2022/05/31 Public Disclosure of Data for 2021

Version 1.0.

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Applied to:	**All employees of the Bank**
Confidentiality:	**Public document**

CONTENTS

INTRODUCTION

(1) Pursuant to the Decision on Public Disclosure of Data by Credit Institutions (Official Gazette of Montenegro No. 128/20), Crnogorska komercijalna Banka AD Podgorica (hereinafter: "the Bank" or "CKB") herein discloses the information relating to:

a. Business name and registered office of the Bank;
b. Financial statements;
c. Risk management strategy and policies;
d. Own funds;
e. Capital requirement and capital adequacy assessment;
f. Credit risk;
g. Standardized approach for exposures weighting;
h. Operational risk;
i. Current investments in shares of legal entities;
j. Exposure to interest rate risk in the Bank's book.

(2) The information presented in this public disclosure refers to standalone financial information of the Bank.

(3) In accordance with the provisions of the Law on Accounting and due to the acquisition of a qualifying holding in OTP Debt Collection doo Podgorica, the Bank is obliged to prepare and publish consolidated financial statements.

(4) Financial statements with independent auditor's opinion were submitted to the Central Bank of Montenegro in accordance with legal regulations. Also, these reports (standalone and consolidated) are available at internet page:
https://www.ckb.me/about-us/welcome-to-ckb/reports.

(5) As of January 1, 2022, the new regulations of the Central Bank of Montenegro entered into force, of which the above-mentioned decision is an integral part. Data that did not exist as of December 31, 2021 are not subject to public disclosure of data for the reporting period ending on December 31, 2021, due to the fact that the data was not prescribed by the regulations in force until December 31, 2021.

I. BUSINESS NAME AND REGISTERED OFFICE OF THE BANK

(1) Crnogorska komercijalna Banka AD Podgorica was founded as an independent bank and registered with the Commercial Court in Podgorica on 15 January 1997.

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

The Bank is registered as a shareholding company. Registration number of the Bank in the Central Register of the Commercial Court is 4-0001633. The Bank was granted the license by the Central Bank of Montenegro by Decision No. 0101-72/1-2002 of 18 February 2002. The Bank is registered in the Registry of Issuers of Securities under No. 51 (Decision No. 02/3-47/2-01 of 12 July 2001).

(2) The Bank's seat is in Podgorica, Bulevar revolucije 17.

(3) As of 31 December 2021, the Bank was comprised of its headquarters in Podgorica, 18 branch offices, 15 sub-branches and 1 counter in the territory of Montenegro.

(4) As of 31 December 2021, the Bank had 570 employees.

(5) Pursuant to the Decision of the Board of Directors and the Share Transfer Agreement with OTP Debt Collection doo Podgorica, the Bank became the owner of 100% of the capital of OTP Debt Collection doo Podgorica for a fee of EUR 335 thousand. The transfer was done with the approval of the Central Bank of Montenegro No. 0102-07700-2/2018 of 24.10.2018. 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.

(6) 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. After the purchase, the name of Societe Generale banka Montenegro AD Podgorica was changed to Podgorička banka AD Podgorica, a member of OTP Group (hereinafter "Podgorička banka"). 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 procedure of merging Podgorička banka with the Bank was completed on December 11, 2020, with the registration of the merger of Podgorička banka with the Bank in the Central Register of Business Entities (Decision No. 4-0001633-070 of 11 December 2020).

(7) As of December 31, 2021, 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
Balasz Letay	Member

(8) As of December 31, 2021, Executive Directors of the Bank are:

First and last name	Key area
Mr. Tamás Kamarási	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

(9) The Law on Credit Institutions, which introduces a bicameral system of managing the Bank, shall enter into force on 1 January 2022, as follows: the Supervisory Board, which performs the function of supervising the credit institution's operations, and the Management Board, which performs executive function and is responsible for the management of the credit institution on a daily basis, as well as for its representation. The Supervisory Board is appointed by the General Meeting of Shareholders.

(10) In December 2021, in order to align with the Law on credit institutions and related bylaws adopted for the purpose of the law enforcement, the Bank has adopted the Policy on Suitability Assessment, that regulates the process, criteria and minimum requirements for the suitability assessment of the members of management bodies and key function holders in the credit institution. The policy is enforced starting from January 01, 2022.

II. FINANCIAL STATEMENTS

(1) The Bank compiles its financial statements (hereinafter: "Financial statements”) in accordance with the Law on Accounting ("Official Gazette of Montenegro" No. 52/16) that implies application of International Accounting Standards and International Financial Reporting Standards and decisions of the Central Bank of Montenegro which regulate financial reporting of banks.

(2) The attached standalone 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).

(3) In the past year, the Bank strived to keep its leading position in the banking sector of Montenegro providing sustainable solutions and active support in the segment of operations with private individuals, entrepreneurs and companies. At the same time, the Bank focused on the loan portfolio quality improvement in order to minimize risk costs, as well as on the IT system upgrade in order to support the planned business activities. One of the strategic goals of the bank is a strong and committed business strategy which means that the bank achieves

the role of a long-term partner of clients with the best offers and services in the banking sector, enable accessibility for clients, variety of offers, quality of service and fast processing and improve its quality by acquiring new clients with the aforementioned intention to become a major partner bank. The goal is to establish good synergies between the retail segment and the corporate segment and increase the bank's profitability. The main strategic initiatives defined for the period from 2021 to 2023 are:

a) product and sales modernization,
b) customer satisfaction, and
c) cost management in order to improve the efficiency of the bank’s operations.

(4) In the past year, the Bank received prestigious international awards. Reputable financial magazine Global Finance named the Bank - the best bank in Montenegro. Prominent financial magazine Euromoney, within its annual Awards for Excellence, named the Bank the Bank of the Year, while The Banker declared CKB as the best bank in 2021.

(5) The main business lines in the segment of retail lending are still cash, housing and mortgage loans. The main business lines in the segment of retail deposits are current accounts and classic savings.

(6) Business cooperation with large and medium companies continued in 2021. Emphasis is placed on quality improvement and product development through the adequate selection of creditworthy customers, with appropriate collaterals. The main business lines in the segment of corporate lending are still investment loans and working capital loans, while in the segment of corporate deposits, current accounts and classic savings are still dominant. The Bank is also active in the segment of business with micro and small legal entities, by continuing to offer loans to these companies.

(7) The Bank pays special attention to creating the offer that promotes sustainable economic development, emphasizing the development of priority sectors, financing environmental protection projects and enabling the growth and development of micro, small and medium companies.

(8) The Bank's customers can use ATMs with the option of cash payment in Shopping mall Delta, bank branches in Nikšić, Budva, Ulcinj, Kotor, Tivat, Luštica, Herceg Novi and Podgorica (Moskovska bb). The Bank's goal is to digitalize its customers as much as possible and reduce the number of transactions that are executed at the counter. A large number of alternative services is always available to the customers, such as CKB GO internet and mobile banking service, the largest network of CKB ATMs, the most diverse offer of debit and credit cards, as well as the largest network of POS terminals.

(9) In order to provide clients with easier performance of activities, time savings and better financial results, in 2021 the Bank was committed to the introduction of new services. The service of the CKB GO application has been upgraded, which now enables the direct addition of payment cards to the mobile wallet and further use of the Apple Pay service for CKB Visa and Mastercard cards, which CKB was the first to launch on the Montenegrin market in early 2020. The importance of introducing the Apple Pay service to the Montenegrin market was

also recognized by the prestigious company VISA, which awarded recognition to the Bank for introducing this service for the first time in Southeast Europe. At the end of 2021, CKB implemented tap-to-phone technology for the first time on our market in cooperation with Visa and Mastercard, which gave the mobile phone the ability to simulate a classic POS terminal. CKB GO POS has met with great interest among clients - small and medium enterprises, as well as individual entrepreneurs to whom the Bank has provided another channel for payment of its services, goods and receivables.

(10) The Bank offered to the customers, natural and legal persons, the possibility of submitting a request for the postponement of loan repayment up to 90 days (moratorium). Within the Customer Protection Program, the Bank considers the overall situation and challenges faced by the customers, and based on the analysis of individual cases, we offer solutions that best suit their capabilities and leave them enough space to control and strategically address the consequences caused by the crisis.

(11) During 2021, CKB continued to pay special attention to socially responsible business by supporting projects that are of general and vital importance to society as a whole. The focus of socially responsible business was on supporting the health and education system, the arts, environmental protection, as well as on projects that promote a society of equal opportunities. We have especially tried to focus our attention on initiatives that are of great importance for local communities throughout the country. We have continued our long-term partnership with the Institute for Children's Diseases through a valuable donation in the form of medical equipment that will improve working conditions and better patient care. A valuable donation was sent to the general hospitals in Bar and Bijelo Polje, and the funds were allocated for the renovation of the premises and the purchase of the necessary equipment. On the occasion of Women's Day, CKB employees decided that the bank would donate funds to the NGO SOS hotline for women and children victims of violence. Through this initiative, the bank gives the opportunity to all our colleagues to apply and vote for projects or organizations that, in their opinion, are important for improving the position of women in our society. In 2021, the conditions were met to normalize the holding of various events, primarily cultural events of various types. CKB was the general sponsor of the prestigious regional festival "Purgatory", but also a partner of the Klapa Festival in Perast. CKB recognizes the need to improve the conditions for acquiring new knowledge in schools throughout Montenegro, because only in this way can we enable young and talented people to fully realize their potential. Following this, CKB donated computer equipment to schools in Montenegro, which will help make computer science classes more adequate. Donations for schools in Podgorica, Andrijevica, Nikšić and Herceg Novi were also present. The involvement of employees is an important part of the socially responsible business of CKB and the bank is proud of their willingness to always make a great contribution to the activities that are being implemented. In addition to the traditional blood donation, this year we participated in the celebration of Red Cross Sunday together with our colleagues. The collection is a large amount of food and hygiene products that are distributed to families and individuals who need them the most. In the time ahead, CKB will continue to initiate and be part of the activities that make our society a more advanced and quality place to live, work and create for all our citizens.

INCOME STATEMENT

For the period 1 January - 31 December 2021 **in thousand EUR**

No.	Description	Value
1.	Interest income and similar income	47,025
2.	Interest income on impaired placements	1,323
3.	Interest expenses and similar expenses	1,176
I.	**NET INTEREST INCOME (1+2-3)**	**47,172**
4.	Fee and commission income	25,792
5.	Fee and commission expenses	15,787
II.	**NET FEE AND COMMISSION INCOME (4 - 5)**	**10,004**
6.	Net gains / losses due to de-recognition of financial instruments that are not carried at fair value through profit and loss	-
7.	Net gains / losses from financial instruments held for trading	-
8.	Net gains / losses from financial instruments carried at fair value through profit and loss, not held for trading	-
9.	Change in fair value in hedge accounting (hedging)	-
10.	Net gains / losses from foreign exchange differences	1,108
11.	Net gains / losses due to de-recognition of other assets	252
12.	Other income	1,089
13.	Employee expenses	15,466
14.	Depreciation expenses	5,277
15.	General and administrative expenses	9,880
16.	Net gains / losses from modification and reclassification of financial instruments	-1
17.	Net income/expenses based on impairment of financial instruments not valued at fair value through profit and loss	714
18.	Provisioning costs	23,626
19.	Other expenses	125
III.	**Profit/loss before tax (I+II+6+7+8+9+10+11+12-13-14-15-16-17-18-19)**	**4,539**
20.	Income tax	2,245
IV.	**Net Profit / Loss (III - 20)**	**2,294**

Public Disclosure of Data for 2021

BALANCE SHEET
As of 31 December 2021 **in thousand EUR**

No.	Description	Value
1.	**Cash and deposit accounts with central banks**	**231,096**
2.	**Financial assets at amortized cost**	**1,119,292**
2.a.	Loans and receivables from banks	121,662
2.b.	Loans and receivables from clients	926,364
2.c.	Securities	69,341
2.d.	Other financial assets	1,924
3.	**Financial assets at fair value through other comprehensive results**	**2,542**
3.a.	Loans and receivables from banks	-
3.b.	Loans and receivables from clients	-
3.c.	Securities	2,542
3.d.	Other financial assets	-
4.	**Financial assets held for trading**	-
5.	**Financial assets at fair value through profit or loss, which are not held for trading**	-
6.	Derivatives kept for protection against risks	-
7.	Fair value changes of items that are subject to protection against risks	-
8.	Investments in associates, subsidiaries and joint ventures using the equity method	335
9.	Investment property	-
10.	Property, plant and equipment	**22,934**
11.	Intangible assets	**7,314**
12.	Current tax assets	**9**
13.	Deferred tax assets	**369**
14.	Non-current assets held for sale and discontinued operations	**0**
15.	Other assets	**5,051**
16.	**Total assets:**	**1,388,942**
17.	**Financial liabilities at amortized cost**	**1,120,070**
17.a.	Deposits from banks and central banks	1,389
17.b.	Deposits from clients	1,050,808
17.c.	Loans from banks and central banks	36,792
17.d.	Loans from clients that are not banks	31,081
17.e	Securities	-
17.f.	Other financial obligations	-
18.	**Financial liabilities held for trading**	**-**
19.	**Non-traded financial liabilities that are measured at fair value through profit or loss**	**-**
20.	**Derivative financial liabilities as a hedging instrument**	-
21.	**Fair value changes of items that are subject to protection against risks**	-
22.	**Reserves**	**30,960**
23.	**Liabilities for assets intended for sale and discontinued operations**	-
24.	**Current tax liabilities**	**2,217**
25.	**Deferred tax liabilities**	**341**
26.	**Other liabilities**	**27,172**
27.	**Subordinated debt**	-
28.	**Total liabilities:**	**1,180,759**
29.	Share capital	181,875
30.	Issue premiums	-
31.	Retained earnings	**21,280**
32.	Profit / loss for the current year	**2,294**
33.	Other reserves	**2,734**

34.	Minority interest	-
35.	**Total Capital: (29. to 34.)**	**208,182**
36.	**Total Capital and liabilities: (28. + 35.)**	**1,388,942**

III. STRATEGY AND RISK MANAGEMENT POLICIES

(1) Strategic orientation of the Bank is to focus on its core business, i.e. retail and corporate lending. Those activities could be classified in three main business segments that the Bank plans to maintain and develop: RETAIL, micro and small companies (MSE) and large and medium companies and state institutions (LME). Due to its strategic orientation to the core commercial banking activities and insufficiently developed capital and financial market in Montenegro, the Bank does not plan to significantly engage in investment banking and financial asset trading in order to achieve profit.

(2) Based on the business strategy, Risk Management Strategy describes the type, source, volume and risk tolerance considering the Bank's risk bearing capacity. The risk-bearing capacity represents the capacity to absorb losses arising from risks to which the Bank is exposed in its day-to-day operation, without an immediate threat to the Bank’s existence. The risk-bearing capacity represents the total amount of regulatory capital available to cover all losses, while risk tolerance level defines the amount of capital the Bank plans to set aside to cover major types of risks it is facing.

(3) The defined risk tolerance level is translated into risk tolerance limits set out in relevant risk management procedures for major types of risk. The defined risk-bearing capacity and risk tolerance level are revised on annual basis.

III.1. Risk management

III.1.1. Credit risk

(1) Credit risk is defined as a risk of loss due to a client's incapacity or unwillingness to fulfill its obligations towards the Bank.

(2) The purpose of credit risk management is to maximize the Bank’s rate of return by maintaining credit risk exposure within acceptable parameters. The Bank has the established system for managing credit risk inherent in the portfolio, as well as the risk of individual credits and transactions. Effective management of credit risk is a critical component of the comprehensive approach to risk management and essential to the successful banking business.

(3) Credit risk management in the Bank strategically incorporates the following areas and functions:

a) Establishing appropriate framework for credit risk management,
b) Establishing adequate loan approval process,
c) Maintaining proper credit administration, rating system and monitoring,
d) Ensuring adequate controls of credit risk.

(4) The fundamental objectives of credit risk management are:

a) to keep balance between earnings and risk,
b) potential losses should always be proportionate to the risk-bearing capacity of OTP Group to which CKB belongs,
c) the Bank develops and applies risk management process which enables the Bank to comply with the Basel Conventions and local regulations,
d) the Bank must adjust its risk appetite and tolerance to the changes in the economic environment.

(5) The strategic goal in terms of credit risk management in the next three years is to develop additional capacities for risk assessment that would enable more efficient placement of loans and at the same time maintain the risk profile of the Bank within the pre-defined limits. In line with that goal, the Bank will further improve the capacity of credit risk management system to support the growth of lending activity with adequate monitoring of the loan portfolio quality in order to prevent significant losses due to increased lending activity. In the coming period, the Bank will improve the quality of databases on clients and security instruments for loan portfolio to create preconditions for application of advanced analytical methods for risk assessment.

III.1.2. Operational risk

(1) The strategic goal of operational risk management in the Bank is to develop and implement an efficient operational risk management system and to raise awareness of employees of this type of risk. To that end, operational risks have to be identified and mitigated in a manner consistent with a principle that costs of mitigation should not exceed potential losses caused by risk events. In addition, the Bank will prepare an adequate response to potential crisis situations that could represent a threat to continuity of the Bank's business operations by developing an adequate Business Continuity Framework (BCF).

(2) The Bank makes efforts to minimize the risks arising from improper functioning of internal systems, processes, human error and external adverse effects, by developing an appropriate control environment and introducing operational risk management culture in the organization. Other operational risks should be considered when deciding on prices or should be covered by insurance.

(3) Operational risk is managed in a decentralized manner, so organizational units where operational risk is found are responsible for its management, in cooperation with the Risk Management Analysis and Regulations Department (RMARD) which is in charge of providing support in identification, measurement, mitigation and monitoring of risks and providing the methodology that helps the officers to manage risks in a systematic and timely manner.

III.1.3. Market risk

(1) The purpose of market risk management system in the Bank is to minimize the risk arising from foreign currency transactions and settlement and counterparty risk.

(2) One of the major principles in market risk management is a separation of risk taking from risk monitoring and control functions, along with introduction of adequate internal controls and their continuous improvement.

(3) In the context of market risk management, the Bank aims to achieve balanced FX position. Open positions are allowed only for the purposes of servicing clients' orders and are always kept with the limits defined by the parent bank (OTP Group) and in compliance with CBM regulations. Keeping open FX positions in order to achieve profit from specific FX rates dynamics shall not be practiced.

(4) Settlement risk mainly arises from funds management transactions, primarily from correspondent accounts and placement of funds to other banks. For those purposes, the Bank operates exclusively with financial institutions of high rating and reputation in the countries where OTP Group is present or in the countries of high rating in terms of country risk.

(5) Counterparty and settlement risk should be reduced to minimum by concluding agreements only with the most creditworthy counterparties and only to the extent necessary to support core business and liquidity requirements. OTP Group position limits shall be strictly observed, as well as the limits defined in the CBM regulations.

III.1.4. Country risk

(1) Strategic country risk management goals are defined by the bank's core business activity plans, as well as by liquidity management performed centrally in OTP Group headquarters in Hungary. To that end, the Bank will accept only low country risk exposure necessary for unhindered development of the Bank's core commercial activities.

(2) In order to minimize the level of country risk, the Bank has developed a rating and limit setting methodology for country risk exposure. The rating, as well as limit setting, is

conducted at the group level by OTP Hungary in order to minimize the level of country risk in case it is higher than the level necessary for the performance of core banking activities.

III.1.5. Liquidity risk

(1) The main objective of liquidity risk management strategy is to establish a system of monitoring the Bank's liquidity and its quality, structure, maturities and variability of deposits and sources of funds, and based on that, achieve a stable and safe business operation of the Bank.

(2) Liquidity risk management aims to ensure that operational liquidity of the Bank at all times is at a level that allows fulfillment of due obligations arising from core activities of the Bank and to enable the absorption of unforeseen shocks.

(3) The Bank determines the desired level of liquidity based on analysis of history of deposit withdrawals, placements and unforeseen outflows.

(4) For the purpose of liquidity risk management, the Bank uses the analyses of maturity matching and liquidity indicators prescribed by the CBM, as well as internally adopted models of liquidity projections and stress testing.

III.1.6. Interest rate risk from the bank book (IRRBB)

(1) Interest rate risk is defined as the possibility of changes in net interest income (NII) and/or economic value of capital (EVE) due to fluctuations in the movement of market interest rates. The Bank, through the adopted policies, procedures, defined limits, strives to reduce the interest rate risk from the banking book.

(2) Interest rate risk has 3 subtypes:

a. GAP risk (risk of maturity mismatch): risk arising from differences in the dates of repricing of assets and liabilities. Gap risk includes parallel and non-parallel changes in the yield curve;
b. Base risk: interest rates on assets and liabilities, although with the same maturity, may be linked to different market or regulatory indices. Base risk is defined as the possibility that these indices are not perfectly correlated, which may result in fluctuations in interest income even though there is a balance in maturity adjustment;
c. Option risk: risk arising from interest rate risk options embedded in the bank's products. Options can be automatic (caps, floors) or behavioral. Option risk materializes if either party, the bank or the client, has the ability to change the terms of the agreed instrument (transaction).

(3) To measure interest rate risk, the Bank uses “maturity gap” reports, as well as calculations resulting in the main parameters for determining the level of interest rate risk - NII and EVE, i.e. the impact of risk on its income (NII) and economic value of capital

(EVE). The Bank monitors these indicators on a monthly basis, and more often if necessary (measuring the impact on interest rate risk in the case of contracting significant arrangements).

III.1.7. Risk management system in the Bank

(1) Given the scope and complexity of its operations, the Bank has developed and is continuously working on maintaining and improving an effective risk management system capable of responding to needs of ever-changing business environment. To that end the Bank is continuously managing all relevant risks in accordance with the law and the CBM regulations, considering OTP Group level risk management standards.

(2) The risk management system consists of the following elements:

a. appropriate strategy for risk management;
b. adopted policies and procedures for risk management;
c. clearly defined competences and responsibilities for risk management;
d. efficient and safe IT system;
e. contingency plans;
f. stress testing.

III.2. Powers and responsibilities in risk management

III.2.1. Board of Directors

(1) The Board of Directors is responsible for defining the Bank's acceptable level of risk taking and setting risk tolerance at the level corresponding to the Bank's operations and strategic goals. To that end, the Board of Directors approves and periodically reviews the Risk Management Strategy and other relevant policies and regulations pertaining to risk management. Risk Management Strategy of the Bank has a critical role in risk management system and exercising control over implementation of principles and procedures on a high level. In addition, the Board of Directors is responsible for Capital Adequacy Assessment Process (ICAAP).

(2) The work of the Board of Directors was focused on the fulfillment of the obligations defined by legal regulation and enabling regulations, as well as the Articles of Association and other general documents of the Bank. The Board of Directors regularly discussed all issues of importance for the Bank's operations, including monthly reports on the financial results, credit and market risk, liquidity risk and operational risk, the functioning of the internal control system, exposures that exceed 10% of own capital and made decisions within its scope of work.

III.2.2. Management Committee

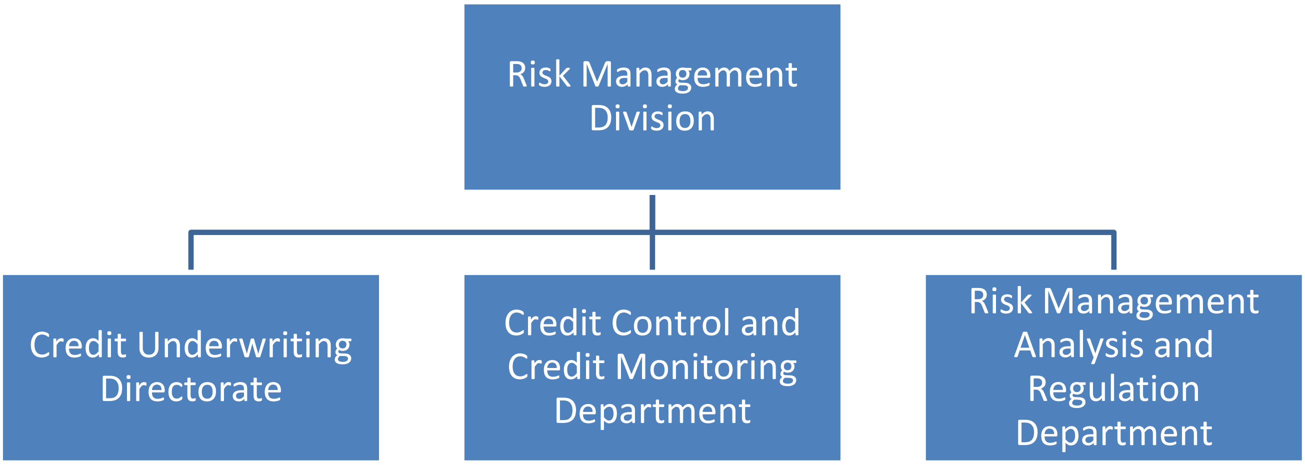
(1) The Management Committee of the Bank is responsible for implementing the Risk Management Strategy, policies and procedures approved by the Board of Directors, including the establishment of a prudent risk assumption culture in the organization.

(2) The Management Committee is responsible for establishing sound business practices and strategic planning. Business plans adopted by the management consider all relevant risks. It is of utmost importance that in performing its management and supervisory functions the management body has collective understanding of the nature of the business and associated risks. The senior management has crucial role in developing a conservative risk assumption culture in all activities of the Bank. The management has to ensure that such risk culture is spread across all organizational units and business lines of the Bank. The management ensures that the Bank has set limits for credit risk, market risk, liquidity and other risks that are in line with the Bank's acceptable level of risk and risk tolerance, even in the stressful economic environment. The management takes care that the allocation of resources to the risk management function is sufficient in amount and quality to allow fulfilling its mission. The Management Committee is also responsible for the implementation of ICAAP in the Bank.

III.3. Risk management function

(1) One of the preconditions for creation of risk culture is the establishment of a comprehensive and independent risk management function in the entire organization under the direct competence of Executive Director of Risk Management Division or Chief Risk Officer (CRO). CRO should have sufficient independence and authority that enable him to challenge and exercise the right of veto in the decision-making process in the Bank in order to ensure establishment of acceptable level of risk. CRO plays a key role in identification, measurement and assessment of the overall risks faced by the Bank. His responsibilities include elaboration of risk management strategy and policies and proposals for creation of appropriate risk management system, overseeing and approving internal rating system and risk assessment model, and analyzing and approving risks for new products. CRO can exercise the right of veto but should be independent from decision-making functions.

Figure 1 Organizational structure and risk management function



III.3.1. Decision making system

(1) The Bank established an effective decision-making system which is in line with the organizational structure, size and complexity of operations of the Bank. Decision making process in risk management domain must be performed by the competent and experienced employees within organizational units established by the Board of Directors to provide support in risk management activities.

III.3.2. Monitoring and reporting

(1) The Bank has the established system for monitoring and controlling all risks it is exposed to. The system consists of defined exposure limits and adequate mechanisms for monitoring and reporting on exceeding of the defined limits. In that respect, the analysis and monitoring of risks represent the core function in the risk management system.

III.3.3. Information technology system

(1) The Bank has established and maintained reliable information system which ensures adequate collection and processing of data with the following key functions:

a. Measurement and monitoring of exposure risks on daily basis and in other defined time intervals,
b. Monitoring of exceeding of he defined limits for exposure risks,
c. Reporting to the relevant decision-making bodies and other parties involved in risk management process.

(2) Information technology system should provide a reliable infrastructure for identification, measurement and monitoring of all relevant risks across all segments of banking operations.

III.3.4. Contingency plans

(1) The Bank has developed a comprehensive Business Continuity Planning System (BCP) focused on identification of key processes for the Bank's business operations and maintenance of their continuity in the event of crisis situation.

(2) Contingency plans specify resources needed as well as alternative procedures in order to preserve the continuity of important processes during a crisis. Those plans should be regularly improved and reviewed at least annually. All employees involved in the process should be properly trained for implementing contingency plans and their knowledge and skills should be regularly tested.

III.3.5. Stress testing

(1) The Bank regularly conducts stress testing to test the Bank's sensitivity to individual types of risks and overall sensitivity of the Bank. Stress scenario includes assumptions of extreme changes in the market and other factors that may have significant impact on Bank's performance.

(2) Since credit and liquidity risks are the most important types of risk faced by the Bank, stress testing framework of resistance to those risks should be developed in such a way that special attention is paid to analysis of the Bank's ability to absorb shocks under stress scenarios and preserve financial soundness.

III.4. Risk reporting and measurement system

III.4.1. Credit risk

(1) Credit risk measurement and assessment is made on a debtor's level and overall portfolio level at the same time.

(2) At the debtor's level, potential riskiness of a client is determined based on a set of risk characteristics. For retail clients those characteristics comprise socio-demographic and behavioral characteristics, while for LME and SME clients the creditworthiness and potential credit risk are determined based on a set of financial risk parameters (pertaining to the financial standing of a client), as well as business risk and industry risk. The

importance of a particular risk characteristic for predicting the client's riskiness is determined based on the analysis of historical data that the Bank has about its clients. Summing up all risk characteristics weighted by likelihood of their occurrence provides an overall measurement of risk for a particular debtor.

(3) At the same time, the Bank is also measuring credit risk on the overall portfolio level. The Bank is constantly evaluating its loan portfolio in terms of changes in its quality, structure and level of provisions and identifying causes of those changes or possible failure to achieve target results. Analysis of risks on portfolio level, analysis of the portfolio sub-segments, continuous testing of efficiency of processes and application of limits determined based on risks, are becoming more and more important for the Bank's lending activity. The results of different statistical analyses and models are increasingly incorporated into business proposals, approvals and decisions. In addition, risk-based approach to pricing is constantly being developed and improved.

(4) Implementation of monitoring activities strikes a balance between business goals and prudent risk management. Monitoring considers the types of customers, nature of the product (individual/mass) and is performed even for those risk assumptions qualified as low risk (based on the amount of the risk assumed, level or type of coverage or for any other reason). Monitoring activity is an integral part of the entire lending process and is performed from the moment of risk assumption till the end of the lending process.

(5) Comprehensive credit risk reports with special focus on risk concentration, sector and regional exposures as well as business deals with increased risk are submitted to the management on monthly and quarterly basis.

III.4.2. Liquidity risk

(1) The Bank measures liquidity risk based on projections of net cash flows, by calculating liquidity ratio and using liquidity gap reports on a daily, ten-day and quarterly basis. Net cash flows are calculated as a difference between cash inflows and cash outflows for a particular period. In determining cash inflows and outflows, the Bank uses a set of assumptions as defined in the CBM's Decision on Minimum Standards for Liquidity Risk Management in Banks. Liquidity ratio represents the ratio of short-term assets to short-term liabilities as defined in the CBM's Decision on Minimum Standards for Liquidity Risk Management in banks. Liquidity ratio is the ratio between short-term assets and short-term liabilities.

III.4.3. Market risk

(1) The Bank measures the level of foreign exchange (FX) risk by calculating net open positions for all currencies separately and on a cumulative basis for the entire FX portfolio of the Bank, assuming regular and extreme movements in FX rates. The net open position is calculated as a difference between long and short FX position. A long FX position is defined as a sum of

all FX assets and positive FX off-balance sheet positions, while a short FX position represents a sum of all FX liabilities and negative off-balance sheet positions.

(2) The management is informed about the level of FX assets on a regular basis through FX risk report which contains overview of long, short and open positions in foreign currencies along with exposure limits set by the Central Bank of Montenegro, as well as the minimum capital requirements for FX risk.

III.4.4. Operational risk

(1) The Bank is measuring operational risk by analyzing the data collected on loss due to the operational risk. The Bank introduced the system for self-assessment of operational risk (RCSA) by which it measures the impact of operational risk against the likelihood of its occurrence, in order to better evaluate potential operational risk. The reports on losses due to operational risk are presented to the management on a regular basis.

III.4.5. Country risk

(1) For measuring country risk, the Bank developed an internal methodology for country rating as defined in the Bank's Procedure for Country Risk Management. The methodology implies assigning of a rating to each country risk exposure based on various country risk ratings obtained from relevant international sources. Based on information obtained from those sources, the Bank calculates a country rating.

III.4.6. Interest rate risk form the banking book (IRRBB)

(1) Interest rate risk form the banking book represents a risk of incurring losses in the Bank's operations due to the interest rate changes for balance sheet and off-balance sheet items that are not intended for trade. To quantify the Bank's interest rate risk, form the banking book, the bank uses re-pricing report - maturity mismatch of assets and liabilities. The impact of +/-200 bps parallel change of yield curve (standard rate shock) is assessed on net interest income (NII) for a period of one year: 1-30 days, 31-90 days, 91-180 days and 181-365 days.

III.5. Risk mitigation

III.5.1. Credit risk

(1) Credit risk in the Bank is controlled and mitigated on a portfolio and debtor's level by observing conservative approach and limits regarding credit risks that were determined to

achieve strategic risk management goals defined in the Bank's Risk Management Strategy.

(2) Besides exposure limits that the CBM defined in its legal regulations and enabling documents, the Bank has set up its internal credit risk limits on a portfolio and debtor's level. Debtor's level credit risk limits are determined as the following parameters:

a) Prescreening creditworthiness limits in the credit approval process;
b) Minimum credit ratings for different client groups in the credit approval process;
c) Minimum amount of security instruments and rules related to the collaterals appraisals.

On the portfolio level, credit risk is controlled and mitigated in a systematic way in different portfolio segments. Different limits expressed in several credit risk parameters are set in each portfolio segment in order to comply with the Bank's Risk Management Strategy. The following risk parameters are used for setting up adequate risk limits considering the desired risk cost, NPL rates and coverage ratios defined in the Risk Management Strategy:

a) Default rate (DPD 90+ or DPD/total portfolio);
b) Share of stage 2 and stage 3 loans in total portfolio;
c) Risk cost rate;
d) Approval rate;
e) Rejection rate;
f) Proportion of approved exceptions;
g) Portfolio at risk;
h) Percentage of restructured loans (CPP);
i) Proportion of loans with residual maturity over 7 years.

III.5.2. Liquidity risk

(1) In order to control and mitigate liquidity risk, the Bank observes strict liquidity risk limits set forth in relevant enabling documents of the CBM.

III.5.3. Market risk

(1) In order to control and mitigate market risk in its treasury and commercial banking activities, the Bank observes strict FX position limits set forth in relevant CBM enabling documents. Therefore, the Bank is not engaging in any predictions on FX trends, the goal of which is to achieve profit from those strategies.

III.5.4. Operational risk

(1) Operational risk is controlled and mitigated at the level of all organizational units of the Bank. By analyzing the collected data on operational risk losses, measures are undertaken aimed at introducing more effective and adequate controls. To that end, the Bank's

processes are monitored and improved in order to prevent reoccurrence of operational risk losses. With the introduction of operational risk self-assessment system, the Bank raised this process to a higher level by proactively assessing potential risks.

III.5.5. Country risk

(1) For the purpose of efficient control and mitigation of country risk exposure, the Bank has developed a detailed country risk exposure limit system that is administered at the level of the Banking group (OTP Hungary). To that end, the Bank is calculating maximum risk exposures for particular countries considering the Bank’s own funds, risk rating of the particular country and macroeconomic coefficient of the particular country indicating the country’s level of economic development and financial stability.

(2) The details on the methodology can be found in the Bank’s Policy and Procedure for Country Risk Management.

III.5.6. Interest rate risk from the banking book (IRRBB)

(1) The Bank controls and mitigates interest rate risk from the banking book by seeking to match interest rate sensitive assets with interest rate sensitive liabilities and ultimately protects against the negative consequences of changes in market interest rates.

IV. OWN FUNDS

(1) Instead of disclosing data on regulatory capital, that is not available as of December 31, 2021, the Bank discloses data on its own funds. As of 31 December 2021, the Bank’s own funds according to the Decision on Capital Adequacy (“Official Gazette of Montenegro”, No. 38/11, 55/12 and 82/17) amounted to EUR 187.597 thousand. The structure of the Bank's own funds is presented in the table below.

OWN FUNDS
as of 31 December 2021 **in thousand EUR**

Number	Description	Value
I/A	**Basic elements of own funds**	
1.	Paid share capital at nominal value	181,875
3.	Reserves allocated profit after taxation	1,003

3.a	Reserves for estimated losses according to regulatory requirement allocated in accordance with the Decision prescribing minimum standard for credit risk management in banks	(777)
4.	Retained earnings from previous years for which the General Meeting of Shareholders has decided to include in the share capital, less income tax and other expected expenses	21,525
6.	Amount mitigating negative effects on own funds due to transition to valuation of asset items by applying IFRS 9	389
7.	**Total**	**204,015**
I/B	**Offsetting items when calculating core capital**	
3.	Intangible assets (goodwill, licenses, patents, trademarks, concessions)	(7,314)
6.	Positive difference between regulatory reserves for potential losses and sum of risk provisions for items from Balance sheet and Off-balance evidence / Missing reserves	(8,906)
8.	**Total**	**(16,220)**
I/C	**Core capital (basic elements of own funds reduced by offsetting items) (3+4)**	**187,795**
II/A	**Additional elements of own funds that are included in the supplementary capital**	**-**
II/B	**Deductible items from supplementary capital**	**-**
II/C	**Supplementary capital (additional elements of own funds reduced for deductible items)**	**-**
II/D	**Supplementary capital included in own funds, Article 8 of the Decision**	**-**
IIIA	**Own funds (core capital + supplementary capital included in own funds) before offsetting items**	**187,795**
III/B	**Deductible items from own funds**	
1.	Direct or indirect investments in another bank or another credit or financial institution in the amount higher than 10% of capital of those institutions	(198)
III/C	**Total deductible items of own funds**	**(198)**
IV	**Core capital reduced by 50% of deductible items of own funds**	**187,696**
V	**Supplementary capital reduced by 50% of deductible items of own funds**	**(99)**
VI	**Share capital, if necessary, reduced paragraph 3 of Article 9 of the Decision**	**187,597**
VII	**Own funds (core capital + supplementary capital)**	**187,597**

V. CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY ASSESSMENT

(1) ICAAP is a comprehensive process of assessing the Bank’s capital adequacy to support the consistency of its business strategy with the established risk management system. The main objective of ICAAP is to improve the relation of the Bank’s risk profile, its risk management and the level of capital with desired risk profile. The ICAAP represents an integral part of the Bank’s strategic management process.

(2) Given the size and complexity of its operations as well as its business orientation, the Bank is mainly using the methodology defined by the CBM for determination of capital requirements for significant risks it is exposed to. The methodology defined by the CBM is used in assessing capital requirements for the following risk groups:

- Credit risk
- Operational risk
- Market risk
- Country risk

(3) In addition, the Bank designed its own methodology for the assessment of capital requirements for interest rate risk from the banking book and for credit concentration risk.

(4) The Bank prepares capital adequacy assessment report on a monthly basis, based on the methodology stipulated by the CBM. The result of monthly assessment of capital adequacy is incorporated in the monthly reporting (MIS presentation) to the Executive Directors and the Board of Directors.

(5) Quarterly capital adequacy assessment is submitted to the CBM in prescribed form according to the regulations. The table below presents the structure of capital requirement and solvency ratio.

CAPITAL REQUIREMENT FOR THE SPECIFIED RISK GROUPS
as of 31 December 2021 **in thousand EUR**

No	Description	Value
I	**Bank's own funds**	**187,597**
1.	Core capital	187,597
2.	Additional capital	(99)
II	**Total risk-weighted balance sheet assets**	**806,650**
1.	Risk-weighted balance sheet assets	703,262
2.	Risk-weighted off-balance sheet items	103,000
3.	Amount to mitigate negative effects on own funds of the Bank due to transition to valuation of assets items by applying IFRS 9	389
III	**Capital requirement for market risks**	**-**
IV	**Capital requirement for operational risk**	**8,586**
V	**Capital requirement for country risk**	**3,347**
VI	**Capital requirement for other risks**	**-**
VII	**Capital solvency ratio**	**20.94%**

Minimum solvency radio defined by Decision on Capital Adequacy of Banks ("Official Gazette of Montenegro“, No. 38/11, 55/12 and 82/17) is 10%.

VI. CREDIT RISK

VI.1. Definition of overdue receivables and non-performing assets (assets classified in category “C” or lower)

(1) The Bank classifies balance sheet and off-balance sheet exposures in classification groups and/or sub-groups 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).

(2) In accordance with the Central Bank’s regulations, non-performing loans are loans classified in the categories “C”, “D” and “E” by application of assets classification criteria:

1. Category C - "substandard assets"- with sub-categories C1 and C2, includes asset items involving high probability of loss due to clearly identified weaknesses that jeopardize their repayment;
2. Category D - "doubtful assets" includes asset items the full collection of which, considering the debtor’s credit capacity, collateral value and enforceability, is highly unlikely;
3. Category E - "loss" includes asset items which will be fully uncollectible or collectible only in an insignificant amount.
4. The Bank has developed a comprehensive strategy for dealing with non-performing loans for a period of three years and has defined the annual operational objectives related to the reduction of the level of non-performing loans. The main goal in managing non-performing placements is to improve the quality of the portfolio, which reduces risk costs and improves the overall financial position and liquidity position of the Bank.

VI.2. Impairment process and provisioning methodology

(1) In accordance with IFRS 9, during initial recognition, financial instruments must be tested on the basis of the business model and contractual characteristics of cash flows (SPPI test), on the basis of which an appropriate method of measuring the value of that financial instrument is determined, in accordance with the specification envisaged by the standard. Financial instruments may be classified into the following categories:

- Instruments that are carried at amortized cost,
- Instruments that are carried at fair value through other comprehensive income,

- Instruments that are carried at fair value through profit and loss.

(2) Based on the main principle of IFRS 9, the Bank calculates a twelve-month expected credit loss or expected credit loss for the entire life of a financial instrument, depending on the significance of a change in the credit risk of a financial instrument from its initial recognition. For these purposes, the Bank applies the following three levels of impairment:

- Stage 1 - covers all financial assets at the time of initial recognition and instruments that do not have a significant deterioration in credit quality from the moment of initial recognition;
- Stage 2 - covers financial instruments that have significant deterioration in credit quality since the moment of initial recognition, but there is no objective evidence of impairment loss;
- Stage 3 - covers financial instruments where there is objective evidence of impairment.

(3) On each reporting date, the Bank assesses the existence of a significantly increased credit risk in relation to the date of initial recognition. If there is no significant increase in credit risk, the Bank will recognize the expected loan loss in the next 12 months. If a significant increase in credit risk is detected, the Bank will recognize the expected loan losses over the entire life of the financial asset. In order to make this assessment, the Bank compares the risk of non-fulfillment of a financial obligation related to the asset on the reporting date with the risk of non-fulfillment of an obligation in respect of a financial asset on the date of initial recognition.

(4) The process of impairment testing is carried out simultaneously at the individual and group level, depending on which status the financial asset belongs to and whether it is considered individually significant.

VI.3. Individual impairment assessment

(1) Impairment of a financial asset considered to be problem assets and individually significant are assessed for impairment individually. Determination of impairment amount implies the assessment of future cash-flow of a given instrument that has to be discounted using the effective interest rate for the instrument in order to calculate the present value of that instrument. The assessment of an impairment amount is then calculated as a difference between the book value (contracted outstanding amount) of the loan as of the review date and the present value of the instrument.

VI.4. Collective (group) impairment assessment

(1) Assessment of impairment is also made for assets that have not met the criteria for individual assessment and for them a collective impairment assessment is made.

(2) For the purpose of collective assessment for impairment, financial assets should be grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to repay all amounts due according to the contractual terms.

(3) If financial assets without significant increase in credit risk are identified, provisions are allocated based on the methodology for calculation of expected loss for the period of twelve months. For instruments where credit loss or significant increase in credit risk is identified, expected losses will be recognized over the life of the asset.

VI.4.1. Classification and measurement

(1) In accordance with the IFRS 9, classification of financial assets based on cash flow characteristics and business model for management of the particular asset. The Bank recognizes financial liabilities at amortized cost except in cases when the standard prescribes otherwise when it chooses fair value option and recognizes financial instrument at fair value through profit and loss.

VI.4.2. Impairment

(1) Instead of previous incurred loss model requiring timely recognition of credit loss, IFRS 9 introduced expected credit loss model. According to this standard, the entities should calculate expected credit loss from the first identification of financial instruments.

(2) 3-phase model has been implemented for the purpose of IFRS 9 standard. Impairment methodology is used for classification of financial instruments in order to establish if credit risk significantly increased from initial recognition and to identify impaired credits. For instruments with identified credit loss or significant increase in credit risk, the expected losses will be recognized during the life of a financial asset.

(3) Increase in credit loss is identified on individual transaction-basis according to pre-defined conditions. Besides that, the evaluation is performed on portfolio-basis. If no significant increase in credit risk is identified provisions are allocated based on methodology for calculation of expected loss in 12-month period.

(4) For purchased or financial assets impaired at origination, methodology for calculation of expected loss during the life of an asset is extended to include cumulative changes of expected credit losses from the initial recognition.

(5) The Bank additionally upgrades its definitions of risk management, processes and methodological analyses in accordance with IFRS 9 expectations. The Bank has developed methodology – using behavioral scoring model – for identification of significant increase in credit risk and calculation of expected credit losses through application of risk parameters in compliance with IFRS 9.

VI.5. Overview of exposures by different categories

(1) The Bank is committed to providing complete banking service to private individuals, entrepreneurs, small and medium-sized enterprises and large enterprises. Accordingly, the Bank performs the majority of its business operations in the central area of Montenegro. Exposure towards the entities outside of Montenegro mainly refers to the correspondent accounts through which the Bank makes international payments.

(2) The following tables below shows:
- exposures by different client categories, as well as average amount of exposures during the reporting period;
- exposures by geographic location;
- exposures by regions and municipalities in Montenegro;
- exposures by industry sectors;
- exposures by agreed maturity;
- non-performing assets and off-balance sheet items and
- changes in provisions for loan receivables.

EXPOSURES BY CATEGORIES
as of 31 December 2021 **in thousand EUR**

Type of exposures	Gross exposures[1]	Allowance for impairment	Net exposures	Average net exposure
Loans and receivables from banks	**121,813**	**151**	**121,662**	**112,392**
Loans and receivables from customers	**960,734**	**34,370**	**926,364**	**917,179**
- Financial institutions	2,692	63	2,629	3,760
- Non-governmental organizations	8,959	623	8,336	7,234
- Companies	360,210	19,902	340,308	322,274
- Entrepreneurs	1,174	86	1,088	1,219
- Individuals and credit cards	444,729	11,031	433,698	430,908
- Government, government institutions and local municipalities	143,015	1,336	141,679	152,469
- Regulatory agencies	-	-	-	-
- Investment funds	-	-	-	-
Interest receivables	1,453	1,329	124	237
Accruals/Deferrals	-1,498	-	-1,498	-922
Total	**1,082,547**	**34,521**	**1,048,026**	**1,029,571**

[1] Gross exposure is the sum of receivables based on loans, protested guarantees, forfeiting, commercial factoring and receivables based on interest reduced by fee accruals.

NET EXPOSURES BY GEOGRAPHIC LOCATION
as of 31 December 2021 — **in thousand EUR**

Type of exposures	Montenegro	European Union	Other countries	Net exposures
Loans and receivables from banks	**-**	**90,783**	**30,879**	**121,662**
Loans and receivables from customers	**921,884**	**-**	**4,480**	**926,364**
- Financial institutions	2,629	-	-	2,629
- Non-governmental organizations	8,336	-	-	8,336
- Companies	335,829	-	4,479	340,308
- Entrepreneurs	1,088	-	-	1,088
- Individuals and credit cards	433,697	-	1	433,698
- Government, government institutions and municipalities	141,679	-	-	141,679
- Regulatory agencies	-	-	-	-
- Investment funds	-	-	-	-
Interest receivables	124	-	-	124
Accruals/Deferrals	-1,498	-	-	-1,498
Total	**921,884**	**90,783**	**35,359**	**1,048,026**

NET EXPOSURES BY REGIONS AND MUNICIPALITIES IN MONTENEGRO
as of 31 December 2021 — **in thousand EUR**

Region	Municipalities	Net exposure by municipalities	Net exposure by regions
Center	Cetinje	11,176	***751,392***
	Danilovgrad	12,073	
	Nikšić	39,500	
	Podgorica	688,643	
South	Bar	26,989	***120,949***
	Budva	20,848	
	Herceg Novi	23,317	
	Kotor	24,128	
	Tivat	14,514	
	Ulcinj	8,153	
North	Andrijevica	-	***54,023***
	Berane	14,001	
	Bijelo Polje	18,406	
	Kolašin	4,756	
	Mojkovac	3,171	
	Plav	46	
	Pljevlja	6,492	
	Rožaje	5,917	
	Žabljak	1,234	
Total		**926,364**	**926,364**

EXPOSURES BY INDUSTRY SECTORS
as of 31 December 2021 **in thousand EUR**

Type of exposures	Gross exposures[2]	Allowance for impairment	Net exposures
Loans and receivables from banks	**121,813**	**151**	**121,662**
Loans and receivables from customers	**960,734**	**34,370**	**926,364**
- Agriculture, forestry and fishing	9,009	2,470	6,539
- Mining industry	1,231	13	1,218
- Manufacturing	17,799	587	17,212
- Electricity, gas, steam and air conditioning supply	-	-	-
- Water supply, wastewater management, controlling the process of waste removal and similar activities	362	7	355
- Construction	47,349	1,809	45,540
- Wholesale and retail trade and repair of motor vehicles and motorcycles	141,930	6,976	134,954
- Transportation and storage	7,589	301	7,288
- Accommodation and food service	92,831	6,617	86,214
- Information and communication	31,740	803	30,937
- Financial and insurance activities	9,985	636	9,349
- Real estate business	2,218	37	2,181
- Professional, scientific and technical activities	3,200	111	3,089
- Administrative and support service activities	5,550	193	5,357
- Public administration and defense, compulsory social security	137,633	1,292	136,341
- Education	60	1	59
- Health and social care	870	15	855
- Arts, entertainment and recreation	1,613	50	1,563
- Other service activities	503	7	496
- Individuals	441,722	10,827	430,895
- Non-residents	7,585	289	7,296
Interest receivables	1,453	1,329-	124
Accruals/Deferred interest	-1,498	-	-1,498
Total	**1,082,547**	**34,521**	**1,048,026**

EXPOSURES BY AGREED MATURITY
as of 31 December 2021 **in thousand EUR**

Type of gross exposures	Up to one year	One to three year	More than three years	Total
Loans and receivables from banks	**121,662**	**-**	**-**	**121,662**
Loans and receivables from customers	**41,156**	**57,602**	**827,607**	**926,364**
- Financial institutions	-	2,162	467	2,629
- Non-governmental organizations	49	1,252	7,035	8,336

[2] Gross exposure is the sum of receivables based on loans, protested guarantees, forfeiting, commercial factoring and receivables based on interest reduced by fee accruals.

- Companies	37,632	45,930	256,746	340,308
- Entrepreneurs	64	234	790	1,088
- Individuals and credit cards	4,603	7,950	421,146	433,698
- Government, government institutions and local municipalities	182	74	141,423	141,679
- Regulatory agencies	-	-	-	-
- Investment funds	-	-	-	-
Interest receivables	124	-	-	124
Accruals/Deferred interest	-1,498	-	-	-1,498
Total	**162,818**	**57,602**	**827,607**	**1,048,026**

NON-PERFORMING ASSETS AND OFF-BALANCE SHEET ITEMS
as of 31 December 2021 **in thousand EUR**

Description	Gross carrying amount	Accumulated impairment	Net exposure
Loans and advances to customers	**15,285**	**10,320**	**4,965**
Category C	2,594	982	1,612
Category D	965	615	350
Category E	11,726	8,723	3,003
Other financial receivables	**9,879**	**9,601**	**278**
Category C	342	137	205
Category D	121	48	73
Category E	9,416	9,416	0
Undrawn credit facilities	**60**	**28**	**32**
Category C	21	6	15
Category D	4	2	2
Category E	35	20	15
Payment and performance guarantees and unused documented letters of credit	**35**	**16**	**19**
Category C	35	16	19
Category D	0	0	0
Category E	0	0	0
TOTAL	**25,259**	**19,965**	**5,294**

CHANGES IN PROVISIONS FOR LOAN RECEIVABLES
as of 31 December 2021 **in thousand EUR**

Description	Allowance for impairment for loans	Allowance for impairment for issued guarantees	Allowance for impairment for interest receivables	Allowance for impairment for forfeiting	Total
Balance as of 1 January 2021	**33,035**	1	1,410	175	34,621
Allowance for impairment and provisions during the year	(1,431)	-	(56)	99	(1,388)
Effects related to POCI exposures and other changes	1,162	-	-	-	1,162
Write-off of allowance for impairment	-	-	(25)	-	(25)
Total	**32,766**	**1**	**1,329**	**274**	**34,370**

VII. STANDARDIZED APPROACH TO EXPOSURE WEIGHTING

(1) The Bank applies a standardized approach to weighting exposures. The Bank classifies on-balance and off-balance sheet exposures, with the exception of exposures deducted from own funds and exposures for which the capital requirement is calculated based on the methodology for calculating capital requirements for market risks, into categories and weights them by risk weight defined in the Decision on Capital Adequacy.

RISK WEIGHTED BALANCE SHEET ASSETS
as of 31 December 2021 **in thousand EUR**

Description of risk weighted category	Gross exposure	Risk provisioning	Net exposure	Risk-weighted exposure
	1	2	3=1-2	4
Risk-weight 0%	449,376	1,900	447,476	**-**
Risk-weight 10%	-	-	-	**-**
Risk-weight 20%	124,095	726	123,369	**24,674**
Risk-weight 35%	68,233	915	67,318	**23,561**
Risk-weight 50%	7,253	210	7,043	**3,522**
Risk-weight 75%	318,902	2,814	316,088	**237,066**
Risk-weight 100%	458,609	44,170	414,439	**414,439**
Risk-weight 150%	-	-	-	**--**
Risk-weight 350%	-	-	-	**-**
Total risk weighted balance sheet assets	**1,426,468**	**50,735**	**1,375,733**	**703,262**

RISK WEIGHTED OFF BALANCE SHEET ASSETS
as of 31 December 2021

in thousand EUR

Description of risk weighted category	Gross exposure	Risk provisioning	Net exposure	Risk-weighted exposure
	1	2	3=1-2	4
Risk-weight 0%	1,822,505	-	1,822,505	-
Risk-weight 10%	-	-	-	-
Risk-weight 20%	862	-	862	34
Risk-weight 35%	-	-	-	-
Risk-weight 50%	51,458	901	50,557	11,012
Risk-weight 75%	14,531	271	14,260	5,313
Risk-weight 100%	150,924	2,776	148,148	86,641
Risk-weight 150%	-	-	-	-
Risk-weight 350%	-	-	-	-
Total risk weighted off balance sheet assets	**2,040,280**	**3,948**	**2,036,332**	**103,000**

CAPITAL REQUIREMENT FOR OTHER RISK
as of 31 December 2021

in thousand EUR

Description of capital requirement	Gross exposure	Capital requirement
Capital requirement for general risk of debt instruments (maturity method)	-	-
Capital requirement for specific risk of debt instruments	-	-
Capital requirement for position risk on position in equities	-	-
Capital requirement based on the country risk	129,207	3,347
Capital requirement based on the operational risk	-	8,586

VIII. OPERATIONAL RISK

(1) To calculate minimum capital requirements for operational risk, the Bank uses a simple methodology defined in the CBM’s Decision on Capital Adequacy of Banks.

IX. CURRENT INVESTMENTS IN SHARES OF LEGAL ENTITIES

(1) In accordance with the business model, the Bank classified owner securities to securities at fair value through other comprehensive income.

Securities at fair value through other comprehensive income	December 31, 2021
Banks and financial institutions:	
- Montenegroberza, Podgorica (the Bank's equity interest 4,88%)	98
- Beogradska berza a.d., Beograd	6
- SWIFT Brisel	61
- Centralna depozitarna agencija, Podgorica (the Bank's equity interest 15%)	143
- CG Broker AD, Podgorica (the Bank's equity interest 11,57%)	56
	364
Other legal entities:	
- Elektroprivreda Crne Gore (the Bank's equity interest 0,04%)	169
- Lutrija Crne Gore (the Bank's equity interest 0,47%)	18
- Tržište Novca AD, Beograd	5
- Plantaze AD, Podgorica (the Bank's equity interest 9,23%)	1,985
- Montenegro Airlines	1
	2,178
Total (in thousands EUR)	2,542

X. EXPOSURE TO INTEREST RATE RISK FROM THE BANKING BOOK

(1) In 2021, maturity structure of assets and liabilities sensitive to interest rate changes was such that a sudden and significant change in interest rates would have negative impact on the Bank’s net interest income in the short term.

(2) Quarterly testing of risk of sudden interest rate change of 2% showed continuous increase in the Bank’s resilience to negative effect in the interest increase scenario.

(3) The structure of Bank’s assets and liabilities sensitive to interest rate change was such that NII was mainly protected from small to moderate interest rate changes during 2021.

XI. MITIGATION TECHNIQUES

XI.1. Policies and procedures for collateral acceptance and collateral management

(1) Policies and procedures pertaining to collateral management are set forth in the Bank's Collateral Evaluation Rulebook.

(2) Collateral management, as a risk mitigation technique used by the Bank is defined by the following:
- acceptable legal form and types of collateral;
- criteria used in evaluating collateral by type;
- legal enforceability;
- collateral evaluation techniques and methods;
- assessment of collateral adequacy;
- procedures for collateral management in case of unexpected changes of its value, availability or enforceability;
- monitoring of collateral value.

(3) Collateral Evaluation Rulebook defines the principles for collateral evaluation in the Bank, as well as responsibilities and competences of bodies in collateral appraisal process. The Rulebook covers all client segments.

(4) All disbursed loans should be recovered primarily from company's operation (cash-flow), municipality's budget or debtor's revenues.

(5) Secondary source of debt repayment is collateral.

(6) In case of any negative change in debtor's repayment capacity, the Bank shall accept as risk mitigating factors the collaterals which are sufficiently liquid, with stable value over time and which can be sold in a reasonable timeframe.

XI.2. Description of the basic types of collateral

(1) Collaterals acceptable to the Bank are:
- cash collateral;
- pledge of movable property and claims;
- mortgage on immovable property;
- other tangible collaterals (insurance policy etc.);
- promissory note;

- authorization for collection;
- guarantees, sureties.

XII. DISCLOSURE ON REMUNERATION POLICY

(1) During 2021, the Bank has been implementing the Remuneration Policy aligned with the Remuneration Policy of OTP Group. The purpose of the Remuneration Policy is, remaining within the Banking Group's risk-tolerance capacity, to recognize the performance of the managers of OTP Bank Plc. and the members of the Banking Group who have a material impact on the risk profile, in contributing to results at the bank and at group level, and to provide an incentive for performance, in such manner as to be consistent with:

a. effective and successful risk management, and not to encourage the assumption of risks that exceed the risk-assumption limits of the Bank and Banking Group-member subsidiaries,
b. and with the business strategy, objectives, values and long-term interests of the Bank and the Banking Group subsidiaries, and to promote the achievement of these, while ensuring with appropriate measures the avoidance of possible conflicts of interest.
c. the requirement to establish a gender-neutral remuneration policy, which means the development of a remuneration policy and practice based on equal pay for male and female workers for equal work or work of equal value,
d. the requirement to integrate sustainability risks.

For the persons identified, entitlement to performance-based remuneration is based on individual target agreements.

(2) In December 2021, the Bank has adopted the Remuneration Policy aligned with requirements of the new CBoM regulation. The Policy is put to force on January 01, 2022.

XIII. EVENTS AFTER THE REPORTING DATE

(1) As already disclosed in the Bank's separate financial statements for the year ended 31 December 2021, the Bank has identified three significant events after the reporting date, which are presented below.

a) Investigation into violations of internal regulations

By conducting a comprehensive internal control of operations, the Bank identified irregularities in the conduct of some employees and violations of internal regulations, which resulted in the misuse of funds of the Bank and customers.

The Bank has decided to recover all funds of the Bank's clients that were found to have been the subject of abuse by some of the Bank's employees. Based on the available information, the Bank conservatively estimated the possible damage and set aside provisions for possible damage in the amount of EUR 23,544 thousand as at 31 December 2021.

The Bank informed the CBM in February 2022 about the identified irregularities and its actions. Also, the Bank initiated proceedings to determine liability for breach of duty, as well as notified the Police Directorate and the Special State Prosecutor's Office and filed appropriate criminal charges. The Bank continues to cooperate with the competent institutions in order to investigate, continuously providing the necessary documentation and available information.

b) New banking regulations

As of January 1, 2022, new banking regulations are in force, more precisely the Law on Credit Institutions and accompanying bylaws, which aims to approximate the current banking regulations in the European Union.

The new regulation introduced the application of the Basel III principle regarding capital adequacy and changes in the area of liquidity risk monitoring, in line with the practice in the European Union. Also, changes in the corporate governance system have been introduced.
At the reporting date, the Bank has complied with the amended banking regulations.

c) War between Ukraine and Russia

During the period of making financial statements, there is a war conflict between Ukraine and Russia. Given these developments, there has been an unexpected rise in prices in the markets for raw materials, fuel and energy. In addition, the volatility of exchange rates in the FX market has increased significantly. From the very beginning, the Bank continuously monitors and analyzes the development of the situation and its impact on business operations and the Bank's ability to operate continuously. Considering the existing information related to current events, the Bank assessed that there is no significant impact of this conflict on the financial statements for the current year and its ability to continue to operate continuously in the foreseeable future.

XIV. CLOSING PROVISIONS

(2) Public Disclosure of Data for 2021 shall come into effect on the day of its adoption by the Management Board.