CRNOGORSKA KOMERCIJALNA BANKA AD, PODGORICA
MEMBER OF OTP GROUP

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

CONTENTS

	Page
Independent Auditor’s Report	1 – 4
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Income Statement	5
Consolidated Balance Sheet	6
Consolidated Statement of Changes in Equity	7
Consolidated Cash Flow Statement	8
Notes to the Consolidated Financial Statements	9 – 110
Appendix 1: Annual consolidated Management Report on Operations for the year ended December 31, 2020	

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

INDEPENDENT AUDITOR'S REPORT

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

Auditor's Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements (pages 5 to 110) of Crnogorska Komercijalna Banka AD, Podgorica, Member of OTP Group and its subsidiary ("the Group"), which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

(Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

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

Key Audit Matters (Continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Expected credit losses on loans and provisions under guarantees</td></tr>
<tr><td>Loan receivables and accounts receivable amounted to EUR 975.825 thousand as at December 31, 2020, while the total amount of the Group's allowance for impairment was EUR 52.981 thousand as at December 31, 2020.

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

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

The Management disclosed additional information on costs of loan impairment and provisions for guarantees in the Notes 2, 3.6, 3.7, 12, 17 and 26 to the consolidated financial statements.</td><td>Based on our risk assessment and industry knowledge, we have examined the costs of loan impairment and provisions, and assessed the methodology applied, as well as the assumptions used, in accordance with the description in the key audit matters.

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

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INDEPENDENT AUDITOR'S REPORT (Continued)

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

Other information included in the Group's Annual report

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

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

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

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Law on Accounting and regulations of the Central Bank of Montenegro governing the financial reporting of banks, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing applicable in Montenegro will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

(Continued)

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INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to this risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the override of internal controls,
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls,
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
    - Obtain sufficient appropriate audit evidence concerning the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

We communicate with those charges with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

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

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

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

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

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

	Notes	2020	2019
Interest and similar income	3.1,6a	27.597	37.548
Interest income on impaired placements		611	699
Interest and similar expense	3.1,6b	(301)	(814)
Net interest income		27.907	37.433
Fee and commission income	3.1,7a	15.382	21.733
Fee and commission expense	3.1,7b	(8.595)	(12.516)
Net fee and commission income		**6.787**	**9.217**
Net gains/losses from financial instruments not carried at fair value through profit and loss		-	138
Net gains/losses from financial instruments carried at fair value through profit and loss, not held for trading		-	(198)
Net gains/losses from FX revaluation	3.2,8	762	1.061
Net gains/losses from derecognition of other assets		(67)	(5)
Other income	9	2.101	34.856
Personnel expenses	10	(13.703)	(25.577)
Depreciation expenses	3.9,3.10	(4.337)	(3.731)
General and administrative expenses	11	(8.600)	(11.098)
Net gains/losses from impairment of financial instruments not carried at fair value through profit and loss	3.6,12a,c	(7.639)	(2.404)
Provisions	12,c	(248)	(143)
Other expenses	3.11, 13	(114)	(2.441)
PROFIT BEFORE TAX		2.849	37.108
Income tax	3.4, 14	(278)	(3.349)
NET PROFIT		**2.571**	**33.759**

The accompanying notes on the following pages (9 to 110)
form an integral part of these consolidated financial statements.

Podgorica, March 19, 2021

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

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

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

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Cash and balances with the Central Bank	3.5,3.6, 15	253.884	255.907
Loans and advances to banks at amortized cost	3.6,16	62.113	44.605
Loans and advances to customers at amortized cost	3.6,17	922.844	906.307
Securities at amortized cost	3.6,18	27.282	79.566
Other financial assets at amortized cost	24	1.769	1.384
Securities at fair value through other comprehensive income	3.6,19	2.043	2.388
Property, plant and equipment	3.3, 3.9, 20	23.622	20.759
Intangible assets	3.9, 21	6.870	7.568
Current tax assets	3.4, 14c	8	11
Deferred tax assets	3.4,14d	807	1.136
Non-current assets held for sale and discontinued operations	22	10	179
Other assets	23	5. 643	5.180
Total assets		**1.306.895**	**1.324.990**
LIABILITIES			
Deposits from banks and central banks at amortized cost	3.6,24	1.145	838
Deposits of customers at amortized cost	3.6,24	889.955	963.764
Loans to banks and central banks at amortized cost	3.6,25	138.675	81.643
Loans to client other than banks at amortized cost	3.6,25	31.101	38.310
Reserves	26	6.629	7.586
Current tax liabilities	3.4, 14c	536	2.806
Deferred tax liabilities	3.4, 14d	611	3.601
Other liabilities	27	30.475	28.757
Total liabilities		**1.099.127**	**1.127.305**
EQUITY			
Share capital	28	181.876	181.876
Retained earnings/(loss)		21.287	(35.943)
Profit for the year		2.571	33.759
Revaluation reserves			
Other reserves		2.034	17.993
Total equity		**207.768**	**197.685**
Total liabilities and equity		**1.306.895**	**1.324.990**

The accompanying notes on the following pages (9 to 110)
form an integral part of these consolidated financial statements.

Podgorica, March 19, 2021

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

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

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

	Share Capital	Revalorization Reserves	Other Reserves	Retained earnings	Profit for the year	Total
Balance at January 1, 2019	136.876	2.286	17.976	(50.801)	9.978	116.315
Issue of shares	45.000	-	-	-	-	45.000
Transfers/Other reserves	-	-	-	9.978	(9.978)	-
Net increase in fair value of securities at fair value through other comprehensive income	-	2.594	-	-	-	2.594
Decrease in fair value of securities at fair value through other comprehensive income due to sale of securities	-	(4.880)	-	4.880	-	-
Actuarial loss	-	-	17	-	-	17
Net profit for the year	-	-	-	-	33.759	33.759
Balance at December 31, 2019	181.876	-	17.993	(35.943)	33.759	197.685
Balance at December 1, 2020	181.876	-	17.993	(35.943)	33.759	197.685
Transfers/ Other reserves	-	-	(15.520)	49.279	(33.759)	-
Net increase in fair value of securities at fair value through other comprehensive income	-	(259)	-	-	-	(259)
Actuarial profit	-	-	(117)	-	-	(117)
Effect of IFRS 16 application	-	-	(63)	-	-	(63)
Profit for the current year of the Group	-	-	-	-	2.571	2.571
Other effects of merge of Podgorička banka (PPA effects, Note 5)	-	-	-	1.712	-	1.712
Net profit of the Podgorička banka in period from January 01, 2020 to December 11, 2020	-	-	-	6.239	-	6.239
Balance at December 31, 2020	181.876	(259)	2.293	21.287	2.571	207.768

The accompanying notes on the following pages (9 to 110) form an integral part of these consolidated financial statements.

Podgorica, March 19, 2021

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

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

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

	Notes	2020	2019
Cash flows from operating activities			
Interest and similar income received		29.271	37.137
Interest and similar charges paid		(419)	(1.010)
Fee and commission received		14.649	21.963
Fee and commission paid		(8.567)	(12.536)
Cash payments to employees and suppliers		(23.403)	(27.529)
Net increase in loans and other assets		(36.137)	(122.780)
Net increase in customer deposits and other liabilities		856	4.189
Taxes paid		(2.334)	(1.744)
Other income		1.173	1.462
Net cash (outflows) from operating activities		**(24.911)**	**(100.848)**
Cash flows from investing activities			
Purchase of property and equipment		(2.219)	(2.358)
Purchase of intangible assets		(938)	(1.387)
Treasury bills and other securities		51.279	40.103
Cash outflows from purchase of Podgorička banka		-	(41.475)
Net cash and cash equivalents inflow from Podgorička banka until merger day, December 11, 2020		9.592	-
Income from sold of tangable assets		-	42
Net cash inflows/(outflows) from investing activities		**57.714**	**(5.075)**
Cash flows from financing activities			
Net increase in other borrowed funds		6.395	11.307
Issue of common shares		-	45.000
Net cash inflows from financing activities		**6.395**	**56.307**
Effect of exchange rate changes		896	546
Net increase/(decrease) in cash and cash equivalents		**40.094**	**(49.070)**
Cash and cash equivalents at beginning of period		226.400	275.470
Cash and cash equivalents at the end of period	31	**266.494**	**226.400**

The accompanying notes on the following pages (9 to 110) form an integral part of these consolidated financial statements.

Podgorica, March 19, 2021

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

1. INCORPORATION AND OPERATIONS OF THE GROUP

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

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

The Bank is a parent legal entity that has 100% ownership in the subsidiary OTP Debt Collection DOO, Podgorica, which together form the Group (31 December 2019: 100% ownership in the dependent legal entities OTP Debt Collection DOO, Podgorica and Podgorička banka AD Podgorica, member of OTP Group, hereinafter: "ODC" and "PGB", respectively). As the owner of ODC, the Bank was officially registered in the Central Registry of Business Entities on December 17, 2018.

The Parent legal entity is registered as a shareholding company. The Prent legal entity's registration number in the Central Registry of the Commercial Court is 4-0001633.Pursuant to the Banking Law, Decision on Incorporation and Articles of Association, the Parent legal entity is engaged in the business of keeping deposits and other assets of private individuals and legal entities and approving loans and other placements from these assets, entirely or in part, for its own account. In addition to these operations, the Bank may also perform the following activities:

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

The Parent legal entity is headquartered at Moskovska Street, no number, Podgorica.

The parent company obtained the operating license from the Central Bank of Montenegro, by Decision No. 0101-72/1-2002 of 18 December 2002. The parent company is registered with the Securities Commission under the number 51 (Decision No. 02/3-47/2-01 of 12 July 2001).

ODC was registered with the Central Registry of the Commercial Court in Podgorica, by decision number 5-0582519/001, dated 25 June 2010. The company is registered for other non-mentioned financial services. The registered office of the Company is in Podgorica, Studentska bb, City kvart, Bemax building, III floor. The Company's registration number is 02795043.

On March 30, 2015, ODC established an entity called South Invest Montenegro DOO, Podgorica, as a 100% owner. The founding capital of South Invest Montenegro DOO, Podgorica amounted to EUR 5 thousand. The main activity of South Invest Montenegro DOO, Podgorica was consulting related to business and other management. The registration number of South Invest Montenegro DOO, Podgorica was 03041824. On June 18, 2019, by a shortened procedure of voluntary liquidation, South Invest Montenegro DOO, Podgorica was deleted from the Central Registry of Business Entities. During its existence, South Invest Montenegro DOO, Podgorica did not generate income from its core business.

On July 16, 2019, the Bank became the owner of 90.56% of the share capital of Societe Generale Montenegro AD Podgorica, Montenegrin branch of Societe Generale Group. On December 20, 2019, by purchasing the remaining 9.44% of shares, the Bank becomes 100% owner of Podgorička banka, AD Podgorica. The process of merging Podgorička banka AD Podgorica, member of OTP Group ("Podgorička banka") into Crnogorska Komercijalna Banka AD Podgorica was completed on December 11, 2020 with the registration of the merger of Podgorička banka into CKB banka in the Central Registry of Business Entities (Decision No. 4-0001633-070 of 11/12/2020).

As of December 31, 2020, the Group consists of its head office in Podgorica, 18 branches, 15 sub-branches and 1 counter on the territory of Montenegro, as well as ODC office (December 31, 2019: the Group consisted of its head office in Podgorica, 24 branches, 20 sub-branches and 5 counters on the territory of Montenegro, as well as ODC office). As of December 31, 2020, the Group has 554 employees (December 31, 2019: 735 employees).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

1. INCORPORATION AND OPERATIONS OF THE GROUP (Continued)

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

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

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

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

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

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

As of December 31, 2020, Head of Compliance Department is Dora Todorović. As of December 31, 2020, Internal Auditor is Alenka Mugoša.

2. BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements

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

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

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

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

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

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

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

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

Based on the investment in investees, conditions are met for preparation of consolidated financial statements in accordance with IFRS. The Group prepares consolidated financial statements by applying method of full consolidation having in mind that it controls the investees in accordance with IFRS 10 Consolidated financial statements. The Group has prepared and published consolidated financial statements at the same date as separate financial stetments, in accordance with IFRS. In accordance with provisions of IFRS 10 Consolidated financial statements, the control of consolidated controlled entities by the Group is established in the Group:

1) has power to manage the investee;

2) is exposed, or has rights to variable returns from it involvement with the investee;

3) has abilits to use its power over the investee to affect the amount of its returns.

The Group reassesses if it really controls controlled entities in case certain facts and curcumstances occur that indicate change in any of the three elements of the controls. Consolidation of the controlled entity begins from the moment of establishing control of the Group over controlled entities, and ceased when the Group loses the control. In other words, income and expenses of the investees are included in the consolidated profit and loss statement and other comprehensive result from the date the Group has gained control over the investee untill the date the control is lost. Basic information on controlled entities of the parent legal entity are presented in the table below:

Name of the controlled entity	Main business activity	Date of acquiring	% of capital share	
			2020	2019
OTP Debt Collection DOO, Podgorica	Other financial services	December 17, 2018	100%	100%
Podgorička banka AD, Podgorica	Other monetary business	July 22, 2019	n/a	100%

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

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

As disclosed in the Note 1, Podgorička banka AD, Podgorica, is merged with the parent legal entity, CKB, as of December 11, 2020.

Consolidated financial statements are prepared based on the principle of initial (historical) cost, excluding valuation of financial instruments measured at fair vaalue through other comprrehensive result. Historical cost is based on fair value of compensation paid for goods and services.

Fair value is the price that can be received for sale of an asset or paid for transfer of a liability in regular transaction between market participants at the date of measurement, regardless if the price is directly determinable or assessed by using some other valuation technique. In estimating fair value of an asset or a liability, the Group takes into account characteristics of the asset or liability if other market participants would also take into account these characteristics when determining the price of the asset or liability at the date of measurement. In the accompanying consolidated financial statements, for the purpose of measurement and/or disclosure, fair value is determined in manner described in the Note 4.7.

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

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

All amounts of assets, liabilities, capital, income, expenses and cash flows arising from intercompany transactions of the Group members are fully eliminated in the consolidation.

2.2. Use of Estimates

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

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

(a) Loss on impairment of loans and placements

The Group reviews its loan portfolio at least once a month to determine whether an impairment loss should be recognized in the income statement. The Group assesses whether there is any observable evidence to suggest that there has been a measurable decrease in the estimated future cash flows of the loan portfolio before such a decrease can be identified for each individual loan within the loan portfolio. Such evidence may include observable data indicating that there have been changes that may have an adverse effect, namely a change in the debtor's status with respect to loan repayment to the Group, or in economic conditions in the country that are directly related to the impact that outstanding contractual payment obligations may have on the assets of the Group.

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

2.2. Use of Estimates (Continued)

Management relies on estimates based on historical loss experience for assets with credit risk characteristics, as well as objective evidence of impairment, similar to those mentioned in the loan portfolio when estimating future cash flows. The methodology and assumptions used in estimating the amount of future cash flows and their timing are subject to constant review, with the aim of minimizing the difference between the estimated and actual loss.

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

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

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

The present value of assets for retirement benefits and other long-term benefits depends on a number of factors determined by an independent certified actuary using certain assumptions. Any changes in these assumptions would affect the present value of these assets. The key assumptions for severance pay and other long - term employee benefits are set out in Note 26.

(d) Provisions

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

(e) Impairment of non-monetary assets

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

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

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

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

(g) Fair value of financial instruments

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

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

2.3. Going Concern

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

On December 31, 2020, The Group had a positive result in the amount of EUR 2.571 thousand (December 31, 2019: EUR 33.759 thousand). The result has been significantly influenced by costs incurred due to the merger with Podgorička banka (EUR 1.754 thousand). Additionaly, significant increase of expenses related to impairment of financial instruments not carried at fair value through profit and loss had effect on the net result (Note 2.6, 3.6, 12a,c, i 17).

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

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

2.4. Netting

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

2.5. Comparative data

For financial statements, prepared on December 31, 2020, as comparative data, The Group presented data from audited consolidated financial statements as of December 31, 2019.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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

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

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

The moratorium III started on September 1, 2020. Within these measures, customers from the tourism sector and from the agriculture, forestry and fisheries sectors are entitled to a moratorium on loan repayment in the period from September 1, 2020 to August 31, 2021.
Starting from November 6, 2020, customers had possibility to apply for moratorium IV with duration of 6 months, in case they lost their jobs in the period after March 2020, due to effects of crisis caused by Covid-19 on economic system, or loan restructuring, if their salaries are reduced in this period, due to the crisis.

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

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

Allowances for credit losses are increased during the year in order to reflect effects of the COVID-19 crisis. The increase is realised through change of Probability of Loss (PL) and Loss Given Loss (LGL) vectors that present inputs for calculation of expected losses (EL) primarily for loans in stage 1.
Impact of Covid-19 crisis on liquidity of the Group was assessed through: 1)potential deposit outflows; 2) expected lower credit activity; 3) funding sources eligibility projections; and 4) CBoM loan moratorium rules effects. It is concluded that, even with high deposit outflows, Bank is able to maintain high liquidity levels and sustainable and stable operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

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

3.2. Foreign Exchange Translation

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

3.3. Leases

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

(a) *The Group as a lessee*

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

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

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

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

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

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

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

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

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

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

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

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

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

In case of contracts with definite term:

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

(b) The Group as a lessor

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

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

(c) First application of IFRS 16 "Leases"

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

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

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

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

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

The Group used the following practical means:

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

(d) IFRS 16 Project

During 2018, at the request of OTP Group, the Group launched the IFRS 16 Implementation Project. For the needs of OTP Group, the Group started applying the standard on January 1, 2019. As already mentioned, local implementation in accordance with the regulations of the CBM started on January 1, 2020.

The project was implemented in three phases:

Phase I - Contract analysis, data collection

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

In the balance sheet, the Group presents the following types of assets with the right of use:
- Office building
- Branch

Average lease term:
- Business building 5.67 years
- Branch 5.20 years

Phase II - Contract evaluation, calculations

In accordance with the application of IFRS 16, an analysis was prepared, which included:
- Impact on the balance sheet on the date of first application
- The impact of leases that are recognized and measures in accordance with IFRS 16 on the balance sheet and income statement.

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

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

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

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

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

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

Recognition of lease liabilities

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Leases (Continued)

Recognition of assets with the right of use

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

The cost of the assets with right of use includes:

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

Application of estimates

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Taxes and Contributions

Profit Tax

Current Profit Tax

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

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

Deferred Profit Tax

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

Taxes, contributions and other duties not related to operating results

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

3.5. Cash and Cash Equivalents

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

3.6. Financial Instruments

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

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

(a) Business model

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

(i) Business model: collecting contractual cash flows

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

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

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

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

(iii) Other business models

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

(b) Contractual cash flow characteristics of financial assets

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

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

For the purpose of applying these paragraphs:

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

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

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

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

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

(c) Measurement of financial instruments

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

.6. Financial Instruments (Continued)

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

The Group may use this option only in following cases:

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

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

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

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

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

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

(c) *Financial instruments at amortized cost*

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

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

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

(d) *Impairment of financial instruments*

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

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

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

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

(e) *Derecognition*

(i) Financial assets

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

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

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

(ii) Financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

In consolidation, effects of investment in affiliates and subsidiaries are eliminated from the consolidated financial statements, i.e. in process of preparing consolidated financial reports, parent legal entity investment in capital of the investee is netted with the amount of capital of the investee.

3.9. Property, Plant and Equipment

As of 31 December 2020, property, plant and equipment are stated at cost less impairment losses. The cost is the value per supplier's invoice, increased by the dependent costs based on the purchase and the costs of bringing the assets into a state of functional readiness.

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

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

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

3.10. Intangible Assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Impairment of Tangible and Intangible Assets

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

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

3.12. Acquired Assets

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

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

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

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

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

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

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

3.13. Capital and Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Provisions

Provisions are liabilities with an uncertain maturity or amount.

They are recognized when:

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

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

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

3.15. Employee Benefits

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Financial Guarantees

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

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

3.17. Management Assets (Custody services)

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

3.18. Transactions with Related Parties

The related parties are:

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

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

3.19. Fair Value

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20. Earnings per share

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

3.21. Accounting coverage of a business combination

The Group accounts every business combination and for it using acquisition method. The application of acquisition methods requires:

a) Identification of the acquirer,
b) Determining the acquisition date,
c) Recognition and measurement of acquired identifiable assets, commitments and any non-controlling interest in the acquired entity; and
d) Recognition and measurement of goodwill or gain from a bargain purchase.

The acquisition date is the date on which the acquirer obtains control of the acquired entity. Goodwill, which represents the residual acquisition cost after gaining control of the acquiree over the fair value of the assets acquired, liabilities and contingent liabilities, is recognized as an intangible asset at cost reduced for accumulated impairment in the consolidated balance sheet.
Goodwill recognized in a business combination is an asset that represents the future economic benefits arising from other assets acquired in the business combination that cannot be individually identified or separately recognized. Future economic benefits may result from a synergy of identifiable assets acquired, or assets that, individually, do not qualify for recognition in the consolidated financial statements. Goodwill recognized in a business combination is reviewed periodically to determine whether there is any indication of impairment. Gains on negative goodwill, when the net amount of identifiable assets acquired and liabilities assumed exceeds the amount of consideration transferred at the acquisition date, are recognized in the consolidated income statement as other income. In case of status change merger, gains from a bargain purchase is recognized in the balance sheet of the legal entity that is successor, and to which subsidiary is being merged, on the position of retained earnings.

4. FINANCIAL INSTRUMENTS

4.1. Risk Management

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.1. Risk Management (Continued)

- Reputational risk - represents the potential loss in reputational capital of the Group based on either real or perceived losses in its reputational capital.

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

The Group's risk management has the following set of strategic goals:

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

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

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

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

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

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

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

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk

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

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

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

4.2.1. Credit Risk Management

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

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

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

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

Commitments and contingent liabilities based on loans

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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

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

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

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

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

The following exposures are subject to collective assessment:

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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

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

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

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

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

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

On a collective basis:

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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

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

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

The Group uses two different methods for collectively assessed exposures:

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

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

In thousands of EUR

	December 31, 2020	December 31, 2019
ASSETS		
Loans and advances to banks at amortized cost	62.113	44.605
Loans and advances to customers at amortized cost	922.844	906.307
Securities at amortized cost	27.282	79.566
Other financial assets at amortized cost	1.769	1.384
Securities at fair value through other comprehensive income	2.043	2.388
Other financial assets	4.178	3.116
	1.020.229	**1.037.366**
Off-balance sheet items		
Payment guarantees	34.375	38.318
Performance guarantees	44.691	44.707
Unused documented letters of credit	789	1.558
Undrawn credit facilities	89.648	90.439
	169.503	**175.022**
Total credit risk exposure	**1.189.732**	**1.212.388**

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

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

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

The types of collaterals are:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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

Loans and advances are presented in the following tables:

December 31, 2020.	Total, net exposure	Gross carrying amount					Accumulated impairment				
		Stage 1	Stage 2	Stage 3	POCI	Total gross	Stage 1	Stage 2	Stage 3	POCI	Total Accumulated impairment
Loans and advances to banks at amortized cost	62.113	62.113	-	-	-	62.113	-	-	-	-	-
- Housing loans	156.932	143.147	13.229	4.669	616	161.661	(362)	(453)	(3.903)	(11)	(4.729)
Current account overdrafts	3.856	2.541	1.330	187	19	4.077	(8)	(52)	(152)	(9)	(221)
- Consumer loans	216.442	210.312	4.796	4.400	662	220.170	(544)	(383)	(2.607)	(194)	(3.728)
- Credit cards	3.764	3.183	472	414	21	4.090	(12)	(16)	(296)	(2)	(326)
- Special purpose loans	423	392	5	200	12	609	(1)	-	(182)	(3)	(186)
- Other loans to individuals, covered by mortgage	53.832	38.469	14.215	3.143	682	56.509	(89)	(481)	(2.055)	(52)	(2.677)
- Other loans	1.880	939	498	1.819	-	3.256	(9)	(41)	(1.326)	-	(1.376)
- Car loans	202	180	24	-	-	204	(1)	(1)	-	-	(2)
- Loans to micro and small entities	14.391	11.112	1.982	2.812	725	16.631	(72)	(245)	(1.818)	(105)	(2.240)
Loans to medium and large entities	301.848	223.136	76.778	33.806	1.642	335.362	(5.740)	(8.889)	(18.776)	(109)	(33.514)
- Loans to Government and municipalities	163.765	167.580	-	-	-	167.580	(3.815)	-	-	-	(3.815)
- Treasury LOB	5.509	5.676	-	-	-	5.676	(167)	-	-	-	(167)
Loans and advances to customers at amortized cost	922.844	806.667	113.329	51.450	4.379	975.825	(10.820)	(10.561)	(31.115)	(485)	(52.981)
Securities at amortized cost	27.282	27.865	-	-	-	27.865	(583)	-	-	-	(583)
Other financial assets at amortized cost	1.769	1.770	-	-	-	1.770	(1)	-	-	-	(1)
Securities at fair value through other comprehensive income	2.043	2.043	-	-	-	2.043	-	-	-	-	-
Other financial assets	4.178	4.155	129	9.147	-	13.431	(341)	(19)	(8.893)	-	(9.253)
	1.020.229	**904.613**	**113.458**	**60.597**	**4.379**	**1.083.047**	**(11.745)**	**(10.580)**	**(40.008)**	**(485)**	**(62.818)**
Undrawn credit facilities	88.091	86.519	2.928	155	46	89.648	(1.389)	(80)	(62)	(26)	(1.557)
Payment and performance guarantees and unused documented letters of credit	78.575	78.037	1.100	438	280	79.855	(994)	(110)	(112)	(64)	(1.280)
	166.666	**164.556**	**4.028**	**593**	**326**	**169.503**	**(2.383)**	**(190)**	**(174)**	**(90)**	**(2.837)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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

Loans and advances are presented in the following tables:

In thousands of EUR

December 31, 2019	Total, net exposure	Gross carrying amount					Accumulated impairment				
		Stage 1	Stage 2	Stage 3	POCI	Total gross	Stage 1	Stage 2	Stage 3	POCI	Total Accumulated impairment
Loans and advances to banks at amortized cost	44.605	44.605	-	-	-	44.605	-	-	-	-	-
- Housing loans	150.536	138.911	11.183	4.902	197	155.193	(328)	(132)	(4.195)	(2)	(4.657)
- Current account overdrafts	3.851	2.997	855	142	17	4.011	(23)	(7)	(127)	(3)	(160)
- Consumer loans	215.501	211.819	2.647	2.529	788	217.783	(504)	(69)	(1.708)	(1)	(2.282)
- Credit cards	4.439	3.886	565	318	34	4.803	(68)	(17)	(260)	(19)	(364)
- Special purpose loans	19.980	19.481	119	329	422	20.351	(63)	(8)	(291)	(9)	(371)
- Other loans to individuals, covered by mortgage	32.287	22.313	9.851	1.913	-	34.077	(47)	(95)	(1.648)	-	(1.790)
- Other loans	2.151	1.160	440	1.832	-	3.432	(8)	(21)	(1.252)	-	(1.281)
- Car loans	265	233	33	-	-	266	(1)	-	-	-	(1)
- Loans to micro and small entities	36.492	31.710	3.995	2.178	670	38.553	(246)	(483)	(1.298)	(34)	(2.061)
Loans to medium and large entities	276.352	258.247	8.124	33.947	1.907	302.225	(3.904)	(992)	(20.957)	(20)	(25.873)
- Loans to Government and municipalities	160.861	164.637	-	-	-	164.637	(3.776)	-	-	-	(3.776)
- Treasury LOB	3.592	3.656	-	-	-	3.656	(64)	-	-	-	(64)
Loans and advances to customers at amortized cost	906.307	859.050	37.812	48.090	4.035	948.987	(9.032)	(1.824)	(31.736)	(88)	(42.680)
Securities at amortized cost	79.566	80.001	-	-	-	80.001	(435)	-	-	-	(435)
Other financial assets at amortized cost	1.384	1.385	-	-	-	1.385	(1)	-	-	-	(1)
Securities at fair value through other comprehensive income	2.388	2.388	-	-	-	2.388	-	-	-	-	-
Other financial assets	3.116	3.475	64	8.896	-	12.435	(524)	(7)	(8.788)	-	(9.319)
	1.037.366	**990.904**	**37.876**	**56.986**	**4.035**	**1.089.801**	(9.992)	(1.831)	(40.524)	(88)	(52.435)
Undrawn credit facilities	88.900	86.520	3.817	102	-	90.439	(1.011)	(481)	(47)	-	(1.539)
Payment and performance guarantees and unused documented letters of credit	83.275	77.566	6.706	311	-	84.583	(503)	(728)	(77)	-	(1.308)
	172.175	**164.086**	**10.523**	**413**	**-**	**175.022**	**(1.514)**	**(1.209)**	**(124)**	**-**	**(2.847)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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

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

In thousands of EUR

Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount on December 31, 2019	859.050	37.812	48.090	4.035	948.987
Changes in gross book value					
- Transfer to stage 1	28.675	(28.544)	(131)	-	-
- Transfer to stage 2	(72.481)	72.849	(368)	-	-
- Transfer to stage 3	(951)	(1.934)	2.885	-	-
Payments of annuities during the year for placements active on January 1, 2020	(32.186)	(4.047)	(2.313)	28	(38.518)
Financial assets ceased to be recognized, active on January 1, 2020	(33.450)	(1.814)	(1.076)	-	(36.340)
Write-offs of exposures	(28)	(5)	(4.118)	-	(4.151)
New financial assets, as of December 31, 2020	122.308	5.954	148	-	128.410
Net effects of merger of Podgoricka banka	(64.270)	33.058	8.333	316	(22.563)
Gross carrying amount on December 31, 2020	806.667	113.329	51.450	4.379	975.825
Accumulated impairment on December 31, 2020	(10.820)	(10.561)	(31.115)	(485)	(52.981)
Net carrying amount on December 31, 2020	**795.847**	**102.768**	**20.335**	**3.894**	**922.844**

In thousands of EUR

Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Ukupno**
Gross carrying amount on December 31, 2018	376.211	9.180	51.962	-	437.353
Changes in gross book value					
	346.858	41.182	-	4.039	392.079
- Transfer to stage 1	42.383	(42.273)	(110)	-	-
- Transfer to stage 2	(29.180)	29.388	(208)	-	-
- Transfer to stage 3	(1.725)	(341)	2.066	-	-
Payments of annuities during the year for placements active on January 1, 2019	(49.464)	(3.913)	(3.664)	(4)	(57.045)
Financial assets ceased to be recognized, active on January 1, 2019	(95.963)	(3.857)	(2.225)	-	(102.045)
New financial assets, as of December 31, 2019	269.930	8.446	269	-	278.645
Gross carrying amount on December 31, 2019	859.050	37.812	48.090	4.035	948.987
Accumulated impairment on December 31, 2019	(9.032)	(1.824)	(31.736)	(88)	(42.680)
Net carrying amount on December 31, 2019	**850.018**	**35.988**	**16.354**	**3.947**	**906.307**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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

In thousands of EUR

Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Accumulated impairment on December 31, 2019	**(9.032)**	**(1.824)**	**(31.736)**	**(88)**	**(42.680)**
Changes in Accumulated impairment					
- Transfer to stage 1	(2.001)	1.954	47	-	-
- Transfer to stage 2	886	(906)	20	-	-
- Transfer to stage 3	51	209	(260)	-	-
Changes due to change in credit risk (net) for exposures active on January 1, 2020	3.446	(7.824)	(666)	(230)	(5.274)
Financial assets that have ceased to be recognized for placements active on January 1, 2020	302	143	107	-	552
Accumulated impairment for written-off exposures	3	1	4.102	-	4.106
Accumulated impairment for new financial assets, as of December 31, 2020	(1.918)	(286)	(42)	-	(2.246)
Net effect of merger of Podgoricka banka	(2.557)	(2.028)	(2.687)	(167)	(7.439)
Accumulated impairment on December 31, 2020	**(10.820)**	**(10.561)**	**(31.115)**	**(485)**	**(52.981)**

Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Ukupno**
Accumulated impairment on December 31, 2018	(4.657)	(1.418)	(34.305)	-	(40.380)
Balance on the acquisition date of Podgoricka banka	(4.723)	-	-	-	(4.723)
Changes in Accumulated impairment					
Transfer to stage 1	(179)	164	15	-	-
Transfer to stage 2	246	(336)	90	-	-
Transfer to stage 3	12	77	(89)		-
Changes due to change in credit risk (net) for exposures active on January 1, 2019	2.322	140	841	(88)	3.215
Financial assets that have ceased to be recognized for placements active on January 1, 2019	1.401	541	1.788	-	3.730
Accumulated impairment for new financial assets, as of December 31, 2019	(3.454)	(992)	(76)	-	(4.522)
Accumulated impairment on December 31, 2019	**(9.032)**	**(1.824)**	**(31.736)**	**(88)**	**(42.680)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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

Undrawn credit facilities, financial guarantees and unused documented letters of credit	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount on December 31, 2019	164.086	10.523	413	-	175.022
Changes in gross book value					
- Transfer to stage 1	15.869	(15.837)	(32)	-	-
- Transfer to stage 2	(3.590)	3.590	-	-	-
- Transfer to stage 3	(52)	(46)	98	-	-
Financial assets ceased to be recognized, active on January 1, 2020	(35.856)	(2.385)	-	-	(38.241)
Changes of limit (net) for exposures active on January 1, 2020	3.456	(1.676)	(18)	23	1.785
New financial assets, as of December 31, 2020	38.734	110	-	-	38.844
Net effects of the merger of Podgoricka banka	(18.091)	9.749	132	303	(7.907)
Gross carrying amount on December 31, 2020	164.556	4.028	593	326	169.503
Accumulated impairment on December 31, 2020	(2.383)	(190)	(174)	(90)	(2.837)
Net carrying amount on December 31, 2020	**162.173**	**3.838**	**419**	**236**	**166.666**

In thousands of EUR

Undrawn credit facilities, financial guarantees and unused documented letters of credit	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount on December 31, 2018	58.465	39	284	58.788
Balance on the acquisition date of Podgoricka banka	87.612	11.804	532	99.948
Changes in gross book value				
- Transfer to stage 1	219	(1)	(218)	-
- Transfer to stage 2	(777)	777	-	-
- Transfer to stage 3	(29)	-	29	-
Financial assets ceased to be recognized, active on January 1, 2019	(48.200)	(6.023)	(29)	(54.252)
Changes of limit (net) for exposures active on January 1, 2019	(11.913)	(320)	(186)	(12.419)
New financial assets, as of December 3t, 2019	78.709	4.247	1	82.957
Gross carrying amount on December 31, 2019	164.086	10.523	413	175.022
Accumulated impairment on December 31, 2019	(1.514)	(1.209)	(124)	(2.847)
Net carrying amount on December 31, 2019	**162.572**	**9.314**	**289**	**172.175**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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

In thousands of EUR

Undrawn credit facilities, financial guarantees and unused documented letters of credit	Stage 1	Stage 2	Stage 3	POCI	Total
Accumulated impairment on December 31, 2019	(1.514)	(1.209)	(124)	-	(2.847)
Changes in Accumulated impairment					
- Transfer to stage 1	(339)	325	14	-	-
- Transfer to stage 2	36	(36)	-	-	-
- Transfer to stage 3	-	3	(3)	-	-
Changes due to change in credit risk (net) for exposures active on January 1, 2020	351	(78)	(11)	(10)	252
Financial assets that have ceased to be recognized for placements active on January 1, 2020	370	82	-	-	452
Accumulated impairment for new financial assets , as of December 31, 2020	(539)	(9)	-	-	(548)
Net effect of merger of Podgorička banka	(748)	732	(50)	(80)	(146)
Accumulated impairment on December 31, 2020	**(2.383)**	**(190)**	**(174)**	**(90)**	**(2.837)**

In thousands of EUR

Undrawn credit facilities, financial guarantees and letters of credit	Stage 1	Stage 2	Stage 3	Total
Value adjustment on December 31, 2018	(830)	(6)	(32)	(868)
Balance on the acquisition date of Podgoricka banka	(1.187)	(1.072)	(232)	(2.491)
Changes in Accumulated impairment				
- Transfer to stage 1	(1)	-	1	-
- Transfer to stage 2	17	(17)	-	-
- Transfer to stage 3	-	5	(5)	-
Changes due to change in credit risk (net) for exposures active on January 1, 2019	616	(204)	132	544
Financial assets that have ceased to be recognized for placements active on January 1, 2019	586	579	12	1.177
Accumulated impairment for new financial assets, as of December 31, 2019	(715)	(494)	-	(1.209)
Accumulated impairment on December 31, 2019	**(1.514)**	**(1.209)**	**(124)**	**(2.847)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Advances

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

In thousands of EUR

	31 December 2020	31 December 2019
Deposits and guarantees	60.720	41.295
Securities	1.236	2.221
Pledge	25.305	9.655
Mortgages	491.221	467.614
Total	**578.482**	**520.785**

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

In thousands of EUR

	31 December 2020	31 December 2019
For advances assessed at group level		
Deposits and guarantees	60.639	41.132
Securities	1.044	1.345
Pledge	24.828	9.253
Mortgage	430.496	403.736
Total	**517.007**	**455.466**

In thousands of EUR

	31 December 2020	31 December 2019
For advances assessed at individual level		
Deposits and guarantees	81	163
Securities	192	876
Pledge	477	402
Mortgage	60.725	63.878
Total	**61.475**	**65.319**

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4. Loans and Advances (Continued)

d) Restructured loans and advances

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

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

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

As of December 31, 2020, the Group had EUR 26,738 thousand of restructured loans (2019: EUR 25.000 thousand). As of December 11, 2020, the CKB Bank took over EUR 20,796 thousand of restructured loans from Podgorička banka (gross amount).

e) Geographic concentration

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

In thousands of EUR

	Montenegro	European Union	USA and Canada	Other	Total
Loans and advances to banks at amortized cost	-	33.650	25.032	3.431	**62.113**
Loans and advances to customers at amortized cost	916.679	120	273	5.772	**922.844**
Securities at amortized cost	27.282	-	-	-	**27.282**
Other financial assets at amortized cost	1.769	-	-	-	**1.769**
Securities at fair value through other comprehensive income	1.974	57	-	12	**2.043**
Other financial assets	4.178	-	-	-	**4.178**
December 31, 2020	**951.882**	**33.827**	**25.305**	**9.215**	**1.020.229**

In thousands of EUR

	Montenegro	European Union	USA and Canada	Other	Total
Loans and advances to banks at amortized cost	-	43.670	346	589	**44.605**
Loans and advances to customers at amortized cost	900.549	213	26	5.519	**906.307**
Securities at amortized cost	79.566	-	-	-	**79.566**
Other financial assets at amortized cost	1.384	-	-	-	**1.384**
Securities at fair value through other comprehensive income	2.327	49	-	12	**2.388**
Other financial assets	3.116	-	-	-	**3.116**
December 31, 2019	**986.942**	**43.932**	**372**	**6.120**	**1.037.366**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

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

4.2.4. Loans and Advances (Continued)

e) Geographic concentration (Continued)

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4 Loans and Advances (Continued)

f) Industrial concentration

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

In thousands of EUR

	Loans and advances to customers at amortized cost	Loans and advances to banks at amortized cost	Securities at amortized cost	Other financial assets at amortized cost	Securities at fair value through other comprehensive income	Investments in subsidiaries	Total
Agriculture. forestry and fishing	7.067	-	-	-	-	-	**7.067**
Mining and quarrying	3.142	-	-	-	-	-	**3.142**
Manufacturing industry	13.626	-	-	-	1.489	-	**15.115**
Electricity supply	-	-	-	-	162	-	**162**
Water supply	330	-	-	-	-	-	**330**
Construction	42.041	-	-	-	-	-	**42.041**
Wholesale and retail trade and repair of motor vehicles and motorcycles	118.576	-	-	-	-	-	**118.576**
Traffic and storage	6.163	-	-	-	-	-	**6.163**
Accommodation and catering services	85.409	-	-	-	-	-	**85.409**
Information and communication	25.493	-	-	-	-	-	**25.493**
Financial and insurance activities	11.796	62.113	27.282	1.769	304	-	**103.264**
Real estate business	2.163	-	-	-	-	-	**2.163**
Professional. scientific and technical activities	3.519	-	-	-	-	-	**3.519**
Administrative and support service activities	3.889	-	-	-	-	-	**3.889**
Public administration and defense and compulsory social security	157.868	-	-	-	-	-	**157.868**
Education	84	-	-	-	-	-	**84**
Healthcare and social protection	917	-	-	-	-	-	**917**
Arts, entertainment and recreation	152	-	-	-	-	-	**152**
Other service activities	702	-	-	-	19	-	**721**
Individuals - residents	435.248	-	-	-	-	-	**435.248**
Non-residents	5.966	-	-	-	69	-	**6.035**
Total net loans, factoring and forfeiting and guarantees	**924.151**	**62.113**	**27.282**	**1.769**	**2.043**	**-**	**1.017.358**
Interest receivables and impairment of interest receivables	163	**-**	**-**	**-**	**-**	**-**	**163**
Net interest and fees accruals and deferrals	(1.470)	-	-	-	-	-	**(1.470)**
December 31, 2020	**922.844**	**62.113**	**27.282**	**1.769**	**2.043**	**-**	**1.016.051**

*This table does not include other financial assets in the amount of EUR 4.178 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4 Loans and Advances (Continued)

f) Industrial concentration (Continued)

In thousands of EUR

	Loans and advances to customers at amortized cost	Loans and advances to banks at amortized cost	Securities at amortized cost	Other financial assets at amortized cost	Securities at fair value through other comprehensive income	Investments in subsidiaries	Total
Agriculture. forestry and fishing	11.881	-	-	-	-	-	11.881
Mining and quarrying	3.290	-	-	-	-	-	3.290
Manufacturing industry	9.361	-	-	-	1.787	-	11.148
Electricity supply	4	-	-	-	206	-	210
Water supply	310	-	-	-	-	-	310
Construction	43.984	-	-	-	-	-	43.984
Wholesale and retail trade and repair of motor vehicles and motorcycles	134.500	-	-	-	-	-	134.500
Traffic and storage	6.490	-	-	-	-	-	6.490
Accommodation and catering services	72.866	-	-	-	1	-	72.867
Information and communication	6.501	-	-	-	-	-	6.501
Financial and insurance activities	10.656	37.934	79.566	1.384	327	-	129.867
Real estate business	2.422	-	-	-	-	-	2.422
Professional. scientific and technical activities	5.040	-	-	-	-	-	5.040
Administrative and support service activities	3.514	-	-	-	-	-	3.514
Public administration and defense and compulsory social security	161.331	-	-	-	-	-	161.331
Education	85	-	-	-	-	-	85
Healthcare and social protection	550	-	-	-	-	-	550
Arts, entertainment and recreation	256	-	-	-	-	-	256
Other service activities	940	-	-	-	18	-	958
Individuals - residents	428.423	-	-	-	-	-	428.423
Non-residents	5.990	6.671	-	-	49	-	12.710
Total net loans, factoring and forfeiting and guarantees	**908.394**	44.605	79.566	1.384	2.388	-	**1.036.337**
Interest receivables and impairment of interest receivables	213	-	-	-	-	-	**213**
Net interest and fees accruals and deferrals	(2.300)	-	-	-	-	-	(2.300)
December 31, 2019	**906.307**	**44.605**	**79.566**	**1.384**	**2.388**	**-**	**1.034.250**

*This table does not include other financial assets in the amount of EUR 3.116 thousand.

4. FINANCIAL INSTRUMENTS (Continued)

4.2. Credit Risk (Continued)

4.2.4 Loans and Advances (Continued)

f) Industrial concentration (Continued)

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

In thousands of EUR

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

In thousands of EUR

	Undrawn Loan Facilities	Payment and performance guarantee	Unused Letters of credit	**Total**
December 31, 2019				
Up to one year	64.519	43.369	1.096	108.984
From 1 to 5 years	25.767	38.649	462	64.878
From 1 to 5 years	153	1.007	0	1.160
	90.439	83.025	1.558	175.022

4.3. Market Risk

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Foreign Exchange Risk

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

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

In thousands of EUR

	USD	Other Currencies	Total Foreign Currencies	Local Currency (EUR)	Total
ASSETS					
Cash and balances with the Central Bank	1.131	1.886	3.017	250.867	253.884
Loans and advances to banks at amortized cost	24.934	3.848	28.782	33.331	62.113
Loans and advances to customers at amortized cost	-	-	-	922.844	922.844
Securities at amortized cost	-	-	-	27.282	27.282
Other financial assets at amortized cost	1.738	-	1.738	31	1.769
Securities at fair value through other comprehensive income	-	-	-	2.043	2.043
Investments in subsidiaries	-	-	-		
Other financial assets	-	-	-	4.178	4.178
Total assets	**27.803**	**5.734**	**33.537**	**1.240.576**	**1.274.113**
LIABILITIES					
Deposits from banks and central banks at amortized cost	-	-	-	1.145	1.145
Deposits of clients at amortized cost	26.781	5.522	32.303	857.652	889.955
Loans to banks and central banks at amortized cost	-	-	-	138.675	138.675
Loans to clients other than banks at amortized cost	-	-	-	31.101	31.101
Other financial liabilities	1.028	195	1.223	17.869	19.092
Total liabilities	**27.809**	**5.717**	**33.526**	**1.046.442**	**1.079.968**
Net Open Position:					
- December 31, 2020	**(6)**	**17**	**11**	**194.134**	**194.145**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Foreign Exchange Risk (Continued)

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

In thousands of EUR

	USD	Other Currencies	Total Foreign Currencies	Local Currency (EUR)	Total
ASSETS					
Cash and balances with the Central Bank	891	2.615	3.506	252.401	255.907
Loans and advances to banks at amortized cost	25.190	3.480	28.670	15.935	44.605
Loans and advances to customers at amortized cost	-	-	-	906.307	906.307
Securities at amortized cost	-	-	-	79.566	79.566
Other financial assets at amortized cost	1.268	-	1.268	116	1.384
Securities at fair value through other comprehensive income	-	-	-	2.388	2.388
Investments in subsidiaries	-	-	-	-	-
Other financial assets	-	-	-	3.116	3.116
Total assets	**27.349**	**6.095**	**33.444**	**1.259.829**	**1.293.273**
LIABILITIES					
Deposits from banks and central banks at amortized cost	2	-	2	836	838
Deposits of customets at amortized cost	26.881	5.906	32.787	930.977	963.764
Loans to banks and central banks at amortized cost	-	-	-	81.643	81.643
Loans to clients other than banks at amortized cost	-	-	-	38.310	38.310
Other financial liabilities	452	1	453	15.118	15.571
Total liabilities	**27.335**	**5.907**	**33.242**	**1.066.884**	**1.100.126**
Net Open Position:					
- December 31, 2019	14	188	202	192.945	193.147

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.1. Foreign Exchange Risk (Continued)

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

In thousands of EUR

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

	USD	GBP	CHF	Other foreign currencies	Total
Foreign currency funds	27.349	2.307	2.948	840	33.444
Liabilities in foreign currencies	27.335	2.324	2.909	674	33.242
Net Open Position:					
- December 31, 2019	14	(17)	39	166	
% of own capital:					
- December 31, 2019	0,01%	(0,01)%	0,03%	0,12%	
Aggregate open position:					
- December 31, 2019	202				
% of own capital:					
December 31, 2019	0,15%				

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Interest Rate Risk

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

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

In thousands of EUR

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash and balances with the Central Bank	24.794	229.090	253.884
Loans and advances to banks at amortized cost	62.113	-	62.113
Loans and advances to customers at amortized cost	920.586	2.258	922.844
Securities at amortized cost	26.717	565	27.282
Other financial assets at amortized cost	1.737	32	1.769
Securities at fair value through other comprehensive income	-	2.043	2.043
Other financial assets	-	4.178	4.178
Total assets	**1.035.947**	**238.166**	**1.274.113**
LIABILITIES			
Deposits from banks and central banks at amortized cost	226	919	1.145
Deposits of customets s at amortized cost	710.063	179.892	889.955
Loans to banks and central banks at amortized cost	138.675	-	138.675
Loans to clients other than banks at amortized cost	27.282	3.819	31.101
Other financial liabilities	-	19.092	19.092
Total liabilities	**876.246**	**203.722**	**1.079.968**
Interest Sensitive Gap:			
- December 31, 2020	**159.701**	**34.444**	**194.145**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.3. Market Risk (Continued)

4.3.2. Interest Rate Risk (Continued)

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

In thousands of EUR

	Interest Bearing	Non-Interest Bearing	Total
ASSETS			
Cash and balances with the Central Bank	94.658	161.249	255.907
Loans and advances to banks at amortized cost	44.200	405	44.605
Loans and advances to customers at amortized cost	903.055	3.252	906.307
Securities at amortized cost	79.566	-	79.566
Other financial assets at amortized cost	1.267	117	1.384
Securities at fair value through other comprehensive income	-	2.388	2.388
Other financial assets	-	3.116	3.116
Total assets	**1.122.746**	**170.527**	**1.293.273**
LIABILITIES			
Deposits from banks and central banks at amortized cost	205	633	838
Deposits of customets at amortized cost	789.309	174.455	963.764
Loans to banks and central banks at amortized cost	81.643	-	81.643
Loans to clients other than banks at amortized cost	33.457	4.853	38.310
Other financial liabilities	-	15.571	15.571
Total liabilities	**904.614**	**195.512**	**1.100.126**
Interest Sensitive Gap:			
- December 31, 2019	218.132	(24.985)	193.147

4.4. Operational Risk

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5. Reputational Risk

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

4.6. Liquidity Risk

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

4.6.1. Liquidity Risk Management

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

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

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

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

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

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

During 2020, the Group did not have any issues with maintaining liquidity. The liquidity ratio on December 31, 2020 was 1.79 (December 31, 2019: 1.07).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.6. Liquidity Risk (Continued)

4.6.1. Liquidity Risk Management (Continued)

In thousands of EUR

	Up to One Month	From One to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2020						
ASSETS						
Cash and balances with the Central Bank	204.295	-	-	49.589	-	253.884
Loans and advances to banks at amortized cost	62.113	-	-	-	-	62.113
Loans and advances to customers at amortized cost	14.590	23.975	149.394	462.953	271.932	922.844
Securities at amortized cost	-	-	-	27.282	-	27.282
Other financial assets at amortized cost	-	-	-	1.769	-	1.769
Securities at fair value through other comprehensive income	-	-	-	-	2.043	2.043
Other financial assets	4.111	-	65	2	-	4.178
Total assets	285.109	23.975	149.459	541.595	273.975	1.274.113
LIABILITIES						
Deposits from banks and central banks at amortized cost	1.145	-	-	-	-	1.145
Deposits of customets s at amortized cost	62.154	30.812	34.343	762.646		889.955
Loans to banks and central banks at amortized cost	-	66.675	72.000	-	-	138.675
Loans to clients other than banks at amortized cost	9.393	273	4.235	17.200	-	31.101
Other financial liabilities	19.092	-	-	-	-	19.092
Total liabilities	91.784	97.760	110.578	779.846	-	1.079.968
Net Open Position: December 31, 2020	193.325	(73.785)	38.881	(238.251)	273.975	194.145

The liquidity gap of "1-3 months" was negative as of 31 December 2020 due to a significant amount of short-term loans from the parent bank, which matured within that period (EUR 66,675 thousand). Bearing in mind that this is a loan from OTP that is periodically renewed (roll-over) depending on the need for liquidity – this value of the gap is not problematic from the aspect of liquidity. In addition, the attached table shows liquidity gaps individually, not cumulatively, which means that even if the Group repays the borrowed amount of EUR 66,675 thousand, this would not create a problem with the Group's liquidity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.6. Liquidity Risk (Continued)

4.6.1. Liquidity Risk Management (Continued)

In thousands of EUR

	Up to One Month	From One to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2019						
ASSETS						
Cash and balances with the Central Bank	195.652	-	-	46.313	13,942	255.907
Loans and advances to banks at amortized cost	44.605	-	-	-	-	44.605
Loans and advances to customers at amortized cost	29.455	32.640	148.170	442.684	253.358	906.307
Securities at amortized cost	-	35.056	17.210	27.300	-	79.566
Other financial assets at amortized cost	84	-	-	1.300	-	1.384
Securities at fair value through other comprehensive income	-	-	-	-	2.388	2.388
Other financial assets	3.061	-	53	2	-	3.116
Total assets	272.857	67.696	165.433	517.599	269.688	1.293.273
LIABILITIES						
Deposits from banks and central banks at amortized cost	838	-	-	-	-	838
Deposits of customets at amortized cost	100.313	83.397	141.713	605.192	33.149	963.764
Loans to banks and central banks at amortized cost	10.000	71.643	-	-	-	81.643
Loans to clients other than banks at amortized cost	62	1.119	2.699	25.841	8.589	38.310
Other financial liabilities	15.571	-	-	-	-	15.571
Total liabilities	126.784	156.159	144.412	631.033	41.738	1.100.126
Net Open Position: December 31, 2019	146.073	(88.463)	21.021	(113.434)	227.950	193.147

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments

4.7.1. Fair Value of Financial Instruments Measured at Fair Value

Fair value of financial assets and liabilities

In thousands of EUR

	Carrying Amount		Fair Value	
	December 31, 2020	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
FINANCIAL ASSETS				
Cash and balances with the Central Bank	253.884	255.907	253.884	255.907
Loans and advances to banks at amortized cost	62.113	44.605	62.113	44.605
Loans and advances to customers at amortized cost	922.844	906.307	922.844	906.307
Securities at amortized cost	27.282	79.566	27.282	79.566
Other financial assets at amortized cost	1.769	1.384	1.769	1.384
Securities at fair value through other comprehensive income	2.043	2.388	2.043	2.388
Investments in subsidiaries	-	-	-	-
Other financial assets	4.178	3.116	4.178	3.116
Total financial assets	**1.274.113**	**1.293.273**	**1.274.113**	**1.293.273**
FINANCIAL LIABILITIES				
Deposits from banks and central banks at amortized cost	1.145	838	1.145	838
Deposits of customets at amortized cost	889.955	963.764	889.955	963.764
Loans to banks and central banks at amortized cost	138.675	81.643	138.675	81.643
Loans to clients other than banks at amortized cost	31.101	38.310	31.101	38.310
Other financial liabilities	19.092	15.571	19.092	15.571
Total financial liabilities	**1.079.968**	**1.100.126**	**1.079.968**	**1.100.126**

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

Hierarchy of fair value of financial instruments measured at fair value

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

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

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

This hierarchy requires the use of available market data when they exist. In estimating fair value, the Group takes into account available market values whenever possible. As at 31 December 2020, market prices of securities measured at fair value in the Group's portfolio were available.

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

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities at fair value through other comprehensive income– equity instruments	2.307	81	-	2.388
Total assets	2.307	81	-	2.388

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

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

December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying Amount**
Cash and balances with the Central Bank	-	253.884	-	253.884	253.884
Loans and advances to banks at amortized cost	-	-	62.113	62.113	62.113
Loans and advances to customers at amortized cost	-	-	922.844	922.844	922.844
Securities at amortized cost	-	27.282	-	27.282	27.282
Other financial assets at amortized cost	-	-	1.769	1.769	1.769
Investments in subsidiaries			-	-	-
Other financial assets	-	-	4.178	4.178	4.178
Total assets	**-**	**281.166**	**990.904**	**1.272.070**	**1.272.070**
Deposits from banks and central banks at amortized cost	-	-	1.145	1.145	1.145
Deposits of customets at amortized cost	-	-	889.955	889.955	889.955
Loans to banks and central banks at amortized cost		-	138.675	138.675	138.675
Loans to clients other than banks at amortized cost	-	-	31.101	31.101	31.101
Other financial liabilities	-	-	19.092	19.092	19.092
Total financial liabilities	**-**	**-**	**1.079.968**	**1.079.968**	**1.079.968**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

4.7.2 Fair Value of Financial Instruments Not Measured at Fair Value

December 31, 2019	Level 1	Level 2	Level 3	Total	Carrying Amount
Cash and balances with the Central Bank	-	255.907	-	255.907	255.907
Loans and advances to banks at amortized cost	-	44.605	-	44.605	44.605
Loans and advances to customers at amortized cost	-	-	906.307	906.307	906.307
Securities at amortized cost	-	79.566	-	79.566	79.566
Other financial assets at amortized cost	-	-	1.384	1.384	1.384
Investments in subsidiaries	-				
Other financial assets	-	-	3.116	3.116	3.116
Total assets		**380.078**	**910.807**	**1.290.885**	**1.290.885**
Deposits from banks and central banks at amortized cost	-	-	838	838	838
Deposits of customets at amortized cost	-	-	963.764	963.764	963.764
Loans to banks and central banks at amortized cost	-	-	81.643	81.643	81.643
Loans to clients other than banks at amortized cost	-	-	38.310	38.310	38.310
Other financial liabilities	-	-	15.571	15.571	15.571
Total financial liabilities	**-**	**-**	**1.100.126**	**1.100.126**	**1.100.126**

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

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

Loans and receivables from banks

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

Loans and receivables from customets

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

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

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

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

Securities at amortized cost

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.7. Fair Value of Financial Instruments (Continued)

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

Deposits and liabilities under loans

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

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

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

Other assets and other liabilities

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

4.8. Capital Management

Capital management is aimed at:

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.9. Sensitivity Analysis

4.9.1. Sensitivity Analysis (Foreign Exchange Risk)

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

In thousands of EUR

		December 31, 2020	**Change in Exchange Rate**	
	Total	**Amount in foreign currencies**	**10%**	**-10%**
ASSETS				
Cash and balances with the Central Bank	253.884	3.017	302	(302)
Loans and advances to banks at amortized cost	62.113	28.782	2.878	(2.878)
Other financial assets at amortized cost	1.769	1.738	174	(174)
Total assets	**317.766**	**33.537**	**3.354**	**(3.354)**
LIABILITIES				
Deposits of customets at amortized cost	889.955	32.303	3.230	(3.230)
Other financial liabilities	19.092	1.223	122	(122)
Total liabilities	**909.047**	**33.526**	**3.352**	**(3.352)**
Net Open Position:				
- December 31, 2020			**2**	**(2)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.9. Sensitivity Analysis (Continued)

4.9.1. Sensitivity Analysis (Foreign Exchange Risk)

In thousands of EUR

		December 31, 2019	**Change in Exchange Rate**	
	Total	**Amount in foreign currencies**	**10%**	**-10%**
ASSETS				
Cash and balances with the Central Bank	255.907	3.506	351	(351)
Loans and advances to banks at amortized cost	44.605	28.670	2.867	(2.867)
Other financial assets at amortized cost	1.384	1.268	127	(127)
Securities at fair value through other comprehensive income	2.388			
Total assets	**304.284**	**33.444**	**3.345**	**(3.345)**
LIABILITIES				
Deposits from banks and central banks at amortized cost	838	2	-	-
Deposits of customets at amortized cost	963.764	32.787	3.279	(3.279)
Other financial liabilities	15.571	453	45	(45)
Total liabilities	**980.173**	**33.242**	**3.324**	**(3.324)**
Net Open Position:				
- December 31, 2019			**21**	**(21)**

As of December 31, 2020, assuming that all other parameters are unaffected by the change in the exchange rate of EUR in relation to other currencies by + 10% or -10%, the Group's profit would decrease or increase by EUR 2 thousand (December 31, 2019: profit would increase or decrease by the amount of EUR 21 thousand). The reason for the Group's low exposure to changes in foreign exchange rates is the fact that most of the Group's receivables and liabilities are denominated in EUR.

4.9.2. Sensitivity Analyses (interest rate risk)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.9. Sensitivity Analysis (Continued)

4.9.2. Sensitivity Analysis (Interest Rate Risk)

			In thousands of EUR
		Net effect of movements in interest rates	
		+0.4 b.p.	-0.4 b.p.
	December 31, 2020	EUR/FX KS	EUR/FX KS
ASSETS			
Cash and balances with the Central Bank	253.884	-	-
Loans and advances to banks at amortized cost	62.113	-	-
Loans and advances to customers at amortized cost	922.844	1.401	(1.401)
Securities at amortized cost	27.282	-	-
Other financial assets at amortized cost	1.769	-	-
Securities at fair value through other comprehensive income	2.043	-	-
Other financial assets	4.178	-	-
Total assets	**1.274.113**	**1.401**	**(1.401)**
LIABILITIES			
Deposits from banks and central banks at amortized cost	1.145	-	-
Deposits of customets at amortized cost	889.955	-	-
Loans to banks and central banks at amortized cost	138.675	-	-
Loans to clients other than banks at amortized cost	31.101	25	(25)
Other financial liabilities	19.092	-	-
Total liabilities	**1.079.968**	**25**	**(25)**
Net Interest Sensitive Gap:			
- December 31, 2020		**1.376**	**(1.376)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

4. FINANCIAL INSTRUMENTS (Continued)

4.9. Sensitivity Analysis (Continued)

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

In thousands of EUR

		Net effect of movements in interest rates	
		+0.4 b.p.	-0.4 b.p.
	December 31, 2019	EUR/FX KS	EUR/FX KS
ASSETS			
Cash and balances with the Central Bank	255.907	-	-
Loans and advances to banks at amortized cost	44.605	-	-
Loans and advances to customers at amortized cost	906.307	2.236	(2.236)
Securities at amortized cost	79.566	-	-
Other financial assets at amortized cost	1.384	-	-
Securities at fair value through other comprehensive income	2.388	-	-
Other financial assets	3.116	-	-
Total assets	**1.293.273**	**2.236**	**(2.236)**
LIABILITIES			
Deposits from banks and central banks at amortized cost	838	-	-
Deposits of customets at amortized cost	963.764	-	-
Loans to banks and central banks at amortized cost	81.643	287	(287)
Loans to clients other than banks at amortized cost	38.310	137	(137)
Other financial liabilities	15.571	-	-
Total liabilities	**1.100.126**	**424**	**(424)**
Net Interest Sensitive Gap:			
- December 31, 2019		**1.812**	**(1.812)**

Assuming that all other parameters remain unaffected by increasing or decreasing the variable interest rate on receivables and liabilities in EUR and foreign currency by 0.4 b.p., the Group's profit would increase or decrease by the amount of EUR 1,376 thousand (31 December 2019: by EUR 1.812 thousand).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

BUSINESS COMBINATIONS AND MERGER OF PODGORIČKA BANKA

During 2019, Crnogorska komercijalna banka AD, Podgorica acquired 100% share in Podgorička banka AD, Podgorica. The date of acquisition is July 31,2019.

Fair value of acquired assets and overtaken liabilities as of the acquisition date is presented in the table:

	In thousand EUR July 31, 2019
ASSETS	
Cash and balances with the Central Bank	101.206
Loans and advances to banks at amortized cost	51.234
Loans and advances to customers at amortized cost	390.141
Securities at amortized cost	-
Other financial assets at amortized cost	57
Securities at fair value through other comprehensive result	31.517
Financial assets at fair value through profit and loss, not held for trading	2.066
Property, plant and equipment	9.498
Intangible assets	4.078
Current tax assets	-
Deferred tax assets	179
Non-current assets held for sale and discontinued operations	174
Other assets	2.133
TOTAL ASSETS	**592.283**
LIABILITIES	
Deposits from banks and central banks at amortized cost	-
Deposits from banks and central banks at amortized cost	391.713
Loans from banks and central banks at amortized cost	66.643
Loans from clients other than banks at amortized cost	32.319
Reserves	3.822
Current tax liabilities	-
Deferred tax liabilities	806
Other liabilities	24.372
Total liabilities	**519.675**
Net amount	**72.608**
Minority interest	-
Gains fom a bargain purchase	**(31.133)**
Transferred compensation	**41.475**

As of the acquisition date, the Group has determined positive effect from bargain purchase as difference between the paid compensation and net amount of recognisable acquired asset and overtaken liabilities in accordance with IFRS as of the acquisition date in the amount of EUR 31.133 thousand (Note 9).

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

5. 5. BUSINESS COMBINATIONS AND MERGER OF PODGORIČKA BANKA (Continued)

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

In thousands of EUR

	Separate statements of financial position of Podgorička banka, as of December 11, 2020	Reclassification due to differences in account mapping	Adjustments for purchase price allocation and consolidation effects	Adjusted statements of financial position, as of December 11, 2020
ASSETS				
Cash and balances with the Central Bank (Note 15)	100.411	(1)	-	100.410
Loans and advances to banks at amortized cost (Note 16)	9.135	(8.063	-	1.072
Loans and advances to customers at amortized cost (Note 17)	398.161	(821)	(1.587)	395.753
Other financial assets at amortized cost (Note 23)	50	-	(50)	-
Securities at fair value through other comprehensive income (Note 19)	-	-	1.437	1.437
Securities at fair value through profit and loss, not held for trading	1.437	-	(1.437)	-
Property, plant and equipment (Note 20)	9.067	-	-	9.067
Intangible assets (Note 21)	159	-	3.318	3.477
Deferred tax assets (Note 14)	240	-	-	240
Non-current assets held for sale and discontinued operations (Note 22)	10	-	-	10
Other assets (Note 23)	1.272	8.885	50	10.207
Total assets	**519.942**	**-**	**1.731**	**521.673**
LIABILITIES				
Deposits from clients at amortized cost (Note 24)	289.560	(405)	-	289.155
Loans from banks and central banks at amortized cost (Note 25)	118.854	-	-	118.854
Loans from clients other than banks at amortized cost (Note 25)	27.354	-	-	27.354
Reserves	3.000	-	-	3.000
Current tax liabilities (Note 14)	366	-	-	366
Deferred tax liabilities (Note 14)	222	-	-	222
Other liabilities (N Note 27)	5.701	405	(2)	6.104
Total liabilities	**445.057**	**-**	**(2)**	**445.055**
KAPITAL				
Share capital	24.731	-	-	24.731
Retained earnings	42.751	6.668	1.733	51.152
Profit for the year	6.239	(6.239)	-	-
Other reserves	1.164	(429)	-	735
Total equity	**74.885**	**-**	**1.733**	**76.618**
Total liabilities and equity	**519.942**	**-**	**1.731**	**521.673**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

5. MERGER OF PODGORIČKA BANKA (Continued)

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

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

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

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

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

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

In thousands of EUR	**December 11, 2020**
Share capital (Podgorička banka)	24.731
	24.731
Retained earnings from previous years	40.925
PPA – non-amortized value of Stage 2 discount *	(1.208)
PPA - difference in provision *	(378)
PPA – Net present value of customer base value*	3.318
Total PPA	1.732
Total retained earnings	42.657
Other reserves	988
	988
Total equity which is included in the effects of bargain purchases	68.376
Investments in affiliates and joint ventures according to equity method	(41.475)
Retained earnings – effects of bargain purchases (*2)	**26.901**

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

Retained earnings accumulated from previous years in the amount of EUR 40,925 thousand consists of retained earnings as of July 31, 2019 in the amount of EUR 29,410 thousand, profit of Podgorička banka realized in the period from January 1 to July 31, 2019 in the amount of EUR 6,420 thousand, reclassified balance of provisions for estimated losses according to regulatory requirements in the amount of EUR 4,665 thousand and effects of reclassification of securities in the amount of EUR 430 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

6. INTEREST INCOME AND EXPENSE

a) Interest income and impaired advances income

In thousands of EUR

	2020	2019
Deposits with:		
- foreign banks	135	485
	135	485
Loans operations:		
- state organizations	3.646	3.199
- companies	7.023	9.841
- private individuals	14.796	20.412
- others	256	268
	25.721	33.720
Liabilities for loans and other borrowings:		
- foreign banks	24	15
Securities at amortized cost	1.717	3.328
	27.597	37.548

b) Interest expense

In thousands of EUR

	2020	2019
Deposits from:		
-financial institutions		1
- state and local organizations and companies	7	17
- companies	29	61
- private individuals	61	388
Other	-	8
Liabilities for loans and other borrowings:		
- foreign banks	53	83
- financial institutions	17	226
- state organizations	19	30
Leasing (IFRS 16)	115	-
	301	814

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

7. FEE INCOME AND EXPENSE

a) Fee and commission income

In thousands of EUR

	2020	2019
Naknade po osnovu poslova sa kreditima	25	50
Fee income from issued guarantees and other contingent liabilities	372	566
Fee and commission income arising from domestic and international payment transfers	9.226	12.363
Credit card related fees and commissions	3.325	5.960
Fee income form forfeiting	36	96
Fee income from custody operations	149	178
Other fee and commission income	2.249	2.520
	15.382	21.733

b) Fee and commission expense

In thousands of EUR

	2020	2019
Fees payable to the Central Bank	127	248
Fee for overnight balances on bank transaction accounts	367	416
Fee and commission expense arising from domestic and international payment transfers	1.223	1.479
Deposit insurance premium fees	3.026	3.573
Commission expenses arising on guarantees and other contingent liabilities	15	69
Fee and commission expense for cards and ATM transactions	3.777	6.244
Other fee and commission expenses	60	487
	8.595	12.516

8. NET FOREIGN EXCHANGE GAINS

In thousands of EUR

	2020	2019
Realized foreign exchange gains, net	760	1.072
Unrealized foreign exchange gains, net	2	(11)
	762	1.061

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

9. OTHER INCOME

In thousands of EUR

	2020	2019
Effect from a bargain purchase (Note 5)	-	31.133
Income from collection of receivables from internal records	1.103	1.794
Revenue from the sale of receivables from internal records	-	1.063
Income from collection of receivables	420	571
Other income	578	295
	2.101	34.856

10. EMPLOYEE COSTS

In thousands of EUR

	2020	2019
Net salaries	6.727	8.601
Restructuring costs - severance payments	-	9.069
Taxes and contributions on salaries and wages	4.632	5.985
Bonus expenses	2.473	1.608
Release of provisions/(Provision expenses) for pensions and jubilee awards	(244)	73
Remunerations to members of the Board of Directors	81	113
Staff expenses	-	45
Business trip expenses	34	75
Other employee costs	-	8
	13.703	25.577

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

In period from January 1 to December 31, 2020 the Group paid severance pay in the amount of EUR 3,269 thousand, for 94 employees, in accordance with the concluded agreements on termination of employment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

11. GENERAL AND ADMINISTRATIVE COSTS

In thousands of EUR

	2020	**2019**
Lease of business premises	102	1.505
Other lease costs	163	-
Property maintenance costs	2.234	2.122
Insurance costs	456	322
Tax expense	198	26
Sponsorship and donation costs	63	53
Marketing costs	482	697
Electricity and fuel costs	351	406
Representation costs	9	59
Transportation costs	770	914
Telecommunications and postage services	556	757
Office Supplies	198	302
Payment card procurement costs	303	147
Professional services	2.097	2.412
Accommodation costs	7	25
Other expenses	611	1.351
	8.600	**11.098**

A significant reduction in the cost of renting business premises EUR 98 thousand as of 31 December 2020 (31 December 2019: EUR 1,174 thousand) is due to the application of IFRS 16 – Leases, while on the same basis the depreciation charge has been increased by EUR 868 thousand (31 december 2019: nill) (Note 20).

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

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

In thousands of EUR

	2020	2019
Loans at amortized cost, net	6.495	2.697
Impairment of interest receivables	251	186
Impairment of protested guarantees	-	-
Impairment of receivables from forfeiting	135	(76)
Impairment of securities	148	(306)
Impairment of inventories	18	11
Impairment of other assets	747	404
Release of impairment of off-balance sheet exposures	(155)	(512)
	7.639	2.404

b) Provisioning costs

In thousands of EUR

	2020	2019
Provision for pending legal issues and tax litigation	41	305
Provisions for received guarantees	(2)	(174)
Provisions for loan repayment	209	-
Provisions for the costs of terminating the lease agreement	-	21
Provisions based on operational risk	-	(9)
	248	143

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

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

	Cash assets (Note 15)	Loans (Note 17)	Protested guarantees (Note 17)	Interest receivables (Note 17)	Forfeiting receivables (Note 17)	Securities (Note 18)	Financial and other receivables (Note 23)	Employee benefits (Note 26)	Provisions for off-balance sheet exposures (Note 26)	Other provisions (Note 26)	Total
Opening balance, January 1, 2020.	86	38.822	-	2.411	1.447	435	12.312	1.902	2.847	2.837	63.099
Change for the year, net	-	6.496	-	251	135	148	764	-	(155)	248	7.887
Impairment usage due to write offs		(2.689)	-	(18)	(1.400)	-	(838)	-		-	(4.945)
Actuarial losses	-		-	-	- -	-		(75)			(75)
Release of impairment	-	-	-	-	- -	-	-	-	(1)	(829)	(830)
Effects related to POCI exposures and other changes	-	71	-	16	-	-	-	-	-	-	87
Net effect of merger of Podgorička banka		8.696	-	(1.250)	(7)		137	(270)	146	(21)	7.431
Closing balance, December 31, 2020	**86**	**51.396**	**-**	**1.410**	**175**	**583**	**12.375**	**1.557**	**2.837**	**2.235**	**72.654**

	Cash assets (Note 15)	Loans (Note 17)	Protested guarantees (Note 17)	Interest receivables (Note 17)	Forfeiting receivables (Note 17)	Securities (Note 18)	Financial and other receivables (Note 23)	Employee benefits (Note 26)	Provisions for off-balance sheet exposures (Note 26)	Other provisions (Note 26)	Total
Opening balance, January 1, 2019	86	38.092	-	791	1.498	741	17.238	1.182	868	2.349	62.845
Balances of the acquired entity at the acquisition date	-	(411)	-	1.466	25	-	1.819	693	2.491	636	6.719
Change for the year, net	-	2.697	-	186	(76)	(306)	415	73	(512)	143	2.620
Impairment usage due to sale of receivables	-	(144)	-	(33)	-	-	(1)	-	-	-	(178)
Impairment usage due to write offs	-	(1.528)	-	(10)	.	-	(7.090)	-		-	(8.628)
Actuarial losses	-	-	-	-	-	-	-	(46)	-	-	(46)
Release of impairment	-	116	-	11	-	-	(69)	-	-	(291)	(233)
Closing balance, December 31, 2019.	**86**	**38.822**	**-**	**2.411**	**1.447**	**435**	**12.312**	**1.902**	**2.847**	**2.837**	**63.099**

13. OTHER EXPENSES

In thousands of EUR

	2020	2019
Impairments of real estate owned by the Bank (Note 20)	-	1.673
Impairments of equipment and other assets (Note 20)	-	191
Impairments of intangible assets (Note 21)	-	357
Costs of direct write-offs of uncollectible receivables from the previous period		29
Other expenses	114	191
	114	2.441

After the plan for new network of branches has been adopted within process of integration with Podgorička banka in 2019, based on accounting estimates, the Group has decreased value of investment in real estate and recognised impairement losses on real estate amount of EUR 1.673 thousand. Also, based on the assounting estimates, the Bank has decreased value and recognised impairment of the related equipment and other assets in the amount of EUR 191 thousand, as well as intangible assets in the amoount of EUR 357 thousand.

14. PROFIT TAX

a) Components of profit tax

In thousands of EUR

	2020	2019
Current income tax	(71)	(1.699)
Deferred tax expense	(207)	(1.650)
	(278)	(3.349)

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

In thousands of EUR

	2020	2019
Reconciliation of profit tax amounts		
Profit before tax	2.849	37.108
Tax of 9% on taxable profit	(256)	(3.340)
Expenses not recognized for tax purposes	(145)	(1.050)
Current income tax liabilities		
Used tax capital losses up to amount of taxable profit / capital gains	-	124
Correction of tax from previous period		60
Decrease of liabilities based on payments in value date	99	
Other changes	24	857
Current profit tax	(278)	(3.349)
Effective tax rate	*9,76%*	*9,03%*

14. PROFIT TAX (Continued)

c) Current tax assets and liabilities

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

Current tax liabilities	**December 31, 2020**	**December 31, 2019**
Current tax liabilities	170	2.806
Current tax liabilities migrated from Podgorička banka	366	-
	536	2.806

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

The Group did not compile a consolidated tax balance sheet.

d) Deferred tax assets and liabilities

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

In thousands of EUR

	December 31, 2020			**December 31, 2019**		
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax**	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax**
The difference between the present value of tangible assets and intangible assets recognized in the financial statements and tax report	-	594	(594)	-	525	(525)
Impairment of assets that are not recognized for tax purposes	382	-	382	157	(158)	315
Salary costs that are recognized for tax purposes after disbursement	415	-	415	969	-	969
Change in fair value of securities at fair value through other comprehensive income	-	17	(17)	10	73	63
Efekti alokacije kupoprodajne cijene					347	(347)
Efekti povoljne kupovine					2.802	(2.802)
Actuarial losses on defined benefit pension plans according IAS19	10	-	10	-	12	(12)
Deferred tax assets / (liabilities)	807	611	196	1.136	3.601	(2.465)

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

14. PROFIT TAX (Continued)

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

In thousands of EUR

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

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

15. CASH AND DEPOSIT ACCOUNTS WITH CENTRAL BANKS

		In thousands of EUR
	December, 31 2020	**December, 31 2019**
Cash on hand in EUR	41.623	36.502
Cash on hand in foreign currencies	3.009	3.505
Cash in the course of collection	1.787	1.596
Gyro account	157.962	140.193
Obligatory reserve held with the Central Bank	49.589	74.197
Ostalo	1.787	
Less: Allowance for impairment	(86)	(86)
	253.884	255.907

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

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

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

Banks calculate the reserve requirement by applying the rate of:

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

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

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

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

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

16. LOANS AND ADVANCES TO BANKS AT AMORTIZED COST

In thousands of EUR

	December, 31 2020	December, 31 2019
Correspondent accounts in foreign banks	62.113	21.009
Placements with foreign banks	-	23.596
	62.113	44.605

The value of loans and advances to banks at amortized cost that are migrated from Podgorička banka is EUR 1,072 thousand.

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

17. LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

In thousands of EUR

	December, 31 2020	December, 31 2019
Loans to financial institutions	6.214	4.465
Loans to the non-financial sector	796.573	782.549
Loans to Government of Montenegro and other budgetary beneficiaries	167.672	156.377
	970.459	943.391
Allowance for impairment on loans	(51.396)	(38.822)
Net loans	919.063	904.569
Factoring and forfeiting	5.262	5.271
Allowance for impairment on factoring and forfeiting	(175)	(1.447)
Net factoring and forfeiting	5.087	3.824
Receivables from outstanding protested guarantees	1	1
Allowance for impairment on receivables from outstanding protested guarantees	-	-
Net receivables from outstanding protested guarantees	1	1
Interest receivables from loans	1.573	2.604
Allowance for impairment on interest receivables from loans	(1.410)	(2.391)
Net interest receivables from loans	163	213
Accruals and prepaid expenses	2.335	2.159
Unamortized deferred fee	(3.805)	(4.439)
Fees and expenses accruals	(1.470)	(2.280)
Impairment of accruals	-	(20)
	922.844	906.307
Loans and advances from customers (gross)	979.630	953.426
Unamortized deferred fee	(3.805)	(4.439)
Total gross loans and receivables	**975.825**	**948.987**
Allowance for impairment	(52.981)	(42.680)
	922.844	**906.307**

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

In thousands of EUR

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

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

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

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

These amounts adjust the position Other assets.

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

In thousands of EUR

	December 31, 2020	December 31, 2019
Agriculture, forestry and fishing	10.059	13.434
Mining and quarrying	3.230	5.909
Manufacturing industry	15.792	12.457
Electricity supply	-	4
Water supply	338	323
Construction	45.751	46.343
Wholesale and retail trade and repair of motor vehicles and motorcycles	131.519	150.094
Traffic and storage	7.355	7.643
Accommodation and catering services	92.728	74.297
Information and communication	26.418	6.574
Financial and insurance activities	13.742	11.834
Real estate business	2.221	2.579
Professional. scientific and technical activities	3.644	7.295
Administrative and support service activities	4.096	3.530
Public administration and defense and compulsory social security	162.201	163.721
Education	85	96
Health and social protection	941	544
Arts, entertainment and recreation	198	681
Other service activities	3.833	3.848
Individuals - residents	449.289	436.111
Non-residents	6.190	6.109
	979.630	953.426

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

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

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

18. SECURITIES AT AMORTIZED COST

In thousands of EUR

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

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

19. SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In thousands of EUR

	December 31, 2020	December 31, 2019
Banks and financial institutions:		
- Montenegroberza, Podgorica (the Bank's equity interest 4,88%)	98	105
- Beogradska berza a.d., Beograd	6	6
- SWIFT Brisel	57	49
- Centralna depozitarna agencija, Podgorica (the Bank's equity interest 15%)	143	143
- CG Broker AD, Podgorica (the Bank's equity interest 11,57%)	63	68
	367	371
Other legal entities:		
- Elektroprivreda Crne Gore (the Bank's equity interest 0,04%)	163	206
- Lutrija Crne Gore (the Bank's equity interest 0,47%)	18	18
- Tržište Novca AD, Beograd	4	5
- Plantaze AD, Podgorica (the Bank's equity interest 9,23%)	1.490	1.787
- Montenegro Airlines	1	1
	1.676	2.017
	2.043	2.388

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

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

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

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

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

20. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR

	Buildings	Equipment and Other Assets	Assets under construction	Right of use assets	Total
Cost					
Balance at January 1, 2019	10.168	22.834			33.002
Additions during the year Podgoricka banka	8.222	1.210	72	-	9.504
Additions during the year	178	2.233	(48)	-	2.363
Sales and disposals	(15)	(269)	-	-	(284)
Accumulated impairment	(1.673)	(174)	(17)	-	(1.864)
Balance at December 31, 2019	**16.880**	**25.834**	**7**	**-**	42.721
First implementation IFRS16	-	-	-	3.202	3.202
Balance at January 01,2020	16.880	25.834	7	3.202	45.923
Additions during the year	19	2.200	-	726	2.945
Net effects of the merger of Podgoricka banka	138	263	24	871	1.297
Activation of fixed assets	-	31	(31)	-	-
Balance at December 31, 2020	**17.037**	**28.328**	**-**	**4.799**	**50.164**
Accumulated depreciation					
Balance at January 1, 2019	2.289	17.410	-	-	19.699
Depreciation	407	2.110	-	-	2.517
Sales and disposals	(15)	(239)	-	-	(254)
Balance at December 31, 2019	2.681	19.281	-	-	21.962
Depreciation	232	2.045	-	868	3.145
Net effects of the merger of Podgoricka banka	344	516	-	575	1.436
Balance at December 31, 2020	3.257	21.842	-	1.443	26.542
Net book value:					
- December 31, 2020	13.780	6.486	-	3.356	23.622
- December 31, 2019	14.199	6.553	7	-	20.759

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

During 2019, the Group impaired construction facilities in the amount of EUR 1,673 thousand and equipment and other assets in the amount of EUR 191 thousand (Note 13).

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

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

In thousands of EUR

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

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

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

21. INTANGIBLE ASSTES

In thousands of EUR

	License	Software	Client base value	Total
Cost				
Balance at January 1, 2019	4.564	9.134	-	13.698
	-	499	3.580	4.079
Additions during the year	776	682	-	1.458
Accumulated impairment	-	(357)	-	(357)
Balance at December 31, 2019	5.340	9.958	3.580	18.878
Additions during the year	818	120	-	938
Net effects of the merger of Podgorička banka	380	(460)	-	(80)
Balance at December 31, 2020	6.538	9.618	3.580	19.736
Accumulated depreciation				
Balance at January 1, 2019	2.124	7.972	-	10.096
Depreciation	812	362	40	1.214
Balance at December 31, 2019	2.936	8.334	40	11.310
Depreciation	894	285	13	1.192
Net effects of the merger of Podgorička banka	233	(91)	222	364
Balance at December 31, 2020	4.063	8.528	275	12.866
Net book value:				
- December 31, 2020	**2.475**	**1.090**	**3.305**	**6.870**
- December 31, 2019	**2.404**	**1.624**	**3.540**	**7.568**

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

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

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

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

22. ASSETS INTENDED FOR SALE

Assets intended for sale as at 31 December 2020, in the amount of EUR 10 thousand (2019: EUR 179 thousand) relate to part of the assets acquired on the basis of collection of receivables that Podgorička banka had in its ownership in a period of less than 12 months.

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

23. OTHER FINANCIAL ASSETS AT AMORTIZED COST AND OTHER ASSETS

		In thousands of EUR
	December 31, 2020	**December 31, 2019**
Other financial assets at amortized cost		
Nostro-covered letters of credit and guarantees	1.738	1.268
Temporary accounts for payment of funds	32	33
Interest receivables		34
Dividend receivables		50
Allowance for impairment, nostro-covered letters of credit and guarantees	(1)	(1)
Other financial assets at amortized cost	1.769	1.384
Other assets		
Other receivables on fees and commissions	2.274	2.436
Temporary accounts	1.930	1.092
Other receivables from customers	987	1.254
Placements from commission business	871	-
		705
Prepayments	168	131
Receivables from buyer	497	98
Other business receivables	29	182
Deferred expenses	381	545
Receivables from checks	2	-
Receivables from state funds	115	127
Receivables in respect of the legal suits assets and other assets in delay	6.557	6.556
	13.811	13.126
Allowance for impairment	(9.254)	(9.495)
	4.557	3.631
Assets acquired from receivables collection	4.207	4.366
Impairment of acquired assets	(3.121)	(2.817)
	1.086	1.549
	5.643	5.180

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

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

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

In thousands of EUR

	December 31, 2020	December 31, 2019
Receivables in delay	2.697	2.939
Receivables in respect of the legal suits assets and other assets	6.557	6.556
Obezvrjeđenje stečene aktive	3.121	2.817
	12.375	12.312

The impairment on other assets in the amount of EUR 9,254 thousand as at 31 December 2020 (31 December 2019: EUR 9,495 thousand) includes:

- provisions for receivables based on court proceedings initiated against former employees of the Group in the amount of EUR 6,229 thousand (31 December 2019: EUR 6,229 thousand);
- provisions for uncollectible receivables based on payment operations fees, electronic banking fees, cards in the amount of EUR 1,899 thousand (31 December 2019: EUR 2,486 thousand); and
- other uncollectible receivables in the amount of EUR 1,126 thousand (31 December 2019: EUR 780 thousand).

Assets acquired through collection in the amount of EUR 4.207 thousand relate to assets acquired on the basis of activation of loan collateral, which are owned by the Group for a period longer than 12 months. Assets acquired on the basis of collection of receivables are recorded at a lower than the total value of receivables and the estimated value of the asset, i.e., at the value determined in the acquisition process.

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

Other assets

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

In thousands of EUR

	December 11, 2020	Reclassification and adjustments (Note 5)	Adjusted statements of financial position, as of December 11, 2020
Other receivables on fees and commissions (Note 17)	181	(34)	147
Other receivables from customers	169	(63)	106
Prepayments	22	-	22
Receivables from buyer	50	-	50
Other business receivables	59	(55)	4
Deferred expenses	186	-	186
Receivables from state funds	130	-	130
Transfer of funds from correspondent accounts of Podgorička banka to correspondent accounts of the Bank	-	8.063	8.063
Other receivables on fees and commissions – *reclassification from loans and advances from* customers *pozicije Krediti i potraživanjaod klijenata (Napomena 17)*	-	4	4
Placements from commission business – *reclassification from loans and advances from* customers *(Note 17)*	-	853	853
	797	8.768	9.565
Allowance for impairment	(197)	167	(30)
	600	8.935	9.535
Assets acquired from receivables collection	2.459	-	2.459
Impairment of acquired assets	(1.787)	-	(1.787)
	672	-	672
	1.272	8.935	10.207
Adjustments due to migration of data - Transfer of funds from correspondent accounts of Podgorička banka to correspondent accounts of the Bank	-	(8.063)	(8.063)
Total other assets	**1.272**	**872**	**2.144**

24. DEPOSITS OF BANKS AND CUSTOMERS

In thousands of EUR

	December 31, 2020	December 31, 2019
Demand deposits		
Banks, other financial institutions and companies	15.976	13.845
Public and private funds	3.561	1.492
Companies	263.446	286.732
Entrepreneurs	5.980	7.347
Public services of local self-government units	21.446	36.537
Government of Montenegro	45.229	39.602
Regulatory agencies	2.213	2.016
Non-governmental and other non-profit organizations	24.880	23.324
Private individuals	378.018	376.521
Funds on escrow account and other	315	311
	761.064	787.727
Short-term deposits		
Banks, other financial institutions and companies	-	424
Companies	19.654	31.659
Public services of local self-government units	272	274
Government of Montenegro	83	161
Non-governmental and other non-profit organizations	308	526
Private individuals	79.552	98.783
	99.869	131.827
Long-term deposits		
Banks and other financial institutions and companies	405	280
Public and private funds	203	216
Companies	2.244	11.962
Public organizations of local municipalities	4	-
Government of Montenegro	100	-
Non-governmental and other non-profit organizations	50	-
Private individuals	26.714	31.872
	29.720	44.330
Interest liabilities	13	518
Accrued interest	434	200
	891.100	964.602

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

Reclassification refers to:

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

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

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

24. DEPOSITS OF BANKS AND CUSTOMERS (Continued)

As at 31 December 2020, liabilities based on deposits in the amount of EUR 891,100 thousand (31 December 2019: EUR 964,602 thousand) consist of:

- Deposits of banks and central banks reported at amortized cost in the amount of EUR 1,145 thousand (31 December 2019: EUR 838 thousand) and
- Deposits of customers reported at amortized cost in the amount of EUR 889,955 thousand (31 December 2019: EUR 963,764 thousand).

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

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

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

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

25. LOANS OF BANKS AND CLIENTS REPORTED AT AMORTIZED COST

In thousands of EUR

	Currency	December 31, 2020	December 31, 2019
Liabilities to banks:			
OTP Bank Plc. Budapest	EUR	138.643	81.643
		138.643	81.643
Accrued interest liabilities		32	-
		138.675	81.643
Liabilities to other creditors:			
Directorate for Development of Small and Medium Sized Enterprises	EUR	458	485
Government of Montenegro - – 1000+ housing	EUR	8.964	9.113
European Bank for Reconstruction and Development („EBRD“)	EUR	2.568	4.404
European Investment Bank („EIB“)	EUR	13.301	13.751
European Fund for Southeast Europe („EFSE")	EUR	5.890	7.067
OTP Financing Malta Company Ltd.	EUR	-	3.500
		31.181	38.320
Deferred loan fees	EUR	(80)	(10)
		31.101	38.310
		169.776	119.953

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

Liabilities to the Government of Montenegro under the Project "1000+" for granting housing loans to socially disadvantaged categories of population amount to EUR 8.964 thousand (31 December 2019: EUR 9.113 thousand) and relate to three contracts:

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

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

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

25. LOANS OF BANKS AND CLIENTS REPORTED AT AMORTIZED COST (Continued)

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

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

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

26. PROVISIONS

In thousands of EUR

	December 31, 2020	December 31, 2019
Provisions on off-balance sheet items		
- Provisions for losses per off-balance sheet items	500	2.487
- Provisions for losses per off-balance sheet items – transfer as part of the migration of receivables and liabilities	2.337	-
Total provisions on off-balance sheet items	2.837	2.487
Employee benefits		
- Provisions for retirement benefits and Jubilee awards	730	1.297
- Provisions for retirement benefits and Jubilee awards – transfer as part of the migration of receivables and liabilities	222	-
	952	1.297
- Provisions for unused vacations	605	605
Total employee benefits	1.557	1.902
Other provisions		
- Provisions for potential litigation losses	1.552	2.388
- Provisions for potential litigation losses – transfer as part of the migration of receivables and liabilities	441	-
- Provision for termination of contract	-	
- Provisions for losses based on operational risk	242	449
Total other provisions	2.235	2.837
	6.629	7.586

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

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

As of 31 December 2020, the Group made provisions for retirement benefits and jubilee awards based on an independent actuary's estimate of EUR 952 thousand (2019: EUR 1.297 thousand). Provisions are made based on the following assumptions:

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

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

27. OTHER LIABILITIES

	December 31, 2020	In thousands of EUR December 31, 2019
Custody obligations	4.488	3.501
Liabilities for commission business	7.248	5.426
Advances received	4.367	3.375
Obligations to suppliers	219	178
Lease obligations	527	90
Temporary account	3.520	
Accruals for employee payments	1.158	1.015
Accruals for employee benefits - severance pay	4.502	10.852
Accruals and prepaid income	2.349	2.322
Accruals of received guarantees	881	856
Other liabilities	1.216	1.142
	30.475	28.757

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

Reclassification refers to:

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

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

Liabilities under leases

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

28. SHARE CAPITAL

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

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

In accordance with the regulations of the Central Bank of Montenegro, on December 31, 2020, the Group is obliged to maintain a minimum capital solvency ratio of 10%. In accordance with the letter of the CBoM dated March 12, 2019, the Group is not obliged to present business indicators on a consolidated basis from Article 137 of the Law on Banks, due to the intangible total balance sheet of ODC in relation to the balance sheet of the parent company, CKB bank.The Bank's solvency ratio on December 31, 2020 was 20.07%.

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

28.1. Own funds

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

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

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

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

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

28. SHARE CAPITAL (Continued)

28.1. Own Funds (Continued)

Own funds of the Bank as at December 31, 2020 amounted (as of December 31, 2019: consolidated calculation for the Group):

In thousands of EUR

	December 31, 2020	December 31, 2019
Basic elements of own funds		
Share capital	181.876	181.876
Provisions established against profit after taxation	757	921
LLP according to regulatory requirement, allocated in accordance with the Decision prescribing minimum standards for credit risk management in banks	(777)	(1.074)
The amount that mitigates the negative effects on own funds due to first application of IFRS 9	544	913
Total: Basic elements of own funds	182.400	182.636
Deductible items in calculation of core capital		
Loss from previous years	(15.718)	(41.064)
Loss of the year	-	-
Intangible assets	(6.847)	(3.996)
Unrealized loss on fair value adjustment of financial assets available for sale, at fair value	(259)	-
Positive difference between the amount of accrued provisions for contingent losses and the sum of value adjustments for items of balance sheet assets and provisions for off-balance sheet items	(8.560)	(2.081)
Total: Deductible items of the Bank's own funds	(31.384)	(47.141)
Core capital	151.016	135.495
Deductible items from own funds - direct or indirect investments in another bank or another credit or financial institution in the amount exceeding 10% of capital of those institutions	(206)	(211)
Own capital decreased by 50% of deductible items of own funds	150.913	135.390
Supplementary capital decreased by 50% of deductible items of own funds	(103)	(106)
Core capital, decreased as needed	150.810	135.284
OWN FUNDS	**150.810**	**135.284**

28. SHARE CAPITAL (Continued)

28.2. Solvency Ratio of the Bank

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

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

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

As at 31 December 2020, according to the Bank's calculation, the solvency ratio was (as of December 31, 2019: consolidated calculation for the Group):

In housands of EUR

	December 31, 2020	December 31, 2019
Own capital decreased by 50% of deductible items of own funds	150.913	135.390
Supplementary capital decreased by 50% of deductible items of own funds	(103)	(106)
Total own funds (Note 28.1)	150.810	135.284
Risk-weighted balance sheet assets	622.620	583.396
Risk-weighted off-balance sheet items	56.117	67.518
Amount that mitigates the negative effects on own funds due to first application of IFRS 9	544	913
Total risk-weighted balance sheet assets	679.281	651.827
Capital requirement for operational risk	7.025	10.465
Capital requirement for country risk	1.883	3.173
Bank’s solvency ratio	20,07%	17,81%

29. OFF-BALANCE SHEET ITEMS

In thousands of EUR

	December 31, 2020	December 31, 2019
Guarantees, guarantees and irrevocable obligations:		
- Payment guarantees	34.375	38.318
- Performance bonds	44.691	44.707
- Letters of credit	789	1.558
- Undrawn credit facilities	89.648	90.439
Total credit risk exposure by off-balance sheet items	169.503	175.022
Collateral:		
- mortgages	1.182.232	1.148.358
- pledge / Other	231.235	2.341.860
- securities	2.471	3.413
- insurance policy	181.354	-
- Deposits	13.612	-
	1.610.904	3.493.631
Provided collaterals:		
- bill of exchanges	1.352	1.352
Loro:		
- Loro letter of credits	75.108	91.455
Other off-balance sheet items:		
- re-transferred loans	40.209	42.315
- service loans	7.383	-
- written off receivables in internal evidence	38.726	46.125
- Accrued interest	3.206	762
	-	106
	89.524	89.308
Off-balance sheet records without credit risk impact	1.776.888	3.675.746
Total off-balance evidence	1.946.391	3.850.768

During 2020, for the purpose of harmonization with Podgorička banka, the Group made a decision to change the manner of collateral booking for bills of exchange, attachments of salary, and similar collateral, i.e., these collaterals are not assigned a carrying amount. As of 31 December 2020, the total amount of these collaterals is EUR 1,610,904 thousand and as of 31 December 2019 was EUR 2,682,247 thousand. From the total amount of collaterals as of 31 December 2020, total amount of these collaterals is EUR 1,870,185 thousand. In addition, the Group presented deposits as collateral in its off-balance sheet items.

29. OFF-BALANCE SHEET ITEM

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

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

30. TRANSACTIONS WITH RELATED PARTIES

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

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

In thousands of EUR

	December 31, 2020	December 31, 2019
Loans and advances to banks at amortized cost:		
− OTP Bank Plc. Budapest, Hungary	5.449	26.869
- OTP banka Hrvatska dd	-	28
- Vojvođanska banka dd, Srbija	3	10
	5.452	29.194
Loans and advances to customers at amortized cost:		
- Bank's employees	11.233	14.495
	11.233	14.495
Other assets:		
- OTP Bank Plc. Budapest, Hungary	-	56
− OTP Bank Albanija	-	23
−	-	79
Total receivables	16.685	43.768
Deposits of customers at amortized cost:		
− Bank's employees	5.002	6.010
− Debt Management Project Montenegro doo, Podgorica	609	1.089
− - OTP Albania	192	-
−	5.803	7.099
Loans to banks and central banks at amortized cost:		
- OTP Bank Plc. Budapest, Hungary	138.643	81.643
- OTP Financing Malta Company Ltd.	-	3.500
	138.643	85.143
Other liabilities:		
OTP Financing Malta Company Ltd.		4
OTP Bank, Budimpešta, Madjarska	32	-
	32	4
Total liabilities	144.478	92.246
Net liabilities/receivables	(127.793)	(48.878)
Off-balance-sheet items		
Received guaranties:		
OTP Bank Plc. Budapest, Hungary	-	2.156
Vojvođanska banka dd, Serbia	157	-
Total off-balance	157	2.156

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

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

30. TRANSACTIONS WITH RELATED PARTIES (Continued)

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

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

	In thousands of EUR	
	2020	**2019**
Interest and similar income:		
- OTP Bank Plc. Budapest, Hungary	142	571
- Bank's employees	433	637
	575	1.208
Fee and commission income:		
- OTP Bank Plc. Budapest, Hungary	1	4
- Debt Management Project Montenegro doo, Podgorica	-	5
- OTP Albania	15	-
	16	9
Total income	591	1.217
Interest and similar expense:		
- OTP Financing Malta Company Ltd.	-	(38)
- OTP Bank Plc. Budapest, Hungary	(72)	(241)
	(72)	(279)
Fee and commission expense:		
- OTP Bank Plc. Budapest, Hungary	(97)	(15)
	(97)	(15)
General and administrative expenses:		
- OTP Bank Plc. Budapest, Hungary	(298)	(8)
	(298)	(8)
Total expenses	(467)	(302)
Income, net	124	915

In the period from January 1 to December 31, 2020, benefits paid to persons with special authorizations and responsibilities amount to EUR 1,275 thousand (31 December 2019: EUR 1,679 thousand).

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

		In thousands of EUR
	December 31, 2020	**December 31, 2019**
Cash on hand in EUR	41.623	36.502
Cash on hand in foreign currencies	3.009	3.505
Gyro account	157.962	140.193
Correspondent accounts in foreign banks	62.113	21.009
Placements with foreign banks	-	23.596
Other	1.787	1.595
	266.494	226.400

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

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

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

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

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

Cash and cash equivalents included in consolidated financial statements as of December 31, 2019, amount EUR 74.671 thousand, so the net effect of merger of Podgorička banka to CKB bank in the cash flow statement amounts EUR 9.592 thousand.

32. LITIGATIONS

As of December 31, 2020, the Group is involved in a number of litigations arising from its day-to-day operations and relating to commercial and contractual matters, as well as labor relationships. According to the estimates of Legal Affairs Department of the Bank and the law office representing the Group, the total value of disputes amounts to EUR 7,398 thousand, which does not include court costs. Additionally, this amount does not include any default interest that may be determined upon termination of litigation, as management is unable to determine the potential effects of default interest that may arise from these disputes until the date of these consolidated financial statements.

As of 31 December 2020, the Group has allocated provisions for potential losses based on litigation in the amount of EUR 1,993 thousand (31 December 2019: EUR 2.336 thousand) (Note 26). The outcome of ongoing disputes, for which no provisions have been made, cannot be reliably estimated at this time, but the opinion of management and legal adviser is that no additional negative outcome of disputes is expected that could have material effects on the Group's consolidated financial statements.

As of 31 December 2020, the Group conduced lawsuits against legal entities and private individuals in the amount of EUR 23,646 thousand for 2,988 loan agreements.

34. CONFORMITY WITH INDICATORS OF THE CENTRAL BANK OF MONTENEGRO

The Group is obliged to perform its operations in accordance with the provisions of the Banking Law and bylaws adopted on the basis of that Law. As stated in Note 28, in accordance with the letter of the CBoM dated March 12, 2019, the Group is not required to present performance indicators on a consolidated basis under Article 137 of the Law on Banks, due to the non-material total balance sheet of ODC in relation to the balance sheet. Balance of the parent company, CKB bank.

Parent entity conformity with the performance indicators prescribed by the Central Bank of Montenegro on December 31, 2020 is presented as follows (data as of 31 December 2019 are reported on a consolidated basis):

	Realized indicators	
	December 31, 2020	**December 31, 2019**
Solvency ratio (the minimum amount of 10%)	20,07%	23,67%
Exposure of the bank to one person or group of related parties (limit 25% of the bank's own funds)	16,62%	16,69%
Sum of large exposures (limit 800% of the bank's own funds)	45,08%	30,48%
Total exposure to parties that have qualified participation in the Group (limit 20% of the bank's own funds)	3,61%	4,35%
Total exposure to parties related to the Bank (limit 200% of the bank's own funds)	13,96%	13,36%
Total exposure to the Bank's employee (limit 1% of the bank's own funds)	0,10%	0,14%
Daily liquidity ratio as of December 31, 2020 (minimum ratio 0.9)	1,79	1,07
Ratio of investment in fixed assets	15,77%	20,40%

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

34. TAXATION RISKS

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

35. FOREIGN EXCHANGE RATES

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

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

36. EVENTS AFTER THE REPORTING PERIOD

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

Podgorica, March 19, 2020

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

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

Consolidated annual report of the Management of Crnogorska Komercijalna Banka a.d. Podgorica for 2020

TABLE OF CONTENTS

INTRODUCTION 3
I. DESCRIPTION OF BUSINESS ACTIVITIES 4
II. ORGANISATIONAL STRUCTURE 6
III. INFORMATION ON THE WORK OF THE BOARD OF DIRECTORS AND MANAGEMENT COMMITTEE 7
III.1 Macro-economic indicators 9
III.2. Bank’s business activities 12
III.3. Retail banking 16
III.4. Corporate banking 16
III.5. Transactions with the Government of Montenegro and other budgetary beneficiaries 17
III.6. Graphic representation of the Bank's loan and deposit portfolios 17
IV. ANALYSIS OF THE FINANCIAL POSITION AND RESULTS OF THE BANK 19
V. RISK MANAGEMENT 26
V.1. Credit risk and valuation of balance sheet assets items and off-balance sheet items 27
V.2. Country and counterparty risk 30
V.3. Market risk 30
V.4. Liquidity risk 31
V.5. Operational risk 32
V.6. Reputational risk 32
VI. EDUCATION OF THE EMPLOYEES 32
VII. PLANNED ACTIVITIES 33
VIII. ENVIRONEMTAL AND SOCIAL RESPONSIBILITY ISSUES 34
IX. CORPORATE GOVERNANCE RULES AND INTERNAL CONTROL SYSTEM 34

INTRODUCTION

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

The Bank is the parent legal entity in the Group, which in addition to the Bank consists of the subsidiary OTP Debt Collection DOO, Podgorica (hereinafter: the "Group" and "ODC", respectively). ODC has been a part of the Group since December 17, 2018, as well as a subsidiary of South Invest Montenegro doo, Podgorica (this subsidiary was liquidated in 2019). Until the day of merger with the Bank, ie. in the period from 31 July 2019 to 11 December 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. 15/12, 18/13 and 24/18).

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

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

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

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

Basic information on controlled entities of the parent legal entity are presented in the table below:

Name of the controlled entity	Main business activity	Date of acquiring	% of capital share	
			2020	**2019**
OTP Debt Collection DOO, Podgorica	Other financial services	December 17, 2018	100%	100%
Podgorička banka AD, Podgorica	Other monetary business	July 22, 2019	n/a	100%

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

Comparative data in these financial statements represent data from the Group's consolidated financial statements for 2019. As disclosed in the Note 1, Podgorička banka AD, Podgorica, is merged with the parent legal entity, CKB, as of December 11, 2020, so both current year's data and comparative data include the data from Podgorička banka.

I. DESCRIPTION OF BUSINESS ACTIVITIES

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

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

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

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

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

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

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

ODC was registered with the Central Registry of the Commercial Court in Podgorica, by decision number 5-0582519/001, dated 25 June 2010. The company is registered for other non-mentioned financial services. The registered office of the Company is in Podgorica, Studentska bb, City kvat, Bemax building, III floor. The Company's registration number is 02795043.

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 March 30, 2015, ODC established an entity called South Invest Montenegro DOO, Podgorica, as a 100% owner. The founding capital of South Invest Montenegro DOO, Podgorica amounted to EUR 5 thousand. The main activity of South Invest Montenegro DOO, Podgorica was consulting related to business and other management. The registration number of South Invest Montenegro DOO, Podgorica was 03041824. On June 18, 2019, by a shortened procedure of voluntary liquidation, South Invest Montenegro DOO, Podgorica was deleted from the Central Registry of Business Entities. During its existence, South Invest Montenegro DOO, Podgorica did not generate income from its core business

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

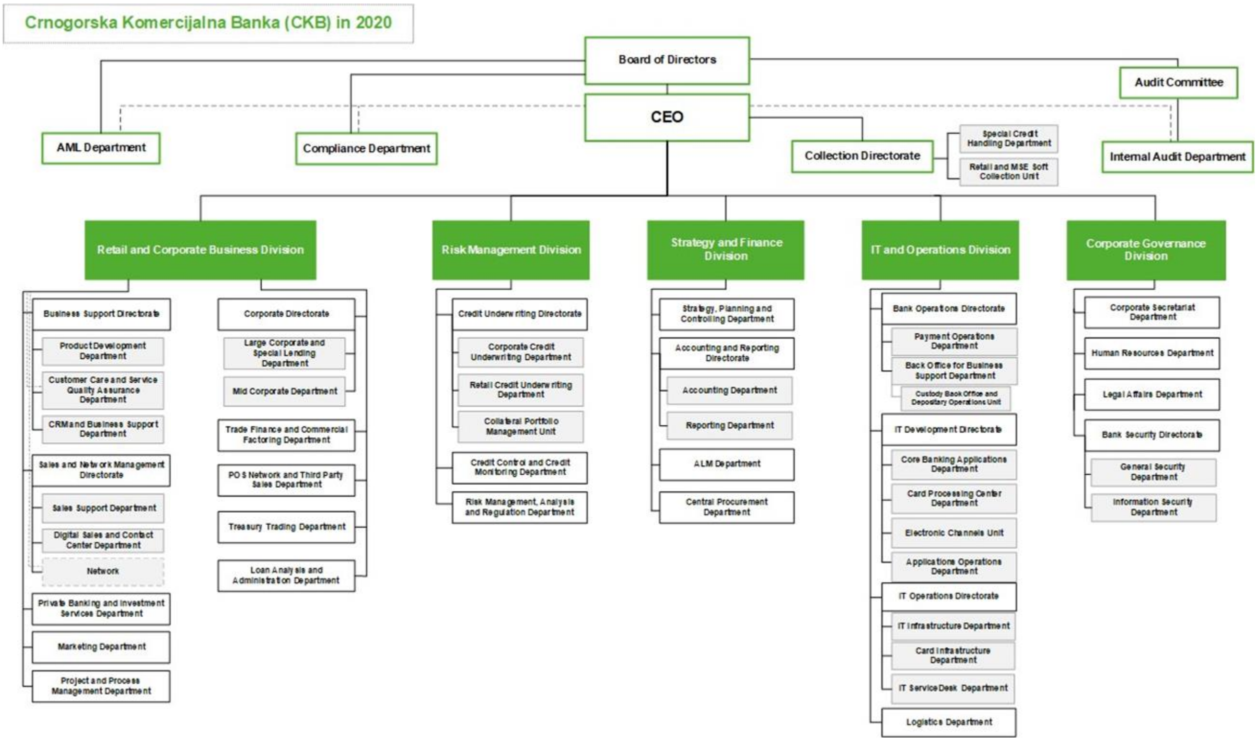
The process of merging Podgorička banka AD Podgorica, member of OTP Group ("Podgorička banka") into Crnogorska Komercijalna Banka AD Podgorica was completed on December 11, 2020 with the registration of the merger of Podgorička banka into CKB banka in the Central Registry of Business Entities (Decision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

As of 31 December 2020, the Bank was comprised of the head office in Podgorica, 18 branches, 15 sub-branch offices and 1 counter in the territory of Montenegro (December 31, 2019: the Bank consisted of its head office in Podgorica, 24 branches, 20 sub-branches and 5 counters on the territory of Montenegro), as well as office of ODC.

As of 31 December 2020, the Bank had 554 employees (31 December 2019: 735 employees).

In 2020, the Bank did not repurchase its own shares.

II. ORGANISATIONAL STRUCTURE



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In anti-money laundering segment, yearly and quarterly reports were adopted. Training program for employees of the Bank related to prevention of money laundering and terrorist financing was prepared.

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

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

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

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

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

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

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

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

Considering the scope and complexity of its operations, the 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 CBMNE, considering the risk management standards at the level of OTP Group.

III.1 Macro-economic indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

III.2. Group's business activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

a. Implementation of measures prescribed by the National Coordination Body

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Asset Quality Review (AQR)

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

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

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

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

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

III.3. Retail banking

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

Gross loans of retail, residents, on December 31, 2020 amounted to EUR 447,477 thousand, which is 45.86% of the Group’s total portfolio. Gross loans of retail, non-residents, amounted to EUR 3,332 thousand, which is 0.34% of the total portfolio.

At the same time, retail deposits, residents, participated in the total deposits of the Bank with 43.61%, in the amount of EUR 388,595 thousand. Retail deposits, non-residents, amounted to EUR 95,688 thousand, i.e., 10.74% of the total deposits of the Bank.

Loan and deposit portfolios of the Bank include mainly customers residing in Montenegro.

III.4. Corporate banking

Main business lines in corporate lending segment are still investment loans and working capital loans, while in the segment of deposits of legal entities, current accounts and classic savings are still dominant.

In 2020, business cooperation with large and medium-sized legal entities continued. Emphasis is placed on quality improvement and product development through adequate selection of creditworthy customers, with appropriate collateral.

In the segment of business with micro and small legal entities, the Bank continued its cooperation with the European Investment Fund (EIF), and thus expanded its loan offer to these companies.

Total loans and receivables of legal entities on December 31, 2020 amounted to EUR 365.290 thousand, and in the total portfolio amounted to 37,44%. Total deposits of legal entities amounted to EUR 405,673 thousand, i.e., 45.52%. Escrow account funds amounted to EUR 315.

Loan and deposit interest rates on these products were adjusted in 2020, in line with the Bank's pricing policy and market developments.

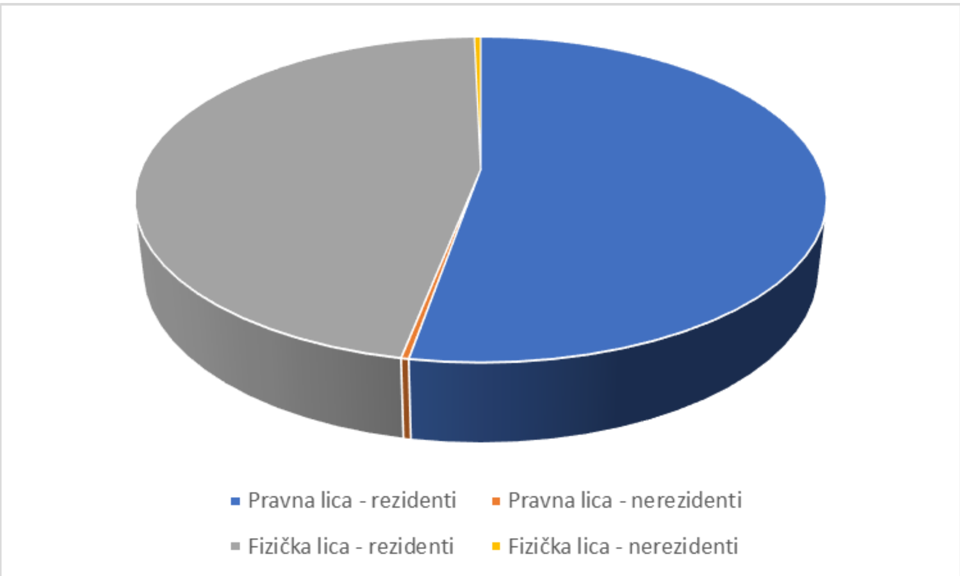
III.5. Transactions with the Government of Montenegro and other budgetary beneficiaries

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

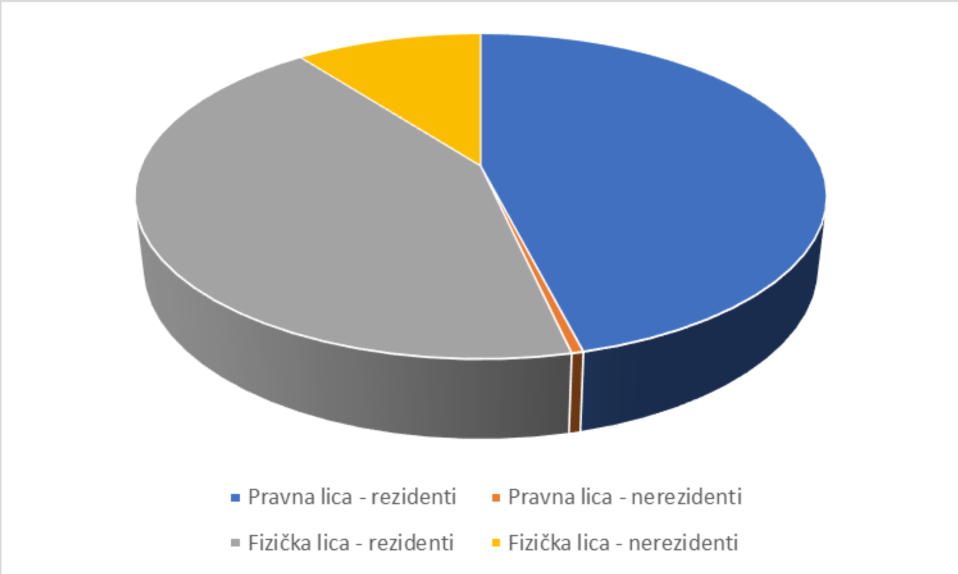
Total loans of the Government of Montenegro and other budgetary beneficiaries participated with 16.07% in the total portfolio.

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

Loan portfolio by customers' segments on day of migration, December 31, 2020.



Deposit portfolio by customers' segments on day of migration, December 31, 2020



Breakdown of portfolio by regions on December 31, 2020:

Region	Municipality	Net exposure per municipality	Net exposure per region
	Cetinje	11.121	
	Danilovgrad	12.769	
	Niksic	37.364	
Center	Podgorica	680.336	**741.590**
	Bar	27.640	
	Budva	22.752	
	Herceg Novi	28.388	
	Kotor	23.258	
	Tivat	-	
South	Ulcinj	14.605	**125.963**
	Andrijevica	9.320	
	Berane	1	
	Bijelo Polje	14.473	
	Kolasin	19.593	
	Mojkovac	4.864	
	Plav	2.643	
	Pljevlja	88	
	Rožaje	6.006	
North	Zabljak	6.637	**55.291**
Total		**922.844**	**922.844**

IV. ANALYSIS OF THE FINANCIAL POSITION AND RESULTS OF THE GROUP

On December 31, 2020 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 customers, at amortized value
- Investments in securities
- Bank deposits
- Customer deposits
- Borrowed funds from banks and other customers
- Capital

Comparative data in these financial statements represent data from the consolidated financial statements of the Group for 2019.

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

	December 31, 2020	December 31, 2020
ASSETS		
Cash and balances with the Central Bank	253.884	255.907
Loans and advances to banks at amortized cost	62.113	44.605
Loans and advances to customers at amortized cost	922.844	906.307
Securities at amortized cost	27.282	79.566
Other financial assets at amortized cost	1.769	1.384
Securities at fair value through other comprehensive income	2.043	2.388
Investments in associates and joint ventures according to equity method		
Property, plant and equipment	23.622	20.759
Intangible assets	6.870	7.568
Current tax assets	8	11
Deferred tax assets	807	1.136
Non-current assets held for sale and discontinued operations	10	179
Other assets	5. 643	5.180
Total assets	**1.306.895**	**1.324.990**
LIABILITIES		
Deposits from banks and central banks at amortized cost	1.145	838
Deposits of customers at amortized cost	889.955	963.764
Loans to banks and central banks at amortized cost	138.675	81.643
Loans to customers other than banks at amortized cost	31.101	38.310
Reserves	6.629	7.586
Current tax liabilities	536	2.806
Deferred tax liabilities	611	3.601
Other liabilities	30.475	28.757
Total liabilities	**1.099.127**	**1.127.305**
EQUITY		
Share capital	181.876	181.876
Retained earnings	21.287	(35.943)
Profit / loss for the year	2.571	33.759
Revaluation reserves		
Other reserves	2.034	17.993
Total equity	**207.768**	**197.685**
Total liabilities and equity	**1.306.895**	**1.324.990**

Total assets on December 31, 2020 amounted to EUR 1,306,895 thousand, which is an increase of 1.37% compared to December 31, 2019. This decline is largely due to the reduction of the portfolio of securities at amortized cost.

Total net loans amounted to EUR 922,844 thousand with a growth of 1.82% compared to the previous year.

Customer deposits are lower for 7.66% compared to 2019.

CONSOLIDATED INCOME STATEMENT
In the period from January 01 to December 31, 2020
(thousands of EUR)

	Period from January 1 to December 31, 2020	Period from January 1 to December 31, 2019
Interest and similar income	27.597	37.548
Interest income on impaired placements	611	699
Interest and similar expense	(301)	(814)
Net interest income	**27.907**	**37.433**
Fee and commission income	15.382	21.733
Fee and commission expense	(8.595)	(12.516)
Net fee and commission income	**6.787**	**9.217**
Net gain on derecognition financial instruments that are not valued at fair value through the income statement	-	138
Net loss on financial instruments carried at fair value through profit or loss that are not held for trading	-	(198)
Net gains/losses from FX revaluation	762	1.061
Net gains/losses from derecognition of other assets	(67)	(5)
Other income	2.101	34.856
Personnel expenses	(13.703)	(25.577)
Depreciation expenses	(4.337)	(3.731)
General and administrative expenses	(8.600)	(11.098)
Net losses/gains from impairment of financial instruments not carried at fair value through profit and loss	(7.639)	(2.404)
Provisions	(248)	(143)
Other expenses	(114)	(2.441)
PROFIT BEFORE TAX	2.849	37.108
Income tax	(278)	(3.349)
NET PROFIT	**2.571**	**33.759**

The decline in interest income and other income statement items is the result of the merger of Podgorička banka, which ended on December 11, 2020. Consequently, the items of the income statement of Podgorička banka were transferred to the follower bank to the account of retained earnings and were not presented in the consolidated income statement for 2020.

The Group is obliged to conduct its business in accordance with the provisions of the Law on Banks and bylaws adopted on the basis of that Law. As stated in Note 28, in accordance with the letter of the CBoM dated March

12, 2019, the Group is not required to present performance indicators on a consolidated basis under Article 137 of the Law on Banks, due to the intangible total balance sheet of ODC in relation to the balance sheet of the parent company, CKB bank.

The compliance of the Bank as a parent company with the business indicators prescribed by the Central Bank of Montenegro as of 31 December 2020 is presented as follows (data as at 31 December 2019 are presented on a consolidated basis):

	Realized indicators	
	December, 31 2020	**December, 31 2019**
Solvency coefficient (the minimum amount of 10%)	20,07%	17.81%
Exposure of the bank to one person or group of related parties (limit 25% of the bank's own funds)	16,62%	11,89%
Sum of large exposures (limit 800% of the bank's own funds)	45,08%	27,51%
Total exposure to parties that have qualified participation in the Group (limit 20% of the bank-s own funds)	3,61%	4,35%
Total exposure to parties related to the Bank (limit 200% of the bank's own funds)	13,96%	16,24%
Total exposure to the Bank's employee (limit 1% of the bank's own funds)	0,10%	0,14%
Daily liquidity ratio as of December 31, 2020 (minimal ratio 0,9)	1,79	1,07
Ratio of investment in fixed assets	15,77%	20,40%

The Group regularly monitors and controls the stated prescribed business indicators. During 2020, the Group was harmonized with the prescribed business indicators.

IV.1. Capital analysis

As at 31 December 2020, the share capital of the Bank consists of 355,717 ordinary shares with an individual nominal value of EUR 511.2919. All issued shares are fully paid.

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

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

The 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 December 2020, the Group does not deviate from the prescribed limits.

IV.1.1. Own funds

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

The amount of own funds must always be at a level equal to or higher than:
- the amount of the minimum monetary share of the founding capital;
- the total amount of capital requirement for all risks.

Bank’s i.e. Group’s own funds as at 31 December 2020 consisted of:

		In thousands of EUR
	December 31, 2020	**December 31, 2019**
Basic elements of own funds		
Share capital	181.876	181.876
Provisions established against profit after taxation	757	921
LLP according to regulatory requirement, allocated in accordance with the Decision prescribing minimum standards for credit risk management in banks	(777)	(1.074)
The amount that mitigates the negative effects on own funds due to first application of IFRS 9	544	913
Total: Basic elements of own funds	182.400	182.636
Deductible items in calculation of core capital		
Loss from previous years	(15.718)	(41.064)
Loss of the year	-	-
Intangible assets	(6.847)	(3.996)
Unrealized loss on fair value adjustment of financial assets available for sale, at fair value	(259)	-
Positive difference between the amount of accrued provisions for contingent losses and the sum of value adjustments for items of balance sheet assets and provisions for off-balance sheet items	(8.560)	(2.081)
Total: Deductible items of the Bank’s own funds	(31.384)	(47.141)
Core capital	151.016	135.495
Deductible items from own funds - direct or indirect investments in another bank or another credit or financial institution in the amount exceeding 10% of capital of those institutions	(206)	(211)
Own capital decreased by 50% of deductible items of own funds	150.913	135.390
Supplementary capital decreased by 50% of deductible items of own funds	(103)	(106)
Core capital, decreased as needed	150.810	135.284
OWN FUNDS	**150.810**	**135.284**

Pursuant to the provisions of the Decision on the Capital Adequacy of Banks ("Official Gazette of Montenegro" No. 38/11, 55/12 and 82/17), the Bank has made the calculation of the required capital for the risks to which it is exposed in its operations, as well as the solvency coefficient. Solvency coefficient must not be less than 10%.

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

- total amount of the risk weighted assets for credit risk;
- amount of risk weighted assets for market risks;
- amount of risk weighted assets for operational risk;
- amount of risk weighted assets for other risks.

During the year, the Bank maintained a very strong capital position, which is reflected in the fact that the consolidated solvency ratio of the Bank ranged from 17.14 % to 20.07%, significantly above the statutory minimum.

As of 31 December 2020, according to the Bank's calculation, the solvency ratio was as follows (as at 31 December 2019: consolidated calculation for the Group):

		In thousands of EUR
	December 31, 2020	**December 31, 2019**
Own capital	150.913	135.390
Supplementary capital	(103)	(106)
Total own funds (Note 28.1)	150.810	135.284
Risk-weighted balance sheet assets	622.620	583.396
Risk-weighted off-balance sheet items	56.117	67.518
Amount that mitigates the negative effects on own funds due to first application of IFRS 9	544	913
Total risk-weighted balance sheet assets	679.281	651.827
Capital requirement for operational risk	7.025	10.465
Capital requirement for country risk	1.883	3.173
Bank's solvency ratio	20,07%	17,81%

IV.2. Investment in shares of legal entities

		In thousands of EUR
	December 31, 2020	**December 31, 2020**
Banks and financial institutions:		
- Montenegroberza, Podgorica (share 4,88%)	98	105
- Beogradska berza a.d., Beograd	6	6
- SWIFT Brisel	57	49
- Centralna depozitarna agencija, Podgorica (share 15%)	143	143
- CG Broker AD, Podgorica (share 11,57%)	63	68
	367	371
Other legal entities:		
- Elektroprivreda Crne Gore, Nikšić (share 0,04%)	163	206
- Lutrija Crne Gore, Podgorica (share 0,47%)	18	18
- Tržište Novca AD, Beograd	4	5
- Plantaze AD, Podgorica (share 9,23%)	1.490	1.787
- Montenegro Airlines, Podgorica	1	1
	1.676	2.017
	2.043	2.388

Due to the merger of Podgorička banka, the Bank took over the ownership of the following securities:

- Beogradska berza a.d., Beograd
- Tržište Novca AD, Beograd

- S.W.I.F.T. SCRL
- CG Broker-Dealer JSC Podgorica
- Plantaze
- Montenegro Airlines
- Poslovno Logisticki Centar Moraca Ad. Podgorica

As of 31 December 2020, the Group had no securities under pledge.

V. 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 - represents the risk of loss as a result of the customer's failure to fulfill the obligations towards the Group.
- 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 incurring loss on balance sheet and off-balance sheet items, as a result of changes in interest rates, foreign exchange rates, securities prices, market index values or other factors of importance for the value of financial instruments, as well as the risk of marketability of financial instruments.
- Country risk - is the probability of incurring losses for the Group because of the impossibility of collecting claims from persons outside Montenegro, for reasons related to the political, social and economic environment of the country in which the head office or residence of the debtor is located (the debtor’s country).
- Liquidity risk - is defined as likelihood that the Group will not be able to provide sufficient funds to settle its obligations at the time of their maturity, or the likelihood that the Group will have to get funds with significant costs for settling its due liabilities.
- Reputational risk - represents a potential loss of Group's 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 set of tools:

- identification of major risks inherent in its value creation processes
- assessment of the level of risk based on historical data and the assessment of future trends
- risk control
- risk mitigation techniques such as defining of the exposure limit, collateral requirements, hedging, establishing a controlled environment, etc.

V.1. Credit risk and valuation of balance sheet assets items and off-balance sheet items

The main sources of credit risk are loans approved to retail, SMEs and corporate legal entities.

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

Retail portfolio consisted of consumer loans (unsecured products) which accounted for 53% and mortgage loans (secured products) which accounted for 47% of retail portfolio. In 2020, the Group continued its activity in Retail segment. Retail segment recorded the extensive approval of new loans, as defined in the general strategy of OTP Group that puts accent on this segment. New product offering and targeted campaigns enabled the Group to have more placements than regular repayments, which resulted in the overall increase in the portfolio compared to the previous year. At the same time, the portfolio quality was maintained at the last year level with relatively low share of NPLs for which adequate loan loss provisions were set aside.

In the segment of micro and small legal entities, the Group managed to maintain the same level of credit quality as in the previous year by applying high quality risk monitoring policy.

Corporate portfolio of the Group, i.e., portfolio of large and medium legal entities, which included loans approved to the public sector, consisted mainly of investment loans and loans for working capital. The focus in corporate segment was on the increase of placements and maintenance of loan portfolio quality.

In accordance with the Decision on Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro, No. 22/12, 55/12, 57/13, 44/17 and 82/17) since 1 January 2013 the 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. 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 Group 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 Group.

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 31 December 2020 were obtained:

		Gross carrying amount					Accumulated impairment				
December 31, 2020.	**Total, net exposure**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total gross**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total Accumulated impairment**
Loans and advances to banks at amortized cost	62.113	62.113	-	-	-	62.113	-	-	-	-	-
- Housing loans	156.932	143.147	13.229	4.669	616	161.661	(362)	(453)	(3.903)	(11)	(4.729)
Current account overdrafts	3.856	2.541	1.330	187	19	4.077	(8)	(52)	(152)	(9)	(221)
- Consumer loans	216.442	210.312	4.796	4.400	662	220.170	(544)	(383)	(2.607)	(194)	(3.728)
- Credit cards	3.764	3.183	472	414	21	4.090	(12)	(16)	(296)	(2)	(326)
- Special purpose loans	423	392	5	200	12	609	(1)	-	(182)	(3)	(186)
- Other loans to individuals, covered by mortgage	53.832	38.469	14.215	3.143	682	56.509	(89)	(481)	(2.055)	(52)	(2.677)
- Other loans	1.880	939	498	1.819	-	3.256	(9)	(41)	(1.326)	-	(1.376)
- Car loans	202	180	24	-	-	204	(1)	(1)	-	-	(2)
- Loans to micro and small entities	14.391	11.112	1.982	2.812	725	16.631	(72)	(245)	(1.818)	(105)	(2.240)
Loans to medium and large entities	301.848	223.136	76.778	33.806	1.642	335.362	(5.740)	(8.889)	(18.776)	(109)	(33.514)
- Loans to Government and municipalities	163.765	167.580	-	-	-	167.580	(3.815)	-	-	-	(3.815)
- Treasury LOB	5.509	5.676	-	-	-	5.676	(167)	-	-	-	(167)
Loans and advances to customers at amortized cost	922.844	806.667	113.329	51.450	4.379	975.825	(10.820)	(10.561)	(31.115)	(485)	(52.981)
Securities at amortized cost	27.282	27.865	-	-	-	27.865	(583)	-	-	-	(583)
Other financial assets at amortized cost	1.769	1.770	-	-	-	1.770	(1)	-	-	-	(1)
Securities at fair value through other comprehensive income	2.043	2.043	-	-	-	2.043	-	-	-	-	-
Investments in affiliates and joint ventures according to equity method			-	-	-		-	-	-	-	-
Other financial assets	4.178	4.155	129	9.147	-	13.431	(341)	(19)	(8.893)	-	(9.253)
	1.020.229	**904.613**	**113.458**	**60.597**	**4.379**	**1.083.047**	**(11.745)**	**(10.580)**	**(40.008)**	**(485)**	**(62.818)**
Undrawn credit facilities	88.091	86.519	2.928	155	46	89.648	(1.389)	(80)	(62)	(26)	(1.557)
Payment and performance guarantees and unused documented letters of credit	78.575	78.037	1.100	438	280	79.855	(994)	(110)	(112)	(64)	(1.280)
	166.666	**164.556**	**4.028**	**593**	**326**	**169.503**	**(2.383)**	**(190)**	**(174)**	**(90)**	**(2.837)**

V.2. Country and counterparty risk

The Group has developed its own regulatory framework for risk management based on national legislation, as well as parent Group 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 Group methodology and statutory requirements.

V.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 Group 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 Group’s management quarterly.

V.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 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 an optimal liquidity structure to support primary business activities.

In order to monitor liquidity positions, the Bank prepares daily (RLS) and ten-day reports (DPL) in accordance with the regulation of the Central Bank of Montenegro.

In 2020, the Bank maintained strong liquidity position and operated with the liquidity coefficient above the prescribed statutory minimum. As of 31 December 2020, liquidity coefficient was 1.79%, while the legally prescribed minimum is 0.9%.

Daily Liquidity Report, RLS:

		In thousands of EUR
	31, December 2020	**31 December 2019**
Cash	45.956	30.691
Gyro account	158.048	82.640
Funds kept with payment transaction agents	453	471
Funds kept in correspondent banks accounts (sight deposits)	62.097	37.932
Mandatory reserves kept with the Central Bank (50%)	24.794	23.157
Liquid assets/receivables	291.348	174.890
Due obligations for credits	63	8
Due liabilities for interests and fees	11	13
Due liabilities for term deposits	1.316	865
30% sight deposit	152.321	160.784
10% approved but unused, irrevocable loan obligations (credit lines)	8.885	4.009
Other matured liabilities	185	56
	162.781	165.735
Surplus/Deficit	128.567	9.156
Liquidity indicators	**1.79**	**1,06**

V.5. Operational risk

The centralized function of operational risk management is placed within Risk Management analysis and regulatory deportment and is in charge of monitoring and coordinating operational risk management at the level of the entire organization through development of policies, methodologies and tools used by all the other organizational units of the 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 242 of the Decision on Capital Adequacy in Banks (Official Gazette of Montenegro, No. 38/11 and 55/12), the Bank uses a simple method for calculating the capital requirements for the operational risk.

As of 31 December 2020, the Bank allocated provisions for potential losses resulting from the court proceedings in the amount of EUR 1.993 thousand, Provision for termination of contract in amount of EUR 20 thousand and other losses based on operational risk in amount of EUR 222 thousand.

V.6. Reputational risk

Reputational risk is the risk of current and future income and capital arising from negative public opinion about the manner of the Group's operation. Reputation is rather a complex issue and basically represents the customers' assessment of the manner of providing of services. Marketing and advertisements can have a short-term effect on the reputational risk of the Group.

VI. EDUCATION OF THE EMPLOYEES

Human resources management and continuous investment in their development is one of the key goals of the Group, which was paid special attention in 2020. By introducing new standards in the field of human resources management, we want to provide our employees with good conditions for continuous personal and professional development.

Special attention in 2020 was dedicated to improving the know-how and skills of our sales team, through intensive online internal training programs in order to improve efficiency and faster response to customers' needs.

In accordance with modern standards of human resources management, this year the Group has continuously applied, in all organizational parts, the established system of performance measuring and employee motivation system. With this tool, the employees who contributed the most to the successful operation of the Group were identified and awarded.

In 2020, the Group employees attended numerous seminars and courses, organized by external partners, as well as internal trainings implemented by our employees.

In addition to the abovementioned trainings, at the beginning of the year the Group organized visits to the parent company, OTP Bank Plc. Budapest and other members of OTP Group, where employees could share experiences with colleagues.

In July 2019, the integration project with Podgorička banka started. During the Tara project, most employees had the opportunity to develop and refine their knowledge and skills, both through mutual cooperation and with the continued support of the parent bank and its subsidiaries.

Education levels of employees as of 31 December 2020:

	Number of employees	in %
University degree	425	76.71%
College degree	21	3.79%
High school degree	108	19,50%
	554	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 addition, in 2020, considering the merger with Podgorička banka, the activities were aimed at harmonizing products and processes in order to keep the customers of both banks in the future bank and to apply best practice from both banks in the strategy of development and innovation. In this regard, teams have been formed consisting of employees of both banks that need to follow the expected processes strategically and operationally.

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

In the coming period, the Group will continue to focus on active asset and liquidity management for the purpose of smooth operation of the Group. The main objective of asset management is to improve the structure and relation between own and borrowed funds, maintain current liquidity and provide adequate liquidity reserves, as well as maintain optimal currency structure.

VIII. ENVIRONMENTAL AND SOCIAL RESPONSIBILITY ISSUES

The 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 issues.

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.

IX. CORPORATE GOVERNANCE RULES AND INTERNAL CONTROL SYSTEM

The Group has continuously paid attention to improving the functioning of the internal control system by improving internal regulations, establishing the "four eyes principle" and management control function, by implementing the recommendations given by the Central Bank of Montenegro, external and internal auditors, by improving business processes, etc.

In 2020, the improvement of the internal control system in the CKB continued with the improvement of all system components. Relevant policies and procedures were improved and updated on a regular basis. In addition, the Group continued with full implementation of international accounting standards that have expanded the necessary preconditions for the proper functioning of the internal control system.

The rules of corporate governance and internal control systems are to verify their compliance with the risk profile, the business model, and the size and complexity of the Group'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 Banking Law and the Law on Business Organizations, as well as the competencies and powers of the Group's bodies (General Meeting, Board of Directors and other bodies), regulations and internal documents of the Group (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, CKB used COSO 2017 framework as the best practice guidelines. The components of the successful internal control system are given in the table below:

Management and culture	Strategy and goals setting	Performance/Implementation	Review and audit	Information, communication and reporting
1. Enables risk control by the Board	6.Analizes business context	10. Identifies risks	15. Evaluates significant change	18. Uses information and technology
2. Establishes the operating structure	7. Defines risk appetite	11. Assesses the severity of the risk	16. Considers the risk and performance/ implementation	19. Communicates information on the risk
3. Defines the desired culture	8. Evaluates alternative strategies	12. Defines priority risks	17. Seeks to improve the risk management in the company	20.Reports about risk, culture and performance / implementation
4. Demonstrates commitment to key values	9. Formulates business goals	13. Responds to risks		
5. Attracts, develops and keeps a capable individual		14. Develops review at the portfolio level		

Podgorica, March 19, 2021

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

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