOTAL GROSS ASSETS						1,666,399				1,666,399
TOTAL NET ASSETS						1,595,208				1,595,208

As of September 30, 2022, the total gross receivables of ODC amount to EUR 17,946 thousand, and the corresponding impairments amount to EUR 16,941 thousand.

VI.2. Country and counterparty risk

The Group 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 Group is exposed. The exposure limit system is based on country risk rating and the Group's capital position in line with the parent bank methodology and statutory requirements.

The Group 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 Group placed major part of its assets in risk-free countries.

Counterparty risk is managed by a system of exposure limits to various counterparties the Group has cooperation with. The exposure limit system is based on counterparty risk rating and the Group's capital position in accordance with the parent bank methodology and statutory requirements.

VI.3. Market risk

The Group 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 Group is mainly exposed to foreign exchange risk (FX). FX or currency risk is the risk that the Group 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 Group has established a system of internal limits for FX risk in accordance with the structure of the Group'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.

VI.4. Liquidity risk

Liquidity risk represents likelihood that the Group 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 Group 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 Group, 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 the third quarter of 2022 the Group maintained strong liquidity position and operated with the liquidity coefficient above the prescribed statutory minimum. As of 30 September 2022, liquidity coefficient was 1.61, while the legally prescribed minimum is 0.9.

Also, in accordance with the new Law on Credit Institutions, the Bank, starting from January 1, 2022, is obliged to report on a monthly basis the liquidity coverage ratio, which as of September 30, 2022 was 2.86, while the statutory minimum 1.

Daily Liquidity Report, RLS:

In thousands EUR

	<u>30 September 2022</u>	<u>31 December 2021</u>
Cash	63,083	47,096
Gyro account	136,018	127,508
Funds kept with payment transaction agents	774	499
Funds kept in correspondent banks accounts (sight deposits)	178,512	121,813
Mandatory reserves kept with the Central Bank (50%)	<u>32,729</u>	<u>28,074</u>
	411,116	324,990
Liquid assets/receivables	<u>411,116</u>	<u>324,990</u>

Due obligations for credits	283	198
Due liabilities for interests and fees	13	11
Due liabilities for term deposits	87	4,044
30% sight deposit	230,826	189,539
10% approved but unused, irrevocable loan obligations (credit lines)	18,290	15,097
Other matured liabilities	6,629	6,157
	<u>256,128</u>	<u>215,046</u>
Surplus/Deficit	<u>154,988</u>	<u>109,944</u>
Liquidity indicators	<u>1.61</u>	<u>1.51</u>

VI.5. Operational risk

The centralized function of operational risk management is placed within Credit Approval and Risk Management Division 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 Group. 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 Group'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 Group'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 Group has adopted the Disaster Recovery Plan which ensures business continuity i.e. timely restoration of critical business activities of the Group in the cases of disrupted or interrupted operations. The Plan is updated and tested on a regular basis.

Pursuant to Article 351 of the Decision on Capital Adequacy in Credit Institutions (Official Gazette of Montenegro, No. 128/20 and 140/21), the Group uses a simple method for calculating the capital requirements for the operational risk.

As of 30 September 2022, the Group formed provisions for potential losses based on litigation in the amount of EUR 2,063 thousand.

VI.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 Group's operation. Reputation is rather

a complex issue and basically represents the clients' assessment of the manner of providing of services. Marketing and advertisements can have a short-term effect on the reputational risk of the Group.

VII. Education of the employees

Human resource management and continuous investment in their development is one of the key goals of the Bank, which was paid special attention in the third quarter of 2022 as well. 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 the third quarter of 2022 was paid to improving the knowledge and skills of employees in branches, through internal and external training.

Namely, during September, training was organized for all counter workers, credit officers and branch managers. The training was focused on sales techniques and, among other things, covered the topics of quality communication with the client, management and resolution of client complaints, development and improvement of sales through active listening and focus on the client.

In addition, AML e-learning trainings were organized for all Front office employees.

In addition, internal trainings were organized for network employees in the implementation of management controls in branches, as well as trainings in the area of opening accounts for legal entities.

In accordance with modern standards of human resources management, Bank continued to apply, during the third quarter of 2022, in all organizational parts, with the established system of performance measuring and employee motivation system. At the same time, in the third quarter, the implementation of a new automated tool for setting goals and evaluating employees in the branch network began. With this tool, the employees who contribute the most to the successful operation of the Bank are identified and awarded.

Education levels of employees as of 30 September 2022:

	Number of employees	in %
University degree	429	78.72%
College degree	19	3.49%
High school degree	97	17.79%
	545	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 Group 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 accordance with the Bank's Strategy revised at the end of 2021, the Group adopted detailed action plans related to the introduction of new products, modifications of existing products, processes and improving overall customer satisfaction in order to maintain market leadership and achieve sales plans, levels of digitalization, equipping customers with the Bank's products as well as other important indicators of the Group's sales success. In the third quarter of 2022, the Group audited most of Retail and Corporate products, in accordance with the adopted credit policies for different customer segments, and worked on the introduction of completely new products such as: leasing for legal and natural persons, adaptation of cash loans, product innovation for the SME segment has begun. Work on the online lending platform where it will be possible for the client to completely complete the procedure of taking out a cash loan with just one upon arrival at the Bank has been finished and the solution was successfully implemented and accompanied by an appropriate campaign. During this quarter, the Bank finished revision of retail products and introduced numerous changes to the parameters of all retail products in order to increase sales. Also, during this period, the Bank worked on improving BPM solutions for cash loans, overdrafts and cards, and finished developing BPM solutions for auditing overdrafts for SMEs.

The Group works intensively on improving and simplifying processes and standardizing the group's services.

The Group continues to work on the project of forming a package offer of bank products and services for the household sector.

The Group has initiated certain activities in the part related to the Law on Consumer Protection related to the disclosure of the costs of the services it offers.

At the same time, the Group 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 existing clients and by taking over clients of other banks and their loan disbursing. Potential clients are natural persons and legal entities that fulfill all necessary preconditions defined by products' parameters and Group's business procedures. Care for clients at the highest professional level and control of products' quality is the key to keeping the market share and ensuring customer satisfaction.

Also, sales campaigns for loans and other bank products are being implemented in the third quarter and planned for the next, with the aim of increasing sales and better equipping clients with the bank's products. The third, pre-approval campaign, which is continuation of the previous two, proved to be a very successful sales tool for the sale of cash loans, is underway and a third is already planned for the fourth quarter of this year.

The bank's activities were also aimed at simplifying the sales process in order to achieve greater efficiency and improving control mechanisms in the work process in order to reduce operational risks.

In the coming period, the Group 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.

IX. Environmental and social responsibility issues

The Group 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 problems.

According to the criteria defined by the law, the Group 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 Group 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. During the third quarter of 2022, the Group continued to focus on supporting all segments of socially responsible business: health, education, culture, local communities, social activities and sports. Support for projects in the field of culture, education, sports, health, environmental protection, as well as numerous projects that contribute to the preservation of tradition and culture at the local community level, continued.

X. Corporate governance rules and internal control system

As previously disclosed, during the first quarter of 2022, the Group identified a number of embezzlements that were continuously and for a long period of time carried out by several employees. As part of extensive control and conducted investigative procedures, the bank identified a significant number of anomalies in the functioning of the internal control system. Within the mentioned process, the bank formed a detailed list of identified anomalies and launched a project to implement all necessary corrective measures in order to quickly and efficiently reduce all operational risks to a minimum. Within the mentioned action plan, various corrective measures are planned related to technical, process and organizational changes that will lead to improvements, primarily in the field of operational risk management, but also to significant development of preventive protection mechanisms.

The Group will continuously monitor the efficiency of the implemented corrective activities and the quality of the functioning of the internal control system by improving the internal regulations, establishing the "4 eyes" principle and precisely defined lines of responsibility. In addition to internally defined corrective measures, the emphasis in the coming period will be on better and more efficient implementation of recommendations issued by the Central Bank of Montenegro, external and internal auditors and other relevant institutions.

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 Group 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 Law on Credit Institutions and the Law on Business Organizations, as well as the competencies and powers of the Bank's bodies (Management Board, Supervisory Board 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 Group's bodies are based on the aforementioned legal regulations, defined by internal documents and established banking practice.

The Group's internal control system is designed to provide reasonable assurance for achievement of goals in the following categories:

- Efficient and effective operations,

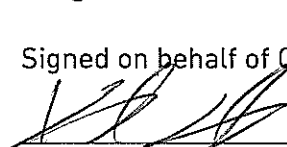
- Reliability of financial reporting and
- Compliance with the effective laws and regulations.

During the development of the internal control system, the Group 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. Analyzes 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		

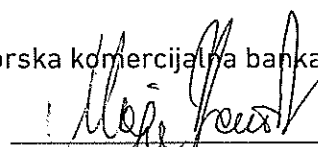
Podgorica, October 25, 2022

Signed on behalf of Crnogorska komercijalna banka AD, Podgorica:



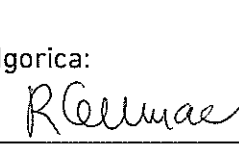
Tamás Kamarási

Chairperson of the
Management Board



Maja Krstić

Management Board member



Ratka Glumac

Head of Reporting
Department

