

DECISION

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

(OGM 127/20 of 29 December 2020, 045/21 of 29 April 2021, 040/25 of 24 April 2025, 017/26 of 13 February 2026)

I. BASIC PROVISIONS

Subject matter

Article 1

This Decision shall prescribe in more detail the manner of calculation of ex-ante contributions paid by credit institutions to the Resolution Fund (hereinafter: the contributions), or the methodology for the calculation of contributions and for the adjustment of contributions to the risk profile of individual credit institutions in accordance with the criteria for determining their riskiness, and it shall establish the information that the credit institution shall be required to provide for the purposes of the calculation of the contributions and as regards the payment of the contributions.

Definitions

Article 2

The terms used in this Decision shall have the following meanings:

- 1) annual target level means the total amount of annual contributions determined for each calendar year by the Central Bank of Montenegro (hereinafter: the Central Bank) to reach the annual target level of the funds of the Resolution Fund referred to in Article 148 paragraph (1) of the Law on Resolution of Credit Institutions (OGM 72/19) – (hereinafter: the Law);
- 2) central counterparty means a legal person that interposes itself between the counterparties to the contracts traded on one or more financial markets, becoming the buyer to every seller and the seller to every buyer;
- 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;
- 4) promotional bank means any entity set up by the State of Montenegro, which grants promotional loans on a non-competitive, not for profit basis in order to promote public policy objectives, provided that the founder has an obligation to protect the economic basis of the entity and maintain its regular operations, or to guarantee for at least 90% of its original funding or the promotional loan it grants directly or indirectly;
- 5) promotional loan means a loan granted by a promotional bank or through an intermediate bank on a non-competitive, non for profit basis, in order to promote the public policy objectives of the State of Montenegro;

- 6) intermediary bank means a credit institution which intermediates promotional loans, provided that it does not give them as credit to a final customer.
- 7) liabilities arising from derivative contracts are individual liabilities arising from derivative contracts referred to in Article 148 paragraph (8) of the Decision on Capital Adequacy of Credit Institutions (OGM, 65/25) - (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.”

II. METHODOLOGY FOR CALCULATION AND ADJUSTMENT OF CONTRIBUTIONS

Determination of annual contributions

Article 3

- (1) The Central Bank shall determine the annual contributions to be paid by each credit institution in proportion to its risk profile, on the basis of information provided by the credit institution in accordance with Article 10 of this Decision and by applying the methodology set out in this Chapter.
- (2) The Central Bank shall determine the annual contribution referred to in paragraph (1) of this Article by taking into account the annual target level of the Resolution Fund referred to in Article 148 paragraph (1) of the Law and the transitional period for reaching that target level referred to in Article 159 of the Law.

Adjustment of the basic annual contribution to the credit institution’s risk profile

Article 4

- (1) When calculating the contributions in accordance with Article 149 paragraph (2) of the Law, the following liabilities shall be excluded:
 - 1) the intragroup liabilities arising from transactions entered into by a credit institution with another credit institution which is part of the same group, provided that all the following conditions are met:
 - both credit institutions from the group have their head offices in Montenegro;
 - both credit institutions from the group are included in the same consolidated supervision in accordance with the Law on Credit Institutions (OGM 72/19) – (hereinafter: the Law on Credit Institutions) on a full basis and are subject to appropriate centralised risk evaluation, measurement and control procedures;
 - there is no current or foreseen material or legal impediment to the prompt repayment of the liability when due;
 - 2) the liabilities created by a credit institution, which is member of an Institutional Protection Scheme, through an agreement entered into with another credit institution which is a member of the same Institutional Protection Scheme, if that Institutional Protection Scheme meets the requirements set out in Article 35 paragraph (2) of the Law;
 - 3) in case of credit institutions operating promotional loans, the liabilities of the intermediary bank towards the originating or another promotional bank or another intermediary credit institution and the liabilities of the original promotional bank towards its funding parties in so far as the amount of these liabilities is matched by the promotional loans of that credit institution.

- (2) The liabilities referred to in paragraph (1) items 1) and 2) of this Article shall be evenly deducted on a transaction-by-transaction basis from the amount of total liabilities of credit institutions which are parties to the transactions or agreements referred to in these items.
- (3) For the purpose of calculating liabilities of credit institutions, the average annual amount of liabilities arising from derivative contracts referred to in Article 148 paragraph (8) 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.
- (4) The value of liabilities arising from derivative contracts may not be less than 75% of the value of the same liabilities resulting from the application of the accounting provisions applicable to the credit institution concerned for the purposes of financial reporting, and if there is no accounting measure of exposure for certain derivative instruments because they are held off-balance sheet, the credit institution shall report to the Central Bank the sum of positive fair values of those derivatives as the replacement cost and add them to its on-balance sheet accounting values.
- (5) For the purpose of calculating the liabilities of a credit institution, the total liabilities shall exclude the accounting value of liabilities arising from derivative contracts and include the corresponding value determined in accordance with paragraph (4) of this Article.
- (6) The Central Bank shall check the fulfilment of all conditions and requirements referred to in paragraphs (1) to (5) of this Article, using the assessments carried out by its supervisory function.

Risk pillars and indicators

Article 5

- (1) The Central Bank shall assess the risk profile of a credit institution on the basis of the following four risk pillars:
 - 1) risk exposure, which shall consist of the following risk indicators:
 - own funds and eligible liabilities held by the credit institution in excess of minimum requirement for own funds and eligible liabilities (hereinafter: MREL);
 - leverage ratio;
 - common equity Tier 1 capital ratio (CET1);
 - total risk exposure divided by total assets;
 - 2) stability and variety of funding, which shall consist of the following risk indicators:
 - net stable funding ratio (NSFR); and
 - liquidity coverage ratio (LCR);
 - 3) importance of a credit institution to the stability of the financial system or economy, which shall consist of the indicator “share of interbank loans and deposits”, capturing the importance of the credit institution to the economy of Montenegro;
 - 4) additional risk indicators to be determined by the Central Bank, which shall consist of the following indicators:
 - trading activities, off-balance sheet exposures, derivatives, complexity and assessment of resolvability;
 - membership in an Institutional Protection Scheme;
 - extent of previous extraordinary public financial support.
- (2) When determining the various risk indicators referred to in paragraph (1) item 4) of this Article, the Central Bank shall take into account the importance of those indicators in the light of the probability that the credit institution concerned would enter resolution and of the consequent probability of making use of the resolution financing arrangement where the credit institution would be resolved.

- (3) When determining the indicators referred to in paragraph (1) item 4) indent 1 of this Article, the Central Bank shall take into account the following elements:
- 1) the increase in the risk profile of the credit institution due to:
 - the importance of trading activities relative to the balance sheet size, the level of own funds, the riskiness of the exposures, and the overall business model;
 - the importance of the off-balance sheet exposures relative to the balance sheet size, the level of own funds, and the riskiness of the exposures;
 - the importance of the amount of derivatives relative to the balance sheet size, the level of own funds, the riskiness of the exposures, and the overall business model;
 - the extent to which, in accordance with the Law, the business model and organizational structure of a credit institution are deemed complex;
 - 2) the decrease in the risk profile of the credit institution due to:
 - relative amount of derivatives which are cleared through a central counterparty (CCP);
 - the extent to which, in accordance with the Law, a credit institution can be resolved promptly and without legal impediments.
- (4) When determining the indicator referred to in paragraph (1) item 4) indent 2 of this Article, the Central Bank shall take into account the following elements:
- 1) whether the amount of funds, which are available without delay for both recapitalisation and liquidity funding purposes in order to support the affected credit institution in case of problems, is sufficiently large to allow for a credible and effective support of that credit institution;
 - 2) the degree of legal or contractual certainty that the funds referred to in item 1) of this paragraph will be fully utilized before any extraordinary public support may be requested.
- (5) When determining the risk indicator referred to in paragraph (1) item 4) indent 3 of this Article, the Central Bank shall take into account:
- 1) the maximum value of the range referred to in Step 3 of Annex 1, which is attached to this Decision and makes an integral part thereof, for any credit institution that is part of a group that has been put under restructuring after receiving any State or equivalent funds (such as from a Resolution fund) and is still within the restructuring or bankruptcy period, except for the last two years of implementation of the restructuring plan;
 - 2) the minimum value of the range referred to in Step 3 of Annex 1 to this Decision, for all other credit institutions.
- (6) Assessments for the purposes of paragraphs (3), (4), and (5) of this Article shall be made by the supervisory function of the Central Bank.

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 148 paragraph (8) 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 148 paragraph (8) 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 54) 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 148 paragraph (8) 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 347 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 380 of the Decision on capital adequacy and where the credit institution meets the requirements set out in Article 384 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.

Relative weight of each risk pillar and indicator

Article 6

- (1) When assessing the risk profile of each credit institution, the Central Bank shall apply the following weights:
 - 1) 50% - for the pillar referred to in Article 5 paragraph (1) item 1) of this Decision;
 - 2) 20% - for the pillar referred to in Article 5 paragraph (1) item 2) of this Decision;
 - 3) 10% - for the pillar referred to in Article 5 paragraph (1) item 3) of this Decision;
 - 4) 20% - for the pillar referred to in Article 5 paragraph (1) item 4) of this Decision.
- (2) The relative weight of the risk indicators that Central Bank shall assess to determine the pillar referred to in Article 5 paragraph (1) item 1) of this Decision shall be the following:
 - 1) 25% - for own funds and eligible liabilities held by the credit institution in excess of MREL;
 - 2) 25% - for leverage ratio;
 - 3) 25% - for common equity Tier 1 capital ratio;
 - 4) 25% - for total risk exposure divided by total assets.
- (3) Each risk indicator in the pillar referred to in Article 5 paragraph (1) item 2) of this Decision shall have an equal weight.
- (4) The relative weight of each indicator that the Central Bank shall assess to determine the pillar referred to in Article 5 paragraph (1) item 4) of this Decision shall be the following:
 - 1) 45% - for trading activities and off-balance sheet exposures, derivatives, complexity and resolvability;
 - 2) 45% - for membership in an Institutional Protection Scheme;
 - 3) 10% - for extent of previous extraordinary public financial support.
- (5) When applying the indicator referred to in paragraph (4) item 2) of this Article, the Central Bank shall take into account the relative weight of the indicator referred to in paragraph (4) item 1) of this Article.

Application of risk indicators at consolidated level

Article 7

Where the Central Bank has relieved a credit institution of the obligation to meet the liquidity requirement on an individual basis, in accordance with Article 309 paragraph (4) item 2) of the Law on Credit Institutions, the liquidity coverage ratio referred to in Article 5 paragraph (1) item 2) indent 2 of this Decision shall be assessed by the Central Bank at the group level, and the score obtained by that indicator at the group level shall be applied to each credit institution which is part of the group, for the purposes of calculating that credit institution's risk indicator.

Risk adjusting multiplier

Article 8

- (1) The Central Bank shall determine the additional risk adjusting multiplier for each credit institution by combining the risk indicators referred to in Article 5 of this Decision, in accordance with the formula and the procedures set out in Annex 1 to this Decision.
- (2) The Central Bank shall determine the annual contribution of each credit institution for each calendar year, by multiplying the basic annual contribution by the additional risk adjusting multiplier, in accordance with the formula and the procedures set out in Annex 1 to this Decision.
- (3) The risk adjusting multiplier referred to in paragraph (2) of this Article shall range between 0.8 and 1.5.

New credit institutions or change of status

Article 9

- (1) Where a credit institution is subject to supervision for only part of a calendar year, its partial annual contribution shall be collected together with the annual contribution due for the subsequent contribution period.
- (2) A change of status of a credit institution during the calendar year shall not have an effect on the annual contribution to be paid in that particular year.

III. REPORTING TO THE CENTRAL BANK

Reporting obligations of credit institutions

Article 10

- (1) A credit institution shall provide the Central Bank with the information referred to in Annex 2, which is attached to this Decision and makes an integral part thereof, as at 31 December of the previous year, by 28 February of the current year.
- (2) Where a credit institution fails to submit all the information referred in paragraph (1) of this Article within the prescribed timeframe, the Central Bank shall use estimates or its own assumptions in order to calculate the annual contribution of the credit institution concerned.
- (3) Where the information submitted to the Central Bank in accordance with paragraph (1) of this Article requires updates or corrections after the audit of financial statements or for another reason, the credit institution shall submit such updates or corrections to the Central Bank without undue delay.
- (4) Where the credit institution fails to provide information referred to in paragraph (1) of this Article within the prescribed timeframe, the Central Bank may assign the credit institution concerned to the highest risk adjusting multiplier as referred to in Article 8 paragraph (3) of this Decision.

Cooperation arrangements

Article 11

- (1) In order to ensure that the contributions are in fact paid, the supervisory function of the Central Bank shall assist the resolution function of the Central Bank in carrying out any obligation under this Decision if the latter so requests.
- (3) The supervisory function of the Central Bank shall provide the resolution function of the Central Bank any data and information required to calculate the annual contributions, in particular any data and information related to the additional risk adjustment and any relevant waivers that the Central Bank has granted to credit institutions pursuant to the Law on Credit Institutions and the Decision on Capital Adequacy.

Provision of data on deposit guarantee schemes

Article 12

- (1) By 31 January of the current year, the Deposit Protection Fund shall provide the Central Bank with the calculation of the average amount of covered deposits in the previous year, for each credit institution.
- (2) The average amount of deposits referred to in paragraph (1) of this Article for each credit institution shall be calculated by dividing the sum of covered deposit amounts of a credit institution at the end of each quarter by four.

IV. DETERMINING THE AMOUNT OF ANNUAL CONTRIBUTIONS

Decision on determining the amount of annual contributions

Article 13

- (1) The Central Bank shall notify a credit institution of its decision determining the annual contribution due by that credit institution, at the latest by 15 May of current year.
- (2) The Central Bank shall deliver the decision referred to in paragraph (1) of this Article to credit institutions:
 - 1) electronically or by other comparable means of communication allowing for an acknowledgment of receipt, or
 - 2) by registered mail with a form of acknowledgment of receipt.
- (3) The decision referred to in paragraph (1) of this Article shall specify the conditions and the means by which the annual contribution of a credit institution shall be paid, as well as the share of irrevocable payment commitments that the Central Bank has granted to the credit institution concerned in accordance with Article 149 paragraph (5) of the Law, where applicable.
- (4) When deciding upon the granting of irrevocable payment commitments referred to in paragraph (3) of this Article, the Central Bank shall only accept collateral that can be realised swiftly, including in the event of a resolution decision over the weekend, and which have been conservatively valued.
- (5) In the event of non-payment or partial payment of contributions, the credit institution concerned shall incur a default interest in accordance with the law governing default interest rate.

Updates in the annual contribution

Article 14

- (1) Where the information submitted by the credit institution to the Central Bank is subject updates in accordance with Article 10 paragraph (3) of this Decision, the Central Bank shall adjust the annual contribution in accordance with the updated information upon the calculation of the annual contribution of that credit institution for the following calendar year.
- (2) Any difference between the annual contribution calculated and paid and the calculation of contribution on the basis of updated information shall be settled by adjusting the annual contribution due for the following calendar year, and that adjustment shall be made by decreasing or increasing the contribution due for the following calendar year.

IV. TRANSITIONAL AND FINAL PROVISIONS

Calculation of contributions for 2022

Article 14a

By way of derogation from Article 10 paragraph (1) of this Decision, a credit institution shall provide the Central Bank with the information referred to in Annex 2 to this Decision, as at 31 March 2022, by 30 April 2022.

Entry into force

Article 15

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

PROCEDURE FOR CALCULATING ANNUAL CONTRIBUTIONS OF CREDIT INSTITUTIONS

The procedure for calculating annual contributions of a credit institution shall consist of the following six steps:

STEP 1

Calculation of the raw indicators

The Central Bank shall calculate the risk indicators by applying the following measures:

Pillar	Indicator	Measures
Risk exposure	Own funds and eligible liabilities held by the credit institution in excess of MREL	$\frac{\text{Own funds and eligible liabilities}}{\text{Total liabilities including own funds}} - \text{MREL}$ <p>where, for the purpose of this indicator:</p> <ul style="list-style-type: none"> - own funds shall mean the sum of Tier 1 and Tier 2 Capital in accordance with the definition set out in Article 70 of the Decision on Capital Adequacy. - eligible liabilities shall mean the liabilities and capital instruments as set out in the regulation governing minimum requirement for own funds and eligible liabilities. - total liabilities shall mean the liabilities in the balance sheet of a credit institution. - derivative liabilities shall be included in the total liabilities on the basis that full recognition is given to counterparty netting rights. - MREL shall mean the minimum requirement for own funds and eligible liabilities as defined in Article 29 paragraph (1) of the Law on Resolution of Credit Institutions.
Risk exposure	Leverage Ratio	Leverage Ratio shall mean the ratio as defined in Article 563 of the Decision on Capital Adequacy.
Risk exposure	Common Equity Tier 1 Capital Ratio (CET 1)	Common Equity Tier 1 Capital Ratio shall mean the ratio as defined in Article 114 paragraph (2) item 1) of the Decision on Capital Adequacy.
Risk exposure	TRE / Total Assets	<p>where:</p> <ul style="list-style-type: none"> - the total risk exposure (TRE) shall mean the total risk exposure amount as defined in Article 114 paragraph (3) of the Decision on Capital Adequacy - total assets shall mean the assets in the balance sheet of a credit institution.
Stability and variety of funding	Net Stable Funding Ratio (NSFR)	Net Stable Funding Ratio (NSFR) shall mean the net stable funding the as prescribed in Article 52 of the Decision on Liquidity Risk Management in Credit Institutions.
Stability and variety of funding	Liquidity Coverage Ratio (LCR)	Liquidity Coverage Ratio (LCR) shall mean the Liquidity Coverage Ratio referred to in Article 114 paragraph (4) of the Law on Credit Institutions.
Importance of a credit institution to the stability of the financial system or economy	Share of interbank loans and deposits	$\frac{\text{Interbank loans} + \text{Interbank deposits}}{\text{Total interbank loans and deposits}}$ <p>where:</p> <p>Interbank loans are defined as the sum of the carrying amounts of loans and advances to credit institutions and other business undertakings from the financial sector.</p> <p>Interbank deposits are defined as the carrying amount of the deposits of credit institutions and other business undertakings from the financial sector.</p>

STEP 2

Discretization of the indicators

1. In the formula that follows, n indexes credit institutions, i indexes indicators within pillars and j indexes pillars.

2. For each raw indicator resulting from Step 1, x_{ij} , except for the indicator ‘extent of previous extraordinary public financial support’, the Central Bank shall calculate the number of bins, k_{ij} , as the nearest integer to:

$$1 + \log_2(N) + \log_2 \left(1 + \frac{|g_{ij}|}{\sigma_g} \right),$$

where:

- N is the number of credit institutions, contributing to the Resolution Fund, for which the indicator is calculated;

$$g_{ij} = \frac{\frac{1}{N} \sum_{n=1}^N (x_{ij,n} - \bar{x})^3}{\left[\frac{1}{N-1} \sum_{n=1}^N (x_{ij,n} - \bar{x})^2 \right]^{3/2}},$$

$$\bar{x} = \frac{\sum_{n=1}^N x_{ij,n}}{N};$$

$$\sigma_g = \sqrt{\frac{6(N-2)}{(N+1)(N+3)}}.$$

3. For each indicator, except for the indicator ‘extent of previous extraordinary public financial support’, the Central Bank shall assign the same number of credit institutions to each bin, starting by assigning credit institutions with the lowest values of the raw indicator to the first bin. In case the number of credit institutions cannot be exactly divided by the number of bins, each of the first r bins, starting from the bin containing the credit institutions with the lowest values of the raw indicator, where r is the remainder of the division of the number of institutions, N , by the number of bins, k_{ij} , is assigned one additional credit institution.

4. For each indicator, except for the indicator ‘extent of previous extraordinary public financial support’, the Central Bank shall assign to all the credit institutions contained in a given bin the value of the order of the bin, counting from the left to the right, so that the value of the discretized indicator is defined as $lij, n = 1, \dots, kij$.

5. This Step shall apply to the indicators listed under Article 5 paragraph (1) item 4) indents 1 and 2 of this Decision only if the Central Bank determines them as continuous variables.

STEP 3

Rescaling of the indicators

The Central bank shall rescale each indicator resulting from Step 2, I_{ij} , over the range 1-1 000 by applying the following formula:

$$RI_{ij,n} = (1\ 000 - 1) * \frac{I_{ij,n} - \min_n I_{ij,n}}{\max_n I_{ij,n} - \min_n I_{ij,n}} + 1 ,$$

where the arguments of the minimum and the maximum functions shall be the values of all credit institutions, contributing to the Resolution Fund, for which the indicator is calculated.

STEP 4

Inclusion of the assigned sign

1. The Central Bank shall apply the following signs to the indicators:

Pillar	Indicator	Sign
Risk exposure	Own funds and eligible liabilities held by the credit institution in excess of the MREL	-
Risk exposure	Leverage Ratio	-
Risk exposure	Common Equity Tier 1 Capital Ratio (CET 1)	-
Risk exposure	TRE / Total assets	+
Stability and variety of funding	Net Stable Funding Ratio (NSFR)	-
Stability and variety of funding	Liquidity Coverage Ratio (LCR)	-
Importance of a credit institution to the stability of the financial system or economy	Share of interbank loans and deposits	+
Additional risk indicators to be determined by the Central Bank	Institutional Protection Scheme Membership	-
Additional risk indicators to be determined by the Central Bank	Extent of previous extraordinary public financial support	+

For indicators with positive sign, higher values correspond to higher riskiness of a credit institution. For indicators with negative sign, higher values correspond to lower riskiness of a credit institution.

The Central Bank shall determine the indicators of trading activities, off-balance sheet exposures, derivatives, complexity and resolvability, and specify their sign accordingly.

2. The Central Bank shall apply the following transformation to each rescaled indicator resulting from Step 3, $RI_{ij,n}$, in order to include its sign:

$$TRI_{ij,n} = \begin{cases} RI_{ij,n} & \text{if sign} = '-' \\ 1001 - RI_{ij,n} & \text{if sign} = '+' \end{cases}$$

STEP 5

Calculation of the composite indicator

1. The Central Bank shall aggregate the indicators i within each pillar j through a weighted arithmetic average by applying the following formula:

$$PI_{j,n} = \sum_{i=1}^{N_j} w_{ij} * TRI_{ij,n} = w_{1j} * TRI_{1j,n} + \dots + w_{N_j} * TRI_{N_j,n},$$

where:

w_{ij} is the weight of indicator i in pillar j as defined in Article 6 of this Decision;

N_j is the number of indicators within pillar j .

2. For the purposes of computing the composite indicator, the Central Bank shall aggregate the pillars j through a weighted geometric average by applying the following formula:

$$CI_n = \prod_j PI_{j,n}^{w_j} = PI_{1,n}^{w_1} * \dots * PI_{J,n}^{w_J},$$

where:

w_j is the weight of pillar j as defined in Article 6 of this Decision;

J is the number of pillars.

3. The Central Bank shall apply the following transformation in order for the final composite indicator to be defined as taking higher values for credit institutions with higher risk profiles:

$$FCI_n = 1\,000 - CI_n.$$

STEP 6

Calculation of the Annual Contributions

1. The Central Bank shall rescale the final composite indicator resulting from Step 5, **FCIn**, over the range defined in Article 8 of this Decision by applying the following formula:

$$\tilde{R}_n = (1,5 - 0,8) * \frac{FCI_n - \min_n FCI_n}{\max_n FCI_n - \min_n FCI_n} + 0,8 ,$$

where the arguments of the minimum and the maximum functions shall be the values of all credit institutions, contributing to the Resolution Fund, for which the final composite indicator is calculated.

2. The Central Bank shall compute the annual contribution of each credit institution **n**, as:

$$c_n = \mathbf{Cilj} * \frac{\frac{B_n}{\sum_{p=1}^N B_p} \cdot \tilde{R}_n}{\sum_{p=1}^N \left(\frac{B_p}{\sum_{q=1}^N B_q} \cdot \tilde{R}_p \right)},$$

where:

p, q index credit institutions.

Target is the annual target level as determined by the Central Bank in accordance with Article 3 paragraph (2) of this Decision.

B_n is the amount of liabilities (excluding own funds) less covered deposits of a credit institution **n**, as adjusted in accordance with Article 4 of this Decision.

ANNEX 2

Data to be submitted to the Central Bank by the credit institutions for the purposes of calculating the contributions to the Resolution Fund (financial data as at 31 December of the previous year)

- 1) Statement of financial position (balance sheet);
- 2) Statement of comprehensive income (profit and loss statement);
- 3) Liabilities covered by Article 4 paragraph (1) of this Decision;
- 4) Liabilities arising from derivatives contracts;
- 5) Liabilities arising from derivatives contracts valued in accordance with Article 4 paragraphs (3) and (4) of this Decision;
- 6) Total Risk Exposure;
- 7) Own funds;
- 8) Common Equity Tier 1 Capital Ratio (CET 1);
- 9) Eligible liabilities;
- 10) Leverage Ratio;
- 11) Liquidity Coverage Ratio (LCR);
- 12) Net Stable Funding Ratio (NSFR);
- 13) Interbank loans;
- 14) Interbank deposits.

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%