

Pursuant to Article 44 paragraph (2) item 3) of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17), and Article 161 paragraph (4) of the Law on Credit Institutions (OGM 72/19), the Council of the Central Bank of Montenegro, at its meeting held on 28 December 2020, passed the following

DECISION ON IDENTIFYING OTHER SYSTEMICALLY IMPORTANT CREDIT INSTITUTIONS

Subject matter

Article 1

(1) This decision shall govern in more detail the manner in which the Central Bank of Montenegro (hereinafter: the Central Bank) shall identify credit institutions as other systemically important credit institutions (hereinafter: O-SICs).

(2) The Central Bank shall identify the O-SICs on an individual and on consolidated basis.

Assessment of the systemic importance of credit institutions

Article 2

(1) The Central Bank shall assess the systemic importance of credit institutions on the basis of the following criteria:

- 1) size of a credit institution;
- 2) importance of a credit institution for the economy of Montenegro;
- 3) significance of cross-border activities of a credit institution; and
- 4) interconnectedness of a credit institution or a group with the financial system.

(2) Each criteria referred to in paragraph (1) of this Article shall consist of one or more mandatory indicators whose valuation shall determine whether a credit institution meets the conditions to be identified as an O-SICI.

Methodology for identifying O-SICs

Article 3

The Central Bank shall identify credit institutions as O-SICs by applying the Methodology for identifying O-SICs, which is attached to this decision and forms an integral part thereof.

Dynamics of the identification of O-SICs

Article 5

Identification of O-SICs shall be performed once a year, no later than the end of March of the current year.

Reporting on O-SICIs

Article 6

(1) After identifying a credit institution as an O-SICI, the Central Bank shall deliver to that credit institution a decision identifying it as an O-SICI.

(2) Where, in identifying a credit institution as an O-SICI, the Central Bank uses the supervisory assessment from the Methodology referred to in Article 3 of this Decision, the Central Bank shall, together with the decision referred to in paragraph (1) of this Article, deliver to the credit institution a notification containing:

- 1) optional indicators from the Methodology referred to in Article 3 of this Decision used for identifying the credit institution as an O-SICI;
- 2) reasons for assessing the optional indicators referred to in item 1) of this paragraph as relevant for Montenegro;
- 3) reasons for assessing the credit institution as systemically important in terms of the particular indicators.

(3) The Central Bank shall publish on its website a notification containing:

- 1) the list of O-SICIs;
- 2) for O-SICIs referred to in paragraph (2) of this Article the notification referred to in that paragraph;
- 3) capital buffer rates for O-SICIs, as determined in accordance with Article 163 of the Law.

Final provision

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).

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

Decision number 0101-7725-9/2020

Podgorica, 28 December 2020

**CHAIRMAN
GOVERNOR,**

Radoje Žugić, m.p.

METHODOLOGY FOR IDENTIFYING O-SICIs

I. Procedure for identifying O-SICIs

- 1.** The identification of O-SICIs shall be performed on a yearly basis and the procedure should comprise two steps:
 - in the first step, the systemic importance of credit institutions shall be determined by calculating a score for each credit institution in the manner described in Chapter II- Scoring Method,
 - in the second step, the supervisory assessment is performed in the manner described in Chapter III- Supervisory Assessment.

- 2.** For the procedure of identifying credit institutions as O-SICIs in accordance with this Methodology, data shall be obtained covering a set of indicators contained in Table 1- Mandatory Indicators and in Table 2- Definition of Mandatory Indicators, referred to in item 17 of this Methodology, as at 31 December of the year preceding the year in which that assessment is made.

II. Scoring method

- 3.** For each credit institution with registered head office in Montenegro, scores for identifying a credit institution as an O-SICI shall be calculated on a consolidated and individual basis.

- 4.** The scores for identifying a credit institution as an O-SICI shall be calculated for a set of criteria for the assessment of systemic importance, in particular:
 - size of a credit institution,
 - importance of a credit institution for the economy of Montenegro, capturing its substitutability and its share in the financial market infrastructure,
 - complexity — including from cross-border activity of a credit institution,
 - interconnectedness of a credit institution with the financial system.

- 5.** Each of the criteria referred to in item 4 of this Methodology shall consist of one or more mandatory indicators, whereon equal weights shall be applied to indicators within a particular criterion.

- 6.** If any of the mandatory indicators is not available, appropriate proxies shall be selected.

- 7.** The scores for identifying a credit institution as an O-SICI for each credit institution shall be calculated in the following manner:

- The indicator value of each credit institution shall be divided by the aggregate amount of the respective indicator values summed across all credit institutions in Montenegro (the denominators).
- These denominators shall be multiplied by 10,000 so as to be expressed in terms of basis points.
- Thereupon, basis points for categories referred to in item 4 of this Methodology shall be calculated by calculating a simple average of the indicator scores within each of these categories.
- Finally, the overall score is calculated for each credit institution, by taking a simple average of the scores for each category referred to in item 4 of this Methodology.

8. Credit institutions with a total score equal to or higher than 500 basis points shall be designated as O-SICs identified by applying the scoring method. This shall provide an appropriate separation of credit institutions according to the criterion of materiality, taking into consideration the specificities of Montenegro's banking system - the number of banks and level of concentration in the banking sector.

9. For the purposes of the scoring method referred to in item 7 of this Methodology, the denominators may include indicator values of branches of credit institutions from other countries operating in Montenegro, if the obtained scores adequately reflects Montenegro's banking sector.

10. In the scoring process for branches of credit institutions referred to in item 9) of this Methodology, the following may be taken into consideration:

- the overall relevance of these branches of credit institutions from other countries in Montenegro's banking system; and
- data availability, comparability and appropriateness regarding the activity of branches of credit institutions from other countries and their designation as O-SICs, where relevant for the application of prudential requirements.

III. Supervisory assessment

11. After the application of the scoring methodology, the supervisory assessment is carried out to determine whether, in addition to credit institutions already designated as O-SICs, further credit institutions should be designated as O-SICs based on the indicator scores in any of the categories referred to in item 4 of this Methodology and/or on additional qualitative and/or quantitative indicators of systemic importance. In that case, the indicators for which it is considered that they adequately reflect the systemic risk in the domestic economy shall be selected. However, a credit institution whose total score does not exceed 4.5 basis points may not be designated as O-SIC.

12. During the supervisory assessment, the Central Bank shall only apply indicators listed in Table 1 (Mandatory indicators) or Table 3 (Optional indicators) referred to in item 17 of this Decision.

IV. Setting the O-SICI buffer

13. The Central Bank shall set the buffer that the individual O-SICIs shall apply.

14. The O-SICI buffer rate shall be determined taking into account indicators of systemic importance, historical losses in the system and supervisory assessments, in relation to other macroprudential instruments as a segment of the coordinated Central Bank policy aimed at its main objective, which is to foster and maintain financial stability.

15. The basis for setting the buffer levels shall be the equal expected impact method and the bucketing method, where the buffer level shall be determined in the aim of minimising the effects of a disturbance in an O-SICI on the entire system.

16. Within the legally allowed range of 0% to 2%, the buffer rates for an O-SICI may be allocated into several buckets in accordance with supervisory judgment.

V. Indicator tables

17. In the process of identifying credit institutions as O-SICIS the indicators provided in the tables below shall be used:

Table 1 – Mandatory indicators for the scoring

| Criterion | Indicator | Weight % |
|--|---|-----------------|
| size | total assets | 25.00 |
| importance for Montenegro's economy | value of domestic payment transactions | 8.33 |
| | private sector deposits | 8.33 |
| | private sector loans | 8.33 |
| complexity and cross-border activity | notional value of non-standardized derivative instruments | 8.33 |
| | cross-border liabilities | 8.33 |
| | cross-border receivables | 8.33 |
| interconnectedness with the financial system | intra-financial system liabilities | 8.33 |
| | intra-financial system assets | 8.33 |
| | issued debt securities | 8.33 |

Table 2 – Definitions of mandatory indicators for the scoring

| Indicator | Definition |
|--|--|
| total assets | total assets = total liabilities (the sum of liabilities and capital) |
| value of domestic payment transactions | value of sent, i.e. outgoing payments within the RTGS system of the CBCG's payment system, in the reporting year (excluding the intragroup payments) |

| | |
|---|---|
| private sector deposits | deposits of resident non-financial corporations and retail deposits |
| private sector loans | loans to resident non-financial corporations and retail loans |
| notional value of non-standardized derivative instruments | notional value of all non-standardized financial derivatives (i.e. all over-the-counter derivatives) regardless of whether they relate to assets or liabilities and whether they are held for trading or used as protection agreement |
| cross-border liabilities | liabilities to non-resident entities (excluding shares, i.e. capital) |
| cross-border claims | claims on non-resident entities (excluding cash) |
| intra-financial system liabilities | liabilities to resident credit institutions and other financial corporations |
| intra-financial system assets | claims on resident credit institutions and other financial corporations |
| issued debt securities | issued debt securities (bonds and other debt instruments) |

Table 3 – Optional indicators

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|--|
| Total exposures at default |
| Total risk weighted assets |
| Off-balance sheet items |
| Market capitalisation |
| Total exposures at default /Montenegro's GDP |
| Total Assets/ Montenegro's GDP |
| Private sector loans |
| Residential loans |
| Business loans |
| <i>Retail</i> loans |
| <i>Retail</i> deposits |
| Deposits guaranteed under deposit guarantee scheme |
| Corporate deposits |
| Any deposits |
| Number of retail customers |
| Share in clearing and settlement systems |
| Payment services provided to market participants or other entities |
| Assets under custody |
| Bond issuance underwriting |
| Share issuance underwriting |
| Holdings of bonds issued by resident entities |
| Number of deposit accounts — business |
| Number of deposit accounts — retail |
| Geographical breakdown of activity |
| Type of customers* |

| |
|--|
| Level 3 assets |
| Derivatives (assets and/or liabilities side) |
| Investment in trading and available for sale securities (taking into account highly liquid assets) |
| Number of subsidiaries |
| Number of foreign subsidiaries |
| Number of countries in which it operates |
| Degree of resolvability according to resolvability assessment |
| Foreign net revenue / total revenue |
| Non-interest income / total income |
| Value of repos |
| Value of reverse repos |
| Potential contagion through entities in conglomerate |
| Potential contagion through shareholders |
| Potential reputational contagion |
| Interbank claims and/or liabilities |
| Securities lending transactions |
| Market transaction volumes or values |
| Importance for an institutional protection scheme of which the entity is a member |
| Significant issuance of covered bonds |
| Securitised debt |
| Payment services provided |
| Connectivity to and from foreign banking system |
| Connectivity to and from foreign non-banking institutions |
| Assets held for trading |