

# **Standalone Management Report of Crnogorska Komercijalna Banka a.d. Podgorica for Q2 of 2022**

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## Introduction

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

Financial statements were prepared in accordance with the Decision on the content, deadlines and manner of compiling and submitting bank's financial statements ("Official Gazette of Montenegro", No. 34/22).

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

In accordance with the Law on Accounting of Montenegro, IAS and IFRS published by the International Accounting Standards Board must be translated by the appropriate competent authority of Montenegro which has the right to translate and publish them, approved by the International Federation of Accountants (IFAC). Therefore, only IAS and IFRS officially translated, approved and published by the Institute of Certified Accountants of Montenegro can be applied. In exception to the above mentioned, in accordance with CBoM regulation, application of IFRS 9 Financial instruments is obligatory for banks starting from January 01, 2018.

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

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

## I. Description of business activities

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

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

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

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

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

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

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

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

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

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

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

As of 30 June 2022, the Bank has 548 employees (31 March 2022: 555 employees).

Based on the decision of the Board of Directors and Assignment Agreement on the transfer of share in OTP Debt Collection doo Podgorica, the Bank became the owner of 100% of the capital

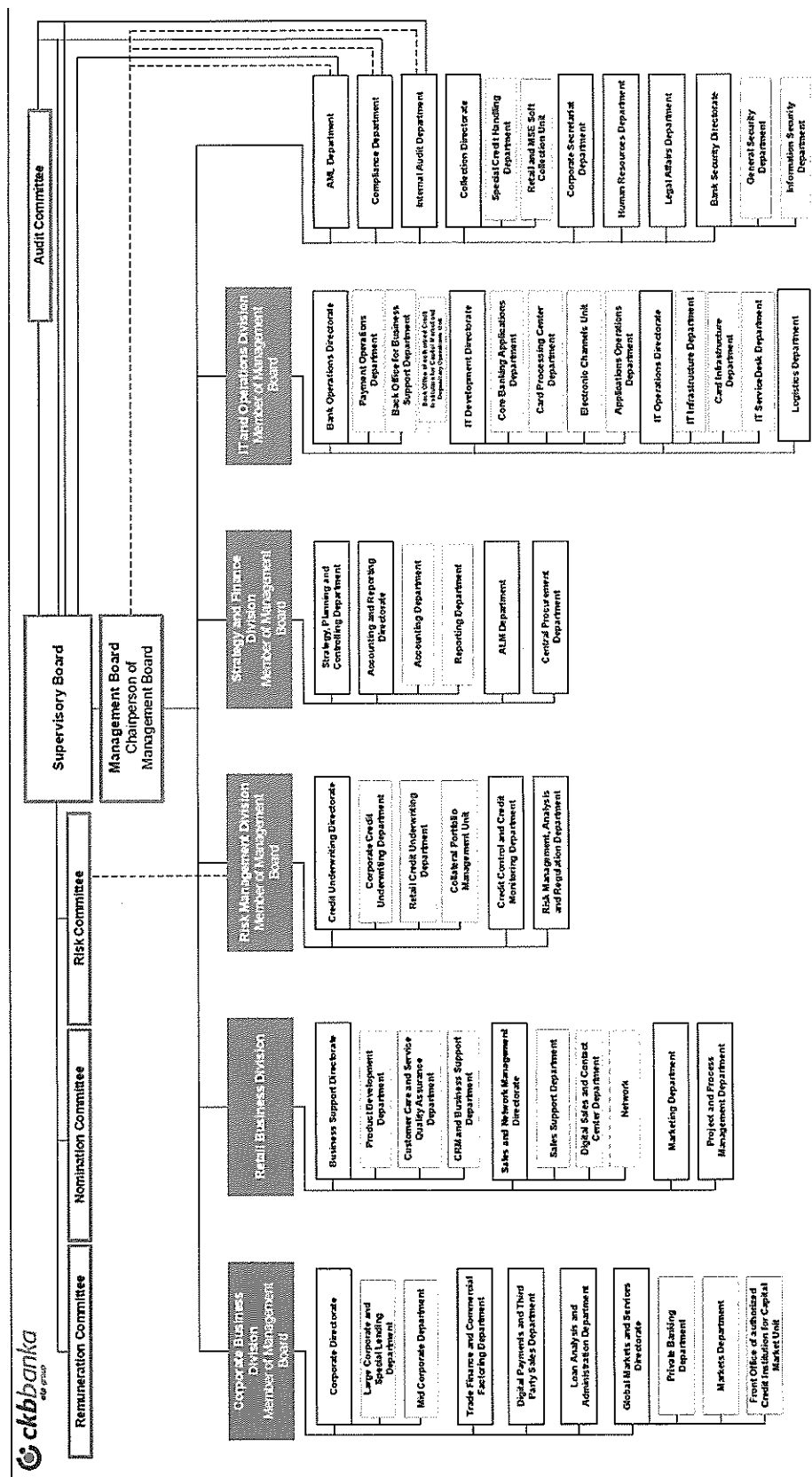
in OTP Debt Collection, doo Podgorica for a fee of EUR 335 thousand. The Bank as the owner of OTP Debt Collection, doo Podgorica, was officially registered in the Central Registry of Business Entities on 17 December 2018.

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

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



## II. Organizational structure



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

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

<u>Name and surname</u>	<u>Function</u>
Dr. Németh Miklós	Chairman
Nyitrai Győző József	Member
Pal Gombos	Member
Kalman Kiss	Member
Igor Noveljić	Member

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

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

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

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

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

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

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

- Improvements in corporate governance,

- Transparent information and communication flow in the Bank,
- Strengthening of the integrity and ethical values of all employees,
- Strengthening staff potential,
- Improvements in risk management with particular emphasis on country risk management, market risk, establishing of the procedure for creation of black list,
- Improvement of existing products and services,
- Improvement of accounting and reporting and implementation of IAS and IFRS,
- Improvement of Internal Audit regulatory framework,
- Improvement of the security of the Bank's information system.

During second quarter of 2022, the Supervisory Board held 5 regular and written meetings, at which the members reviewed all important issues and made relevant decisions.

The Supervisory Board is provided with Bank's Performance Report – Management Information System (MIS) on a monthly level, which presents key parameters of the Bank's operations. The Supervisory Board monitored disbursements in each of the business segments and thus closely monitored the Bank's activities and advised on further steps.

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

The Bank's internal regulations were revised while in some organizational units where new ones were adopted, as needed.

In accordance with regulatory requirements, in the segment of corporate and retail banking, the Bank regularly reviewed regulations related to these segments and established processes to ensure the adequacy of adopted administrative controls (policies, procedures, guidelines, limits, etc.) and their harmonization with regulatory requirements was performed.

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

The Management Board (hereinafter referred to as "the Board") is a permanent administrative body established by the Supervisory Board which makes decisions independently and prepares decisions related to its activities in accordance with the Bank's Statute, Rules of Organization and Operation and other relevant regulations in accordance with the assigned competence. The Management Board of a credit institution shall ensure that the credit institution operates in accordance with the regulations governing the business of the credit institution and to establish and implement a reliable system of credit institution management in accordance with the Law on Credit Institutions.



During the second quarter of 2022, the Board reviewed and passed 129 decisions, whether at regular or written sessions, in all respects in accordance with the legislation.

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

### **III.1. Macro-economic indicators**

In 2021, the Montenegrin economy recovered strongly. According to Monstat's preliminary data, the real economic growth of Montenegro in the fourth quarter of 2021 was 8.2% with the growth of most components in the GDP structure (25.8% in the third quarter, 19.0% in the second quarter, -6.5% in the first quarter). It is expected that the country's GDP in 2021 will grow by as much as 13.4% in real terms, and a high average economic growth rate of over 5% per year is planned for the next 3 years.

Forecasts by international institutions show that in 2021 and 2022, Montenegro will be the fastest growing economy in the Western Balkans region. The World Bank estimates growth in 2021 at 10.8% and 5.6% in 2022, the European Commission at 10.7% in 2021 and 6.4% in 2022, while the IMF in its October report predicts that Montenegro will achieve growth of about 7.0% in 2021 and 5.6% in 2022. It is expected that the tourism sector will continue its rapid recovery in the next medium-term period, and the recovery of public and private investments is also expected with the gradual end of the pandemic. In the long term, Montenegro has significant growth potential not only in the tourism sector, but also in the energy sector, agriculture and the ICT sector.

#### **Basic macroeconomic scenario 2022-2024 and risks to realization**

The projection of macroeconomic indicators for the period 2022-2024 assumes further recovery and growth of economic activity, in accordance with the announced investments in priority sectors and the new investment cycle, the expected effects of the implementation of the "Europe Now" program and the carefully conceived diversification of the Montenegrin economy.

The main drivers of economic growth in the next medium-term period will be a strong tourism sector, energy, agricultural production, processing industry and innovative activities based on accelerated digitization and the growth of the IT sector.

The largest positive contribution to economic growth in the next three-year period will be provided by domestic demand with a forecast share of 4.9 p.p. on average. The biggest driver on the demand side will be private consumption (impact 3.0 p.p.), due to the strong recovery

of income in tourism, high growth of remittances, with a strong expansion of credit activity and growth of employment and earnings.

Household personal consumption will be strongly stimulated by new tax policies and budget measures. Public spending in the coming period will be reflected by the higher value of capital projects, growth in allocations for healthcare and larger social transfers to the population, which will be contributed to by the planned reforms of the social and child protection system.

Gross investments will record a gradual recovery compared to the pre-crisis level, with the start of a new strong investment cycle. The announced projects and the completion of those started in the private sector will determine the high growth of gross investments of 5.7% in the period 2022-2024. Projects in the energy sector are particularly significant, which will accelerate the long-term green transformation of the Montenegrin economy.

The strong cycle of public investments and the high interest of foreign investors in investments in the coming period will greatly contribute to the intensification of the investment mini-boom in the following years. The launch of the new investment cycle will be supported by the beginning of the implementation of the Economic and Investment Plan of the European Commission for the Western Balkans, which will mobilize significant public and private funds.

An additional contribution to growth in the medium term of 0.4 p.p. will be provided by net exports, i.e. external demand, stimulated by strong expansion in tourism, favorable export performance, but will also be partially limited by stronger dynamics of import activity.

In the period 2022-2024, employment will grow at an average annual rate of 3.3% in accordance with strong economic growth and active labor policy measures. With the growth of employment and greater participation of the domestic population, the unemployment rate will return to the pre-crisis level during 2023, and then drop to 13.6% at the end of the projected horizon. Wage growth will be accelerated by the new "Europe Now" program, as well as by increasing the productivity of the domestic economy.

In the medium term, stable consumer prices and average inflation below 2% are expected, whereby after the acceleration in 2022, easing of inflationary pressures and more moderate rates of price growth in the following years are expected.

Newly approved loans to companies and households will continue to stimulate the growth of economic activity and will record a strong average growth of 9.3%.

The following table shows the main macroeconomic indicators calculated by the Ministry of Finance and Social Welfare of Montenegro.

Table 1. Montenegro: Makroeconomic forecasts 2021-2024 - Base scenario					
%	2020	2021	2022	2023	2024
Real growth of GDP	-15.3	13.4	6.4	5.1	4.5
Inflation (average)	-0.3	2.1	2.3	1.8	1.5

in % of GDP					
<b>Current account deficit</b>	<b>-26.1</b>	<b>-13.1</b>	<b>-10.5</b>	<b>-10.2</b>	<b>-10.0</b>
Export	26.0	38.5	43.1	44.1	44.9
Import	61.0	61.1	62.7	63.3	64.0
Other	9.0	9.6	9.1	9.0	9.1
<b>Household consumption</b>	<b>81.2</b>	<b>74.2</b>	<b>72.7</b>	<b>72.2</b>	<b>71.5</b>
<b>Gross investments</b>	<b>31.2</b>	<b>27.9</b>	<b>26.9</b>	<b>27.9</b>	<b>29.2</b>
<b>Gross investments in fixed assets</b>	<b>27.9</b>	<b>25.1</b>	<b>24.2</b>	<b>25.4</b>	<b>26.8</b>
<b>Stock change</b>	<b>3.3</b>	<b>2.9</b>	<b>2.6</b>	<b>2.5</b>	<b>2.3</b>
<b>State consumption</b>	<b>22.6</b>	<b>20.5</b>	<b>20.0</b>	<b>19.2</b>	<b>18.5</b>
real growth in %					
<b>Employment growth</b>	<b>-10.0</b>	<b>4.8</b>	<b>3.5</b>	<b>3.4</b>	<b>3.0</b>
<b>Earnings growth (gross)</b>	<b>1.3</b>	<b>1.2</b>	<b>4.0</b>	<b>3.0</b>	<b>3.0</b>
<b>Unemployment rate</b>	<b>17.9</b>	<b>16.7</b>	<b>15.8</b>	<b>14.6</b>	<b>13.6</b>
<b>Net FDI % GDP</b>	<b>11.2</b>	<b>8.4</b>	<b>9.4</b>	<b>10.6</b>	<b>10.0</b>
<b>Public debt [% GDP]</b>	<b>105.3</b>	<b>84.5</b>	<b>75.3</b>	<b>71.7</b>	<b>67.6</b>
<b>Public deficit/surplus</b>	<b>-11.1</b>	<b>-3.5</b>	<b>-3.8</b>	<b>-1.0</b>	<b>0.1</b>
<b>Primary deficit/surplus</b>	<b>-9.0</b>	<b>-1.1</b>	<b>-2.0</b>	<b>0.6</b>	<b>1.6</b>
<b>Newly approved loans</b>	<b>-26.4</b>	<b>19.9</b>	<b>11.3</b>	<b>8.9</b>	<b>7.8</b>

The main risks of the predicted macroeconomic scenario in the medium term are:

- Threats of new virus mutations, which could threaten regional prospects and consequently have a spillover effect on the Montenegrin economy.
- Limited fiscal space, despite good budget results in 2021, remains a challenge for the implementation of priority medium-term structural policies and reforms.
- Growing inflation due to the increase in prices of primary goods on world markets, especially crude oil and food, along with additional restrictions in global supply chains, put a lot of pressure on domestic consumers, causing weaker purchasing power and limited the effects of accelerated economic recovery. The introduction of changes in tax regulations and the expansion of lending, which is expected as a formal consequence of the increase in net earnings, could lead to a slightly higher inflation rate than initially projected;
- Postponing the implementation of structural reforms, political instability and social unrest can be additional challenges for macroeconomic stability and dynamic recovery and growth in the medium term;
- Changing the dynamics of the realization of public and private investments represents a risk for the realization of the basic macroeconomic scenario;
- Unfavorable weather conditions can affect the tourism, energy and agriculture sectors.
- Due to the war conflict between Ukraine and Russia, there was an unexpected increase in prices on the markets of raw materials, fuel and energy. In addition, the volatility of exchange rates has increased significantly, which makes it difficult to assess future market price movements and key macroeconomic indicators

### III.2. Bank's business activities

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

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

For the fourth year in a row, according to the selection of the prestigious financial magazine "Global Finance", CKB is the best bank in Montenegro for 2022.

In the previous year, CKB was the winner of four international awards. In addition to The Banker's Best Bank Award in 2021, CKB won the Global Finance Awards, while for the second time in a row, the prestigious financial magazine Euromoney awarded the recognition to CKB for the best bank in Montenegro.

Also, 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 clients.

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

Due to the crisis caused by the Covid-19 virus, mainly in 2020 and 2021, and partly in the first quarter of 2022, the Bank has adjusted its operations by acting in several basic directions:

- a. Compliance with the measures prescribed by the competent authority for the suppression of the COVID-19 pandemic,
- b. Implementation of regulatory measures (CBCG), prescribed in order to reduce negative impacts (Moratorium on loans), during their period of validity,
- c. Protection of employees and ensuring continuity of work by respecting the measures prescribed by the competent authority for the suppression of the COVID-19 pandemic and the introduction of the concept of work from home ("Home office"),
- d. Proactive measurement of the negative impact of the crisis on the bank's operations,
- e. The policy of restructuring loans to individuals in the context of the COVID-19 crisis.

On 30 June 2022, COVID-19 measures have been significantly mitigated throughout the country.

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

### **III.3. Retail banking**

Main business lines in retail lending segment are still cash, housing and mortgage loans, as well as MC Shopping card with new conditions and innovated features of the previous card (cash withdrawal at ATM, the possibility of repayment in 24 installments at any POS, as well as the use of the same card anywhere in the world). In the part of cash loans, by merging two entities, we are limited by the length of the repayment period from the former 8 years to 6 years. In deposit segment, current accounts and classic savings are still dominant. Lending and deposit interest rates were adjusted in the second quarter of 2022, in line with the Bank's Pricing Policy and market trends.

In the previous quarter, two campaigns were implemented when it comes to the placement of loans for households. In the second quarter, a campaign for mortgage loans began, in which the Bank offered special conditions for the realization of loans in the form of a lower interest rate and paid appraisal costs as well as notary services.

Also, in the same period, a pre-approval campaign for cash loans was implemented, where the branches and the contact center called pre-selected clients, with the aim of selling cash loans in the amounts previously determined, without additional documentation that the client would bring or certify. The placement of loans from this campaign at the end of the second quarter represents a direct growth of the portfolio, because it was not possible to directly internally refinance existing exposures from these loans.

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

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

The first official B@W visit was also made, namely to the company DMD delta, where our employees were on two occasions at the service of all employees in the part of informing them about the Bank's offer for loans as well as the special conditions they could obtain from our bank. The effect of the offer is expected in the following period, and according to the same principle, a visit will be made to the companies which in the future period are determined to give the same result.

Gross retail loans, of residents, as of 30 June 2022 amount to EUR 467,661 thousand, accounting for 44.94% of the total portfolio. Gross retail loans of non-residents, amount to EUR 3,273 thousand, i.e. 0.31% of total portfolio.

At the same time, retail deposits of residents participated in the total deposits of the Bank with 39.67% and amounted to EUR 438,953 thousand, while retail deposits of non-residents, amounted to EUR 96,024 thousand or 8.68% of total deposits of the Bank.

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

### **III.4. Corporate banking**

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

In the second quarter of 2022 business cooperation with large and medium legal entities continued. The emphasis was placed on quality improvement and product development through adequate selection of credit worthy clients that have adequate security instruments.

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

Total loans and receivables of legal entities as at 30 June 2022 amounted to EUR 452,075 thousand, and in the total portfolio they accounted for 43.45%. Total deposits of legal entities amounted to EUR 571,486 thousand, i.e. 51.65%. The funds in the escrow account amounted to EUR 15 thousand.

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

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

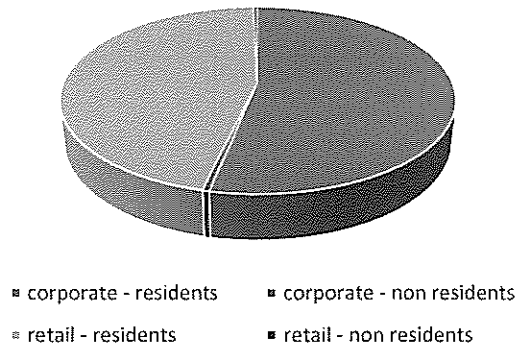
The Bank continued the cooperation with the Government of Montenegro and other budgetary beneficiaries through credit arrangements and transaction services. By that, the Bank continued to build partnership relationship with state institutions in Montenegro.

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

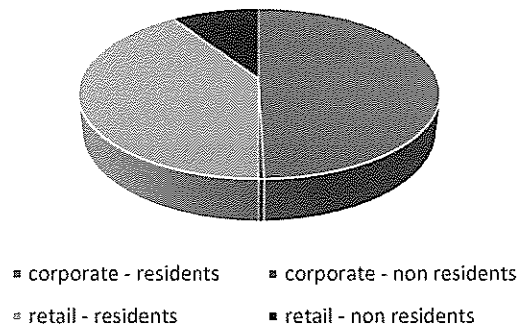
Total loans of the Government of Montenegro and other budgetary beneficiaries participate with 11.30% in the total portfolio.

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

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



Deposits by clients' segments as of 30 June 2022:



Breakdown of portfolio by regions as of 30 June 2022:

Region	Municipality	Net exposure by municipalities	Net exposure by regions
<b>Center</b>	Cetinje	11,208	<b>817,712</b>
	Danilovgrad	12,472	
	Nikšić	45,208	
	Podgorica	748,824	
<b>South</b>	Bar	25,721	<b>126,063</b>
	Budva	21,972	
	Herceg Novi	27,071	
	Kotor	26,609	
	Tivat	16,208	
	Ulcinj	8,482	
	<b>North</b>	Andrijeвица	
Berane	14,419		
Bijelo Polje	19,049		
Kolašin	4,994		
Mojkovac	3,475		
Plav	45		
Pljevlja	7,287		
Rožaje	6,900		
Žabljak	1,633		
<b>Total</b>		<b>1,001,577</b>	<b>1,001,577</b>

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

As of 30 June 2022, the following financial instruments were crucial for assessing the financial position of the Bank:

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



**STATEMENT OF FINANCIAL POSITION**  
**As of 30 June 2022**  
**(in thousands of EUR)**

	<b>30 June 2022</b>	<b>31 December 2021</b>
<b>ASSETS</b>		
Cash and balances with the Central Bank	205,587	231,096
Loans and advances to banks at amortized cost	146,539	121,662
Loans and advances to customers at amortized cost	1,001,577	926,364
Securities at amortized cost	90,697	69,341
Other financial assets at amortized cost	2,049	1,924
Securities at fair value through other comprehensive income	2,956	2,542
Investments in associates and joint ventures according to equity method	335	335
Property, plant and equipment	21,734	22,934
Intangible assets	6,340	7,314
Current tax assets	4	9
Deferred tax assets	574	369
Non-current assets held for sale and assets of discontinued operations	-	-
Other assets	6,358	5,052
<b>TOTAL ASSETS</b>	<b>1,484,751</b>	<b>1,388,942</b>
<b>LIABILITIES</b>		
Deposits from banks and central banks at amortized cost	1,589	1,389
Deposits of clients at amortized cost	1,105,255	1,050,808
Loans to banks and central banks at amortized cost	86,916	36,792
Loans to customers that are not banks at amortized cost	29,284	31,081
Other financial liabilities	460	-
Reserves	11,273	30,960
Current tax liabilities	1,563	2,217
Deferred tax liabilities	589	341
Other liabilities	29,962	27,171
<b>TOTAL LIABILITIES</b>	<b>1,266,893</b>	<b>1,180,759</b>
<b>EQUITY</b>		
Share capital	181,875	181,875
Retained earnings	23,573	21,280
Profit / loss for the year	9,362	2,294
Other reserves	3,047	2,734
<b>Total equity</b>	<b>217,858</b>	<b>208,182</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,484,751</b>	<b>1,388,942</b>

Total assets as at 30 June 2022 amounted to EUR 1,484,751, which represents an incline of 6.90% in relation to 31 December 2021.

Total net loans amounted to EUR 1,001,577 thousand, and they are higher by 8.12% compared to 31 December 2021.

**STATEMENT OF PROFIT OR LOSS**  
In the period from 1 January to 30 June 2022  
(in thousands of EUR)

	<b>30 June 2022</b>	<b>30 June 2021</b>
Interest and similar income	24.969	23.303
Interest income on impaired placements	519	717
Interest expense and similar charges	(556)	(642)
<b>Net interest income</b>	<b>24.932</b>	<b>23.377</b>
Fee and commission income	14.463	10.806
Fee and commission expense	(8.706)	(6.442)
<b>Net fee and commission income</b>	<b>5.756</b>	<b>4.364</b>
Net foreign exchange gains / losses	713	474
Net gains / losses based on the termination of recognition of other assets	6	200
Other income	615	685
Employee expenses	(8.631)	(7.133)
Depreciation costs	(2.755)	(2.699)
General and administrative costs	(4.339)	(4.738)
Net income / expense from modification and reclassification of financial instruments	(23)	-
Net income / expense on impairment financial instruments that are not valued at fair value value through profit or loss	(25.184)	(4.201)
Provisioning costs	19.747	(29)
Other expenditures	(112)	(37)
<b>OPERATING PROFIT</b>	<b>10,726</b>	<b>10,264</b>
Profit tax	(1,364)	(833)
<b>NET PROFIT</b>	<b>9,362</b>	<b>9,431</b>

Net interest income increased by 6.65%.

Net fee income increased by 31.90% compared to the same quarter of the previous year. This growth is the result of the weakening of the negative impact of the Covid-19 pandemic and the recovery of the economy during 2022, as well as the excellent results of the pre-tourist season. The revival of economic activities combined with inflationary effects resulted in an increase in the volume of realized transactions in national and international payment transactions. Also, the Bank achieved an increase in net income from card operations.

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

	<b>30 June 2022</b>	<b>31 December 2021</b>
Regulatory capital	192,111	187,792 <sup>1</sup>
Common Equity Tier 1 capital (CET1) ratio - min 4.5%	20.57%	22.84%*
Tier 1 capital ratio – min 6%	20.57%	22.84%*
Total capital ratio (TCR) - min 8%	20.57%	22.84%*
Daily liquidity ratio (minimal ratio 0.9)	1.42	1.51
Ten-daily liquidity ratio (minimum ratio 1)	1.42	1.53
Exposure of the bank to one person or group of related parties (limit 25% of the bank's own funds)	14.94%	19.43%
Sum of large exposures (limit 800% of the bank's own funds)	74.00%	61.43%
Total exposure to parties related to the Bank (limit 200% of the bank's own funds)	69.91%	14.13%
Total exposure to the Bank's employee (limit 1% of the bank's own funds)	0.14%	0.15%
Ratio of investment in fixed assets	11.71%	12.35%

## IV.1. Capital analysis

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

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

In accordance with the regulations of the Central Bank of Montenegro, as of 30 June 2022, the Bank was obliged to maintain a minimum capital solvency ratio of 10%.125. The Bank's solvency ratio as of 30 June 2022 was 20.57%.

The Bank is obliged to harmonize the volume of its business with the prescribed indicators, i.e. to align the volume and structure of its risk placements with the Law on Credit Institutions and the regulations of the Central Bank of Montenegro. As of 30 June 2022, the Bank does not deviate from the prescribed limits.

### IV.1.1 Regulatory capital

As prescribed by the Decision on Capital Adequacy of Credit Institutions ("Official Gazette of Montenegro" No. 128/20 and 140/21), the Bank is obliged to determine the capital adequacy

<sup>1</sup> Due to the application of the new regulations of the Central Bank of Montenegro, which is valid from 01.01.2022, in order to present comparative data, the data as of 01 January 2022 were used.

based on the basis of regulatory capital, Common Equity Tier 1 capital (CET1) ratio, Tier 1 capital ratio and Total capital ratio (TCR).

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

	In thousands EUR	
	30 June 2022	1 January 2022 <sup>2</sup>
<b>OWN FUNDS</b>	<b>192,111</b>	<b>187,792</b>
TIER 1	192,111	187,792
COMMON EQUITY TIER 1 (CET 1)	192,111	187,792
Capital instruments eligible as CET1 capital	181,875	181,875
paid up capital instruments	181,875	181,875
Retained earnings	23,573	20,748
previous years retained earnings	23,573	20,748
profit or loss attributable to owners of the parent	9,362	2,294
Part of interim or year-end profit not eligible	(9,362)	(2,294)
Accumulated other comprehensive income	517	196
Gains or losses on revaluation of available-for-sale instruments determined in accordance with IFRS 9	517	196
Other reserves	995	1,003
Adjustments to CET1 due to prudential filters	(3)	(3)
value adjustments due to the requirements for prudent valuation (AVA)		(3)
additional value adjustments (AVA) under the simplified approach	(3)	(3)
Other intangible assets	(6,340)	(7,314)
other intangible assets before deduction of deferred tax liabilities	(6,340)	(7,314)
Positive difference between the amount of calculated loan loss provisions and the sum of the impairments for balance sheet items and provisions for off-balance sheet items classified as "good assets"	(2,565)	(2,438)
Positive difference between the amount of accrued provisions for potential losses and the sum of the amount of impairment for balance sheet assets and provisions for off-balance sheet items classified as non-performing exposures to which the deductible item from regular core capital referred to in Article 18 item 13 of the Credit Institutions Capital Adequacy Decision because they arose before the application of this decision)	(6,135)	(6,469)
CET1 Capital elements or deductions – other	194	194

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

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

	In thousands EUR	
	30 June 2022	1 January 2022 <sup>3</sup>
<b>REGULATORY CAPITAL STRUCTURE</b>		
TIER 1 CAPITAL	192,111	187,792
COMMON EQUITY TIER 1 CAPITAL (CET 1)	192,111	187,792
ADDITIONAL TIER 1 CAPITAL (AT1)	-	-
TIER 2 CAPITAL (T 2)	-	-
Total regulatory capital	192,111	187,792
<b>CAPITAL ADEQUACY RATIOS</b>		
Common Equity Tier 1 capital (CET1) ratio - min 4.5%	20.57%	22.84%
Tier 1 capital ratio - min 6%	20.57%	22.84%
Total capital ratio (TCR) - min 8%	20.57%	22.84%
<b>CAPITAL BUFFERS</b>		
capital conservation buffer	0.625%	0.625%
countercyclical capital buffer	0.000%	0.000%
structural systemic risk buffer	1.500%	1.500%
global systemically important credit institution (G-SICI) buffer	0.000%	0.000%
other systemically important credit institution (O-SICI) buffer	1.000%	1.000%
<b>Combined buffer that applies to a credit institution</b>	<b>2.125%</b>	<b>2.125%</b>
<b>RISK EXPOSURE PER THE RISK TYPE</b>		
TOTAL RISK EXPOSURE AMOUNT	933,806	822,155
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT RISKS AND FREE DELIVERIES	831,805	736,295
Standardised approach (SA)	831,805	736,295
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	101,807	85,860
OpR Basic Indicator approach (BIA)	101,807	85,860
Other exposure amount	194	

## IV.2. Investment in shares of legal entities

	In EUR thousands	
	30 June 2022	31 December 2021
Banks and financial organizations:		
- Montenegroberza, Podgorica (Bank's share 4,88%)	98	98
- Beogradska berza A.D., Beograd	6	6
- SWIFT Brussels	73	61

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

- CDA, Podgorica (Bank's share 15%)	143	143
- CG Broker AD, Podgorica (Bank's share 11,57%)	56	56
	<u>376</u>	<u>364</u>
Other legal entities:		
- Elektroprivreda Crne Gore, Nikšić (Bank's share 0,04%)	190	168
- Lutrija Crne Gore, Podgorica (Bank's share 0,47%)	18	18
- Tržište Novca AD, Beograd	5	5
- Plantaže AD, Podgorica (Bank's share 9,23%)	2,366	1,986
- Montenegro Airlines, Podgorica	1	1
	<u>2,580</u>	<u>2,178</u>
	<u>2,956</u>	<u>2,542</u>

Investments in associates, subsidiaries and joint ventures using the equity method amount to EUR 335 thousand (2021: EUR 335 thousand). It is about a 100% stake in OTP Debt Collection, d.o.o. Podgorica.

As of 30 June 2022, the Bank had no securities under pledge.

## V. Related party transactions

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

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

	30 June 2022	In thousand EUR 31 Decembar 2021
Loans and receivables from banks at amortized cost		
- OTP Bank Plc., Budapest	132,638	5,842
- Vojvodanska banka dd, Srbija	104	104
Loans and receivables from clients at amortized cost		
- Bank employees	14,804	12,465
Regulatory capital	<u>145,546</u>	<u>18,411</u>
Investments in associates, subsidiaries and joint ventures using the equity method		
- OTP Debt Collection	<u>335</u>	<u>335</u>
Clients deposits at amortized cost		
- Bank employees	4,082	4,614
- OTP Debt Collection doo, Podgorica	3,282	2,699

- Debt Management Project Montenegro d.o.o. Podgorica	535	925
- OTP Albania	750	288
	8,649	8,526
Loans to customers other than banks stated at amortized cost		
- OTP Bank Plc., Budapest	86,643	36,643

As of 30.06.2022, total revenues from related parties amounted to EUR 438 thousand, while total expenses amounted to EUR 696 thousand.

## VI. Risk management

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

- Credit risk - represents the risk of loss as a result of the client's failure to fulfill the obligations towards the bank.
- Operational risk - is defined as the risk of losses in the bank's operations due to inadequate internal processes, human factor and systems or external events. This definition includes legal risk, but excludes strategic and reputational risk.
- Market risk - represents the likelihood of incurring loss on balance sheet and off-balance sheet items, as a result of changes in interest rates, foreign exchange rates, securities prices, market index values or other factors of importance for the value of financial instruments, as well as the risk of marketability of financial instruments.
- Country risk - is the probability of incurring losses for the bank because of the impossibility of collecting claims from persons outside Montenegro, for reasons related to the political, social and economic environment of the country in which the head office or residence of the debtor is located (the debtor's country).
- Liquidity risk - is defined as likelihood that the bank will not be able to provide sufficient funds to settle its obligations at the time of their maturity, or the likelihood that the bank will have to get funds with significant costs for settling its due liabilities.
- Reputational risk - represents a potential loss of bank's reputation as a result of real or perceived loss of confidence in the bank.

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

Regarding risk management, the Bank defined the following strategic goals:

- Increasing the level of automation of the loan approval process as well as its speed
- Creating a standardized process for approving loans to legal entities
- Improving existing databases in order to develop better models for automatic decision making

- Strengthening and improving the control framework in the field of operational risk, market risk, country risk and other counterparties
- Development of human resources and risk management organization that will be able to respond to the challenges of market trends and support the achievement of the bank's business goals.

In order to achieve these objectives, the risk management function uses the following set of tools:

- identification of major risks inherent in its value creation processes
- assessment of the level of risk based on historical data and the assessment of future trends
- risk control
- risk mitigation techniques such as defining of the exposure limit, collateral requirements, hedging, establishing a controlled environment, etc.

### **VI.1. Credit risk and valuation of balance sheet assets items and off-balance sheet items**

The main sources of credit risk are loans approved to retail, SMEs and corporate legal entities.

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

Retail portfolio consisted of cash (non-purpose) loans (which accounted for 49% of portfolio, mortgage loans 48% and credit cards which accounted for 3% of retail portfolio. In the second quarter of 2022, the Bank continued its lending activity in Retail segment. Retail segment recorded the extensive approval of new loans, as defined in the general strategy of OTP Group that puts accent on this segment. Portfolio quality was maintained at the last year level with relatively low share of NPLs for which adequate loan loss provisions were set aside.

In the segment of micro and small legal entities, the Bank managed to maintain the acceptable level of credit quality as in the previous year by applying high quality risk monitoring policy.

Corporate portfolio of the Bank, i.e. portfolio of large and medium legal entities, which included loans approved to the public sector, consisted 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 the Criteria and the Manner of Classification of Assets and Calculation of Provisions for Potential Loan Losses of a Credit Institution (Official Gazette of Montenegro, No. 127/20 and 140/21) since 1 January 2013 the Bank has been applying its own methodology for assessment of the impairment of balance sheet assets and probable loss under off-balance sheet items which is harmonized with IAS requirements. In the Notes



to the financial statements, the Bank disclosed the methodology for calculating the impairment of the balance sheet assets and the probable loss on off-balance sheet items, as well as the amounts of calculated value adjustments.

Besides the valuation of balance and off-balance sheet items according to the International Accounting Standards, the Bank is obliged to classify balance sheet asset items into one of the following classification categories depending on their loss incurring probability:

1. group A - "pass"; Loans and other receivables with hard documentary evidence that they will be fully collected in accordance with the contractual terms are classified into the classification category A
2. group B - "special mention", with subcategories „B1" and „B2"; Loans with a small probability of incurring losses are classified into the classification category B (subcategories B1 and B2). However, such loans must be subject to special attention of the bank since their potential risk, if inadequately monitored, may result in poor prospects regarding its repayment.
3. group C - "substandard", with subcategories „C1" and „C2"; Loans with high probability of incurring losses due to clearly established weaknesses jeopardizing their repayment are classified into the classification category C.
4. group D - "doubtful"; Loans with a low probability of full collection taking into consideration the debtor's credit capacity, value and possibility of collateral enforcement are classified into classification category D.
5. group E - "loss"; Loans which are fully uncollectible or which will be collected in an insignificant amount are classified into classification category E.

The Bank has developed a comprehensive strategy for dealing with non-performing loans for a period of three years and has defined annual operational objectives related to the reduction of the level of non-performing loans. The main goal in managing non-performing placements is to improve the quality of the portfolio, which reduces the risk costs and improves the overall financial position and liquidity position of the bank.

The amount of loan loss provisions for the Bank's placement classified in A category has been calculated by applying the percentage of 0,5%. Estimated amount of the loan loss provisions is calculated by application of 2% to 7% to the placements classified in B category, from 20% to 40% to the placements classified in C category, 70% to the placements classified in D category and 100% to the placements classified in E category.

Summing up the results of the examination of on-balance and off-balance assets of the Bank in terms of collectability and the need for allocating provisions for protecting the Bank from potential losses, in accordance with the presented approach the following relations and indicators as of 30 June 2022 we obtained:

(In thousands of EUR)

Assets	Cash collateral	Other collateral	Classification					Total	Stage of the financial assets				ukupno
			A	B	C	D	E		stage 1	stage 2	stage 3		
Financial assets at amortised cost	6,579	5,759,390	1,199,322	50,847	18,429	765	14,995	1,283,958	1,132,360	112,767	38,831	1,283,958	
loans and receivables from banks			146,712	0	0	0	0	146,712	146,712	0	0	146,712	
loans and receivables from clients securities	6,579	5,759,390	959,567	50,846	18,427	765	10,943	1,040,548	892,605	112,766	35,177	1,040,548	
other financial assets			90,991	0	0	0	0	90,991	90,991	0	0	90,991	
Financial assets at fair value through other comprehensive income	0	0	2,052	1	2	0	3,652	5,707	2,052	1	3,654	5,707	
Securities			590	0	2,366	0	0	2,956	590	0	2,366	2,956	
Total gross loans	6,579	5,599,011	949,610	50,494	18,046	765	10,548	1,029,463	882,296	112,766	34,401	1,029,463	
Interest receivables	0	0	1,648	117	84	20	1,040	2,909	1,586	179	1,144	2,909	
Interest on loans and receivables from clients			442	117	84	20	1,040	1,703	380	179	1,144	1,703	
Interest on securities			1,206					1,206	1,206			1,206	
Interest on gross loans			442	117	84	20	1,040	1,703	380	179	1,144	1,703	
Total amount of securities	0	0	-1,740	-9	-17	-2	-31	-1,799	-1,714	-10	-75	-1,799	
Other financial assets, total			-1,740	-9	-17	-2	-31	-1,799	-1,714	-10	-75	-1,799	
Accruals and prepayments			-1,514	2	-15	-2	-31	-1,560	-1,479	-9	-72	-1,560	
Accruals and prepayments on loans and receivables from clients	6,579	5,759,390	1,104,981	50,954	18,494	783	11,952	1,187,164	1,037,983	112,935	36,246	1,187,164	
Accruals and prepayments on gross loans	0	0	92,787	0	2,366	0	0	95,153	92,787	0	2,366	95,153	
Gross loans and receivables, total	0	0	1,648	117	84	20	1,040	2,909	1,586	179	1,144	2,909	
Securities, total			442	117	84	20	1,040	1,703	380	179	1,144	1,703	
Other financial assets, total	0	0	2,052	1	2	0	3,652	5,707	2,052	1	3,654	5,707	
Investments in associates, joint ventures and subsidiaries under equity method			335					335	335			335	
Other asset items for which provisions for potential losses are allocated			3,633	164	2,143	165	23,921	30,026	3,633	164	26,229	30,026	
Total assets for which provisions for potential losses are allocated	6,579	5,759,390	1,203,788	51,119	23,005	948	39,525	1,318,385	1,136,790	113,100	68,495	1,318,385	
Provisions for potential losses			6,005	1,941	3,994	550	15,636	28,126	6,747	1,153	20,226	28,126	
Loans and receivables from credit institutions			734	0	0	0	0	734	734	0	0	734	
Loans and receivables from clients			4,798	1,938	3,971	536	10,943	22,186	5,540	1,150	15,496	22,186	
Securities			455					455	455			455	



Total of loan less provisions for all asset positions for which provisions are allocated	6,025	1,946	4,446	665	39,557	52,639	6,767	1,158	44,715	52,640
Total of value adjustment for all asset positions for which provisions are allocated	20,575	3,495	6,899	571	37,535	69,075	12,214	10,791	46,070	69,075
Total of difference between provisions and value adjustments – net principle	-14,550	-1,549	-2,453	94	2,022	-16,436	-5,447	-9,633	-1,355	-16,435
Total lacking amount of provisions	1,560	698	649	128	5,269	8,304	2,259	14	6,032	8,305
loans and receivables from credit institutions	561	0	0	0	0	561	561	0	0	561
loans and receivables from clients	965	698	166	69	2,412	4,310	1,664	14	2,632	4,310
securities	3	0	473	0	0	476	3	0	473	476
other financial assets	4	0	0	0	0	4	4	0	0	4
total gross loans	965	690	122	69	2,050	3,896	1,656	14	2,226	3,896
Interest on loans and receivables from clients	0	0	10	10	2,857	2,877	0	0	2,878	2,878
Interest on securities	6	0	0	0	0	6	6	0	0	6
Interest on gross loans	0	0	10	10	2,857	2,877	0	0	2,878	2,878
investments in associates, joint ventures and subsidiaries under equity method	2	0	0	0	0	2	2	0	0	2
other asset items for which provisions for potential losses are allocated	19	0	0	49	0	68	19	0	49	68
Balance sheet assets for which provisions for potential losses are not allocated						235,441				235,441
<b>TOTAL GROSS ASSETS</b>						<b>1,553,826</b>				<b>1,553,826</b>
<b>TOTAL NET ASSETS</b>						<b>1,484,751</b>				<b>1,484,751</b>

## **VI.2. Country and counterparty risk**

The Bank has developed its own regulatory framework for risk management based on national legislation, as well as parent bank standards and defined the approach, methods and responsibilities in country risk management.

Counterparty risk is managed by a system of exposure limits to parties residing in foreign countries to which the Bank is exposed. The exposure limit system is based on country risk rating and the Bank's capital position in line with the parent bank methodology and statutory requirements.

The Bank did not have exposures to foreign central governments. Apart from the exposure towards Hungary as the medium risk country, which entirely consisted of exposure towards the parent bank, the Bank placed major part of its assets in risk-free countries.

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

## **VI.3. Market risk**

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

Considering its business model, size and complexity of operations, and in relation to market risk, the Bank is mainly exposed to foreign exchange risk (FX). FX or currency risk is the risk that the Bank may incur losses in its operations due to the changes in foreign exchange rates. FX risk is primarily defined as a potential loss regarding unsecured and unprotected open FX position (assets, receivables, capital and liabilities in foreign currency). Exposure to FX risk is regularly monitored through the harmonization with the limits prescribed by the Central Bank of Montenegro. In order to limit and mitigate FX risk, the Bank has established a system of internal limits for FX risk in accordance with the structure of the Bank's balance, business activities and market conditions, as well as limits defined by the Central Bank of Montenegro and OTP Group.

The Bank determines position limits (intraday and overnight) and VaR (Value-at-Risk) limit which are continuously monitored.

Limits are monitored daily while the reports are submitted to the Bank's management quarterly.

#### VI.4. Liquidity risk

Liquidity risk represents likelihood that the Bank will not be able to provide for sufficient monetary assets to meet the obligations at their due date or likelihood that the Bank will have to obtain monetary assets for settlement of due obligations at significant costs.

The Bank manages liquidity risk by introducing the system of controls, risk mitigating measures and contingency plans. The main objective of liquidity risk management is establishment of a liquidity monitoring system of the Bank, its quality, composition and maturity in order to achieve an optimal liquidity structure to support primary business activities.

In order to monitor liquidity positions, the Bank prepares daily (RLS) and ten-day reports (DPL) in accordance with the regulation of the Central Bank of Montenegro.

In the second quarter of 2022 the Bank maintained strong liquidity position and operated with the liquidity coefficient above the prescribed statutory minimum. As of 30 June 2022, liquidity coefficient was 1.42, while the legally prescribed minimum is 0.9.

Also, in accordance with the new Law on Credit Institutions, the Bank, starting from January 1, 2022, is obliged to report on a monthly basis the liquidity coverage ratio, which as of June 30, 2022 was 2.57, while the statutory minimum 1.

Daily Liquidity Report, RLS:

**In thousands EUR**

	<b>30 June 2022</b>	<b>31 December 2021</b>
Cash	62.228	47,096
Gyro account	82.079	127,508
Funds kept with payment transaction agents	688	499
Funds kept in correspondent banks accounts (sight deposits)	146.712	121,813
Mandatory reserves kept with the Central Bank (50%)	30.339	28,074
	<hr/>	<hr/>
	322,047	324,990
Liquid assets/receivables	<hr/>	<hr/>
Due obligations for credits	313	198
Due liabilities for interests and fees	12	11

Due liabilities for term deposits	3,161	4,044
30% sight deposit	202,439	189,539
10% approved but unused, irrevocable loan obligations (credit lines)	14,580	15,097
Other matured liabilities	7,085	6,157
	227,589	215,046
Surplus/Deficit	94,458	109,944
<b>Liquidity indicators</b>	<b>1.42</b>	<b>1.51</b>

## VI.5. Operational risk

The centralized function of operational risk management is placed within Credit Approval and Risk Management Division and is in charge of monitoring and coordinating operational risk management at the level of the entire organization through development of policies, methodologies and tools used by all the other organizational units of the Bank. Operational risk is managed in a decentralized way which means that potential incidents are managed by organizational units where such incidents occur. Considering the importance of operational risk management for the successful operation of the entire organization, an effective system of reporting to the Bank's management on the exposure to operational risk and related activities has been put in place.

Using the operational risk management system in place, the level of the Bank's exposure to this type of risk was assessed as moderate. The operational risk management system is being constantly improved in order to be able to respond to changes and challenges in external and internal environment.

The Bank has adopted the Disaster Recovery Plan which ensures business continuity i.e. timely restoration of critical business activities of the Bank in the cases of disrupted or interrupted operations. The Plan is updated and tested on a regular basis.

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

As of 30 June 2022, the Bank formed provisions for potential losses based on litigation in the amount of EUR 1,966 thousand.

## VI.6. Reputational risk

Reputational risk is the risk of current and future income and capital arising from negative public opinion about the manner of the Bank's operation. Reputation is rather a complex issue and basically represents the clients' assessment of the manner of

providing of services. Marketing and advertisements can have a short-term effect on the reputational risk of the Bank.

## VII. Education of the employees

Human resource management and continuous investment in their development is one of the key goals of the Bank, which was paid special attention in the second quarter of 2022 as well. By introducing new standards in the field of human resources management, we want to provide our employees with good conditions for continuous personal and professional development.

Special attention in the second quarter of 2022 was paid to improving the knowledge and skills of employees in branches, through internal and external training.

Namely, during April and May, in cooperation with the Central Bank of Montenegro, training for cash handlers was held for all branch managers and counter workers in the central region, and 80 employees were trained during 4 training sessions. Trainings for colleagues from the southern and northern regions are planned for October.

At the beginning of May, a two-day training for branch managers was held. With this training, the series of trainings for branch managers that started in September last year, within the Mini Managerial Academy, in cooperation with the GI group consulting firm, was completed. The topics of the training were: stress management, time management and improvement of personal efficiency, improvement of a culture that accepts mistakes and uses them as space for further development and learning.

Also, at the end of May, after the tender, an external partner was selected for conducting communication and sales skills training for employees in all branches. The training is intended for all counter workers and credit officers and, among other things, the topics of quality communication with the client, management and resolution of client complaints, development and improvement of sales through active listening and focus on the client will be covered.

In addition, MakeMyPoint training was held in cooperation with Mr. Kalman Kiss, member of the Supervisory Board of the bank. During the two-day workshop, 16 employees acquired knowledge and skills in the field of successful preparation of high-quality and effective presentations.

In accordance with modern standards of human resources management, Bank continued to apply, during the second quarter of 2022, in all organizational parts, with the established system of performance measuring and employee motivation system. With this tool, the employees who contribute the most to the successful operation of the Bank are identified and awarded.

Education levels of employees as of 30 June 2022:



	Number of employees	in %
University degree	428	78.10%
College degree	19	3.47%
High school degree	101	18.43%
	548	100%

## VII. Planned activities

By introducing new products, adapting and further developing existing products, as well as by digitalization of products and processes and introducing new sales channels, the Bank plans to keep its leading position in the banking sector of Montenegro, both when it comes to loan portfolio and the segment of payments and cards and in terms of development, to maintain its leading position in digitalization and providing of alternative sales channels.

In accordance with the Bank's Strategy revised at the end of 2021, the Bank adopted detailed action plans related to the introduction of new products, modifications of existing products, processes and improving overall customer satisfaction in order to maintain market leadership and achieve sales plans, levels of digitalization, equipping customers with the Bank's products as well as other important indicators of the Bank's sales success. In the second quarter of 2022, the Bank audited most of Retail and Corporate products, in accordance with the adopted credit policies for different customer segments, and worked on the introduction of completely new products such as: leasing for legal and natural persons, adaptation of cash loans, product innovation for the SME segment has begun, work has begun on the online lending platform in accordance with current regulations, where it will be possible for the client to completely complete the procedure of taking out a cash loan with just one upon arrival at the Bank. During this quarter, the Bank revised all retail products and introduced numerous changes to the parameters of all retail products in order to increase sales. Also, during this period, the Bank worked on improving BPM solutions for cash loans, overdrafts and cards, as well as developing BPM solutions for auditing overdrafts for SMEs.

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

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

At the same time, the Bank places a significant emphasis on improvement of credit quality in all business segments. The increase in the loan portfolio is planned to be achieved mainly through loan disbursement to existing clients and by taking over clients of other banks and their loan disbursing. Potential clients are natural persons and legal

entities that fulfill all necessary preconditions defined by products' parameters and Bank's business procedures. Care for clients at the highest professional level and control of products' quality is the key to keeping the market share and ensuring customer satisfaction.

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

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

In the coming period, the Bank will continue to focus on active asset and liquidity management for the purpose of smooth operation of the Bank. The main objective of asset management is to improve the structure and relation between own and borrowed funds, maintain current liquidity and provide adequate liquidity reserves, as well as maintain optimal currency structure.

## **IX. Environmental and social responsibility issues**

The Bank implements its policy being ecologically aware and committed in accordance with the Environmental Law and Law on Environmental Impact Assessment.

Environmental protection is becoming increasingly important in the European Union's policy. The objectives of environmental policy within the European Union are as follows:

- preservation of the environment and improving the quality of protective measures;
- protection of human health;
- cautious and rational use of natural resources and
- improvement of measures at the international level to overcome regional and global environmental problems.

According to the criteria defined by the law, the Bank is not identified as subject that, by unlawful or improper action provides for or allows pollution of the environment, and on that basis, it does not pay any penalties. In addition, in the foreseeable future, it does not plan any project that could have a negative impact on the environment.

In accordance with the Law on Environmental Impact Assessment, the Bank will continue to pay attention while performing its business activities not to cause, either directly or indirectly, a danger to the environment, human life and health. During the second quarter of 2022, the Bank continued to focus on supporting all segments of socially responsible business: health, education, culture, local communities, social activities and sports. Support for projects in the field of culture, education, sports, health,

environmental protection, as well as numerous projects that contribute to the preservation of tradition and culture at the local community level, continued.

## **X. Corporate governance rules and internal control system**

As previously disclosed, in Q1 of 2022, the Bank identified a number of embezzlements that were continuously and for a long period of time carried out by several employees. As part of extensive control and conducted investigative procedures, the bank identified a significant number of anomalies in the functioning of the internal control system. Within the mentioned process, the bank formed a detailed list of identified anomalies and launched a project to implement all necessary corrective measures in order to quickly and efficiently reduce all operational risks to a minimum. Within the mentioned action plan, various corrective measures are planned related to technical, process and organizational changes that will lead to improvements, primarily in the field of operational risk management, but also to significant development of preventive protection mechanisms.

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

The rules of corporate governance and internal control systems are to verify their compliance with the risk profile, the business model, and the size and complexity of the Bank's operations, as well as the extent to which the Bank complies with the regulations, standards of prudent business and good business practices related to corporate governance, risk management and internal control system.

The assessment of this part serves as important information in assessing the individual risk management, as well as in the assessment of capital adequacy and liquid assets.

The rules of corporate governance in the Bank are based on legal regulations - the provisions of the Law on Credit Institutions and the Law on Business Organizations, as well as the competencies and powers of the Bank's bodies (Management Board, Supervisory Board and other bodies), regulations and internal documents of the Bank (Memorandum of Incorporation, the Articles of Association of the Bank and other internal documents).

The competence and powers of all the Bank's bodies are based on the aforementioned legal regulations, defined by internal documents and established banking practice.

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

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

During the development of the internal control system, CKB used COSO 2017 framework as the best practice guidelines. The components of the successful internal control system are given in the table below:

Management and culture	Strategy and goals setting	Performance/Implementation	Review and audit	Information, communication and reporting
1. Enables risk control by the Board	6. Analyzes business context	10. Identifies risks	15. Evaluates significant change	18. Uses information and technology
2. Establishes the operating structure	7. Defines risk appetite	11. Assesses the severity of the risk	16. Considers the risk and performance/implementation	19. Communicates information on the risk
3. Defines the desired culture	8. Evaluates alternative strategies	12. Defines priority risks	17. Seeks to improve the risk management in the company	20. Reports about risk, culture and performance / implementation
4. Demonstrates commitment to key values	9. Formulates business goals	13. Responds to risks		
5. Attracts, develops and keeps a capable individual		14. Develops review at the portfolio level		

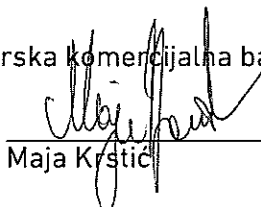
Podgorica, July 26, 2022

Signed on behalf of Crnogorska komercijalna banka AD, Podgorica:



Tamás Kamarási

Chairperson of the Management Board



Maja Krstić

Management Board member



Ratka Glumac

Head of Reporting Department

