



DEPOSIT PROTECTION FUND

**DEPOSIT PROTECTION
FUND
ANNUAL REPORT
2019**

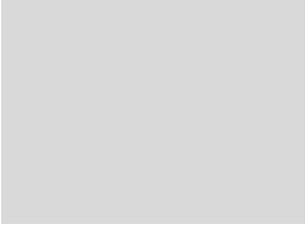
Podgorica, May 2020

ABBREVIATIONS:

| | |
|-----------------------------------|---|
| CBCG | <i>Central Bank of Montenegro</i> |
| EBRD | <i>European Bank for Reconstruction and Development</i> |
| EFDI | <i>European Forum of Deposit Insurers</i> |
| EC | <i>European Commission</i> |
| EU | <i>European Union</i> |
| Fund | <i>Deposit Protection Fund</i> |
| FSAP | <i>Financial Sector Assessment Program</i> |
| IADI | <i>International Association of Deposit Insurers</i> |
| IADI CP | <i>International Association of Deposit Insurers Core principles</i> |
| MF | <i>Ministry of Finance</i> |
| MMF | <i>International Monetary Fund</i> |
| SB | <i>World bank</i> |
| MB | <i>Managing Board</i> |
| Law | <i>Deposit Protection Law</i> |
| Directive 94/19 EC | <i>Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes</i> |
| Directive 2014/49 EC | <i>Directive 2014/49/EC of the European Parliament and of the Council of 16 April 2014 on deposit-guarantee schemes</i> |
| Directive 2014/59 EC | <i>Directive 2014/59/EC of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms</i> |

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Introductory remarks

INTRODUCTORY REMARKS

The end of 2018 was marked by the introduction of an interim administration in two banks. Namely, on 7 December 2019, the Central Bank of Montenegro (hereinafter: the CBCG) passed a Decision on the introduction of interim administration in INVEST BANKA MONTENEGRO a.d. Podgorica and ATLAS BANKA a.d. Podgorica.

“The results of on-site examination disclosed that both banks were critically undercapitalised and insolvent, thus putting their further business operations under question. The determined solvency ratio for both banks was below a half of the statutory requirement, thus, in accordance with the imperative norms set out in the Banking Law and based of the findings of on-site examinations, the CBCG introduced interim administration in Atlas banka and Invest banka Montenegro and appointed interim administrators on 7 December 2018.”¹

In early 2019, based on the Invest bank’s interim administrator’s report on the balance as at 31 December 2018, the CBCG concludes that „that the bank's solvency ratio, own funds, and capital were negative, thus fulfilling the conditions to revoke the bank's licence in line with the Banking Law, while fulfilling the conditions to initiate insolvency proceedings in line with the Bank Bankruptcy and Liquidation Law.”²

On 4 January 2019, the CBCG submitted to the Fund the Decision no. 0101-10202-3/2018 on initiating bankruptcy proceedings against Invest Bank Montenegro, which triggered the occurrence of the protected event as of the same date, in accordance with the provisions of the Deposit Protection Law (Official Gazette of Montenegro 44/10, 40/11, and 47/15).

“In the Report of the interim administrator on the financial position and business operating conditions of Atlas banka AD Podgorica, with the status as at 31 December 2018, it was stated that recapitalisation in the amount of 22 million euros would provide the bank with adequate capital position in line with its risk profile and improved its liquidity position.”³

Although there were indications that the sale of the bank could take place within the given deadline for the recapitalization by the shareholders, and later by other interested parties, it was stated that there were no interested parties in the public call for recapitalization so the CBCG passed a Decision, no. 0101-3292-4 / 2019 on 5 April 2019 on initiating bankruptcy proceedings against Atlas Bank and this triggered the occurrence of the protected event as at the same date, in accordance with the provisions of the Deposit Protection Law (“Official Gazette of Montenegro” no. 44/10, 40/11 and 47/15)

The emergence of these two protected events and the drafting of a new Deposit Protection Law have largely determined the activities of the Fund in 2019. Timely and adequate intervention of the Fund contributed to preserving the stability of the banking sector and overall financial system and maintained high confidence of depositors in the banking system.

¹ CBCG 2018 Financial System Stability Report

² ibid

³ ibid

BASIC INFORMATION ON DEPOSIT INSURANCE

1

1. BASIC INFORMATION ON DEPOSIT INSURANCE

Deposit Protection Fund

The Deposit Protection Fund was established under the Deposit Protection Law (Official Gazette of the Republic of Montenegro 40/2003) and it started operating on 18 November 2004 when it was registered in the Statistical Office of Montenegro's registry. A new Deposit Protection Law (OGM 44/10, 40/11, 47/15) was further aligned with the Directive 2014/49/EC (as amended by Directive 2009/14/EC). In exercising its competences, the Fund: 1) establishes the rate for premium calculation; 2) collects the premiums; 3) invests its funds; 4) calculates and performs the payout of the guaranteed deposits; 5) passes secondary legislation provided for under this law, and 6) performs other activities in accordance with the law.

The main activity of the Fund is the insurance of bank deposits and it is obliged to compensate guaranteed deposits to depositors in case of the occurrence of a protected event (bank bankruptcy), up to the amount prescribed by the law. Commercial banks licensed by the Central Bank of Montenegro are obliged to pay the premiums in the manner established by the law. The deposit insurance scheme comprises deposits with banks as at or before the protected event occurrence date. A protected event occurs on the day of passing a decision on initiating bankruptcy proceedings against a bank. The Fund compensates guaranteed deposits in the amount of 50,000 euros per depositor and per bank, regardless of the number and amounts held by a depositor in a bank subject to bankruptcy proceedings.

The Fund's bodies are the Managing Board and the Director General.

Mission

The Fund's mission is to ensure efficient and expedient payout of guaranteed deposits in a case of bankruptcy initiated in any of the banks in Montenegro.

Vision

A stable financial system based on confidence, safety, and protection of depositors.

Objectives

The main objectives of the Fund are improved confidence of depositors in the Montenegrin banking system and the protection of depositors against loss in case of a bank failure. The Fund attains the aforesaid objectives with clearly defined obligations towards depositors, the promotion of public confidence in the system, and the providing of funds for the protection of insured deposits.

Governance and Management

The Fund is governed by the three-member Managing Board (MB) appointed by the CBCG Council, whereby one member is nominated by the Ministry Finance and one member is nominated by the Association of Montenegrin Banks and Financial Institutions. Pursuant to the Law, the MB holds meetings at least on quarterly basis.

In addition to the powers specified in the Law, the Fund's By-Law specifies that the MB shall adopt internal general acts, consider the implementation of activities, discuss quarterly reports on the movement of deposits, consider annual and semi-annual reports on investment of funds, decide on the acquisition of immovable property, determine the way of cooperation with government authorities, organizations, and other institutions in Montenegro, define the manner of cooperation with international financial institutions, organizations and deposit insurance schemes, decide on the transfer of certain powers to the Director General of the Fund, and perform other tasks stipulated by the Law and the By-Law.

Pursuant to the Rules of Procedure of the Fund, the MB informs the public about its work, decisions, conclusions and positions, as well as significant issues discussed via press releases, website of the Fund, press conferences, interviews, and in other suitable ways.

Members of the Managing Board of the Fund in the reporting year were:

- Mr. Dejan Vujačić, (Director of the CBCG Supervision Department), the Chairman as of 10 September 2018;
- Ms. Ivana Radojičić, (Adviser in the Ministry of Finance) a member as of 23 July 2019 (succeeded Ms. Jelena Jovetić, a Department Head in the Ministry of Finance until that date);
- Mr. Nebojša Đoković, (Economic Adviser in the Association of Montenegrin Banks and Financial Institutions) a member as of 10 September 2018.

During the reporting period, the MB held 8 (eight) meetings.

The Director General of the Fund is elected as per the job vacancy announcement and appointed by the MB to a four-year term of office and he/she may be reappointed. The Director General represents and acts on behalf of the Fund, manages the Fund and is responsible for the legality of the Fund's operations. Pursuant to the Law, the Director General proposes the Fund's By-law and secondary legislation, the premium calculation rate, the financial plan of the Fund, annual financial statements with the auditor's report and opinion, the annual operating report of the Fund, and the investment policy of the Fund, implements decisions of the Managing Board, decides on the investment of the Fund's resources up to the amount specified under the By-law of the Fund, issues separate decisions to depositors not entitled to the guaranteed deposit payout, decides on the rights, obligations and responsibilities of the Fund employees, takes care of the utilisation of funds for covering operating costs of the Fund, and performs other tasks and duties in line with the law and the By-law of the Fund.

The seat of the Fund is in Podgorica, Miljana Vukova bb Street.

Web address: www.fzdcg.org and e-mail: fzd@fzdcg.org.

Harmonization of the legislative and institutional framework with the EU acquis in the field of deposit insurance system

In the process of accession to the European Union, Montenegro has, among other things, undertaken the obligation to harmonize its financial legislation with the Directives 2014/49/EU and 2014/59/EU. This alignment was done by adopting a package of legal regulations, i.e. by adopting the Law on Credit Institutions, Law on Resolution of Credit Institutions, Deposit Protection Law, and Amendments to the Bank Bankruptcy and Liquidation Law, which entered into force in early 2020.

World Bank (WB) consultants provided significant assistance in the drafting of the Deposit Protection Law as well as bylaws adopted on the basis of this law (particularly the Methodology for calculating the risk-based premium of individual credit institutions).

In addition, consultations with the EFDI members, which are also EU member states, have contributed to the draft law being in line with directives and best practices to the greatest extent possible.

On 2 December 2019, the Parliament of Montenegro passed the Deposit Protection Law and it was published in the "Official Gazette of Montenegro" no. 072/19 as of 26 December 2019. The Law entered into force on 3 January 2020.

The key changes envisaged by the new Law are:

- Risk-based premium calculation for individual credit institutions;
- Deadline for commencing payout shortened to 7 working days;
- Increased level of guaranteed deposit to EUR 100,000;
- Expanded scope of guaranteed deposit - temporarily high balance introduced;
- The Fund is granted greater autonomy, responsibility and independence through the following activities:
 - testing the resilience of the deposit protection system to stress;
 - the possibility of participating in the resolution of credit institutions.
 - the possibility of borrowing from other deposit guarantee schemes in the EU member states.

The new Law is also aligned with the Core Principles for Effective Deposit Insurance Systems, issued by the International Association of Deposit Insurance Systems (IADI), which in the process of assessing compliance and meeting the recommendations of the

joint IMF/WB Financial Sector Assessment Program (FSAP) mission to Montenegro as of 2015.

Members of the Deposit Protection Fund

In the Montenegrin financial system, which includes banks, microcredit financial institutions, insurance companies, leasing companies, and other financial institutions, the prevailing role has the banking sector. There were thirteen banks operating in the country in the reporting year (two banks under bankruptcy), of which eleven were with the majority equity held by non-residents.

The first half of 2019 was marked by the introduction of bankruptcy proceedings in two banks. On 4 January 2019, the CBCG Council issued a Decision on initiating bankruptcy proceedings against Invest Bank Montenegro A.D. Podgorica and on 5 April 2019 a Decision on initiating bankruptcy proceedings against Atlas Bank A.D. Podgorica. Consequently, in accordance with the Deposit Protection Law, protected events occurred on 4 January and 5 April 2019, respectively.

Total accrued guaranteed deposits amount to EUR 112,617,267 (IBM - EUR 22,333,240 for 2,677 depositors, who have a guaranteed deposit \leq EUR 50,000; Atlas Bank EUR 90,284,027 for 90,095 depositors who have a guaranteed deposit \leq EUR 50,000).

On 31 December 2019, EUR 21,475,374 of guaranteed deposits of Invest Bank Montenegro under bankruptcy were paid out to 881 depositors, which is 96.16% of total guaranteed deposits and 32.9% of depositors with a guaranteed deposit were compensated (a small percentage of depositors is due to the fact that 51% depositors entitled to the guaranteed deposit had a deposit of less than 5 euros and did not claim their deposits).

On 31 December 2019, EUR 80,408,226 of guaranteed deposits of Atlas Bank under bankruptcy were paid out to 10,246 depositors, which is 86.06% of total guaranteed deposits and 11.37% of depositors with have a guaranteed deposit were compensated (a small percentage of depositors is due to the fact that 73.12% depositors entitled to the guaranteed deposit had a deposit of less than 5 euros and did not claim their deposits).

On 28 February 2019, Crnogorska komercijalna banka A.D. Podgorica signed an purchase agreement for the acquisition of 90.55% of the total share capital of Societe Generale Bank Montenegro AD. After this, Societe Generale Bank Montenegro A.D. changed its name to Podgorička banka A.D. Podgorica.

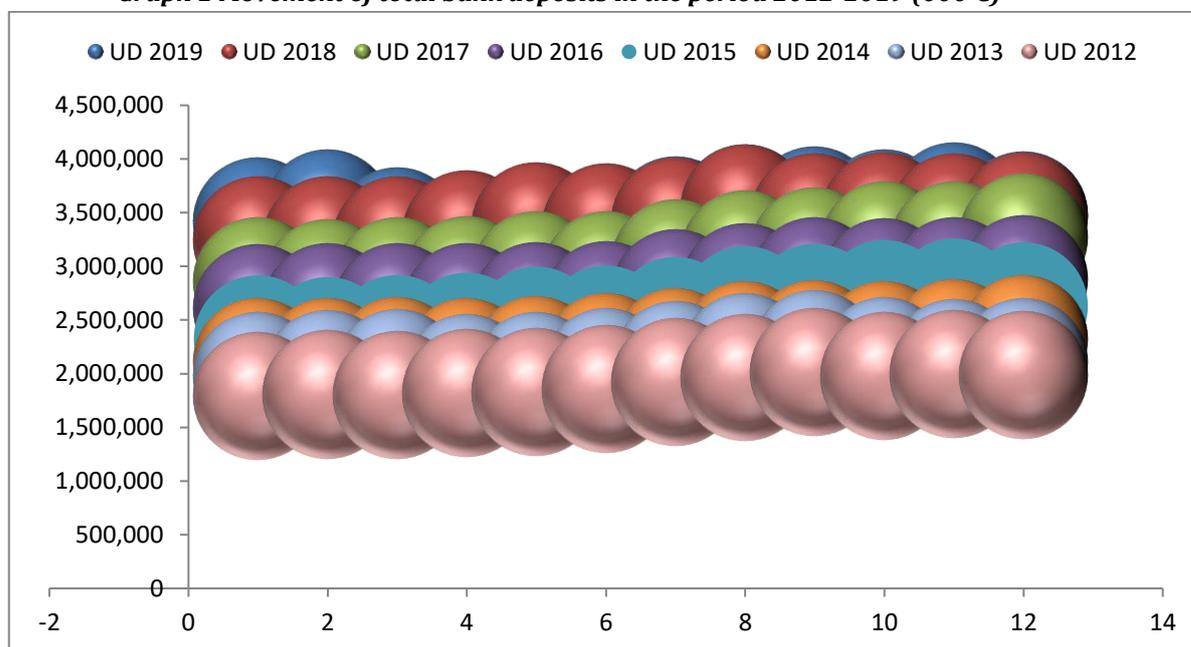
On 31 December 2019, the Fund had thirteen member banks, with total deposits being insured under the Montenegrin deposit guarantee scheme and in accordance with the Law.

Of the total amount of deposits placed with banks, corporate deposits accounted for 49.32%, and retail deposits made up 50.68% of total deposits at the end of the observed period. Compared year-on-year, retail deposits declined by 3.55%, and corporate deposits rose by 5.04% compared to 2018.

As at the same reporting date, deposits not covered under the deposit guarantee scheme accounted for 9.16% of total deposits.

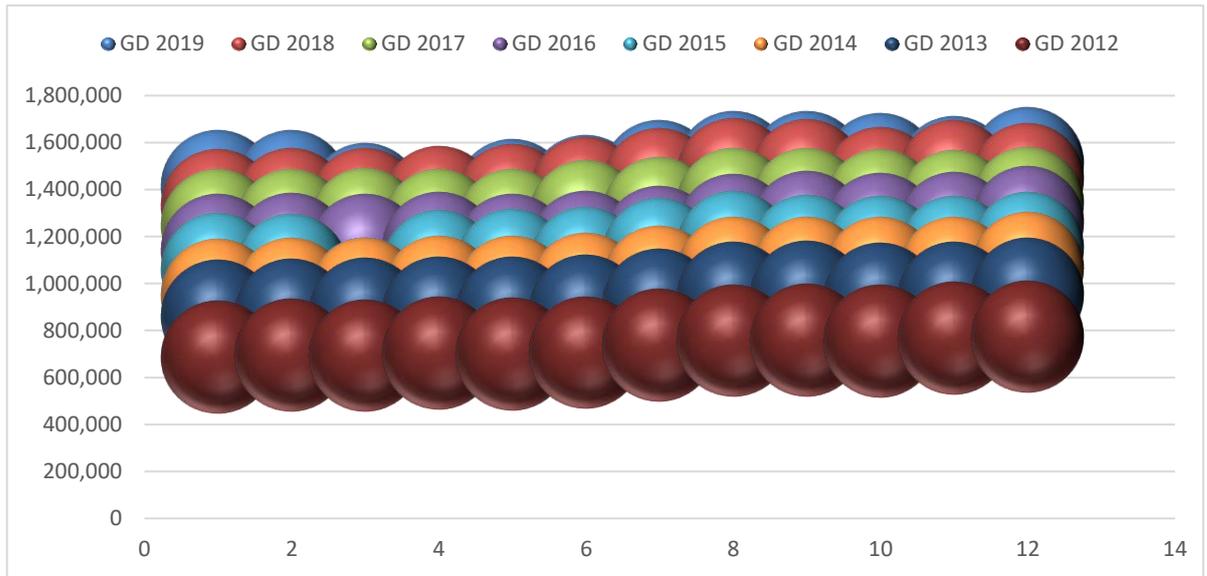
Graph 1 shows the trend of total deposits and Graph 1-A the trend of guaranteed deposits over the period 2012-2019.

Graph 1 Movement of total bank deposits in the period 2012-2019 (000 €)



*Source: Monthly bank reports

Graph 1-A. Movement of guaranteed bank deposits in the period 2012-2019 (000 €)



**Source: Monthly bank reports*

LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSITCATEGORIES

2

1. LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES

2.1 Total deposits

Total bank deposits amounted to EUR 3,476,948,875 as at 31 December 2019 whereas at end-2018 they totalled EUR 3,461,625,244, which is the year-on-year increase of 0.44% (year-on-year growth in 2018 was 5.84%).

When two banks that were not part of the statistics for December 2019 are excluded, total deposits with banks increased by EUR 258.2 million or 8.02% on the annual basis compared to the end of the previous year.

During the first two quarters of the reporting year, total bank deposits were on a downtrend (-0.68% and -5.08%, respectively) due to the failure of 2 banks, followed by growth of 7.78% in Q3 and a slight decline of -1.15% in Q4.

Table 1 Balance of total deposits by quarters in 2019 (000 €)

| | 31/12/2018 | 31/03/2019 | 30/06/2019 | 30/09/2019 | 31/12/2019 |
|--------------|------------|------------|------------|------------|------------|
| TOTAL | 3,461,625 | 3,438,117 | 3,263,383 | 3,517,230 | 3,476,949 |

**Source: Monthly bank reports*

The biggest depositors in banks were households and corporates.

The share of household deposits amounted to 1.74 billion euros or 50.68% of total deposits as at 31 December 2019, making this sector the most significant depositor in the Montenegrin banking system. The number of household depositors amounted to 762,932 or 91.84% of the total number of depositors.

The corporate sector accounted for 49.32% or 1.42 billion euros of total deposits in banks. The number of corporate depositors amounted 65,467, which is 7.88% of total depositors at end-2019.

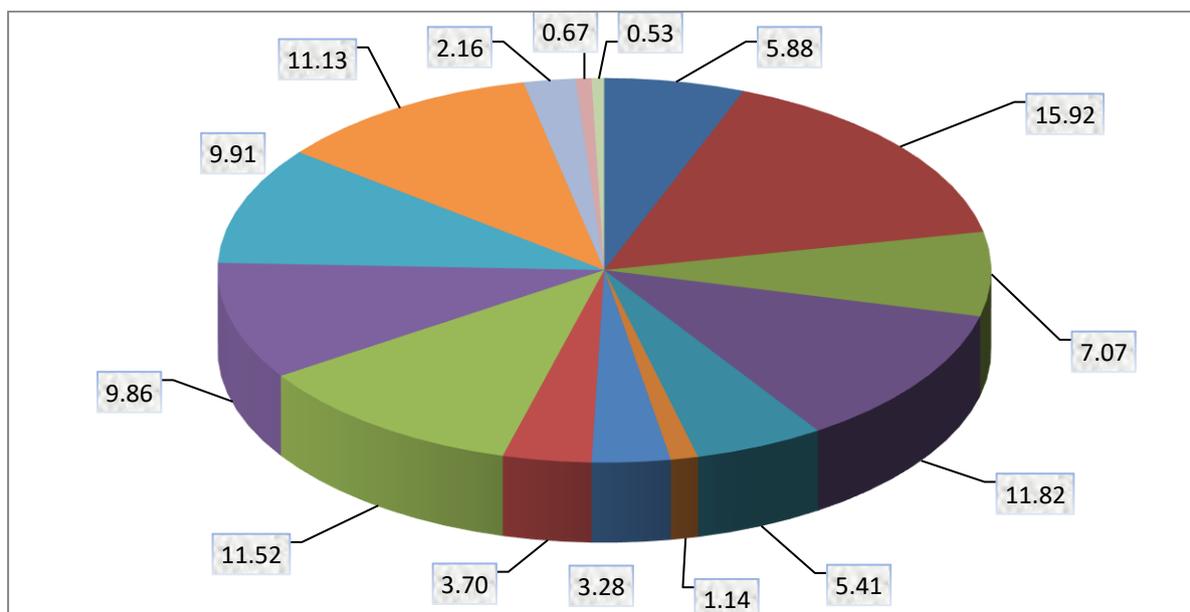
The total number of depositors was 830,692 and this represents the year-on-year decrease of 6.33% (886,784) as a result of bankruptcy in the two banks.

The trend of reducing the banking sector concentration continued in 2019. From the once highly concentrated market and the dominant role of three largest banks, the situation today is obviously different and the banking market is closer to being a competitive market (at the end of 2008, two banks with the highest deposit amounts

made up 60.33% and at the end of 2019 they accounted for 30.65% of the deposit portfolio of the banking sector).

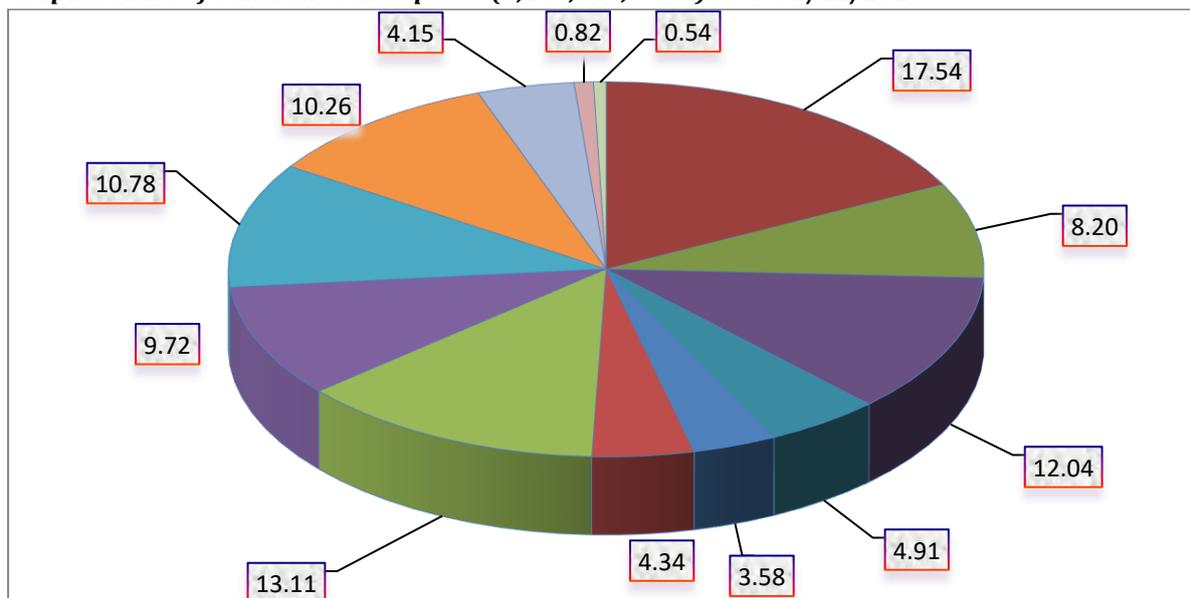
The shares of individual banks in total deposit portfolios in 2018 and 2019 are presented in Graphs 2 and 3, respectively.

Graph 2 Share of banks in total deposits (3,461,625,244 €) as at 31/12/2018



*Source: Monthly bank reports

Graph3. Share of banks in total deposits (3,476,948,875 €) as at 31/12/2019



*Source: Monthly bank reports

At end-2018, the largest bank in terms of total deposits held 15.92% of total deposits, whereas a year later this share rose to 17.54%. The second largest bank saw the year-on-year increase in its share in total deposits from 11.82% to 13.11%.

Individual shares of other banks in total deposits in the banking system remained at the same levels as at end-2018.

Deposits by persons not entitled to the guaranteed deposit payout

Deposits by persons who are not entitled to the guaranteed deposit payout in line with Article 6 paragraph 2 points 1 to 12 and paragraph 3 points 1 and 2 of the Law are presented in Table 2 (data as at end-quarters).

Quarterly data point to fluctuations of these deposits during the reporting year with increases being recorded in Q1 and Q2 (5.64% and 4.51%, respectively), and declines in Q3 and Q4 (-1.56% and 9.93%, respectively), which resulted in the year-on-year deposit increase of 6.97% at end-2019. The number of depositors not entitled to the guaranteed deposit payout amounted to 2,293, which is 6.86% fewer than in the previous year (2,462).

Table 2 Deposits by persons not entitled to the guaranteed deposit payout, by quarters in 2019 (000 €)

| | 31/12/2018 | 31/03/2019 | 30/06/2019 | 30/09/2019 | 31/12/2019 |
|---|------------------|------------------|------------------|------------------|------------------|
| Deposits by persons not entitled to payout | 297.903 | 314.702 | 328.891 | 323.750 | 318.668 |
| TOTAL DEPOSITS | 3.461.625 | 3.438.117 | 3.236.383 | 3.517.230 | 3.476.949 |
| % share in total deposits | 8.61 | 9.15 | 10.08 | 9.20 | 9.17 |

**Source: Monthly bank reports*

As at 31/12/2019, this category of deposits accounted for 9.17% of total deposits and their share in total deposits slightly changed in comparison with end-2018 when it stood at 8.61%.

Deposits by government entities and organisations accounted for the main share of depositors not entitled to the guaranteed deposit payout (49.11%).

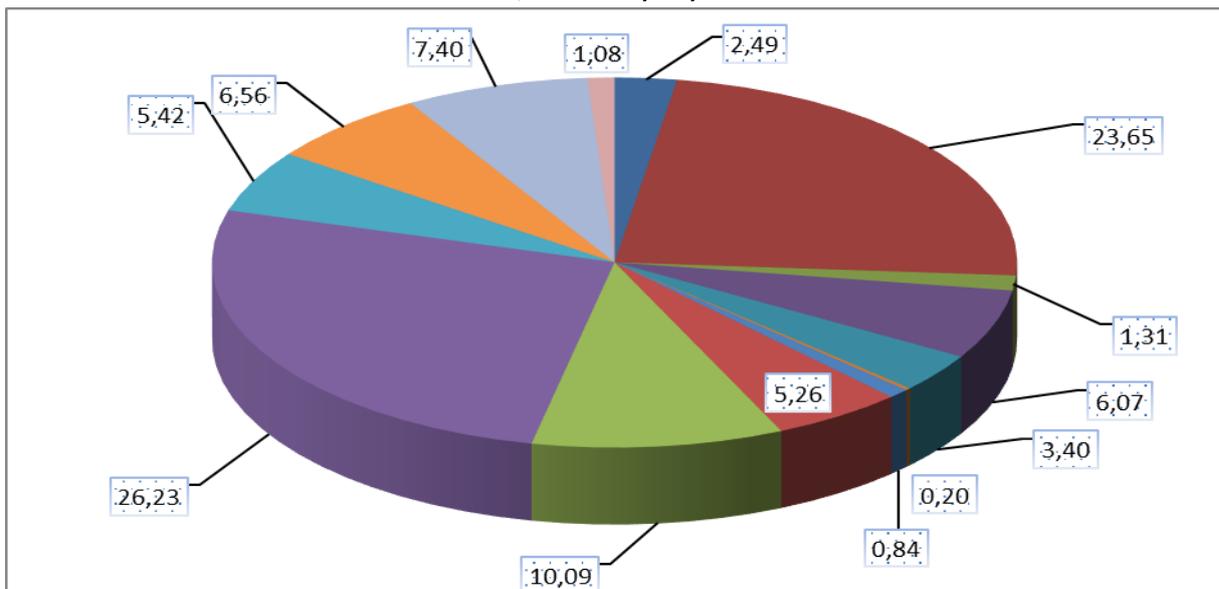
The share of deposits by financial institutions made up 12.38%, whereas deposits by legal persons engaged in insurance business accounted for 4.38%, and deposits by legal persons with either direct or indirect participation in capital or voting rights of 5% or more in the relevant bank made up 7.55%.

The year-on-year percentage increase of deposits by persons not entitled to the guaranteed deposit payout (of 6.97%) is the result of the following changes:

- a decrease of 4.89% or EUR 4.5 million in deposits by government entities and organisations and municipal or other forms of local self-government organisations);
- an increase of 4.60% or EUR 17 million in deposits by investment funds and investment fund management companies;
- a 1.23% or EUR 3.8 million decrease in deposits by the holders of securities and other financial instruments issued or guaranteed by banks;
- an decrease of 1.44% or EUR 2.8 million euros in deposits by legal persons holding, whether directly or indirectly, at least 5% share in bank capital or voting rights;
- an increase of 5.20% or EUR 18 million in deposits by banks, credit unions, microcredit financial institutions and entities performing credit guarantee operations;

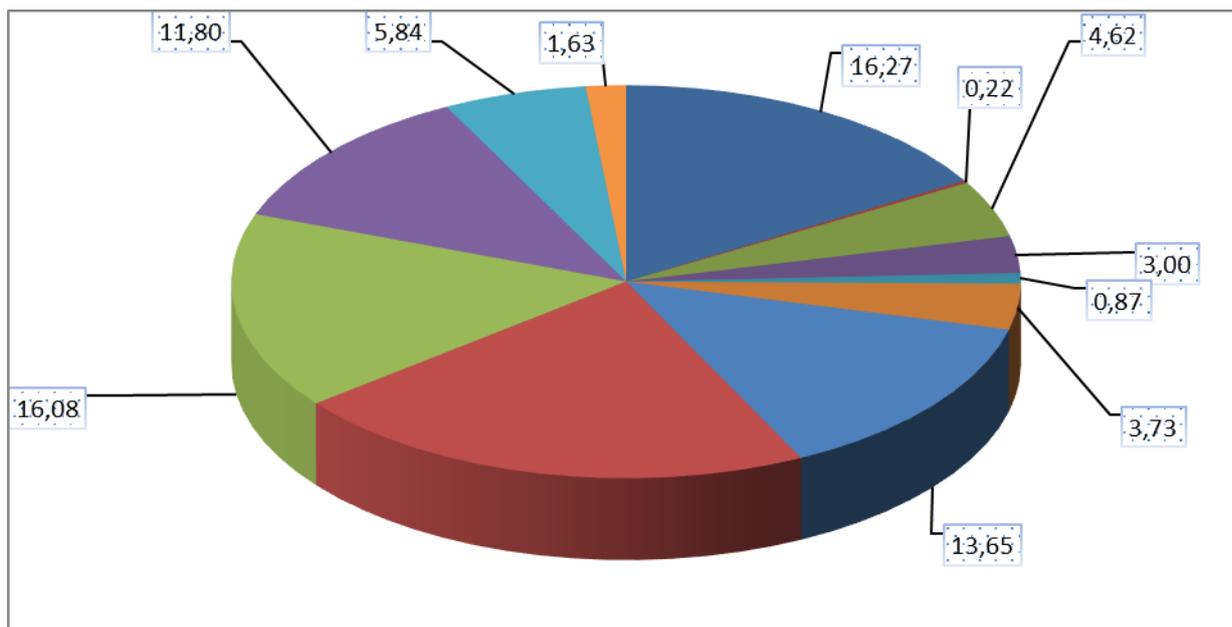
Other categories of deposits by persons not entitled to the guaranteed deposit payout experienced no significant changes at the end of the reporting year as compared to the previous year.

Graph 4 Deposits by persons not entitled to the guaranteed deposit payout, by banks, as at 31/12/2018



*Source: Monthly bank reports

Graph 5 Deposits by persons not entitled to the guaranteed deposit payout, by banks, as at 31/12/2019



**Source: Monthly bank reports*

The movement of deposits by depositors not entitled to the guaranteed deposit payout has no direct impact on the deposit protection scheme but it is necessary to track their trending from the aspect of the ratio of total deposits to guaranteed deposits for the purpose of determining the methodology for the calculation of the regular premium rate.

Deposits by persons entitled to the guaranteed deposit payout

All depositors whose deposits are not excluded within the meaning of Article 6 paragraph 2 points 1-12 and paragraph 3 points 1 and 2 of the Law are entitled to the guaranteed deposit payout (Table 3).

Deposits by persons entitled to the guaranteed deposit payout, that is, total deposits by natural and legal persons included in the deposit protection scheme as at 31/12/2019 amounted to EUR 3,158,281,035, as compared to EUR 3,163,722,111 at 31/12/2018.

Quarterly data for show oscillations during the reporting year with declines in Q1, Q2 and Q4 (of 1.27%, 6.05% and 1,10%, respectively), and an increase in Q3 (8.83%), which indicates a minor year-on-year decrease of 0.17%.

Table 3 Deposits by persons entitled to guaranteed deposit payout (in 000 €)

| | TOTAL | Natural persons | Legal persons | NP in % (2/1) | LP in % (3/1) |
|-------------------|-----------|-----------------|---------------|---------------|---------------|
| | 1 | 2 | 3 | 4 | 5 |
| 31/12/2018 | 3,163,722 | 1,818,190 | 1,345,532 | 57.47 | 42.53 |

| | | | | | |
|------------------------|------------------|------------------|------------------|--------------|--------------|
| 31/03/2019 | 3,123,415 | 1,745,145 | 1,378,270 | 55.87 | 44.13 |
| 30/06/2019 | 2,934,492 | 1,674,140 | 1,260,352 | 57.05 | 42.95 |
| 30/09/2019 | 3,193,480 | 1,723,582 | 1,469,898 | 53.97 | 46.03 |
| 31/12/2019 | 3,158,281 | 1,738,233 | 1,420,048 | 55.04 | 44.96 |
| 31/12/2019/ 31/12/2018 | -0.17% | -4.40% | 5.54% | | |
| 31/12/2019- 31/12/2018 | -5,441 | -79,957 | 74,516 | | |

**Source: Monthly bank reports*

Deposits by natural persons accounted for the main share in the structure of deposits by persons entitled to the guaranteed deposit payout (90.83%). Household deposits made up 55.04% and corporate deposits accounted for 44.96%.

The structure of these deposits did not significantly change in comparison with 2018. Both categories of deposits recorded some changes in the reporting period (household deposits decreased by 4.40% and corporate deposits rose 5.54%), so the overall result is a 0.17% decrease.

Table 3.1 Number of depositors entitled to guaranteed deposit payout

| | TOTAL | Natural persons | Legal persons | NP in % (2/1) | LP in % (3/1) |
|------------------------|----------------|------------------------|----------------------|----------------------|----------------------|
| | 1 | 2 | 3 | 4 | 5 |
| 31/12/2018 | 885,626 | 818,558 | 67,068 | 92.43 | 7.57 |
| 31/03/2019 | 883,149 | 816,305 | 66,844 | 92.43 | 7.57 |
| 30/06/2019 | 815,445 | 751,363 | 64,082 | 92.14 | 7.86 |
| 30/09/2019 | 823,153 | 758,274 | 64,879 | 92.12 | 7.88 |
| 31/12/2019 | 828,399 | 762,932 | 65,467 | 92.10 | 7.90 |
| 31/12/2019/ 31/12/2018 | -6.46% | -6.80% | -2.39% | | |
| 31/12/2019- 31/12/2018 | -5,441 | -79,957 | 74,516 | | |

**Source: Monthly bank reports*

The number of depositors entitled to the guaranteed deposit payout decreased year-on year to from 885,626 in 2018 to 828,399 in the reporting year or by 6.46%, whereby the number of natural persons declined by 6.80% and the number of legal person fell by 2.39%.

Of 828,399 depositors entitled to the guaranteed deposit payout as at 31/12/2019, 73,383 had liabilities towards banks exceeding their deposits with banks (these depositors would not be repaid their guaranteed deposits as they would be set off against their due liabilities). Column 1 in Table 3.2 shows the number of depositors whose deposits exceeded their liabilities to banks, that is, the number of depositors who would be entitled to the guaranteed deposit payout by the Fund in case of hypothetical bankruptcy of all banks (755,016).

Table 3.2 Number of depositors whose deposits⁴ exceed their due liabilities to banks

| | TOTAL | Natural persons | Legal persons | NP in % (2/1) | LP in % (3/1) |
|-------------------------|----------------|-----------------|---------------|---------------|---------------|
| | 1 | 2 | 3 | 4 | 5 |
| 31/12/2018 | 800,171 | 738,783 | 61,388 | 92.43 | 7.57 |
| 31/03/2019 | 800,279 | 736,221 | 64,058 | 92.43 | 7.57 |
| 30/06/2019 | 732,527 | 670,834 | 61,693 | 92.14 | 7.86 |
| 30/09/2019 | 738,128 | 675,429 | 62,699 | 92.12 | 7.88 |
| 31/12/2019 | 755,016 | 691,760 | 63,256 | 92.10 | 7.90 |
| 31/12/2019 / 31/12/2018 | 0.94% | 0.94% | 1.03% | | |
| 31/12/2019 - 31/12/2018 | -45,155 | 47,023 | 1,868 | | |

**Source: Monthly bank reports*

Guaranteed deposits

Guaranteed deposits amounted to EUR 1,511,615,831 as at 31/12/2019, showing the year-on-year increase in the reporting year of 3.06% (they totalled EUR 1,466,697,210 on 31/12/2018).

When two banks that were not part of the statistics in December 2019 were to be excluded from the data for the same month of the previous year, total guaranteed deposits would record an increase of 11.90% year-on-year.

On 2 December 2019, the Parliament of Montenegro adopted the Deposit Protection Law ("Official Gazette of Montenegro" no. 072/19 of 26 December 2019), which entered into force on 3 January 3 2020.

The new law increased the coverage from EUR 50,000 to EUR 100,000. Deposits representing a temporary high balance are insured in the additional amount of up to EUR 30,000, six months after the amount has been credited or from the moment when such deposits become legally transferable.

The Fund continues to calculate and pay out guaranteed deposits up to the amount of EUR 50,000 per a bank depositor from the enactment date of the new law until Montenegro`s accession to the European Union.

Quarterly changes in guaranteed deposits were rather uneven in 2019. In Q1 they declined 3.97% in comparison with Q4 2018. The quarter-on-quarter decline in Q2 was

⁴ Guaranteed deposit is established for every individual depositor by reducing matured liabilities of a depositor with a bank, including any accrued interest, from aggregate deposits held by the depositor with that bank as at the protected event (hence the difference in the number of depositors in Table 3.2 and Table 3.1 because a certain number of depositors have due liabilities that exceed their deposits).

1.25%, but they picked up pace and increased both in Q3 and Q4 by 7.40% and 1.19%, respectively.

As at 31/12/2018, guaranteed deposits made up 42.37% of total deposits and at the end of the reporting year this share was 43.48%. Their respective shares in protected deposits amounted to 46.36% and 48.86%.

Table 4 Share of guaranteed deposits in total deposits in 2019 (000 €)

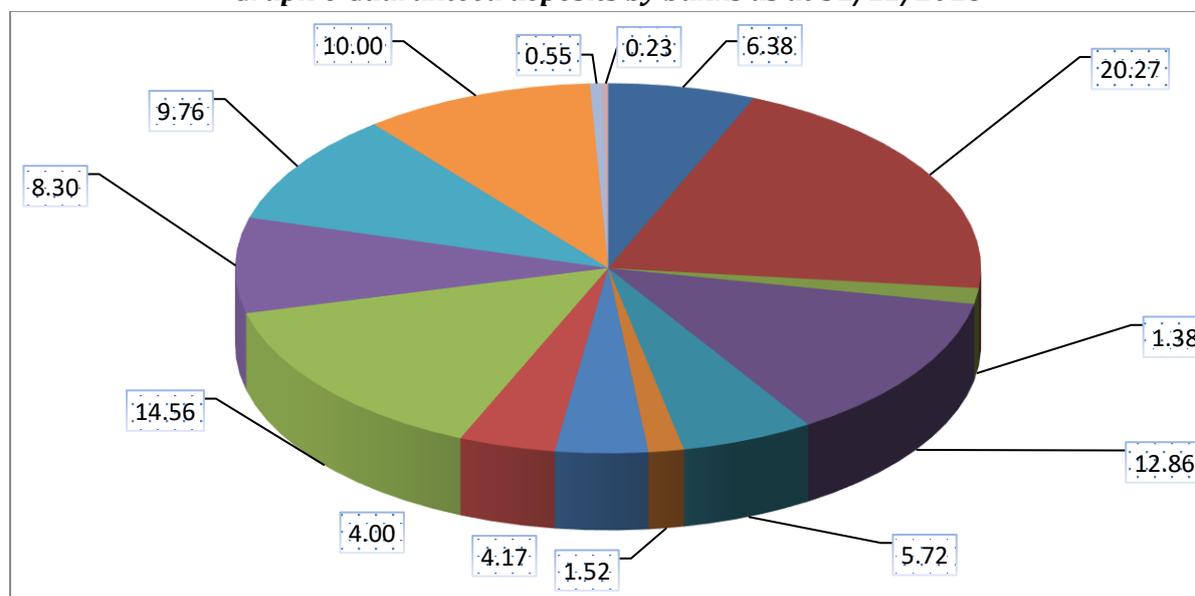
| | 31/12/2018 | 31/03/2019 | 30/06/2019 | 30/09/2019 | 31/12/2019 |
|-----------------------------|------------|------------|------------|------------|------------|
| GUARANTEED DEPOSITS | 1,466,697 | 1,408,479 | 1,390,897 | 1,493,846 | 1,511,616 |
| TOTAL DEPOSITS | 3,163,722 | 3,123,415 | 2,934,492 | 3,193,480 | 3,158,281 |
| SHARE OF GD* in TD** | 46.36% | 45.09% | 47.40% | 46.78% | 47.86% |

**Source: Monthly bank reports; *Guaranteed deposits GD; **Total deposits TD*

On 31/12/2019, guaranteed deposits were EUR 44.9 million higher than as at 31/12/2018, which is 63% lower growth compared to 2018-2017 (due to the failure of two banks).

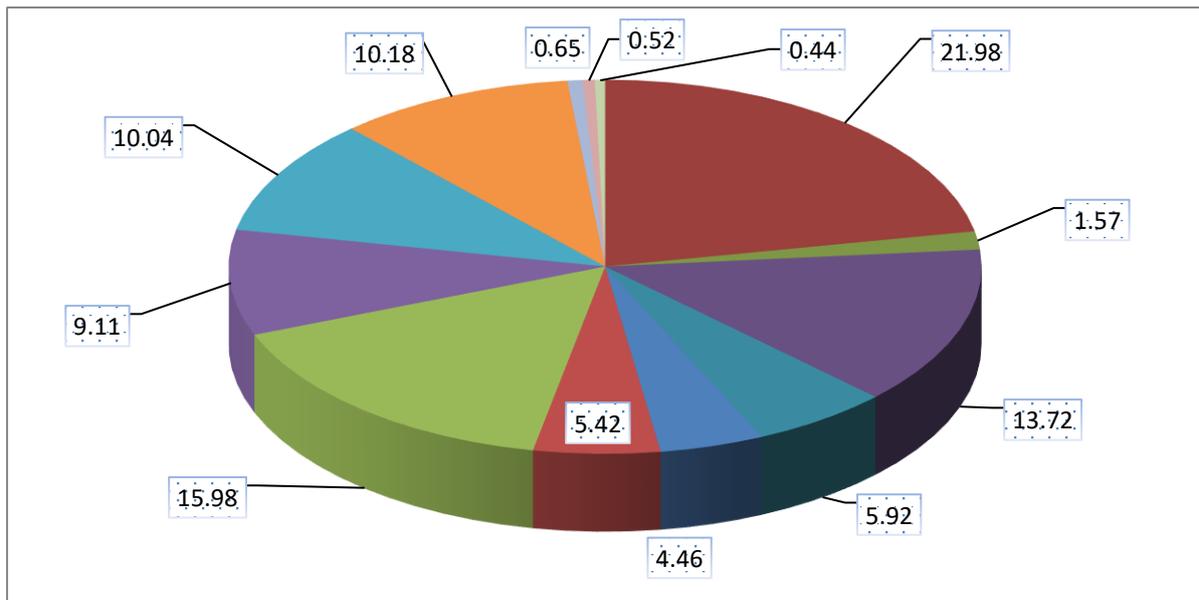
Regardless of their increase during the reporting year, the structure of guaranteed deposits by banks did not significantly change compared to end-2018.

Graph 6 Guaranteed deposits by banks as at 31/12/2018



**Source: Monthly bank reports*

Graph 7 Guaranteed deposits by banks as at 31/12/2019



*Source: Monthly bank reports

Two banks held 37.96% of total guaranteed deposits, which is a slight year-on-year growth from 34.83% as at end-2018.

The bank with the highest amount of guaranteed deposits increased its share in total guaranteed deposits from 20.27% to 21.98%. The second largest bank in terms of guaranteed deposits also increased its share in total guaranteed deposits, from 14.56% to 15.98%, and the third bank also increased its share from 12.86% to 13.72%.

At the end of the reporting year, two banks that held 30.65% of total deposits held 37.96% of guaranteed deposits.

Table 4.1 Guaranteed deposits (natural and legal persons) in 000 €

| | TOTAL | Natural persons | Legal persons | NP in % (2/1) | LP in % (3/1) |
|-------------------------|------------------|------------------|----------------|---------------|---------------|
| | 1 | 2 | 3 | 4 | 5 |
| 31/12/2018 | 1,466,697 | 1,215,710 | 250,987 | 82.89 | 17.11 |
| 31/03/2019 | 1,408,479 | 1,168,570 | 239,910 | 82.97 | 17.03 |
| 30/06/2019 | 1,390,897 | 1,147,148 | 243,750 | 82.48 | 17.52 |
| 30/09/2019 | 1,493,846 | 1,216,815 | 277,031 | 81.46 | 18.54 |
| 31/12/2019 | 1,511,616 | 1,248,267 | 263,348 | 82.58 | 17.42 |
| 31/12/2019 - 31/12/2018 | 1.03% | 1.03% | 1.05% | | |
| 31/12/2019- 31/12/2018 | 44,919 | 32,557 | 12,362 | | |

*Source: Monthly bank reports

In relation to 31/12/2018, guaranteed deposits were 1.03% higher at 31/12/2019 (those of natural persons rose 1.03% and deposits of legal persons increased 1.05%).

Table 4.2 Number of depositors whose deposits exceed their liabilities to bank and who are entitled to the guaranteed deposit payout

| | NUMBER OF DEPOSITORS ENTITLED TO THE GUARANTEED DEPOSIT PAYOUT BROJ DEPONENATA KOJI IMAJU PRAVO NA ISPLATU GARANTOVANOG DEPOZITA | | | NUMBER OF DEPOSITORS (AFTER DEDUCTING DUE LIABILITIES) HOLDING A GUARANTEED DEPOSIT OF 50,000€ | | | | | |
|-------------------|--|----------------------|--------------------|--|----------------------|--------------------|----------------------------|----------------------------|----------------------------|
| | TOTAL 1 | Natural persons 2 | Legal persons 3 | TOTAL 4 | Natural persons 5 | Legal persons 6 | Coverage % 7 (= 4/1) | Coverage % 8 (= 5/2) | Coverage % 9 (= 6/3) |
| 31/12/2018 | 808,860 | 745,077 | 63,783 | 800,171 | 738,783 | 61,388 | 98.93 | 99.16 | 96.25 |
| 31/03/2019 | 883,149 | 816,305 | 66,844 | 800,279 | 736,221 | 64,058 | 90.62 | 90.19 | 95.83 |
| 30/06/2019 | 815,445 | 751,363 | 64,082 | 732,527 | 670,834 | 61,693 | 89.83 | 89.28 | 96.27 |
| 30/09/2019 | 823,153 | 758,274 | 64,879 | 738,18 | 675,429 | 62,699 | 89.67 | 89.07 | 96.64 |
| 31/12/2019 | 828,399 | 762,932 | 65,467 | 755,016 | 691,760 | 63,256 | 91.14 | 90.67 | 96.62 |

*Source: Monthly bank reports

The number of depositors entitled to guaranteed deposit payout after the deduction of their due liabilities, amounted to 755,016, which is 91.14% of the total number of depositors entitled to guaranteed deposit payout (828,399).

The number of depositors holding the guaranteed deposit ≤ 50,000 euros at end-2016 amounted to 746,375, which is 98.85% of total depositors entitled to guaranteed deposit payout (755,016). They accounted for 71.42% of total guaranteed deposits (EUR 1,079,565,831) with the structure being as follows: 685,638 of natural persons or 99.11% of total private depositors entitled to payout and 60,737 legal persons or 96.01% of total legal depositors entitled to guaranteed deposit payout.

The total number of entitled depositors holding deposits > 50,000€ amounted to 8,641, of which 6,122 are natural persons (or 0.88% of total eligible private depositors) and 2,519 legal persons (or 3.98% of total eligible legal depositors).

This means that 98.85% of total eligible depositors hold deposits ≤ 50,000€.

Therefore, of the total number of depositors entitled to guaranteed deposit payout, 1.14% hold deposits > 50,000€ and they account for 28.58% of total guaranteed deposits (Table 4.3).

Table 4.3 Guaranteed deposits (natural and legal persons), in 000 €

| Balance as at: 31/12/2019 | Amount (000 €) | No. of depositors B | Due liabilities (000 €) | Balance (000 €) | No. of depositors holding GD E | Coverage % |
|---|-------------------|------------------------|----------------------------|--------------------|-----------------------------------|------------|
| Deposits | A | | C | D | | |
| Deposits by persons entitled to the guaranteed deposit payout | 3,158,281 | 828,399 | 14,965 | 3,154,855 | 755,016 | |
| Deposits by natural persons entitled to the guaranteed deposit payout | 1,738,233 | 762,932 | 3,523 | 1,737,812 | 691,760 | |
| Deposits by natural persons ≤50.000 € | 942,253 | 756,760 | 3,450 | 942,167 | 685,638 | 90.67 |
| Deposits by natural persons >50.000 € ≤100.000 € | 273,872 | 4,239 | 52 | 273,873 | 4,212 | |

| | | | | | | |
|---|-----------|--------|--------|------------------|----------------|-------|
| Deposits by natural persons >100.000 € | 522,108 | 1,933 | 20 | 521,772 | 1,910 | |
| GUARANTEED DEPOSITS BY NATURAL PERSONS | | | | 1,248,267 | 691,760 | |
| Deposits by legal persons entitled to the guaranteed deposit payout | 1,420,048 | 65,467 | 11,442 | 1,417,043 | 63,256 | |
| Deposits by legal persons ≤50.000 € | 138,155 | 62,889 | 9,388 | 137,398 | 60,737 | 96.62 |
| Deposits by legal persons >50.000 ≤100.000 € | 72,608 | 1,017 | 340 | 71,870 | 999 | |
| Deposits by legal persons >100.000 € | 1,209,285 | 1,561 | 1,715 | 1,207,775 | 1,520 | |
| GUARANTEED DEPOSITS BY LEGAL PERSONS | | | | 263,348 | 63,256 | |
| GUARANTEED DEPOSITS | | | | 1,511,616 | 755,016 | 91.14 |

**Source: Monthly bank reports*

Total deposits of depositors entitled to guaranteed deposit payout (protected deposits), after the deduction of their due liabilities, amounted to EUR 3,154,854,647 euros as at 31/12/2019, of which protected deposits by natural persons amounted to EUR 1,737,812,143 or 55.08%, while protected deposits by legal persons totalled EUR 1,417,042,504 or 44.92%.

Total guaranteed deposits amounted to EUR 1,511,615,831 or 47.91% of total protected deposits. The total number of deposits up to EUR 50,000 amounted to EUR 1,079,565,831 or 71.42% of total guaranteed deposits.

Total guaranteed deposits of natural persons amounted to EUR 1,248,267,401 or 39.57% of total protected deposits (82.58% of total guaranteed deposits).

The total number of entitled private depositors holding deposits ≤50,000€ was 658,638 and their deposits amounted to EUR 942,167,401 or 75.48% of total guaranteed deposits of natural persons (54.22% of total protected deposits of natural persons).

The number of entitled private depositors whose deposits exceed EUR 50,000 amounted to 6,122 and in case of a bank failure they would be repaid EUR 206,100,000 or 24.52% of total guaranteed deposits (17.61% of total protected deposits of natural persons).

Total deposits by legal persons entitled to the guaranteed deposit payout after the deduction of their liabilities amounted to EUR 1,417,042,504 as at 31/12/2019 and they accounted for 44.92% of total protected deposits.

The number of legal depositors holding deposits ≤50,000€ amounted to 60,737 and their guaranteed deposits totalled EUR 137,398,430 or 52.17% of total guaranteed deposits of legal persons (9.70% of total protected deposits of legal persons).

The number of entitled legal depositors with deposit exceeding EUR 50,000 amounted to 2,519 and in case of a bank failure they would be repaid EUR 125,950,000 or 47.82% of total guaranteed deposits of legal persons (8.89% of total protected deposits of legal persons).

Total guaranteed deposits of legal persons amounted to EUR 263,348,430 or 17.42% of total guaranteed deposits (8.35% of total protected deposits).

As the deposit insurance system is basically designed to protect small and unsophisticated depositors (depositors who do not have or have very limited knowledge of financial management), such a high coverage of depositors (98.85%) that would be fully compensated is an indication that the amount of EUR 50,000 is a well-designed coverage and that is in line with the economic power of depositors.

Pursuant to Directive 2014/49/EC the mandatory coverage of guaranteed deposits in the EU Member States is 100,000 euros. However, taking into account the presented data, we consider that the coverage percentage in our system is very high and the amount of the guaranteed deposit should remain at the level of 50,000 euros until Montenegro's EU accession date.

| Average amount of guaranteed deposit ⁵ | | | |
|---|------------|------------|----------|
| | 31/12/2018 | 31/12/2019 | increase |
| Legal persons | 3,935 | 4,163 | 5.80 % |
| Natural persons | 1,632 | 1,804 | 10.57 % |
| TOTAL | 1,813 | 2,002 | 10.95 % |

⁵ The indicator of the average amount of guaranteed is much lower than the actual amount and this is because the banks also maintain accounts with balances below one euro and their holders are also treated as depositors and the number of depositors is higher (of 90,095 depositors in Atlas bank, 45,002 depositors hold deposits below 1 €).

FUND`S EXPOSURE TO BANKS



3

3. Exposure of the Fund to banks

Total exposure of the Fund to banks is represented with the coverage ratio, i.e. the Fund's assets to liabilities ratio in case of a hypothetical bankruptcy of all banks (the Fund's assets/total guaranteed deposits).

As at 31 December 2019, the Fund's assets amounted to EUR 64,502,811 while the guaranteed deposits totalled EUR 1,511,615,831.

The coverage ratio is the internationally recognized ratio for the measurement and indication of the degree of coverage of guaranteed deposits. The coverage of guaranteed deposits with the Fund's assets at the aggregate level amounted to 4.27% (for the guaranteed deposit ≤ 50.000 €) as at end-2019, whereas it stood at 7.60% in 2018 (this decrease is due to the bankruptcy of two banks and the payout of guaranteed deposits).

The Fund's exposure to individual banks (the Fund's assets to the guaranteed deposits in individual banks – the coverage of guaranteed deposits by the bank) as at 31 December 2019 is presented in Table 5 and Graph 8 below.

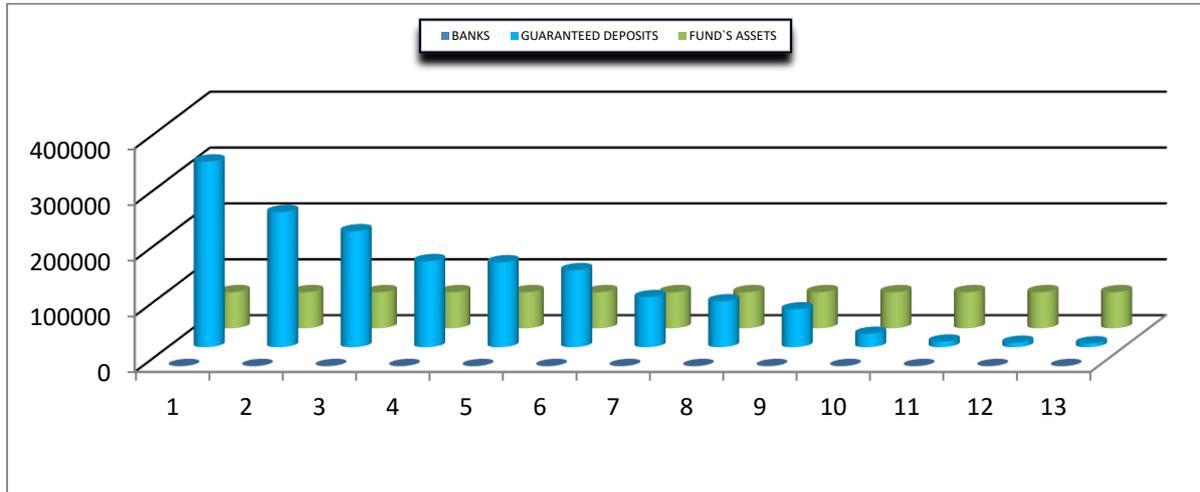
Table 5 Percentage of coverage of guaranteed deposits with the Fund's resources (000 €)

| BANKS | GUARANTEED DEPOSITS | FUND'S ASSETS | Coverage (%) | FUND'S ASSETS WITH EBRD FUNDS | Coverage ⁶ 1 (%) | Lacking funds 1 | Lacking funds 2 |
|--------------|---------------------|---------------|--------------|-------------------------------|-----------------------------|-----------------|-----------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | 332,183 | 64,503 | 19.42 | 94,503 | 28.45 | <u>267.680</u> | <u>237.680</u> |
| 2 | 241,592 | 64,503 | 26.70 | 94,503 | 39.12 | <u>177.089</u> | <u>147.089</u> |
| 3 | 207,405 | 64,503 | 31.10 | 94,503 | 45.56 | <u>142.902</u> | <u>112.902</u> |
| 4 | 153,888 | 64,503 | 41.92 | 94,503 | 61.41 | <u>89.385</u> | <u>59.385</u> |
| 5 | 151,840 | 64,503 | 42.48 | 94,503 | 62.24 | <u>87.337</u> | <u>57.337</u> |
| 6 | 137,716 | 64,503 | 46.84 | 94,503 | 68.62 | <u>73.213</u> | <u>43.213</u> |
| 7 | 89,456 | 64,503 | 72.11 | 94,503 | 105.64 | <u>24.953</u> | - |
| 8 | 81,956 | 64,503 | 78.70 | 94,503 | 115.31 | <u>17.453</u> | - |
| 9 | 67,489 | 64,503 | 95.58 | 94,503 | 140.03 | <u>2.986</u> | - |
| 10 | 23,723 | 64,503 | 271.90 | 94,503 | 398.37 | - | - |
| 11 | 9,894 | 64,503 | 651.97 | 94,503 | 955.19 | - | - |
| 12 | 7,802 | 64,503 | 826.73 | 94,503 | 1.211.24 | - | - |
| 13 | 6,674 | 64,503 | 966.54 | 94,503 | 1.416.07 | - | - |
| TOTAL | 1,511,616 | 64,503 | 4.27 | 94,503 | 6.25 | | |

6 Calculated resources of the Fund with the donation and credit of 30.0 million € from the EBRD.

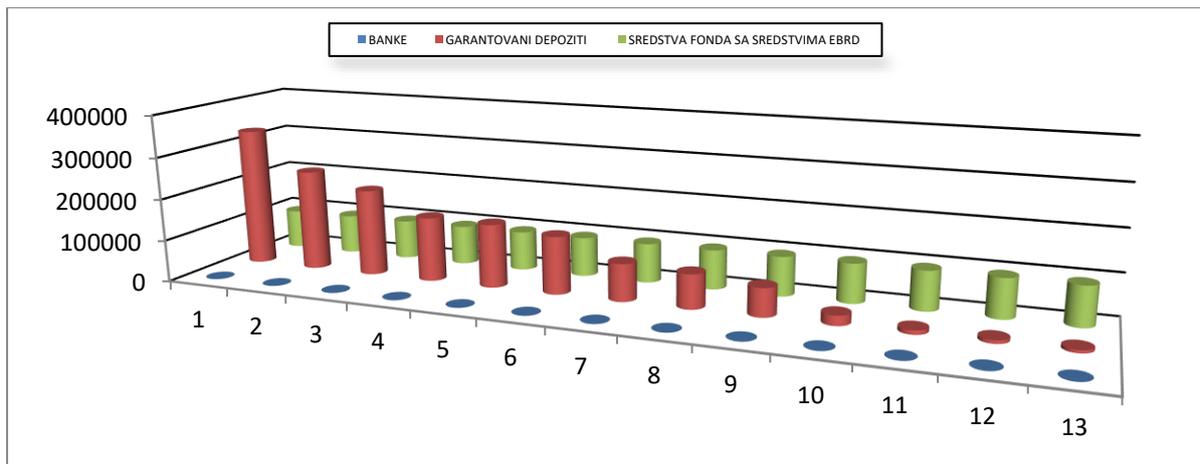
*Source: Monthly bank reports and the Fund's bookkeeping

Graph 8 The Fund's exposure to individual banks (without the EBRD funds)



*Source: Monthly bank reports and the Fund's bookkeeping

Graph 8.1 The Fund's exposure to individual banks (with the EBRD funds)



*Source: Monthly bank reports and the Fund's bookkeeping

In case of introduction of bankruptcy in any of the 7 banks, the Fund's assets and funds provided from the Stand-by arrangement with the EBRD (this arrangement is valid until November 2020) would be sufficient for the compensation of all depositors in any of the 7 banks (as represented in Table 5, column "lacking funds 2").

The Fund would compensate for the shortfall from additional sources in one of the manners prescribed in the Law (charging the extraordinary premium; borrowing from the Budget of Montenegro; borrowing from foreign banks and financial institutions; and issuing securities; or a combination of two or more of the listed sources).

Pursuant to the Law, the aimed coverage ratio is at least 10% of the guaranteed deposits. When the Fund's resources (without donations) reach the level of 10% of

guaranteed deposits, the MB of the Fund may pass a decision on reducing the regular premium rate and/or temporary discontinuation of the regular premium collection.

If the Fund's resources fall below 6% of total guaranteed deposits in all credit institutions, the regular premium rate will be determined so as to ensure the reaching of the minimum targeted level within six years.

In November 2019, the Fund extended the stand-by arrangement with the EBRD concluded in 2010 and regulating the withdrawal of EUR 30 million in the following year for the purpose of guaranteed deposits payout. With these funds, which the EBRD made available to the Fund, the coverage ratio amounts to 6.25% (Table 6).

Table 6 Coverage ratio for guaranteed deposits in the system

| Guaranteed deposits as at | Fund's resources as at | % of coverage of |
|----------------------------------|-------------------------------|----------------------------|
| 31/12/2019 | 31/12/2019 | guaranteed deposits |
| 1 | 2 | 2/1 |
| 1,511,615,831 | 64,502,812 ⁷ | 4.27% |
| 1,511,615,831 | 94,502,812 ⁸ | 6.25% |

**Source: Monthly bank reports and the Fund's bookkeeping*

⁷ The Fund's resources (from the premium, donations, and the Fund's operating income).

⁸ The Fund's resources increased by funds provided via the EBRD loan (EUR 30 million).

**ACTIVITIES OF THE
FUND IN 2019**

4

4. ACTIVITIES OF THE FUND IN 2019

General remarks

Activities of the Fund implemented during 2019 were realized in three segments:

- the priority was given to activities involving the protected event and the payout of guaranteed deposits in a very short time and in the best possible way for depositors of bankrupt banks;
- another significant part of the activities was related to the drafting of the Deposit Protection Law with the aim of aligning it with the relevant EU acquis. After a public debate and harmonization with the Secretariat for Legislation, the Law was approved by the European Commission and adopted by the Parliament of Montenegro in December;
- Preparations for the development of a Methodology for calculating the risk-based premium, which was prepared together with the World Bank experts and which is in the final phase of testing.

In addition to the aforementioned activities of the Fund, other planned activities and tasks were being implemented in accordance with the Work Program of the Fund for 2019 and the Fund's 2016-2021 Strategic Plan.

The Strategic Plan provides the basic guidelines for a long-term development in line with the changes that have occurred or will occur and also with possible future actions to be taken with a view to achieving the set objectives. At the same time, the Strategic Plan has become the operational plan, while the strategies specified therein provide guidelines and establish individual priorities during the long-term development. Also, this plan provides a framework program for the adoption of the budget of the Fund in the forthcoming period, including capital investments.

The Fund has continued with the implementation of the Integrity Plan which represents a set of measures of a legal and factual nature that prevent and eliminate potential and actual risks that could affect the lawful, efficient, economic, effective, and professional functioning of the Fund and favour the occurrence and development of corruption and other misuses.

During the reporting year, the Fund adequately informed the public about the progress of guaranteed deposits through press releases, participation in educational information programs, press and radio interviews, and thus fulfilled its basic goal of preserving the stability of the banking and financial system and significantly contributed to maintaining depositors' confidence in the banking system.

An annex was signed in November 2019 to allow for the a one-year extension of the 2010 stand-by arrangement with the EBRD and with the terms and conditions remaining the same as in the framework agreement , the withdrawal deadline being one year, and the repayment period of 5 (five) years. By signing this annex, the financial

position of the Fund was additionally strengthened, so that if a protected event occurs, the Fund can intervene and pay out guaranteed deposits, not only of small but also of medium-sized banks.

Information on the payout of guaranteed deposits to depositors of Invest banka Montenegro in bankruptcy and Atlas banka in bankruptcy

The following table gives an overview of activities during the payout of guaranteed deposits, including the number of website visits, e-mails, and phone calls:

Website visits and communication during the payout of guaranteed deposits

| WEBSITE VISITS | | | COMMUNICATION | |
|------------------------|--------------|---------------|---------------|--------------|
| PERIOD | USERS | VIEWS | phone calls | emails |
| 07/12/2018-27/01/2019 | 2.017 | 3.582 | 627 | 140 |
| 28/01/2019- 23/04/2019 | 3.646 | 8.061 | 1.223 | 376 |
| 24/04/2019 -31/12/2019 | 3.697 | 5.682 | 5.365 | 1.747 |
| TOTAL | 9.360 | 17.325 | 7.215 | 2.263 |

1. INVEST BANKA MONTENEGRO – in bankruptcy

On 7 December 2019, the CBCG passed a Decision on introducing interim administration in Atlas bank and a Decision on introducing interim administration in IMB bank. On 4 January 2019 it furnished the Fund with the Decision no. 0101-10202-3/2018 on initiating bankruptcy proceedings against Invest Bank Montenegro, which gave rise to the proclamation of the protected event as at the same date, in accordance with the Deposit Protection Law (“Official Gazette of Montenegro” no. 44/10, 40/11 and 47/15).

In accordance with the Deposit Protection Law and the Rulebook to informing depositors and potential depositors about the deposit protection scheme, procedures, guidelines and instructions for actions of employees in the Fund in case of a protected event occurrence, on 4 January 2019 the Fund published in 4 print media distributed in the territory of Montenegro the announcement on the occurrence of a protected event, indicating the Fund’s obligation to payout guaranteed deposits, the manner of calculation and the amount of guaranteed deposits. This announcement was posted on the Fund’s website and delivered to all television and radio stations and web portals in Montenegro. Also, in order to inform the public about the occurrence of the protected event, the Director General of the Fund was a guest on shows that address the issue of

the payout of guaranteed deposits and gave daily interviews with updated information to various television and radio stations.

All announcements were translated into English and regularly published on the Fund's website so that non-resident depositors would be timely informed.

The employees of the Fund acted in accordance with the internal acts that clearly define the actions and obligations of the employees in case of bankruptcy of one of the banks in the system.

The memorandum on cooperation between the Fund and the Trustee in Bankruptcy was signed on 11 January 2019. The memorandum clearly defines the obligations of the trustee as well as the actions of both parties in the case of a protected event occurrence.

On 15 January 2019, the Fund informed depositors of Invest Bank Montenegro in bankruptcy and the public that after the performed selection procedure, the following were to be the guaranteed deposit payout banks:

- Societe Generale Montenegro A.D. Podgorica;
- Hipotekarna banka A.D. Podgorica;
- NLB banka A.D. Podgorica.

Before the commencement of the payout, training was organized in the Fund's premises with the payout banks' branch managers and bank tellers (about 70 employees) whereat the Fund's employees presented a platform (software application) through which the payment of guaranteed deposits was to be made, explaining also the necessary documentations that was to be requested from depositors (both private individuals and legal entities). Testing of communication lines and connection of paying banks to the Fund's server through which the payment was to be made was also performed.

After obtaining the database, the Fund calculated the amount of guaranteed deposits and the number of depositors entitled to payment as well as the exact amount of guaranteed deposit to be paid out.

The payout started on 28 January 2019 through 10 branches of the selected payout banks.

➤ **Information about guaranteed deposits and the course of payout (IBM)**

Total deposits amount to EUR 39,867,785.52 for 2,962 depositors, **calculated guaranteed deposits total EUR 22,333,240.38 for 2,922 depositors**, and total depositors' liabilities to the bankrupt bank stand at 4,373,213.38€ (210 depositors).

The amount of EUR 1,063,994.70 refers to 40 depositors not entitled to payout.

During the first month, a total of EUR 14,286,480 or 63.97% of total calculated guaranteed deposits were compensated, and this has prevented a loss of depositors' confidence in banking operations and bank runs in the system, which could have jeopardized stability not only of the banking sector but of the overall financial system as well.

As at 31/12/2019, the total paid out amount reached EUR 21,475,374, which accounts for 96.16% of total calculated guaranteed deposits, i.e. overall obligations of the Fund for guaranteed deposit compensation.

As at the same date, the total collected amount from the bankruptcy pool of Invest Bank Montenegro amounted to **EUR 16,300,000**.

During the procedure of payout of Invest Bank Montenegro guaranteed deposits, banks were well-organised and quickly and efficiently performed payouts.

2. ATLAS BANKA – in bankruptcy

On 5 April 2019, the Central Bank of Montenegro adopted a Decision no. 0101-3292-4/2019 on initiating bankruptcy proceedings against Atlas Banka A.D. Podgorica, which triggered the occurrence of the protected event as of the same date, in accordance with the provisions of the Deposit Protection Law (Official Gazette of Montenegro 44/10, 40/11, and 47/15).

The same procedure applied in the IBM case was followed in terms of conduct of the employees of the Fund and informing the general public, including the same procedure for the selection of payout banks.

A Memorandum of Understanding between the Fund and the Trustee in bankruptcy was drafted and signed on 9 April 2019. The MoU clearly defines the Trustee's obligations as well as the actions to be taken by both parties in case of the protected event occurrence.

On 23 April 2019, the Fund notified the depositors of Atlas Banka in bankruptcy and the public about the following selected payout banks:

- Crnogorska Komercijalna Banka A.D. Podgorica;
- Hipotekarna Banke A.D. Podgorica;
- NLB Banka A.D. Podgorica;
- Societe Generale Banka Montenegro A.D. Podgorica.

The Fund signed agreements on the regulation of mutual rights and obligations with the payout banks, enabling advance payments to the banks prior to the start of the guaranteed deposit payouts.

Prior to the payout, a training was organized at the premises of the Fund, as well as in the southern and northern regions of Montenegro (Budva and Bijelo Polje) for the heads of the payout banks' branches and their tellers where the Fund's employees presented the platform (application) through which the payout of guaranteed deposits was to be carried out, clarifying all necessary documentation to be required from depositors (both private individuals and legal entities).

Communication lines and connection of payout banks with the Fund server through which the payment was to be made were also tested.

On 23 April 2019, the Fund announced in all printed and electronic media that the payout was to start on 24 April 2019 via more than 75 branches of the selected payout banks at the designated locations throughout the country (southern, central, and northern regions).

➤ **Information about guaranteed deposits and the course of payout (Atlas)**

Total deposits amount to EUR 186,528,103 for 93,729 depositors, **calculated guaranteed deposits total EUR 90,067,506 for 90,063 depositors**, and total depositors' liabilities to the bankrupt bank stand at EUR 8,966,350 €.

The amount of EUR 4.9 million refers to 356 depositors not entitled to payout.

During the first month, a total of EUR 60,879,653 or 67.43 % of total calculated guaranteed deposits were compensated, thus preventing a loss of depositors' confidence in banking operations and bank runs in the system.

As at 31/12/2019, the total paid out amount reached EUR 80,408,226, which accounts for 89.05% of total calculated guaranteed deposits, i.e. overall obligations of the Fund for guaranteed deposit compensation.

As at the same date, the total collected amount from the bankruptcy estate of Atlas Banka Montenegro amounted to **EUR 25,000,000€**.

Complaints and lawsuits

In accordance with Article 6 of the Deposit Protection Law, it was been determined that 40 depositors of Invest banka Montenegro a.d. and 356 depositors of Atlas Bank a.d. are not entitled to the payout from banks and they are sent Decisions on exclusion which may be subject to action before the Administrative Court.

Depositors of Invest banka Montenegro did not file any objections to the payout of guaranteed deposit, while 4 lawsuits were filed with the Administrative Court against the Decisions on exclusion from the right to the payment of the guaranteed deposit and the proceedings are still ongoing. The total amount of deposits by depositors who filed the lawsuits is EUR 150,178.00.

Depositors of Atlas Bank a.d. submitted to the Fund 22 objections to the payout of guaranteed deposit, of which 4 were accepted and 18 were rejected, and 20 lawsuits were filed to the Administrative Court against the Decision on exclusion from the right to the payment of the guaranteed deposit and the proceedings are still ongoing. The total amount of deposits by depositors who filed the lawsuits amounts to EUR 278,367.43.

Until the compiling of this report, the Fund received no information on whether the Administrative Court had decided on the depositors` appeals. The assessment of the Fund's management is that there are no grounds for these appeals.

Investment activities and accounting in 2019

In the first quarter of the reporting year, due to temporary measures and subsequent bankruptcy of two banks, all funds held in the accounts with foreign banks and which were managed by the Central Bank of Montenegro under the Asset Management Agreement were transferred to the Fund on 25 April 2019.

Given the situation in the Montenegrin banking system and the obligations of the Fund to pay out guaranteed deposits, investment activities of the Fund were minimal.

a) Investment in government bonds

In accordance with the Investment Policy and within the 20% of available funds, in November 2016, the Fund invested EUR 2.2 million in long-term debt securities – **Government bonds** of GB1-2016 series issued by Montenegro, at the flat interest rate of 4.0% per annum. The interest payment in the amount of 88,000 € is made once a year and the maturity date for the principal and annual interest is 16 November 2020. The revenue earned in November 2019 was EUR 88,000.

b) Investment in Treasury bills

In accordance with the Deposit Protection Law and the Fund's Investment Policy, the Fund independently invests a part of the available 20% of funds in short-term discounted securities – **Treasury bills** issued by Montenegro and sold at auctions held by the CBCG on behalf of the Ministry of Finance.

Considering the situation with the payout of guaranteed deposits, the Fund invested EUR 18 million in short-term discounted securities – **T-bills** in July. The income to be earned in 2019 is EUR 45,607.00.

Normative and legal activities

The MB of the Fund held eight meetings in 2019 and adopted the following normative acts:

- Decision on the adoption of the Annual financial statements of the Deposit Protection Fund for 2018 (compiled in line with the IAS);
- Decision on the regular premium calculation rate and the manner of regular premium calculation in 2020 (the MB decided that the regular premium rate in 2020 shall be 0.50% of total deposits in banks (same as in 2019));
- Rules on the manner of conducting urgent procurements;
- Instructions for action in case of lack of funds for the payment of guaranteed deposits;
- Financial plan of the Deposit Protection Fund for 2020;
- Work program of the Deposit Protection Fund for 2020.

During the current year, the MB considered and adopted the following:

- Proposal of the Annual Activity Report of the Fund for 2018 (submitted to the CBCG Council for adoption);
- External audit report for 2015 was considered by the Fund. The report was prepared by the audit firm "Ernst & Young Montenegro" d.o.o. Podgorica. The opinion of the independent external auditor is that "the financial statements fairly and accurately present the position of the Fund and they have been prepared in accordance with the laws of Montenegro and the IAS").

In addition to the aforementioned reports, the Management Board of the Fund considered monthly and quarterly reports on the movement of deposits in the banking system, the balance of the Fund's assets, the fulfilment of planned activities, and the investment of funds.

At its 46th meeting held on 25 June 2019, the CBCG Council adopted the 2018 Annual Report of the Deposit Protection Fund and it was submitted to the Government and the Parliament of Montenegro for consideration. At its 131st session held on 25 July 2019, the Government reviewed the Fund's 2018 Annual Report and the Parliament

considered the same report at its second session of the autumn sitting on 21 October 2019.

Human resources and education of employees

Systematization of jobs and tasks and duties in the Fund is defined under the Job Classification Rulebook of the Fund. Tasks and duties are divided into: legal and administrative tasks, planning and analysis, bank risk assessment, investments, and finances and accounting.

The procedures for the use of software for the payout of guaranteed deposits are elaborated in detail in the Instructions for the actions of employees in the case of a protected case occurrence, which were followed in the payout of guaranteed deposits of the two bankrupt banks.

The employees were enabled to go through a combined training program involving the participation in seminars and workshops organized by international deposit guarantee associations (IADI and EFDI).

Representatives of the Fund attended the annual EFDI conference, the annual IADI conference, and the seminars organised by the European Regional Committee.

Based on the recommendations of the FSAP mission and WB engagement, the Fund's representatives continued to participate in working seminars and working groups on bank resolution, the role of the deposit insurance system as a risk minimizer, and financing the deposit insurance system based on bank risk assessment.

Based on the announced competition for the appointment of the director general of the Fund, at its meeting held on 11 February 2019, the Board of Directors appointed Mr. Predrag Marković, a graduate economist, as the Director General of the Fund for a term of office of 4 years.

The Fund has seven employees as at 31/12/2019.

International cooperation

As a full-fledged member of the European Forum of Deposit Insurers (EFDI), which is an association of European deposit insurance funds on a voluntary basis enabling the exchange of ideas and experiences in deposit insurance in Europe, the Fund attended the EFDI's annual assembly held in September 2019 in Sarajevo, Bosnia and Herzegovina. Representatives of the Fund attended meetings of all task forces and the main topics were challenges in a changing financial system.

Representatives of the Fund used the presence at the conferences to make contacts and share experiences in drafting secondary legislation and its alignment with the Directive 2014/49/EC.

At the same time, representatives of the Fund actively participated in surveys used as the main guidelines for the harmonization of the deposit insurance system in all EFDI member countries. The EFDI goals are achieved by exchanging data on the situation in the financial and banking sector, participation in research projects, improving the regulatory framework and practice, educating expert bodies, exchanging and educating employees, and the like.

As a full-fledged member of the International Association of Deposit Insurers (IADI), the Fund took part in the International Conference of the European Regional Committee - ERC held in October 2019 in Istanbul, Turkey. The IADI organized a workshop-seminar within the conference addressing the issue of alignment of national legislation with the EU acquis on deposit insurance. Representatives of the Fund presented Montenegro's experience in the payout of guaranteed deposits, and other presentations addressed the topic "What has changed in deposit insurance systems since the crisis?".

A special interest of non-EU countries is reflected in the work of the Balkan EFDI Forum. The regional meeting was held in Bosnia and Herzegovina.

Representatives from Albania, Bosnia and Herzegovina, Croatia, Northern Macedonia, Serbia, and Montenegro who had signed an MoU, shared opinions and experiences regarding the improvement of relevant legislation and the testing exercises in banks on the compensation of covered deposits, with Montenegro sharing its experience in the payout of guaranteed deposits.

The conclusion of all participants is that this type of cooperation should continue on a regular basis and not only at the regional level but also as a way to represent common interests within the EFDI.

OBJECTIVES AND TASKS OF THE FUND IN 2020

The main objectives of the Fund are defined under the Strategic Plan. The Fund's tasks in 2020 are largely determined by the entry into force of the new Law.

The law defines the deadlines within which the Fund is obliged to prepare and adopt bylaws and implement them in the deposit protection system.

The most significant changes in the Law relate to the calculation of the risk-based premium of an individual credit institution and the Fund's participation in financing the resolution of credit institutions.

The obligation to adopt the Methodology for calculating the risk-based premium has to be met within 6 months from the day the law enters into force, and the application of the Methodology will begin on 1 January 1 2021.

Other changes in the Law relate to increasing the level of coverage from the current EUR 50,000 to EUR 100,000 on the day of Montenegro's EU accession, shortening of the payment period to 7 working days – the transition period is harmonized with the EU Directive 2014/49/EU, new forms of bank reporting, and changes in the procedures for the payout of guaranteed deposits in accordance with the novelties in the deposit insurance schemes.

Given the proposed solutions, the role of the Fund has changed significantly. From the pay box position, i.e. the net payer of guaranteed deposits, the Fund has been given a new role in the process of resolution of credit institutions. This participation in the resolution procedure can realistically prevent the occurrence of a protected event and a loss of confidence of depositors, simultaneously strengthening financial sustainability of the Fund, both in the short- and long-term.

The very possibility that in certain cases the Fund may introduce a higher premium in order to reach the targeted level allows the Fund to function smoothly and to provide security to depositors, the banking system, and the entire financial system at all times.

Improving the institutional capacity of the Fund for the purpose of timely intervention at the moment of the protected event is an ongoing task of the Fund.

Events after the reporting period

There were no events after the reporting date that would require corrections or disclosure in the financial statements of the Fund for the period from 1 January to 31 December 2019.

In accordance with Article 21 of the Deposit Protection Law, in his decision of 3 February 2020, the President of the Montenegro appointed the Management Board of the Fund so on the day of publication of these report, the composition of the Management Board was as follows:

| Name and Surname | Position |
|-------------------------------|-----------------|
| Mr. Vesko Lekić | Chairman |
| Ms. Branislava Božović, M.Bsc | Member, |
| Mr. Dejan Vujačić | Member, |
| Mr. Nebojša Djoković, M.Bsc | Member, |
| Mr. Vlastimir Golubović | Member. |

One member was nominated by the Ministry of Finance, one member was nominated by the Central Bank, one member shall be nominated by the Association of Montenegrin Banks and Financial Institutions, one member was nominated by the Chamber of Economy, and one member was nominated by the President of Montenegro.

In line with Articles 28 and 60 of the Law, the Managing Board had announced job vacancy for the Director General and after the proper procedure, at its meeting held on 3 April 2020, the Managing Board appointed Mr. Predrag Marković as the Director General of the Fund.

In 2020, the Fund continued to pay guaranteed deposits to depositors of the two bankrupt banks and by 15 May 2020, EUR 102,715,550 or 91.17% of the total liability for these two banks (96.33% for Invest bank Montenegro in bankruptcy and 89.89% for Atlas banka in bankruptcy) was paid.

Additional EUR 4,600,000 was collected from the bankruptcy estate (EUR 600,000 from IBM and EUR 4,000,000 from Atlas Bank), so that the overall refund was EUR 45,900,000 or 40.74% (IBM 75.67% and Atlas Bank 40.74%).

Also, the first instalment of the regular premium in the amount of EUR 4,384,338.40 and the second instalment of the regular premium in the amount of EUR 4,280,750.54 were calculated and collected, so the total funds on the day of compiling this report (15/05/2020) amounted to **EUR 76,570,054.85**.

Following the outbreak of the coronavirus epidemic (COVID-19) in March, the Fund took necessary measures to protect its creditors and employees, ensuring security and uninterrupted provision of services. As the coronavirus epidemic continues to develop, it is challenging to predict the full extent and duration of its economic and financial impact. Consequently, these circumstances may present business challenges to economic entities and financial institutions, largely due to measures and policies of the relevant government authorities that have already been applied or could be applied in the future.

One of the measures taken to protect depositors and the banking and financial system in Montenegro is the stand-by arrangement that the Fund was negotiating with the EBRD from March to June 2020 to ensure potential shortfall of funds for the payout of guaranteed deposits.

However, taking into account the nature of the Fund's activities as well as the significant amount of liquid assets available to the Fund, the management does not expect that the impact of coronavirus will significantly disrupt the Fund's activities or affect its business continuity in the future.

**FINANCIAL OPERATIONS
OF THE FUND IN 2019**

5

5. FINANCIAL OPERATIONS OF THE FUND IN 2019

5.1. Statement of Financial Performance (Income Statement) as at 31/12/2019⁹

5.1.1. THE FUND'S INCOME

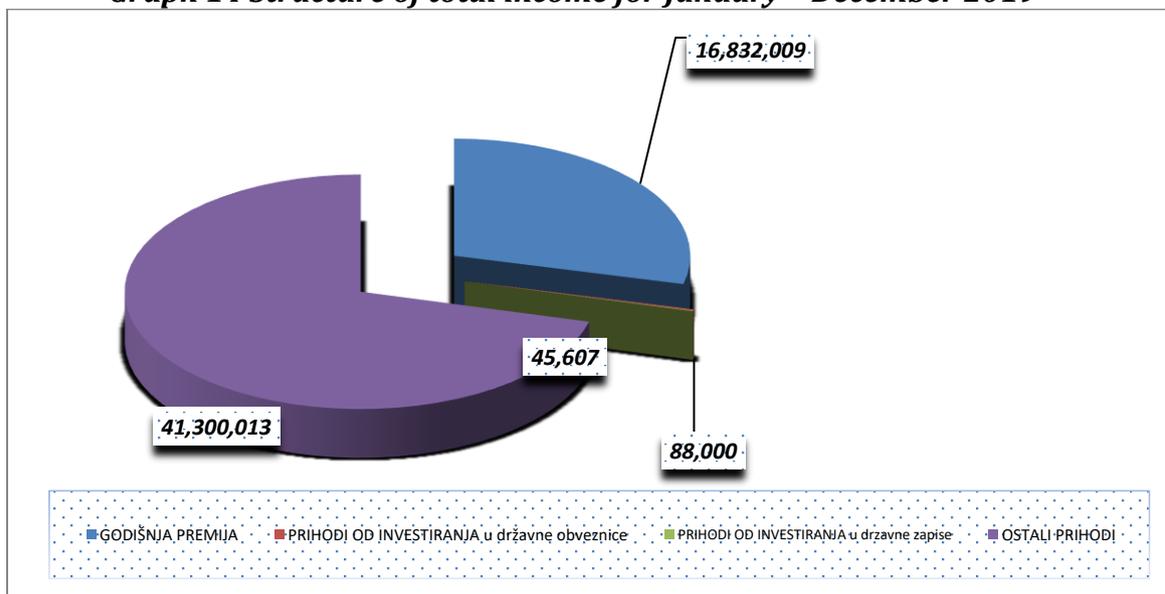
The total Fund's income in 2019 amounted to EUR 58,265,629 and they were 13.95% higher than planned and 246% higher than in the previous year when they totalled EUR 16,827,009.

The income consisted of:

- operating income;
- financial income, and
- other income.

5.1.1.1 Operating income amounted to EUR 16,832,009 in 2016 and they were 0.8% higher than planned for the reporting year, as well as 1.44% higher than in the previous year when they totalled EUR 16,593,128.

Graph 14 Structure of total income for January - December 2019



⁹ Analytical overview of recorded income and expenditure in 2015 and 2016, as well as the plan of income and expenditure for 2016 and 2017 are given in the Annex hereto.

5.1.1.2. The most significant operating income item was income from the return of funds from the bankruptcy estate of banks that the Fund transferred for the purpose of payout of guaranteed deposits in 2019.

5.1.1.3. Revenues from premium amounted to EUR **16,832,009** and they accounted for 28.9% of total income. The 2019 income plan envisaged the annual premium in the amount of EUR 16,700,000, and billed and collected premium amounted to EUR **16,832,009** or 0.8% more than planned and 1.44% more than in the previous year.

5.1.1.4. Financial income amounted to EUR **133,607** and it was 22.7% lower than in 2018 and it comprised of:

- *Revenues from the Fund's investments, and*
- *Other financial income.*

5.1.1.4.1. • Revenues from the Fund's investments covered:

- **Investment in Montenegro's T-bills** which totalled EUR **45,607** and were as planned, that is, 46.23% lower than in the previous year and they accounted for 34.13% of total financial income. This decline was due to reduced investments in T-bills in the second half of the year, in accordance with the CBCG's recommendation involving the introduction of bankruptcy proceedings in two banks.
- **Revenues from interest on government bonds** of EUR 88,000. The Fund purchased government bonds in November 2016 in the amount of EUR 2,200,000 at the fixed interest rate of 4% and with agreed maturity on 16/11/2020. The second and third coupon payment of EUR 88,000 both were made on 16/11/2018 and 16/11/2019, respectively.

5.1.1.4.2. Other income totalled EUR **41,300,013** and it accounted for 70.89% of total income. It covered refund from bankruptcy estate of Invest Banka Montenegro a.d. Podgorica in bankruptcy of EUR 16,300,000 and Atlas Banka a.d. Podgorica in bankruptcy of EUR 25,000,000 for which the Fund had paid out guaranteed deposits.

5.1.2 THE FUND'S EXPENDITURE

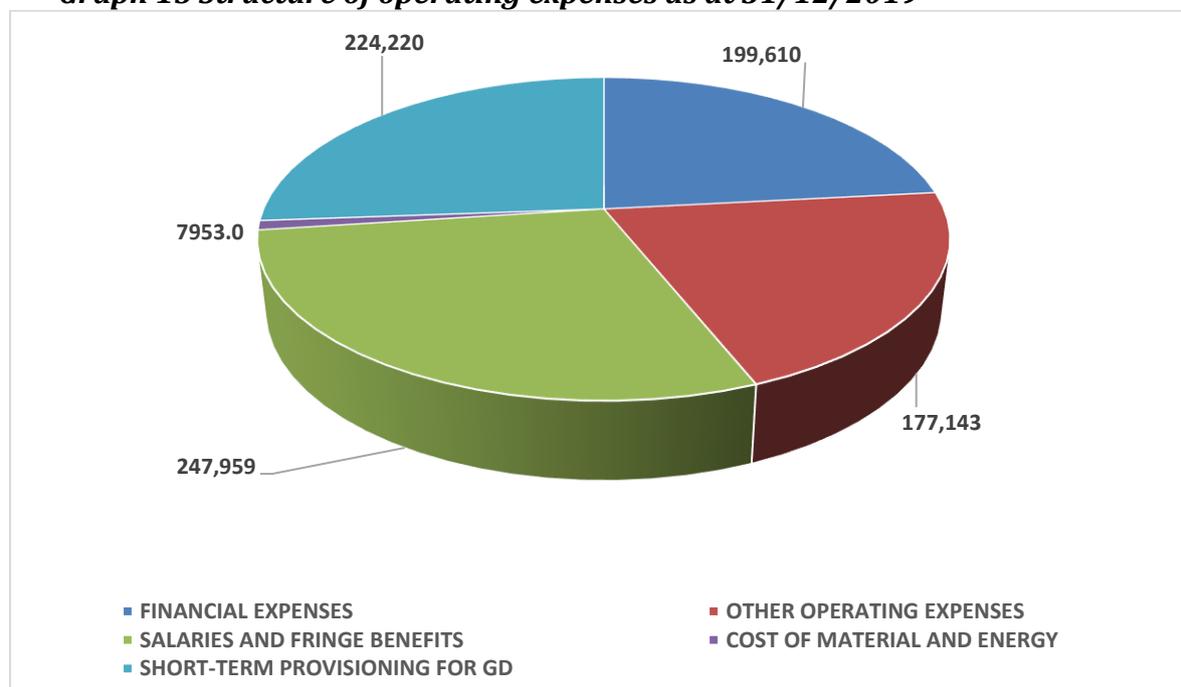
Total expenditure reached EUR **856,885** in the reporting year. In 2018 they stood at EUR 113,057,769 and this lower amount is because the IAS 37 implementation requiring the inclusion of expenditure for short-term provisioning that covered the payout of guaranteed deposits due to the protected event occurrence, that is, bankruptcy of Invest Bank Montenegro A.D. Podgorica and Atlas banka A.D. Podgorica.

Total expenditure is classified in three main categories:

- *financial expenses,*

- operating expenses, and
- short-term provisioning expenses.

Graph 15 Structure of operating expenses as at 31/12/2019



* Source: Fund's bookkeeping data

- 5.1.2.1. Financial expenses** amounted to **EUR 199,610** and covered interest payables for the EBRD loan (EUR 152,159) and interest on time deposits (EUR 47,451) and they accounted for 23.29% of total expenditure and they covered:
- 5.1.2.2. Expenses for short-term provisioning** in the amount of **EUR 216,521** cover subsequently determined liabilities for the payout of guaranteed deposits of the bankrupt Atlas bank and EUR 7,699 were depreciation of fixed assets.
- 5.1.2.3. Operating expenses** included expenses for salaries and other fringe benefits and remunerations of members of the Managing Board of the Fund in the amount of **EUR 247,959** (gross salaries of employees of EUR 166,957; gross remuneration of MB members in the amount of EUR 40,560); contributions charged to employer of EUR 19,107, daily allowances and travel expenses of EUR 12,491, and other fringe benefits of EUR 8,844.
- 5.1.2.4. 6.1.2.4. Other operating expenses** totalled **EUR 177,143** and they included: cost of expenses for the purchase of T-bills (EUR 18,000); cost of membership of international associations of deposit insurers (EUR 19,818); cost of education and training (EUR 5,023); telephone and postal charges (EUR 8,212); cost of complaints involving the payout of guaranteed deposits

(EUR 50,000), cost of lease and maintenance (EUR 15,247), and other expenses (EUR 60,843).

- *Planned expenses for advertising and propaganda amounted to EUR 15,000 and the amount spent was **EUR 4,921 €** for announcements in public media to inform depositors on the commencement and manner of payout of guaranteed deposits for the bankrupt IBM Bank a.d. and Atlas Bank a.d. These expenses were 1.6% lower than in 2018.*
- *Cost of material and energy (lease and maintenance, office supplies, fuel) were lower than planned by 34.80% and higher than in the previous year by 15,83%.*
- *Costs of professional services covered the external audit of financial statements, and education and training and they were **EUR 18,280** or 10.84% lower than in the previous year and 34.72% less planned for the reporting year.*
- *Cost of representation amounted to **EUR 5,255** and they were 2.71% higher than in the previous year and 12.42% lower than planned.*
- *Cost of membership in international associations totalled **EUR 19,818**, and they were 13.36% higher than in 2018 and 0.91% lower than planned.*

- *Cost of fees for the purchase of T-bills in the amount of **EUR 18,000** (introduced under the MF decision at end-2014) and they were 27.37% higher than in the previous year and they were as planned for the reporting year.*

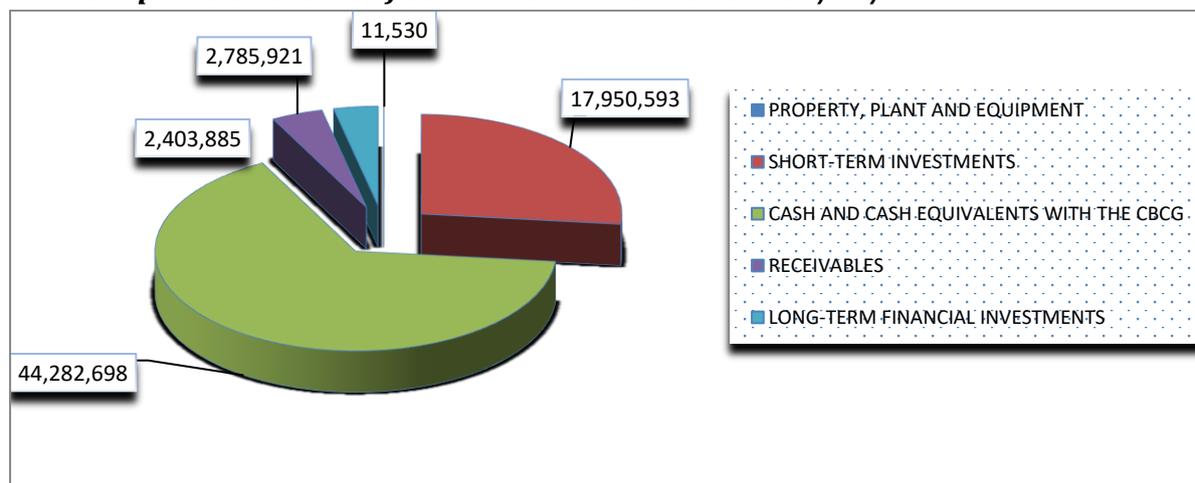
- *Cost of complaints for the payout of guaranteed deposits amounted to EUR 50,000 and they refer to the obligation of the Fund to reimburse funds to a damaged depositor paid out to another depositor due to abuse.*

The 2019 business result of the Fund is a **profit** of **EUR 57,408,743**.

STATEMENT OF FINANCIAL POSITION (Balance sheet)

Total assets and liabilities of the Fund amounted to **EUR 67,434,627** as at 31 December 2019 and they decline by **EUR 44,282,837** or 39.63%.

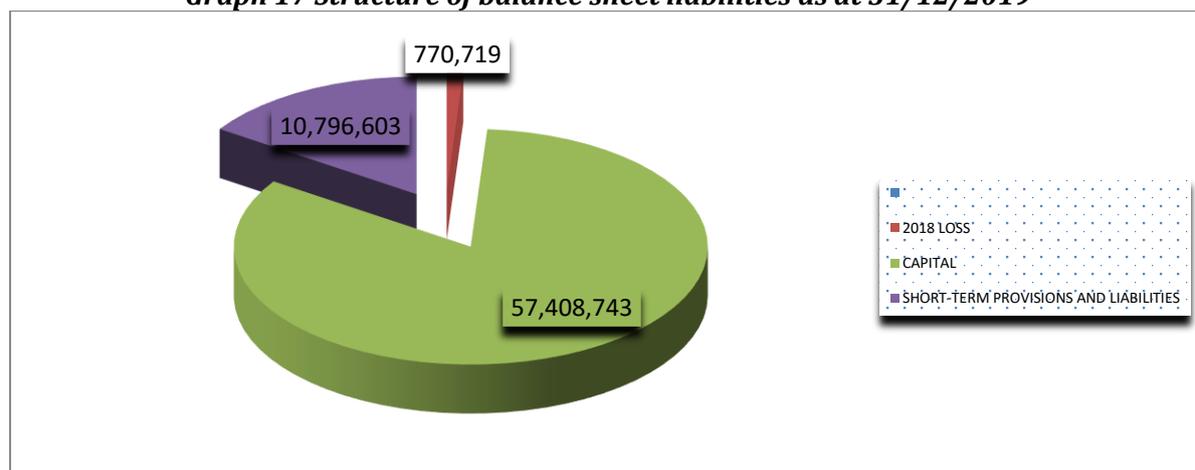
Graph 16 Structure of balance sheet assets as at 31/12/2019



**Source: Fund's bookkeeping*

In the structure of total assets, equipment accounted for 0.01% (EUR 11,530), receivables made up 4.13% (EUR 2,785,921), long-term financial investments accounted for 3.56% or EUR 2,403,885 (government bonds – EUR 2,200,000, employee contributions – EUR 203,885), and 65.66% (EUR 44,282,698) were funds in the Fund's giro account and in the Fund's petty cash.

Graph 17 Structure of balance sheet liabilities as at 31/12/2019



**Source: Fund's bookkeeping*

In the structure of total liabilities, short-term provisions and short-term liabilities¹⁰ made up EUR 10,796,603 (16.1%) and capital accounted for EUR 57,638,024 € (85.47%).

STATEMENT OF CHANGES IN CAPITAL

The capital balance as at 31/12/2019 was a **profit** of **EUR 56,638,024**.

¹⁰ This amount represents liabilities for guaranteed deposits of the failed IBM Bank and Atlas Bank, liabilities to suppliers, and interest payable to EBRD.

Annex: Income and expenditure in 2018 and 2019 and the 2020 plan

| | | Executed in | | Executed in | | |
|-----------------|--|---------------------|-------------------|-------------------|----------|-------------------|
| | DESCRIPTION | 2018 | 2019 PLAN | 2019 | 5/4 % | 2020 PLAN |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| A. | TOTAL INCOME | 16,827,009 | 51,133,620 | 58,265.629 | 113.95 | 57.638.000 |
| A.1. | OPERATING INCOME | 16,593,128 | 16,700,000 | 16,832.009 | 100.79 | 17.500.000 |
| A.1.1. | PREMIUM | 16,593,128 | 16,700,000 | 16,832.009 | 100.79 | 17,500.000 |
| A.1.2. | OTHER | | | | | |
| A.2. | FINANSIJSKI PRIHODI | 233,881 | 34,433,620 | 41,433.620 | 120.33 | 40.138.000 |
| A.2.1. | Interest on time deposits | - | | | | |
| A.2.2. | Interest on T-bills | 84,821 | 45,607 | 45.607 | 100.00 | 50.000 |
| A.2.3. | Interest on government bonds | 88,000 | 88,000 | 88.000 | 100.00 | 88.000 |
| A.2.4. | Fines and penalties | 60,000 | | | | |
| A.3. | Other | 1,060 | 34,300,013 | 41,300.013 | 120.41 | 40.000.000 |
| B. | TOTAL EXPENDITURE | 113,057,769 | 10,626,550 | 856.886 | 8.06 | 2.621.100 |
| B.1. | OPERATING EXPENSES | 112,731,153 | 10,426,600 | 657.276 | 6.30 | 2.468.600 |
| B.1.1. | COST OF MATERIAL AND ENERGY | 6,867 | 12,200 | 16.465 | 134.96 | 15.000 |
| B.1.1.1. | Cost of office supply | 1,476 | 1,200 | 1.218 | 101.50 | 2.500 |
| B.1.1.2. | Cost of lease, fuel, water, energy, maintenance | 5,391 | 11,000 | 15.247 | 138.61 | 12.500 |
| B.1.2. | SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES | 220,035 | 259,400 | 247.580 | 95.44 | 288.600 |
| B.1.2.1. | Gross wages and salaries | 144,961 | 168,600 | 166.957 | 99.03 | 168.600 |
| B.1.2.1.1. | Net wages and salaries | 95,067 | 110,000 | 109.488 | 99.53 | 110.000 |
| B.1.2.1.2. | Taxes | 14,810 | 18,400 | 18.106 | 98.40 | 18.400 |
| B.1.2.1.3. | Contributions | 35,084 | 40,200 | 39.363 | 97.92 | 40.200 |
| B.1.2.2. | EMPLOYER CONTRIBUTIONS | 19,459 | 20,100 | 19.107 | 95.06 | 20.100 |
| B.1.2.3. | REMUNERATION TO MB MEMBERS | 35,307 | 40,700 | 40.560 | 99.66 | 69.900 |
| B.1.2.3.1. | Net remuneration to MB members | 26,151 | 28,300 | 28.268 | 99.89 | 48.100 |
| B.1.2.3.2. | Taxes | 3,018 | 4,000 | 3.984 | 99.60 | 7.700 |
| B.1.2.3.3. | Contributions | 6,138 | 8,400 | 8.308 | 98.90 | 14.100 |
| B.1.2.4. | OTHER PERSONAL EXPENSES | 20,308 | 30,000 | 20.956 | 69.85 | 30.000 |
| B.1.2.4.1. | Other personal expenses | 2,200 | 7,000 | 5.690 | 81.29 | 3.000 |
| B.1.2.4.2. | Service contracts | 1,179 | 4,000 | 2.775 | 69.38 | 5.000 |
| B.1.2.4.3. | Daily allowances | 4,773 | 6,000 | 4.747 | 79.12 | 7.000 |
| B.1.2.4.4. | Business travel transport | 6,885 | 6,000 | 2.930 | 48.83 | 8.000 |
| B.1.2.4.5. | Business travel accommodation | 5,271 | 7,000 | 4.814 | 68.77 | 7.000 |
| B.1.3. | DEPRECIATION AND PROVISIONS | 112,416,020 | 10,016,000 | 224.220 | 2.24 | 2.017.000 |
| B.1.3.1. | Depreciation charges | 15,274 | 16,000 | 7.699 | 48.12 | 17.000 |
| B.1.3.2. | Short-term provisions | 112,400,746 | 10,000,000 | 216.521 | 2.17 | 2.000.000 |
| B.1.4. | OTHER OPERATING EXPENSES | 88,231 | 139,000 | 169.011 | 121.59 | 148.000 |
| B.1.4.1. | Cost of advertising and promotion | 5,000 | 15,000 | 3.779 | 25.19 | 40.000 |
| B.1.4.2. | Cost of professional services | 20,503 | 28,000 | 17.002 | 60.72 | 28.000 |
| B.1.4.2.1. | Audit | 5,100 | 12,000 | 11.979 | 99.83 | 12.000 |
| B.1.4.2.2. | Education and training | 7,578 | 10,000 | 5.023 | 50.23 | 10.000 |
| B.1.4.2.3. | Surveying | 5,236 | - | | | |
| B.1.4.2.4. | Cost of licenses and copyrights | 2,589 | 6,000 | | - | 6.000 |
| B.1.4.3. | Membership fees to international associations | 17,482 | 20,000 | 19.818 | 99.09 | 20.000 |
| B.1.4.4. | Cost of postal services | 2,785 | 9,000 | 8.212 | 91.24 | 9.000 |
| B.1.4.5. | Cost of representation | 5,116 | 6,000 | 5.255 | 87.58 | 6.000 |
| B.1.4.6. | Cost of payment system services | 3,582 | 33,000 | 30.480 | 92.36 | 15.000 |
| B.1.4.7. | Cost of complaints for GD payout | | | 50.000 | | |
| B.1.4.8. | T-bill auction fees | 14,132 | 18,000 | 18.000 | 100.00 | 20.000 |
| B.1.4.9. | Other expenses | 19,631 | 10,000 | - | - | 10.000 |
| B.1.4.8.1. | Organisation of regional EFDI conference | 5,496 | | | | |
| B.1.4.8.2. | Other expenses | 14,135 | 10,000 | | - | 10.000 |
| C. | FINANCIAL EXPENSES | 326,616 | 199,950 | 199.610 | 99.83 | 152.500 |
| C.1. | EBRD CONTRACTED INTEREST | 152,083 | 152,500 | 152.159 | 99.78 | 152.500 |
| C.2. | Liabilities for time deposit interest | 174,533 | 47,450 | 47.451 | 100.00 | |
| | RESULT | (96,230,760) | 40,507,070 | 57,408,743 | 141.73 | 55,016,900 |

**DEPOSIT PROTECTION FUND,
PODGORICA**

Financial statements for 2019

DEPOSIT PROTECTION FUND, PODGORICA

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INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT BOARD OF THE DEPOSIT PROTECTION FUND, PODGORICA

Report on the audit of financial statements

Opinion

We have audited the financial statements of Deposit Protection Fund, Podgorica (hereinafter: The Fund), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with the with Law on Accounting and the accounting regulation of Montenegro.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance is responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs applicable in Montenegro, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on other legal and regulatory requirements

We have reviewed the annual management report of the Fund. Management is responsible for the preparation of the annual management report in accordance with the legal requirements of Montenegro. Our responsibility is to assess whether the annual management report is consistent with the annual financial statements for the same financial year. Our work regarding the annual management report has been restricted to assessing whether the accounting information presented in the annual management report is consistent with the annual financial statements and did not include reviewing other information contained in the annual management report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual management report is consistent, in all material respects, with the financial statements of the Fund for the year ended 31 December 2019.

Podgorica, 29 May 2020

Danijela Mirković
Partner

Nikola Ribar
Authorized auditor

Ernst & Young Montenegro d.o.o.
Podgorica, Montenegro

DEPOSIT PROTECTION FUND, PODGORICA

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019.

In EUR

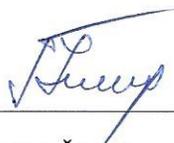
| Position | Note | 2019. | 2018. |
|---|------|-------------------|----------------------|
| I. OPERATING INCOME | | 16,832,009 | 16,594,179 |
| Sales | 4 | 16,832,009 | 16,593,128 |
| Other operating income | | - | 1,051 |
| II. OPERATING EXPENSES | | (657,276) | (112,731,153) |
| Costs of material | 5 | (7,954) | (6,867) |
| Salaries, compensations and other personal expenses | 6 | (247,959) | (220,035) |
| Depreciation, amortization and provision | 7 | (224,220) | (112,416,020) |
| Other operating expenses | 8 | (177,143) | (88,229) |
| A. OPERATING RESULT | | 16,174,733 | (96,136,974) |
| Financial income | 9 | 133,607 | 172,830 |
| Financial expenses | 10 | (199,610) | (326,616) |
| B. FINANCIAL RESULT | | (66,003) | (153,786) |
| I Other income | 11 | 41,300,013 | 60,000 |
| II Other expenses | | - | - |
| C. RESULT FROM OTHER ACTIVITIES | | 41,300,013 | 60,000 |
| D. PROFIT/(LOSS) BEFORE TAX | | 57,408,743 | (96,230,760) |
| H. TAX EXPENSES OF THE PERIOD | | - | - |
| Tax expense | | - | - |
| Deferred tax expenses | | - | - |
| I. NET PROFIT/ (LOSS) | | 57,408,743 | (96,230,760) |

Notes on the following pages are an integral part of these financial statements.

The accompanying financial statements were adopted for issuance on May 28th, 2020 and signed on behalf of the Fund's management by:

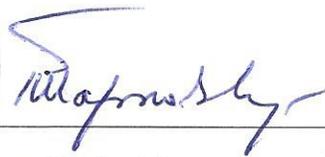
Person responsible for the preparation
of the financial statements

Director



(Slavica Žarić)





(Predrag Marković)

DEPOSIT PROTECTION FUND, PODGORICA

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2019

In EUR

| Position | Note | 2019. | 2018. |
|--|------|-------------------|--------------------|
| ASSETS | | | |
| A. Non-current assets | | 2,415,415 | 2,428,241 |
| Intangible assets | 12 | 166 | 166 |
| Property, plant and equipment | 13 | 11,364 | 11,366 |
| Other long-term financial placements | 14 | 2,403,885 | 2,416,709 |
| B. CURRENT ASSETS | | 65,019,212 | 109,289,223 |
| Accounts Receivable | 15 | 2,785,921 | 23,971 |
| Short-term financial placements | 16 | 17,950,593 | - |
| Cash and cash equivalents | 17 | 44,282,698 | 109,265,252 |
| TOTAL ASSETS | | 67,434,627 | 111,717,464 |
| EQUITY AND LIABILITIES | | | |
| A. EQUITY | | 56,638,024 | (770,719) |
| Share capital | 18 | 95,460,041 | 95,460,041 |
| Retained earnings | | 57,408,743 | - |
| Losses | | (96,230,760) | (96,230,760) |
| D. SHORT-TERM PROVISIONS AND SHORT-TERM LIABILITIES | | 10,796,603 | 112,488,183 |
| Accounts payable | 19 | 10,735,666 | 1,628 |
| Other short-term liabilities, accruals and deferred income | 20 | 60,937 | 85,808 |
| Value added tax and other tax liabilities | | - | - |
| Short-term provisions | 21 | - | 112,400,746 |
| TOTAL EQUITY AND LIABILITIES | | 67,434,627 | 111,717,464 |

Notes on the following pages are an integral part of these financial statements.

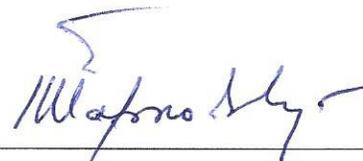
The accompanying financial statements were adopted for issuance on May 28th, 2020 and signed on behalf of the Fund's management by:

Person responsible for the preparation of the financial statements

Director



(Slavica Žarić)

(Predrag Marković)

DEPOSIT PROTECTION FUND, PODGORICA

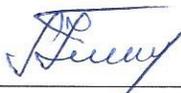
STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED DECEMBER 31, 2019.

| In EUR | Share capital | Retained earnings | Losses | Total |
|---------------------------------|---------------|-------------------|--------------|--------------|
| Balance as of January 1, 2018 | 81,118,308 | 14,341,733 | - | 95,460,041 |
| Transfer | 14,341,733 | (14,341,733) | - | - |
| Net movements in 2018 | - | - | (96,230,760) | (96,230,760) |
| Balance as of December 31, 2018 | 95,460,041 | - | (96,230,760) | (770,719) |
| Transfer | - | - | - | - |
| Net movements in 2019 | - | 57,408,743 | - | 57,408,743 |
| Balance as of December 31, 2019 | 95,460,041 | 57,408,743 | (96,230,760) | 56,638,024 |

Notes on the following pages are an integral part of these financial statements.

The accompanying financial statements were adopted for issuance on May 28th, 2020 and signed on behalf of the Fund's management by:

Person responsible for the preparation of the financial statements



(Slavica Žarić)



Director

(Predrag Marković)

DEPOSIT PROTECTION FUND, PODGORICA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019

| In EUR | 2019. | 2018. |
|--|----------------------|--------------------|
| A. CASH FLOW FROM OPERATING ACTIVITIES | | |
| I. Cash inflow from operating activities | 58,132,022 | 16,654,188 |
| Sales and received advances | 16,832,009 | 16,593,128 |
| Received interest from operating activities | - | 1,060 |
| Other receipts from operating activities | 41,300,013 | 60,000 |
| II. Cash outflows from operating activities | (105,257,110) | (646,217) |
| Outflows of guaranteed deposits advances paid | (104,600,000) | - |
| Outflows from payments to suppliers and advances paid | (184,643) | (94,000) |
| Salaries, compensations and other personal expenses | (247,959) | (220,035) |
| Interest paid | (224,508) | (332,182) |
| Public revenues paid | - | - |
| III Net inflows from operating activities | (47,125,088) | 16,007,970 |
| B. CASH FLOW FROM INVESTMENT ACTIVITIES | | |
| I. Cash inflows from investment activities | 88,000 | 15,507,677 |
| Interest received from investment activities | 88,000 | 246,412 |
| Other financial placements (net inflows) | - | 15,261,265 |
| II. Cash outflows from investment activities | (17,945,466) | (459) |
| Outflow of purchase of property, plant, and equipment | (7,697) | (459) |
| Other financial investments (net outflows) | (17,937,769) | - |
| III. Net cash flow from investment activities | (17,857,466) | 15,507,218 |
| C. CASH FLOW FROM FINANCING ACTIVITIES | | |
| I. Cash inflows from financing activities | - | - |
| II. Cash outflows from financing activities | - | - |
| III. Net cash flow from financing activities | - | - |
| IV. Net cash flow for the year | (64,982,554) | 31,515,189 |
| E. Cash at the beginning of the accounting period | 109,265,252 | 77,750,063 |
| F. Cash at the end of the accounting period | 44,282,698 | 109,265,252 |

Notes on the following pages are an integral part of these financial statements.

The accompanying financial statements were adopted for issuance on May 28th, 2020 and signed on behalf of the Fund's management by:

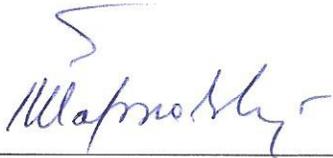
Person responsible for the preparation
of the financial statements

Director



(Slavica Žarić)





(Predrag Marković)

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019

1. GENERAL INFORMATION

The Deposit Protection Fund, Podgorica (hereinafter referred to as "the Fund") was established in accordance with the Law on Deposit Protection ("Official Gazette of Montenegro" No. 40/2003) and officially started to operate on November 18, 2004 upon the registration in the Statistical Bureau of Montenegro. Through the amendments of the Law on Deposit Protection (Official Gazette of Montenegro 44/10, 40/11, 47/15 and 72/19), further harmonization with the EU Directive 94/19 EC was carried out (the increase of the level of protection from EUR 5,000 to EUR 50,000, as well as shortening deadlines for payment of guaranteed deposits from 90 to 20 days), as well as the separation of the governing and managerial function of the Fund itself, by separating the Fund governing bodies into the Management Board and the Director of the Fund. The amendments of the Law on Deposit Protection (Official Gazette of Montenegro 72/19) the deadline was decreased further, to 7 days.

Commercial banks, licensed by the Central Bank of Montenegro, are obliged, to pay a Premium to the Fund in the name of deposit protection under the conditions and in the manner prescribed by the Law on Deposit Protection.

The main activity of the Fund is to secure deposit protection in banks and it is obligated to pay guaranteed deposits when required in accordance with the Law on Deposit Protection (occurrence of the "protected case"). Deposit protection relates to deposits placed with the bank before or on the day of the occurrence of the protected case. The protected case arises as of the date on which a decision to initiate bankruptcy proceedings in a bank is adopted. Starting from January 1, 2013, the Fund is obligated to make a payment of up to EUR 50,000 per depositor, regardless of the number and amount that the depositor owns with the bank in which bankruptcy proceedings have initiated. In the transitional period from January 1 to December 31, 2011, this amount was EUR 20,000, and from January 1 to December 31, 2012, EUR 35,000.

The Fund's headquarters are located in Podgorica, Miljana Vukova bb street.

On the day of December 31, 2019, the Fund has seven employees (seven employees on December 31, 2018).

Members of the Fund's Management Board

The Central Bank of Montenegro (hereinafter: CBoM) appoints the Management Board ("Board") comprising of three members. One member of the Board is chosen on the proposal of the Ministry of Finance, and one based on the proposal of the Association of Banks and Financial Institutions.

Members of Fund's Board of Directors in 2019 are:

- Dejan Vujačić, Director of the Sector for Control of Banks in the CBoM, Chairman of the Board of Directors from September 9, 2018;
- Ivana Radojičić, Head of department within the Ministry of Finance - Member of the Management Board since July 23, 2019. year (until July 23, 2019, Jelena Jovetić, Chief of the Ministry of Finance) and
- Đoković Nebojša, Advisor for Economic Affairs at the Association of Banks of Montenegro, Member of the Board from September 10, 2018.

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis for the preparation and presentation of financial statements

Fund has an obligation to maintain its accounting records and prepare financial statements in accordance with the requirements of the Law on Accounting ("Official Gazette of Montenegro", No. 52/16) and the Rulebook on the content and form of financial statements for business organisations and other legal entities ("Official Gazette of Montenegro", No. 5/2011, "Official Gazette of Montenegro", No. 52/2016).

In accordance with the Law on Accounting of Montenegro, the International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, have to be translated by the appropriate competent authority of Montenegro that owns the right of translation and publishing thereof, approved by the International Federation of Accountants ("IFAC"). Therefore, only IFRS and IAS officially adopted and published by the respective competent authority of Montenegro may be applicable. In 2009 were last officially translated IAS and IFRS (except for IFRS 7), and newly adopted IFRS 10, 11, 12 and 13, which are applicable from 2013. Bearing in mind the effects that differences of accounting regulations of Montenegro from IFRS and IAS may have on the presentation of the Fund's financial statements, the accompanying financial statements in that section are different and depart from IFRS and IAS and cannot be treated as financial statements prepared in accordance with IFRS and IAS.

The financial statements have been prepared under the historical cost basis, except otherwise stated in accounting policies.

In the preparation of the accompanying financial statements, the Fund has adhered to the accounting policies described in Note 3, which are based on the accounting and tax regulations of Montenegro.

2.2. Functional currency

The financial statements are presented in euros (EUR) - the official currency in Montenegro and the reporting currency of the Fund, and all numerical values are displayed in thousands (EUR 000), unless stated otherwise.

2.3. Use of estimates

The preparation of the financial statements requires the Fund's management to use the best possible estimates and reasonable assumptions that affect the reported amounts of assets and liabilities, and disclosures of potential receivables and liabilities as of the balance sheet date, as well as income and expenses of the reporting period. These estimates and assumptions are based on the information at disposal as of the balance sheet date. However, the actual results can deviate from these estimates. These estimates mostly refer to the estimation of the useful life of the equipment in use.

2.4. Going concern

The enclosed financial statements for 2019 are prepared in accordance with the going concern concept and do not contain any corrections that would possibly be needed if the Fund stops being able to operate in accordance with the principle of going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic accounting policies used for the preparation of these financial statements are outlined in the text below. These policies were consistently used for all displayed years unless stated otherwise.

3.1 Revenue recognition

3.1.1. Revenues from deposit protection premiums

Deposit protection premiums represent funds that commercial banks in Montenegro are obligated to pay to the Fund in accordance with the Law on Deposit Protection ("Official Gazette of Montenegro", No. 44/10, 40/11, 47/15 and 72/19) and the Decision on the ordinary premium rate and methodology for calculation of the premium ("Official Gazette of Montenegro" No. 66/19).

Deposit protection premiums from the Fund relate to:

- initial premiums;
- regular premiums.

The bank to which the Central Bank of Montenegro has issued a license for work shall be obliged to pay an initial premium of EUR 50,000 to the account of the Fund prior to commencing its activities.

Banks are obliged to pay the annual premiums for the protection of deposits to the Fund in quarterly installments, ie through regular premiums. The beginning of the quarter is the first day of January, April, July and October of the current year. The basis for the calculation of the regular premium is the average of the total deposits of the bank on the last day of each month in the previous quarter. The rate for calculating the regular premium can not be higher than 0.5%. With the amendments to the Law on Deposit Protection from July 2015, this rate can not be higher than 0.8%. The Decision on the ordinary premium rate and methodology for calculation of the premium is adopted by the Board at the end of November of the current year for the next year. Banks are obliged to pay the regular premium at the beginning of the quarter for the current quarter, at the latest within eight days from the day of receiving the invoice of the Fund.

During 2019, the Fund calculated the annual premium. The annual premium rate is determined for each financial year and is published in the Official Gazette of Montenegro.

In the Decision on the ordinary premium rate and methodology for calculation of the premium, the Board may determine different premiums according to the rating and degree of operating risk of certain banks (differentiated premiums).

When the Fund's assets reach the level of 10% of the guaranteed deposits, the Board may decide to reduce the regular premium rate, or temporarily suspend the payment of the regular premium.

3.1.2. Revenues from technical and financial assistance of the Central Bank of Montenegro

Revenues from technical assistance of the Central Bank of Montenegro represent funds non-refundably approved to the Fund for the purpose of temporary financing of its operations. Funds received are recognized as income on a systematic and rational basis over the period, in the amount necessary to cover the costs of ordinary activities. Revenues stated in the statement of comprehensive income in the current period are borne by the costs associated with them.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Employee benefits

3.2.1. Employee Contributions for Social Security

In accordance with the regulations effective in Montenegro, the Fund has an obligation to pay contributions to state funds that provide social security to employees.

These liabilities include the payment of contributions on behalf of the employer in an amount calculated based on the rates prescribed by relevant laws. The Fund is also obliged to suspend contributions from the gross salary of employees, and on to pay them on behalf of employees. The contributions on behalf of the employee and contributions on behalf of the employer represent the expense of the period to which they relate.

3.2.2. Retirement benefits

The present value of other future obligations under the General Collective Agreement, such as retirement benefits after fulfilling the conditions, according to the estimation of the Fund's management, does not materially affect the financial statements observed as a whole, and therefore, in these financial statements, no provision is made on the basis of employee benefits.

3.3 Foreign exchange gains or losses

Assets and liabilities denominated in foreign currencies are converted in Euros by applying the official exchange rates, as determined by the Central Bank of Montenegro, effective on balance sheet date.

Foreign currency transactions during the year are converted to Euros by applying the official foreign exchange rates effective on the day of the transaction.

Net foreign exchange gains or losses arising from transactions in foreign currencies and from translation of balance sheet items denominated in foreign currencies are credited or charged to the Statement of comprehensive income for the period.

3.4 Taxation

Prior to the Amendment of the Law on Deposit Protection of July 2015, the Fund was exempted from paying taxes, duties and contributions in performing deposit protection activities. By amending the Law on Deposit Protection from July 2015, the Fund is a taxpayer in accordance with the Law. The Fund is obliged to pay taxes and contributions to earnings of employees in accordance with the regulations that apply in Montenegro. In accordance with Article 6 of the Law on Corporate Income Tax ("Official Gazette of Montenegro", No. 65/01 of 31.12.2001, 12/02 of 15.03.2002, 80/04 of 29.12.2004, Official Gazette CG ", No. 40/08 of 27.06.2008, 86/09 of 25.12.2009, 40/11 of 08.08.2011, 14/12 of 07.03.2012, 61/13 of 30.12.2013), which is Lex specialis, public funds are exempt from paying taxes on profit.

3.5 Intangible assets

Intangible assets are carried at cost and relate to purchased software. The cost of intangible assets is recorded based on the invoice of the supplier and is increased for all expenditures of bringing these assets into the state of functional usability.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment

Equipment is stated at cost less accumulated depreciation and any impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset of bringing them into the state of functional usability.

Subsequent costs: costs of replacement of equipment parts (installation of new spare parts), are recognized as an increase in the present value of equipment, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably.

Current maintenance and repairs costs are charged to expenses during the financial period in which they are incurred. Gains and losses on disposals or sale of equipment are recorded in the income statement as part of other income or other expenses.

3.7 Depreciation

Depreciation of intangible assets and equipment is calculated on the cost basis using a proportional method of depreciation over their useful lives.

The following are annual depreciation rates that are applied:

| <u>Groups of assets</u> | <u>Rate (%)</u> |
|---------------------------------|-----------------|
| Software licenses | 20.00% |
| Computer and computer equipment | 20.00 - 33.33% |
| Technical equipment | 12.50 - 20.00% |
| Office furniture | 10.00 - 12.50% |

3.8 Financial instruments

Financial assets relate to the following: Long-term placements, Short-term financial placements held to maturity, receivables and cash and cash equivalents. The classification of financial assets depends on the nature and purpose of the financial asset and it was established at the time of initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.1. Effective interest rate method

The effective interest rate method is the method of calculating the amortized cost of the financial asset and the allocation of interest income to the appropriate time periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (the calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts) through the expected life of the financial instrument or, when appropriate, a shorter period.

3.8.2. Long-term placements

Long-term financial placements consist of bonds held-to-maturity and loans granted to employees.

Bonds relate to bonds issued by state of Montenegro on November 2016, maturing on November 16, 2020 and interest-bearing coupons maturing annually. The bonds were purchased at nominal value (interest rate of 4%) and are accounted for as securities held to maturity. The Fund may sell bonds in the event of a lack of liquid assets for the payment of a guaranteed deposit in case of bankruptcy of one or more commercial banks in Montenegro. On November 16, 2016, the first interest coupon was collected, on November 16, 2017, the second, and on November 16, 2018 the third interest coupon each in the amount of EUR 88,000.

Loans are initially recognized at fair value. Subsequently, they are measured at amortized cost using the effective interest method. The difference between fair value at the date of recognition and allocated funds is recognized as prepaid employee benefits within long-term receivables from employees. Prepaid employee benefits are amortized over the period of receipt of benefits. The period of receipt is equal to the employee's expected working life however it cannot be longer than the period for which the loan is granted.

3.8.3. Short-term financial investments held to maturity

Short-term financial assets held-to-maturity are non-derivative financial assets with fixed and determinable payments and fixed maturity, and for which Fund's management has a positive intention and ability to hold to maturity. Investments held-to-maturity relate to Treasury bills issued by the Ministry of Finance of Montenegro.

These investments are stated at amortized cost using the effective interest rate method less impairment based on a management estimate of their probable collectability.

3.8.4. Receivables from operating activities

Receivables for premiums and other receivables from business operations with fixed or determinable payments that are not quoted in a trading market are measured at amortized cost using the effective interest rate method less impairment based on the management's estimate of their probable collectability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial instruments (Continued)

3.8.5. Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash and cash equivalents in the CBoM and cash funds deposited through the Asset Manager - the CBoM, for a period up to three months, which can be quickly converted into known amounts of cash with an insignificant risk of a change in value.

3.8.6. Impairment of financial assets

Financial assets are evaluated for the purpose of identifying impairment indicators at the date of preparation of financial statements.

Financial assets are considered to be impaired when it is proved that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the investment have been changed.

Objective evidence of impairment of financial assets may include:

- significant financial difficulty of a legal entity - parties under contract; or
- delay or failure to pay interest or premium; or
- when it becomes probable that the debtor will go bankrupt or will undergo financial restructuring.

The impairment of the carrying amount of receivables for premiums is accounted for on the related impairment account. When the receivable is uncollectible, it is written off through this account. Subsequent collection of previously written off amounts is recorded as a reduction of impairment. Changes in the carrying amount of the impairment account are recognized in the income statement.

If, in the subsequent period, the amount of impairment loss decreases, and the decrease objectively relates to an event that occurred after the recognition of impairment, the previously recognized impairment loss is reversed through the income statement to an extent that will not result in the increase of the carrying amount higher than it would be based on amortized cost as if the recognition of impairment has not been initially recognized.

3.8.7. Derecognition of financial assets

The Fund derecognizes financial assets only when the contractual rights to cash flows from financial assets expire; or if it transfers financial assets, and with that all risk and rewards from ownership to another entity. If the Fund does not transfer or retain substantially all risks and returns from ownership and maintains control over financial assets, the Fund continues to recognize financial assets.

3.8.8. Other financial liability

Other financial liabilities, including loan liabilities, are initially recognized at fair value less transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the cost of depreciation of a financial liability and determining the cost of interest for the relevant period. The effective interest rate is the rate that accurately discounts the estimated future cash payments through the expected duration of the financial liability, or, where possible, in a shorter period.

3.8.9. Derecognition of financial liabilities

The Fund derecognizes the financial liability when, and only when, the Fund's liabilities are released, canceled or expired.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019

4. SALES

Sales revenue in 2019 amounts to EUR 16,832,009 (in 2018: EUR 16,593,128) and relates to income from deposit protection premiums. Deposit protection premiums represent assets that commercial banks in Montenegro are obligated to pay to the Fund in accordance with the Law on Deposit Protection Act ("Official Gazette of Montenegro", No. 44/10, 40/11, 47/15 and 72/19) and Decision on the ordinary premium rate and methodology for the calculation of the premium ("Official Gazette of Montenegro" No. 66/19).

5. COSTS OF MATERIAL

| In EUR | <u>2019.</u> | <u>2018.</u> |
|-----------------------|---------------------|---------------------|
| Fuel and energy costs | 6,518 | 5,094 |
| Other material costs | <u>1,436</u> | <u>1,773</u> |
| Total | <u>7,954</u> | <u>6,867</u> |

6. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

| In EUR | <u>2019.</u> | <u>2018.</u> |
|---|-----------------------|-----------------------|
| Gross salaries and wages | 166,957 | 144,961 |
| Social security contributions - on behalf of the employer | 19,107 | 19,459 |
| Management Board compensation | 40,560 | 35,307 |
| Travel expenses | 12,491 | 16,930 |
| Other personal expenses | 8,844 | 3,378 |
| Total | <u>247,959</u> | <u>220,035</u> |

7. DEPRECIATION, AMORTIZATION AND PROVISION

| In EUR | <u>2019.</u> | <u>2018.</u> |
|---|-----------------------|---------------------------|
| Provisions for guaranteed deposit payments (Note 21) | 216,521 | 112,400,746 |
| Amortization of intangible assets (Note 13) | - | 5,605 |
| Depreciation of property, plant and equipment (Note 14) | <u>7,699</u> | <u>9,669</u> |
| Total | <u>224,220</u> | <u>112,416,020</u> |

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019

8. OTHER OPERATING EXPENSES

| In EUR | 2019. | 2018. |
|--|----------------|---------------|
| Advertising and marketing costs | - | 10,236 |
| Fee charges - records | 18,000 | 14,132 |
| Membership fees | 19,818 | 17,482 |
| Training costs - education | 5,023 | 13,074 |
| Post, internet and telephone costs | 8,212 | 2,785 |
| Maintenance costs | 15,247 | 11,665 |
| Complaints based on the payment of guaranteed deposits | 50,000 | - |
| Other expenses | 60,843 | 18,855 |
| Total | 177,143 | 88,229 |

9. FINANCIAL REVENUE

| In EUR | 2019. | 2018. |
|-------------------------------------|----------------|----------------|
| Interest revenue - treasury bills | 45,607 | 84,830 |
| Interest revenue - government bonds | 88,000 | 88,000 |
| Total | 133,607 | 172,830 |

10. FINANCIAL EXPENSE

| In EUR | 2019. | 2018. |
|----------------------------------|----------------|----------------|
| Interest expense - EBRD | 152,159 | 152,083 |
| Interest expense - term deposits | 47,451 | 174,533 |
| Total | 199,610 | 326,616 |

On November 8, 2010, the Fund signed a Stand-By Arrangement with the EBRD - a credit line in the amount of EUR 30,000,000. These funds are available to the Fund in case that the Fund's assets are not sufficient to cover the guaranteed deposit in case of bankruptcy of one or more banks in the system. The loan is granted on 15 years, with the possibility to use it in the next 7 years. Interest rate of 0.50% is calculated and paid in the period until the funds are withdrawn, and 1.00% in the period after the withdrawal.

In order to preserve financial stability and to prevent possible events that could cause the confidence of depositors to fall into the banking system, the Fund, with the approval of the Ministry of Finance, signed the Annex in November 2017, which extended this contract for one year. In November 2018, the Agreement was renewed for the second time (Annex II) for one year under the same conditions as the original agreement, with the withdrawal period of one year and the repayment period of 6 (six) years.

11. OTHER INCOME

Other operating income in the amount of EUR 41,300,013 relates to collected receivables based on the payment of guaranteed deposits from the bankruptcy estate of Atlas Bank A.D. Podgorica and IBM AD Podgorica during 2019.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019

12. INTANGIBLE ASSETS

| In EUR | Intangible assets |
|----------------------------------|------------------------------|
| Carrying value | |
| Balance, 1 January 2018 | 42,884 |
| Additions | - |
| Balance, 31 December 2018 | <u>42,884</u> |
| Additions | - |
| Balance, 31 December 2019 | <u>42,884</u> |
| Accumulated amortization | |
| Balance, 1 January 2018 | 37,113 |
| Amortization (Note 7) | 5,605 |
| Balance, 31 December 2018 | <u>42,718</u> |
| Amortization (Note 7) | - |
| Balance, 31 December 2019 | <u>42,718</u> |
| Net book value | |
| Balance, 31 December 2018 | <u>166</u> |
| Balance, 31 December 2019 | <u>166</u> |

13. EQUIPMENT

| In EUR | Equipment |
|-------------------------------------|------------------|
| Carrying value | |
| Balance, 1 January 2018 | 98,565 |
| Additions | 369 |
| Disposals | - |
| Balance, 31 December 2018 | <u>98,934</u> |
| Additions | 7,697 |
| Disposals | - |
| Balance, 31 December 2019 | <u>106,631</u> |
| Accumulated depreciation | |
| Balance, 01 January 2018 | 77,899 |
| Depreciation (Note 7) | 9,669 |
| Sale | - |
| Balance, 31 December 2018 | <u>87,568</u> |
| Depreciation (Note 7) | 7,699 |
| Disposals | - |
| Balance, 31 December 2019 | <u>95,267</u> |
| Equipment under construction | |
| Net book value | |
| Balance, 31 December 2018 | <u>11,366</u> |
| Balance, 31 December 2019 | <u>11,364</u> |

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019

14. OTHER LONG-TERM FINANCIAL PLACEMENTS

| In EUR | <u>2019.</u> | <u>2018.</u> |
|------------------------------------|-------------------------|-------------------------|
| Investments in government bonds | 2,200,000 | 2,200,000 |
| Loans to employees - Housing Loans | 203,885 | 216,709 |
| Total | <u>2,403,885</u> | <u>2,416,709</u> |

Investments in government bonds relate to investments in bonds of Montenegro in the amount of EUR 2,200,000 maturing in 2020 and annual interest-bearing coupons of EUR 88,000 (4% annual interest rate).

Loans to employees relate to housing loans granted in 2015. Loans were initially approved with a maturity of 15 or 30 years. They are repaid in equal monthly instalments. During 2019, EUR 12,824 was repaid (2018: EUR 12,824). The maturity of receivables based on long-term loans granted to employees as at 31 December 2019 and 2018 is shown in the following table (undiscounted future cash flows are shown).

| Due to payment | <u>2019.</u> | <u>2018.</u> |
|------------------------|-----------------------|-----------------------|
| Up to 1 year | 12,824 | 12,824 |
| 1 to 3 years | 25,648 | 25,648 |
| 3 to 5 years | 25,648 | 25,648 |
| Over 5 years | 152,589 | 165,413 |
| Total loans | <u>216,709</u> | <u>229,533</u> |
| Minus: short-term part | <u>(12,824)</u> | <u>(12,824)</u> |
| Total | <u>203,885</u> | <u>216,709</u> |

15. ACCOUNTS RECEIVABLE

| In EUR | <u>2019.</u> | <u>2018.</u> |
|---|-------------------------|----------------------|
| Receivables from advances given to banks for the payment of guaranteed deposits | 2,716,400 | - |
| Interest receivables - treasury bills | 45,607 | - |
| Interest receivables - government bonds | 11,090 | 11,090 |
| Housing loans given to employees | 12,824 | 12,824 |
| Other receivables | - | 57 |
| Total | <u>2,785,921</u> | <u>23,971</u> |

On January 4, 2019, the Council of the Central Bank of Montenegro issued a decision number 0101-10202-3 / 2018 which introduces in Invest Bank Montenegro A.D. (IBM) bankruptcy, while on April 5, 2019, by the decision of the Central Bank of Montenegro no. 0101-3292-4 / 2019 bankruptcy was introduced in Atlas Bank AD Podgorica (Atlas Bank).

Based on these decisions, the Fund informed depositors about the occurrence of the "protected case" and the selected banks that will be intermediaries in the payment of guaranteed deposits as well as the place and time where depositors can take their guaranteed deposit in accordance with the Decision on the method of payment of guaranteed deposits (Official Gazette of Montenegro No. 76/17 and 17/19). The total amount of guaranteed deposits in Atlas and IBM Bank was EUR 112,617,267. During 2019, the Fund paid EUR 104,600,000 to intermediary banks, of which EUR 101,883,600 was paid to depositors. Receivables in the amount of EUR 2,716,400 relate to advance payments to intermediary banks that as of 31 December 2019 were not yet distributed to depositors.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019

16. SHORT-TERM FINANCIAL PLACEMENTS

Short-term financial investments refer to treasury bills, which as of December 31, 2019 amount to EUR 17,950,593 and represent six-month debt securities issued by the Central Bank of Montenegro on behalf of the Ministry of Finance of Montenegro maturing on January 14, 2020.

17. CASH AND CASH EQUIVALENTS

| In EUR | <u>2019.</u> | <u>2018.</u> |
|------------------------------------|--------------------------|---------------------------|
| Cash on a gyro account of the CBoM | 44,282,078 | 59,317,248 |
| Interest-bearing deposits | - | 49,947,924 |
| Petty cash | 620 | 80 |
| Total | <u>44,282,698</u> | <u>109,265,252</u> |

In accordance with the Asset Management Agreement which came into force on 7 May 2012, the Fund's Management Board has engaged and authorized the CBoM to manage the Fund's assets as an Asset Manager. In accordance with the above, the CBoM issues orders for investing in deposits and purchasing and selling portfolio investments in the name and for the account of the Fund at a bank or a dealer it chooses and which, according to information available to the Central Bank, offers security, liquidity and the most favorable return for the Fund at a given moment.

The primary goal of all investment decisions is security, in order to protect the capital of the Fund. The Fund invests in debt instruments, which are rated by one of the internationally recognized rating agencies, with a minimum rating of: Standard & Poor's A / 1, Moody's A2 / P-1, Fitch A / F1. Investments in shares and investments with higher risk are excluded:

- debt securities in EUR issued by a bank, a financial institution or countries with a credit rating determined by internationally recognized rating agencies, which is not lower than the rating "A" or "P1";
- deposits in EUR deposited in banks of EU Member States or OECD with a credit rating determined by an internationally recognized rating agency, which is not lower than the rating "P1".

In addition, the Fund may invest in debt securities in EUR issued and guaranteed by the state of Montenegro in the amount of 20% of the total investment portfolio, as well as deposits in EUR with the CBoM.

The CBoM will manage the Fund's assets independently, without special instructions, in accordance with the acts of the CBoM for managing the international reserves, while respecting the principles of the Fund's Investment Policy.

18. EQUITY

| In EUR | <u>2019.</u> | <u>2018.</u> |
|-------------------|--------------------------|-------------------------|
| Share capital | 95,460,041 | 95,460,041 |
| Retained earnings | 57,408,743 | - |
| Accumulated loss | <u>(96,230,760)</u> | <u>(96,230,760)</u> |
| Total | <u>56,638,024</u> | <u>(770,719)</u> |

The Deposit Protection Fund was established in 2003, in accordance with the Law on Deposit Protection (Official Gazette of the Republic of Montenegro No. 40/2003). Since the Fund was established by law, the initial capital was not paid in. Instead, total equity represents accumulated profit for the period from the establishment until December 31, 2019.

DEPOSIT PROTECTION FUND, PODGORICA**NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019****19. TRADE PAYABLES**

Trade payables as at 31 December 2019 and 31 December 2018 are shown in the table below.

| In EUR | <u>2019.</u> | <u>2018.</u> |
|---|--------------------------|---------------------|
| Liabilities based on the payment of guaranteed deposits | 10,733,667 | - |
| Payables | <u>1,999</u> | <u>1,628</u> |
| Total | <u>10,735,666</u> | <u>1,628</u> |

Based on the decisions of the Central Bank of Montenegro on the introduction of bankruptcy in IBM and Atlas Bank (Note 15), a "protected case" occurred. The total amount of guaranteed deposits amounted to EUR 112,617,267, of which EUR 101,883,600 were paid to depositors in 2019. Liabilities in the amount of EUR 10,733,667 relate to guaranteed deposits whose payment was not realized as of December 31, 2019.

20. OTHER SHORT-TERM LIABILITIES, ACCRUALS AND DEFERRED INCOME

| In EUR | <u>2019.</u> | <u>2018.</u> |
|---|----------------------|----------------------|
| Interest payable EBRD | 60,833 | 60,833 |
| Interest payable - interest-bearing deposits | 75 | 24,975 |
| Salaries, and other employee benefits payable | 29 | - |
| Total | <u>60,937</u> | <u>85,808</u> |

21. SHORT-TERM PROVISIONS

Short-term provisions as of December 31, 2018 were entirely related to the payment of guaranteed deposits in accordance with the Fund's obligations under the Law on Deposit Protection due to the occurrence of a "protected case" or the initiation of bankruptcy proceedings in Invest Bank Montenegro a.d. Podgorica and Atlas Banks a.d. Podgorica (Notes 15 and 19).

22. FINANCIAL INSTRUMENTS**22.1 Category of financial instruments**

| In EUR | <u>2019.</u> | <u>2018.</u> |
|--|--------------------------|---------------------------|
| Financial assets | | |
| Cash and cash equivalents | 44,282,698 | 109,265,252 |
| Short-term financial placements | 17,950,593 | - |
| Other long-term financial placements | 2,403,885 | 2,416,709 |
| Accounts receivable | <u>2,785,921</u> | <u>23,971</u> |
| Total | <u>67,423,097</u> | <u>111,705,932</u> |
| Financial liabilities | | |
| Trade payables | 10,735,666 | 1,629 |
| Other short - term liabilities, accruals and deferred income | 60,937 | 85,808 |
| Short - term provisions | - | 112,400,746 |
| Total | <u>10,796,603</u> | <u>112,488,183</u> |

22. FINANCIAL INSTRUMENTS (Continued)

22.2 Finacial risk management

In its regular course of business, the Fund is exposed to a variety of financial risks:

22.2.1. Market risk,

22.2.2. Liquidity risk and

22.2.3. Credit risk.

The Fund's risk management is focused towards minimizing the potential negative impacts on the financial state and operating activities of the Fund due to uncertainties on the financial markets. The Fund does not use derivative financial instruments in any form in order to mitigate risk losses. A formal framework for financial risk management has been established in the Fund and it is within the jurisdiction of the Fund's Management Board.

22.2.1. Market risk

Foreign currency risk

The fund is not exposed to the risk of foreign currency fluctuations because it performs its business in the functional currency.

Interest rate risk

The Fund is exposed to various risks which, through the effects of changes in the level of market interest rates, affect its financial position and cash flows. The Fund's business is exposed to the risk of interest rate changes to the extent that interest-bearing assets and interest-bearing liabilities are due for payment at different times or in different amounts.

Price risk

The risk of change in other prices includes changes in the cost of capital, change in price of goods, early payment risk and residual value risk. The fund is not significantly exposed to these types of risks.

22.2.2. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to finance its assets with appropriate sources of funding in respect of related maturities and interest rates, the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe, as well as the risk of being unable to pay off its obligations within maturity. The Management Board of the Fund is responsible for monitoring the level of short-term funding and adjust the needs of short-term and long-term funding in accordance with defined investment policies.

22.2.3. Credit risk

Credit risk is the risk of financial losses of the Fund as a result of delays of the client or other counterparty in the settlement of contractual obligations. Credit risk is primarily linked to the Fund's exposure to cash and cash equivalents, short-term and long-term financial placements.

The business policy of the Fund is to disclose information on the fair value of assets and liabilities for which there is official market information and when fair value varies significantly from it's carrying amount. There is not enough market experience in Montenegro, nor stability nor liquidity in the purchase and sale of receivables and other financial assets and liabilities, as official market information is not always available. Therefore, the fair value cannot be reliably determined with the absence of an active market.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2019

22. FINANCIAL INSTRUMENTS (Continued)

22.2 Financial risk management (Continued)

22.2.3. Credit risk (Continued)

The management of the Fund assesses risks, and in cases where it is estimated that the value at which property is kept in the accounting records will not be realized, accounts for impairment.

The management of the Fund considers that the amounts in the accompanying financial statements reflect the value that in the given circumstances is the most credible and useful for the use of reporting under the given circumstances.

In EUR

| Financial assets | 2019. | | 2018. | |
|--|-------------------|-------------------|--------------------|--------------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Cash and cash equivalents | 44,282,698 | 44,282,698 | 109,265,252 | 109,265,252 |
| Short-term financial investments | 17,950,593 | 17,950,593 | - | - |
| Other long-term financial investments | 2,403,885 | 2,403,885 | 2,416,709 | 2,416,709 |
| Receivables | 2,785,921 | 2,785,921 | 23,971 | 23,971 |
| Total | 67,423,097 | 67,423,097 | 111,705,932 | 111,705,932 |
| Financial liabilities | | | | |
| Trade payables | 10,735,666 | 10,735,666 | 1,629 | 1,629 |
| Other short - term liabilities, accruals and deferred income | 60,937 | 60,937 | 85,808 | 85,808 |
| Short - term provisions | - | - | 112,400,746 | 112,400,746 |
| Total | 10,796,603 | 10,796,603 | 112,488,183 | 112,488,183 |

23. LITIGATIONS

As of December 31, 2019, there are 24 lawsuits against the Fund with a total value of EUR 428,546. The outcome of the mentioned disputes cannot be predicted with certainty, but the management's opinion is that the probability that the dispute will be resolved in favor of the Fund is over 50%. Accordingly, the Fund has not made a provision for potential litigation losses.

24. SUBSEQUENT EVENT

After the date of the reporting period, there were no events that would require adjustments or disclosure in the financial statements of the Fund for the period from January 1 to December 31, 2019.

24. SUBSEQUENT EVENT (Continued)

The President of the Republic, in accordance with Article 21 of the Law on Deposit Protection, by decision of February 3, 2020, has appointed the Board of Directors, so that, on the day of publication of these financial statements, the Board of Directors is composed as follows:

| Name | Position |
|-----------------------|-----------------------|
| Vesko Lekić | Chairman of the Board |
| Mr Branislava Božović | Member, |
| Dejan Vujačić | Member, |
| Mr Nebojša Đoković | Member, |
| Vlastimir Golubović | Member. |

One member of the Board of Directors was appointed at the proposal of the Ministry of Finance, one at the proposal of the Chamber of Commerce of Montenegro, one at the proposal of the Association of banks and financial institutions, one at the proposal of the CBoM and one at the proposal of the President.

In accordance with Article 28 and Article 60 of the Law on Deposit Protection, the Board of Directors announced a public application request for the appointment of the Fund's director.

After the procedure, at the III session from 03.04.2020. year, the Board of Directors made a decision to appoint Predrag Markovic, the current director of the Fund, as the director of the Fund.

In 2020, the Fund continued to pay guaranteed deposits to depositors of bankrupt banks. By 15 May 2020, EUR 102,715,550 or 91.17% of the total liability for these two banks had been paid (Invest banka Montenegro in bankruptcy 96.33% and Atlas banka in bankruptcy 89.89%).

An additional EUR 4,600,000 was collected from the bankruptcy estate (from IBM - EUR 600,000 and from Atlas Bank - EUR 4,000,000), so that the return on funds at the total level amounted to EUR 45,900,000, or 40.74% (IBM 75.67% and Atlas Bank 40.74%).

Also, the first installment of the regular premium in the amount of EUR 4,384,338 and the second installment of the regular premium in the amount of EUR 4,280,751 were calculated and collected, so that the total funds on the day of compiling the report (June 15, 2020) amount to EUR 76,570,055.

Following the outbreak of the coronavirus epidemic - COVID-19 (hereinafter coronavirus) in March in Montenegro, the Fund took the necessary measures to protect its creditors and employees, by ensuring security and the smooth provision of services. As the coronavirus epidemic continues to develop, it is challenging to predict the full extent and duration of its economic and business consequences. Consequently, these circumstances may present business challenges to companies and financial institutions, in large part due to the measures and policies of the relevant state bodies that have already been applied or could be applied in the future.

As a part of measures taken to protect depositors, the banking and financial system of Montenegro, are the negotiations conducted, in the period from March to June 2020, with the EBRD on a new "Stand by" arrangement, with the aim to provide additional funds for payment of guaranteed deposits.

However, taking into account the nature of the Fund's activities as well as the significant amount of liquid assets available to the Fund, management does not expect that the impact of coronavirus will significantly disrupt its activities or affect the possibility of business continuity in the future.



Deposit Protection Fund
No. 144/1
Podgorica, 26 May 2020

MANAGEMENT REPORT

The Deposit Protection Fund (“Fund”) is obligated to prepare the Management Report in accordance with article 14 of the Law on Accounting (Official Gazette no: 52/16).

The report is comprised of the following sections:

- I. Organisational structure and the description of the Fund’s activities** including the segregation of authority and duties between the Management Board and the Director of the Fund;
- II. Business activity during 2019;**
- III. Main activities of the Fund in 2019 with special emphasis on:**
 - a) Payment of guaranteed deposits;
 - b) Investment activities;
 - c) Financial instruments relevant in respect of the assessment of the Fund’s financial position;
 - d) Ammendments to the “Stand by” arrangement with EBRD;
 - e) Compliance with EU Directives;
- IV. Social responsibility activities;**
- V. Employees;**
- VI. Data protection;**
- VII. Environmental activities;**
- VIII. Risk management;**
- IX. Transparency;**
- X. Obligations of the Fund in the future;**
- XI. Subsequent events.**

I Organisational structure and the description of the Fund's activities

The Fund was established in accordance with the Law on Deposit Protection ("Official Gazette of Montenegro" No. 40/2003) and registered in the Statistical Bureau of Montenegro (no: 07-12/40/03) under the identification number 02417596. The Fund is located in Miljana Vukova street, Podgorica. The Council of the Central Bank of Montenegro (CBoM) has appointed the Management Board of the Fund as of 12 July 2004 and the Fund officially started its operations as of October 2004.

The main purpose of the Fund is the protection of deponents from losses arising in case of initiation of bankruptcy proceedings in one or more commercial banks. In this manner, the Fund contributes to the stability of the overall financial system. All banks (11) with operating licences issued by the CBoM are members of the Fund. For the commencement of Fund's operations the CBoM has provided EUR 62,500. The Governments of Great Britain has donated equipment relating to computers and softwares in the amount of EUR 13,774 through DFID.

In accordance with the Agreement on Donation signed between the Governments of Germany and Montenegro as of 4 January 2007, the Government of Germany has donated EUR 3 million to the Fund through its Development Bank (KfW). From the total amount of donation, EUR 0.5 million was used for technical assistance while the remaining part was used in order to finance the project of making the Fund operational and capable to perform its function. The Protocol on completion of the project was signed in 2012. The funds for technical assistance of EUR 0.5 million were used and the Protocol stated that all planned activities with the aim of making the Fund operational and able to perform its function were completed and that the donated funds of EUR 2.5 million (with accrued interest) can be used without restriction.

The Fund has calculated and collected the initial premium at the end of 2005. At the beginning of 2006, the Fund has calculated and collected the regular premium for deposit protection by applying the rate of 0.25% per annum on the total amount of deposit of banks.

By applying the Law on Deposit Protection (Official Gazette of Montenegro no: 44/10), the Fund has aligned its status with the EU Directive no: 19/94 and its amendments no: 14/09. By applying these amendments, the amount of guaranteed deposit has been increased from EUR 5,000 to EUR 50,000 through the

transition period of three years. In order to reach the planned coverage of the guaranteed deposits with the Fund's assets, the Management Board has increased the regular premium to 0.50% of the total deposit amount (2011: 0.33%; 2012: 0.38%; 2013: 0.46% and 2014: 0.50%).

The amendments of the Law on Deposit Protection ("Official Gazette of Montenegro no: 47/15) have decreased the timeframe in which the Fund is obligated to commence the payment of guaranteed deposits to 15 days starting from the day in which the CBoM revokes the operation licence to a bank.

The Fund does not have separate business units.

a) Management Board of the Fund

The conditions for appointment of the Management Board as well as their competences and obligations are defined by the Law on Deposit Protection (Official Gazette of Montenegro no: 44/10; 40/11 and 47/15). The Management Board has three members. The Council of CBoM appoints the Management Board. One member is chosen from the Association of Banks and Financial Institutions and one from the Ministry of Finance. The Management Board members are:

- Vujačić Dejan, Director of the Sector for Control of Banks in the CBoM, Chairman of the Board of Directors. (until September 9, 2018, Chairman of the Board was Darko Bulatović, Director of the Sector for Control of Banks in the CBoM),
- Radojičić Ivana, Head of the Ministry of Finance - Member of the Management Board since July 23, 2019. (until July 23, 2019, Jelena Jovetić, Head of the Ministry of Finance - member of the Management Board since September 10, 2018) and
- Đoković Nebojša, Advisor for Economic Affairs at the Association of Banks of Montenegro, Member of the Board from September 10, 2018. (Until September 9, 2018, Prof Dr. Marko Backović - Member of the Board, professor at the Faculty of Economics in Belgrade.)

The Management Board competencies are defined by the Law on Deposit Protection and the Fund's Statute, as well as with the Rulebook on the Management Board operation.

The Management Board has the following competencies:

- 1) To appoint the Director of the Fund;

- 2) To adopt the Statute of the Fund;
- 3) To adopt general acts and decisions in accordance with the law;
- 4) To determine the amount of premium;
- 5) To adopt the financial plan;
- 6) To adopt the Annual Financial Statements and the Independent Auditor's Report;
- 7) To analyze the Annual report on the operation of the Fund;
- 8) To determine the investment policy and adopt investment decisions;
- 9) To appoint the Auditor;
- 10) To adopt the Rulebook on the Management Board operation;
- 11) To perform other activities prescribed by the Law.

During 2018, the Management Board has held 9 (nine) assemblies of which 5 (five) with the previous members and 4 (four) with the current members.

a) Director of the Fund

Director of the Fund is appointed based on open public procedure for appointment by the Management Board.

The competences of the Director are as follows:

- 1) To organize the work and operating activities of the Fund;
- 2) To legally represent the Fund and to be the person responsible for the legality of the activities of the Fund;
- 3) To propose the Fund's Statute and other general acts of the Fund;
- 4) To propose the amount of premium;
- 5) To propose the financial plan of the Fund;
- 6) To submit the Annual Financial Statements along with the Independent Auditor's Report;
- 7) To prepare and submit the Annual report on the operation of the Fund;
- 8) To propose the investment policy of the Fund;
- 9) To conduct the decisions of the Management Board;
- 10) To make investment decisions up to the limit determined by the Fund's Statute;
- 11) To adopt individual decisions regarding deponents not entitled on guaranteed deposits payment;
- 12) To decide on rights, obligations and responsibility of the employees of the Fund;
- 13) To take care on the utilization of assets designated to cover the Fund's operating expenses;

- 14) To perform other activities in accordance with the Law and the Fund's Statute.

According to the Decision of the Management Board on the appointment of Director no 35/5 dated 6 February 2015, Predrag Markovic has been appointed as the Fund's Director for a period of 4 (four) years.

II Business activity during 2019

The Management Board of the Fund has determined the premium in the amount of 0.50% of total deposits (Official Gazzete of Monenegro no: 76/17) and laid the foundation for the collection of premium in 2018. Based on information provided by the banks (in accordance with the obligation of Banks based on the Decision on monthly reports provided to the Fund (Official Gazzete of Montenegro no: 66/12) the Fund has quarterly calculated and collected the premium in the amount of EUR **16,832,008.93** (IQ = EUR 4,275,795.43; IIQ = EUR 4,067,587.50; IIIQ = EUR 4,123,463.46 and IVQ = EUR 4,365,162.54).

In addition, the Fund's financial income amounted to EUR **41,433,620** (interest income related to Treasury Bills of Montenegro of EUR 45,607 and Government Bonds of Montenegro EUR 88,000 and other financial income of EUR 41,300,013).

Total expenses of the Fund during 2019 amounted to EUR **856,885**, of which EUR **657,276** relates to operating expenses, EUR **199,609** to financial expenses, and EUR **224,220** relates to depreciation and provision expenses. Operating expenses are comprised of salaries, compensations and other personnel expense to employees and Management Board of EUR **247,959** (gross salaries to employees EUR **166,957**; gross compensations to Management Board members of EUR **40,560**); contributions and taxes paid by the employer of EUR **19,107**, daily allowance and travel expense of EUR **12,491** and other compensations to employees EUR **8,844**. Depreciation and amortization expense amounted to EUR **7,699**.

Other operating expense of EUR **177,143** relate to fees for Treasury Bills purchase (EUR **18,000**); fees for membership in international organization of deposit protection (EUR **19,818**); education and profesional improvement (EUR **5,023**); telephone, internet and postal services (EUR **8,212**), reclamation expenses based on the payment of guaranteed deposits (EUR **50,000**), lease and maintenance expenses (EUR **15,247**) and other expenses (EUR **60,843**).

Depreciation, amortization and provision expenses amount to EUR **224,220**.

Financial expenses amount to EUR **199,610**, relate to interest expense based on the “Stand-by” arrangement with EBRD of EUR (EUR **152,159**) and interest expense on term deposits (EUR **47,451**).

As of 31 December 2019, other liabilities of EUR **10,796,603** relate mostly to other short-term liabilities for the payment of guaranteed deposits for IBM Bank in bankruptcy and Atlas Bank in bankruptcy (EUR **10,735,666**), interest to EBRD in the amount EUR **60,908** under the “Stand-by” loan agreement from 2010 and annexes from 2017 and 2018, respectively. The remaining part relates to accrued interest based on negative interest rates on short term deposits (placed by the CBoM in the name and for the account of the Fund in other foreign banks) EUR **47,451** and trade payables of EUR **1,999**.

In the period from January 1 to December 31, 2019, the Fund operated with a positive net financial result in the amount of EUR **57,408,743**.

III Main activities of the Fund in 2019

a) Payment of guaranteed deposits

The Fund is obligated to make payments of guaranteed deposits when the CBoM revokes the operating licence to a bank which is not able to make payments according to contractual or legal obligations. The Fund makes payments through one or more banks chosen according to the Guidelines for the selection of the payer bank. Every year, based on the above guidelines, the Fund sends a letter to banks to express interest in the occurrence of the so-called "protected case" (bankruptcy of a bank) to be a "paying bank", which would make the payment of guaranteed deposits. The Fund compiles a list of possible banks, from which, after the introduction of bankruptcy in one of the banks, the "paying bank" would be selected.

During 2019, the Central Bank revoked the operating license of Invest banka AD Montenegro (January 4, 2019) and Atlas banka AD (April 5, 2019).

In accordance with the Law on Deposit Protection, the Rulebook on notifying depositors and potential depositors on the deposit protection system, procedures, guidelines and instructions for actions of the Fund's employees in the event of a protected case, the Fund has, on the same date, published a Notice on the occurrence of a protected case, Fund's obligation to make the payment of guaranteed deposits,

method of calculation and amount of guaranteed deposit in 4 print media distributed on the territory of Montenegro.

This notice was published on the Fund's website and delivered to all Montenegrin television and radio stations and electronic portals. Also, in order to inform about the occurrence of the protected case, the director of the Fund was a guest on shows that dealt with the topic of payment of guaranteed deposits and on a daily basis gave interviews with updated data to various television and radio stations.

All notices were simultaneously translated into English and regularly published on the Fund's website so that non-resident depositors could be notified in a timely manner.

Societe generale banka, Nova Ljubljanska Banka and Hipotekarna banka were selected for the payment of IBM depositors, while Crnogorska komercijalna banka was included in the payment of depositors of Atlas banka, in addition to the three mentioned above.

Total deposits with IBM amount to EUR 39,867,785.52 for 2,962 depositors, calculated guaranteed deposits amount to EUR 22,333,240.38 for 2,922 depositors, and total liabilities of depositors to the bank in bankruptcy amount to EUR 4,373,213.38 (210 depositors).

As of December 31, 2019, a total of EUR 21,475,374 was paid, which makes 96.16% of the total calculated guaranteed deposit, ie the total obligation of the Fund to pay guaranteed deposits.

As of 31 December 2019, EUR 16,300,000 was collected from the bankruptcy estate of Invest Bank Montenegro in bankruptcy.

The total deposits of Atlas Bank amount to EUR 186,528,103 for 93,729 depositors, the calculated guaranteed deposits amount to EUR 90,284,506 for 90,095 depositors, and the total liabilities of depositors to the bank in bankruptcy amount to EUR 8,966,350.

As of December 31, 2019, a total of EUR 80,408,226 was paid, which makes 89.05% of the total calculated guaranteed deposits, ie the total obligation of the Fund to pay guaranteed deposits.

As of 31 December 2019, EUR 25,000,000 was collected from the bankruptcy estate of Atlas Bank in bankruptcy.

b) Investment activities

Investing activities are performed according to the Investment policy of the Fund no: 356/3 dated 18 December 2015.

According to the Investment Policy, the Fund invests its assets into:

1. Securities issued or guaranteed by the Government of Montenegro;
2. Securities issued by a foreign bank, financial institution and/or government with a high credit rating determined by an international credit agency;
3. Deposits in central banks and foreign banks with high credit rating determined by an international credit agency.

During 2019, the Fund has invested assets in accordance with the Investment Policy and the Asset Management agreement according to which the CBoM is entitled to invest assets in the name and for the account of the Fund according to the Investment Policy.

Due to the fact that the trend of negative interest rate has continued, and as a result of the Asset Managers activities, the Fund has had a negative financial result of EUR **47,451**. By investing assets (20% of total Funds total assets) into securities issued or guaranteed by the Government of Montenegro, the Fund has had a positive financial result of EUR **133,607** (Government Bonds of Montenegro of EUR **88,000** and EUR **45,607** from the purchase of six-month treasury bills).

After the occurrence of the "protected case" in Atlas Bank, the entire funds, managed by the Central Bank, which were in accounts abroad, were transferred to the regular account of the Fund, for the payment of guaranteed deposits.

c) Financial instruments relevant in respect of the assessment of the Fund's financial position

As of 31 December 2019, the Fund has EUR **2,200,000** of government bonds (bearing interest of 4% per annum). They are measured at their nominal value which does not differ from their market value.

d) Amendments to the “Stand-by” arrangement with EBRD

In November 2010, the Fund has concluded a stand – by arrangement with the European Bank for Reconstruction and Development which would allow the Fund to withdraw up to EUR **30 million** in case of the lack of funds to pay the guaranteed deposits.

The arrangement defined the period for withdrawal of funds of 7 years and maturity of the loan in 8 years from the date on which the funds were withdrawn.

In November 2017, Annex I extended this contract for one year, and in November 2018 the contract was extended for the second time (Annex II) for one year under the same conditions as in the basic contract, with the withdrawal deadline being one year, and the repayment period is 6 (six) years.

In November 2019, the Agreement was extended again for a period of one year under the same conditions.

This Agreement and its Annexes have further strengthened the financial position of the Fund. The Fund will therefore be able to pay the guaranteed deposits if the protected case occurs in small and middle banks.

e) Compliance with EU Directives

In 2014, the EU has adopted two directives that are directly related to the protection of deposits. Directive 14/49 provides the basis for establishing an effective deposit protection system, and Directive 14/59 regulates bank rehabilitation, through which indirectly increases the role of the Fund in the intervention undertaken by the Sanctioning Authority (CBoM) in the process of rehabilitation of the bank concerned.

This conditioned the obligation for Montenegro to harmonize with the mentioned directives in this area. The Fund, with the help of World Bank (WB) consultants, and based on the findings of the FSAP mission, which visited Montenegro in 2015, prepared a working text of the Law on Deposit Protection.

The new Law on Deposit Protection was adopted at the end of 2019 (Official Gazette of Montenegro No. 72/19). It largely achieved the standards prescribed by

Directives 14/49 and 14/59, as well as the Basic Principles for Effective Deposit Protection (which the FSAP mission uses when assessing the compliance of legal solutions), and in particular:

- On the day of Montenegro's accession to the European Union, the amount of the guaranteed deposit is EUR 100,000;
- Payment period is reduced to 7 days;
- The premium is calculated according to the risk of an individual credit institution;
- The coverage of deposits is expanded by introducing a temporary high balance;
- The autonomy, responsibility and independence of the Fund is increased through:
 - a) Possibility of borrowing the Fund from other deposit protection systems;
 - b) Obligation to test the resistance of the deposit protection system to stress and
 - c) The possibility of the Fund's participation in the financing of credit institutions in order to prevent the occurrence of a "protected case".

IV Social responsibility activities

We paid attention to social responsibility in business and gave our contribution through assistance to sports associations (EUR 2,000) and individuals (EUR 950).

We tried not to spend funds on advertising and propaganda, bearing in mind the payment of guaranteed deposits and the fact that our presence in the media is a kind of promotion of the Fund, and we reduced the funds for these purposes from EUR 60,000 to EUR 15,000. Certainly, we have expressed our social responsibility through these aids.

V Employees

The systematization of work and work tasks in the Fund is defined by the Rulebook on organization and systematization of work in the Deposit Protection Fund (No. 160/2 dated 04 May 2016). The work and tasks are divided into: legal and

administrative affairs, planning and analysis work, risk assessment of banks, asset management, and financial and accounting activities.

Procedures for using the software for the payment of guaranteed deposit are elaborated in detail in the Employee Management Guidelines on the occurrence of a "protected case" (Guidelines of the Director of the Fund No. 257/1 dated 6 September 2018).

The level of training of employees was best demonstrated during the payment of guaranteed deposits with two banks in bankruptcy. Namely, before the beginning of the payment of guaranteed deposits, the employees prepared and conducted the training of bank employees in charge of payment in 75 organizational units in banks. The training was very successful and the paying banks made the payment of guaranteed deposits in a very professional way.

Employees are enabled to be educated within the combined training program by participating in seminars and workshops organized by international fund associations (IADI and EFDI). In 2019, the amount of EUR 12,491 was spent for these purposes.

Since employees also participated in seminars and conferences for the purpose of exchanging experiences, the costs of travel and meals on business trips could be subsumed under the same purpose - education and training of employees.

All employees in the Fund are covered through health insurance and accident insurance policies. As three employees were on longer treatment and rehabilitation (costs of which were not beared by the Health Fund), one-time financial assistance in the amount of EUR **1,000** per employee in the total amount of EUR **4,000**.

The Fund takes into account gender equality (in the Fund, of a total of 7 employees, 5 employees or 71% are women). There are 6 employees with a university degree and one with secondary education.

In order to permanently address the housing needs of employees, the Fund has approved long-term loans for 6 (six) employees in 2015, which are regularly repaid in monthly installments.

VI Data protection

In its operations, the Fund adheres to the principles of data protection, using security measures to exchange data with banks and the CBoM. The use of special (protected)

data exchange lines in the simulation of guaranteed deposit payment is mandatory, which means that data from banks and the Fund are protected against unauthorized access to data. A special line is leased from Telekom Montenegro for a period of several months, depending on the needs arising from the simulation of a "protected case".

The Management Board of the Fund has adopted the necessary acts regulating the protection of the data and the behavior of the members of the Board and employees of the Fund which are as follows:

- "Rulebook on data confidentiality" (No.374 / 1 of 10 September 2012), which specifies what is considered as confidential data and how the data are used along with their protection against unauthorized use;
- "Code of Ethics "(No.373 / 1 of 10.09.2012), which establishes the basic principles of conduct of members of the Management Board and employees in the Fund, public relations and clients relations;
- "Deposit Protection Fund Integrity Plan" (No. 76/6 of March 30, 2016), which defines the manner of risk assessment for each individual occurrence of violation of rules and procedures, conflicts of interest and possible corruptive actions and the elimination of such occurrences. The person in charge of implementing the Integrity plan monitors the situation, notifies the Director and the Board of the Fund and submits regular reports to the competent body.

VII Risk assessment

Basic principles that the Fund applies in investing in assets are security, liquidity, transparency and profitability. In no case the principle of profitability can be considered more important than the principle of security and liquidity of funds. For these reasons, the manager of investments in the fund takes into account the security of the funds invested.

In addition to security, liquidity is a very important factor. Bearing these two principles in mind, a narrower range of investment opportunities is available to the Fund.

The Fund is not exposed to currency risk (funds are invested exclusively in EUR) as well as the risk of the country (investing through asset managers is done exclusively with highly rated banks in SR Germany, the Netherlands and Luxembourg, ranked AAA).

We also estimate that the Fund is not exposed to the risk of price changes.

At the end of the year, liquidity risk is estimated to be extremely low. We believe that the Fund is not exposed to cash flow risk.

The only risk to which the Fund was exposed (only in the first quarter of 2019) is the risk of changes in interest rates, which has been present since the end of 2015.

Interest rates on the Fund's invested funds were transferred to the regular account of the Fund in the first quarter of 2019 (after the initiation of bankruptcy proceedings in Atlas Bank, all funds managed by the Central Bank, which were in accounts abroad, for payment guaranteed deposits) ranged from -0.26% to -0.40%.

Interest was calculated monthly and paid in accordance with the contract, upon expiration of the term deposit.

As far as internal controls are concerned, with this number of employees it is not possible to establish a special unit of internal control, and the Director of the Fund, through "four eyes" control, performs internal control of employees in the performance of their operations.

VIII Environmental activities

The Fund uses the premises (84m²) of the CBoM and in accordance with the obligations and procedures regulated by mutual agreement, respects the principles of environmental protection.

All CBoM activities related to adaptation and renovation of common spaces to reduce the impact on the environment are supported in an appropriate amount (in percentage of the space we use in relation to the total space). Total allocations based on lease of business space (including electricity and water usage) amounted to EUR 7,783. Due to the nature of the business, the Fund has no impact on the environment.

IX Transparency

In its work, the Fund uses the principles of transparency, both in reporting to the competent authorities and in informing the general public about its operations.

As stated in the part related to the payment of guaranteed deposits, the Fund carried out activities that, in accordance with the payment procedures, were mandatory. These activities were related to:

- Introducing depositors to the occurrence of a "protected case";
- Introducing depositors to the choice of "paying bank",
- Informing depositors and the public about the beginning of the payment of guaranteed deposits;
- Participation of the Director of the Fund in thematic shows dedicated to the emergence of a "protected case" in two banks (TV CG; TV Vijesti; TV Al Jazeera);
- Regular reporting on the course of payment (daily at 09 am, a report on payments made for the previous day was prepared and submitted to all media and portals);
- Interviews of the Fund's directors were published in "Pobjeda", "Vijesti", the "Bankar" portal, as well as in the monthly edition "Bankar", which is prepared by the Association of Banks;
- The director of the Fund gave several interviews to TV stations (TV CG, TV Vijesti, TV Nova, TV 777) and Radio CG about the course of the payment.
- We answered a large number of telephone calls from depositors and via e-mail, we gave answers to depositors, in order to get to their guaranteed deposits easier and faster

The Fund prepares the Annual report, together with the Financial Statements and the Independent Auditor's Report, and submits it to the CBoM Council for adoption and to the Government and the Montenegrin Assembly for consideration.

In addition, the Parliamentary Committee on Economy, Finance and Budget conducted a control hearing of the Fund's director, related to the payment of guaranteed deposits with two banks. This control hearing was very well covered by the media.

The annual report is published on the Fund's website (www.fzdcg.org). In addition to the Law, the website also publishes all by-laws that are required to be published publicly.

All acts issued by the Management Board of the Fund, relating to the obligations of banks regarding reporting or disclosure, are published in the Official Gazette of Montenegro.

After each session of the Management Board, the Fund prepares public announcements regarding matters considered by the Board, which are in the public interest.

Through marketing material, which contain basic information for depositors on how to collect the guaranteed deposit in case of initiated bankruptcy proceedings in a bank, which are distributed to all banks and are available at their counterparts, depositors can be informed of their rights when a "protected case" occurs.

In order to be available to the general public, the marketing material is distributed annually through print media in Montenegro.

All purchases for the Fund's purposes (Equipment, Office Materials, Advertising and Marketing services, etc.) are performed in accordance with the Public Procurement Act. During the year 2018, the Public Procurement Directorate has controlled the conduct of public procurement and found that there were no irregularities.

X Obligations of the Fund in the future

The Strategic Plan of the Fund defines the obligations and tasks for the next six years in order to reach the targeted level of coverage of guaranteed deposits with the funds of the Fund in accordance with the draft Law.

The draft of the law provides that the targeted level of Fund's asset is 10% of guaranteed deposits. The achievement of this level of coverage, with the application of the premium rate calculated on the basis of the risk of the individual bank, is the target to be reached in June 2025.

This deadline can only be prolonged if a guaranteed deposit payment of more than 2/3 of the target level is reached by that deadline. That period is then extended for the next six years. The target level would be determined each year (taking into account the amount of guaranteed deposits and the amount of funds available to the Fund). On the basis of these parameters, the amount of premium that the banks are required to pay in the following year is determined.

The disbursement of guaranteed deposits (EUR 101.88 million) significantly reduced the Fund's assets. However, the recovery of funds from the bankruptcy estate in the amount of EUR 41.3 million, and the collection of regular premiums in the amount of EUR 16.8 million, significantly improved the financial situation and sustainability of the Fund. With funds from the bankruptcy estate of two banks, which we expect to be collected in 2020 (approximately EUR 40 million), and the collection of regular premiums in 2020, the Fund will again be financially well capitalized and be able to guarantee the payment of guaranteed deposits if the same happens in the coming period.

In addition, the loan arrangement with the EBRD, which we will extend for a period of 3-5 years, to the amount of EUR 30-50 million, is an additional guarantee of the financial stability of the Fund.

XI Subsequent events

After the balance sheet date there were no events that would require further corrections or disclosures in the Fund's financial statements for the period from January 1 to December 31, 2019.

The President of the Republic, in accordance with Article 21 of the Law on Deposit Protection, by decision on 3 February 2020, appointed the Board of Directors, so that, on the day of publication of these financial statements, the Board of Directors is composed as follows:

| First and last name | Position |
|-----------------------|-----------------------|
| Vesko Lekić | Chairman of the Board |
| Mr Branislava Božović | Member, |
| Dejan Vujačić | Member, |
| Mr Nebojša Đoković | Member, |
| Vlastimir Golubović | Member. |

One member of the Management Board was appointed at the proposal of the Ministry of Finance, one at the proposal of the Chamber of Commerce of Montenegro, one at the proposal of the Association of Banks and Financial Institutions, one at the proposal of the Central Bank and one at the proposal of the President.

In accordance with Article 28 and Article 60 of the Law on Deposit Protection, the Board of Directors announced a tender for the appointment of the Fund's director.

After the procedure, at the III session on 3 April 2020, the Board of Directors made a decision to appoint Predrag Markovic, the current director of the Fund, as the director of the Fund.

In 2020, the Fund continued to pay guaranteed deposits to depositors of bankrupt banks. By 15 May 2020, EUR 102,715,550 or 91.17% of the total liabilities for these two banks had been paid (Invest banka Montenegro in bankruptcy 96.33% and Atlas banka in bankruptcy 89.89%).

An additional EUR 4,600,000 was collected from the bankruptcy estate (from IBM – EUR 600,000 and from Atlas Bank – EUR 4,000,000), so that the return on funds in the total amounted to EUR 45,900,000, or 40.74% (IBM 75.67% and Atlas Bank 40.74%).

Also, the first installment of the regular premiums in the amount of EUR 4,384,338 and the second installment of the regular premiums in the amount of EUR 4,280,750 were calculated and collected, so that the total funds on the day of compiling the report (June 15, 2020) amount to EUR 76,570,054.85.

Following the outbreak of the coronavirus epidemic - COVID-19 (hereinafter coronavirus) in March in Montenegro, the Fund took the necessary measures to protect its creditors and employees, by ensuring security and the smooth provision of services. As the coronavirus epidemic continues to develop, it is challenging to predict the full extent and duration of its economic and business consequences.

Consequently, these circumstances may present business challenges to economic entities and financial institutions, in large part due to the measures and policies of the relevant state bodies that have already been applied or could be applied in the future.

One of the measures taken to protect depositors, the banking and financial system of Montenegro, are the negotiations that the Fund (in the period from March to June 2020) is conducting with the EBRD on a new "Stand by" arrangement, which would the eventual need to pay out guaranteed deposits provided the missing funds.

However, taking into account the nature of the Fund's activities as well as the significant amount of liquid assets available to the Fund, management does not expect that the impact of coronavirus will significantly disrupt its activities or affect the possibility of business continuity in the future.

Podgorica, May 26, 2020



Director,
Predrag Marković