

Pursuant to Article 44 paragraph (2) item 3) of the Central Bank of Montenegro Law (OGM, 40/10, 06/13, 70/17), and Article 105 paragraph (5) of the Law on Resolution of Credit Institutions (OGM 72/19), the Council of the Central Bank of Montenegro, at its meeting held on 1 December 2020, passed the following

DECISION
ON THE MORE DETAIL CONTENT OF A REORGANISATION PLAN OF A
CREDIT INSTITUTION UNDER RESOLUTION AND THE MANNER OF
REPORTING ON THE IMPLEMENTATION OF THE PLAN

I. BASIC PROVISION

Subject matter

Article 1

This Decision governs in more detail the content of the reorganisation plan of a credit institution under resolution, or a legal persons referred to in Article 3 items 2), 3), and 4) of the Law on Resolution of Credit Institutions (OGM 72/19) – (hereinafter: the Law), to which a bail-in tool shall be applied for the purpose of recapitalisation (hereinafter: the reorganisation plan) and the manner of reporting to the Central Bank (hereinafter: the Central Bank) on the implementation of that plan.

II. CONTENTS OF THE REORGANISATION PLAN

Elements of the plan

Article 2

- (1) A reorganisation plan should include at least the following elements:
- 1) historic and financial account of the factors that contributed to the difficulties of the credit institution or a legal person referred to in Article 3 items 2), 3) or 4) of the Law, including relevant performance indicators that deteriorated during the period preceding the resolution and the reasons for their deterioration;
 - 2) a short description of crisis prevention measures and crisis management measures, where the Central Bank, in pursuing its mandate as the supervisory or resolution authority, or a credit institution, or a legal person referred to in Article 3 items 2), 3) or 4) of the Law, have applied such measures before submitting the business reorganisation plan;
 - 3) a description of the business reorganisation strategy and measures intended to restore the long-term viability of the credit institution or the legal person referred to in Article 3 items 2), 3) or 4) of the Law during the reorganisation period, including a description of the following elements:
 - the reorganised business model;
 - the measures implementing the business reorganisation strategy at the level of a group, entity and business lines;
 - the target duration of the reorganisation period and important milestones;
 - the interaction with the Central Bank in pursuing its mandate as the supervisory and resolution authority;

- the strategies regarding the involvement of relevant external stakeholders such as labour unions or organisations;
- the internal and external communication strategy for the business reorganisation measures.

(2) Where parts of the credit institution, or a legal person referred to in Article 3 items 2), 3) and 4) of Law are to be liquidated or sold, the reorganisation strategy referred to in paragraph (1) item 3) of this Article shall identify the following elements:

- 1) the relevant entity or business line, the method for the liquidation or sale, including the underlying assumptions and any possible expected losses;
- 2) expected timescale;
- 3) any financing or services provided by or to the remaining part of the credit institution or a legal person referred to in Article 3 items 2), 3) and 4) of Law.

(3) Any proceeds from the divestment of assets, entities or business lines envisaged by the business reorganisation plan shall be calculated prudently and with reference either to a reliable benchmark or valuation, such as an expert valuation, a market sounding exercise or the value of similar business lines or entities, whereby the calculation shall take into account the likelihood of loss realisation.

(4) For the parts of the credit institution, or a legal person referred to in Article 3 items 2), 3) and 4) of the Law that will not be liquidated or sold, the business reorganisation plan shall indicate ways to remedy any shortcomings in their operation or performance that may have an impact on their long-term viability, even if these shortcomings are not directly related to the failure of the credit institution, or legal person referred to in Article 3 items 2), 3) and 4) of the Law.

(5) The measures set out in the business reorganisation plan shall take into account the strengths and weaknesses of the credit institution, or legal person referred to in Article 3 items 2), 3) and 4) of the Law and its reorganised business model by reference to the economic and market environment in which it operates.

(6) The reorganisation strategy may include measures previously identified in the recovery plan or in the resolution plan, provided the latter is accessible to the credit institution or legal person referred to in Article 3 items 2), 3) and 4) of the Law, and when such measures remain valid following the resolution.

Financial performance – Regulatory requirements

Article 3

(1) The business reorganisation plan should include the projected financial performance of the credit institution or the legal person referred to in Article 3 items 2), 3) and 4) of the Law during the reorganisation period and show the restoration of the long-term viability.

(2) The business reorganisation plan referred to in paragraph (1) of this Article shall specifically set out:

- 1) the costs and the impact of the reorganisation on the statement of financial position (hereinafter: the balance sheet) and the statement of comprehensive

income (hereinafter: the profit and loss statement) of the credit institution or legal person referred to in Article 3 items 2) 3) or 4) of the Law;

- 2) a description of the funding requirements during the reorganisation period and potential sources of funding;
 - 3) the manner in which the credit institution or the legal person from Article 3 items 2) 3) or 4) of the Law will be able to operate covering all its costs, including depreciation and financial charges and provide an acceptable financial return by the end of the reorganisation period;
 - 4) a post-resolution balance sheet reflecting the new debt and capital structure and the write down of assets based on the temporary valuation of assets and liabilities of the credit institution referred to in Article 3 items 2) 3) and 4) of the Law, which is performed in line with Article 44 or the ex-post valuation performed in line with Article 47 of the Law;
 - 5) a projection of the key financial metrics at the level of a group, person and business line relating to, in particular, liquidity indicators, loan performance, funding model, profitability and efficiency.
- (3) Reorganisation period, within the meaning of this Decision, shall be the period of reasonable timescale, between the application of the bail-in tool and the moment when the credit institution or the legal person referred to in Article 3 items 2), 3) or 4) of the Law, under resolution is expected to have restored its long-term viability, during which measures included in the business reorganisation plan are implemented.
- (4) The business reorganisation plan shall set out the actions the credit institution or the legal person referred to in Article 3 items 2), 3) or 4) of the Law will take to ensure that it is able to fulfil all applicable prudential and other regulatory requirements on a forward-looking basis as quickly as possible and at the latest by the end of the reorganisation period, including the minimum requirement for own funds and eligible liabilities within the meaning of Article 29 of the Law.

Viability assessment of the business reorganisation plan

Article 4

- (1) The business reorganisation plan shall contain sufficient information to allow the Central Bank in pursuing its mandate as the resolution and supervisory authority to assess the feasibility of the proposed measures.
- (2) For the purpose of paragraph (1) of this Article, the business reorganisation plan shall set out as a minimum the following:
- 1) the assumptions regarding the expected macro-economic and market developments in the baseline scenario, compared to the appropriate sector-wide benchmarks;
 - 2) a summary of alternative reorganisation strategies or set of measures and justification as to why the business reorganisation plan's measures have been chosen to restore long-term viability of the credit institution or legal person referred to Article 3 items 2), 3) or 4) of the Law, while respecting the resolution objectives and principles;

(3) Baseline scenario, within the meaning of paragraph (2) item 1) of this Article, means the business scenario, which resolution administration of the credit institution or legal person referred to in Article 3 items 2), 3) and 4) of the Law considers as most likely to materialise in the process of restoring long-term viability of their operations.

(4) The business reorganisation plan should provide information to support the Central Bank in their detailed analysis of the reorganisation's impact on the critical functions of the credit institution or legal person referred to in Article 3 items 2), 3) and 4) of the Law and on financial stability.

(5) The business reorganisation plan should include an analysis of alternative set of key underlying assumptions, in which best-case and worst-case scenarios are considered, and the restoration of long-term viability shall be possible under all scenarios, although the period, the measures and the financial performance may differ.

(6) For the best-case and worst-case scenarios, the business reorganisation plan shall include a summary of the key information used in developing each scenario and the performance of the credit institution or legal person referred to in Article 3 items 2), 3) and 4) of the Law under each scenario.

(7) Summary of key information from paragraph (4) of this Article should include:

- 1) the underlying assumptions, (such as key macro-economic variables);
- 2) the projection of the balance sheet and the profit and loss statement; and
- 3) the key financial indicators at the level of a group, entity and business line.

Implementation of the business reorganisation plan and adjustments of the strategies

Article 5

(1) The business reorganisation plan should include specific, appropriate and at least quarterly implementation milestones and performance indicators, which may be adjusted, in line with the process identified in paragraph (2) of this Article.

(2) The business reorganisation plan should provide for the possibility for the resolution administration to reconsider the reorganisation strategy or individual measures where their implementation is no longer expected to contribute to the restoration of the long-term viability within the contemplated timescale.

(3) The resolution administration shall inform the Central Bank about adjustments referred to in paragraph (2) of this Article through the regular progress report on the implementation of the business reorganisation plan referred to in Article 6 of this Decision, and where necessary for reasons of urgency, such adjustments may also be communicated through extraordinary reports.

(4) The resolution administration shall not deviate from the implementation of the business reorganisation plan before obtaining approval for the adjustments from the Central Bank according to the procedure of assessment of business reorganisation plan set out in Article 106 of the Law.

III. REPORTING TO THE CENTRAL BANK

Reporting on the implementation of the business reorganisation plan

Article 6

(1) Reporting to the Central Bank on the implementation of the business reorganisation plan to be submitted pursuant to Article 106 paragraph (5) of the Law shall include a review and assessment of the progress of the implementation of business reorganisation plan, covering at least the following:

- 1) the milestones that are met, the measures that are realised and how their impact compares to that envisaged by the business reorganisation plan;
- 2) the performance of the credit institution or legal person referred to in Article 3 items 2), 3) or 4) of the Law and a comparison with the forecasts of the business reorganisation plan and previous progress reports;
- 3) the reasons why any milestones or performance indicators have not been met and proposals to remedy the delays or shortfalls;
- 4) any other issues arising in the execution of the business reorganisation plan that may prevent the restoration of the long-term viability of the credit institution or legal person referred to in Article 3 items 2), 3) and 4) of the Law;
- 5) the upcoming measures and milestones and an assessment of how likely they are to be met;
- 6) updated financial performance projections;
- 7) where necessary and justified, a proposal for adjustments to individual measures, milestones or performance indicators, in accordance with the provisions of Article 5 paragraph (2) of this Decision;

(2) The Central Bank may at all times require the resolution authority of the credit institution or legal person referred to in Article 3 items 2), 3) and 4) of the Law to provide any information relating to the implementation of the business reorganisation plan.

IV. FINAL PROVISION

Entry into force

Article 7

This Decision shall enter into force on the eighth day following that of its publication in the Official Gazette of Montenegro, and it shall apply from the date of application of the Law on Resolution of Credit Institutions (OGM 72/19).

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

Decision number, 0101-7151-5/2020
Podgorica, 1 December 2020

**CHAIRMAN
GOVERNOR,**

Radoje Žugić, m.p.