

DECISION
ON IDENTIFYING OTHER SYSTEMICALLY IMPORTANT CREDIT INSTITUTIONS
(OGM 127/18 of 29 December 2020, 17/25 of 26 February 2025)

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 G-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 by 1 December of the current year.

Reporting on O-SICs

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

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-SICI.

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 claims	8.33
interconnectedness with the financial system	intra-financial system liabilities	8.33
	intra-financial system assets	8.33
	Table 27: 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
Table 27: Securities	issued debt securities (bonds and other debt instruments)

Table 3 – Optional indicators

Total exposures at default
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