

Pursuant to Article 44 paragraph (2) item 3) of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17, 125/23) and Article 149 paragraphs (3) and (8) of the Law on Resolution of Credit Institutions (OGM 72/19, 8/21, 113/24), the Council of the Central Bank of Montenegro, at its meeting held on 17 April 2025, passed the following

## **DECISION**

### **AMENDING THE DECISION ON MORE DETAILED MANNER OF CALCULATION OF EX-ANTE CONTRIBUTIONS PAID BY CREDIT INSTITUTIONS TO THE RESOLUTION FUND**

#### **Article 1**

In the Decision on More Detailed Manner of Calculation of Ex-Ante Contributions Paid by Credit Institutions to the Resolution Fund (OGM 127/20 and 45/21) in Article 2 item 3) shall be amended to read:

“3) derivatives are transferrable securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to securities, currencies, interest rates or yields;”

In item 6), the item at the end of the text shall be replaced by a semicolon and two new items shall be added, worded as follows:

“7) liabilities arising from derivative contracts are individual liabilities arising from derivative contracts referred to in Article 128 paragraph (5) of the Decision on Capital Adequacy of Credit Institutions (OGM, 128/20, 140/21, 144/22 and 52/24) - (hereinafter: Decision on Capital Adequacy) or, if applicable, liabilities arising from the netting set of those derivative contracts;

8) compensation amount resulting from the variation margin is the compensation amount collected or paid to take into account the current exposures of the credit institution resulting from actual changes in market prices.”

#### **Article 2**

In Article 4 paragraph (3) shall be amended to read:

“(3) For the purpose of calculating liabilities of credit institutions, the average annual amount of liabilities arising from derivative contracts referred to in Article 128 paragraph (5) of the Decision on Capital Adequacy calculated on a quarterly basis, including off-balance sheet liabilities, shall be valued in accordance with Articles 5a to 5e of this Decision.”

### **Article 3**

After Article 5, five new Articles shall be added, worded as follows:

#### **“Exposure value of derivatives**

##### **Article 5a**

- “(1) The credit institution shall determine the value of the amount of liabilities arising from derivative contracts referred to in Article 128 paragraph (5) of the Decision on Capital Adequacy, including off-balance sheet liabilities, in accordance with Article 5b of this Decision.
- (2) When determining the exposure value of derivatives, credit institutions may take into account the effects of contracts for novation and other netting agreements in accordance with Article 5b of this Decision, while cross-product netting shall not apply.
- (3) Credit institutions shall not apply the reduction of value where such reduction comes from the provision of collateral related to derivative contracts.
- (4) Notwithstanding paragraph (3) of this Article, a credit institution may apply netting within any single product category arising from derivative contract referred to in Article 128 paragraph (5) of the Decision on Capital Adequacy, when that category is the subject of a contractual cross-product netting agreement.
- (5) For the purposes of paragraphs (1) and (2) and paragraph (4) of this Article, credit institutions may deduct from the replacement cost portion of the exposure value the compensation amount arising from the variation margin paid in cash to the counterparty, in so far as under the applicable accounting framework the compensation amount has not already been recognised as a reduction of the exposure value and provided that all of the following conditions are met:
- 1) for transactions for which the settlement has not been performed through a qualifying central counterparty referred to in Article 3, item 41) of Decision on Capital Adequacy, the cash given to the counterparty is not segregated;
  - 2) compensation amount arising from the variation margin is calculated and exchanged on a daily basis, based on a mark-to-market valuation of derivative positions;
  - 3) compensation amount arising from the variation margin given in cash must be in the same currency as the currency of settlement of the derivative contract;
  - 4) the exchanged compensation amount arising from the variation margin is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the derivative subject to the threshold and minimum transfer amounts applicable to the credit institution;
  - 5) the derivative contract and the compensation amount arising from the variation margin between the credit institution and the counterparty to that contract are covered by a single netting agreement that the credit institution may treat as risk-reducing in accordance with Article 5d of this Decision.
- (6) Where under the applicable accounting framework the credit institution recognises the compensation amount arising from the variation margin received in cash from

the counterparty as a payable liability, it may exclude that liability from the exposure measure provided that the conditions set out in paragraph (5) of this Article are met.

(7) For the purposes of paragraphs (5) and (6), the following shall apply:

- 1) the deduction of paid compensation amount arising from the variation margin shall be limited to the negative current replacement cost portion of the exposure value;
- 2) a credit institution shall not use compensation amount arising from the variation margin paid in cash to reduce the potential future credit exposure amount, including for the purposes from Article 5e paragraph (5) of this Decision.

(8) By way of derogation from paragraphs (1) and (2) and paragraph (4) of this Article, credit institutions may use the simplified exposure method set out in Article 5c of this Decision to determine the exposure value of derivative contracts referred to in Article 128 paragraph (5) of the Decision on capital adequacy, provided that the size of the on- and off-balance-sheet derivative business of those credit institutions meets the conditions set out in Article 298 paragraph (2) of the Decision on capital adequacy.

(9) Credit institutions that apply the simplified exposure method shall not reduce the exposure measure by the compensation amount arising from the variation margin received in cash.

### **Mark-to-Market Method**

#### **Article 5b**

(1) The replacement cost of liabilities arising from derivative contracts at netting set level shall be the absolute value of the net market value of those contracts within the netting, gross of any collateral held or posted where positive and negative market values are netted in calculating the net market value.

(2) For the purpose of application of paragraph (1) of this Article, credit institutions shall treat an individual derivative transaction as its own netting set.

(3) In order to determine the potential future credit exposure, credit institutions shall multiply the estimated amounts or underlying values, as applicable, by the percentages set out in Table 1 of Annex 3, which is attached to this Decision and makes an integral part thereof, in accordance with the following principles:

- 1) credit institutions shall treat derivative contracts which do not fall within one of the five categories set out in Table 1 of Annex 3 of this Decision as contracts concerning commodities other than precious metals;
- 2) for derivative contracts with multiple exchanges of principal, the percentages shall be multiplied by the number of remaining payments still to be made in accordance with the provisions of those contracts;
- 3) for derivative contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset so that the market value of the derivative contract is zero on those specified dates, the residual maturity shall be equal to the time until the next reset date;

- 4) in the case of interest-rate contracts that meet those criteria referred to in item 3) of this paragraph and have a remaining maturity of over one year, the percentage shall be no lower than 0,5 %.
- (4) The exposure value referred to in paragraph (3) shall be the sum of current replacement cost and potential future credit exposure.

### **Simplified Exposure Method**

#### **Article 5c**

- (1) Under the Simplified Exposure Method, credit institutions shall determine the exposure value by multiplying the estimated amount of each instrument by the percentages set out in Table 2 Annex 3 of this Decision.
- (2) Credit institutions may, when calculating the exposure value of interest-rate contracts, use either the original or residual maturity.

### **Recognition of contractual netting as a basis for risk-reducing**

#### **Article 5d**

Credit institutions shall treat as a basis for risk reducing in accordance with Article 5e of this Decision, netting agreements which the Central Bank recognised in accordance with Article 329 of the Decision on capital adequacy and where the credit institution meets the requirements set out in Article 333 of the Decision, which are:

- 1) bilateral contracts for novation between a credit institution and its counterparty under which mutual claims and obligations are automatically amalgamated in such a way that the novation fixes one single net amount each time it applies so as to create a single new contract that is binding on the parties and replaces all former contracts and all obligations between parties pursuant to those contracts;
- 2) other bilateral agreements between a credit institution and its counterparty.

### **Effects of recognition of netting as a basis for risk-reducing**

#### **Article 5e**

- (1) When treating netting agreements, and in the case of contracts for novation, credit institutions may weigh the single net amounts fixed by such contracts rather than the gross amounts involved.
- (2) For the application of Article 5b of this Decision, credit institutions may take the contract for novation into account when determining:
- 1) the current replacement cost referred to in Article 5b paragraphs (1) and (2) of this Decision;
  - 2) the estimated principal amounts or underlying values referred to in Article 5b paragraph (3) of this Decision.
- (3) In the application of the simplified exposure method, in determining the estimated amount referred to in Article 5c paragraph (1) of this Decision, credit institutions may take into account the contract for novation.
- (4) In cases referred to in paragraph (3) of this Article, credit institutions shall apply the percentages from Table 2 from Annex 3 of this Decision.

(5) In the case of other netting agreements not covered by paragraphs (1) to (4) of this Article, credit institutions shall apply Article 5b of this Decision as follows:

- 1) the current replacement cost referred to in Article 5b paragraphs (1) and (2) of this Decision for the contracts included in a netting agreement shall be obtained by taking account of the actual hypothetical net replacement cost which results from the agreement; in the case where netting leads to a net receivable for the credit institution calculating the net replacement cost, the current replacement cost shall be calculated as “0”;
- 2) the figure for potential future credit exposure referred to in Article 5b paragraph (3) of this Decision for all contracts included in a netting agreement shall be reduced in accordance with the following formula:

$$PCE_{red} = 0,4 \cdot PCE_{gross} + 0,6 \cdot NGR \cdot PCE_{gross},$$

where:

$PCE_{red}$  = the reduced figure for potential future credit exposure for all contracts with a given counterparty included in a legally valid bilateral netting agreement;

$PCE_{gross}$  = the sum of the figures for potential future credit exposure for all contracts with a given counterparty which are included in a legally valid bilateral netting agreement and are calculated by multiplying their notional principal amounts by the percentages set out in Table 1 from Annex 3 of this Decision;

$NGR$  = the net-to-gross ratio calculated as the quotient of the net replacement cost for all contracts included in a legally valid bilateral netting agreement with a given counterparty (numerator) and the gross replacement cost for all contracts included in a legally valid bilateral netting agreement with that counterparty (denominator).

(6) When calculating the potential future credit exposure in accordance with the formula set out in paragraph (5) item (2) of this Article, credit institutions may treat perfectly matching derivative contracts included in the netting agreement as if those contracts were a single contract with a notional principal equivalent to the net receipts.

(7) When applying Article 5c paragraph (1) of this Decision, credit institutions may treat perfectly matching derivative contracts included in the netting agreement as if those contracts were a single contract with a notional principal equivalent to the net receipts, and the notional principal amounts shall be multiplied by the percentages from Table 2 Annex 3 of this Decision.

(8) For the purposes of paragraphs (6) and (7) of this Article, perfectly matching derivative contracts mean forward foreign-exchange contracts in accordance with the Decision on capital adequacy, or similar contracts in which an estimated principal is equivalent to cash flows if the cash flows fall due on the same value date and are fully in the same currency.

(9) For all derivative contracts included in a netting agreement, not covered by paragraphs (1) to (8) of this Article, credit institutions may reduce the percentages applicable as indicated in Table 3 from Annex 3 of this Decision.

(10) Credit institutions may, in case of interest-rate contracts, use either the original or residual maturity.”

#### **Article 4**

This Decision shall enter into force on the eighth day following that of its publication in the Official Gazette of Montenegro.

### **THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO**

Decision number: 0101- 3417 - 2/2025  
Podgorica, 17 April 2025

**CHAIRPERSON  
G O V E R N O R,**

**Irena Radović, m.p.**

**Applicable weights for determining the value of liabilities arising from derivatives**

**Mark-to-Market Method**

**Table 1**

Residual maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates and gold	Contracts concerning equities	Contracts concerning precious metals other than gold	Contracts concerning commodities other than precious metals
1 year or less	0%	1%	6%	7%	10%
Over 1 year, not exceeding 5 years	0.5%	5%	8%	7%	12%
Over 5 years	1.5%	7.5%	10%	8%	15%

**Simplified Exposure Method**

**Table 2**

Original maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates and gold
1 year or less	0.5%	2%
Over 1 year, not exceeding 2 years	1%	5%
Additional allowance for each year after second year	1%	3%

## Recognition of contractual netting as a basis for risk-reducing

**Table 3**

Original maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates
1 year or less	0.35%	1.50%
Over 1 year, not exceeding 2 years	0.75%	3.75%
Additional allowance for each year after second year	0.75%	2.25%