



**DEPOSIT PROTECTION
FUND
ANNUAL REPORT 2020**

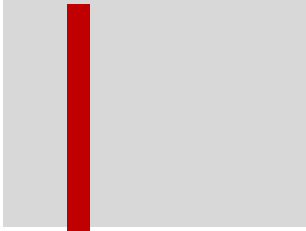
Podgorica, April 2021

LIST OF ABBREVIATIONS

CBCG	.....Central Bank of Montenegro
Directive 94/19/EC	.....Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes
Directive 2014/49/EC	.....Directive 2014/49/EC of the European Parliament and of the Council of 16 April 2014 on deposit-guarantee schemes
Directive 2014/59/EC	.....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
EBRD	.....European Bank for Reconstruction and Development
EFDI	.....European Forum for Deposit Insurers
EC	.....European Commission
EU	.....European Union
Fund	.....Deposit Protection Fund
FSAP	.....Financial Sector Assessment Program
IADI	.....International Association of Deposit Insurers
IADI CP	.....International Association of Deposit Insurers Core Principles
IMF	.....International Monetary Fund
Law	.....Deposit Protection Law
MB	.....Managing Board of the Deposit Protection Fund
MethodologyMethodology for calculating the risk-based premium of individual credit institutions
MFMinistry of Finance and Social Welfare of Montenegro
WBWorld Bank

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Introductory remarks

Introductory remarks

Liquidity and capitalisation indicators, as well as the positive financial result recorded in 2020 point to stable operations of the Montenegrin banking system in the reporting year. However, the Covid-19 crisis, as expected, affected the financial result of credit institutions. Also, deposits of credit institutions were on a declining trend where all sectors, except the financial sector, withdrew their funds. Credit institutions compensated for the decline in deposits with increased foreign loans in the observed period, receiving the greatest support from their parent credit institutions and other members of their banking groups.¹

At end-2019, the Parliament of Montenegro adopted a set of banking laws (Deposit Protection Law, Law on Credit Institutions, and Law on Resolution of Credit Institutions). The Deposit Protection Law entered into force in January 2020, with the delayed application of the Methodology for calculating the risk-based premium of individual credit institutions in early 2021.

The Law defines that the most of the Fund's activities in the reporting period is to be focused on the development of bylaws for its implementation. In addition to the harmonization of the existing internal regulations with the Law, the most significant activities of the Fund were focused on the development of the Methodology. The World Bank assisted in the drafting of the Methodology by hiring a renowned German banking rating agency (GBB-Rating from Cologne) as a consultant.

The coronavirus pandemic did not significantly affect the fulfilment of the Fund's obligations during 2020 although five out of seven employees were in home isolation for 15-35 days. Remote (online) work was organised for all employees contributed to timely fulfilment of all envisaged activities.

In addition, the Fund continued with the payouts of guaranteed deposits for two banks - Invest Bank Montenegro and Atlas banka a.d. Podgorica which were subject to bankruptcy proceedings in 2019.

The Covid-19 pandemic affected the dynamics of compensation of guaranteed deposits during 2020. To wit, in Q1 2020, deposits received guaranteed deposits in the amount of 720,000 euros, while in the remaining three quarters they received 713,000 euros. Given that non-residents were in the majority of depositors who have not been paid a guaranteed deposit and that travel during the pandemic was risky and limited, then it is logical that the outstanding amount of guaranteed deposits at the end of the

¹ Q4 2020 CBCG Macroeconomic Report

year amounted to some 9.1 million euros - 8.05% of the total amount of guaranteed deposits of both banks.

On the other hand, activities of bankruptcy trustees in this period were significantly limited in terms of the possibility of selling the assets of banks in bankruptcy, which led to the recovery of funds from the bankruptcy estate in the reporting period of a mere 12.4 million euros (total funds to be recovered from the bankruptcy estate amounted to 53.7 million euros or 47.66% as at 31/12/2020).

In order to ensure greater security of deposits in credit institutions, i.e. the stability of the entire financial system, the Fund concluded a stand-by arrangement with the EBRD in the amount of 50 million euros. This arrangement allows the Fund to use the aforesaid funds for the payout of guaranteed deposits of a bankrupt credit institution for a period of 5 years from the date of signing the arrangement, with the repayment period of 7 years. Also, when the own funds currently available to the Fund are taken into account, it can be concluded that there is a high degree of certainty that the Fund can fulfil its basic task (as already shown in the examples of two bankrupted credit institutions in 2019).

* * *

This Annual Report consists of five parts.

The first part gives an overview of the basic features of the deposit guarantee scheme and the assessment of compliance with the EU *acquis communautaire* in the field of deposit guarantee, which is very important given the connection of the Montenegrin economy with international economic and financial flows.

The second part discusses trends and shares of various types of deposits, with the third part showing the Fund's exposure to credit institutions and potential future compensations of guaranteed deposits presented as the coverage ratio.

The fourth section of the report gives an overview of the Fund's activities, with a particular focus on the Methodology and risk indicators used for the calculation of risk profiles of individual credit institutions.

The fifth part presents the Fund's financial indicators which, together with the planned activities for 2021, clearly show the Fund's stability.

BASIC INFORMATION ON DEPOSIT INSURANCE

1

1. BASIC INFORMATION ON DEPOSIT INSURANCE

1.1. Deposit Protection Fund

The Deposit Protection Fund was set up under the Deposit Protection Law (OGRM 40/2003) and it started operating on 18 November 2004 when it was entered into the registry of the Statistical Office of Montenegro. A new Deposit Protection Law (OGM 472/19) was further aligned with the Directive 2014/49/EC and Directive 2014/59/EU. The Law stipulates that the Fund shall 1) calculate the premium; 2) test the resilience of the deposit insurance system and finances resolution of credit institutions; 3) invest its funds; 4) calculate and perform the payout of the guaranteed deposits; 5) pass secondary legislation provided for under this law, and 6) perform other activities in accordance with the law.

The main activities of the Fund are the protection of deposits held in credit institution and the obligation to compensate guaranteed deposits to depositors in case of the occurrence of a protected event (bankruptcy of a credit institution), up to the amount prescribed by the Law. Credit institutions licensed by the CBCG are obliged to pay the deposit guarantee premium in the manner established by the Law. The deposit insurance scheme comprises deposits placed with a credit institution before or as at the protected event occurrence date. A protected event occurs on the day of passing a decision on initiating bankruptcy proceedings against a credit institution. The Fund compensates guaranteed deposits in the amount of 50,000 euros per depositor/per credit institution and/or 100,000 euros as at Montenegro's EU accession date, regardless of the number and amounts held by a depositor in the credit institution 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 credit institutions 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 deposit guarantee scheme, and the providing of funds for the protection of insured deposits.

Governance and Management

The Fund is governed by a five-member Managing Board (MB) appointed by the President of Montenegro, provided that one member is nominated by the Ministry of Finance, one member is nominated by the Central Bank, one member is nominated by the Association of Montenegrin Banks, one member by the Chamber of Economy, and one member is nominated by the President of Montenegro. In accordance with the Law, the MB's meetings are held at least once every three months.

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 the investment of funds, decide on the acquisition of immovable property, determine the way of cooperation with government authorities, organisations, and other institutions in Montenegro, define the manner of cooperation with international financial institutions, organisations 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 other significant issues discussed via press releases, website, press conferences, interviews, and in other suitable ways.

Pursuant to Article 21 of the Law, in his decision as of 3 February 2020, the President of Montenegro appointed the following Managing Board members:

- Mr Lekić Vesko, Director of the CBCG Vault, Chairman;
- Mr Vujačić Dejan, Director of the CBCG Supervision Department, Member;
- Ms Božović Branislava, MSc in Economics, Head of Directorate for issuing approvals for the production, processing and trade of tobacco products, Ministry of Finance, Government of Montenegro, Member;
- Mr Đoković Nebojša, Msc in Economics, Economic advisor at the Association of Montenegrin Banks and Financial Institutions, Member;
- Mr Golubović Vlastimir, President of the Chamber of Economy of Montenegro, Member;

In 2020, the Managing Board held 11 (eleven) meetings.

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

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

1.2. Harmonisation of the legislative and institutional framework with the EU acquis in the field of deposit insurance system

In the process of EU accession, 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.

World Bank consultants provided significant assistance in the drafting of the Deposit Protection Law as well as secondary legislation adopted on the basis of this law (particularly the Methodology).

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 enacted the Deposit Protection Law, 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 payout commencement shortened to 7 working days;
- Increased level of guaranteed deposit to 100,000 euros (deferred application as of Montenegro's EU accession date);
- 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;
 - possibility of participating in the resolution of credit institutions;
 - 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 are applied by the WB and the IMF in the process of assessing compliance and meeting the recommendations of the joint FSAP missions.

1.3. Members of the Deposit Protection Fund

In the Montenegrin financial system, which includes credit institutions, microcredit financial institutions, insurance companies, leasing companies, and other financial institutions, the banking sector has the prevailing role. There were thirteen credit institutions operating in the country in the reporting year, of which non-residents hold majority equity in eleven of them.

Crnogorska komercijalna banka and Podgorička banka successfully completed the integration process in December 2020. The integrated bank continued operating under the name Crnogorska komercijalna banka A.D. Podgorica, member of OTP Group.

As at 31 December 2020, the Fund had twelve member credit institutions, with all their deposits being insured under the Montenegrin deposit guarantee scheme, in accordance with the Law.

Of the total amount of deposits placed with banks, wholesale deposits accounted for 48.85% and retail deposits made up the remaining 51.15% of total deposits at the end of the observed period. There was a downtrend in deposits held with credit institutions during the reporting year. Compared year-on-year, retail deposits declined by 1.90%, and wholesale deposits fell by 3.69%.

As at 31/12/2020, deposits not covered under the deposit guarantee scheme accounted for 9.90% of total deposits.

LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES

2

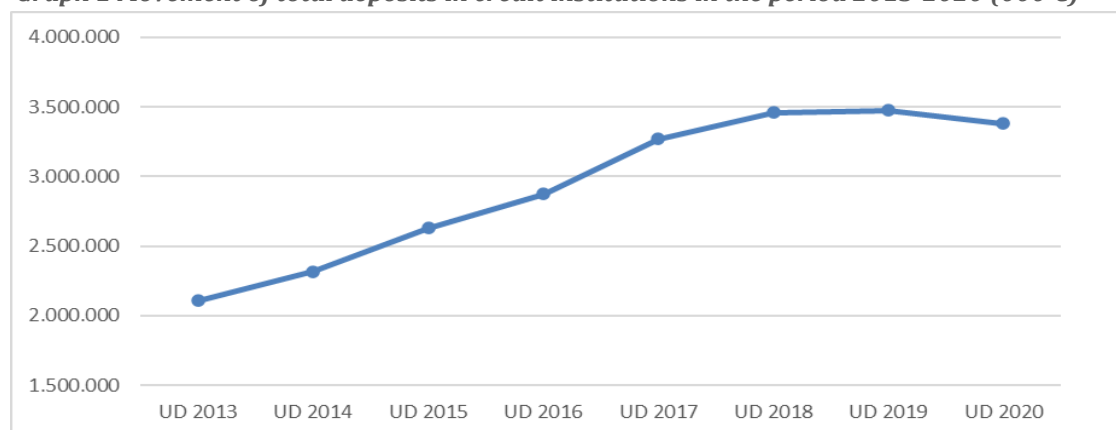
2. LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES

2.1 Total deposits

Total deposits in credit institutions amounted to 3,380,290,799 euros as at 31 December 2020, whereas at end-2019 they totalled 3,476,948,875 euros. This is the year-on-year decrease of 2.78% (year-on-year growth in 2019 was 0.44%).

Graph 1 shows the trending of total deposits over the period 2013 - 2020.

Graph 1 Movement of total deposits in credit institutions in the period 2013-2020 (000 €)



*Source: monthly reports of credit institutions

During the first two quarters of the reporting year, total deposits were on a downtrend (-3.20% and -1.86%, respectively) due to the pandemic, followed by a negligible increase of 0.04% in Q3 and a more notable growth of 2.30% in Q4.

Table 1 Total deposits in 2020, by quarters (000 €)

	31/12/2019	31/03/2020	30/06/2020	30/09/2020	31/12/2020
TOTAL	3,476,949	3,365,770	3,303,266	3,304,444	3,380,291

*Source: monthly reports of credit institutions

The biggest depositors in credit institutions were households and corporates.

The share of household deposits amounted to 1.72 billion euros or 51.15% of total deposits as at 31 December 2020, making this sector the most significant depositor in the Montenegrin banking system. The number of retail depositors reached 628,914 at end-2020, which is 90.62% of the total number of depositors.

Wholesale deposits accounted for 48.85% of total deposits in the system, reaching 1.65 billion euros. The number of wholesale depositors totalled 65,126 at end-2020, which is 9.38% of the total number of depositors.

The total number of depositors was 694,040 at end-2020, which is the year-on-year decrease of 16.45% (830,692) (the new Decision on the structure, detail requirements and manner of opening and closing transaction accounts, as well as the new reporting forms that credit institutions submit to the Fund, resulted in the clearing of inactive transaction accounts and, consequently, a lower number of depositors).

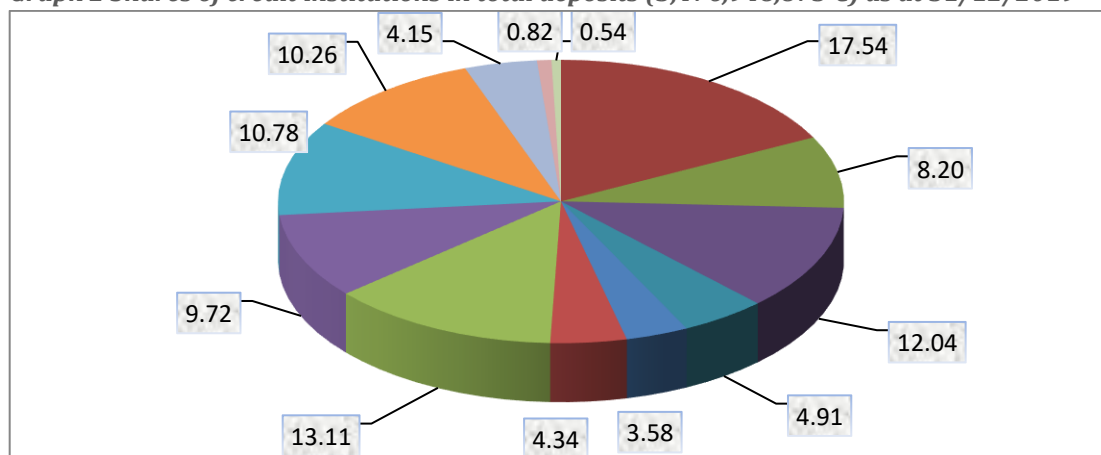
On 28 February 2019, Crnogorska komercijalna banka A.D. Podgorica signed the purchase agreement for the acquisition of 90.55% of the total share capital of Soci t  G n rale Bank Montenegro AD. After this, Soci t  G n rale Bank Montenegro A.D. changed its name to Podgori ka banka A.D. Podgorica. Thus the Montenegrin banking system had thirteen credit institutions operating in 2020.

The process of integration of these two banks was successfully completed in December 2020. The integrated bank continued operating under the name Crnogorska komercijalna banka A.D. Podgorica, member of OTP Group so that the total number of credit institutions operating in Montenegro's banking system as at 31/12/2020 was twelve.

From the once extremely concentrated market and the dominant role of the three largest banks, the situation today is visibly different and the market of credit institutions is closer to the limit of a competitive market (at the end of 2008, two banks with the largest amounts of deposits had accounted for 60.33% of the deposit portfolio of the banking sector, while this share of two largest banks stood at 39.43% at end-2020).

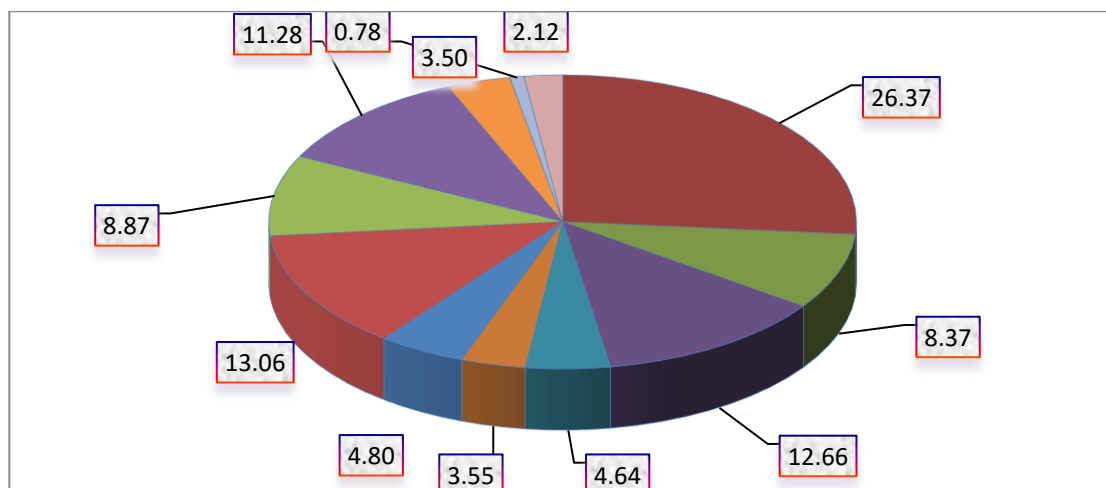
The shares of individual credit institutions in total deposit portfolio at end-2019 and end-2020 are shown in Graphs 2 and 3.

Graph 2 Shares of credit institutions in total deposits (3,476,948,875  ) as at 31/12/2019



*Source: monthly reports of credit institutions

Graph 3 Shares of credit institutions in total deposits (3,380,290,799  ) as at 31/12/2020



*Source: monthly reports of credit institutions

At end-2019, the largest credit institution in terms of total deposits had held 17.54% of total deposits, whereas a year later this share rose to 26.34% (as indicated above, one credit institution bought another one in the system). The second largest credit institution saw a minor year-on-year change in its share in total deposits from 13.11% to 13.06%.

Individual shares of credit institutions in total deposits with other credit institutions remained at almost the same levels as at end-2019.

2.2 Deposits by persons not entitled to the guaranteed deposit payout

Deposits by persons not entitled to the guaranteed deposit payout in line with Article 6 paragraph 2 points 1 to 19 of the Law are presented in Table 2 (data as at end-quarters in 2020).

Quarterly data point to fluctuations of these deposits during the reporting year with increases being recorded in Q1 and Q2 (2.10% and 15.09%, respectively), and declines in Q3 and Q4 (5.16% and 5.79%, respectively), which resulted in the year-on-year deposit increase of 5.00% at end-2020. The number of depositors not entitled to the guaranteed deposit payout amounted to 2,612, which is 13.91% more than in the previous year (2,293).

Table 2 Deposits by persons not entitled to the guaranteed deposit payout

	31/12/2019	31/03/2020	30/06/2020	30/09/2020	31/12/2020
Deposits of persons not entitled to payout	318,668	325,357	374,467	355,153	334,602
TOTAL DEPOSITS	3,476,949	3,365,770	3,303,266	3,304,444	3,380,291
% share in deposits	9.17	9.67	11.34	10.75	9.90

*Source: monthly reports of credit institutions

This category of deposits accounted for 9.90% of total deposits as at 31/12/2020. Their share in total deposits slightly changed in comparison with end-2018 when it stood at 8.61%.

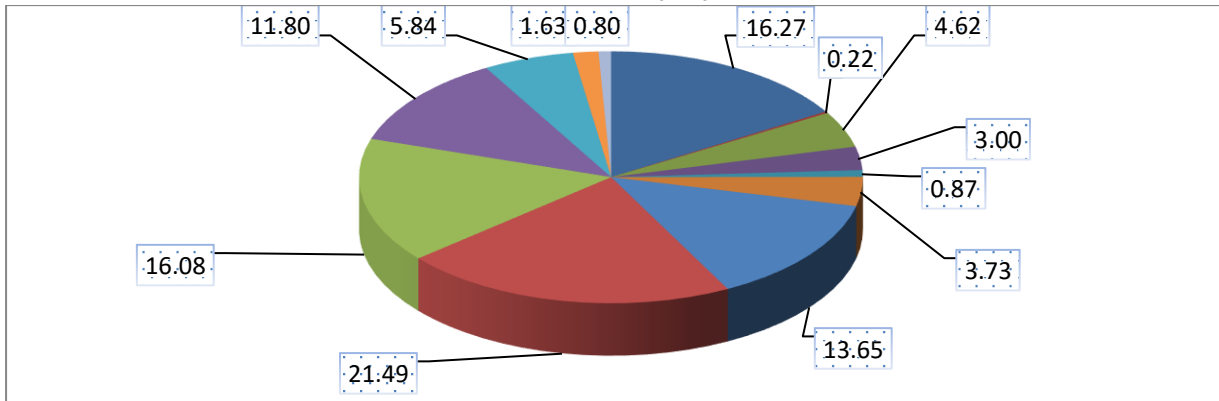
Deposits by government entities and organisations accounted for the main share of depositors not entitled to the guaranteed deposit payout (49.25%). The share of deposits by investment funds and investment fund management companies amounted to 11.44%. The share of deposits by financial institutions made up 8.00%, whereas deposits by legal persons engaged in insurance business accounted for 5.25%, and deposits by legal persons with either direct or indirect participation in capital or voting rights of 10% or more in the relevant credit institution made up 6.29%.

The year-on-year percentage increase of deposits by persons not entitled to the guaranteed deposit payout (of 5.00%) is largely the result of the following changes:

- deposits by government entities and organisations and municipal or other forms of local self-government organisations (an increase of 3.57% or 5.6 million euros);
- deposits by investment funds and investment fund management companies (an increase of 40.77% or 20.6 million euros);

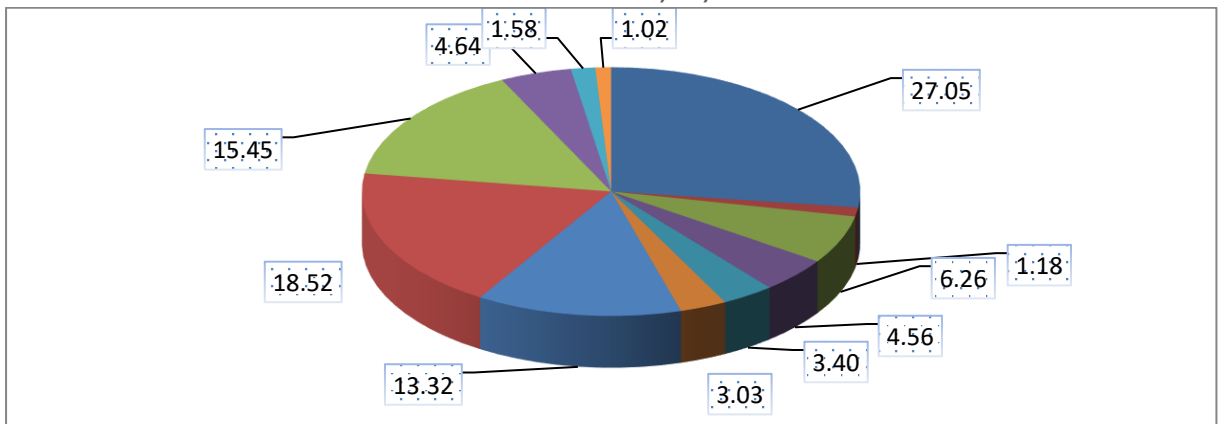
Other categories of deposits by persons not entitled to the guaranteed deposit payout experienced no significant changes at the end of the reporting year as compared to the previous year.

Graph 4 Deposits by persons not entitled to the guaranteed deposit payout by individual credit institutions as at 31/12/2019



*Source: monthly reports of credit institutions

Graph 5 Deposits by persons not entitled to the guaranteed deposit payout by individual credit institutions as at 31/12/2020



*Source: monthly reports of credit institutions

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.

2.3 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 1-19 of the Law are entitled to the guaranteed deposit payout (Table 3).

Deposits by persons entitled to the guaranteed deposit payout, i.e. total deposits by natural and legal persons included in the deposit guarantee scheme as at 31/12/2020 amounted to 3,045,688,829 euros, as compared to 3,158,281,035 as at 31/12/2019. This category of deposits recorded the year-on-year decline of 3.56%.

Quarterly data for 2020 show oscillations during the reporting year with declines in Q1 and Q2 (of 3.73% and 3.67%) growth in Q3 and Q4 (0.70% and 3.27%). resulting in a cumulative decline of 3.56% compared to the previous year.

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

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
31/12/2019	3,158,281	1,738,233	1,420,048	55.04	44.96
31/03/2020	3,040,413	1,667,895	1,372,518	54.86	45.14
30/06/2020	2,928,799	1,658,252	1,270,548	56.62	43.38
30/09/2020	2,949,290	1,637,665	1,311,626	55.53	44.47
31/12/2020	3,045,689	1,723,347	1,322,342	56.58	43.42
31/12/2020 / 31/12/2019	-3.56%	-0.86%	-6.88%		
31/12/2020 / 31/12/2019	-112,592	-14,886	-97,706		

*Source: monthly reports of credit institutions

Deposits by natural persons accounted for the main share in the structure of deposits by persons entitled to the guaranteed deposit payout (90.62%). Retail deposits made up 56.58% and wholesale deposits accounted for 43.42%.

The structure of these deposits did not significantly change in comparison with 2019. Both categories of deposits recorded some changes in the reporting period (retail deposits decreased by 0.86% and wholesale deposits declined by 6.88%), so the overall result is a 3.56% deposit decrease.

Table 3.1 Number of depositors entitled to the guaranteed deposit payout

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
31/12/2019	828,399	762,932	65,467	92.10	7.90
31/03/2020	827,489	761,989	65,500	92.08	7.92
30/06/2020	820,718	755,036	65,682	92.00	8.00
30/09/2020	693,000	626,133	66,867	90.35	9.65
31/12/2020	691,428	626,363	65,065	90.59	9.41
31/12/2020 / 31/12/2019	-16.53%	-17.90%	-0.61%		
31/12/2020 / 31/12/2019	-136,971	-136,569	-402		

*Source: monthly reports of credit institutions

In the structure of deposits of persons entitled to the guaranteed deposit payout, deposits by residents account for 75.42% (53.54% deposits by natural persons - residents entitled to the payout and 46.46% deposits by legal entities - residents

entitled to the payout). Residents accounted for 24.58% (65.91% deposits by natural persons - non-residents entitled to the payout and 34.09%% deposits by legal entities - non-residents entitled to the payout).

There were 691,428 depositors entitled to the guaranteed deposit payout as at 31/12/2020.

Of this number, 44,640 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 (646,788 depositors).

Table 3.2 Number of depositors whose deposits² exceed their due liabilities to banks

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
31/12/2019.	755,016	691,760	63,256	92.10	7.90
31/03/2020	748,644	685,792	62,852	91.60	8.40
30/06/2020	747,634	684,345	63,289	91.53	8.47
30/09/2020	643,103	580,459	62,644	90.26	9.74
31. 12. 2020.	646,788	586,060	60,728	90.61	9.39
31/12/2020 / 31/12/2019	-14.33%	-15.28%	-4.00%		
31/12/2020 / 31/12/2019	-108,228	-105,700	-2,528		

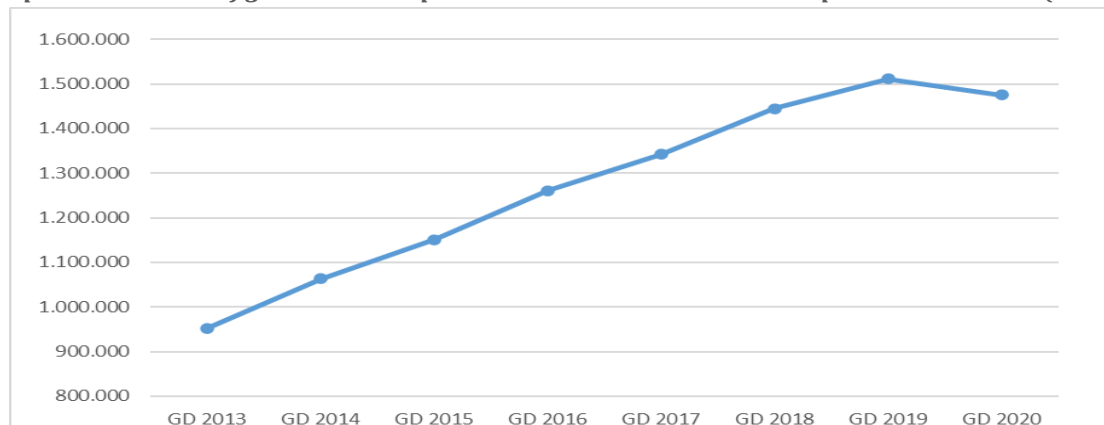
*Source: monthly reports of credit institutions

2.4. Guaranteed deposits

Guaranteed deposits amounted to 1,474,729,638 euros as at 31/12/2020, as compared to 1,511,615,831 euros as at 31/12/2019. This is the year-on-year decrease of 2.44%.

Graph 6 shows the trending of guaranteed deposits over the period 2013 - 2020.

² Guaranteed deposit is established for every individual depositor by reducing due 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 date (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).

Graph 6 Movement of guaranteed deposits in credit institutions in the period 2013-2020 (000 €)

*Source: monthly reports of credit institutions

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 2020.

Deposits representing a temporary high balance are insured in the additional amount of up to 30,000 euros, six months after the amount has been credited or from the moment when such deposits become legally transferable.

From the date of entry into force of the new law until the accession of Montenegro to the European Union, the Fund shall continue to calculate and pay the guaranteed deposit up to the amount of 50,000 euros per depositor/per credit institution. As of the accession date, the coverage will increase to 100,000 euros.

Total guaranteed deposits were on a downtrend during the reporting year. In Q1 they dropped significantly (4.64%) compared to Q4 2019. We saw a minor quarter-on-quarter increase in Q2 of 0.34%, only to witness a negligible decline again in Q3 of 0.10%. The deposits picked up pace again in Q4 and rose 2.06% compared to the previous quarter.

As at 31/12/2019, guaranteed deposits made up 43.48% of total deposits and at the end of the reporting year this share was 43.63%. As at 31/12/2019, guaranteed deposits made up 47.86% of eligible deposits and at the end of the reporting year this share was 48.42%.

Table 4 Share of guaranteed deposits in eligible deposits in 2020 (000 €)

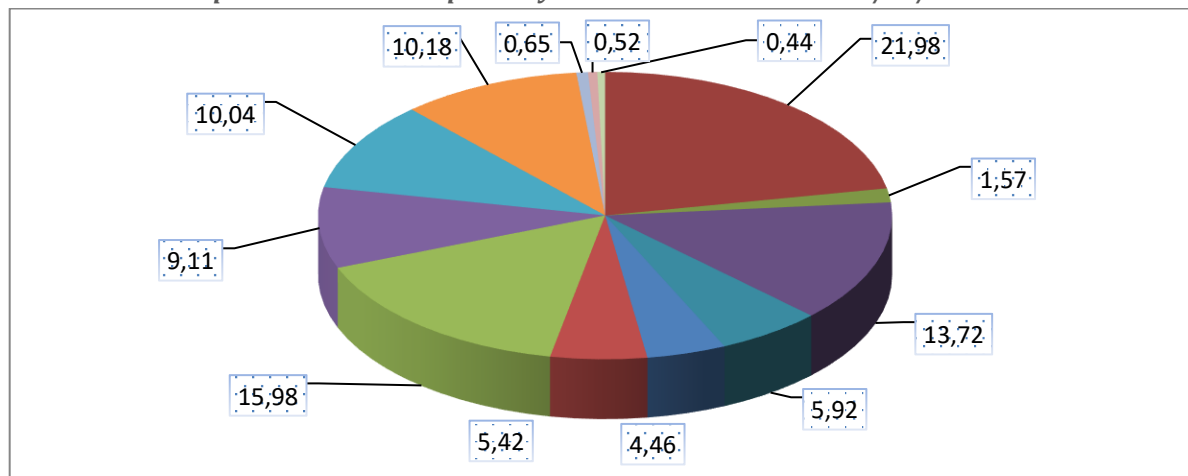
	31/12/2019	31/03/2020	30/06/2020	30/09/2020	31. 12. 2020
GUARANTEED DEPOSITS	1,511,616	1,441,468	1,446,425	1,444,980	1,474,730
ELIGIBLE DEPOSITS	3,158,281	3,040,413	2,928,799	2,949,290	3,045,689
SHARE OF GD* IN ED	47.86%	47.41%	49.39%	48.99%	48.42%

*Source: monthly reports of credit institutions; *Guaranteed deposits = GD; ** Eligible deposits = ED;

On 31/12/2020, guaranteed deposits were 36.8 million euros higher than as at 31/12/2019.

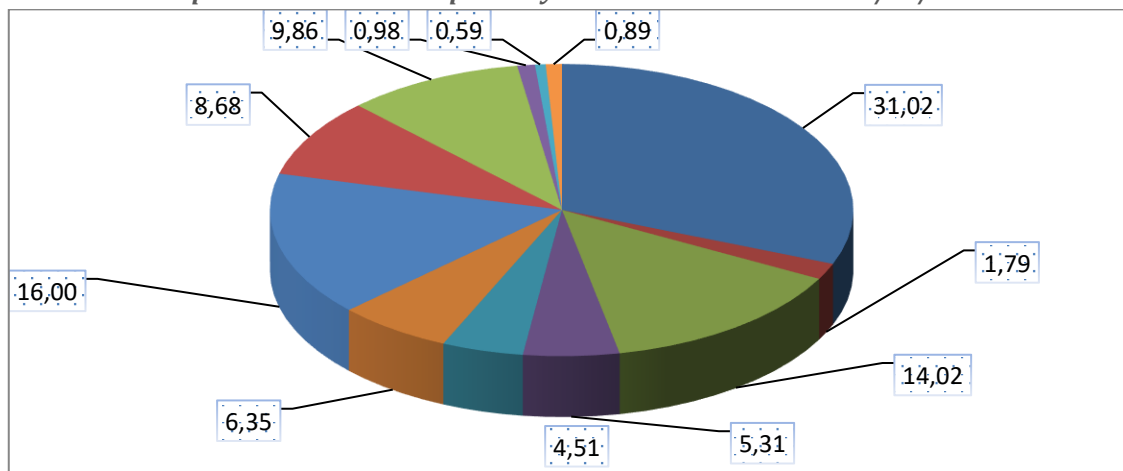
During the reporting period, the structure of guaranteed deposits by individual credit institutions significantly changed compared to 2019. This change occurred due to the bankruptcy of two credit institutions in 2019 and the integration of two credit institutions at end-2020, which resulted in different dispersion of guaranteed deposits in the banking system (61.04% of total guaranteed deposits were in three credit institutions).

Graph 7 Guaranteed deposits by credit institutions as at 31/12/2019



*Source: monthly reports of credit institutions

Graph 7-a Guaranteed deposits by credit institutions as at 31/12/2020



*Source: monthly reports of credit institutions

Two credit institutions hold 47.02% of total guaranteed deposits, which is an increase compared to the end of 2019 when this percentage stood at 37.96%.

A credit institution holding the largest guaranteed deposits saw the percentage increase in the share in total guaranteed deposits from 21.98% to 31.02%. The second largest credit institution in terms of size of guaranteed deposits saw only a slight increase in their share.

At the end of the reporting period, the two credit institutions holding 39.43% of total deposits also held 47.02% of guaranteed deposits.

From the aspect of the structure of guaranteed deposits by category, deposits by resident natural persons made up 81.82%, deposits by resident legal persons accounted for 9.16%, deposits by non-resident natural persons had 8.79%, and non-resident legal persons accounted for 0.23% of total guaranteed deposits.

Graph 7-b Structure of guaranteed deposits - resident/non-resident natural/legal persons as at 31/12/2020

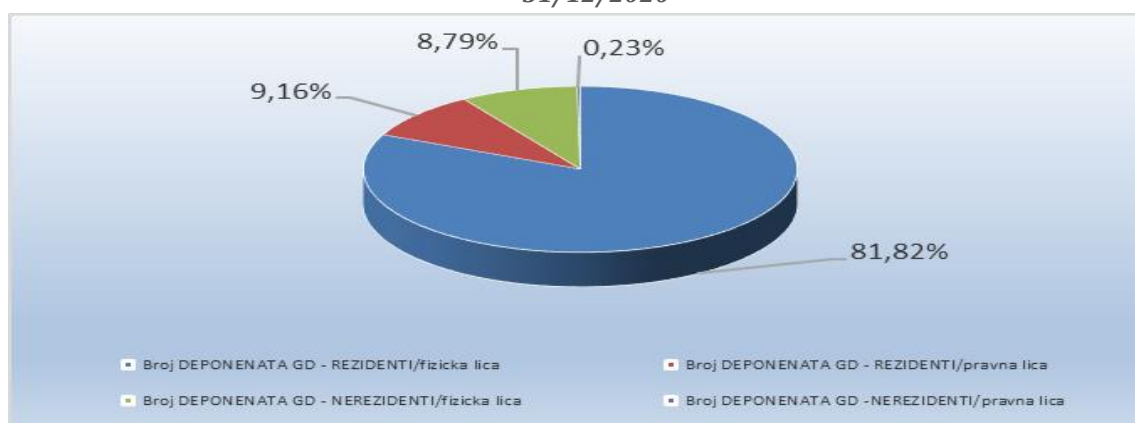


Table 4.1 Guaranteed deposits (natural and legal persons) in 000 €

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
31/12/2019	1,511,616	1,248,267	263,348	82.58	17.42
31/03/2020	1,441,468	1,192,737	248,731	82.74	17.26
30/06/2020	1,446,876	1,195,528	251,348	82.63	17.37
30/09/2020	1,444,980	1,180,383	264,598	81.69	18.31
31/12/2020	1,474,730	1,214,452	260,277	82.35	17.65
31/12/2020 / 31/12/2019	-2.44%	-2.71%	-1.17%		
31/12/2020 / 31/12/2019	-36,886	-33,815	-3,071		

*Source: monthly reports of credit institutions

Compared to 31/12/2019, guaranteed deposits declined by 2.44% at the end of the reporting year (those of natural persons dropped by 2.71% and those of legal persons decreased by 1.17%).

Table 4.2 Number of depositors entitled to payout and the number of depositors whose deposit exceeds their due liabilities to the bank who hold the guaranteed deposit

	NUMBER OF DEPOSITORS ENTITLED TO THE GUARANTEED DEPOSIT PAYOUT			NUMBER OF DEPOSITORS (AFTER DEDUCTING DUE LIABILITIES) HOLDING GUARANTEED DEPOSIT ≤ 50,000 €					
	TOTAL	Natural persons	Legal persons	TOTAL	Natural persons	Legal persons	Coverage %	Coverage %	Coverage %
	1	2	3	4	5	6	7 (=4/1)	8 (=5/2)	9 (=6/3)
31/12/2019	828,399	762,932	65,467	755,016	691,760	63,256	91.14	90.67	96.62
31/12/2020	827,489	761,989	65,500	748,644	685,792	62,852	90.47	90.00	95.96
30/06/2020	820,718	755,036	65,682	747,634	684,345	63,289	91.10	90.64	96.36
30/09/2020	693,000	626,133	66,867	643,103	580,459	62,644	92.80	92.71	93.68
31/12/2020	691,428	626,363	65,065	646,788	586,060	60,728	93.54	93.57	93.33

*Source: monthly reports of credit institutions

As at 31 December 2020, the number of depositors holding guaranteed deposit after deduction of due liabilities amounted to 646,788, which is 93.54% of the total number of depositors entitled to the payout of guaranteed deposit (691,428). The number of depositors with deposit ≤ 5 euros had a large share in the total number of depositors (30.15%).

The number of depositors holding guaranteed deposit ≤ 50,000 euros at the end of 2020 amounted to 638,334, which is 98.69% of the total number of depositors holding guaranteed deposit (646,788). Depositors with a guaranteed deposit of ≤ 50,000 euros made up 71.34% of total guaranteed deposits (1,052,072,124 €) with the following structure: 580,109 were natural persons or 98.98% of the total number of depositors - natural persons entitled to the payout of guaranteed deposit and 58,225 were legal persons or 95.88% of the total number of depositors - legal persons entitled to the payout of guaranteed deposit.

The number of depositors holding guaranteed deposit > 50,000 euros at the end of 2020 amounted to 8,454, which is 1.31% of the total number of depositors holding guaranteed deposit. Depositors entitled to guaranteed deposit payout, 1.14% holed deposits > 50,000€ accounted for 28.66% of total guaranteed deposits (422,657,514€), with the following structure: 5,951 natural persons (1.02% of total private depositors holding guaranteed deposits) and 2,503 legal persons (4.12% of legal depositors holding guaranteed deposits).

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

	Balance as at: 31/12/2020	Amount (in €)	Number of depositors	Due liabilities	Balance	Number of depositors holding GD	% of coverage of GD depositors ≤50,000 €
		A	B	C	D	E	
I	Deposits by persons entitled to the guaranteed deposit payout (legal and natural = 1 + 3)	3,045,688,840	691,424	33,600,386	3,041,717,572	646,788	
1	Deposits by natural persons entitled to the guaranteed deposit payout	1,723,347,119	626,358	3,130,237	1,721,842,537	586,060	
	≤5,000€	199,890	196,811	1,084,937	181,288	182,454	
1a	>5 ≤50,000€	917,838,959	423,550	1,923,849	916,721,177	397,655	98.98
1b	>50,000 ≤100,000€	264,533,511	4,110	9,513	264,291,482	4,082	
1c	>100,000€	540,774,759	1,887	111,938	540,648,590	1,869	
	GUARANTEED DEPOSITS BY NATURAL PERSONS				1,214,452,465	586,060	
3	Deposits by legal persons entitled to the guaranteed deposit payout	1,322,341,721	65,066	30,470,149	1,319,875,035	60,728	
	≤5€	20,684	14,814	57,148	22,199	12,568	
3a	>5 ≤50,000€	135,863,176	47,651	4,014,355	135,104,975	45,657	95.88
3b	>50,000 ≤100,000€	69,507,596	987	1,248,689	68,098,913	952	
3c	>100,000€	1,116,950,265	1,614	25,149,956	1,116,648,949	1,551	
4	GUARANTEED DEPOSITS BY LEGAL PERSONS				260,277,174	60,728	
5	GUARANTEED DEPOSITS (2+ 4)				1,474,729,638	646,788	98.69

*Source: monthly reports of credit institutions

Total deposits of depositors entitled to guaranteed deposit payout (eligible deposits) after the deduction of their due liabilities amounted to 3,041,717,572 euros as at 31/12/2020, whereby eligible deposits by natural persons amounted to 1,721,842,537 or 56.61%, while protected deposits by legal persons totalled 1,319,875,035 or 43.39%. Total guaranteed deposits accounted for 48.48% of total eligible deposits.

Total guaranteed deposits amounted to 1,214,452,465 euros or 82.35% of total protected deposits (39.93% of total eligible deposits).

The total number of private depositors holding deposits ≤50,000€ was 580,109 and their deposits amounted to 916,902,465€ or 75.50% of total guaranteed deposits by natural persons (53.25% of total eligible deposits of natural persons).

The number of entitled private depositors whose deposits exceed 50,000 euros amounted to 5,951 and in case of a bank failure they would be repaid 297,550,000

euros or 24.50% of total guaranteed deposits of natural persons (17.26% of total eligible deposits of natural persons).

Total guaranteed deposits by legal persons amounted to 260,277,177 euros or 17.65% of total guaranteed deposits (8.56% of total eligible deposits).

The number of legal depositors holding deposits ≤50,000€ amounted to 58,225 and their guaranteed deposits totalled 135,127,173 euros or 51.92% of total guaranteed deposits of legal persons (10.24% of total eligible deposits of legal persons).

The number of entitled legal depositors with deposit exceeding 50,000 euros amounted to 2,503 and in case of a bank failure they would be repaid 125,150,000 euros or 48.08% of total guaranteed deposits of legal persons (9.48% of total eligible deposits of legal persons).

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 50,000 euros is a well-designed coverage and 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. Given that the coverage percentage in our system is very high, we consider it justifiable to retain the amount of guaranteed deposit at the level of 50,000 euros until Montenegro's EU accession date, as stipulated in the Law.

Average amount of guaranteed deposit is the indicator used to assess the adequacy of the level of guaranteed deposit.

Table 4.4 Average amount of guaranteed deposit

	31/12/2019	31/12/2019	increase
Legal persons	4,163	4,286	8.92%
Natural persons	1,804	2,072	26.98%
TOTAL	2,002	2,280	13.89%

The 26.98% increase in the average amount of guaranteed deposit by natural persons is primarily a result of the reduced number of depositors due to the clearing of inactive transaction accounts in credit institutions.

FUND`S EXPOSURE TO CREDIT INSTITUTIONS

3

3. Exposure of the Fund to credit institutions

Total exposure of the Fund to credit institutions 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).

The Fund's resources amounted to 91,709,827 euros as at 31/12/2020, while the guaranteed deposits totalled 1,474,729,638.

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 6.22% (for the guaranteed deposit ≤ 50.000 €) as at 31/12/2020, as compared to 4.27% the year before (such a low coverage was due to the bankruptcy of two banks and the payout of guaranteed deposits, with consequent decrease in the Fund's assets).

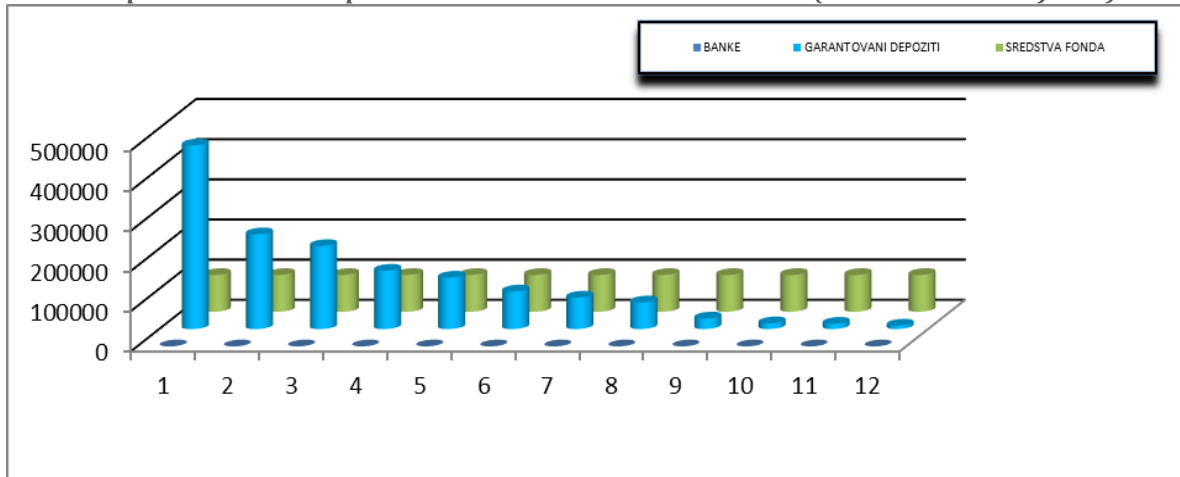
The Fund's exposure to individual credit institutions (the ratio of Fund's assets to the guaranteed deposits in individual credit institutions – the coverage of guaranteed deposits by the credit institutions) as at 31 December 2020 is presented in Table 5 and Graph 8 below.

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

CREDIT INSTITUTIONS	GUARANTEED DEPOSITS	FUND'S ASSETS	Coverage 1 (%)	Fund's assets with the EBRD funds	Coverage 2 (%)	Lacking funds 1	Lacking funds 2
1	2	3	4	5	6	7	8
1	457,472	91,710	20.05	141,710	30.98	365,762	315,762
2	235,933	91,710	38.87	141,710	60.06	144,223	94,223
3	206,706	91,710	44.37	141,710	68.56	114,996	64,996
4	145,352	91,710	63.10	141,710	97.49	53,642	3,642
5	128,074	91,710	71.61	141,710	110.65	36,364	
6	93,656	91,710	97.92	141,710	151.31	1,946	
7	78,351	91,710	117.05	141,710	180.87		
8	66,479	91,710	137.95	141,710	213.17		
9	26,432	91,710	346.97	141,710	536.14		
10	14,425	91,710	635.76	141,710	982.37		
11	13,180	91,710	695.81	141,710	1.075.17		
12	8,669	91,710	1.057.89	141,710	1.634.65		
TOTAL	1,474,730	91,710	6.22	141,710	9.61		

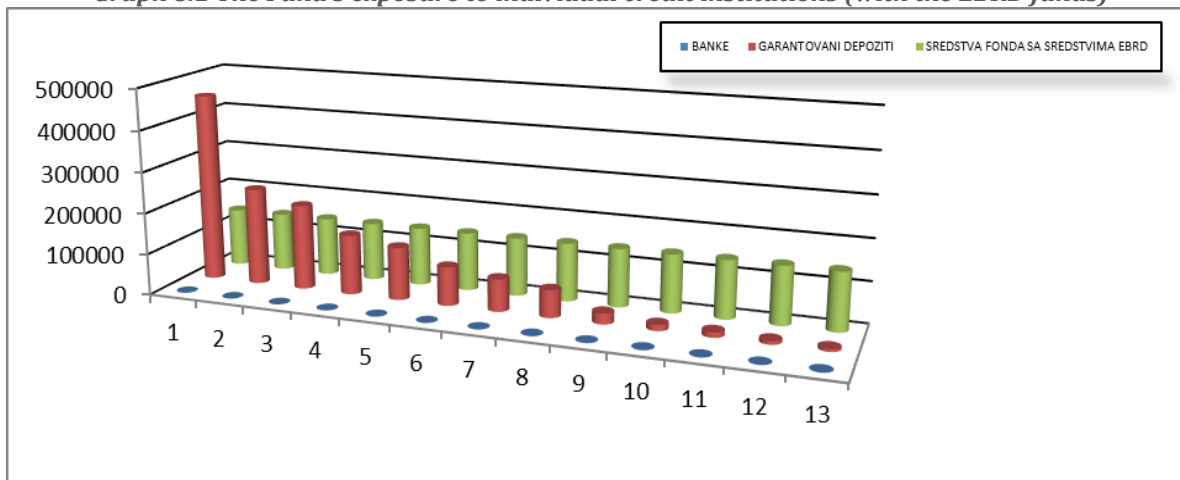
*Source: monthly reports of credit institutions and the Fund's bookkeeping records

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



*Source: monthly reports of credit institutions and the Fund's bookkeeping records

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



*Source: monthly reports of credit institutions and the Fund's bookkeeping records

In case of introduction of bankruptcy in any of the 8 credit institutions, the Fund's assets and funds provided from the Stand-by arrangement with the EBRD (this arrangement is valid until 2025) would be sufficient for the compensation of all depositors in any of the 8 credit institutions (as represented in Table 5, column "Lacking funds 2").

The Fund would provide the lacking funds 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 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.

With a view to preserving the banking system stability and the protection of depositors, the new Law provides for the option to use the Fund's resources for the resolution of credit institutions.

In July 2020, the Fund extended the stand-by arrangement with the EBRD regulating the withdrawal of 50 million euros in the following five year for the purpose of guaranteed deposits payout. With these funds, which the EBRD made available to the Fund (only in case of a shortfall in funds necessary for guaranteed deposit payout), the coverage ratio amounts to 9.61% (Table 6).

Table 6 Coverage ratio for guaranteed deposits in the system

Guaranteed deposits 31/12/2020	Fund's assets 31/12/2020	% of coverage of guaranteed deposits
1	2	2/1
1.474.729.638	91,709,827 ³	6.22%
1.474.729.638	141,709,827 ⁴	9.61%

*Source: monthly reports of credit institutions and the Fund's bookkeeping records

³Fund's resources (premiums, donations and operating income of the Fund)

⁴Fund's resources increased for the funds secured from the EBRD loan (50 million euros)

**ACTIVITIES OF THE FUND
IN 2020**

4

4. ACTIVITIES OF THE FUND IN 2020

4.1. General remarks

Activities of the Fund in 2020 were realized in three segments:

- the priority activities involved the drafting of the Methodology, which was prepared together with the World Bank experts;
- drafting of other secondary legislation (as prescribed under the Law), with a view to ensuring the harmonisation with the relevant EU legislation, and
- continuation of guaranteed deposit payout to depositors of bankrupt credit institutions.

In addition to the aforementioned activities, other planned activities and tasks were implemented in accordance with the Work Program of the Fund for 2020 and the Fund's 2016-2021 Strategic Plan.

The 2016 - 2021 Strategic Plan provides the basic guidelines for a long-term development in line with the changes that have occurred or will occur in the environment 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. This plan also 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 informed the public about the new legislation, the Methodology, and 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 hence significantly contributed to maintaining depositors' confidence in the banking system.

In July 2020, the Fund signed the Stand-by arrangement with the EBRD for the amount of 50 million euros to be withdrawn in the period of 5 (five) years and with the repayment period of 7 (seven) years. The signing of this arrangement has additionally strengthened the Fund's financial position so that in the case of protected event, the Fund can intervene and pay out guaranteed deposits not only of small but also of medium-sized banks.

Aiming at better and faster availability of information on the work of the Fund, the website was redesigned to meet the requirements for informing depositors and good practice.

4.2 Methodology for calculating the risk-based premium of individual credit institutions

Although the Fund had worked on the Methodology in 2019 as per the EBA instructions and Directive 2014/49/EC, the document was completed at end-2020. To wit, the World Bank had approved technical assistance to the Fund and selected GBB - rating Gesellschaft für Bonitätsbeurteilung mbH from Germany that assisted by sharing best experience and practice from the EU countries and tailoring them to our banking system and data availability. The CBCG approved and the MB of the Fund adopted the Methodology on 30 December 2020.

The Methodology objectives ensure the following:

1. the cost of financing the Fund, i.e. the deposit insurance system in Montenegro, is borne by the credit institutions themselves and that their contributions are proportional to the obligations of the Fund;
2. achieving the minimum target amount of at least 10% of guaranteed deposits by the end of 2024;
3. reducing the impact of excessive risk-taking by a member credit institution by collecting higher premiums for deposit insurance from riskier credit institutions;
4. the calculation of the premium is based on the amount of guaranteed deposits (rather than total deposits, as was the case before), which significantly distinguishes between the premium paid per flat rate, on the basis of total deposits. Also, the difference in risk profile is reflected in the amount of premiums charged to individual credit institutions so that credit institutions with a better rating with the Fund pay a lower contribution than those with lower rating.

The Methodology is based on the assessment of individual risk categories and their shares in the overall sumo of risks, as presented in Table 7.1.

The assessment of each basic risk category for an individual credit institution is determined in relation to the system average and carries a certain weight in the cumulative risk. Based on the system average, the lower and upper limits of the risk weight are determined so that the average risk category carries a risk rating of 50 and lower and upper risk limits are determined in relation to that (0-100). The most at-risk categories receive a risk rating of 100, and the least at-risk categories receive 0.

For risk categories for which the CBCG has prescribed a minimum, the upper limit is determined by subtracting the prescribed minimum from twice the average amount.

For risk categories for which no minimum is prescribed, the lower limit is set at the level of 20% of the average, and the upper limit at the level of the average increased by 80%.

Table 7.1 Risk ratio

Risk categories and key risk indicators		Risk coefficient (RC)	Calculation of key risk indicators	Description
1		2	3	4
1.	Capital	24%		
1.1	Leverage ratio	12%	Total capital / Total assets	Higher value reflects lower risk (-)
1.2	Solvency ratio	12%	Own funds / Risk-weighted assets	Higher value reflects lower risk (-)
2.	Liquidity and funding	24%		
2.1	Liquidity ratio ⁵	12%	Liquid assets / Total assets	Higher value reflects lower risk (-)
2.2	Ten-day liquidity average for month XII ⁶	12%	(First + second + third ten-day liquidity for month XII) / 3	Higher value reflects lower risk (-)
3.	Asset quality	22%		
3.1	NPL ratio	13%	Gross C, D, and E loans and receivables minus prepayments and accruals and advances and interest / total gross loans and receivables minus prepayments and interest	Higher value reflects higher risk (+)
3.2	Coverage of NPLs by total value adjustments	9%	Total value adjustments for loans and receivables / C, D, and E loans and receivables	Higher value reflects lower risk (-)
4	Business model and management	13%		
4.1	Risk density	6.5%	Risk-weighted assets / Total assets	Higher value reflects higher risk (+)
4.2	Return on average assets	6.5%	Net profit / (total assets T0 + total assets T-1) / 2	Lower (and negative) values reflect higher risk (+)
5	Potential losses for the Fund	17%		
5.1	Potential losses for the Fund	17%	Guaranteed deposits / unencumbered assets	Higher value reflects higher risk (+)

The Methodology has redefined the premium calculation. While in the previous period the premium was calculated and paid at a flat rate of 0.50% on the basis of total deposits of a credit institution, now the premium of 1.2% is paid on the base comprised

⁵ This indicator will be replaced after LCR indicator has become available.

⁶ This indicator will be replaced after NSFR indicator has become available.

of guaranteed deposits of a credit institution. The amount thus obtained is adjusted by the degree of risk of an individual credit institution, which is measured by the risk class of 1-7, i.e. by the aggregate risk ratio, which is as follows:

Table 7.2

Risk class	Limits of aggregate risk assessment	Cumulative risk ratio - degree of risk
1	≤30	75%
2	>30 ≤40	90%
3	>40 ≤50	100%
4	>50 ≤60	110%
5	>60 ≤70	120%
6	>70 ≤80	130%
7	>80 ≤100	150%

All credit institutions that have a cumulative risk rating higher than 40 and lower or equal to 50 belong to risk class 3 (average risky credit institution) and they pay a 100% of the established premium, while the least risky credit institutions pay 75% of the premium but the most risky credit institutions pay 150% of the premium.

Given that the Law prescribes that it is necessary to reach the target level of the Fund's assets of 10% of total guaranteed deposits, the MB of the Fund decided to reach the target level by the end of 2024, provided that there is no protected event, i.e. bankruptcy of any of the credit institution in the system by that time.

Based on the previously performed analysis, the Board of the Fund determined that the target level of the premium for 2021 is 16 million euros, which is approximately 1 million euros less than the collected premium in 2020. When deciding on the amount of the premium for 2021, in addition to the economic calculation, the Board of the Fund was guided by the impact of the Corona-19 virus pandemic on the overall economy and, consequently, on the activities of credit institutions. With such an established target level, we allow the premium to be significantly lower in the coming years (2022, 2023, and 2024), depending on the collection of receivables from the bankruptcy estate, and at the same time to reach the statutory level of the Fund's resources in the amount of 10% of guaranteed deposits.

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

a) 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).

Total deposits amount to 39,867,785.52 euros for 2,981 depositors, **calculated guaranteed deposits total 22,383,240.36 euros for 2,732 depositors, and total depositors' liabilities to the bankrupt bank stand at 4,373,213.38 euros (210 depositors).**

As at 31/12/2020, the total paid out amount reached 21,732,391.18 euros, which accounts for 97.09% of total calculated guaranteed deposits, i.e. overall obligations of the Fund for guaranteed deposit compensation (in 2020, a total of 257,017.20 euros or 1.15% was paid for 16 depositors).

As at the same date, the total collected amount from the bankruptcy estate of Invest Bank Montenegro amounted to **17,700,000 euros or 79.25% of total claim** (the collected amount in the reporting year was 1,400,000 euros).

b) 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).

Total deposits amount to 186,510,193.11 euros for 93,729 depositors, **calculated guaranteed deposits total 90,284,027 euros for 90,098 depositors, and total depositors' liabilities to the bankrupt bank stand at 8,966,350 euros.**

As at 31/12/2020, the total paid out amount reached 81,843,061.61 euros, which accounts for 90.65% of total calculated guaranteed deposits, i.e. overall obligations of the Fund for guaranteed deposit compensation (the amount paid in the reporting year was 1,434,835.91 euros or 1.58% to compensate 350 depositors).

As at the same date, the total collected amount from the bankruptcy estate of Atlas banka amounted to **36,000,000 euros** or **39.87%** of total claim (the collected amount in the reporting year was **11,000,000 euros**).

The virus pandemic had a profound effect on activities related to the payment of guaranteed deposits through payout banks. During 2020, we had a payment of only 1.4 million euros for Atlas Bank a.d. Podgorica in bankruptcy (most of which was paid in the first three months of the year) and 0.26 million euros were compensated to the Invest banka Montenegro depositors, all together resulting in around 9% and 3% of unpaid guaranteed deposits for the respective banks. The pandemic prevented depositors (a large number of depositors are non-residents) from taking their guaranteed deposit, but it is expected that after the stabilisation of the health situation in the country and the world, depositors will take over their guaranteed deposits.⁷

Also, the impact of the Covid-19 pandemic was felt on the return of the Fund's resources from the bankruptcy estate. To wit, in order to recover funds from the bankruptcy estate, the bankruptcy trustees of these two credit institutions must sell the institutions' assets, as well as collect the loan receivables from the depositors of these credit institutions. Considering that the health situation affected the interest in buying real estate, this reflected on the inflow of funds on this basis, which was significantly lower than expected. Thus, in the reporting year, Atlas banka in bankruptcy and Invest banka Montenegro in bankruptcy repaid 11 million euros and 1.4 million euros, respectively. Total amount recovered from the Atlas banka is 36 million euros (39.87%) and that from Invest Bank Montenegro is 17.7 million euros (79.25%).

As for the service and cooperation of the payout banks, we can express satisfaction with their organisation of work and communication with the Fund, which has given immeasurable results in maintaining and increasing the confidence of depositors in the banking system.

It should be emphasized that every year the Fund shortlists credit institutions which could take on the role of payout bank in the event of a protected case occurrence in one of the credit institutions. This was also the case in 2020 when many credit institutions expressed their interest to be payout banks. The shortlisted banks met very strict solvency requirements imposed by the Fund for payout banks.

4.3. Litigation

Depositors of Invest Bank Montenegro a.d. Podgorica filed 4 lawsuits with the Administrative Court against the Decision on exclusion from the right to guaranteed deposit payout in the total amount of 150,178 euros, of which three lawsuits were rejected in the total amount of 100,178 euros, and one procedure in the amount of 50,000 euros is pending.

⁷ Some 107 depositors were blocked at the bankrupt Atlas banka, with a total amount of 65,890,077.99 euros worth of deposits, of which 2.58 million euros are calculated guaranteed deposits of these depositors.

Depositors of Atlas Banka Montenegro a.d. Podgorica filed 20 lawsuits with the Administrative Court against the Decision on exclusion from the right to guaranteed deposit payout in the total amount of 278,367.43 euros, of which one lawsuit was rejected in the total amount of 3,601.77 euros, two were adopted in the total amount of 14,975.03 euros, and 17 procedures in the amount of 259,790.63 euros are pending.

A lawsuit has been filed by the Fund before the Commercial Court of Montenegro against one of the payout banks for the compensation of damage in the amount of 100,000 euros incurred by the Fund during the payout of guaranteed deposits.

4.4. Investment activities and accounting in 2020

Given the obligation for guaranteed deposit payout, the Fund has significantly limited its investment activities. In accordance with the Investment Policy allowing the Fund to invest up to 40% of its available fund in securities issued by Montenegro, the Fund invested in Montenegro's securities both in the domestic and international markets.

a) Investment in Government bonds

In November 2016, the Fund invested 2.2 million euros in long-term debt securities – **Government bonds** of GB1-2016 series issued by Montenegro, at the flat interest rate of 4.0% per annum and the agreed maturity of five years. The final interest payment coupon in the amount of 88,000 euros was received in November 2020, together with the overall investment principal.

Considering the inflow of funds from the bankruptcy estate and collection of regular premiums, as well as the realized income from investments, at the end of November 2020 the Fund invested a part of the funds in government Eurobonds MNE-2025 which are traded on the international financial market in the nominal amount of 4,240,000 euros, which was realized through three transactions with a total income per annual coupon of 3.3750% until the maturity date and in the total amount of 715,500 euros for the period of 5 years (143,100 euros annual interest).

b) Investment in Treasury bills

In accordance with the Law and the Fund's Investment Policy, the Fund independently invests a part of the available 40% 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.

Accrued income on this basis for 2020 amounts to **196,528.92 €** and was realized through 5 out of 8 auctions, unlike the previous year, when it participated in only one T-bills auction due to limited activity and the situation dictated by the obligation guaranteed deposits payout.

4.5. Normative and legal activities

The Managing Board of the Fund held eleven meetings in 2020 and adopted the following normative acts:

- By-law of the Deposit Protection Fund;
- Rules of Procedure of the Managing Board of the Deposit Protection Fund;
- Code of Ethics of the Deposit Protection Fund;
- Decision amending the Investment Policy of the Deposit Protection Fund;
- Decision on Guidelines for Selecting the Payout Bank;
- Decision on detailed conditions, manner and procedure of the guaranteed deposit payout
- Rules on data and information to be submitted by a credit institution to the Deposit Protection Fund;
- Rulebook on informing depositors and potential depositors about the deposit protection system;
- Decision on the manner of verifying the fulfilment of requirements for determining deposits representing a temporary high balance;
- Methodology for risk-based premium calculation for individual credit institutions;
- Decision on the adoption of the Annual financial statements of the Deposit Protection Fund for 2019;
- Decision amending the Decision on the adoption of the Financial plan of the Deposit Protection Fund for 2020;
- Decision on the annual premium for 2021 (targeted premium level);
- Instructions for action in case of lack of funds for the payment of guaranteed deposits;
- Financial plan of the Deposit Protection Fund for 2021;
- Work program of the Deposit Protection Fund for 2021;

During the reporting year, the MB adopted the Annual Report of the Deposit Protection Fund for 2019 that was submitted to the Parliament and the Government of Montenegro for consideration. The MB also considered the External audit Report for 2019 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 MB 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.

The Government considered the Fund's 2019 Annual Report but the Parliament did not consider the same report.

4.6. Human resources and education of employees

Systematization of jobs and tasks and duties in the Fund is specified in the Job Classification Rulebook of the Fund. Tasks and duties are divided into: legal and administrative tasks, planning and analysis, risk assessment of credit institutions, IT, 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 failed banks.

In accordance with the changed circumstances related to the coronavirus pandemic, the organisation of seminars, workshops and education by the IADI and the EFDI was made possible through the organisation of virtual events.

In accordance with Articles 28 and 60 of the Deposit Protection Law, the MB announced a competition for the appointment of the Director General of the Fund.

After the procedure, at its 3rd meeting held on 3 April 2020, the MB made a decision to reappoint the current Director General of the Fund, Mr Predrag Marković.

As at 31/12/2020 the Fund had seven employees.

4.7. International cooperation

Although the pandemic prevented direct contacts through seminars, roundtables and conferences, the means of communication enabled the Fund's representatives to actively participate in the work of international associations that bring together deposit insurers.

The Fund is a full-fledged member of the European Forum of Deposit Insurers (EFDI), which is an association of European deposit insurance funds on voluntary basis.

Representatives of the Fund continue to actively participate in surveys used as the main guidelines for the harmonisation of deposit insurance systems 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, exchange and education of employees, and the like.

Also, as a full-fledged member of the International Association of Deposit Insurers (IADI), the Fund took part in virtual conferences and seminars.

4.8. Objectives and tasks of the Fund in 2021

The main objectives of the Fund are defined under the Strategic Plan. The Fund's tasks in 2020 were largely determined by the entry into force of the new Law, and the application of the Methodology and testing of resilience of the deposit protection system to stress.

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

Activities on the realization of the payout of the remaining guaranteed deposits to the depositors of Atlas banka a.d. in bankruptcy and Invest Bank Montenegro a.d. in bankruptcy is certainly one of the goals of the Fund for 2021.

Improving and upgrading the existing software for the guaranteed deposit payout in accordance with previous experience is one of the important tasks in order to ensure a smooth and secure flow of compensation of guaranteed deposits, as has been the case so far.

The law specified that the Fund is obliged to carry out **stress testing of the Deposit Protection System and the ability of credit institutions to submit data on depositors, deposits and their obligations and the ability to, if necessary, take on the role of payout bank**, i.e. to payout guaranteed deposits. The testing is mandatory for all credit institutions and it is carried out in every individual institution once every three years. In this regard, the Stress Testing Plan and Test Instructions are being prepared, provided that the three credit institutions which are now paying out guaranteed deposits and which have proven their readiness to pay out guaranteed deposits will be tested in the next phase of implementing the testing plan.

For the purposes of testing the system's resilience to stress, the Fund procured and installed a backup server and software. In cooperation with the CBCG, an additional server room was provided to house new equipment necessary for the stress testing (server, firewall, UPS APS, switch and other supporting equipment), software for uploading and processing data, payment application, counter upgrade software, and Oracle licenses, so this process will take place separately from the ongoing payout of guaranteed deposits.

During the stress testing of the system, taking into account the situation that has become complicated with the outbreak of the Covid-19 pandemic, the possibilities of organising counselling of counter clerks and branch managers in credit institutions as part of this activity will be considered. The Fund will organise a workshop where the clerks and managers would get acquainted with the deposit insurance system in Montenegro, the emergence of a protected case event, and the actions of payout banks in that situation.

There will be a particular focus on the training of IT specialists in the selected payout bank which is at the same time the "credit institution in which the protected event has occurred" for the use of software for the payout of guaranteed deposits.

The development of a new Investment Policy of the Deposit Protection Fund is one of the priority tasks of the Fund. The realisation of this project began at the end of 2020 with the EBRD donating funds for consulting services on the development of a new Investment Policy, Investment Strategy, and finding a respectable asset manager and thus provide a wider range of new opportunities for investment.

The selection of consultants and the start of the project, in accordance with the EBRD procedures, will be carried out in the first half of 2021, and a new Investment Policy will be developed by the end of that year, which will allow the Fund to invest its funds through the selected asset manager, while observing the basic principles of:

- 1. safety,**
- 2. liquidity,**
- 3. transparency, and**
- 4. return on assets.**

The current Investment Policy stipulates that the Fund may invest up to 40% of available funds in securities issued by the State of Montenegro.

Bearing in mind that the new Law has entered into force, one of the tasks of the Fund will be to present to the public innovations in the deposit protection system, with special emphasis on new legal solutions and implementation of marketing and information education campaign during 2021, which is in line with the communication strategy.

One of the tasks is to conduct a pre-qualification procedure for the selection of the payout bank(s), where the Fund makes a shortlist of credit institutions every year that meet strict prudential requirements set by the Fund and which could take on the role of payout bank in the case of a protected event with one of the credit institutions.

Timely calculation and collection of the premium is an ongoing task of the Fund, the fulfilment of which ensures the income of the Fund.

4.9. Events after the reporting period

After the reporting period, there were no events that would require adjustments or disclosures in the Fund's financial statements for the period from 1 January to 31 December 2020.

First instalment of the regular premium for Q1 2021

The MB of the Fund set the annual target amount of the premium for 2021 at 16 million euros and the first (advance) instalment of the regular premium for 2021 was calculated accordingly on the basis of the Methodology.

Based on the aforesaid Methodology, credit institutions are classified into risk classes (the basis for classification into risk classes is the data as at 31 December 2019) as follows:

Table 7.3 Overview of calculation of regular rate advance payment

1	2	3	4	5	6	7	8	9
				=2x4		=6x5		=7x8
Risk class	BASE	No. of credit institutions	% of the rate	Flat rate	Cumulative risk ratio	Unadjusted premium	Adjustment coefficient	Premium amount
1	11,417,509	1	0.30%	34,253	75%	25,689	87.14%	22,387
2	317,413,038	1	0.30%	952,239	90%	857,015	87.14%	746,837
3	424,679,130	6	0.30%	1,274,037	100%	1,274,037	87.14%	1,110,246
4	346,299,333	3	0.30%	1,038,898	110%	1,142,788	87.14%	995,870
5	358,493,655	2	0.30%	1,075,481	120%	1,290,577	87.14%	1,124,660
6					130%			
7	-				150%	-		-
Σ	1,458,302,666	13		4,374,908		4,590,107	87.14%	4,000,000

Six credit institutions with a total guaranteed deposit of 424.7 million euros are classified in class 3, i.e. being of average risk.

The correction of risk classes for 2020 will be performed after the revised financial data on the operations of credit institutions are available (beginning of July 2021).

At the event organised by the Association of Montenegrin Banks on 16 February 2021, the Fund presented the Methodology to credit institutions to acquaint them with the new methods of calculating and charging the risk-based premium.

Litigation

By 31 March 2021, 9 court disputes were resolved, of which 251,648.59 euros in favour of the Fund.

**FINANCIAL OPERATIONS
OF THE FUND IN 2020**

5

5. FINANCIAL OPERATIONS OF THE FUND IN 2020

5.1. STATEMENT OF FINANCIAL PERFORMANCE (INCOME STATEMENT) OF THE FUND AS AT 31/12/2020⁸

5.1.1. TOTAL INCOME

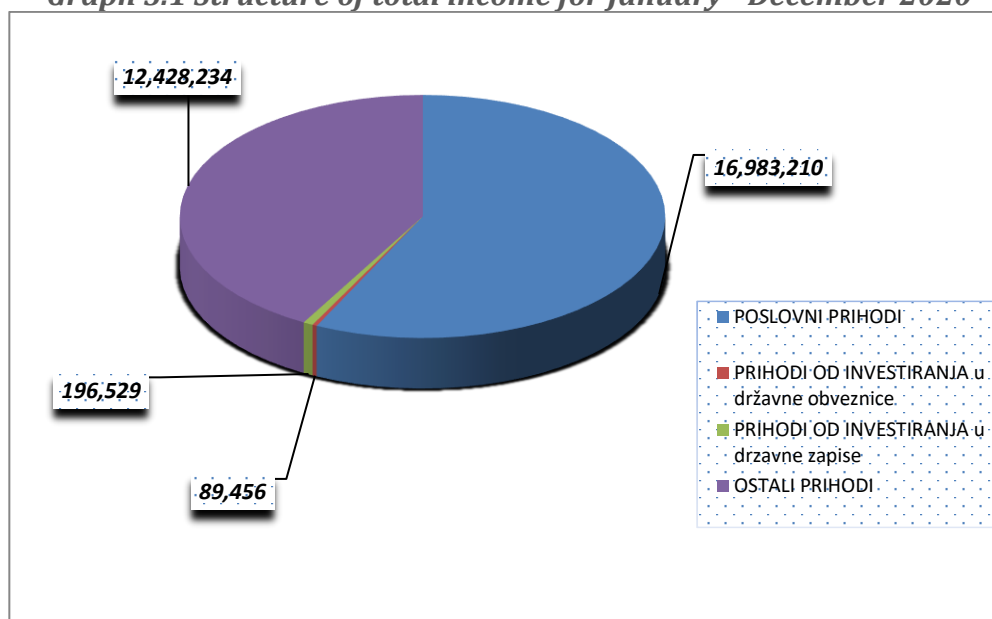
Total Fund's income in 2020 amounted to **29,697,429 euros** and they were 5.34% higher than planned but also 49% lower than in the previous year when they reached 58,265,629 euros.

The income consisted of:

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

5.1.1.1. Operating income amounted to 16,832,009 euros in 2020 and they were 0.29% higher than planned for the reporting year, as well as 0.89% higher than in the previous year when they totalled 16,832,009 euros.

Graph 5.1 Structure of total income for January - December 2020



⁸ Overview of income and expenditure in 2019 and 2020 and the plan of income and expenditure for 2020 and 2021 are given in the Annex.

5.1.1.1.1. 5.1.1.2. The most significant operating income item was revenues from premium collection which amounted to 16,933,210 euros and they accounted for 57% of total income and they were collected in full (100%). The realized premium was 0.60% higher than in the previous year, and the remaining amount of 50,000 euros was extraordinary income.

5.1.1.2. Financial income amounted to **285,985 euros** and it was 114.04% lower than in the previous year and it comprised of:

- *Investment income, and*
- *Other financial income.*

5.1.1.2.1. Revenues from the Fund's investments covered:

- **Investments in Montenegro's T-bills** which totalled **196,529 euros** and they were 13.6% higher than planned and 330.9% above investment in the previous year, accounting to 1.54% of financial income and 68.7% of investment income.
- **Income from interest on government bonds that reached 89,456€ euros.** This covers the payout of the last coupon on 16 November 2020 in the amount of 88,000 euros (purchase of government securities in November 2016 in the amount of 2.2 million euros and at the flat annual interest rate of 4.0% with the agreed maturity of five years) and investment income from the 4.24 million euro investment in MNE-2025 government Eurobonds traded on the international financial market and realized in three transactions with the total income per annual coupon of 3.3750% until the maturity date and in the total amount of 715,500 euros for the period of 5 years (143,100 euros annual interest).

5.1.1.2.2. Other income totalled **12,428,234 euros** and they accounted for 41.85% of total income and it covered the refund from bankruptcy estate of Invest Bank a.d Podgorica in bankruptcy (1,400,000 euros) and Atlas Banka a.d Podgorica in bankruptcy (11,000,000 euros) for which the Fund paid out guaranteed deposits and it was 69.9% lower than in 2019 when it reached 41,300,013 euros, but it was 12.72% higher than planned.

Revenues of 28,234 euros came from fines that the Central Bank charges to credit institutions and these revenues are forwarded to the Fund's account.

5.1.2. TOTAL EXPENDITURE

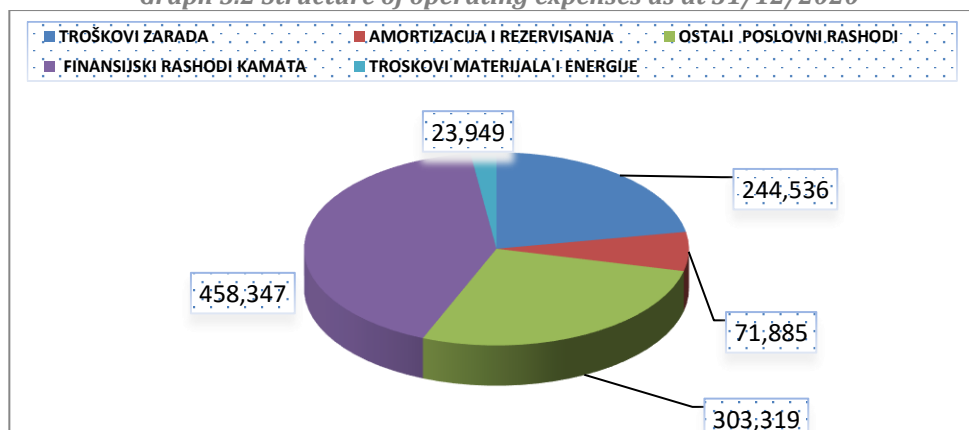
Total expenditure reached **1,102,037 euros** in 2020 (856,886 euros in the previous year).

It is classified in three groups:

- financial expenses
- operating expenses, and

- short-term provisioning expenses.

Graph 5.2 Structure of operating expenses as at 31/12/2020



*Source: Fund's bookkeeping

5.1.2.1. Financial expenses amounted to **458,347 euros** and they accounted for 41.59% of total expenditure, covering

- cost of guarantees to the Ministry of Finance - **250,000 euros**
- cost of EBRD loan - **50,000 euros**
- interest expense (EBRD loan) – **158,347 euros**.

5.1.2.2. Expenses for short-term provisioning in the amount of 71,885 euros cover subsequently determined liabilities for the payout of guaranteed deposits of the bankrupt Atlas bank of 64,975 euros and 6,910 euros for depreciation of fixed assets.⁹

5.1.2.3. Operating expenses amounted to **643,690 euros** and they included:

- **cost of material and energy** in the amount of 23,949 euros (cost of lease and maintenance of business premises, cost of office supplies, cost of fuel) and they were 45.45% lower than in 2019 and 36.07% higher than planned for 2020;
- **expenses for salaries and other fringe benefits** in the amount of 244,537 euros (gross salaries of employees of 158,180 euros, remuneration of MB members in the amount of 67,228 euros and contributions charged to employer of 15,466 euros) and they were 1.2% lower than in 2019 when they reached 247,580 euros;
- **other cost of salaries and fringe benefits** of 3,663 euros, and
- **other operating expenses** that totalled **303,319 euros** and they covered:

⁹ Software licences and copyrights (Microsoft) of 6.000 euros, as planned for 2020

- cost of advertising and propaganda that had been initially planned in the amount of 40,000 euros, and the amount spent was **6,000 euros** or 15% of the planned amount;
- costs of professional services covered the external audit of financial statements, and education and training of employees of **12,868 euros** and they were 24.31% and 39.06% lower than in the previous year and planned for the reporting year, respectively;
- cost of membership in international associations totalled **21,229 euros** and it was 7.11% higher than in 2019 and 6.14% higher than planned in the reporting year;
- telephone and postal charges in the amount of **8,455 euros** and they were 2.9% higher than in the previous year and 6.05% lower than planned;
- cost of representation amounted to **1,720 euros** and it was 67.26% lower than in the previous year and 65.60% lower than planned;
- cost of payment services in the amount of **5,482 euros**;
- cost of complaints on guaranteed deposit payout of **50,000 euros** and they refer to the obligation of the Fund to reimburse funds to a damaged depositor due to their deposit being wrongfully paid out to another depositor as a result of an abuse,
- cost of fees for the purchase of T-bills in the amount of **59,600 euros** and they were 231% higher than in the previous year and they reached 99.3% of the planned amount for the reporting year;
- other expenses in the amount of **137,965 euros** that cover cost of litigation per lawsuits for the payout of guaranteed deposit (100,000 euros), cost of court proceedings (200 euros), cost of humanitarian and other assistance (26,850 euros), cost of publication of bylaws (2,200 euros), cost of printing and distribution of flyers and printing of the Annual report (7,793 euros), and surtax costs (922 euros).

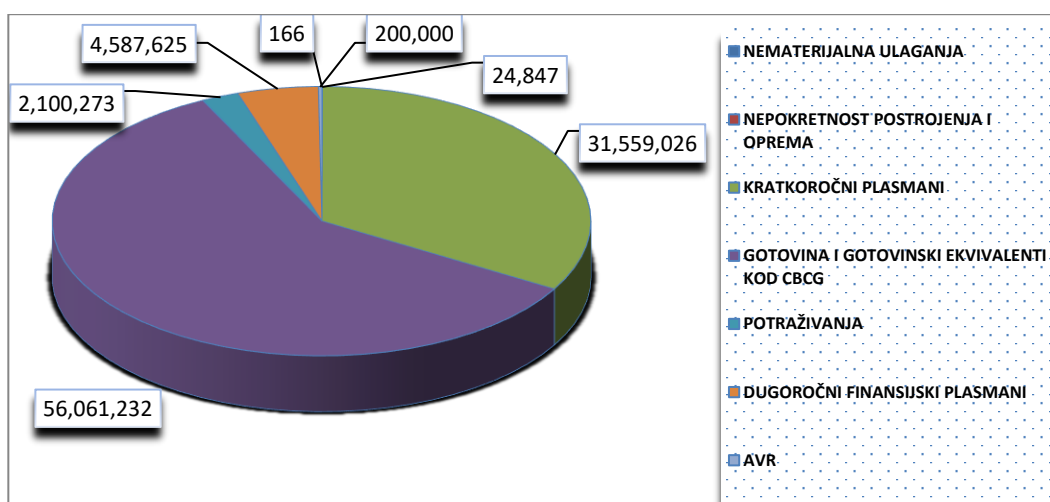
* * *

The 2020 net result is a **profit** in the amount of **28,595,392 euros**.

5.2. STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

Total assets and liabilities of the Fund amounted to **94,533,169 euros** as at 31 December 2020. They increased year-on-year by **27,098,542 euros** or 40.18%.

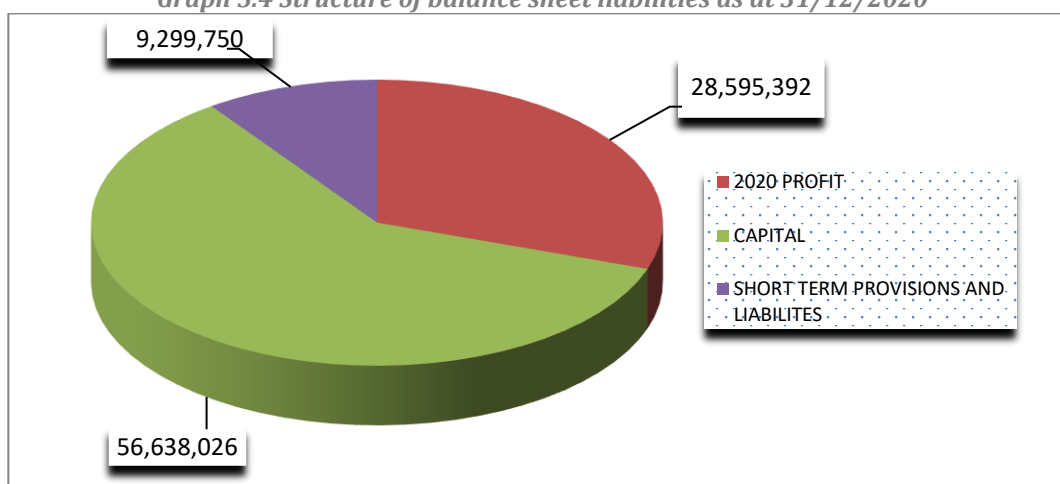
Graph 5.3 Structure of balance sheet assets as at 31/12/2020



*Source: Fund's bookkeeping

In the structure of total assets, equipment accounted for 0.02% (24,847 euros), receivables made up 2.22% (2,100,273 euros), short-term financial investments accounted for 4.85% or 31,559,026 euros (government bonds – 4,396,563 euros and employee contributions – 191,062 euros), and 59.3% (56,061,232 euros) were funds in the Fund's giro account and in the Fund's petty cash, while prepayments and accruals accounted for 0.21% (200,000 euros).

Graph 5.4 Structure of balance sheet liabilities as at 31/12/2020



*Source: Fund's bookkeeping

In the structure of total liabilities, short-term provisions and short-term liabilities made up 10.98% (9,299,750 euros) and capital accounted for 85,233,418

¹⁰ This amount represents provisioning for claims based on the payment of guaranteed deposits, liabilities for the payment of guaranteed deposits of IBM Bank in bankruptcy and Atlas Bank in bankruptcy, trade payables, and other short-term liabilities.

euros (90.16%), of which 56,638,026 euros was initial capital and 28,595,392 euros was profit.

5.3. STATEMENT OF CHANGES IN CAPITAL

The capital balance as at 31/12/2020 was a **gain** of 28.595.392 euros.

Annex: Income and expenditure in 2019 and 2020 and the plan for 2020 and 2021

		Executed in		Executed in		
	DESCRIPTION	2019	2020 PLAN	2020	5/4%	2021 PLAN
1	2	3	4	5	6	7
A.	TOTAL INCOME	58,265,629	28,194,210	29,697,429	105.33	27,301,000
A.1.	OPERATING INCOME	16,832,009	16,933,210	16,983,210	100.30	16,000,000
A.1.1.	Premium	16,832,009	16,933,210	16,933,210	100.00	16,000,000
A.1.2.	Other (extraordinary income)			50,000		
A.2.	FINANCIAL INCOME	133,607	261,000	285,985	109.57	301,000
A.2.1.	Interest on T-bills	45,607	173,000	196,529	113.60	150,000
A.2.2.	Interest on government bonds	88,000	88,000	89,456	101.65	151,000
A.3.	OTHER OPERATING INCOME	41,300,013	11,000,000	12,428,234		11,000,000
A.3.1.	Fines and penalties			28,234		
A.3.2.	Recovered from bankruptcy estate	41,300,013	11,000,000	12,400,000	112.73	11,000,000
B.	TOTAL EXPENDITURE	856,886	1,316,578	1,102,037	83.70	801,765
B.1.	OPERATING EXPENSES	657,276	661,578	643,690	97.30	646,765
B.1.1.	COST OF MATERIAL AND ENERGY	16,465	17,600	23,949	136.07	18,500
B.1.1.1.	Cost of office supply	1,218	800	797	99.63	500
B.1.1.2.	Cost of lease, fuel, water, energy, maintenance	15,247	16,800	23,152	137.81	18,000
B.1.2.	SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES	247,580	250,159	244,537	97.75	262,765
B.1.2.1.	Gross wages and salaries	166,957	162,000	158,180	97.64	169,000
B.1.2.1.1.	Net wages and salaries	109,488	108,620	105,979	97.57	113,230
B.1.2.1.2.	Taxes	18,106	14,580	14,237	97.65	15,210
B.1.2.1.3.	Contributions	39,363	38,800	37,964	97.85	40,560
B.1.2.2.	EMPLOYER CONTRIBUTIONS	19,107	15,380	15,466	100.56	14,365
B.1.2.3.	REMUNERATION TO MB MEMBERS	40,560	67,400	67,228	99.74	67,400
B.1.2.3.1.	Net remuneration to MB members	28,268	47,500	47,392	99.77	47,500
B.1.2.3.2.	Taxes	3,984	6,100	6,054	99.25	6,100
B.1.2.3.3.	Contributions	8,308	13,800	13,782	99.87	13,800
B.1.2.4.	OTHER PERSONAL EXPENSES	20,956	5,379	3,663	68.10	12,000
B.1.2.4.1.	Other personal expenses	5,690	3,000	1,253	41.77	3,000
B.1.2.4.2.	Service contracts	2,775	1,595	1,626	101.94	1,500
B.1.2.4.3.	Daily allowances	4,747				2,500
B.1.2.4.4.	Business travel transport	2,930	386	386	100.00	2,500
B.1.2.4.5.	Business travel accommodation	4,814	398	398	100.00	2,500
B.1.3.	DEPRECIATION AND PROVISIONS	224,220	120,000	71,885	59.90	120,000
B.1.3.1.	Depreciation charges	7,699	17,000	6,910	40.65	17,000
B.1.3.2.	Short-term provisions	216,521	103,000	64,975	63.08	103,000

B.1.4.	OTHER OPERATING EXPENSES	169,011	273,819	303,319	110.77	245,500
B.1.4.1.	Cost of advertising and promotion	3,779	40,000	6,000	15.00	40,000
B.1.4.2.	Cost of professional services	17,002	21,119	12,868	60.93	31,500
B.1.4.2.	Audit					
1.		11,979	12,000	10,769	89.74	12,000
B.1.4.2.	Education and training					
2.		5,023	2,000	980	49.00	3,000
A.1.4.2.	Solicitor fees					
3.			1,119	1,119	100.00	1,500
B.1.4.2.	Cost of licenses and copyrights					
4.			6,000		-	15,000
B.1.4.3.	Membership fees to international associations	19,818	20,000	21,229	106.15	20,000
B.1.4.4.	Cost of postal services	8,212	9,000	8,455	93.94	9,000
B.1.4.5.	Cost of representation	5,255	5,000	1,720	34.04.	5,000
B.1.4.6.	Cost of payment services	30,480	5,000	5,482	109.64	5,000
B.1.4.7.	Cost of complaints for GD payout	50,000	100,000	50,000	50.00	50,000
B.1.4.8.	T-bill auction fees	18,000	60,000	59,600	99.33	70,000
B.1.4.9.	Other expenses		13,700	137,965	1.007.04	15,000
B.1.4.9.	Other expenses					
1.			13,700		-	15,000
C.	FINANCIAL EXPENSES	199,610	655,000	458,347	69.98	155,000
C.1.	EBRD contracted interest	152,159	155,000	158,347	102.16	155,000
C.2.	Cost of MF guarantees (0.50%)	47,451	250,000	250,000	100.00	
C.3.	Cost of EBRD loan (0.50%)		250,000	50,000		
D	TOTAL RESULT	57,408,743	26,877,632	28,595,392	106.39	26,499,235

**DEPOSIT PROTECTION FUND,
PODGORICA**

Financial statements for 2020

DEPOSIT PROTECTION FUND, PODGORICA

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INDEPENDENT AUDITOR'S REPORT TO THE MANAGEMENT BOARD OF THE DEPOSIT PROTECTION FUND, PODGORICA

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 2020, 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 2020 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.

Other information contained in the annual report of Fund's management

Other information relates to the information contained in the annual management report, but does not include the financial statements and the auditor's report on them. The Fund's management is responsible for the preparation of other information in accordance with the regulations of Montenegro.

Our opinion on the financial statements does not include other information. In relation to the audit of financial statements, it is our responsibility to read other information and thereby consider whether other information are consistent in all material respects with the financial statements, with our knowledge gained during the audit or otherwise appears materially inaccurate. In addition, we assessed whether other information were prepared, in all material respects, in accordance with the Law on Accounting of Montenegro, especially whether other information are formally in accordance with the requirements and procedures for the preparation of other information of the Law on Accounting. Montenegro in the context of materiality, ie whether any non-compliance with these requirements could affect the judgments made on the basis of this other information.

Based on the conducted procedures, to the extent that we are able to evaluate them, we report that:

1. other information describing the facts also presented in the financial statements are, in all material respects, consistent with the financial statements
2. other information have been prepared in accordance with the requirements of the Law on Accounting of Montenegro.

In addition, it is our responsibility to report, based on the Fund's knowledge and understanding gained in the audit, whether other information contain material misstatements.

Other information contained in the annual report of Fund's management (continued)

Based on the procedures we performed in connection with the other information obtained, we did not identify any material misstatements.

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.

Auditor's responsibilities for the audit of the financial statements (continued)

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.

Danijela Mirković
Partner

Ernst & Young Montenegro d.o.o.
Podgorica, Montenegro
22 April 2021

DEPOSIT PROTECTION FUND, PODGORICA

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020

In EUR

Position	Note	2020	2019
I OPERATING INCOME			
Sales revenue	4	29,411,444	58,132,022
Other operating income	5	16,933,210 12,478,234	16,832,009 41,300,013
II OPERATING EXPENSES		(643,690)	(657,275)
Operating expenses		(349,335)	(359,273)
Cost of goods sold and the cost of materials	6	(6,771)	(7,954)
Other operating expenses (depreciation, provisions and other operating expenses)	7	(342,564)	(351,319)
Salary expenses, compensations and other personal expenses		(244,355)	(247,958)
Net salary costs, compensation and personal expenses	8	(155,682)	(158,324)
Tax and contribution costs		(88,673)	(89,634)
Tax costs		(20,514)	(22,584)
Pension contribution costs		(46,208)	(42,434)
Contribution costs		(21,951)	(24,616)
Other operating expenses	9	(50,000)	(50,044)
A. OPERATING RESULT (I-II)		28,767,754	57,474,747
Income from other financial investments and loans	10	285,985	133,607
Interest expenses, foreign exchange differences and other contractual protection effects	11	(458,347)	(199,609)
B. FINANCIAL RESULT		(172,362)	(66,002)
C. RESULT BEFORE TAXATION		28,595,392	57,408,745
D. PROFIT OR LOST AFTER TAX		-	-
Profit or loss after tax		-	-
Deferred tax expenses or income for the period		-	-
I. NET RESULT		28,595,392	57,408,745

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

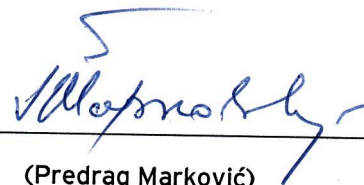
The accompanying financial statements were adopted for issuance on February 28th, 2021 and signed on behalf of the Fund's management by:

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, 2020

In EUR

Position	Note	2020	2019
ASSETS			
A. FIXED ASSETS (I+II+III)		4,612,638	2,415,415
I INTANGIBLE ASSETS	12	166	166
II PROPERTY, PLANTS, EQUIPMENT AND BIOLOGICAL ASSETS	13	24,847	11,364
III LONG TERM FINANCIAL INVESTMENTS AND LONG-TERM RECEIVABLES	14	4,587,625	2,403,885
Long term financial investments (loans and securities given)		4,396,563	2,200,000
Other long-term investments and receivables		191,062	203,885
B. CURRENT ASSETS (IV+V+VI)		89,720,531	65,019,212
IV SHORT-TERM RECEIVABLES	15	2,100,273	2,785,921
V SHORT-TERM FINANCIAL INVESTMENTS	16	31,559,026	17,950,593
VI CASH ON ACCOUNTS AND IN A HAND	17	56,061,232	44,282,698
C. ACCRUALS	18	200,000	-
TOTAL ASSETS		94,533,169	67,434,627
LIABILITIES			
D. CAPITAL	19	85,233,418	56,638,024
I BASIC CAPITAL		56,638,026	(770,719)
II RETAINED EARNINGS OR LOSS		28,595,392	57,408,743
E. LONG-TERM PROVISIONS AND LONG-TERM LIABILITIES		-	-
F. SHORT-TERM PROVISIONS AND SHORT-TERM LIABILITIES		9,299,751	10,796,603
I SHORT-TERM PROVISIONS	20	100,000	-
II. SHORT-TERM LIABILITIES (1 do 3)	21	9,199,751	10,796,603
Liabilities arising from loans and borrowings from other borrowers than credit institutions		9,130,540	10,733,667
Liabilities to suppliers		1,739	1,999
Other operating liabilities and other short-term liabilities		67,472	60,937
TOTAL LIABILITIES		94,533,169	67,434,627

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

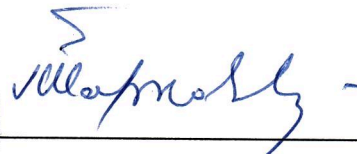
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Director



(Slavica Žarić)

(Predrag Marković)

DEPOSIT PROTECTION FUND, PODGORICA

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED DECEMBER 31, 2020

In EUR	Share capital	Retained earnings	Losses	Total
Balance as of January 1, 2019	95,460,041	-	(96,230,760)	(770,719)
Transfer	(96,230,760)	-	96,230,760	-
Net changes u 2019	-	57,408,743	-	57,408,743
Balance as of December 31, 2019	(770.719)	57,408,743	-	56,638,024
Transfer	57,408,743	(57,408,743)	-	-
Net changes in 2020	-	28,595,392	-	28,595,392
Balance as of December 31, 2020	56,638,024	28,595,392	-	85,233,416

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

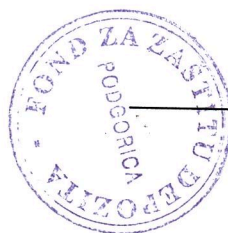
The accompanying financial statements were adopted for issuance on February 28th, 2021 and signed on behalf of the Fund's management by:

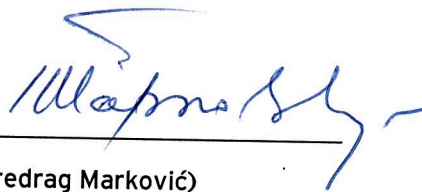
Person responsible for the preparation
of the financial statements

Director



(Slavica Žarić)





(Predrag Marković)

DEPOSIT PROTECTION FUND, PODGORICA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2020

In EUR	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
I. Cash inflow from operating activities	29,411,444	58,132,022
Sales and received advances	16,933,210	16,832,009
Received interest from operating activities	-	-
Other receipts from operating activities	12,478,234	41,300,013
II. Cash outflows from operating activities	(2,083,727)	(105,257,110)
Outflows of guaranteed deposits advances paid	(850,000)	(104,600,000)
Outflows from payments to suppliers and advances paid	(336,872)	(184,643)
Salaries, compensations and other personal expenses	(244,355)	(247,959)
Interest paid	(652,500)	(224,508)
Public revenues paid	-	-
III Net inflows from operating activities	27,327,717	(47,125,088)
CASH FLOW FROM INVESTMENT ACTIVITIES		
I. Cash inflows from investment activities	2,280,764	88,000
Interest received from investment activities	67,941	88,000
Other financial placements (net inflows)	2,212,823	-
II. Cash outflows from investment activities	(17,829,947)	(17,945,466)
Outflow of purchase of property, plant, and equipment	(20,393)	(7,697)
Other financial investments (net outflows)	(17,809,554)	(17,937,769)
III. Net cash flow from investment activities	(15,549,183)	(17,857,466)
CASH FLOW FROM FINANCING ACTIVITIES		
I. Cash inflows from financing activities	-	-
II. Cash outflows from financing activities	-	-
III. Net cash flow from financing activities	-	-
NET CASH FLOW	11,778,534	(64,982,554)
Cash at the beginning of the accounting period	44,282,698	109,265,252
Cash at the end of the accounting period	<u>56,061,232</u>	<u>44,282,698</u>

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

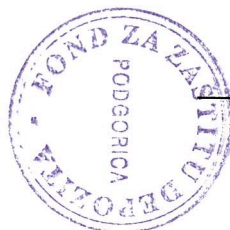
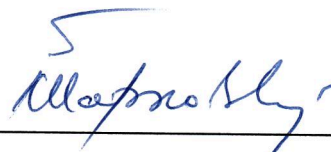
The accompanying financial statements were adopted for issuance on February 28th, 2021 and signed on behalf of the Fund's management by:

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, 2020

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.

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 Law on Deposit Protection (Official Gazette of Montenegro No. 72/19) stipulates that, from the date of Montenegro's accession to the European Union, the guaranteed deposit will be amount EUR 100,000, the payment deadline has been reduced to 7 working days, a temporary "high balance" and the obligation to implement "testing the System for Protection of stress Deposits" has been introduced. The premium will be charged based on the risk of individual credit institution.

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

On the day of December 31, 2020, the Fund has seven employees (seven employees on December 31, 2019).

Members of the Fund's Management Board

Members of the Fund's Board are appointed by the President of Montenegro, with one member appointed at the proposal of the state administration authority in charge of finance affairs, one at the proposal of the Central bank, one at the proposal of Association of Banks of Montenegro, one at the proposal of the Chamber of Commerce of Montenegro and one at the proposal of the President of Montenegro.

Members of Fund's Board of Directors in 2020 are:

- Vesko Lekić, President of the Board of Directors;
- Vujačić Dejan, Director of the Sector for Control of Banks - Member of the Board of Directors;
- Mr. Branislava Božović, Head of department within the Ministry of Finance - head of the directorate for issuing approvals for the production, processing and sale of tobacco product in the Ministry of Finance, Member of the Board of Directors;
- Mr. Đoković Nebojša, Advisor for Economic Affairs at UBCG, Member of the Board of Directors;
- Vlastimir Golubović, President of the Chamber of Commerce of Montenegro, board member.

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 companies and other legal entities ("Official Gazette of Montenegro", No. 5/2011, "Official Gazette of Montenegro", No. 52/2016, "Official Gazette of Montenegro", No. 011/20). Prior year financial statements were presented in the format prescribed by the then applicable Rulebook on the content and form of financial statements forms for companies and other legal entities ("Official Gazette of Montenegro", No. 05/2011). The differences in presentation arising from the change in the prescribed financial statements forms for companies are presented in note 2.5 Comparative Information.

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. During 2020, translation of IFRS 9 standards - Financial Instruments, IFRS - 16 Leasing and IFRS - 15 Revenue from contracts with customers have been officially published. First application for IFRS 16 - Leasing is planned for annual periods beginning on 1 January 2021, while application of IFRS 9 - Financial Instruments and IFRS 15 - Revenue from contracts with customers are delayed. 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 respect 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 where 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 Euros (EUR), 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 2020 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. Given the declared pandemic caused by COVID-19 virus, the Fund has taken all prevention measures prescribed by World Health Organization and the Institute for Public Health of Montenegro. The Fund does not expect significant effects from the impact of COVID-19 virus on the going concern of business.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

**2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS
(continued)**

2.5. Comparative information

The fund presented financial statements as of and for the year ended 31 December 2019 in accordance with the Rulebook on the content and form of financial statements form for business organizations and othe legal entities ("Official Gazette of Montenegro", No. 05/2011). Starting from March 6, 2020 the amended Rulebook on the content and form of financial statements for companies and other legal entities ("Official Gazette of Montenegro", No. 011/20) has been applied. Comparative data in the financial statements as of and for the year ended 31 December 2020 are presented in accordance with the updated forms prescribed by the new Rulebook, the differences in presentation that arose on that basis are presented in the tables below:

	2019	Reclassification	Adjusted 2019
OPERATING INCOME			
Other operating income*(I)	-	41,300,013	41,300,013
Other income**(I)	41,300,013	(41,300,013)	-
Other operating income	41,300,013	-	41,300,013
OPERATING EXPENSES			
Cost of goods sold and the cost of materials*(II)		7,954	7,954
Cost of goods sold**(II)	-	-	-
Cost of materials**(II)	7,954	(7,954)	-
Cost of goods sold and the cost of materials	7,954		7,954
Other operating expenses (depreciation, provisions and other operating expenses) *(III)	-	351,319	351,319
Other operating expenses*(III)	-	50,044	50,044
Depreciation and provisions costs**(III)	224,220	(224,220)	-
Other operating expenses**(III)	177,143	(177,143)	-
Other operating expenses (depreciation, provisions and other operating expenses)	401,363	-	401,363
Net salary expense, compensation and personal expenses *(IV)	-	158,324	158,324
Tax costs*(IV)	-	22,585	22,584
Pension contribution costs*(IV)	-	42,434	42,434
Contribution costs*(IV)	-	24,616	24,616
Salary expense, compensation and personal expenses ***(IV)	247,959	(247,959)	-
Salarie expense, wage compensation and personal expenses	247,959	-	247,959
Income from other financial investments and loans from unrelated legal entities* (V)	-	133,607	133,607
Financial income** (V)	133,607	(133,607)	-
Income form other financial investments and loans (interest rates, foreign exchange differences and effects of contractual hedging)	133,607	-	133,607
Interest expenses, foreign exchange differences and other effects of contractual protection on relationship with unrelated parties*(VI)	-	199,610	199,610
Financial expenses**(VI)	199,610	(199,610)	-
Interest expenses, foreign exchange differences and other contractual protection effects	199,610	-	199,610
Net result	57,408,745	-	57,408,745

*This is an English translation of the financial statements originally issued in Montenegrin language
(For management purposes only)*

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

3. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Comparative information (continued)

* Lines in the Statement of comprehensive income in accordance with the Rulebook on the Chart of Accounts and the contents of the accounts in the account framework for legal entities registered for performing business activities and other legal entities and the Rulebook on the content and form for business organizations and other legal entities ("Official Gazette" 11/20 from 6th March, 2020), which will apply to the 2020 financial reporting and the following years.

** Lines in the Statement of comprehensive income in accordance with the Rulebook of the content and form of financial statements for business entities and other legal entities ("Official Gazette" 5/11 from 1st January, 2011),

(I) The line Other income in the amount of EUR 41,300,013 is reclassified to Other operating income in the same amount.

(II) The position Cost of materials in the amount of EUR 7,954 is reclassified to the position Cost of goods sold and the cost of materials in the same amount.

(III) The positions Depreciation and provisions costs in the amount of EUR 224,200 and Other operating expenses in the amount of 177,143 are reclassified to the position Other operating expenses (depreciation, provisions and other operating expenses) in the amount of EUR 351,319 and Other operating expenses in the amount of EUR 50,044.

(IV) The position Salary expense, compensation and personal expenses in the amount of EUR 247,959 is reclassified on the following positions: Net salary expense, compensation and personal expenses (EUR 158,324), Tax costs (EUR 22,584), Pension contribution costs (EUR 42,434) and Contribution costs (EUR 24,616).

(V) The position financial income in the amount of EUR 133,697 is reclassified to the position Income from other financial investments and loans from unrelated legal entities in the same amount.

(VI) The position Financial expenses in the amount of EUR 199,610 is reclassified to the position Interest expenses, foreign exchange differences and other effects of contractual protection on relationship with unrelated parties in the same amount.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS
(continued)

2.5. Comparative information (continued)

	2019	Reclassification	Adjusted 2019
ASSETS			
FIXED ASSETS	2,415,415	-	2,415,415
Concessions, patents, licenses and similar rights and other intangible assets* (I)	-	166	166
Intangible assets** (I)	166	(166)	-
INTANGIBLE ASSETS	166	-	166
Plant and equipment*(II)	-	11,364	11,364
Property, plant and equipment**(II)	11,364	(11,364)	-
PROPERTY, PLANTS, EQUIPMENT AND BIOLOGICAL ASSETS	11,364	-	11,364
Long-term financial investments (loans and securities given) (III)	-	2,200,000	2,200,000
Other long-term investments and receivables* (III)	-	203,885	203,888
Other long-term investments** (III)	2,403,885	(2,403,885)	-
LONG-TERM FINANCIAL INVESTMENTS AND LONG-TERM RECEIVABLES	2,403,885	-	2,403,885
Other unmentioned receivables* (IV)	-	2,785,921	2,785,921
Receivables ** (IV)	2,785,921	(2,785,921)	-
SHORT-TERM RECEIVABLES	2,785,921	-	2,785,921
Other short-term financial investments* (V)	-	17,950,593	17,950,593
Short-term financial investments** (V)	17,950,593	(17,950,593)	-
SHORT-TERM FINANCIAL INVESTMENTS	17,950,593	-	17,950,593
CASH ON ACCOUNTS AND IN HAND* (VI)	-	44,282,698	44,282,698
Cash equivalents and cash** (VI)	44,282,698	(44,282,698)	-
CURRENT ASSETS	65,019,212	-	65,019,212
LIABILITIES			
BASIC CAPITAL* (VII)	-	(770,719)	(770,719)
Retained earnings for the current year* (VII)	-	57,408,743	57,408,743
Basic capital**(VII)	(770,719)	770,719	-
Retained earnings** (VII)	57,408,743	(57,408,743)	-
CAPITAL	56,638,026	-	56,638,026
SHORT-TERM LIABILITIES	10,796,601	-	10,796,601
Liabilities arising from loans and borrowings from persons other than credit institutions* (VIII)	-	10,733,667	10,733,667
Liabilities to suppliers* (VIII)	-	1,999	1,999
Other operating liabilities and other short-term liabilities*(VIII)	-	60,935	60,935
Operating liabilities** (VIII)	10,735,666	(10,735,666)	-
Other short-term liabilities and accruals** (VIII)	60,935	(60,935)	-

This is an English translation of the financial statements originally issued in Montenegrin language
(For management purposes only)

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

2. BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.5. Comparative information (continued)

(I) The position Intangible assets in the amount of EUR 166 is reclassified to the position Concessions, patents, licenses and similar rights and other intangible assets in the same amount.

(II) The position Property, plant and equipment in the amount of EUR 11,364 is reclassified to the position Plant and equipment in the same amount.

(III) The position Other long-term investments in the amount of EUR 2,403,885 is reclassified to the position Long-term financial investments (loans and securities given) in the amount of EUR 2,200,000 and the position Other long-term investments and receivables in the amount of EUR 203,885.

(IV) The position Receivable in the amount of EUR 2,785,921 is reclassified as Other unmentioned receivables in the same amount.

(V) The position Short-term financial investments in the amount of EUR 17,950,593 is reclassified as Other short-term financial investments in the same amount.

(VI) The position Cash equivalents and cash in the amount of EUR 44,282,698 is reclassified as Cash on accounts and in hand in the same amount.

(VII) The position Retained earnings in the amount of EUR 57,408,745 is reclassified as Retained earnings for the current year in the same amount.

(VIII) The position Operating liabilities in the amount of EUR 10,735,666 is reclassified as Liabilities arising from loans and borrowings from persons other than credit institutions in the amount EUR 10,733,667 and Liabilities to suppliers in the amount of EUR 1,999. The position Other short-term liabilities and accruals in the amount of EUR 60,935 is reclassified as Other operating liabilities and other short-term liabilities.

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 2020, 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). The Board of Directors has adopted the Methodology for calculating premium based on the risk of an individual credit institution and this will be used starting from 1 January 2021.

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.

3.2.1. 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.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 31st December, 2001, 12/02 of 15th March, 2002, 80/04 of 29th December, 2004, Official Gazette CG ", No. 40/08 of 27th June, 2008, 86/09 of 25th December, 2009, 40/11 of 8th August, 2011, 14/12 of 07th March, 2012, 61/13 of 30th December, 2013), which is a 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.

3.6 Property, plant and equipment

The equipment is recorded at cost less total accumulated impairment and any total accumulated losses due to impairment of value. The cost is a value per vendor invoice, increased by all costs for bringing the asset into a functional standby state.

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.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.8.1. 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 issued by state of Montenegro on April 2018, with a maturity date of 21st April, 2025 and interest-bearing coupons maturing annually, are purchased with a premium (interest rate of 3.375%) and are accounted for as held-to-maturity securities. 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8.3. Short-term financial investments held to maturity (continued)

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.

3.8.5. 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.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020

4. SALES REVENUE

Sales revenue in 2020 amounts to EUR 16,933,210 (2019: EUR 16,832,009) 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. OTHER OPERATING INCOME

Other operating income in the amount of EUR 12,478,234 relate to collected receivables based on the payment of guaranteed deposits from the bankruptcy mass of Atlas Bank A.D. Podgorica and IBM A.D. Podgorica during 2020.

In EUR	<u>2020</u>	<u>2019</u>
Revenues from collected receivables based on the payment of guaranteed deposits from the bankruptcy of Atlas Bank A.D Podgorica and IBM A.D.	12,400,000	41,300,013
Revenues based on fines and penalties	28,234	-
Extraordinary income	50,000	-
Total	<u>12,478,234</u>	<u>41,300,013</u>

6. COST OF GOODS SOLD AND THE COST OF MATERIALS

In EUR	<u>2020</u>	<u>2019</u>
Fuel and energy costs	5,326	6,517
Other material costs	1,445	1,437
Total	<u>6,771</u>	<u>7,954</u>

7. OTHER OPERATING EXPENSES (DEPRECIATION, PROVISIONS AND OTHER OPERATING EXPENSES)

In EUR	<u>2020</u>	<u>2019</u>
Provisions	164,975	216,521
Depreciation costs of intangible investments (Note 12)	-	-
Depreciation of property, plant and equipment (Note 13)	6,910	7,699
Advertising and propaganda costs	6,000	-
Fees - records	59,600	18,000
Membership costs	21,229	19,818
PTT services	8,455	8,212
Maintenance costs	17,906	15,247
Audit costs	10,769	11,979
Other expenses	46,720	53,843
Total	<u>342,564</u>	<u>351,319</u>

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

8. WAGES EXPENSES, WAGE COMPENSATION AND OTHER PERSONAL EXPENSES

In EUR	2020	2019
Net earnings expense	105,979	109,488
Compensation to members of the Board of Directors	47,396	28,268
Cost of official travels	784	12,491
Other personal expenses	1,523	7,987
Net wage costs, wage compensation and personal expenses	155,682	158,324
Income tax expenditures	20,514	22,585
Retirement contribution costs	46,208	42,434
Contribution costs	21,951	24,616
Tax and contribution expenses	88,673	89,634
Wage expenses, wage compensation and other personal expenses	244,355	247,959

9. OTHER OPERATING EXPENSES

Other operating expenses relate to complaints based on expenses related to complaints on the payment of guaranteed deposits in the amount of EUR 50,000 in 2020 (2019: EUR 50,044).

10. INCOME FROM OTHER FINANCIAL INVESTMENTS AND LOANS

In EUR	2020.	2019.
Interest revenue - treasury bills	196,529	45,607
Interest revenue - government bonds	89,456	88,000
Total	285,985	133,607

11. INTEREST EXPENSES, FOREIGN EXCHANGE DIFFERENCES AND OTHER CONTRACTUAL PROTECTION EFFECTS

In EUR	2020.	2019.
Interest expense - EBRD	158,347	152,159
Interest expense - term deposits	300,000	47,451
Total	458,347	199,610

On 8th November 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.

In 2020, a new Contract was signed that increase the amount of available funds to EUR 50,000,000 with a 5 (five) year withdrawal period and a repayment period of 7 (seven) years.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

12. INTANGIBLE ASSETS

In EUR	<u>Intangible assets</u>
Carrying value	
Balance, 1 January 2019	42,884
Additions	-
Balance, 31 December 2019	<u>42,884</u>
Additions	-
Balance, 31 December 2020	<u>42,884</u>
Value correction	
Balance 1 January 2019	(42,718)
Accumulated amortization (Note 7)	-
Balance, 31 December 2019	<u>(42,718)</u>
Accumulated amortization (Note 7)	-
Balance, 31 December 2020	<u>(42,718)</u>
Net book value	
Balance, 31 December 2019	<u>166</u>
Balance, 31 December 2020	<u>166</u>

13. PROPERTY, PLANTS, EQUIPMENT AND BIOLOGICAL ASSETS

In EUR	<u>Equipment</u>
Carrying value	
Balance 1 January 2019	98,934
Additions	7,697
Sale	-
Balance, 31 December 2019	<u>106,631</u>
Additions	20,393
Sale	-
Balance, 31 December 2020	<u>127,024</u>
Value correction	
Balance 1 January 2019	(87,568)
Accumulated amortization (Note 7)	(7,699)
Sale	-
Balance, 31 December 2019	<u>(95,267)</u>
Accumulated amortization (Note 7)	(6,910)
Sale	-
Balance, 31 December 2020	<u>(102,177)</u>
Equipment under construction, 31 December 2020	-
Net book value	
Balance, 31 December 2019	<u>11,364</u>
Balance, 31 December 2020	<u>24,847</u>

DEPOSIT PROTECTION FUND, PODGORICA**NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020****14. LONG TERM FINANCIAL INVESTMENTS AND LONG-TERM RECEIVABLES**

In EUR	<u>2020</u>	<u>2019</u>
Investments in government bonds	4,396,563	2,200,000
Loans to employees - Housing Loans	191,062	203,885
Total	<u>4,587,625</u>	<u>2,403,885</u>

Investments in government bonds relate to investments in bonds of Montenegro in the amount of EUR 4,396,563 maturing in 2025 and annual interest-bearing coupons of EUR 143,100 (3.375% 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 2020, EUR 12,824 was repaid (2019: 12,824). The maturity of receivables based on long-term loans granted to employees as at 31 December 2020 and 2019 is shown in the following table (undiscounted future cash flows are shown).

Due to payment	<u>2020</u>	<u>2019</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	139,765	152,589
Total loans	<u>203,885</u>	<u>216,709</u>
Minus: short-term part	<u>(12,824)</u>	<u>(12,824)</u>
Total	<u>191,061</u>	<u>203,885</u>

15. SHORT-TERM RECEIVABLES

In EUR	<u>2020</u>	<u>2019</u>
Receivables from advances given to banks for the payment of guaranteed deposits	1,898,298	2,716,400
Interest receivables - treasury bills	89,295	45,607
Interest receivables - government bonds	99,582	11,090
Housing loans given to employees	12,823	12,824
Other receivables	275	-
Total	<u>2,100,273</u>	<u>2,785,921</u>

On January 4, 2019, the Council of the Central Bank of Montenegro issued a decision number 0101-10202-3 / 2018 which in Invest Bank Montenegro A.D. (IBM) introduces 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 1,898,298 relate to advance payments to intermediary banks that as of 31 December 2020 were not yet distributed to depositors.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

16. SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments refer to treasury bills, which as of December 31, 2020 amount to EUR 31,559,026 (in 2019 EUR 17,950,593) represent six-month debt securities issued by the Central Bank of Montenegro on behalf of the Ministry of Finance of Montenegro maturing on January 13, 2021, February 24, 2021 and April 29, 2021.

17. CASH ON ACCOUNTS AND IN A HAND

In EUR	<u>2020</u>	<u>2019</u>
Cash on a gyro account of the CBoM	56,061,113	44,282,078
Petty cash	119	620
Total	<u>56,061,232</u>	<u>44,282,698</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/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 40% 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. ACCRUALS

Accruals at the 31 December 2020, amounted in EUR 200,000 and relates to the prepaid fee for approval of credit funds under an arrangement with the EBRD.

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

19. CAPITAL

In EUR	2020	2019
Basic capital	56,638,026	(770,719)
Retained earnings	28,595,392	57,408,743
Total	85,233,418	56,638,026

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, 2020.

20. SHORT-TERM PROVISIONS

Short-term provisions as of 31 December 2020 relate to provisions regarding the complaints based on payment of guaranteed deposits in the amount of EUR 100,000.

21. SHORT-TERM LIABILITIES

Short-term liabilities as of December 31, 2020 and December 31, 2019 are shown in the following table:

In EUR	2020	2019
Liabilities based on payment of guaranteed deposits	9,130,540	10,733,667
Liabilities to suppliers	1,739	1,999
Other operating liabilities and other short-term liabilities	67,472	60,937
Total	9,199,751	10,791,603

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 1,697,688 (2019: EUR 101,833,600) were paid to depositors in 2020. Liabilities in the amount of EUR 9,130,540 relate to guaranteed deposits whose payment was not realized as of December 31, 2020.

22. FINANCIAL INSTRUMENTS

22.1 Financial instruments categories

In EUR	2020	2019
Financial assets		
Cash and cash equivalents	56,061,232	44,282,698
Short-term financial placements	31,559,026	17,950,593
Other long-term financial placements	4,587,625	2,403,885
Accounts receivable	2,100,273	2,785,921
Total	94,308,156	67,423,097
Financial liabilities		
Trade payables	9,130,540	10,735,666
Other short-term liabilities	66,867	60,937
Short-term provisions	100,000	-
Total	9,297,407	10,796,603

22. FINANCIAL INSTRUMENTS (Continued)

22.2 Financial 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 its 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, 2020

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	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Cash on accounts and in a hand	56,061,232	56,061,232	44,282,698	44,282,698
Short-term financial investments	31,559,026	31,559,026	17,950,593	17,950,593
Other long-term financial investments	4,587,625	4,587,625	2,403,885	2,403,885
Receivables	2,100,273	2,100,273	2,785,921	2,785,921
Total	94,308,156	94,308,156	67,423,097	67,423,097
Financial liabilities				
Trade payables	9,130,540	9,130,540	10,735,666	10,735,666
Other short - term liabilities and accruals	66,867	66,867	60,937	60,937
Short-term provisions	100,000	100,000	-	-
Total	9,297,407	9,297,407	10,796,603	10,796,603

23. LITIGATIONS

As of December 31, 2020, 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, 2020.

In 2021, the Fund continued to pay guaranteed deposits to depositors of bankrupt banks. By 31 March 2021, EUR 155,685 or 0.17% of the total liabilities has been paid on the basis of guaranteed deposits for Atlas bank in bankruptcy, while there were no payments for IBM bank during the specified period. Such a small amount of funds paid is due to the coronavirus pandemic - COVID-19, which has disabled depositors (a large number of depositors refer to non-resident) from taking over their guaranteed deposit.

The impact of the pandemic was also reflected in the collection of the Fund's claims from the bankruptcy estate. Due to lower interest in the sale of real estate owned by credit institutions in bankruptcy, EUR 2,183,240 was collected (from IBM - EUR 183,240 and from Atlas Bank - EUR 2,000,000), so that the return on funds in the total level amounted to EUR 55,783,240, respectively 49.51% (IBM 79.45% and Atlas Bank 42.09%).

*This is an English translation of the financial statements originally issued in Montenegrin language
(For management purposes only)*

DEPOSIT PROTECTION FUND, PODGORICA

NOTES TO FINANCIAL STATEMENTS FOR YEAR ENDED ON DECEMBER 31, 2020

24. SUBSEQUENT EVENT (Continued)

As the issuance of Montenegrin bonds 2027 in the amount of EUR 750,000,000 ended the need for short-term borrowing of the Ministry of Finance through the emission of short-term securities (treasury bills), Fund continued to invest funds by buying government bonds - long-term securities of Montenegro on the secondary international financial market.

The first installment of the regular premium in the amount of EUR 4,000,000 was calculated and charged. In accordance with the Methodology, credit institutions are classified into 5 (five) risk classes, so the least risky credit institution (risk class 1) paid a premium at aggregation risk coefficient 75%, and the riskiest credit institutions (risk class 5) at aggregation rate 120%.

The first and second installments of premiums are calculated based on aggregation risk ratio determined by financial statements and data at 31 December 2019, while the third installment of the regular premium will be calculated on the basis of audited financial statements and data as of 31 December 2020. At the same time, the calculation on the third installment of regular premiums will be made to match premiums on the 2020 database.

Total assets as of 31 March 2021 are EUR 99,366,337, of which EUR 15,000,000 in treasury bills that reach 29 April 2021; EUR 19,060,000 in bonds MNE (in MNE 2025 - EUR 10,940,000 and MNE 2027 - EUR 8,120,000); Bank account EUR 63,863,725 and EUR 1,442,612 in bank advances for payment GD. By the end of the year, we expect the depositors of banks in bankruptcy to withdraw funds in the amount of EUR 5,000,000 and the Fund's assets will be, at the end of 2021, around EUR 115,000,000 (charge three installments of regular premium - EUR 12,000,000 and collection from bankruptcy mass cca EUR 9,000,000).

In order to conduct stress deposit protection system resilience test, the Fund has acquired and installed a backup server (in a backup location) and enables it to adequately implement this, very significant activity.

As coronavirus pandemic continues to develop, it is challenging to predict the full scope and duration of its economic consequences, and the consequences for business.

Pursuant to the development of the health situation in Montenegro, these circumstances may pose challenges in business to business entities and financial institutions, in large part due to measures and policies of relevant state authorities that have already been implemented or may be applied in the future.

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 the impact of coronavirus to significantly disrupt its activities or affect the possibility of continuity of operations in the coming period.