



2020/05/19 Public Disclosure of Data for 2019
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INTRODUCTION

- (1) Pursuant to the Decision on Public Disclosure of Data by Banks (Official Gazette of Montenegro No. 002/12), Crnogorska Komercijalna Banka AD Podgorica (hereinafter: the Bank) 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

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

I. BUSINESS NAME AND REGISTERED OFFICE OF THE BANK

- (1) Crnogorska Komercijalna Banka AD Podgorica (hereinafter: "the Bank") 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 4-0001633/040. 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, Moskovska bb.
- (3) As of 31 December 2019, the Bank was comprised of its headquarters in Podgorica, 24 branch offices and 5 counters in the territory of Montenegro.
- (4) As of 31 December 2019, the Bank had 457 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. 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.
- (7) In June 2019, pursuant to the Decision of the General Meeting of Shareholders No. 128/2019, the shareholder increased the capital by the amount of EUR 45,000 thousand consisting of 88,012 shares of individual nominal value of EUR 511,2919.

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 Financial Reporting Standards and decisions of the Central Bank of Montenegro which regulate financial reporting of banks.
- (2) The attached 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. 15/2012, 18/2013 and 24/2018).
- (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.
- (4) 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 in 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.

- (5) On 16 July 2019, a transaction involving 87,602 shares (90.55%) of Societe Generale Montenegro Bank was effected on the Montenegro Stock Exchange. The Bank was the buyer of the shares and Societe Generale SA Paris was the seller. In this way, the Bank became the majority owner of the shares of Podgorička Bank. It is planned that in December 2020, after almost a year of preparatory, organizational, development and business activities, CKB Bank and Podgorička Bank will merge under the name of CKB Bank, both legally and in terms of information, technology and business. The process of integration of the two banks will result in the creation of the largest banking institution in the Montenegrin market in terms of assets, number of branches, loan and deposit portfolio.
- (6) In 2019, the Bank achieved good results in retail segment as well. In the past year, the Bank received three prestigious international awards. Reputable financial magazine Global Finance proclaimed the Bank the best bank in Montenegro, and CKB Private Banking the best private banking service in Montenegro. The Banker, reputable financial magazine of the Financial Times media group, proclaimed CKB the bank of the year. The Chamber of Commerce of Montenegro named the Bank the most innovative company in Montenegro in 2019 thanks to the CKB GO service.
- (7) Main business lines in the segment of retail lending are still cash, housing and mortgage loans. Main business lines in retail deposit segment are current accounts and classic savings. Unlike in 2018, when two new products were introduced, CKB car loan and card product intended for retail, CKB Visa Platinum debit card, in 2019, the Bank did not develop new products but it worked on modifying all existing products and thus satisfied customer needs.
- (8) In 2019, business cooperation with large and medium-sized legal entities continued. Emphasis was placed on improving the quality and product development through adequate selection of creditworthy clients, with appropriate collateral. Main business lines in corporate lending segment are still investment loans and working capital loans, while current accounts and classic savings were still dominant in corporate deposit segment. In the segment of business with micro and small legal entities, the Bank continued its cooperation with the European Investment Fund (EIF), and thus expanded the loan offer for these companies.
- (9) As from January 2019, the Bank's clients can use ATMs with cash-in option in Delta Shopping Centre and in the Bank's branches in Budva, Herceg Novi and Moskovska. The Bank's goal is to digitalize the business with its customers as much as possible and reduce the number of transactions performed at the counters. Our clients always have at their disposal a large number of alternative services, 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.
- (10) In the second half of the year, the Bank developed an online platform / lending page through which clients can apply for a cash loan without going to the bank, which further contributes to the digital transformation of clients. During the last quarter, the Bank provided free 3D Secure functionality for all payment cards in order to provide its customers with maximum security and full comfort of online shopping. For customers, this means that every

online store with all CKB cards is additionally secured in accordance with Mastercard and VISA security requirements.

- (11) In 2019, the Bank continued successful cooperation with the Government of Montenegro and other budgetary beneficiaries.
- (12) During 2019, the Bank focused on providing support to all segments of socially responsible business: health, education, culture, local communities, social activities and sports. The support projects in the field of culture, education, sports, health, environmental protection continued, as well as numerous projects that contribute to the preservation of the tradition and culture at the local community level. The Bank provided support to the health care system by purchasing new equipment, thus providing better conditions for health care institutions and beneficiaries of their services. The confirmation of the importance of our social engagement came to us through recognitions in this area as well. We especially point out the cooperation with the Blood Transfusion Institute of Montenegro, in which the Bank's employees organized a voluntary blood donation campaign, as well as Savings Week for all children born in that week. In the Savings Week, i.e. in the period from 31 October to 6 November, the Central Bank of Montenegro donated an additional amount of EUR 200 for each child, as well as the Bank.
- (13) In cooperation with card brand MasterCard, the Bank organized two prize games: "Start your day as a champion. Start something priceless. Win Roland Garros 2019" in the period from 26.03.2019 until 15.05.2019 and "Start your journey from a fairy tale. Start something priceless" in the period from 20.09.2019 until 17.11.2019 promoting contactless payments.

INCOME STATEMENT
1 January - 31 December 2019

in 000 EUR

No.	Description	Value
1.	Interest income and similar income	25,530
2.	Interest income on impaired placements	632
3.	Interest expenses and similar expenses	158
I.	NET INTEREST INCOME (1+2-3)	26,004
4.	Fee and commission income	18,361
5.	Fee and commission expenses	10,039
II.	NET FEE AND COMMISSION INCOME (4 - 5)	8,322
6.	Net gains / losses due to de-recognition of financial instruments that are not carried at fair value in the income statement	-
7.	Net gains / losses from financial instruments held for trading	-
8.	Net gains / losses from financial instruments carried at fair value in the income statement, not held for trading	-
9.	Change in fair value in hedge accounting (hedging)	-
10.	Net gains / losses from foreign exchange differences	886
11.	Net gains / losses due to de-recognition of other assets	22
12.	Other income	3,001
13.	Employee expenses	18,851
14.	Depreciation costs	3,240
15.	General and administrative expenses	8,973
16.	Net gains / losses from modification and reclassification of financial instruments	-
17.	Net income/expenses based on impairment of financial instruments not valued at fair value in the income statement	426
18.	Provisioning costs	319
19.	Other expenses	1,876
III.	Net income/expenses before extraordinary items (I+II+6+7+8+9+10+11+12-13-14-15-16-17-18-19)	5,402
20.	Income tax	457
IV.	Neto Profit / Loss(III - 20)	4,945

BALANCE SHEET
As of 31 December 2019

in 000 EUR

No.	Description	Value
1.	Cash and deposit accounts with central banks	160,024
2.	Financial assets at amortized cost	596,100
2.a.	Loans and receivables from banks	37,934
2.b.	Loans and receivables from clients	477,300
2.c.	Securities	79,566
2.d.	Other financial assets	1,300
3.	Financial assets at fair value through other comprehensive results	520
3.a.	Loans and receivables from banks	-
3.b.	Loans and receivables from clients	-
3.c.	Securities	520
3.d.	Other financial assets	-
4.	Derivatives kept for protection against risks	-
5.	Fair value changes of items that are subject to protection against risks	-
6.	Investments in associates, subsidiaries and joint ventures using the equity method	41,810
7.	Investment property	-
8.	Property, plant and equipment	11,540
9.	Intangible assets	3,616
10.	Current tax assets	11
11.	Deferred tax assets	603
12.	Fixed assets intended for sale and assets that are being discontinued	-
13.	Other assets	2,344
14.	Total assets:	816,568
	Liabilities	
15.	Financial liabilities disclosed at amortized cost	555,436
15.a.	Deposits of banks and central banks	838
15.b.	Client deposits	609,083
15.c.	Loans of banks and central banks	-
15.d.	Loans of clients that are not banks	13,913
15.e.	Securities	-
15.f.	Other financial obligations	-
16.	Derivative financial liabilities as an instrument of protection	-
17.	Changes in the fair value of items that are subject to protection against risks	-
18.	Reserves	4,441
19.	Liabilities for assets intended for sale and assets that are being discontinued	-
20.	Current tax liabilities	1,665
21.	Deferred tax liabilities	238
22.	Other obligations	18,702
23.	Total liabilities:	648,880
	Capital:	
24.	Share capital	181,876
25.	Issuing premiums	-
26.	Undistributed profit	(36,961)
27.	Profit / loss for the current year	4,945
28.	Other reserves	17,828
29.	Interests without controlling share in capital	-
30.	Total Capital: (24. to 29.)	167,688
31.	Total Capital and liabilities: (23. + 30.)	816,568

Financial statements with independent auditor's opinion were submitted to the Central Bank of Montenegro in accordance with legal regulations.

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 taking into account 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 taken into account 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 CBCG 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 CBCG 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 CBCG.

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

- (1) The Bank seeks to reduce interest rate risk from the banking book. To that end, the Bank will not deliberately take positions to benefit from particular movements of interest rates.
- (2) Interest rate risk from the banking book arises due to:
 - a. Re-pricing or maturity mismatch between assets and liabilities (re-pricing risk)
 - b. Change in reference interest rates for assets and liabilities
 - c. Change in the yield curve (yield curve risk)
 - d. Implementation of financial option that implicitly exists in loan agreements that the Bank concluded with the clients (option risk).
- (3) Considering the complexity of its activities, the Bank has identified re-pricing risk as a major source of interest rate risk, while impact of other sources is insignificant. For measuring interest rate risk, the Bank uses "maturity gap reports" and duration models. In order to evaluate the potential impact of interest rate risk management on its operations, the Bank is considering the effect on its earnings and economic value of equity (income perspective).

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 CBCG regulations, taking into account 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 take into account 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 Credit Approval and 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 the 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 takes into account 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 CBCG'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 CBCG's Decision on Minimum Standards for Liquidity Risk Management in.

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 on a 1 to 7 scale 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 CBCG 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 taking into account 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. Risk cost rate;

- c. Approval rate;
- d. Rejection rate;
- e. Proportion of approved exceptions;
- f. Portfolio at risk;
- g. Percentage of restructured loans (CPP);
- h. 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 CBCG.

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 CBCG 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 taking into account 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. In order to minimize IRRBB, the Bank will not deliberately try to benefit from particular movements in interest rates in order to make profit.

IV. OWN FUNDS

(1) As of 31 December 2019, 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 96,381 thousand.

The structure of the Bank's own funds is presented in the table below.

OWN FUNDS as of 31 December 2019

in 000 EUR

R. br.	Opis	Vrijednost
I/A	Basic elements of own funds	
1.	Paid share capital at nominal value	181.875
2.	Provisions charged to profit after taxation	921
3.	Provisions charged to profit after taxation Provisions for estimated losses according to regulatory requirement allocated in accordance with the Decision prescribing minimum standard for credit risk management in banks	(777)
4.	Amount mitigating negative effects on own funds due to transition to valuation of asset items by applying IFRS 9	660
5.	Total (1+2+3+4)	182.679
I/B	Offsetting items when calculating core capital	
1.	Loss from previous years	(41.064)
2.	Intangible assets (goodwill, licenses, patents, trademarks, concessions)	(3.616)
3.	Unrealized loss on the basis of value adjustment of financial assets available for sale at fair value	-
4.	Missing reserves	-
5.	Total (1+2+3+4)	(44.680)
I/C	Core capital (basic elements of own funds reduced by offsetting items) (3+4)	137.999
II/A	Additional elements of own funds that are included in the supplementary capital	
1.	Subordinated debt	-
2.	Total	-
II/B	Supplementary capital included in own funds	-
IIIA	Own funds (core capital + supplementary capital included in own funds) before offsetting items	137.999
III/B	Deductible items of 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	(41.618)
III/C	Total deductible items of own funds	(41.618)
IV	Core capital reduced by 50% of deductible items of own funds	117.190
V	Supplementary capital reduced by 50% of deductible items of own funds	(20.809)
VI	Own funds (IV+V)	96.381

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 CBCG for determination of capital requirements for significant risks it is exposed to. The methodology defined by the CBCG 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 CBCG. 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 CBCG 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 2019**

in 000 EUR

No	Description	Value
I	Bank's own funds	96.381
1.	Core capital	117.190
2.	Additional capital	(20.809)
II	Total risk-weighted balance sheet assets	346.792
1.	Risk-weighted balance sheet assets	320.549
2.	Risk-weighted off-balance sheet items	25.583
3.	Amount to mitigate negative effects on own funds of the Bank due to transition to valuation of assets items by applying IFRS 9	660
III	Capital requirement for market risks	-
IV	Capital requirement for operational risk	5.742
V	Capital requirement for country risk	3.053
VI	Capital requirement for other risks	-
VII	Capital solvency ratio	23.67%

Minimum solvency ratio 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. 022/12 of 23/04/2012, 055/12 of 02/11/2012, 057/13 of 16/12/2013, 044/17 of 06/07/2017, 082/17 of 08/12/2017, 086/18 od 28.12.2018, 042/19 od 26.07.2019).
- (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) IFRS 9 introduced new approach to the 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) New 3-phase model has been implemented for the purpose of IFRS 9 standard. New 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 started to develop 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 table below shows the exposures after accounting offsetting and without taking into account the effects of credit risk mitigation techniques, as well as average amount of exposures during the reporting period.

EXPOSURES BY CATEGORIES as of 31 December 2019

in 000 EUR

Type of exposures	Gross exposures ¹	Allowance for impairment	Net exposures	Average net exposure
Loans and receivables from banks	37.934	-	37.934	3.161
Loans and receivables from customers	493.238	15.938	477.300	39.775
- Financial institutions	4.484	292	4.192	349
- Non-governmental organizations	1.235	18	1.217	101
- Companies	184.009	8.569	175.440	14.620
- Entrepreneurs	534	35	499	42
- Individuals	197.521	4.512	193.009	16.085
- Credit cards	2.895	156	2.740	228
- Government and government institutions	102.560	2.356	100.203	8.350
- Regulatory agencies	-	-	-	-
- Investment funds	-	-	-	-
Total	531.172	15.938	513.234	42.936

- (2) 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.

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 2019

in 000 EUR

Type of exposures	Montenegro	European Union	Other countries	Net exposures
Loans and receivables from banks	-	37.012	922	37.934
Loans and receivables from customers	471.569	205	5.526	477.300
- Financial institutions	4.192	-	-	4.192
- Non-governmental organizations	1.217	-	-	1.217
- Companies	172.562	-	2.877	175.440
- Entrepreneurs	499	-	-	499
- Individuals	190.255	176	2.579	193.009
- Credit cards	2.641	29	70	2.740
- Government and government institutions	100.203	-	-	100.203
- Regulatory agencies	-	-	-	-
- Investment funds	-	-	-	-
Total	471.569	37.217	6.448	516.234

NET EXPOSURES BY REGIONS AND MUNICIPALITIES IN MONTENEGRO
 as of 31 December 2019

in 000 EUR

Region	Municipalities	Net exposure by municipalities	Net exposure by regions
Center	Cetinje	5.811	366.282
	Danilovgrad	3.612	
	Nikšić	18.499	
	Podgorica	338.360	
South	Bar	14.916	79.832
	Budva	12.069	
	Herceg Novi	22.932	
	Kotor	17.820	
	Tivat	8.030	
	Ulcinj	4.065	
North	Berane	5.256	25.455
	Bijelo Polje	6.495	
	Kolašin	1.179	
	Mojkovac	2.636	
	Plav	112	
	Pljevlja	5.191	
	Rožaje	3.593	
	Žabljak	993	
Total		471.569	471.569

EXPOSURES BY INDUSTRY SECTORS
 as of 31 December 2018

in 000 EUR

Type of exposures	Gross exposures ²	Allowance for impairment	Net exposures
Loans and receivables from banks	37.934	-	37.934
Loans and receivables from customers	493.238	15.938	477.300
- Agriculture, forestry and fishing	5.929	107	5.822
- Mining industry	1.992	37	1.955
- Manufacturing	3.068	116	2.952
- Electricity, gas, steam and air conditioning supply	-	-	-
- Water supply, wastewater management, controlling the process of waste removal and similar activities	244	5	239
- Construction	27.262	804	26.458
- Wholesale and retail trade and repair of motor vehicles and motorcycles	70.258	6.212	64.046
- Transportation and storage	4.417	199	4.217
- Accommodation and food service	64.221	1.028	63.193
- Information and communication	3.262	74	3.188
- Financial and insurance activities	5.513	322	5.191
- Real estate business	196	1	195
- Professional, scientific and technical activities	2.181	43	2.139
- Administrative and support service activities	819	14	805
- Public administration and defense, compulsory social security	101.942	2.502	99.440
- Education	32	-	32
- Health and social care	159	1	158
- Arts, entertainment and recreation	211	3	208
- Other service activities	183	2	181
- Individuals	195.362	4.363	190.999
- Non-residents	5.987	105	5.882
Total	531.172	15.938	515.234

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.

EXPOSURES BY RESIDUAL MATURITY
 as of 31 December 2019

in 000 EUR

Type of gross exposures	Up to one year	One to five year	More than five years	Total
Loans and receivables from banks	37.934	-	-	37.934
Loans and receivables from customers	50.287	151.626	291.325	493.238
- Financial institutions	1.057	3.428	-	4.484
- Non-governmental organizations	217	1.017	-	1.235
- Companies	40.531	59.479	83.997	184.009
- Entrepreneurs	65	469	-	534
- Individuals	6.027	47.091	144.404	197.521
- Credit cards	1.936	960	-	2.895
- Government and government institutions	454	39.182	62.924	102.560
- Regulatory agencies	-	-	-	-
- Investment funds	-	-	-	-
Total	88.221	151.626	291.325	531.172

PROVISIONS FOR NON-PERFORMING ASSETS
 as of 31 December 2019

in 000 EUR

Description	Undue gross exposure	Due not paid gross exposure	Allowance for impairment
Exposures classified as non-performing assets	3.025	6.708	6.965

NON-PERFORMING ASSETS BY GEOGRAFIC REGIONS
 as of 31 December 2019

in 000 EUR

Type of exposures	Undue gross exposure	Due not paid gross exposure	Allowance for impairment	Net exposures	Regulatory reserves
Montenegro	2.990	6.679	6.919	2.750	6.919
- C1	855	62	222	694	222
- C2	215	38	115	138	115
- D	182	81	93	170	93
- E	1.738	6.498	6.489	1.748	6.489
Other countries	35	29	46	17	46
- C1	6	1	3	4	3
- C2	-	-	-	-	-
- D	-	2	1	1	1
- E	29	26	42	12	42
Total loans and advances to customers	3.025	6.708	6.965	2.767	6.965

CHANGES IN PROVISIONS FOR LOAN RECEIVABLES
 as of 31 December 2019

in 000 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 2018	14.453	-	791	1.498	16.742
Allowance for impairment and provisions during the year	(595)	-	311	(58)	(342)
Allowance for impairment of sold placements during the	(142)	-	(33)	-	(175)
Write-off of allowance for impairment	(277)	-	(10)	-	(287)
Total	13.439	-	1.059	1.440	15.938

VII. STANDARDIZED APPROACH TO EXPOSURE WEIGHTING

- (1) 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. The Bank does not use the rating of external institutions to calculate risk weights for individual exposures.

RISK WEIGHTED BALANCE SHEET ASSETS
 as of 31 December 2019

in 000 EUR

Description of risk weighted category	Gross exposure	Risk provisioning	Net exposure	Risk-weighted exposure
	1	2	3=1-2	4
Risk-weight 0%	342.318	2.856	339.462	-
Risk-weight 10%	-	-	-	-
Risk-weight 20%	38.403	86	38.317	7.663
Risk-weight 35%	25.283	286	24.997	8.749
Risk-weight 50%	35.213	950	34.263	17.132
Risk-weight 75%	158.030	1.205	156.825	117.619
Risk-weight 100%	192.197	23.837	168.360	168.360
Risk-weight 150%	-	-	-	-
Risk-weight 350%	-	-	-	-
Total risk weighted balance sheet assets	791.444	29.220	762.224	319.523

RISK WEIGHTED OFF BALANCE SHEET ASSETS
 as of 31 December 2019

in 000 EUR

Description of risk weighted category	Gross exposure	Risk provisioning	Net exposure	Risk-weighted exposure
	1	2	3=1-2	4
Risk-weight 0%	2.765.491	-	2.765.491	-
Risk-weight 10%	-	-	-	-
Risk-weight 20%	1.896	-	1.896	76
Risk-weight 35%	-	-	-	-
Risk-weight 50%	49.014	396	48.618	12.155
Risk-weight 75%	-	-	-	-
Risk-weight 100%	13.637	284	13.353	13.353
Risk-weight 150%	-	-	-	-
Risk-weight 350%	-	-	-	-
Total risk weighted off balance sheet assets	2.830.038	680	2.829.358	25.584

CAPITAL REQUIREMENT FOR OTHER RISK
 as of 31 December 2019

in 000 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	30.527	3.053
Capital requirement based on the operational risk	-	5.742

VIII. OPERATIONAL RISK

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

IX. CURRENT INVESTMENTS IN SHARES OF LEGAL ENTITIES

- (1) In accordance with the business model, the Bank carried out the reclassification of securities that were recorded in the previous period as financial assets held for trading (VISA, Elektroprivreda Crne Gore and Lutrija Crne Gore), to securities at fair value through other

comprehensive income. Also, the Bank reclassified the shares of the Central Depository Agency, Podgorica from investments in associates and joint ventures using the equity method to the class of securities at fair value through other comprehensive income.

SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
as of 31 December 2019

in 000 EUR

Description	Elektrop rivreda AD Podgori ca	Lutrija AD Podgorica	Montene groberza AD, Podgorica	CKDD	Montene groberza AD, Podgorica	SWIFT	Lovćen osiguranje AD, Podgorica
Balance as at 1 January 2019	200	18	105	143	46	2.580	3.900
Inflows from sales during the year	-	-	-	-	-	(3.722)	(5.361)
Realized gains / losses after deduction of 9% of income tax liabilities (part of comprehensive income)	-	-	-	-	-	3.239	1.641
Unrealized gains / losses	5	-	-	-	3	(2.200)	(327)
Effects of exchange rate differences	-	-	-	-	-	103	147
Balance as at 31 December 2019	205	18	105	143	49	-	-

- (2) In October 2019, the Bank sold 15,670 shares of MasterCard, class B and 8,466 shares of VISA International, class C. In accordance with IFRS 9, the Bank disclosed the profit based on sales in other comprehensive income.

X. EXPOSURE TO INTEREST RATE RISK FROM THE BANKING BOOK

- (1) In 2019, 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 2019.

XI. RISK 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 Regulation.
- (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
 -) 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 Regulation defines the principles for collateral evaluation in CKB, as well as responsibilities and competences of bodies in collateral appraisal process. The Regulation 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;
-) mortgage on immovable property;
-) other tangible collaterals (insurance policy etc.);
-) promissory note;
-) authorization for collection;
-) guarantees, sureties.

XII. EVENTS AFTER THE REPORTING DATE

XII.1. First-time application of IFRS 16 – Leasing

Based on the letter from the Central Bank of Montenegro No. 03-937-1/2020 of 06.02.2020, the Bank recognized the following changes in the balance sheet as of 1 January 2020.

1 January 2020

Property with the right of use	3.202
Leasing liabilities	3.265
Cumulative effect recognized as an adjustment to equity at the date of first application	(63)

In accordance with the above letter, the Bank had the option to apply the modified retrospective method under IFRS 16.C5 (b), which implies un-adjusted comparative information and recognition of the cumulative effect as an adjustment to the opening balance sheet at the beginning of the current period (date of initial application).

XII.2. COVID-19

The rapid spread of Covid-19 virus and its social and economic effects in Montenegro, as well as globally, may result in assumptions and estimates that will require revision, which then may lead to material adjustments to the carrying amount of assets and liabilities over the next business year. At this stage, the management is not able to reliably assess the impact because new events change the situation daily.

In addition, at the session of the Council on 17 March 2020, the Central Bank of Montenegro adopted the Decision on interim measures to mitigate the adverse effects of the new Coronavirus on the financial system ("Official Gazette of Montenegro", No. 019/20 of 19 March 2020 ("Decision")) which stipulates that loan beneficiaries (legal entities, natural persons, entrepreneurs and other loan users) who have been approved loans by banks are entitled to a moratorium on loan repayment of up to 90 days. The Bank's management is not able to assess the possible effects of the said Decision on the financial statements.

In the long run, the consequences can affect the volume of placements, cash flows and profitability. Notwithstanding the foregoing, at the date of issuing of these financial statements, the Bank still meets its obligations at their maturity and therefore continues to apply the going concern principle as the accounting basis for the preparation of these financial statements.

XIII. CLOSING PROVISIONS

Public Disclosure of Data for 2019 shall come into effect on the day of its adoption by the Management Committee.