

Pursuant to Article 44 paragraph 2 item 3) of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17), Article 118 paragraph 2, and in conjunction with Article 220 of the Law on Credit Institutions (OGM 72/19, 8/21), the Council of the Central Bank of Montenegro, at its meeting held on 30 December 2020, passed the following

DECISION
AMENDING THE DECISION ON THE CRITERIA AND THE MANNER OF
CLASSIFICATION OF ASSETS AND CALCULATION OF PROVISIONS FOR
POTENTIAL LOAN LOSSES OF A CREDIT INSTITUTION

Article 1

In the Decision on the criteria and the manner of classification of assets and calculation of provisions for potential loan losses of a credit institution (OGM 127/20) Article 17 shall be amended as follows:

“Debtor’s creditworthiness

Article 17

(1) The assessment of debtor’s creditworthiness shall be based on the assessment of the capacity and readiness of the debtor to completely and timely meet their obligations to the credit institution from primary sources of debt repayment.

(2) The primary sources of debt repayment mean, in particular, cash from debtor’s operating and other activities.

(3) When assessing debtor’s creditworthiness, a credit institution shall analyse:

- 1) assessment of the adequacy of the level of recorded cash flows with respect to its liabilities over the previous period;
- 2) assessment of future cash flows;
- 3) assessment of indebtedness of the debtor that is a natural person, or business indicators based on the indicators of profitability, liquidity, indebtedness, i.e. capitalisation, if the debtor is a legal person;
- 4) assessment of the quality of the investment plan and programme for the implementation of which the credit institution provides financial support, in the case of investment or project financing;
- 5) exposure to foreign exchange and interest rate risk based on receivables with a currency clause, receivables in foreign currency and receivables contracted with a variable interest rate, including off-balance sheet liabilities with a currency clause and off-balance sheet liabilities in foreign currency.

(4) When assessing indebtedness of the debtor that is a natural person referred to in paragraph (3) item 3) of this Article, the credit institution shall calculate at least the following indicators:

- 1) LTI (loan-to-income), represents a ratio of the loan granted to total annual income of the debtor that is a natural person, given as percentage.
- 2) DTI (debt-to-income), represents a ratio of the total debt arising from loans to total annual income of the debtor that is a natural person, given as percentage.
- 3) LSTI (loan-service-to-income), represents a ratio of annual loan repayment cost to total annual income of the debtor that is a natural person, given as percentage.
- 4) DSTI (debt-service-to-income), represents a ratio of annual repayment cost of total debt arising from loans to total annual income of the debtor that is a natural person, and
- 5) LTV (loan-to-value), represents a ratio of a granted loan to estimated value of collateral.

(5) The total annual income of the debtor that is a natural person referred to in paragraph (4) of this Article shall include gross wages and salaries, compensations and other income of the debtor that is a natural person that can be proven, less taxes and other obligations arising from that income.

(6) The annual loan repayment cost referred to in paragraph (4) item 3) of this Article and the annual repayment cost of total debt arising from loans referred to in item 4) of that paragraph shall be the total amount paid by the debtor that is a natural person, expressed annually.

(7) A credit institution shall, on the basis of the indicators referred to in paragraph (4) of this Article used for credit risk management, determine the acceptable level of indebtedness when granting loans to natural persons.

(8) The credit institution shall analyse credit risk for exposures referred to in paragraph (3) item 5) of this Article from the aspect of possible change in the financial position of the debtor, which could occur due to changes in the euro exchange rate against other currencies and changes in interest rates, that is from the aspect of debtor's ability to meet its contractually agreed credit obligations towards the credit institution in potentially changed circumstances."

Article 2

In Article 18 paragraph (1) the wording: "paragraphs (7) and (8)" shall be replaced by the following: "paragraphs (7) and (10)".

Article 3

In Article 24 paragraph (2) item 1) the wording: "business undertaking" shall be replaced by the following: "legal person".

Article 4

In Article 35 paragraph (3) the wording: "Centra" shall be deleted.

Article 5

Until the application of the provisions of Article 197 of the Decision on Capital Adequacy, the provisions of Article 504c paragraph (2) of the Decision on Capital Adequacy shall apply to the provisions of Article 18, Article 35, paragraph (1), item 3) and paragraph (3), item 1) of this Decision.

Article 6

This Decision shall enter into force on the 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 Credit Institutions (OGM 72/19, 8/21).

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

**CHAIRMAN
GOVERNOR,**

Radoje Žugić, m.p.

No. 0101-9128-5/2021
Podgorica, 30 December 2021