



Consolidated Management Report of Crnogorska Komercijalna Banka a.d. Podgorica for first quarter 2019

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INTRODUCTION

Crnogorska Komercijalna Banka AD, Podgorica (hereinafter: the Bank) prepares 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.

Bank is a parent company in the Group, which besides the Bank includes also a subsidiary company OTP Debt Collection doo, Podgorica (hereinafter: „the Group“). OTP Debt Collection doo, Podgorica is the 100 % owner of the South Invest Montenegro DOO Podgorica company.

Cosolidated 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).

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 made on the basis of the same principles and for the same period of time.

I. Description of business activities

The Bank received a license from 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 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.

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,
- Domestic and international payment operations,
- Financial leasing,
- Trade, in its name and for its own account or for the account of its clients, with foreign currencies and financial derivatives,
- Prepares analyses and provides information and advice on creditworthiness of business organizations and entrepreneurs,
- Depot activities,
- Offering safekeeping services in safe-deposit boxes,
- Other activities in accordance with the approval of the Central Bank of Montenegro.



The Bank's seat is in Moskovska bb, Podgorica

As of 31 March 2019, the Bank had 456 employees (31 December 2018: 452 employees).

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

As of 31 March 2019, the Bank was comprised of the head office in Podgorica, 24 branches and 5 counters in the territory of Montenegro.

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.

In 2019, the Bank did not repurchase its own shares.

II. Group's business operations

II.1. Group's business activities

In first quarter of 2019, 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 with the view to minimize the risk costs, improve IT system to be able to support planned business activities and harmonize the operation with international business standards.

By trust, dedicated approach which is primarily based on the quality of products and services, the Group tried to be reliable, long-term partner to its clients. Adequate response of the Group to the clients' and market's needs is a result of a wide range of credit, deposit and other products and services from the area of modern electronic channels, payment operations, custody business, private banking etc. In order to provide better services to its clients, the Group has adopted new client segmentation and changed the organizational structure accordingly.

The POS terminal network of the Group has over 3500 terminals. The range of services and products accepted in our network of POS terminals is constantly expanding and improving, and at the moment, besides payment for goods and services, the mobile phone top up service is available (at hundreds of locations), payment of electricity bills (at 35 locations), as well as disbursement of cash at all CKB counters. The world's most valuable brands, MasterCard, Maestro, Visa, Visa Electron and American Express are accepted in the CKB POS network.

In the period from 26.03.2019 to 15.05.2019, the Group organized a prize game for all its clients, natural persons, owners of CKB MasterCard payment card in Montenegro, entitled "Start a day as a champion! Start something priceless. Win Roland-Garros 2019!", in order to promote its and MasterCard products and services, as well as reward its current and future customers. The main prize is a Roland-Garros 2019 ticket package containing 2 Quarterfinals tickets with a backstage field tour.

During 2019, the Group continued to operate on socially responsible principles and it continuously supported the projects in which the Group's employees were actively involved. The projects of support in the field of culture, education, sport, health, environment protection, as well as numerous projects that contribute to the preservation of tradition and culture at the local community level were continued.

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



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.

II.1.1. 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. Lending and deposit interest rates were adjusted during 2019, in line with the Group 's Pricing Policy and market trends.

Gross retail loans, of residents, as of 31 March 2019 amount to EUR 185,999 thousand, accounting for 43.28% of the total portfolio. At the same time, retail deposits of residents, participated in the total deposits of the Group with 58.72%, and amounted to EUR 309.259 thousand.

Credit and deposit portfolios of the Group include mainly clients residing in Montenegro.

II.1.2. Corporate banking and transactions with the Government of Montenegro and other budgetary beneficiaries

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 2019, business cooperation with large and medium-sized legal entities continued. The emphasis was placed on improving the quality and product development through adequate selection of credit worthy clients, with appropriate security instruments. Also, the Group 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.

Total loans and receivables of legal entities, the Government of Montenegro and other budgetary beneficiaries participated as at 31 March 2018 amounted to EUR 243.756 thousand, and in the total portfolio they made 56.72%.

Total deposits of legal entities, the Government of Montenegro and other budgetary beneficiaries participated amounted to EUR 217,425 thousand, i.e. 41.28%. The funds in the escrow account amounted to EUR 211 thousand.

Lending and deposit interest rates on these products were adjusted in 2018, in line with the Group's pricing policy and market developments.

Breakdown of portfolio by regions

Region	Municipality	Net exposure by municipalities	Net exposure by regions
	Cetinje	5.993	
	Danilovgrad	3.636	
	Niksic	17.653	
Center	Podgorica	293.562	320.845
	Bar	14.638	
	Budva	11.709	
	Herceg Novi	22.256	
	Kotor	17.634	
	Tivat	6.646	
South	Ulcinj	3.819	76.701
	Berane	5.064	
	Bijelo Polje	5.520	
	Kolasin	1.203	
	Mojkovac	2.322	
	Plav	185	
	Pljevlja	4.444	
	Rožaje	3.742	
North	Zabljak	826	23.306
Total		420.852	420.852

II.2. Analysis of the financial position and results of the Bank

At the end of 2018, 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



UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of 31 March 2019
(Thousands of EUR)

	31, March 2019.	31, December 2018.
ASSETS		
Cash and balances with the Central Bank	105.323	135.251
Loans and advances to banks at amortized cost	63.101	56.481
Loans and advances to customers at amortized cost	420.852	393.973
Securities at amortized cost	79.322	79.278
Other financial assets at amortized cost	1.275	1.219
Securities at fair value through other comprehensive income	8.509	6.992
Property, plant and equipment	13.079	13.304
Intangible assets	3.605	3.602
Current tax assets	3	26
Deferred tax assets	43	53
Other assets	3.383	2.408
TOTAL ASSETS	698.496	695.587
LIABILITIES		
Deposits from banks and central banks at amortized cost	706	353
Deposits of clients at amortized cost	526.028	548.296
Banks' and central banks' loans at amortized cost	30.001	-
Customer loans (excluding banks) at amortized cost	6.194	9.732
Reserves	4.425	4.399
Current tax liabilities	280	1.019
Deferred tax liabilities	693	568
Other liabilities	10.015	14.905
TOTAL LIABILITIES	578.341	579.272
EQUITY		
Share capital	136.876	136.876
Retained earnings	(40.825)	(50.801)
Profit / loss for the year	2.482	9.978
Other reserves	21.621	20.262
Total equity	120.154	116.315
TOTAL LIABILITIES AND EQUITY	698.496	695.587

Total assets as at 31 March 2019 amounted to EUR 698.496 thousand, which represents an increase of 0.42% in relation to 31 December 2018.

Total net loans amounted to EUR 420.852 thousand with an achieved growth of 6.01% compared to the previous year, which was the result of both, new disbursements and improved quality of the portfolio.

The increase in securities at fair value through other comprehensive income has been conditioned by the increase in the market value of the shares of VISA and MasterCard.

On the other hand, the deposits recorded a slight decrease of EUR 25,667 thousand, 4.65% in the segment of legal entities.

In order to comply with local regulatory requirements regarding the calculation of the liquidity ratio, in the first quarter of 2019, the Bank withdrew from the parent bank, OTP Bank Plc. Budapest, the amount of EUR 30,000 thousand, on a period of 3-6 months with interest rate of -0.2% to 0.615%.

NOT AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year Ended 31 March 2019

(thousands of EUR)

	31. March 2019.	31. March 2018.
Interest and similar income	6.102	5.516
Interest income on impaired placements	167	-
Interest expense and similar charges	(69)	(72)
Net interest income	6.201	5.443
Fee and commission income	3.381	3.209
Fee and commission expense	(1.758)	(1.509)
Net fee and commission income	1.623	1.700
Net gains / losses due to termination of recognition financial instruments that are not valued at fair value value through profit or loss	-	-
Net gains / losses based on financial instruments held for trading	-	-
Net foreign exchange gains / losses	170	136
Net gains / losses based on the termination of recognition of other assets	(1)	44
Other income	339	1.109
Employee expenses	(3.285)	(3.101)
Depreciation costs	(638)	(637)
General and administrative costs	(1.674)	(1.701)
Net income / expense on impairment financial instruments that are not valued at fair value value through profit or loss	(141)	85
Losses on impairment and provisions	-	(24)
Other expenditures	(108)	(29)
OPERATIONAL PROFIT	2.703	3.024
Income taxes	(220)	(272)
NET PROFIT	2.482	2.752

The increase in interest income and similar income was conditioned by an increase in the loan portfolio. The increase in fees and commission expenses was mainly the result of an increase in card business expenses (in the amount of EUR 106 thousand), and an increase in the cost of the Deposit Protection Fund premium (in the amount of EUR 52 thousand). Collection of receivables in internal records in 2018 caused difference in Other income.

General costs, consisting of staff costs, general and administrative costs and depreciation costs during the year of 2019, generally maintained the same trend as in the previous year.

During the first quarter of 2019, the Group operated with a positive result in the amount of EUR 2,482 thousand.

**Average value of balance sheet items for the first quarter Q1-2019:
(EUR 000)**

Average amount of total assets	687.001
Average amount of interest bearing assets	550.925
Average amount of loans and advances to customers	475.026
Average amount of total liabilities	569.274
Average amount of interest bearing liabilities	539.048
Average amount of interest bearing deposits	534.675
Average amount of total equity	117.726
Average amount of core equity	83.038
Average amount of share capital	136.875

The achieved performance indicators are shown in the table below:

	Achieved performance indicators as of	
	31, March 2019	31, December 2018
Solvency ratio	20,79%	22.55%
The largest exposure of the Bank to one person or group of related persons	15,71%	13.04%
Sum of large exposures	46,86%	39.65%
Total exposure to the persons that have qualified participation in the Bank	11,67%	9.42%
Total exposure to Bank related persons	9,39%	9,67%
Total Exposure to persons employed in the Bank	0,16%	0.16%
Real Estate Investment and Fixed Assets Coefficient	20,07%	20.31%
Bank's liquidity coefficient	1,05%	1.15%

II.3. Capital analysis

As at 31 March 2019, the Group's share capital was made of 267,705 ordinary shares of individual nominal value of EUR 511,2919. All issued shares have been fully paid.

As at 31 March 2019, the only shareholder of the Group was OTP Bank Plc Budapest with 100% equity share.

In accordance with the regulations of the Central Bank of Montenegro, as at 31 March 2019, the Bank was obliged to maintain a minimum capital solvency ratio of 10%. The Group 's solvency ratio as at 31 December 2018 was 20.79%.

The Group 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 March 2019, the Group does not deviate from the prescribed limits.

II.3.1.1. 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 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 on the basis of own funds, as an absolute and a 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 required capital for all risks.

Bank's own funds as at 31 December 2018 consist of:

	In thousands EUR	
	31 March, 2019	31. December, 2018
Basic elements of own funds		
Share capital	136,876	136,876
Provisions established against profit after taxation	921	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	660	738
Total: Basic elements of own funds	137.680	137.758
Deductible items in calculation of core capital	-	-
Loss from previous years	(51.142)	(51.142)
Intangible assets	(3.568)	(3.563)
Unrealized loss on fair value adjustment of financial assets available for sale, at fair value	-	-
Total: Deductible items of the Bank's own funds	(54.710)	(54.705)
Core capital	82.981	82.981
Direct or indirect investments in another bank or another credit or financial institution in the amount exceeding 10% of capital of those institutions	(143)	(143)
Own capital decreased by 50% of deductible items of own funds	82.827	82.981
Additional capital decreased by 50% of deductible items of own funds	(72)	(72)
Core capital, decreased as needed	82.897	82.909
OWN FUNDS	82.827	82.909

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:

- the total amount of the risk weighted assets for credit risk;
- the amount of risk weighted assets for market risks;
- the amount of risk weighted assets for operational risk;
- the 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 solvency ratio is 20.79%, significantly above the statutory minimum.

	In thousands of EUR	
	31. March 2019	31. December 2018
Core capital	82.827	82.909
Additional capital	(72)	(72)
Risk-weighted balance sheet assets	313.057	287,575
Risk-weighted off- balance sheet items	23.127	18.726
The amount that mitigates the negative effects on own funds due to first application of IFRS 9	660	738
Total risk-weighted balance sheet assets	336.844	307.039
Capital requirement for operational risk	5.742	5,694
Capital requirement for country risk	4.051	3.615
Bank's solvency ratio	20.79%	22.55%

III. Risk management

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

- Credit risk - represents the risk of loss as a result of the client's failure to fulfill the obligations towards the bank.
- Operational risk - is defined as the risk of losses in the Group'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 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 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 (hereinafter: the country of the debtor) .
- Liquidity risk - is defined as probability that the Group will not be able to provide sufficient funds to settle its obligations at the time of their maturity, or the probability that the Group will have to get funds with significant costs for settling its due liabilities.

- Reputational risk - represents a potential loss of Group reputation as a result of real or perceived loss of confidence in the Group.

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:

- 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 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.

III.1. Credit risk and valuation of balance sheet asset items and off-balance sheet items

The main sources of credit risk are loans approved to Retail, SME and Corporate segments.

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

In 2019, the Group continued lending 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. 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.

Pursuant to 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 Group 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. The Group did not change the methodology for calculating the impairment of the balance sheet assets and probable loss on off-balance sheet items, compared to 31 December 2018.

Besides the valuation of balance and off-balance sheet items according to the International Accounting Standards, the Group shall 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 solid 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 perspective for its repayment.
3. group C - "substandard", with subcategories „C1“ and „C2“; Loans with high probability of incurring losses due to clearly disclosed 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 the 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 is not envisaged for the Group's placement classified in A category. Assessed amount of the loan loss provisions is calculated by the 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% for the placements classified in E category.

III.2. Country and counterparty risk management

The Group has developed its own regulatory framework for risk management based on national legislation as well as parent bank standards, defining 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 majority 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 and in line with the parent bank methodology and statutory requirements.

III.3. Market risk

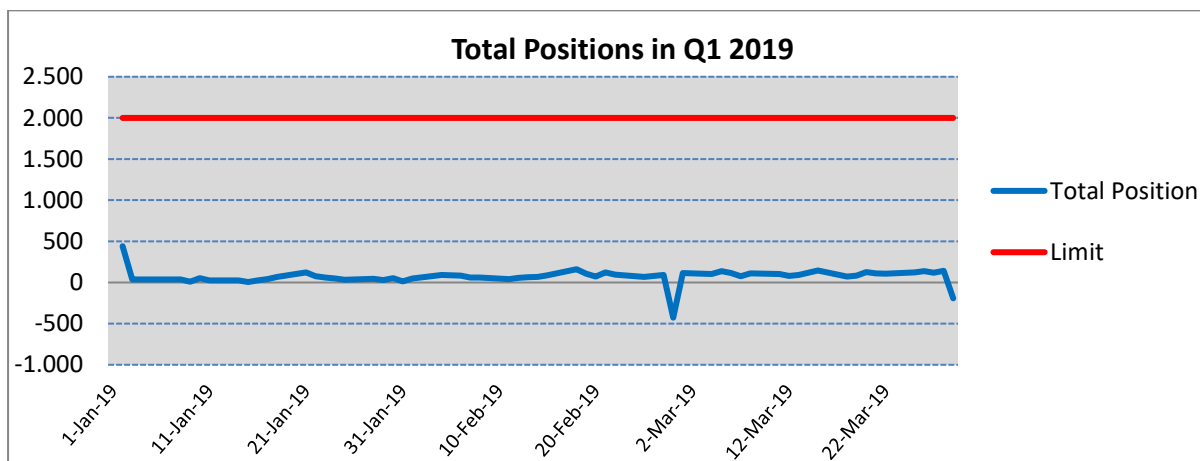
The Group is exposed to the market risks. Market risk is defined as a potential loss arising from unfavorable changes on the market such as interest rate, foreign exchange positions, prices, indices and/or other factors impacting the value of financial instruments. Most often, the main sources of the market risk are foreign exchange positions and interest rate risk.

Considering its business model, size and complexity of operations, with respect 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 of foreign exchange rates. FX risk is primarily defined as a potential loss at 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 stipulated by the Central Bank of Montenegro. In order to limit and mitigate FX risk, the Bank set a system of FX risk internal limits in accordance with the Bank's total assets and liabilities, business activities and market conditions, as well as limits defined by the Central Bank of Montenegro and OTP Group.

The Group set 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 Group’s management quarterly.

VaR trends in the first quarter of 2019 are presented below.



III.4. Liquidity risk

Liquidity risk represents likelihood that the Bank will not be able to provide for sufficient monetary assets to settle the obligations at their due date or likelihood that the Group 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 optimal liquidity structure to support its primary business activities.

In order to monitor the liquidity position, the Group prepares: Report on available liquid assets (RLS), Report on deposits of natural and legal persons (deposits of FL / PL) and Average Ten-day Liquidity Indicator (DPL) in accordance with the regulations of the Central Bank of Montenegro.

By the decision of the Central Bank of Montenegro on minimum standards for liquidity risk management in banks, the Bank is obliged to maintain the liquidity level so that the liquidity ratio is at least:

- 0.9% - when calculated for one working day
- 1% when calculated as the average of the liquidity ratios for all working days in a ten-day period

In 2019 the Group maintained strong liquidity position and operated with the liquidity coefficient above the determined statutory minimum. As of 31 March 2018, liquidity coefficient was 1.05%.

Daily Liquidity Report, DPL:

In thousands of EUR

	30. March 2019	31. December 2018
Cash	34.188	30.149
Gyro account	31.491	64,687
Funds kept with payment transaction agents	36	469
Funds kept on correspondent banks accounts (sight deposits)	62.878	56,481
Mandatory reserves kept with the Central Bank (50%)	20.098	20,016
Liquid assets/receivables	<u>148.691</u>	<u>171,802</u>
Due obligations for credits	17	9
Due liabilities for interests and fees	10	19
Due liabilities for term deposits	438	575
30% sight deposit	137.865	144,581
10% approved but unused, irrevocable loan obligations (credit lines)	3.660	4,672
Other matured liabilities	219	43
Matured liabilities	<u>142.208</u>	<u>149.890</u>
Surplus/Deficit	<u>6.483</u>	<u>21.911</u>
Liquidity indicators	<u>1.05%</u>	<u>1.15%</u>

III.5. Operational risk

The centralized function of operational risk management is placed within the Credit Approval and Risk Management Division and is in charge of monitoring and coordinating management of operational risk 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 in a sense 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 pertaining 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 adopted the Disaster Recovery Plan which enables 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 242 of the Decision on Capital Adequacy in Banks (Official Gazette of Montenegro, No. 38/11 and 55/12), the Group uses a simple method for calculating the capital requirements for the operational risk.

III.6. Reputational risk

Reputational risk is the risk of current and future income and capital arising from the negative public opinion about the Group's operations. Reputation is rather a complex issue and basically represents the clients' perspective of the Group's operations, management and services rendering. Marketing and advertisements can have short-term effect on the reputational risk of the Group.

IV. Related party transactions

	In thousands of EUR	
	31, March 2019	31, December 2018
<i>Loans and advances to banks at amortized cost</i>		
- OTP Bank Plc. Budapest	48.300	39.008
- OTP Bank Hrvatska	28	28
- Vojvođanska banka dd	2	
<i>Loans at amortized cost</i>		
- Bank's employees	7.960	8.176
Total receivables	56.269	47.233
<i>Short-term financial liabilities</i>		
- OTP Financing Malta Company Ltd.	3.512	7.014
<i>Due to customers at amortized cost</i>		
- Bank's employees	4.811	3.807
<i>Due to banks and central bank at amortized cost:</i>	30.001	-
Total liabilities	38.324	10.821
Receivables, net	17.945	36.412
<i>Off-balance-sheet items</i>		
Received guaranties :		
- OTP Bank Plc., Budapest	1.726	1.693
Total off-balance	1.726	1.693

	In thousands of EUR	
	31, March 2019	31, March 2018
	<hr/>	<hr/>
<i>Interest income:</i>		
- OTP Bank Plc. Budapest	130	76
- Bank's employees	113	104
	<hr/>	<hr/>
	243	180
<i>Fee income:</i>		
- OTP Bank Plc. Budapest	2	6
<i>Other non-interest income</i>		
- OTP Debt Collection doo, Podgorica	-	-
Total income	<hr/>	<hr/>
	-	6
Total income	<hr/> 245 <hr/>	<hr/> 186 <hr/>
<i>Interest expense:</i>		
- Bank's employees	-	(10)
- OTP Bank Plc., Budapest	(31)	
- OTP Financing Malta Company Ltd.	(17)	
	<hr/>	<hr/>
	(48)	(10)
<i>Fee expense:</i>		
- OTP Bank Plc. Budapest	(5)	(7)
Total expenses	<hr/> (53) <hr/>	<hr/> (10) <hr/>
Income, net	<hr/> 192 <hr/>	<hr/> 176 <hr/>