

Pursuant to Article 44 paragraph 2 item 3 of the Central Bank of Montenegro Law (OGM 40/10, 06/13, 70/17) and in connection with Article 125 paragraph (9) of the Law on Credit Institutions (OGM 72/19, 8/21), and Article 19 paragraph (4) of the Law on Resolution of Credit Institutions (OGM 72/19, 8/21), the Council of the Central Bank of Montenegro, at its meeting held on 17 February 2022, passed the following

**DECISION
ON THE CRITERIA FOR IDENTIFYING CRITICAL FUNCTIONS AND CORE
BUSINESS LINES OF A CREDIT INSTITUTION**

Subject matter

Article 1

This Decision shall govern the criteria for identifying critical functions and core business lines of a credit institution when drawing up recovery and resolution plans of a credit institution having its head office in Montenegro and resolution plans for a group which parent credit institution and members of the group have its head office in Montenegro (hereinafter: the resolution plans).

Criteria for identifying critical functions

Article 2

- (1) A function shall be deemed critical where it meets the following criteria:
- 1) it is provided by a credit institution to third parties not affiliated to the credit institution or a or group to which the credit institution belongs; and
 - 2) the sudden failure to provide that function would be likely to have a material negative impact on the third parties, give rise to financial system contagion or undermine the general confidence of market participants due to the systemic relevance of the function for the third parties, and the systemic relevance of the credit institution or the group in providing the function.
- (2) For the assessment of material negative impact on third parties, the systemic significance of a function for third parties and the systemic significance of a credit institution or a group in providing the function within the meaning of paragraph (1) item 2) of this Article, the size, market share, external and internal interconnectedness, complexity, and cross-border activities of a credit institution or a group to which it belongs shall be taken into account.
- (3) The criteria for assessing the impact on third parties shall include at least the following elements:

- 1) the nature and reach of the activity, national, regional or global influence, volume and number of transactions; number of customers and counterparties; number of customers for which the credit institution is the only or principal banking partner;
- 2) the relevance of the credit institution on local, national, regional or Europe level, taking into account that the relevance of the credit institution may be assessed based on market share, interconnectedness, complexity, and cross border activities;
- 3) the nature of the customers and stakeholders affected by the critical function (e.g. natural persons, entrepreneurs, micro, small and medium enterprises, interbank clients, central clearing houses, public authorities and other public sector entities);
- 4) impact of a potential disruption to performing a critical function on markets, financial markets' infrastructure, customers and services of public interest, whereby the assessment of this impact may include in particular: the effect on the liquidity of the market concerned, impact and extent of disruption to customer business and short-term liquidity needs; perceptibility to counterparties, customers and the public; capacity and the speed of customer reaction; the relevance of this market to the functioning of other markets; effect on the liquidity, operations, structure of another market; effect on other counterparties related to the main customers, and the interrelation of the critical function with other services.

(4) A critical function shall be deemed substitutable where it can be replaced in an acceptable manner and within a reasonable timeframe, thereby avoiding systemic disruptions to the real economy and financial markets.

(5) The following criteria shall be taken into account when assessing the substitutability of a critical function:

- 1) the structure of the market for that critical function and the availability of service providers to which the performance of the critical function could be transferred;
- 2) the ability of other service providers in terms of capacity, critical function performance requirements, and any potential barriers to entry or expansion of capacities for performing critical function;
- 3) motivation of other service providers to take on the performance of critical function;
- 4) the time needed for users of the service to move to a new service provider and the costs involved in such a move, the time needed for other competitors to take over the critical functions and whether that time is sufficient to prevent significant disruptions depending on the type of service.

(6) A service should be designated as significant for the performance of critical functions if its failure or discontinuance would present a serious impediment to or prevent the performance of one or more critical functions, except where it can be provided by another service provider within a reasonable timeframe and to a comparable extent taking into account its objective, quality and cost.

(7) Discontinuance of a critical function occurs when it is no longer provided to a comparable extent, under comparable conditions and with a comparable quality, unless this change in providing the function concerned takes place in an orderly manner.

Criteria for identifying core business lines

Article 3

- (1) Core business lines shall be identified on the basis of the following criteria:
- 1) internal organisation of a credit institution,
 - 2) objectives and general strategy of a credit institution, and
 - 3) contribution of a core business line to the financial results of a credit institution.
- (2) Identification indicators of core business lines shall include in particular:
- 1) revenues generated by the core business line as percentage of overall revenues of a credit institution;
 - 2) profit generated by the core business line as percentage of overall profit of a credit institution;
 - 3) return on equity or assets;
 - 4) total assets, revenue and earnings;
 - 5) the customer base, geographic footprint, brand and operational synergies of the business with other businesses of the group to which the credit institution belongs;
 - 6) impact of ceasing the core business line on costs and earnings, if the core business line is a source of funding or liquidity of a credit institution;
 - 7) core business line growth outlook;
 - 8) the attractiveness of the core business line to competitors as potential acquirers;
 - 9) market potential and franchise value for the credit institution or a group to which the credit institution belongs.
- (3) When identifying a core business line, future expected revenues, growth outlook, and franchise value may be taken into consideration, where they are based on assumptions supported by plausible, evidenced projections.
- (4) Core business lines may rely on activities which do not by themselves generate direct profit for the credit institution but support these core business lines of the credit institution thereby contributing indirectly to the credit institution's profits.

Deadline for the submission of critical functions and core business lines

Article 4

Credit institutions shall submit critical functions and core business lines identified in accordance with this Decision to the Central Bank no later than 15 May of the current year, with information and data as at 31 December of the previous year, on the templates provided in Annex 1 of this Decision.

Entry into force

Article 5

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: 0101-1233-3/2022
Podgorica, 17 February 2022

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

Radoje Žugić, m.p.

TEMPLATE 1: INFORMATION AND DATA FOR IDENTIFYING CRITICAL FUNCTIONS

| Activities, services or industries | CORE BUSINESS LINES | PERSON RESPONSIBLE FOR DELIVERY OF INFORMATION | | | | |
|---|---------------------|--|----------|---------------------|------------------|-----------------|
| | | Name and surname | Function | Organisational part | Telephone number | E- mail address |
| 010 | 020 | 130 | 140 | 150 | 160 | 170 |
| 1. Taking deposits | | | | | | |
| 1.1. Natural persons | | | | | | |
| 1.1.1. <i>transaction accounts</i> | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 1.1.2. <i>time deposits</i> | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 1.2. Micro, small and medium enterprises | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 1.3. Large undertakings | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 1.4. Financial institutions | | | | | | |
| 1.5. Public authorities and other public sector entities | | | | | | |
| 2. Lending | | | | | | |
| 2.1. Natural persons | | | | | | |
| 2.1.1. <i>Residential and mortgage loans</i> | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 2.1.2. <i>Other loans</i> | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 2.2. Micro, small and medium enterprises | | | | | | |
| 2.2.1. <i>Loans secured by mortgage</i> | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 2.2.2. <i>Other loans</i> | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 2.3. Large undertakings | | | | | | |
| <i>residents</i> | | | | | | |
| <i>non-residents</i> | | | | | | |
| 2.4. Financial institutions | | | | | | |
| 2.5. Public authorities and other public sector entities | | | | | | |
| 3. Payment System Transactions , cash, custody services | | | | | | |
| 3.1. Natural persons - payment system transactions | | | | | | |
| <i>Domestic</i> | | | | | | |
| <i>Foreign</i> | | | | | | |
| 3.2. Micro, small and medium enterprises - payment system transactions | | | | | | |
| <i>Domestic</i> | | | | | | |
| <i>Foreign</i> | | | | | | |
| 3.3. Large undertakings - payment system transactions | | | | | | |
| <i>Domestic</i> | | | | | | |
| <i>Foreign</i> | | | | | | |
| 3.4. Interbank payments | | | | | | |
| <i>Domestic</i> | | | | | | |
| <i>Foreign</i> | | | | | | |
| 3.5. Cash services (ATM and other) | | | | | | |
| 3.6. Custody services | | | | | | |
| 4. Market financing | | | | | | |
| 4.1. <i>Repos</i> | | | | | | |
| 4.2. <i>Securities lending/borrowing</i> | | | | | | |
| 4.3. <i>Interbank borrowing</i> | | | | | | |
| 4.4. <i>Margin lending/derivatives</i> | | | | | | |
| 4.5. <i>Commercial papers</i> | | | | | | |
| 5. Capital markets | | | | | | |
| 5.1. <i>Primary markets</i> | | | | | | |
| 5.2. <i>Secondary markets/trade</i> | | | | | | |
| 5.3. <i>Asset management</i> | | | | | | |

