

Pursuant to Article 44 paragraph (2) item 3) of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17, 125/23), and Article 113 paragraph (11) and Article 114 paragraph (12) of the Law on Credit Institutions (OGM 72/19, 8/21, 24/25), the Council of the Central Bank of Montenegro, at its meeting held on 25 July 2025, passed the following

DECISION ON LIQUIDITY RISK MANAGEMENT IN CREDIT INSTITUTIONS

I BASIC PROVISIONS

Subject matter

Article 1

This Decision shall prescribe the minimum standards for liquidity risk management in credit institutions as well as the obligations of credit institutions regarding requirements for liquidity coverage and stable sources of funding.

Definitions

Article 2

Terms used in this Decision shall have the following meaning:

- 1) risk profile means the measurement or assessment of all risks to which a credit institution is or might be exposed in its operations;
- 2) stress testing means the assessment of the impact of certain developments and processes, including micro- or macroeconomic scenarios, on the overall capital position of a credit institution or sources of funding and liquidity, by means of projecting the credit institution's capital sources and requirements or the impact of shocks on the overall liquidity position of the credit institution, including determining capital requirements;
- 3) scenario analysis means an assessment of the impact of a concurrent change in several risk factors on the financial position of a credit institution under clearly defined stress conditions;
- 4) sensitivity analysis means an assessment of the impact of a specific risk factor on the financial position of a credit institution wherein the cause of stress is not identified;
- 5) reputational risk means the risk of a loss of confidence in the integrity of a credit institution caused by adverse public opinion on the credit institution's operations, regardless of whether there are any grounds for such a public opinion or not;
- 6) liquidity buffer means the amount of liquid assets that a credit institution holds in accordance with Articles 19 to 30 of this Decision;
- 7) reporting currency means the currency used for the purposes of reporting in accordance with this Decision, expressed in EUR;

- 8) asset coverage requirement means the ratio of assets to liabilities as determined for credit enhancement purposes in relation to covered bonds;
- 9) public sector entity shall have the meaning as set out in the decision governing capital adequacy of credit Institutions (hereinafter: the Decision on Capital Adequacy);
- 10) micro, small and medium enterprise (SME) means a micro, small and medium-sized legal person as defined in the law governing accounting;
- 11) net liquidity outflows mean the amount which results from deducting liquidity inflows from its liquidity outflows in accordance with Articles 32 to 46 of this Decision;
- 12) level 1 assets mean assets of extremely high liquidity and credit quality in accordance with Article 25 of this Decision;
- 13) level 2 assets mean assets of high liquidity and credit quality in accordance with Articles 26 to 30 of this Decision;
- 14) deposit of a natural person or SME (hereinafter: retail deposit) means a liability to a natural person or to an SME, where the SME would qualify for the retail exposure class under the Standardised Approach or the Internal Rating Based Approach for credit risk, or a liability to a legal person which is eligible for the treatment set out in Article 195 paragraph (3) of the Decision on Capital Adequacy, and where the aggregate deposits by such SME or legal person at the level of a group of connected persons do not exceed EUR 500,000;
- 15) financial customer means a customer, including a customer belonging to a non-financial corporate group, that provides financial services listed in Article 5 of the Law on Credit Institutions (hereinafter: the Law) as its main activity, or is one of the following:
 - a credit institution;
 - an investment firm,
 - a securitisation special purpose entity (SSPE);
 - a collective investment undertaking (CIU);
 - a non-open ended investment scheme;
 - an insurance undertaking;
 - a reinsurance undertaking,
 - a financial holding company or mixed-financial holding company;
 - financial institution;
 - institution for occupational retirement provision;
- 16) stress means a sudden or severe deterioration in the solvency or liquidity position of a credit institution due to changes in market conditions or idiosyncratic factors as a result of which there is a significant risk that the credit institution becomes unable to meet its commitments as they fall due within the next 30 calendar days;
- 17) deposit broker means a natural or a legal person that places deposits from third parties, including retail deposits and corporate deposits but excluding deposits from financial clients, with credit institutions in exchange of a fee;
- 18) unencumbered assets mean assets which are not subject to any legal, contractual, regulatory or other restrictions preventing the credit institution from liquidating, selling, transferring, assigning or disposing of those assets via an outright sale or repurchase agreement;

- 19) non-mandatory overcollateralisation means any amount of assets which the credit institution is not obliged to attach to a covered bond issuance by virtue of legal or regulatory requirements, contractual commitments or for reasons of market discipline, including in particular where the assets are provided in excess of the minimum legal or regulatory overcollateralisation requirement applicable to the covered bonds under the regulations of Montenegro or a third country;
- 20) margin loans mean collateralised loans extended to customers for the purpose of taking leveraged trading positions;
- 21) derivative contracts mean the contracts referred to in Article 148 paragraph (8) of the Decision on Capital Adequacy;
- 22) cover pool means a set of assets securing the payment of obligations attached to covered bonds that is segregated from other assets held by the credit institution issuing the covered bonds;
- 23) convertible currencies mean the currencies of countries members of G10 (Belgium, France, Italy, Japan, the Netherlands, Canada, Germany, the USA, Sweden, Switzerland), the EEA member states (including Iceland, Liechtenstein, and Norway in addition the EU Member States), Australia, and New Zealand;
- 24) covered bonds mean bonds which are issued by a credit institution in accordance with the provisions of regulations governing the issuance of covered bonds, and that are secured by cover assets to which covered bond investors have direct recourse as preferred creditors;
- 25) personal investment company means an undertaking or a trust, the owner or beneficial owner of which is either a natural person or a group of closely connected natural persons, which was set up with the sole purpose of managing the assets of the owners and which does not carry out any other commercial, industrial or professional activity, and which may carry out activities such as segregating the owners' assets from corporate assets, facilitating the transmission of assets within a family or preventing a split of the assets after the death of a member of the family, provided these activities are connected to the main purpose of managing the owners' assets;
- 26) central government shall have the meaning specified under Article 10 paragraph (3) of the Law;
- 27) covered bonds programme means the structural features of a covered bonds issue that are determined by the regulations governing the issuance of covered bonds and by contractual terms and conditions, in accordance with the authorisation granted to the credit institution issuing the covered bonds;
- 28) cover pool liquidity buffer means liquidity buffer which, for the purpose of ensuring the investor protection, consists of liquid assets referred to in Article 19 of this decision and which is, over the next 180 days, available at all times to cover the net liquidity outflow, or the maximum cumulative net liquidity outflow of the covered bond programme;
- 29) committed credit or liquidity facility means a credit or liquidity facility that is irrevocable or conditionally revocable;
- 30) factor means any number between 0 and 1 which, multiplied by a certain amount, gives weighted amount or value referred to in Article 53 paragraph (1) of this Decision;

- 31) fair value of a netting set means the sum of the fair values of all the transactions included in a netting set;
- 32) funding liquidity risk means the risk that a credit institution will not be able to meet successfully both expected and unexpected current and future cash flow and collateral needs without affecting its regular daily operations or its financial performance;
- 33) market illiquidity risk means the risk that a credit institution will not be able to simply offset or eliminate a position at the market price because of market disruption or inadequate market depth.

II MINIMUM REQUIREMENTS FOR LIQUIDITY RISK MANAGEMENT

Liquidity risk management

Article 3

(1) When implementing the strategies, policies, processes, and systems for identifying, measuring and monitoring liquidity risk, in addition to activities set out in Article 113 paragraph (5) of the Law, a credit institution shall:

- 1) run stress testing and establish procedures for the credit institution's management board and senior management to act in cases of certain adverse stress test results;
- 2) have in place a credit institution funding plan/strategy;
- 3) establish assumptions on the behaviour of assets, liabilities and off-balance sheet, and assumptions on other relevant circumstances in such way that these assumptions correspond with the credit institution's activities and market conditions;
- 4) ensure diversification in the structure of the sources of funding and the access to the sources of funding;
- 5) set up an adequate information system.

(2) Acts adopted by a credit institution in accordance with the Law and this Decision for the purpose of liquidity risk management shall be deemed adequate where they:

- 1) are proportionate to the complexity, risk profile, scope of operations of a credit institution and the established risk tolerance;
- 2) provide liquidity risk management over appropriate sets of time horizons, including intra-day;
- 3) ensure the maintenance of adequate levels of liquidity buffers;
- 4) are tailored to business lines, currencies, and branches;
- 5) reflect the credit institution's importance in each state in which it carries out business; and
- 6) include adequate allocation mechanism of liquidity costs, benefits and risks

Risk tolerance

Article 4

Liquidity risk tolerance shall be established as a level of liquidity risk a credit institution is willing to take, taking into account its business model, total risk tolerance,

role in the financial system, financial condition, and the funding capacity allowing it to manage its liquidity under both normal and stressed conditions.

Risk management strategy and policies

Article 5

(1) Liquidity risk management strategy shall at least cover the objectives and basic principles for taking and managing liquidity risk.

(2) Policies and other acts of a credit institution relating to liquidity risk management shall cover in particular:

- 1) a detailed description of the liquidity risk management process with clearly defined competences and responsibilities of all participants (organisational units and established bodies within a credit institution) in relation to taking and managing liquidity risk;
- 2) a clearly defined reporting system on the credit institution's exposure to liquidity risk, and, in particular, timely reporting to the management body on the credit institution's liquidity position and other aspects relevant for appropriate liquidity risk management;
- 3) established internal liquidity risk exposure limits that must adequately reflect the credit institution's business orientation, i.e. the complexity of the activities it performs, specified periodicity of monitoring the compliance with the established limits and reporting to management body, and procedures defining the activities taken in the event of limit breaches;
- 4) establishment and maintenance of adequate levels of liquidity buffers, in accordance with the analysis of maturity match between assets and liabilities, and off-balance sheet positions for previously established time horizons;
- 5) assumptions of the trends of assets, liabilities and off-balance sheet positions, as well as assumptions of other relevant circumstances in accordance with credit institution's activities, and assumptions of inflows and outflows;
- 6) assets and liabilities' structure, including off-balance sheet liabilities and the assumptions regarding the asset liquidity and marketability;
- 7) measurement and monitoring of net cash flows, including intra-day liquidity management;
- 8) management of pledged and unencumbered assets, in accordance with Article 113 of the Law;
- 9) procedures for adequate oversight of encumbered assets;
- 10) policies for foreign currency operations;
- 11) defined level of interaction between the liquidity risk and other risks to which the credit institution is exposed, such as credit risk, market risk, interest rate risk, operational risk, legal, and reputational risk, which affect the credit institution's liquid position;
- 12) credit institution's obligation to review, on a regular basis, the interactions between the funding liquidity risk and market liquidity risk;
- 13) diversification and stability of the sources of funding, i.e. the credit institution's access to markets so that it reflects the credit institution's presence in its chosen

- funding markets, and the assessment of the credit institution's capacity to raise funds quickly from its sources under both normal and stressed conditions;
- 14) defined system for assessing all current and future inflows and outflows, including the estimation of funds required for off-balance sheet items;
 - 15) detailed description of internal control process, which defines appropriate control activities for monitoring the efficiency and effectiveness of the liquidity risk management system, i.e. the assessment of adequacy and reliability of financial information of the credit institution;
 - 16) cross-border liquidity management, liquidity management across different business lines, branches and subsidiary undertakings, and, where applicable, liquidity management within the group of credit institutions;
 - 17) stress testing and the analysis of different stress scenarios;
 - 18) contingency plan; and
 - 19) liquidity recovery plans.

(3) A credit institution operating in foreign currencies shall analyse the foreign currency liquidity, including the analysis of convertibility of foreign currencies.

(4) Where there are constraints with regard to the international transfer of liquidity surplus, a credit institution shall specify any such constraints in the policy referred to in paragraph (2) of this Article, and take them into account when managing liquidity risk.

Allocation mechanism

Article 6

(1) A credit institution shall align the allocation mechanism of liquidity costs, benefits, and risks (hereinafter: the allocation mechanism) referred to in Article 113 paragraph (4) of the Law with the established liquidity risk management system and liquidity risk tolerance, and establish an appropriate decision-making process regarding the liquidity costs allocation.

(2) A credit institution shall use the allocation mechanism in its process for internal pricing of products.

(3) The allocation mechanism shall include in particular the following:

- 1) the impact of current market conditions i.e. the direct costs of funding (e.g. cost of raising funds in the market, base yield curve), including other direct funding costs (e.g. difference between the transaction purchasing and selling prices, transaction price, cost of physical transfer of cash, etc.);
- 2) the situation of the credit institution itself (e.g. credit quality of credit institution, availability of funding sources);
- 3) characteristics of specific products in terms of liquidity (e.g. cost of early cancellation option, products available through e-banking or products with irregular cash flows); and
- 4) indirect costs of funding sources (e.g. liquidity mismatch cost, the cost of additional collateral, etc.).

(4) A credit institution shall regularly update the allocation mechanism, taking into account the impact of factors referred to in paragraph (3) of this Article.

(5) A credit institution shall ensure that a relevant control function is responsible for controlling and monitoring of the functioning of the allocation mechanism.

(6) A credit institution shall ensure that all relevant levels of management and all relevant organisational units are fully informed about the allocation mechanism and that they act in accordance with that mechanism.

Responsibility of the management board with respect to liquidity risk

Article 7

With respect to liquidity risk, the management board of a credit institution shall:

- 1) ensure the implementation of acts adopted for the purpose of liquidity risk management;
- 2) ensure that day-to-day obligations of the credit institution are met under both normal and stressed conditions, thus maintaining the appropriate liquidity buffer;
- 3) ensure necessary quality and timeliness of liquidity risk reports;
- 4) ensure the efficiency of internal controls embedded into the liquidity risk management system; and
- 5) adopt contingency and liquidity recovery plans.

Senior management's responsibilities with respect to liquidity risk

Article 8

With respect to liquidity risk, the senior management shall:

- 1) ensure the functioning of the liquidity risk management system and its efficiency in EUR and in other currencies;
- 2) set limits for liquidity risk management, and regularly revise them in accordance with the established liquidity risk tolerance;
- 3) establish an appropriate reporting system in case of breaches of limits, and the procedures for breaches of limits;
- 4) review the allocation mechanism at least annually; and
- 5) develop contingency and liquidity recovery plans, review these plans at least annually, and propose adjustments of internal acts to those plans.

Risk monitoring and reporting

Article 9

A credit institution shall include in its system of reporting liquidity risks to the management bodies, in particular, the monitoring of liquidity position in EUR and other currencies, liquidity indicators in relation to liquidity risk limits, stress testing results, and the like.

Cash flow measuring and monitoring

Article 10

- (1) A credit institution shall establish a system for assessing all current and future inflows and outflows, including the assessment of funds for off-balance sheet positions.
- (2) A credit institution shall manage liquidity risk with respect to future cash flows of assets and liabilities for:
 - 1) sources of contingent liquidity demand and related triggers associated with balance sheet positions (in the case of liquid funds shortfall); and
 - 2) currencies in which a credit institution has exposures.
- (3) A credit institution shall ensure the liquidity risk management in different time periods, taking into account the changes in intra-day liquidity needs of sources and funding capacity, short-term, medium-term and long-term liquidity needs and funding capacity, as well as potential vulnerabilities to events, activities and strategies of the credit institution in order to ensure that an adequate liquidity buffer levels are maintained.
- (4) Liquidity buffer referred to in paragraph (3) of this Article shall comprise sufficient liquid assets, specifically highly liquid, unencumbered liquid assets readily available at any moment to be used, without any legal or operational impediments, in various stress events (of different intensity and duration), including the loss or impairment of both unsecured and otherwise secured funding sources.
- (5) A credit institution shall regularly check the accuracy of input data used for calculating its liquidity position.

Funding sources

Article 11

A credit institution shall secure access to alternative sources of funding and in its liquidity risk management policy cover in particular:

- 1) potential funding sources and its projection, taking into account the long-term maturity gap, the business model, strategy, and liquidity risk tolerance;
- 2) the manner of active management of funding sources in the market;
- 3) the manner of establishing and maintaining cooperation with depositors and creditors, and monitoring frequency of use of available funding sources;
- 4) an assessment of access to financial markets and an assessment of available funds under normal circumstances and in stress situations;
- 5) an assessment of stability of funding sources and the risks affecting their stability;
- 6) monitoring of the concentration of sources of financing and limiting it, taking into account the assessment of specific funding instruments, geographical locations, and providers of funding sources; and
- 7) identification and the manner of use of the alternative funding sources (new issues of short- and long-term debt instruments, asset securitisation, the sale or repo transactions related to unencumbered, highly liquid assets, and the like).

Stress testing

Article 12

(1) A credit institution shall define, in its liquidity risk management policy or another act relating to liquidity risk stress testing, the procedures for the implementation and analysis of stress scenarios referred to in Article 113 paragraph (5) of the Law, as well as the frequency of their implementation, and, at least on a quarterly basis it shall:

- 1) establish the obligation of carrying out stress testing for shorter and longer periods of stress conditions;
- 2) establish the obligation of carrying out liquidity testing depending on the circumstances and the severity of those circumstances;
- 3) enable the relevant management body and senior management of the credit institution to analyse the stress testing results;
- 4) establish procedures for actions to be taken in cases of specific unfavourable stress testing results;

(2) A credit institution shall take into account, periodically review and revise as appropriate, the assumptions underlying the stress testing, and in particular:

- 1) a sudden withdrawal of retail deposits;
- 2) sources of funding with the early withdrawal option;
- 3) reduction of funding sources by major depositors;
- 4) additional contingent off-balance sheet exposures;
- 5) funding tenor;
- 6) the effects of any deterioration of credit institution's credit rating;
- 7) convertibility of foreign currencies and their availability in the foreign exchange markets; and
- 8) an estimate of future growth of balance sheet total.

(3) When carrying out stress testing, a credit institution shall calculate the impact on liquidity for all positions with the possibility of margin calls.

(4) Stress testing results shall be used as a basis for taking remedial measures or actions for mitigating the credit institution's exposure to liquidity risk, ensuring liquidity buffers and adjusting the liquidity profile of the credit institution to the established risk tolerance.

Contingency planning

Article 13

(1) Pursuant to Article 113 paragraph (5) item 7) of the Law, a credit institution shall adopt a contingency plan, which shall contain in particular the following:

- 1) early warning indicators that signal the emergence of a crisis and the employees responsible for monitoring and reporting on these indicators (e.g. breaches of internal limits, decline in deposits, decline in prices of securities, higher funding costs in relation to other credit institutions, changes in the rating of credit institution, difficulties in raising funds in money markets, deterioration of asset quality or profitability);
- 2) situations in which the plan is implemented;

- 3) clear segregation of duties, powers, and responsibilities in a credit institution for the implementation of the plan, with contact information of the members of the team which shall be activated in the case the plan is implemented;
- 4) procedures enabling timely and relevant information to be delivered to the management board and senior management for the purpose of deciding on acting under contingency;
- 5) procedures and manners of obtaining lacking funds and a timeframe during which specific activities should be taken (e.g. sale of assets, establishment of new funding lines) under normal and stress circumstances;
- 6) types, amount, and reliability of all funding sources with specified sequence of use under different stress situations;
- 7) ranking of funding sources regarding their availability, or establishing a schedule for the use of these sources in accordance with the identified situation, defining back-up facilities, which could be used in regular business, and secured facilities, which would be used when back-up facilities are not available or sufficient to cover lacking funds under contingency;
- 8) potential encumbrance on assets arising from various stress situations (e.g. credit institution credit quality downgrade, impairment of pledged assets or increased margin calls).

(2) A credit institution shall, at least annually, revise the plan referred to in paragraph (1) of this Article and change it, as appropriate, on the basis of the stress testing results.

(3) The plan referred to in paragraph (1) of this Article may be an integral part of the liquidity risk management policy or a part of the liquidity recovery plan of a credit institution.

Liquidity recovery plan

Article 14

(1) Liquidity recovery plan of a credit institution shall contain elements prescribed in Article 113 paragraph (5) item 8) of the Law.

(2) The plan referred to in paragraph (1) of this Article shall be integrated into the general recovery plan of a credit institution referred to in Article 125 of the Law.

Information system

Article 15

Information system of a credit institution must provide data necessary for timely and continuous management of liquidity risk, and in particular for:

- 1) measuring and monitoring liquidity of the credit institution on a day-to-day basis and in other set periods;
- 2) measuring and monitoring liquidity for each foreign currency that has a material impact on the overall liquidity of a credit institution;
- 3) monitoring compliance with the established limits for liquidity risk management;

- 4) designing liquidity indicators;
- 5) analysing the trends and assessing stability of deposits and other funding sources;
- 6) carrying out liquidity stress testing of the credit institution;
- 7) compiling reports and information for the purposes of management bodies of the credit institution and other persons involved in the liquidity risk management process.

III QUANTITATIVE REQUIREMENTS FOR LIQUIDITY RISK MANAGEMENT

1. LIQUIDITY INDICATORS

Daily and ten-day liquidity indicators

Article 16

(1) A credit institution shall express minimum daily and ten-day liquidity by its liquidity indicator.

(2) Liquidity indicator referred to in paragraph (1) of this Article shall be the ratio between the sum of liquid assets and the sum of matured liabilities referred to in Article 17 of this Decision.

Liquid assets and matured liabilities

Article 17

(1) Within the meaning of this Decision, the following shall be considered liquid assets:

- 1) cash;
- 2) funds at the settlement account with the Central Bank;
- 3) cheques and other cash receivables;
- 4) funds at the accounts with domestic credit institutions (demand deposits);
- 5) funds with payment system agents;
- 6) funds at the accounts at foreign credit institutions (demand deposits);
- 7) a portion of reserve requirements which may be used for maintaining daily liquidity of the credit institution, in accordance with a separate regulation of the Central Bank.

(2) Within the meaning of this Decision, the following shall be considered matured liabilities:

- 1) loan payables;
- 2) interest and fee payables;
- 3) matured liabilities on time deposits;
- 4) 20% of demand deposits;
- 5) 10% of liabilities on approved, irrevocable committed undrawn credit facilities;
- 6) other matured liabilities.

Minimum daily and ten-day liquidity indicator

Article 18

A credit institution shall maintain the liquidity level so that the minimum value of liquidity indicator amounts to at least:

- 1) 0.9 – when calculated for one working day (daily liquidity indicator);
- 2) 1.0 – when calculated as an average of liquidity indicators for all working days in a ten-day period (ten-day liquidity indicator).

2. ELEMENTS FOR CALCULATING LIQUIDITY COVERAGE RATIO

2.1 Liquidity buffer

Composition of the liquidity buffer

Article 19

Liquid assets of a credit institution may be eligible as a part of liquidity buffer, where they meet the following requirements:

- 1) general requirements laid down in Article 20 of this Decision,
- 2) operational requirements laid down in Article 21 of this Decision,
- 3) the criteria for classification of assets as a level 1 or level 2 assets in accordance with Articles 24 to 30 of this Decision.

General requirements for liquid assets

Article 20

- (1) Liquid assets of a credit institution shall meet general requirements, where:
 - 1) the assets are a property, right or interest which is held by a credit institution or which is a part of a pool referred to in paragraph (2) item 1) of this Article and which is free from any encumbrance;
 - 2) the assets have not been issued by the credit institution itself, its parent undertaking, other than a public sector entity that is not a credit institution, its subsidiary undertaking or another subsidiary undertaking of its parent undertaking, or by a SSPE with which the credit institution has close links;
 - 3) the assets have not been issued by any of the following:
 - another credit institution, unless the issuer is a public sector entity referred to in Article 25 paragraph (1) item 3) or Article 26 paragraph (1) items 1) and 2) of this Decision, or the asset is a covered bond referred to in Article 25 paragraph (1) item 5) or Article 26 paragraph (1) items 3) or 4) or Article 27 paragraph (1) item 4) of this Decision;
 - an investment firm;
 - an insurance undertaking;
 - a reinsurance undertaking;
 - a financial holding company;
 - a mixed financial holding company;

- any other entity that performs one or more of the activities listed in Article 5 of the Law, other than a SSPE;
- 4) the value of the assets may be capable of being determined on the basis of widely disseminated and easily available market prices, or, in the absence of such prices, on the basis of an easy-to-calculate formula that uses publicly available inputs and is not significantly dependent upon strong assumptions;
- 5) the assets are listed on a recognised exchange in Montenegro or in a third country, and tradable via active outright sale or via simple repurchase transaction on generally accepted repurchase markets.

(2) Unencumbered assets, within the meaning of paragraph (1) item 1) of this Article, shall be the following:

- 1) assets included in a liquidity pool that are available for immediate use as collateral to obtain additional funding under committed or, if the liquidity pool is managed by the Central Bank, uncommitted but not yet funded credit facilities available to the credit institution. A credit institution shall assume that assets in the liquidity pool are encumbered in order of increasing liquidity on the basis of the liquidity classification set out in Articles 25 to 31 of this Decision, starting with assets ineligible for the liquidity buffer;
- 2) assets that the credit institution has received as collateral for credit risk mitigation purposes in reverse repo or securities financing transactions and that the credit institution may dispose of;
- 3) assets attached as non-mandatory overcollateralisation to a covered bond issuance.

(3) Notwithstanding paragraph (2) of this Decision, liquid assets that are held as part of the cover pool liquidity buffer shall be deemed to be unencumbered during 30 calendar day stress period:

- 1) up to the amount of net liquidity outflows as calculated in accordance with Articles 32 to 45 of this Decision, which result from the associated covered bond programmes, provided that those assets meet all requirements laid down in Articles 19 to 31 of this Decision;
- 2) although they are not deemed to be unencumbered liquid assets referred to in item 1) of this paragraph, where all of the following conditions are met:
 - the covered bond issuer is, by provisions of applicable regulations, required to have all its assets attached to covered bonds issuances;
 - the liquid assets are attached as non-mandatory overcollateralisation to a covered bond issuance;
 - the liquid assets meet all other requirements laid down in Articles 19 to 31 of this Decision;
 - the amount of those liquid assets does not exceed the total amount of net liquidity outflows, as calculated in accordance with Articles 32 to 45 of this Decision.

(4) The requirements referred to in paragraph (1) item 5) of this Article shall be assessed separately for each market, and assets admitted to trading in an organised venue which

is not a recognised exchange, either in Montenegro or in a third country, shall be deemed to be liquid only where the trading venue provides for an active and sizeable market for outright sales of assets.

(5) To assess whether the trading venue provides for an active and sizeable market referred to in paragraph (4) of this Article, the following shall in particular be taken into account:

- 1) historical evidence of market breadth and depth as proven by low bid-ask spreads, high trading volume and a large and diverse number of market participants;
- 2) the presence of a robust market infrastructure.

(6) The requirements laid down in paragraph (1) items 4) and 5) of this Article shall not apply to:

- 1) cash referred to in Article 25 paragraph (1) item 1) of this Decision;
- 2) the exposures to central governments referred to in Article 25 paragraph (1) item 4) of this Decision;
- 3) the exposures to central banks referred to in Article 25 paragraph (1) items 2) and 4) and Article 26 paragraph (1) item 2) of this Decision.

Operational requirements

Article 21

(1) For the purpose of ensuring that all components of liquid assets included in the liquidity buffer are appropriately diversified at all times, a credit institution shall have policies and limits in place and it shall take into account the extent of diversification between the various categories of liquid assets and within the same category of liquid assets referred to Articles 25 to 31 of this Decision, and any other relevant diversification factors, such as types of issuers, counterparties or the geographical locations of those issuers and counterparties.

(2) During the process of supervision, the Central Bank may, in accordance with the Law, impose specific restrictions or requirements on a credit institution's holdings of liquid assets to ensure compliance with the requirements set out in paragraph (1) of this Article.

(3) Restrictions or requirements referred to in paragraphs (1) and (2) of this Article shall not apply to:

- 1) the following categories of level 1 assets:
 - cash referred to in Article 25 paragraph (1) item 1) of this Decision;
 - the exposures to central banks referred to in Article 25 paragraph (1) items 2) and 4) of this Decision;
 - assets referred to in Article 25 paragraph (1) item 6) of this Decision;
- 2) the categories of level 1 assets representing claims on or guaranteed by the central government, local self-government units or public sector entities referred to in Article 25 paragraph (1) items 3) and 4) of this Decision, provided that the credit institution holds the relevant assets to cover stressed net liquidity outflows incurred in EUR or in the currency of the third country or the asset is issued by the central government, or local self-government units or public sector entities in Montenegro

that may be treated as central government within the meaning of Article 10 paragraph (3) of the Law;

(4) A credit institution shall have direct access to its liquid assets and be able to monetise them at any time during the 30-calendar day stress period via outright sale or repurchase agreement on generally accepted repurchase markets where:

- 1) a liquid asset shall be deemed readily available, where there are no legal or practical impediments to the ability of the credit institution to monetise such an asset in a timely fashion;
- 2) assets used to provide credit enhancement in structured transactions or to cover operational costs of the credit institution shall not be deemed as readily accessible to a credit institution;
- 3) assets held in a third country where there are restrictions to their free transferability shall be deemed readily available only insofar as the credit institution uses those assets to meet liquidity outflows in that third country;
- 4) assets held in a non-convertible currency shall be deemed readily available only insofar as the credit institution uses those assets to meet liquidity outflows in that currency;

(5) A credit institution shall ensure that its liquid assets are under the control of a specific organisational unit responsible for liquidity management, and compliance with this requirement shall be demonstrated either by:

- 1) placing the liquid assets in a separate liquidity pool under the direct management of the organisational unit for liquidity management and with the sole intent of using them as a source of contingent funds, including during stress periods; or
- 2) putting in place internal systems and controls to give the organisational unit for liquidity management efficient operational control to monetise the holdings of liquid assets at any point in the 30 calendar day stress period and to access the contingent funds without directly conflicting with any existing business or risk management strategies, provided that an asset shall not be included in the liquidity buffer where its monetisation without replacement throughout the 30 calendar day stress period would remove a hedge that would create an open risk position in excess of the internal limits of the credit institution;

(6) A credit institution shall regularly, and at least once a year, test the monetisation of a sufficiently representative sample of their holdings of liquid assets by means of outright sale or simple repurchase agreement on a generally accepted repurchase market.

(7) A credit institution shall develop a strategy for disposing of samples of liquid assets which are adequate to:

- 1) test the access to the market for those assets and their usability;
- 2) check that the processes for the timely monetisation of assets are effective;
- 3) minimise the risk of sending a negative signal to the market as a result of the monetisation of assets during stress periods.

(8) The requirements laid down in paragraphs (6) and (7) of this Article shall not apply to level 1 assets referred to in Article 25 of this Decision, other than extremely high quality covered bonds.

(9) For liquid assets held in a cover pool liquidity buffer, the requirements laid down in paragraphs (6) and (7) of this Article shall be considered as fulfilled, where the credit institution regularly, and at least once a year, monetises liquid assets that constitute a sufficiently representative sample of its holdings of assets in the cover pool liquidity buffer without having to be part of that buffer.

(10) The requirement set out in paragraph (4) of this Article shall not prevent a credit institution from hedging the market risk associated with its liquid assets, where:

- 1) the credit institution puts in place appropriate internal arrangements in accordance with paragraphs (4) and (5) of this Article to ensure that those assets continue to be readily available and under the control of the organisational unit for liquidity management; and
- 2) the net liquidity outflows and inflows that would result in the event of an early close-out of the hedge are taken into account in the valuation of the relevant asset in accordance with Article 24 of this Decision.

(11) A credit institution shall ensure that the currency denomination of its liquid assets is consistent with the distribution by currency of its net liquidity outflows, and upon the Central Bank's request in the case referred to in Article 280 of the Law, it shall restrict currency mismatch by setting limits on the proportion of net liquidity outflows in a specific currency that can be met during a stress period by holding liquid assets not denominated in that currency.

(12) Restriction referred to in paragraph (11) of this Article may only be applied to the reporting currency or a currency that is subject to separate reporting in accordance with Article 84 paragraph (2) of this Decision.

(13) When determining the level of any restriction on currency mismatch that may be applied in accordance with paragraphs (11) and (12) of this Article, the following shall be taken into account:

- 1) whether the credit institution has the ability to:
 - use the liquid assets to generate liquidity in the currency and jurisdiction in which the net liquidity outflows arise;
 - swap currencies and raise funds in foreign currency markets during stressed conditions consistent with the 30-calendar day stress period;
 - transfer a liquidity surplus from one currency to another and across jurisdictions and legal entities within its group during stressed conditions consistent with the 30-calendar day stress period;
- 2) the impact of sudden, adverse exchange rate movements on existing mismatched positions and on the effectiveness of any foreign exchange hedges in place.

Stress scenarios for the purposes of liquidity coverage ratio

Article 22

The credit institution may be considered as being subject to stress in the case of:

- 1) the run-off of a significant proportion of its retail deposits;
- 2) a partial or total loss of unsecured wholesale funding capacity, including wholesale deposits and other sources of contingent funding such as received committed or uncommitted liquidity or credit facilities;
- 3) a partial or total loss of secured, short-term funding sources;
- 4) additional liquidity outflows as a result of a credit rating downgrade of up to three notches;
- 5) increased market volatility affecting the value of collateral or its quality or creating additional collateral needs;
- 6) unscheduled draws on liquidity and credit facilities;
- 7) potential obligation to buy-back debt or to honour non-contractual obligations.

Calculation and monitoring of liquidity coverage ratio

Article 23

(1) A credit institution shall calculate and monitor liquidity coverage ratio in a reporting currency for all items separately from the currency in which they are denominated, and calculate and monitor separately the liquidity coverage ratio for:

- 1) items that are subject to separate reporting in a currency other than the reporting currency in accordance with Article 84 paragraph (2) of this Decision, where a credit institution shall separately calculate and monitor their liquidity coverage ratio in that other currency;
- 2) items denominated in the reporting currency where the aggregate amount of liabilities denominated in currencies other than the reporting currency equals or exceeds 5 % of the credit institution's total liabilities, excluding own funds and off-balance-sheet items, where credit institutions shall separately calculate and monitor their liquidity coverage ratio in the reporting currency.

(2) Credit institution shall not double-count liquid assets, inflows and outflows.

Valuation of liquid assets

Article 24

(1) For the purposes of calculating its liquidity coverage ratio, a credit institution shall use the market value of its liquid assets.

(2) The market value of liquid assets referred to in paragraph (1) of this Article shall be reduced in accordance with Article 21 paragraph (10) item 2) of this Decision and the haircuts set out in Articles 25 to 29 of this Decision, where appropriate.

2.2 LIQUID ASSETS

Level 1 assets

Article 25

(1) Level 1 assets shall include the following:

- 1) cash;
- 2) the following exposures to central banks:
 - assets representing claims on or guaranteed by the Central Bank;
 - assets representing claims on or guaranteed by central banks of third countries, provided that exposures to the central bank or the central government of third countries are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 referred to in Article 151 paragraph (2) of the Decision on Capital Adequacy;
 - reserves held by the credit institution in a central bank referred to in indent 1 or 2 of this item, provided that the credit institution is permitted to withdraw such reserves at any time during stress periods under the conditions for such withdrawal specified in an agreement between the competent authority of the credit institution and the central bank in which the reserves are held or in applicable regulations of a third country, where the following shall apply:
 - a) where the reserves are held by a subsidiary credit institution, the conditions for the withdrawal shall be specified in an agreement between the Montenegrin or third country competent authority of that subsidiary credit institution and the central bank in which the reserves are held, or in the regulations of the third country, as applicable,
 - b) where the reserves are held by a branch of a credit institution, the conditions for the withdrawal shall be specified in an agreement between the competent authority from Montenegro or the third country where the branch is located and the central bank in which the reserves are held, or in the regulations of the third country, as applicable;
- 3) assets representing claims on or guaranteed by the:
 - central government in Montenegro;
 - central government of a third country, provided that it is assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 referred to in Article 151 paragraph (2) of the Decision on Capital Adequacy;
 - local self-government units from Montenegro, provided that they are treated as exposures to central government in accordance with Article 152 paragraph (4) of the Decision on Capital Adequacy;
 - regional government or local self-government units in a third country referred to in indent 2 of this item, provided that they are treated as exposures to the central government of the third country and that the credit institution is able to prove such treatment referred to in Article 152 paragraph (6) of the Decision on Capital Adequacy;
 - public sector entities, provided that those claims are treated as exposures to the central government of Montenegro or of an EU Member State or local self-

- government unit referred to in indents 3 and 4 of this item in accordance with Article 153 paragraphs (5) and (6) of the Decision on Capital Adequacy;
- 4) other assets, which include the following:
- claims on or guaranteed by the central government or the central bank of a third country which is not assigned a credit quality step 1 credit assessment referred to in Article 151 paragraph (2) of the Decision on Capital Adequacy by a nominated external credit assessment institution;
 - reserves held by the credit institution in a central bank referred to in indent 1 of this item, provided that the credit institution is permitted to withdraw such reserves at any time during stress periods and the conditions for such withdrawal have been specified in an agreement between the competent authorities of the third country and the central bank in which the reserves are held or in the regulations of the third country, where the following shall apply:
 - a) where the reserves are held by a subsidiary credit institution, the conditions for the withdrawal shall be specified in an agreement between the third country competent authority of that credit institution and the central bank in which the reserves are held, or in the regulations of the third country;
 - b) where the reserves are held by a branch of a credit institution, the conditions for the withdrawal shall be specified in an agreement between the competent authority of the third country where the branch is located and the central bank in which the reserves are held, or in the regulations of the third country;
- 5) exposures in the form of extremely high-quality covered bonds, where:
- they are bonds as referred to in Article 2 item 24) of this Decision and meet the requirements to be eligible for the treatment set out in Article 169 of the Decision on Capital Adequacy;
 - the exposures to institutions in the cover pool meet the conditions laid down in Article 169 paragraph (1) item 4) and paragraph (3) of the Decision on Capital Adequacy;
 - bond issue size is at least EUR 500 million;
 - the covered bonds are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with Article 169 paragraph (14) of the Decision on Capital Adequacy, the equivalent credit quality step in the event of a short-term credit assessment or, in the absence of a credit assessment, they are assigned a 10% risk weight in accordance with Article 169 paragraph (15) of the Decision on Capital Adequacy;
 - the cover pool meets at all times an asset coverage requirement of at least 2% in excess of the amount required to meet the claims attaching to the covered bonds;
- 6) assets representing claims on or guaranteed by the multilateral development banks referred to in Article 154 paragraph (4) of the Decision on Capital Adequacy and the international organisations referred to in Article 155 of the Decision on Capital Adequacy.

(2) The aggregate amount of assets referred to in paragraph (1) item 4) of this Article denominated in a given currency that the credit institution may recognise as level 1 assets shall not exceed the amount of the credit institution's stressed net liquidity outflows incurred in that same currency.

(3) Where a part or all of the assets referred to in paragraph (1) item 4) of this Article are denominated in a currency which is not the domestic currency of the third country in question, the credit institution may only recognise those assets as level 1 assets up to an amount equal to the amount of the credit institution's stressed net liquidity outflows incurred in that foreign currency that corresponds to the credit institution's operations in the jurisdiction of a country where the liquidity risk is being taken.

(4) The market value of extremely high-quality covered bonds referred to in paragraph (1) item 5) of this Article shall be subject to a haircut of at least 7%.

(5) No haircut shall be required on the value of the remaining level 1 assets, except in the cases that refer to shares and units in CIUs referred to in Article 29 paragraph (2) items 2) and 3) of this Decision.

Level 2A assets

Article 26

(1) Level 2A assets shall include:

- 1) assets representing claims on or guaranteed by local self-government units or public sector entities in Montenegro, where exposures to them are assigned a risk weight of 20% in accordance with Article 152 paragraphs (1), (2) and (7) and Article 153 paragraphs (1) to (4) of the Decision on Capital Adequacy;
- 2) assets representing claims on or guaranteed by the central government or the central bank of a third country, or by a local self-government unit or public sector entity in a third country, provided that they are assigned a 20% risk weight in accordance with Article 151 paragraph (2), 152 or Article 153 of the Decision on Capital Adequacy;
- 3) exposures in the form of high-quality covered bonds, where:
 - they are bonds as referred to in Article 2 item 24) of this Decision or meet the requirements to be eligible for the treatment set out in Article 169 of the Decision on Capital Adequacy;
 - the exposures to institutions in the cover pool meet the conditions laid down in Article 169 paragraph (1) item 4) and paragraph (3) of the Decision on Capital Adequacy;
 - bond issue size is at least EUR 250 million;
 - the covered bonds are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 2 in accordance with Article 169 paragraph (14) of the Decision on Capital Adequacy, or the equivalent credit quality step in the event of a short-term credit assessment or, in the absence of a credit assessment, they are assigned a 20% risk weight in accordance with Article 169 paragraph (15) of the Decision on Capital Adequacy; and
 - the cover pool meets at all times an asset coverage requirement of at least 7% in excess of the amount required to meet the claims attaching to the covered bonds, however, where covered bonds with a credit quality step 1 credit

assessment do not meet the minimum issue size for extremely high quality covered bonds in accordance with Article 25 paragraph (1) item 5) indent 4 of this Decision but meet the requirements for high quality covered bonds laid down in indents 1 to 4 of this item, they shall instead be subject to a minimum asset coverage requirement of 2%;

4) exposures in the form of covered bonds issued by credit institutions in third countries, where:

- such bonds are, in accordance with the national law of the third country defined as debt securities issued by credit institutions, or by a wholly owned subsidiary of a credit institution which guarantees the issue, and secured by a cover pool of assets, in respect of which bondholders shall have direct recourse for the repayment of principal and interest on a priority basis in the event of the issuer's default;
- the issuer and the covered bonds are subject, pursuant to the national law in the third country, to special public supervision designed to protect bondholders, and the supervisory and regulatory arrangements applied in the third country are equivalent to those applied in the European Union;
- the covered bonds are backed by a pool of assets of one or more of the types described in Article 169 paragraph (1) item 3), 5), 7) or 8) of the Decision on Capital Adequacy, provided that, where the pool comprises loans secured by immovable property, the requirements set out in Articles 246 and 265 of the Decision on Capital Adequacy must be met;
- the exposures to institutions in the cover pool meet the conditions laid down in Article 169 paragraph (1) item 4) of the Decision on Capital Adequacy or, where the application of the partial waiver has been granted, the conditions referred to in Article 169 paragraph (3) of the Decision on Capital Adequacy;
- the credit institution investing in the covered bonds and the issuer meet the transparency requirement and provide detailed information on cover bond programme as defined by the regulation governing the cover bond issue enabling the investor to have an insight in the profile and riskiness of the programme;
- the covered bonds are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with Article 169 paragraph (14) of the Decision on Capital Adequacy, the equivalent credit quality step in the event of a short-term credit assessment or, in the absence of a credit assessment, they are assigned a 10% risk weight in accordance with Article 169 paragraph (15) of the Decision on Capital Adequacy; and
- the cover pool meets at all times an asset coverage requirement of at least 7% in excess of the amount required to meet the claims attaching to the covered bonds, however, where the issue size of the covered bonds is EUR 500 million (or the equivalent amount in domestic currency) or higher, they shall instead be subject to a minimum asset coverage requirement of 2%;

5) corporate debt securities where:

- they are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with

Article 159 of the Decision on Capital Adequacy or the equivalent credit quality step in the event of a short-term credit assessment;

- the securities issue size is at least EUR 250 million;
- the maximum time to maturity of the securities at the time of issuance is 10 years.

(2) The market value of each of the level 2A assets shall be subject to a haircut of at least 15%.

Level 2B assets

Article 27

(1) Level 2B assets shall include:

- 1) exposures in the form of asset-backed securities meeting the requirements laid down in Article 28 of this Decision;
- 2) corporate debt securities which meet the following requirements:
 - they have received a credit assessment by a nominated external credit assessment institution which is at least credit quality step 3 in accordance with Article 159 of the Decision on Capital Adequacy or the equivalent credit quality step in the event of a short-term credit assessment;
 - the securities issue size is at least EUR 250 million or the equivalent in domestic currency of the issuer;
 - the maximum time to maturity of the securities at the time of issuance is 10 years;
- 3) shares, which:
 - form part of a stock index in Montenegro or a major stock index in a third country defined by the competent authority, and if a major stock index is not defined, credit institutions shall regard as such a stock index composed of leading companies in the relevant jurisdiction;
 - are denominated in EUR or, where denominated in a different currency, they count as level 2B only up to the amount to cover stressed net liquidity outflows in that currency, or in the jurisdiction where the liquidity risk is taken; and
 - have a proven record as a reliable source of liquidity at all times, including during stress periods, and this requirement shall be deemed met where the level of decline in the share's stock price or increase in its haircut during a 30 calendar day market stress period did not exceed 40%, or 40 percentage points, respectively; and
- 4) exposures in the form of high-quality covered bonds, where:
 - they are bonds as referred to in Article 2 item 24) of this Decision;
 - their issue size is at least EUR 250 million;
 - the covered bonds are collateralised exclusively by the assets referred to in Article 169 paragraph (1) item 1), item 4) indent 1, and item 5) of the Decision on Capital Adequacy;
 - the pool of underlying assets consists exclusively of exposures which qualify for a 35% or lower risk weight under Article 164 of the Decision on Capital Adequacy for credit risk;

- the cover pool meets at all times an asset coverage requirement of at least 10% in excess of the amount required to meet the claims attaching to the covered bonds;
- the issuing credit institution needs to publicly disclose on a monthly basis that the cover pool meets the 10% asset coverage requirement.

(2) The market value of each of the level 2B assets shall be subject to the following minimum haircuts:

- 1) the applicable haircut set out in Article 28 paragraph (7) of this Decision for level 2B securitisations;
- 2) a 50% haircut for corporate debt securities referred to in paragraph (1) item 2) of this Article;
- 3) a 50% haircut for shares referred to in paragraph (1) item 3) of this Article;
- 4) a 30% haircut for covered bond programmes or issues referred to in paragraph (1) item 4) of this Article;

Level 2B securitisations

Article 28

(1) Exposures in the form of asset-backed securities referred to in Article 27 paragraph (1) item 1) of this Decision shall qualify as level 2B securitisations where:

- 1) in accordance with the European Union regulation governing simple, transparent, and standardised securitisation, for a securitisation it is permitted to use the designation 'STS' or 'simple, transparent and standardised' or a designation that refers directly or indirectly to those terms and that designation is used;
- 2) the criteria laid down in paragraphs (2) to (6) of this Article have been met.

(2) The securitisation position and the exposures underlying the position should meet the following requirements:

- 1) the position has been assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with Article 308 of the Decision on Capital Adequacy or the equivalent credit quality step in the event of a short-term credit assessment;
- 2) the position is in the most senior tranche or tranches of the securitisation and possesses the highest level of seniority at all times during the ongoing life of the transaction, whereby a tranche shall be deemed to be the most senior where after the delivery of an enforcement notice and, where applicable, an acceleration notice, the tranche is not subordinated to other tranches of the same securitisation transaction or scheme in respect of receiving principal and interest payments, without taking into account amounts due under interest rate or currency derivative contracts, due fees or other similar payments in accordance with Article 278 item 6) of the Decision on Capital Adequacy;
- 3) the securitisation position is backed by a pool of underlying exposures, which all belong to only one of the following subcategories, or by a pool of underlying exposures which combines residential loans referred to in indents 1 and 2 of this item:

- residential loans secured by a first-ranking mortgage granted to individuals for the acquisition of apartment in their place of residence, provided that:
 - a) the loans in the pool meet on average the loan-to-value requirement laid down in Article 169 paragraph (1) item 4) indent 1 of the Decision on Capital Adequacy; or
 - b) a loan-to-income limit on the amount that a debtor may borrow in a residential loan has been determined in accordance with regulations, and this loan-to-income limit is calculated on the gross annual income of the debtor, taking into account the tax obligations and other commitments of the debtor and the risk of changes in the interest rates over the term of the loan, and for each residential loan in the pool, the percentage of the debtor's gross income that may be spent to service the loan (including interest, principal and fee payments) does not exceed 45%;
- fully guaranteed residential loans referred to in Article 169 paragraph (1) item 5) of the Decision on Capital Adequacy, provided that the loans meet the collateralisation requirements laid down in that paragraph and the average loan-to-value requirement laid down in Article 169 paragraph (1) item 4) indent 1 of the Decision on Capital Adequacy;
- commercial loans, leases and credit facilities to business undertakings established in Montenegro to finance capital expenditures or business operations other than the acquisition or development of commercial real estate, provided that at least 80% of the debtors in the pool in terms of portfolio balance are SMEs at the time of issuance of the securitisation, and none of the debtors is an institution within the meaning of Article 16 paragraph (1) item (1) of the Law;
- motor vehicle loans and leases to persons established or having habitual residence or temporary residence in Montenegro, including loans or leases for the financing of motor vehicles or trailers, agricultural or forestry tractors, motorcycles or motor tricycles or tracked vehicles that may include ancillary insurance and service products or additional vehicle parts, or, in the case of leases, the residual value of leased vehicles, and all loans and leases in the pool are secured with a first-ranking charge or security over the vehicle or an appropriate guarantee in favour of the SSPE, such as a retention of title provision;
- loans and credit facilities to individuals, resident in a third country for personal, family or household consumption purposes.

(3) The underlying exposures shall not have been originated by the credit institution holding the securitisation position in its liquidity buffer, its subsidiary undertaking, its parent undertaking, a subsidiary of its parent undertaking or any other business undertaking closely linked with that credit institution.

(4) The issue size of the tranche shall be at least EUR 100 million.

(5) The remaining weighted average life of the tranche shall be five years or less, and it shall be calculated using the lower of either the transaction's pricing prepayment

assumption or a 20% constant prepayment rate, for which the credit institution shall assume that the call is exercised on the first permitted call date.

(6) The originator of the exposure underlying the securitisation shall be an institution as defined in Article 16 paragraph (1) item 1) of the Law or an undertaking whose principal activity is the provision of financial services listed in Article 5 of the Law.

(7) The market value of level 2B securitisations shall be subject to the following minimum haircuts:

- 1) 25% for securitisations backed by the subcategories of assets referred to in paragraph (2) item 3) indents 1, 2, and 4 of this Article;
- 2) 35% for securitisations backed by the subcategories of assets referred to in paragraph (2) item 3) indents 3 and 5 of this Article.

Shares or units in CIUs

Article 29

(1) Shares or units in CIUs shall qualify as liquid assets of the same level as the liquid assets underlying the CIU up to an absolute amount of EUR 500 million for each credit institution on an individual basis, provided that:

- 1) the requirements referred to in Article 169 paragraph (5) of the Decision on Capital Adequacy are complied with;
- 2) the CIU invests only in liquid assets and derivatives, in the latter case only to the extent necessary to mitigate interest rate, currency or credit risk in the portfolio.

(2) Credit institutions shall apply the following minimum haircuts to the value of their shares or units in CIUs depending on the category of underlying liquid assets:

- 1) 0% for cash and exposures to central banks referred to in Article 25 paragraph (1) item 2) of this Decision;
- 2) 5% for level 1 assets other than extremely high-quality covered bonds;
- 3) 12% for extremely high-quality covered bonds referred to in Article 25 paragraph (1) item 5) of this Decision;
- 4) 20% for level 2A assets;
- 5) 30% for level 2B securitisations backed by the subcategories of assets referred to in Article 28 paragraph (2) item 3) indents 1, 2, and 4 of this Decision;
- 6) 35% for extremely high-quality covered bonds referred to in Article 27 paragraph (1) item 4) of this Decision;
- 7) 40% for level 2B securitisations backed by the subcategories of assets referred to in Article 28 paragraph (2) item 3) indents 3 and 5 of this Decision;
- 8) 55% for level 2B corporate debt securities referred to in Article 27 paragraph (1) item 2), and shares referred to in Article 27 paragraph (1) item 3) of this Decision;

(3) The haircuts referred to in paragraph (2) of this Article shall be applied as follows:

- 1) where the credit institution is aware of the exposures underlying the CIU, it may apply the look-through approach to those underlying exposures to assign them the appropriate haircut in accordance with paragraph (2) of this Article;

2) where the credit institution is not aware of the exposures underlying the CIU, for the purposes of determining the liquidity level of the underlying assets and an appropriate haircut for these assets, it shall assume that the CIU invests, up to the maximum amount allowed, in the same order referred to in paragraph (2) of this Article, starting with those assets referred to in item 8) of that paragraph and in an ascending order until the maximum total investment limit is reached.

(4) A credit institution shall develop an efficient methodology and the manner of calculating and reporting the market value and haircuts for shares or units in CIUs.

(5) Notwithstanding paragraph (4) of this Article, where the exposure is not sufficiently material for a credit institution to develop its own methodology and and provided that the Central Bank has previously confirmed it, the credit institution may rely on the following to calculate and report the haircuts for shares or units in CIUs:

- 1) the depository institution of the CIU, provided that the CIU invests exclusively in securities and deposits all such securities at this depository institution; or
- 2) other CIUs, or the CIU management company, which meets the requirements laid down in Article 194 paragraph (5) item 1) of the Decision on Capital Adequacy.

(6) The correctness of the calculations by the depository institution or the CIU management company when determining market value and haircuts for shares or units in CIU referred to in paragraph (5) of this Article, shall be confirmed by an external auditor at least annually.

(7) Where a credit institution fails to comply with the requirements laid down in paragraphs (4) to (6) of this Article in relation to shares or units in a CIU, it shall cease to recognise them as liquid assets in accordance with Article 31 of this Decision.

Composition of the liquidity buffer by asset level

Article 30

(1) A credit institution shall comply at all times with the following requirements on the composition of their liquidity buffer:

- 1) a minimum of 60% of the liquidity buffer is to be composed of level 1 assets;
- 2) a minimum of 30% of the liquidity buffer is to be composed of level 1 assets excluding extremely high-quality covered bonds referred to in Article 25 paragraph (1) item 5) of this Decision;
- 3) a maximum of 15% of the liquidity buffer may be held in level 2B assets.

(2) The requirements set out in paragraph (1) of this Article shall be applied after adjusting for the impact on the stock of liquid assets of secured funding, secured lending or collateral swap transactions using liquid assets where these transactions mature within 30 calendar days, after deducting any applicable haircuts and provided that the credit institution complies with the operational requirements laid down in Article 21 of this Decision.

(3) A credit institution shall calculate the liquidity buffer as the sum of the amounts referred to in items 1), 2) and 3) of this paragraph reduced by the amount referred to in item 4) or 5) of this paragraph, whichever is lower:

- 1) amount of level 1 assets;
- 2) amount of level 2A assets;
- 3) amount of level 2B assets;
- 4) the sum of the amounts referred to in items 1), 2) and 3) of this paragraph;
- 5) amount of liquid assets surplus calculated in accordance with paragraphs (4) and (5) of this Article.

(4) The excess liquid assets amount shall be comprised of the following components:

- 1) the adjusted non-covered bond level 1 asset amount, which shall be equal to the value post-haircuts of all level 1 liquid assets, excluding level 1 covered bonds, that would be held by the credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction;
- 2) the adjusted level 1 covered bond amount, which shall be equal to the value post-haircuts of all level 1 covered bonds that would be held by the credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction;
- 3) the adjusted level 2A asset amount, which shall be equal to the value post-haircuts of all level 2A assets that would be held by the credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction; and
- 4) the adjusted level 2B asset amount, which shall be equal to the value post-haircuts of all level 2B assets that would be held by the credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction.

(5) The excess liquid assets surplus amount shall be equal to the sum of the amounts referred to in items 1), 2), 3) and 4) of this paragraph reduced by the amount referred to in item 5), item 6), item 7) or item 8) of this paragraph, whichever is lower:

- 1) the adjusted non-covered bond level 1 asset amount;
- 2) the adjusted level 1 covered bond amount;
- 3) the adjusted level 2A asset amount;
- 4) the adjusted level 2B asset amount;
- 5) the sum of the amounts referred to in items 1), 2), 3) and 4) of this paragraph;
- 6) the amount referred to in item 1) of this paragraph multiplied by 100/30;
- 7) the amount referred to in items 1) and 2) of this paragraph multiplied by 100/60;

8) the amount referred to in items 1), 2) and 3) of this paragraph multiplied by 100/85.

(6) The Central Bank may, on a case-by-case basis, waive the application of paragraphs (2) and (3) of this Article in full or in part with respect to one or more secured funding, secured lending or collateral swap transactions using liquid assets on at least one leg of the transaction and maturing within 30 calendar days, provided that:

- 1) the counterparty to the transaction is the Central Bank;
- 2) exceptional circumstances exist which pose a systemic risk affecting the banking sector of Montenegro.

Implications of a breach of requirements and criteria

Article 31

(1) Where a liquid asset ceases to comply with any requirements laid down in Article 20 and Article 21 paragraph (4) of this Decision or any applicable eligibility criteria laid down in Articles 25 to 30 of this Decision, a credit institution shall cease to recognise it as a liquid asset no later than 30 calendar days from the date when the breach of requirements or criteria occurred.

(2) Provision of paragraph (1) of this Article shall apply to shares or units in a CIU that cease to meet eligibility requirements only where they do not exceed 10% of the CIU's overall assets.

2.3 LIQUIDITY OUTFLOWS AND INFLOWS

Net liquidity outflows

Article 32

(1) The net liquidity outflows, within the meaning of this Decision, shall be the sum of liquidity outflows referred to paragraph (2) item 1) of this Article reduced by the sum of liquidity inflows in paragraph (2) item 2) of this Article, but shall not be less than zero.

(2) The net liquidity outflows shall be calculated based on:

- 1) the sum of the liquidity outflows established in accordance with Articles 34 to 45 of this Decision; and
- 2) the sum of liquidity inflows established in accordance with Articles 46 to 48 of this Decision, calculated as follows:
 - the inflows exempted from the cap as referred to in Article 47 paragraph (2) of this Decision;
 - the lower of the inflows, other than those referred to in Article 47 paragraph (2) of this Decision, or 75% of the outflows referred to in item 1) of this Decision reduced by the exempt inflows referred to in Article 47 paragraph (2) of this Decision, but not less than zero;

(3) Liquidity inflows and liquidity outflows shall be assessed over a 30-calendar day stress period, under the assumption of a combined idiosyncratic and market-wide stress scenarios as referred to in Article 22 of this Decision.

(4) The calculation of net liquidity outflows shall be performed by applying the following formula:

$$\text{NLO} = \text{TO} - \text{MIN}(\text{FEI}, \text{TO}) - \text{MIN}(\text{IC}, 0,75 * \text{MAX}(\text{TO} - \text{FEI}, 0)), \text{ where}$$

NLO= net liquidity outflows;

TO = total outflows;

TI = total inflows;

FEI = fully exempted inflows;

IC = inflows subject to cap of 75% of outflows.

Netting of derivatives transactions

Article 33

(1) A credit institution shall calculate liquidity outflows and inflows expected over a 30 calendar day period, for the contracts listed in Article 148 paragraph (8) of the Decision on Capital Adequacy and for credit derivatives, on a net basis by counterparty subject to the existence of bilateral netting agreements meeting the conditions laid down in Article 383 of the Decision on Capital Adequacy.

(2) By way of derogation from paragraph (1) of this Article, a credit institution shall calculate cash outflows and inflows arising from foreign currency other than EUR derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) on a net basis, even where those transactions are not covered by a bilateral netting agreement.

(3) Net basis, within the meaning of paragraphs (1) and (2) of this Article, shall be considered to be net of collateral to be posted or received in the next 30 calendar days, but, in the case of collateral to be received in the next 30 calendar days, net basis shall be considered to be net of that collateral only if the following conditions are met:

- 1) the collateral, when received, will qualify as a liquid asset under Articles 19 to 31 of this Decision; and
- 2) the credit institution shall be legally entitled and operationally able to reuse the collateral, when received.

a) Liquidity outflows

Liquidity outflows calculation

Article 34

(1) Liquidity outflows shall be calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down in accordance with Articles 35 to 45 of this Decision.

(2) Liquidity outflows referred to in paragraph (1) of this Article multiplied by the applicable outflow rate shall include:

- 1) the current outstanding amount for stable retail deposits and other retail deposits in accordance with Articles 36 and 37 of this Decision;
- 2) the current outstanding amounts of other liabilities that become due, can be called for pay-out by the issuer or by the provider of the funding or entail an expectation by the provider of the funding that the credit institution would repay the liability during the next 30 calendar days, as determined in accordance with Articles 39, 40, and 44 of this Decision;
- 3) the additional outflows determined in accordance with Article 41 of this Decision;
- 4) the maximum amount that can be drawn down during the next 30 calendar days from undrawn committed credit and liquidity facilities, as determined in accordance with Article 46 of this Decision;
- 5) the additional outflows identified in the assessment in accordance with Article 35 of this Decision.

(3) The calculation of liquidity outflows in accordance with paragraph (1) of this Article shall be subject to any netting of interdependent inflows that is approved under Article 38 of this Decision.

Additional liquidity outflows for other products and services

Article 35

(1) A credit institution shall regularly assess the likelihood and potential volume of liquidity outflows during 30 calendar days for products or services which are not referred to in Articles 39 to 44 of this Decision and which it offers or sponsors or which potential purchasers would consider associated with that credit institution.

(2) Products and services referred to in paragraph (1) of this Article shall include in particular:

- 1) other off-balance-sheet liabilities and contingent funding obligations, including committed funding facilities;
- 2) undrawn loans and advances to wholesale counterparties;
- 3) mortgage loans that have been agreed but not yet drawn down;
- 4) credit cards;
- 5) overdrafts;

- 6) planned outflows related to the renewal of existing retail or wholesale loans or the extension of new retail or wholesale loans;
- 7) derivative payables, other than the contracts listed in Article 148 paragraph (8) of the Decision on Capital Adequacy, and credit derivatives;
- 8) trade finance off-balance-sheet related products.

(3) The outflows referred to in paragraph (1) of this Article shall be assessed under the assumption of a combined idiosyncratic and market-wide stress scenarios as referred to in Article 22 of this Decision.

(4) For the assessment referred to in paragraph (3) of this Article, a credit institution shall particularly take into account significant reputational damage that could result from not providing liquidity support to products or services referred to in paragraph (2) of this Article.

(5) A credit institution shall report at least once a year and before the expiry of the third quarter of the current year to the Central Bank those products and services for which the likelihood and potential volume of the liquidity outflows referred to in paragraph (1) of this Article are material.

(6) The Central Bank shall determine the outflow rate referred to in paragraph (1) of this Article where it assesses that the credit institution has not adequately assessed the likelihood and potential volume of outflows referred to in paragraph (1) of this Article.

(7) The credit institution shall apply an outflow rate of 5% for trade finance off-balance sheet related products.

(8) Trade finance, within the meaning of paragraph (7) of this Article, shall be financing, including issuing of guarantees, connected to the exchange of goods and services through financial products of fixed short-term maturity, generally of less than one year, without automatic rollover, and such financing is uncommitted and requires the submission of supporting transactional documentation for each drawdown request, and the repayment of trade finance exposures is usually independent of the debtor, the funds instead coming from cash received from importers or resulting from proceeds of the sales of the underlying goods.

Outflows from stable retail deposits

Article 36

(1) Unless the criteria for a higher outflow rate under Article 37 paragraphs (2) to (5) or paragraph (9) of this Decision are fulfilled, the amount of retail deposits covered by a deposit guarantee scheme in accordance with the law governing deposit protection in Montenegro or an equivalent deposit guarantee scheme in a third country shall be considered as stable and multiplied by 5% where:

- 1) the deposit is part of an established relationship making withdrawal highly unlikely;
or
- 2) the deposit is held in a transactional account.

(2) Within the meaning of paragraph (1) item 1) of this Article, a deposit shall be considered to be part of an established relationship where the depositor has:

- 1) an active contractual relationship with the credit institution of at least 12 months' duration;
- 2) a borrowing relationship with the credit institution for residential loans or other long term loans;
- 3) at least one other active contractual relationship for a product, other than a loan, with the credit institution.

(3) Within the meaning of paragraph (1) item 2) of this Article, a deposit shall be considered as being held in a transactional account where salaries, income or other transactions of the depositor are regularly credited and debited respectively against that account.

Outflows from stable retail deposits

Article 37

(1) A credit institution shall multiply by 10% other retail deposits, including that part of retail deposits not covered by Article 36 of this Decision.

(2) Notwithstanding paragraph (1) of this Article, other retail deposits shall be subject to higher outflow rates, as determined by the credit institution, in accordance with paragraph (3) of this Article, where:

- 1) the total deposit balance, including all the clients' deposit accounts at that credit institution or group, exceeds EUR 300,000;
- 2) the deposit is placed in an internet access-only account;
- 3) the deposit offers an interest rate that fulfils any of the following conditions:
 - the rate significantly exceeds the average rate for similar retail products;
 - its return is derived from the return on a market index or set of indices;
 - its return is derived from any market variable other than a floating interest rate;
- 4) the deposit was originally placed as fixed-term with an expiry date maturing within the 30 calendar day period or the deposit presents a fixed notice period shorter than 30 calendar days, in accordance with contractual arrangements, other than the deposits referred to in paragraphs (6) to (8) of this Article;
- 5) the depositor is resident in a third country or the deposit is denominated in a currency other than the euro, and for credit institutions and branches in third countries, the depositor is a non-resident in the third country or the deposit is denominated in another currency than the domestic currency of the third country.

(3) A credit institution shall apply a higher outflow rate determined as follows:

- 1) where a retail deposit fulfils the criterion referred to in paragraph (2) item 1) of this Article or two of the criteria referred to in items 2) to 5) of that paragraph, an outflow rate of 15% shall be applied;
- 2) where a retail deposit fulfils the criterion referred to in paragraph (2) item 1) and at least one criterion referred to paragraph (2) of this Article, or three or more criteria referred to in paragraph (2) of this Article, an outflow rate of 20% shall be applied.

(4) The Central Bank may, on a case-by-case basis, require the application of a higher outflow rate, where justified by the specific circumstances of the credit institution.

(5) A credit institution shall apply the outflow rate referred to in paragraph (3) item 2) of this Article to retail deposits, where the assessment of fulfilment of conditions referred to in paragraph (2) of this Article has not been carried out or is not completed.

(6) A credit institution may exclude from the calculation of outflows certain clearly defined categories of retail deposits, as long as in each and every instance the credit institution applies the following provisions for the whole category of those deposits, unless an exception can be justified on the basis of circumstances of hardship for the depositor:

- 1) the depositor is not allowed to withdraw the deposit within 30 calendar days; or
- 2) for early withdrawals within 30 calendar days, the depositor shall lose the interest between the date of withdrawal and the contractual maturity date, and pay a contractual pecuniary penalty that should not exceed the interest due for the time that elapsed between the date of deposit and the date of withdrawal.

(7) The portion of the deposit referred to in paragraph (6) of this Article, which can be withdrawn without incurring a penalty, shall be treated as a demand deposit, and the remaining balance shall be treated as a term deposit.

(8) An outflow rate of 100% shall be applied to the cancelled deposits with a residual maturity of less than 30 calendar days and where pay-out has been agreed with another credit institution.

(9) By way of derogation from paragraphs (1) to (8) of this Article and Article 36 of this Decision, a credit institution shall multiply retail deposits taken in third countries by a higher percentage outflow rate, if such a percentage is provided for by the regulations establishing liquidity requirements in that third country.

Outflows with interdependent inflows

Article 38

Subject to prior authorisation of the Central Bank, a credit institution may calculate the liquidity outflow net of an interdependent inflow provided that:

- 1) the interdependent inflow is directly linked to the outflow and is not considered in the calculation of liquidity inflows referred to in Articles 46 to 48 of this Decision;
- 2) the interdependent inflow is required pursuant to regulations, regulatory or contractual commitment; and
- 3) the interdependent inflow meets one of the following conditions:
 - it arises compulsorily before the outflow;
 - it is received within ten days and is guaranteed by the Government of a Montenegro.

Outflows from operational deposits

Article 39

(1) A credit institution shall multiply by 25% the liabilities resulting from deposits that are maintained as follows:

- 1) in order to obtain clearing, custody, cash management or other comparable services in the context of a stable operational relationship from the credit institution; and
- 2) in the context of a stable operational relationship other than the relationship referred to in item 1) of this paragraph.

(2) By way of derogation from paragraph (1) of this Article, a credit institution shall multiply by 5% the portion of liabilities resulting from deposits referred to in paragraph (1) item 1) of this Article, which is covered by a deposit guarantee scheme in accordance with the law governing deposit protection in Montenegro or an equivalent deposit guarantee scheme in a third country.

(3) Clearing, custody, cash management or other comparable services referred to in paragraph (1) of this Article shall be treated as such services only to the extent that they are rendered in the context of a stable relationship which is of key importance to the depositor, and shall have significant legal or operational limitations that make significant withdrawals within 30 calendar days unlikely.

(4) Funds in excess of those required for the provision of operational services shall be treated as non-operational deposits.

(5) Deposits arising out of a correspondent banking relationship or from the provision of prime brokerage services shall not be treated as an operational deposit and shall receive a 100% outflow rate.

(6) In order to identify the deposits referred to in paragraph (1) item 2) of this Article, it shall be considered that there is a stable operational relationship with a non-financial customer, excluding term deposits, savings deposits and brokered deposits, where:

- 1) the remuneration of the account is priced at least five basis points below the prevailing rate for wholesale deposits with comparable characteristics, but need not be negative;
- 2) the deposit is held in specifically designated accounts and priced without creating economic incentives for the depositor to maintain funds in the deposit in excess of what is needed for the operational relationship;
- 3) material transactions are credited and debited on a regular basis on the account considered;
- 4) one of the following criteria is met:
 - the relationship with the depositor has existed for at least 24 months;
 - the deposit is used for a minimum of two active services, and these services may include direct or indirect access to national or international payment services, security trading or depository services, whereby only that part of the

deposit which is necessary to make use of the service of which the deposit is a by-product shall be treated as an operational deposit, and the excess shall be treated as non-operational.

Outflows from other liabilities

Article 40

(1) A credit institution shall multiply by 40% liabilities resulting from deposits by clients that are non-financial customers, sovereigns, central banks, multilateral development banks, public sector entities, credit unions authorised by a competent authority of a third country, personal investment companies or by clients that are deposit brokers, to the extent they do not fall under Article 39 of this Decision.

(2) By way of derogation, where the liabilities resulting from deposits of clients referred to in paragraph (1) of this Article are covered by a deposit guarantee scheme in accordance with the law governing deposit protection in Montenegro or an equivalent deposit guarantee scheme in a third country, they shall be multiplied by 20%.

(3) A credit institution shall multiply liabilities resulting from its own operating expenses by 0%.

(4) A credit institution shall multiply liabilities maturing within 30 calendar days and resulting from secured lending or capital market-driven transactions by the following weights:

- 1) 0% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of level 1 asset referred to in Article 25 of this Decision, with the exception of extremely high-quality covered bonds referred to in Article 25 paragraph (1) item 5) of this Decision;
- 2) 7% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of the category referred to in Article 25 paragraph (1) item 5) of this Decision;
- 3) 15% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of level 2A assets referred to in Article 26 of this Decision;
- 4) 25% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of level 2B asset referred to in Article 28 paragraph (2) item 3) indent 1, 2 or 4 of this Decision;
- 5) 30% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of the category of level 2B asset referred to in Article 27 paragraph (1) item 4) of this Decision;
- 6) 35% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of level 2B asset referred to in Article 28 paragraph (2) item 3) indent 3 or 5 of this Decision;

- 7) 50% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of level 2B asset referred to in Article 27 paragraph (1) item 2) or 3) of this Decision;
 - 8) the percentage minimum haircut determined in accordance with Article 29 paragraphs (2) and (3) of this Decision, where they are collateralised by shares or participation in CIUs that, but for being used as collateral for those transactions, would qualify as liquid assets of the same category as the underlying liquid assets;
 - 9) 100% where they are collateralised by assets that do not fall within any of items 1) to 8) of this paragraph.
- (5) By way of derogation from paragraph (4) of this Article:
- 1) where the counterparty to the secured lending or capital market-driven transaction is the Central Bank, the outflow rate shall be 0%;
 - 2) where the transaction is done through a branch with the central bank of the third country in which the branch is located, a 0% outflow rate shall be applied if the branch has the same access to central bank liquidity, including during stress periods, as credit institutions incorporated in that country have;
 - 3) for secured lending or capital market-driven transactions that would require an outflow rate higher than 25% under paragraph (4) of this Article, the outflow rate shall be 25% where the counterparty to the transaction is an eligible counterparty.
- (6) Collateral swaps, and other transactions with a similar form, that mature within the next 30 calendar days shall lead to an outflow, where the asset borrowed is, in accordance with Articles 32 to 45 of this Decision, subject to a lower weight than the asset lent, and in that case the outflow shall be calculated by multiplying the market value of the asset borrowed by the difference between the outflow rate applicable to the asset lent and the outflow rate applicable to the asset borrowed determined in accordance with paragraphs (4) and (5) of this Article.
- (7) For the purposes of calculation of the outflow referred to in paragraph (6) of this Article, a 100% haircut shall be applied to assets that do not qualify as liquid assets.
- (8) By way of derogation from paragraph (6) of this Article:
- 1) where the counterparty to the collateral swap or other transaction with a similar form is the Central Bank, the outflow rate to be applied to the market value of the asset borrowed shall be 0%;
 - 2) where the transaction is done through a branch with the central bank of the third country in which the branch is located, a 0% outflow rate shall be applied only if the branch has the same access to liquidity, including during stress periods, as credit institutions established in that country have;
 - 3) for collateral swaps or other transactions with a similar form that would require an outflow rate higher than 25% under paragraph (4) of this Article, the outflow rate to be applied to the market value of the asset borrowed shall be 25% where the counterparty to the transaction is an eligible counterparty.

(9) The offsetting balances held in segregated accounts related to client protection regimes imposed by relevant regulations shall be treated as inflows in accordance with Article 46 of this Decision and shall be excluded from the stock of liquid assets.

(10) An outflow rate of 100% shall be applied to all notes, bonds and debt securities issued by the credit institution, unless the bond is sold exclusively in the products and services market pertaining to retail category and held in a retail account, in which case those instruments can be treated as the appropriate retail deposit category, provided that those instruments cannot be bought and held by persons other than retail customers.

(11) Assets borrowed on an unsecured basis and maturing within the next 30 calendar days shall be assumed to run off in full, leading to a 100% outflow of liquid assets, unless the credit institution owns the assets borrowed and the assets borrowed do not form part of the liquidity buffer.

(12) The following shall be considered an eligible counterparty within the meaning of paragraph (5) item 3) and paragraph (8) item 3) of this Article:

- 1) the central government, a public sector entity, and a local self-government unit in Montenegro;
- 2) the central government, a public sector entity, a regional or a local self-government unit of the third country in which the credit institution executing those transactions is established; and
- 3) a multilateral development bank.

(13) Public sector entities and local self-government entities referred to in paragraph (12) of this Article shall only count as an eligible counterparty where they are assigned a risk weight of 20% or lower in accordance with Article 152 or Article 153 of the Decision on Capital Adequacy.

Additional outflows

Article 41

(1) Collateral other than cash and assets referred to in Article 25 of this Decision which is posted by the credit institution for contracts referred to in Article 148 paragraph (8) of the Decision on Capital Adequacy and credit derivatives, shall be subject to an additional outflow of 20%.

(2) Collateral in assets referred to in Article 25 paragraph (1) item 5) of this Decision which is posted by the credit institution for contracts referred to in Article 148 paragraph (8) of the Decision on Capital Adequacy and credit derivatives shall be subject to an additional outflow of 10%.

(3) The credit institution shall calculate an additional outflow for all contracts entered into, which lead, within 30 calendar days and following a material deterioration of the credit institution's credit quality, to additional liquidity outflows or collateral needs, and it shall notify the Central Bank of that outflow no later than the submission of the report in accordance with Article 84 paragraph (1) of this Decision.

(4) Where the Central Bank considers the outflow for contracts referred to in paragraph (3) of this Article to be material in relation to the potential liquidity outflows of the credit institution, it shall require the credit institution to calculate an additional outflow for those contracts corresponding to the additional collateral needs or cash outflows resulting from a material deterioration in the credit institution's credit quality corresponding to a downgrade in its external credit rating of at least three notches.

(5) The credit institution shall apply a 100 % outflow rate to additional collateral or cash outflows referred to in paragraph (4) of this Article.

(6) The credit institution shall regularly review the relation of the material deterioration in the credit quality and contracts entered into referred in paragraph (3) of this Article and notify the result of its review to the Central Bank.

(7) The credit institution shall add an additional outflow corresponding to collateral needs in the case of material impact of an adverse market situation on the credit institution's derivatives transactions, and the calculation of that outflow shall be made in the manner set out in Article 42 of this Decision.

(8) Outflows and inflows expected over 30 calendar days from the contracts referred to in Article 148 paragraph (8) of the Decision on Capital Adequacy and from credit derivatives shall be taken into account on a net basis in accordance with Article 33 of this Decision, provided that, in the case of a net outflow, the credit institution shall multiply the result by a 100% outflow rate, and it shall exclude from such calculations those liquidity requirements that result from the application of paragraphs (1) to (7) of this Article.

(9) Where the credit institution has a short position that is covered by an unsecured security borrowing, it shall add an additional outflow corresponding to 100% of the market value of the securities or other assets sold short, unless the terms upon which the credit institution has borrowed them require their return only after 30 calendar days, and where the short position is covered by a collateralised securities financing transaction, the credit institution shall assume the short position will be maintained throughout the entire 30 calendar day period and will receive a 0% outflow.

(10) The credit institution shall add an additional outflow corresponding to 100% of:

- 1) the excess collateral the credit institution holds that can be contractually called at any times by the counterparty;
- 2) collateral that is due to be posted to a counterparty within 30 calendar days;
- 3) collateral that corresponds to assets that would qualify as liquid assets for the purposes of Articles 19 to 31 of this Decision that can be substituted for assets corresponding to assets that would not qualify as liquid assets without the consent of the credit institution.

(11) Deposits received as collateral shall not be considered as liabilities for the purposes of Article 36, 37, 39, 40 or 45 of this Decision, and shall be subject to the provisions of paragraphs (1) to (10) of this Article.

(12) The amount of cash received exceeding the amount of cash received as collateral shall be treated as deposits in accordance with Article 36, 37, 39, 40 or 45 of this Decision.

(13) Credit institutions shall assume a 100% outflow for loss of funding on:

- 1) asset-backed securities, covered bonds and other structured financing instruments maturing within 30 calendar days, when these instruments are issued by the credit institution itself or by conduits or special purpose entities sponsored by the credit institution;
- 2) asset-backed commercial papers, conduits, securities investment vehicles and other such financing facilities, and the 100% outflow rate shall apply to the maturing amount or to the amount of assets that could potentially be returned or the liquidity required.

(14) For that portion of financing programmes under paragraph (13) of this Article, a credit institution that is a provider of associated liquidity facilities does not need to double count the maturing financing instrument and the liquidity facility for consolidated programmes.

(15) In the case of the provision of prime brokerage services, where a credit institution has covered the short sales of a client by internally matching them with the assets of another client and the assets do not qualify as liquid assets, those transactions shall be subject to a 50% outflow rate for the contingent obligation.

Calculation of additional outflows

Article 42

(1) For the purposes of calculating the outflows referred to in Article 41 paragraph (7) of this Decision, a credit institution's derivative transactions shall be considered material where the total of notional amounts of such transactions has exceeded 10% of the net liquidity outflows at any time in the previous two years.

(2) For the purposes of paragraph (1) of this Article, the net liquidity outflows shall be calculated without the additional outflow component referred to in the Article 41 paragraphs (4) and (5) of this Decision.

(3) The additional outflow corresponding to collateral needs resulting from the impact of an adverse market situation on a credit institution's derivative transactions considered as material within the meaning of paragraph (1) of this Article, shall be the largest absolute net 30-day collateral flow realised during the 24 months preceding the date of calculation of the liquidity coverage requirement.

(4) A credit institution may only treat inflows and outflows of transactions on a net basis where they are executed under the same master netting agreement, whereat the absolute

net collateral flow shall be based on both realised outflows and inflows, and the netting shall be calculated at the credit institution's portfolio level.

Outflows from credit and liquidity facilities

Article 43

(1) A liquidity facility, within the meaning of this Article, shall be any committed, undrawn back-up facility that would be utilised to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets.

(2) The amount of liquidity facility referred to in paragraph (1) of this Article shall be calculated as the amount of the debt issued by the customer currently outstanding and maturing within 30 calendar days that is backstopped by the facility, provided that:

- 1) the portion of the liquidity facility that is backing a debt that does not mature within 30 calendar days shall be excluded from the liquidity facility;
- 2) any additional capacity of the liquidity facility shall be treated as a committed credit facility with the associated drawdown rate as specified in paragraph (3) of this Article;
- 3) general working capital facilities for corporate entities shall be classified as credit facilities.

(3) Outflows for credit and liquidity facilities shall be calculated by multiplying the amount of those facilities by the corresponding outflow rates set out in paragraphs (5), (6), and (7) of this Article, and determined as a percentage of the maximum amount that can be drawn down within 30 calendar days, net of any liquidity requirement that would be applicable under Article 35 of this Decision for the trade finance off-balance sheet items, and net of any collateral made available to the credit institution and valued in accordance with Article 24 of this Decision, provided that the collateral:

- 1) may be reused or hypothecated by the credit institution;
- 2) is held in the form of liquid assets, but is not recognised as part of the liquidity buffer; and
- 3) does not consist of assets issued by the counterparty of the facility or one of its affiliated entities.

(4) If the necessary information is available to the credit institution, the maximum amount that can be drawn down for credit and liquidity facilities shall be determined taking into account the counterparty's own obligations or the pre-defined contractual drawdown schedule coming due over 30 calendar days.

(5) The maximum amount that a credit institution's customers can draw down from undrawn committed credit and liquidity facilities within the next 30 calendar days shall be multiplied by 5%, if those customers qualify for the retail deposit exposure class.

(6) The maximum amount that customers can draw down from undrawn committed credit facilities within 30 calendar days shall be multiplied by 10% where those facilities:

- 1) cannot be assigned to a class of customers that qualify for the retail deposit exposure class;

- 2) have been offered to clients that are not financial customers, including non-financial undertakings, sovereigns, central banks, multilateral development banks and public sector entities;
- 3) have not been offered for the purpose of replacing funding of the client in situations where the client is unable to meet the funding requirements in the financial markets.

(7) The maximum amount that can be drawn down from undrawn committed liquidity facilities within the next 30 calendar days shall be multiplied by 30%, where those facilities meet the conditions referred to in paragraph (6) items 1) and 2) of this Article, and by 40% when they are offered to personal investment companies.

(8) The undrawn committed amount of a liquidity facility that has been offered to an SSPE for the purpose of purchasing assets, other than securities, from clients that are not financial customers shall be multiplied by 10%, to the extent that it exceeds the amount of assets currently purchased from clients and where the maximum amount that can be drawn down is contractually limited to the amount of assets currently purchased.

(9) The maximum amount that can be drawn down from other undrawn committed credit and liquidity facilities within 30 calendar days shall be multiplied by the corresponding outflow rate as follows:

- 1) 40% for credit and liquidity facilities granted to credit institutions and for credit facilities granted to other regulated financial institutions, including insurance undertakings and investment firms, CIUs or non-open ended investment schemes;
- 2) 100% for liquidity facilities that the credit institution has granted to SSPEs, other than those referred to in paragraph (8) of this Article, and for arrangements under which the credit institution is required to buy or swap assets from an SSPE;
- 3) 100% for credit and liquidity facilities to financial customers not referred to in items 1) and 2) of this paragraph and paragraphs (1) to (8) of this Article.

(10) By way of derogation from paragraphs (1) to (9) of this Article, a credit institution which has been set up and is sponsored by the Government of Montenegro or local self-government units may apply the treatments set out in paragraphs (5) and (6) of this Article to credit and liquidity facilities that are granted to promotional lenders for the sole purpose of directly or indirectly funding promotional loans, provided that those loans meet the requirements for the outflow rates referred to in paragraphs (5) and (6) of this Article.

(11) By way of derogation from Article 46 paragraph (3) item 7) of this Decision, where the promotional loans referred to in paragraph (10) of this Article are granted via another credit institution acting as an intermediary (as pass through loans), that credit institution may apply symmetric inflows and outflows, which shall be calculated by applying to the undrawn committed credit or liquidity facility received and granted the rate referred to in paragraphs (5) and (6) of this Article and respecting the conditions and requirements otherwise imposed in relation to that rate.

(12) The promotional loans referred to in paragraph (10) of this Article shall be available only to persons who are not financial customers on a non-competitive, not for profit basis in order to promote the policy of the Government Montenegro, and it shall only be possible to draw on such credit and liquidity facilities following the reasonably expected demand for a promotional loan and up to the amount of such demand, provided there is a subsequent reporting on the use of the funds distributed.

Outflows within a group

Article 44

By way of derogation from Article 41 of this Decision, the Central Bank may authorise the application of a lower outflow rate on a case-by-case basis for undrawn credit or liquidity facilities where:

- 1) there are reasons to expect a lower outflow even under a combined idiosyncratic stress scenario and liquidity provider stress scenario;
- 2) the counterparty is the foreign parent institution or institution that is a subsidiary undertaking of the credit institution or another subsidiary undertaking of the same parent institution or linked to the credit institution by a relationship referred to in Article 11 of the Law;
- 3) the lower outflow rate does not fall below the inflow rate applied by the counterparty; and
- 4) the credit institution and the counterparty are established in Montenegro.

Outflows from other liabilities

Article 45

(1) A credit institution shall multiply by a 100% outflow rate any liabilities that become due within 30 calendar days, except for the liabilities referred to in Articles 36 to 43 of this Decision.

(2) Where the total of all contractual commitments to granted funding to non-financial customers within 30 calendar days, other than commitments referred to in Articles 36 to 43 of this Decision, exceeds the amount of inflows from those non-financial customers calculated in accordance with Article 46 paragraph (3) item 1) of this Decision, the excess shall be subject to a 100% outflow rate.

(3) Non-financial customers referred to in paragraph (2) of this Article and Article 46 paragraph (3) item 1) of this Decision shall include, but not be limited to, natural persons, SMEs, business undertakings, sovereigns, multilateral development banks and public sector entities.

(4) Non-financial customers referred to in paragraph (3) of this Article shall exclude financial customers and central banks.

b) Liquidity inflows

Inflows

Article 46

(1) Liquidity inflows shall be assessed over a period of 30 calendar days, and they shall comprise only contractual inflows from exposures that are not past due and for which the credit institution has no reason to expect non-performance within 30 calendar days.

(2) A credit institution shall apply a 100% inflow rate to inflows referred to in paragraph (1) of this Article, including in particular the monies due from:

- 1) central banks and financial customers with a residual maturity of no more than 30 calendar days;
- 2) trade finance transactions defined in Article 3 paragraph (1) item 47) of the Decision on Capital Adequacy, with a residual maturity of no more than 30 calendar days;
- 3) securities maturing within 30 calendar days;
- 4) positions in major indexes of equity securities, provided there is no double counting with liquid assets, and that they include monies contractually due within 30 calendar days, such as cash dividends from those major indexes and cash due from those equity securities sold but not yet realized or settled, if they are not recognised as liquid assets in accordance with Articles 19 to 30 of this Decision.

(3) By way of derogation from paragraph (2) of this Article:

- 1) monies due from non-financial customers with a residual maturity of no more than 30 calendar days, with the exception of monies due from trade finance transactions or maturing securities, shall be reduced for the purposes of principal payment by 50% of their value, however, credit institutions acting as intermediaries that have received a commitment from a multilateral development bank or a public sector entity to disburse a promotional loan to a final recipient may take into account an inflow up to the amount of the outflow that they apply to the corresponding commitment to grant those promotional loans;
- 2) monies due from secured lending and capital market-driven transactions with a residual maturity of no more than 30 calendar days shall be multiplied by:
 - 0%, where they are collateralised by assets of any of the categories of level 1 asset, with the exception of covered bonds referred to in Article 25 paragraph (1) item 5) of this Decision;
 - 7%, where they are collateralised by liquid assets referred to in Article 25 paragraph (1) item 5) of this Decision;
 - 15%, where they are collateralised by liquid assets of any of the categories of level 2A asset referred to in Article 26 of this Decision;
 - 25%, where they are collateralised by liquid assets of any of the categories of level 2B asset referred to in Article 28 paragraph (2) item 3) indent 1, 2, or 4 of this Decision;
 - 30%, where they are collateralised by liquid assets of the category of level 2B asset referred to in Article 27 paragraph (1) item 4) of this Decision;

- 35%, where they are collateralised by liquid assets of any of the categories of level 2B asset referred to in Article 28 paragraph (2) item 3) indent 3 or 5 of this Decision;
 - 50%, where they are collateralised by liquid assets of any of the categories of level 2B asset referred to in Article 27 paragraph (1) items 2) and 3) of this Decision;
 - the percentage minimum haircut determined in accordance with Article 29 paragraphs (2) and (3) of this Decision, where they are collateralised by assets that would qualify as shares or units in CIUs of the same level as the underlying liquid assets, regardless of whether they would be reused in another transaction;
 - 100% where they are collateralised by assets that do not fall within any of indents 1) to 8) of this item.
- 3) monies due from contractual margin loans maturing in the next 30 calendar days made against non-liquid assets collateral shall receive a 50% inflow rate, provided that the credit institution is not using the collateral it originally received against the loans to cover any short positions;
 - 4) monies due that the credit institution owing those monies treats in accordance with Article 39 of this Decision shall be multiplied by a corresponding symmetrical inflow rate, and where the rate cannot be established, a 5% inflow rate shall be applied;
 - 5) collateral swaps, and other transactions with a similar form that mature within 30 calendar days shall lead to an inflow, where, in accordance with Articles 31 to 43 of this Decision, the asset lent is subject to a lower haircut than the asset borrowed, and that inflow shall be calculated by multiplying the market value of the asset lent by the difference between the inflow rate applicable to the asset borrowed and the inflow rate applicable to the asset lent in accordance with the rates specified in item 2) of this paragraph, whereby a 100% haircut shall apply to assets that do not qualify as liquid assets;
 - 6) where the collateral obtained through reverse repos, securities borrowings, collateral swaps, or other transactions with a similar form, maturing within 30 calendar days is used to cover short positions that can be extended beyond 30 calendar days, the credit institution shall assume that such transactions will be rolled-over and will not give rise to any cash inflows reflecting the need to continue to cover the short position or to repurchase the relevant securities, and the short positions shall include both, instances where in a matched book the credit institution sold short a security outright as part of a trading or hedging strategy and instances where in a matched book the credit institution has borrowed a security for a given period and lent the security out for a longer period;
 - 7) undrawn credit or liquidity facilities, including undrawn liquidity facilities from the Central Bank, and other commitments received, other than the commitments referred to in Article 43 paragraph (11) and Article 48 of this Decision, shall not be recognised as an inflow;
 - 8) monies due from securities issued by the credit institution itself or by a SSPE with which the credit institution has close links shall be taken into account on a net basis with an inflow rate applied on the basis of the inflow rate applicable to the underlying assets of the CIU in accordance with this Article;

9) loans with an undefined contractual maturity date shall be taken into account with a 20% inflow rate, provided that the contract allows the credit institution to withdraw or to request payment within 30 calendar days.

(4) Provision of paragraph (3) item 1) of this Article shall not apply to monies due from secured lending and capital market-driven transactions, that are collateralised by liquid assets in accordance with Articles 19 to 30 of this Decision in the manner specified in paragraph (3) item 2) of this Article.

(5) In the case referred to in paragraph (3) item 2) of this Article, no inflow shall be recognised where the collateral is used by the credit institution to cover a short position in accordance with Article 40 paragraph (9) of this Decision.

(6) Inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets shall be taken into account in full, provided that those segregated balances are maintained in liquid assets as defined in Articles 19 to 30 of this Decision.

(7) Outflows and inflows expected over 30 calendar days from the contracts referred to in Article 148 paragraph (8) of the Decision on Capital Adequacy, and from credit derivatives shall be calculated on a net basis in accordance with Article 33 of this Decision and shall be multiplied by a 100% inflow rate in the event of a net inflow.

(8) A credit institution shall not take into account any inflows:

- 1) from any of the liquid assets referred to in Articles 19 to 30 of this Decision, other than payments due on the assets that are not reflected in the market value of the asset;
- 2) from any new obligations entered into.

(9) A credit institution shall take liquidity inflows which are to be received in third countries where there are transfer restrictions or which are denominated in non-convertible currencies into account only to the extent that they correspond to outflows respectively in the third country or currency in question.

Cap on inflows

Article 47

(1) A credit institution shall limit the recognition of liquidity inflows to 75% of total liquidity outflows in accordance with Articles 33 to 43 of this Decision.

(2) By way of derogation from paragraph (1) of this Article, subject to the prior authorisation of the Central Bank, the credit institution may fully or partially exempt from the cap the following liquidity inflows:

- 1) where the provider is a parent institution or a subsidiary undertaking of the credit institution or another subsidiary of the same parent institution or linked to the credit institution by management on a unified basis referred to in Article 11 of the Law;

- 2) from deposits placed with another credit institution within a group that qualify for the treatment set out in Article 150 paragraphs (9) and (11) of the Decision on Capital Adequacy;
- 3) referred to in Article 38 of this Decision, including inflows from loans related to mortgage lending, or promotional loans referred to in Article 43 paragraph (10) of this Decision or from a multilateral development bank or a public sector entity via which the credit institution has granted the pass-through loan.

(3) A credit institution shall determine the amount of the net liquidity inflows referred to in paragraph (1) of this Article applying the formulae laid down in Article 32 paragraph (4) of this Decision.

Inflows within a group

Article 48

By way of derogation from Article 46 paragraph (3) item 7) of this Decision, the Central Bank may authorise the application of a higher inflow rate on a case by case basis for undrawn credit and liquidity facilities where:

- 1) there are reasons to expect a higher inflow even under a combined market and idiosyncratic stress scenarios of the liquidity provider;
- 2) the counterparty is the parent institution, a subsidiary undertaking of the credit institution, another subsidiary undertaking of the same parent institution or linked to the credit institution by management on a unified basis referred to in Article 11 of the Law;
- 3) by way of derogation from Article 43 of this Decision, the inflow rate exceeds 40%, a corresponding symmetric outflow rate shall be applied by the counterparty; and
- 4) the credit institution and the counterparty are established in Montenegro.

Application for consolidation purposes

Article 49

Where a group of credit institutions comprises one or more credit institutions from Montenegro and subsidiary undertakings from a third country, for the purposes of consolidation, the following shall apply:

- 1) assets held by a subsidiary undertaking in a third country shall be recognised as liquid assets for consolidation purposes where they qualify as liquid assets under that third country's regulations and where they:
 - meet the requirements laid down in Articles 19 to 30 of this Decision; or
 - in the case that they fail to meet the specific requirement with respect to their issue size, but meet all other requirements laid down in Articles 19 to 30 of this Decision, these assets may only be recognised up to the amount of the stressed net liquidity outflows incurred in the particular currency in which they are denominated and arising from that same subsidiary undertaking;
- 2) liquidity outflows in a subsidiary undertaking in a third country which are, under the regulations of that third country, subject to higher percentages than those specified in Articles 31 to 46 of this Decision, shall be subject to consolidation in accordance with those higher rates;

- 3) liquidity inflows in a subsidiary undertaking in a third country which are, under the regulations of that third country, subject to lower percentages than those specified in Articles 31 to 46 of this Decision, shall be subject to consolidation in accordance with those lower rates.

IV NET STABLE FUNDING REQUIREMENTS

1. Determining stable funding

Determining stable funding

Article 50

A credit institution shall determine items providing stable funding and items requiring stable funding of the credit institution.

2. Net stable funding ratio

2.1. Net stable funding ratio

Application on a consolidated basis

Article 51

Where the net stable funding ratio set out in this Chapter applies on a consolidated basis, the following rules shall apply:

- 1) the assets and off-balance-sheet items of a subsidiary undertaking with a head office in a third country which are subject to required stable funding factors under the net stable funding requirement set out in the law of that third country that are higher than those specified in Articles 65 to 83 of this Decision, shall be subject to consolidation in accordance with the higher factors specified in the law of that third country;
- 2) the liabilities and own funds of a subsidiary undertaking with a head office in a third country which are subject to available stable funding factors under the net stable funding requirement set out in the law of that third country that are lower than those specified in Articles 58 to 64 of this Decision, shall be subject to consolidation in accordance with the lower factors specified in the law of that third country;
- 3) third-country assets which meet the requirements laid down in Articles 19 to 49 of this Decision and which are held by a subsidiary undertaking with a head office in a third country shall not be recognised as liquid assets for consolidation purposes where they do not qualify as liquid assets under the law of that third country which sets out the liquidity coverage requirement.

Net stable funding ratio

Article 52

(1) The net stable funding requirement laid down in Article 114 paragraph (9) of the Law shall be equal to the ratio of the credit institution's available stable funding as referred to

in Articles 58 to 64 of this Decision to the credit institution's required stable funding as referred to in Articles 65 to 83 of this Decision, and shall be expressed as a percentage in accordance with the following formula:

$$\frac{\text{Available stable funding}}{\text{Required stable funding}} = \text{Net stable funding ratio}(\%)$$

(2) A credit institution shall maintain a net stable funding ratio referred to in paragraph (1) of this Article of at least 100%, calculated in the reporting currency for all its transactions, irrespective of their actual currency denomination.

(3) Where, at any time, the net stable funding ratio of a credit institution has fallen below 100%, or can be reasonably expected to fall below 100 %, the credit institution shall act in accordance with Article 114 paragraphs (5) to (8) of the Law, and restore its net stable funding ratio to the level referred to in paragraph (2) of this Article.

(4) Where a credit institution fails to meet the requirement referred to in paragraph (2) of this Article, the Central Bank shall, in accordance with Article 280 of the Law, assess whether it is necessary to impose specific liquidity requirements.

(5) A credit institution shall calculate and monitor its net stable funding ratio in the reporting currency for all its transactions, irrespective of their actual currency denomination, and separately for its transactions denominated in each of the currencies that is subject to separate reporting in accordance with Article 84 paragraph (2) of this Decision.

(6) A credit institution shall ensure that the distribution of its funding profile by currency denomination is consistent with the distribution of its assets by currency.

(7) Where appropriate, for currencies that are subject to separate reporting in accordance with Article 84 paragraph (2) of this Decision, the Central Bank may require a credit institution to restrict currency mismatches by setting limits on the proportion of required stable funding in a particular currency that can be met by available stable funding that is not denominated in that currency.

(8) In determining the level of the restriction on currency mismatches referred to in paragraph (7) of this Article, the Central Bank shall consider at least:

- 1) whether the credit institution has the ability to transfer available stable funding from one currency to another and across jurisdictions and legal entities within its group, and the ability to swap currencies and raise funds in foreign currency markets over the one-year horizon of the net stable funding ratio;
- 2) the impact of adverse exchange rate movements on existing mismatched positions and on the effectiveness of any foreign currency exchange hedges that are in place.

(9) Where the Central Bank has imposed the restriction on currency mismatches referred to in paragraph (7) of this Article on a credit institution, it shall be deemed that it has taken the measure referred to in Article 280 of the Law with regard to meeting the specific liquidity requirements.

2.2. General rules for the calculation of the net stable funding ratio

Calculation of the net stable funding ratio

Article 53

(1) For the purpose of calculating its net stable funding ratio, a credit institution shall take into account assets, liabilities and off-balance-sheet items on a gross basis and shall apply the appropriate stable funding factors set out in Articles 58 to 83 of this Decision to the accounting value of its assets, liabilities and off-balance-sheet items.

(2) For the purposes of paragraph (1) of this Article, gross basis means that the accounting rules for determining the value of assets, liabilities and off-balance sheet items are applied, so that these positions are taken in the net accounting amount shown in the balance sheet, without applying additional prudential netting.

(3) A credit institution shall not double count required stable funding and available stable funding.

(4) Where an item can be allocated to more than one required stable funding category, the credit institution shall allocate that item to the required stable funding category that produces the greatest contractual required stable funding for that item.

Derivative contracts

Article 54

(1) A credit institution shall calculate the amount of required stable funding for derivative contracts in accordance with Articles 58 to 83 of this Decision.

(2) Without prejudice to the provisions of Article 83 paragraphs (2) and (3) of this Decision, the credit institution shall take into account the fair value of derivative positions on a net basis where those positions are included in the same netting set that fulfils the requirements set out in Article 566 paragraphs (1) to (4) of the Decision on Capital Adequacy, and where that is not the case, the credit institution shall take into account the fair value of derivative positions on a gross basis and shall treat those derivative positions as belonging to their own netting set for the purposes of Articles 65 to 83 of this Decision.

(3) Without prejudice to the provisions of Article 83 paragraphs (2) and (3) of this Decision, all derivative contracts referred to in Article 148 paragraph (8) item 2) indents 1 to 5 of the Decision on Capital Adequacy that involve a full exchange of principal amounts on the same date shall be calculated on a net basis across currencies, including for the purpose of reporting in a currency that is subject to separate reporting in accordance with Article 84 paragraph (2) of this Decision, even where those transactions are not included in the

same netting set that fulfils the requirements set out Article 566 paragraphs (1) to (4) of the Decision on Capital Adequacy.

(4) Cash received as collateral to mitigate the exposure of a derivative position shall be treated as such and shall not be treated as deposits to which provisions of Articles 58 to 64 of this Decision apply.

Netting of secured lending transactions and capital market-driven transactions

Article 55

Assets and liabilities resulting from securities financing transactions with a single counterparty shall be calculated on a net basis, provided that those assets and liabilities comply with the netting conditions set out in Article 565 paragraph (5) of the Decision on Capital Adequacy.

Interdependent assets and liabilities

Article 56

(1) Subject to prior authorisation of the Central Bank, a credit institution may treat an asset and a liability as interdependent, provided that all the following conditions are met:

- 1) the credit institution acts solely as a pass-through unit to channel the funding from the liability into the corresponding interdependent asset;
- 2) the individual interdependent assets and liabilities are clearly identifiable and have the same principal amount;
- 3) the asset and interdependent liability have substantially matched maturities, with a maximum delay of 20 days between the maturity of the asset and the maturity of the liability;
- 4) the interdependent liability has been requested pursuant to a legal, regulatory or contractual commitment and is not used to fund other assets;
- 5) the principal payment flows from the asset are not used for other purposes than repaying the interdependent liability;
- 6) the counterparties for each pair of interdependent assets and liabilities are not the same.

(2) Assets and liabilities shall be considered to meet the conditions set out in paragraph (1) of this Article and be considered as interdependent where they are directly linked to the following products or services:

- 1) centralised regulated savings, provided that the credit institution is legally required to transfer regulated deposits to a centralised fund which is set up and controlled by the Government of Montenegro and which provides loans to promote public interest objectives, and provided that the transfer of deposits to the centralised fund occurs on at least a monthly basis;
- 2) promotional loans and credit and liquidity facilities that fulfil the criteria set out in the Articles 19 to 47 of this Decision for credit institutions acting as simple intermediaries that do not incur any funding risk;
- 3) covered bonds that meet all the following conditions:

- they are bonds referred to in Article 2 item 24 of this Decision or they meet the eligibility requirements for the treatment set out in Article 169 paragraph (14) or (15) of the Decision on Capital Adequacy;
 - the underlying loans are fully match funded with the covered bonds that were issued or the covered bonds have non-discretionary extendable maturity triggers of one year or more until the term of the underlying loans in the event of refinancing failure at the maturity date of the covered bond;
- 4) derivative client clearing activities, provided that the credit institution does not provide to its clients guarantees of the performance of the central counterparty and, as a result, does not incur any funding risk.

Preferential treatment within a group

Article 57

(1) By way of derogation from Articles 58 to 83 of this Decision, the Central Bank may authorise a credit institution on a case-by-case basis to apply a higher available stable funding factor or a lower required stable funding factor to assets, liabilities and committed credit or liquidity facilities, provided that all the following conditions are met:

- 1) the counterparty is one of the following:
 - the parent undertaking or a subsidiary undertaking of the credit institution;
 - another subsidiary undertaking of the same parent undertaking;
 - a business undertaking that is related to the credit institution in the manner prescribed in Article 11 of the Law;
- 2) there are reasons to expect that the liability or committed credit or liquidity facility received by the credit institution constitutes a more stable source of funding, or that the asset or committed credit or liquidity facility granted by the credit institution requires less stable funding over the one-year horizon of the net stable funding ratio than the same liability, asset or committed credit or liquidity facility received or granted by other counterparties;
- 3) the counterparty applies a required stable funding factor that is equal to or higher than the higher available stable funding factor or applies an available stable funding factor that is equal to or lower than the lower required stable funding factor;
- 4) the credit institution and the counterparty have head offices in Montenegro.

2.3. Available stable funding

Calculation of the amount of available stable funding

Article 58

(1) The amount of available stable funding shall be calculated by multiplying the accounting value of various categories or types of liabilities and own funds by the available stable funding factors to be applied in accordance with Articles 60 to 64 of this Decision.

(2) The total amount of available stable funding shall be the sum of the weighted amounts of liabilities and own funds.

(3) Bonds and other debt securities that are issued by the credit institution, sold exclusively in the retail market, and held in a retail account, may be treated as belonging to the appropriate retail deposit category, in which case those instruments cannot be bought and held by persons other than retail customers.

Residual maturity of a liability or of own funds

Article 59

(1) A credit institution shall take into account the residual contractual maturity of its liabilities and own funds to determine the available stable funding factors to be applied in accordance with Articles 60 to 64 of this Decision.

(2) In determining the residual maturity of a liability or of own funds referred to in paragraph (1) of this Article, a credit institution shall take into account existing options, and it shall do so on the assumption that the counterparty will redeem call options at the earliest possible date, whereas for options exercisable at the discretion of the credit institution, the credit institution and the Central Bank shall take into account reputational factors that may limit credit institution's ability not to exercise the option, in particular market expectations that the credit institution should redeem certain liabilities before their maturity.

(3) A credit institution shall treat deposits with fixed notice periods in accordance with their notice period, and shall treat term deposits in accordance with their residual maturity.

(4) By way of derogation from paragraph (2) of this Article, a credit institution shall not take into account options for early withdrawals where, in accordance with Article 37 paragraphs (6) to (8) of this Decision, the depositor has to pay a material contractual penalty for early withdrawals which occur in less than one year, to determine the residual maturity of term retail deposits.

(5) In order to determine the available stable funding factors to be applied in accordance with Articles 60 to 64 of this Decision, a credit institution shall treat any portion of liabilities having a residual maturity of one year or more that matures in less than six months and any portion of such liabilities that matures between six months and less than one year as having a residual maturity of less than six months and between six months and less than one year, respectively.

0% available stable funding factor

Article 60

(1) All liabilities without a stated maturity, including short positions and open maturity positions, shall be subject to a 0% available stable funding factor, with the exception of the following:

- 1) deferred tax liabilities, which shall be treated in accordance with the nearest possible date on which such liabilities could be realised;
- 2) minority interests, which shall be treated in accordance with the term of the instrument.

(2) Deferred tax liabilities and minority interests as referred to in paragraph (1) of this Article shall be subject to one of the following factors:

- 1) 0%, where the effective residual maturity is less than six months;
- 2) 50%, where the effective residual maturity is a minimum of six months but less than one year;
- 3) 100%, where the effective residual maturity is one year or more.

(3) The following liabilities and capital items or instruments shall be subject to a 0% available stable funding factor:

- 1) trade date payables arising from purchases of financial instruments, of foreign currencies and of commodities, that are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transactions, or that have failed to settle but are nonetheless expected to settle;
- 2) liabilities that are categorised as being interdependent with assets in accordance with Article 56 of this Decision;
- 3) liabilities with a residual maturity of less than six months provided by:
 - the Central Bank, the European Central Bank or the central bank of a Member State;
 - the central bank of a third country;
 - financial customers;
- 4) any other liabilities and capital items or instruments not referred to in Articles 61 to 64 of this Decision.

(4) A credit institution shall apply a 0% available stable funding factor to the absolute value of the difference, if negative, between the sum of fair values across all netting sets with positive fair value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Article 54 of this Decision.

(5) A credit institution shall apply the following rules to the calculation referred to in paragraph (4) of this Article:

- 1) variation margin received by the credit institution from its counterparty shall be deducted from the fair value of a netting set with positive fair value where the collateral received as variation margin qualifies as a level 1 asset pursuant to the provisions of this Decision, excluding extremely high-quality covered bonds, and where the credit institution is legally entitled and operationally able to reuse that collateral;
- 2) all variation margin posted by the credit institution with its counterparty shall be deducted from the fair value of a netting set with negative fair value.

50% available stable funding factor

Article 61

The following liabilities and capital items or instruments shall be subject to a 50% available stable funding factor:

- 1) deposits received that fulfil the criteria for operational deposits set out in Article 39 of this Decision;
- 2) liabilities with a residual maturity of less than one year provided by:
 - the Government of Montenegro, the central government of a Member State or of a third country;
 - regional or local self-government in Montenegro, in a Member State or in a third country;
 - public sector entities in Montenegro, in a Member State or in a third country;
 - multilateral development banks referred to in Article 154 paragraph (2) of the Decision on Capital Adequacy and international organisations referred to in Article 155 of that decision;
 - non-financial corporate customers;
 - credit unions authorised by a competent authority, personal investment companies and clients that are deposit brokers to the extent that those liabilities do not fall under item 1) of this paragraph;
- 3) liabilities with a residual contractual maturity of a minimum of six months but less than one year that are provided by:
 - the Central Bank of Montenegro, the European Central Bank or the central bank of a Member State;
 - the central bank of a third country;
 - financial customers;
- 4) any other liabilities and capital items or instruments with a residual maturity of a minimum of six months but less than one year not referred to in Articles 62, 63 and 64 of this Decision.

90% available stable funding factor

Article 62

Demand retail deposits, retail deposits with a fixed notice period of less than one year and term retail deposits having a residual maturity of less than one year that fulfil the relevant criteria for other retail deposits set out in Article 37 of this Decision shall be subject to a 90% available stable funding factor.

95% available stable funding factor

Article 63

Demand retail deposits, retail deposits with a fixed notice period of less than one year and term retail deposits having a residual maturity of less than one year that fulfil the relevant criteria for stable retail deposits set out in the delegated act referred to in Article 36 of this Decision shall be subject to a 95% available stable funding factor.

100% available stable funding factor

Article 64

The following liabilities and capital items and instruments shall be subject to a 100% available stable funding factor:

- 1) the Common Equity Tier 1 items of the credit institution before the adjustments referred to in Articles 15 to 18, the deductions referred to in Article 19 and the application of the exemptions and alternatives laid down in Articles 43, 44 and 104 of the Decision on Capital Adequacy;
- 2) the Additional Tier 1 items of the credit institution before the deduction of the items referred to in Article 54 of the Decision on Capital Adequacy and before Article 104 of that Decision has been applied thereto, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;
- 3) the Tier 2 items of the credit institution before the deductions referred to in Article 64 of the Decision on Capital Adequacy and before the application of Article 104 of that Decision, having a residual maturity of one year or more, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;
- 4) any other capital instruments of the credit institution with a residual maturity of one year or more, excluding any instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity to less than one year;
- 5) any other secured and unsecured loans and liabilities with a residual maturity of one year or more, including term deposits, unless otherwise specified in Articles 60 to 63 of this Decision.

2.4. Required stable funding

Calculation of the amount of required stable funding

Article 65

(1) The amount of required stable funding shall be calculated by multiplying the accounting value of various categories or types of assets and off-balance-sheet items by the required stable funding factors to be applied in accordance with Articles 67 to 83 of this Decision.

(2) The total amount of required stable funding shall be the sum of the weighted amounts of assets and off-balance-sheet items.

(3) Assets which a credit institution has borrowed, including in securities financing transactions, shall be excluded from the calculation of the amount of required stable funding where those assets are accounted for on the balance sheet of the credit institution and the credit institution does not have beneficial ownership of the asset.

(4) Assets that a credit institution has borrowed, including in securities financing transactions, shall be subject to the required stable funding factors referred to in paragraph (1) of this Article, where those assets are not accounted for on the balance sheet of the credit institution but the credit institution does have beneficial ownership of the assets.

(5) Assets that a credit institution has lent, including in securities financing transactions over which the credit institution retains beneficial ownership, shall be considered as

encumbered assets and shall be subject to the required stable funding factors in accordance with Articles 67 to 83 of this Decision, even where the assets do not remain on the balance sheet of the credit institution, otherwise, such assets shall be excluded from the calculation of the amount of required stable funding.

(6) Assets that are encumbered for a residual maturity of six months or longer shall be assigned the higher of the following factors:

- 1) required stable funding factor that would be applied in accordance with Articles 67 to 83 of this Decision to those assets if they were held unencumbered, or
- 2) the required stable funding factor that is otherwise applicable to those encumbered assets.

(7) The provision of paragraph (6) of this Article shall apply where the residual maturity of the encumbered assets is shorter than the residual maturity of the transaction that is the source of encumbrance.

(8) Assets that have less than six months remaining in the encumbrance period shall be subject to the required stable funding factor to be applied in accordance with Articles 67 to 83 of this Decision to the same assets if they were held unencumbered.

(9) Where a credit institution reuses or repledges an asset that was borrowed, including in securities financing transactions, and that asset is accounted for off-balance-sheet, the transaction in relation to which that asset has been borrowed shall be treated as encumbered, provided that the transaction cannot mature without the credit institution returning the asset borrowed.

(10) The following assets shall be considered to be unencumbered:

- 1) assets included in a pool which are available for immediate use as collateral to obtain additional funding under committed or, where the pool is operated by the Central Bank, uncommitted but not yet funded, credit facilities that are available to the credit institution, whereat the credit institution shall assume that assets in the pool are encumbered in order of increasing liquidity on the basis of the liquidity classification pursuant to the provisions of this Decision, starting with assets ineligible for the liquidity buffer;
- 2) assets that the credit institution has received as collateral for credit risk mitigation purposes in secured lending, secured funding or collateral exchange transactions and that the credit institution may dispose of;
- 3) assets attached as non-mandatory overcollateralisation to a covered bond issuance.

(11) In the case of non-standard, temporary operations conducted, in accordance with the law, by the Central Bank, or the European Central Bank, or the central bank of a Member State or the central bank of a third country in order to fulfil its mandate in a period of market-wide financial stress or in exceptional macroeconomic circumstances, the following assets shall receive a reduced required stable funding factor:

- 1) by way of derogation from Article 79 item 6) and from Article 83 paragraph (1) item 1) of this Decision, assets encumbered for the purposes of the operations referred to in this paragraph;
- 2) by way of derogation from Article 79 item 4) indents 1 and 2, from Article 81 item 2) and from Article 82 item 3) of this Decision, monies due that result from the operations referred to in this paragraph.

(12) The Central Bank shall determine, in agreement with the central bank that is the counterparty to the transaction the required stable funding factor to be applied to the assets referred to in paragraph (11) of this Article, whereat that factor may not be lower than the required stable funding factor that would apply in accordance with Articles 67 to 83 of this Decision to those assets if they were held unencumbered.

(13) When applying a reduced required stable funding factor in accordance with paragraph (12) of this Article, the Central Bank shall closely monitor the impact of that reduced factor on credit institutions' stable funding positions and shall take appropriate supervisory measures where necessary.

(14) In order to avoid double counting, a credit institution shall exclude assets that are associated with collateral that is recognised as variation margin posted in accordance with Article 60 paragraph (5) item 2) and Article 83 paragraph (3) item 2) of this Decision, recognised as initial margin posted, or recognised as a contribution to the default fund of a central counterparty in accordance with Article 82 items 1) ad 2) of this Decision from other parts of calculation of the amount of required stable funding determined in accordance with this Decision.

(15) A credit institution shall include foreign currencies and commodities for which a purchase order has been executed in the calculation of the amount of required stable funding financial instruments, and it shall exclude financial instruments, foreign currencies and commodities for which a sale order has been executed from the calculation of the amount of required stable funding, provided that those transactions are not reflected as derivatives or secured funding transactions on the credit institution's balance sheet and that those transactions are to be reflected on the credit institution's balance sheet when settled.

Residual maturity of an asset

Article 66

(1) A credit institution shall take into account the residual contractual maturity of its assets and off- balance-sheet transactions when determining the required stable funding factors to be applied to its assets and off-balance-sheet items in accordance with Articles 67 to 83 of this Decision.

(2) A credit institution shall treat assets relating to collateral related to OTC derivatives contracts the segregated exchange of which has been defined in risk management procedures, in accordance with the underlying exposure of those assets, whereat the credit institution shall subject those assets to a higher required stable funding factor,

depending on the term of encumbrance to be determined by the Central Bank, whereby the Central Bank shall consider whether the credit institution is able to freely dispose of or exchange such assets and shall consider the term of the liabilities to the credit institution's customers to whom that collateral segregation requirement relates.

(3) When calculating the residual maturity of an asset, a credit institution shall take options into account, based on the assumption that the issuer or counterparty will exercise any option to extend the maturity of an asset, and for options that are exercisable at the discretion of the credit institution, the credit institution and the Central Bank shall take into account reputational factors that may limit the credit institution's ability not to exercise the option, in particular markets' and clients' expectations that the credit institution should extend the maturity of certain assets at their maturity date.

(4) For amortising loans with a residual contractual maturity of one year or more, any portion that matures in less than six months and any portion that matures between six months and less than one year shall be treated as having a residual maturity of less than six months and between six months and less than one year, respectively.

0% required stable funding factor

Article 67

- (1) The following assets shall be subject to a 0% required stable funding factor:
- 1) unencumbered assets that are eligible as level 1 high quality liquid assets, excluding extremely high-quality covered bonds specified, regardless of whether they comply with the operational requirements as set out in Article 21 of this Decision;
 - 2) unencumbered shares or participations in CIUs that are eligible for a 0% haircut for the calculation of the liquidity coverage ratio, regardless of whether they comply with the operational requirements as set out in Article 21 of this Decision and with the requirements on the composition of the liquidity buffer set out in Article 19 of this Decision;
 - 3) all reserves held by the credit institution in the Central Bank, the ECB or in the central bank of a Member State or the central bank of a third country, including reserve requirement and excess reserves;
 - 4) all claims on the Central Bank, the ECB, the central bank of a Member State or the central bank of a third country that have a residual maturity of less than six months;
 - 5) trade date receivables arising from sales of financial instruments, foreign currencies or commodities that are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or that have failed to settle but are nonetheless expected to settle;
 - 6) assets that are categorised as being interdependent with liabilities in accordance with Article 56 of this Decision;
 - 7) monies due from securities financing transactions with financial customers, where those transactions have a residual maturity of less than six months, where those monies due are collateralised by assets that qualify as level 1 assets, excluding extremely high-quality covered bonds, and where the credit institution would be

legally entitled and operationally able to reuse those assets for the duration of the transaction.

(2) Where Article 55 of this Decision applies, the monies due referred to in paragraph (1) item 7) of this Article shall be taken into account on a net basis.

(3) For subsidiary undertakings with a head office in a third country, where the required central bank reserves are subject to a higher required stable funding factor under the net stable funding requirement set out in the national law of that third country, that higher required stable funding factor shall be taken into account for consolidation purposes.

5% required stable funding factor

Article 68

(1) The following assets and off-balance-sheet items shall be subject to a 5% required stable funding factor:

- 1) unencumbered shares or participation in CIUs that are eligible for a 5 % haircut for the calculation of the liquidity coverage ratio in accordance with Article 29 of this Decision, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer;
- 2) monies due from securities financing transactions with financial customers, where those transactions have a residual maturity of less than six months, other than those referred to in Article 67 paragraph (1) item 7) of this Decision;
- 3) the undrawn portion of committed credit and liquidity facilities pursuant to this Decision;
- 4) trade finance off-balance-sheet related products as referred to in Article 148 of the Decision on Capital Adequacy with a residual maturity of less than six months.

(2) Where Article 55 of this Decision applies, the monies due referred to in paragraph (1) item 2) of this Article shall be taken into account on a net basis.

(3) For all netting sets of derivative contracts, a credit institution shall apply a 5% required stable funding factor to the absolute fair value of those netting sets of derivative contracts, gross of any collateral posted, where those netting sets have a negative fair value.

(4) For the purposes of paragraph (3) of this Article, a credit institution shall determine the fair value as gross of any collateral posted or settlement payments and receipts related to market valuation changes of such contracts.

7% required stable funding factor

Article 69

Unencumbered assets that are eligible as level 1 extremely high-quality covered bonds pursuant to this Decision shall be subject to a 7% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

7.5% required stable funding factor

Article 70

Trade finance off-balance-sheet related products as referred to in Article 148 of the Decision on Capital Adequacy with a residual maturity of at least six months but less than one year shall be subject to a 7.5% required stable funding factor.

10% required stable funding factor

Article 71

The following assets and off-balance-sheet items shall be subject to a 10% required stable funding factor:

- 1) monies due from transactions with financial customers that have a residual maturity of less than six months other than those referred to in Article 67 paragraph (1) item 7) and Article 68 paragraph (1) item 2) of this Decision;
- 2) trade finance on-balance-sheet related products with a residual maturity of less than six months;
- 3) trade finance off-balance-sheet related products as referred to in Article 148 of the Decision on Capital Adequacy with a residual maturity of one year or more.

12% required stable funding factor

Article 72

Unencumbered shares or participation in CIUs that are eligible for a 12% haircut for the calculation of the liquidity coverage ratio in accordance with this Decision shall be subject to a 12% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

15% required stable funding factor

Article 73

Unencumbered assets that are eligible as level 2A assets pursuant to this Decision shall be subject to a 15% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

20% required stable funding factor

Article 74

Unencumbered shares or participation in CIUs that are eligible for a 20% haircut for the calculation of the liquidity coverage ratio in accordance with this Decision shall be subject to a 20% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

25% required stable funding factor

Article 75

Unencumbered level 2B securitisations pursuant to this Decision shall be subject to a 25% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

30% required stable funding factor

Article 76

The following assets shall be subject to a 30% required stable funding factor:

- 1) unencumbered high quality covered bonds pursuant to this Decision, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer;
- 2) unencumbered shares or participations in CIUs that are eligible for a 30% haircut for the calculation of the liquidity coverage ratio in accordance with this Decision, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

35% required stable funding factor

Article 77

The following assets shall be subject to a 35% required stable funding factor:

- 1) unencumbered level 2B securitisations pursuant to the provisions of this Decision, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer;
- 2) unencumbered shares or participations in CIUs that are eligible for a 35% haircut for the calculation of the liquidity coverage ratio pursuant to the provisions of this Decision, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

40% required stable funding factor

Article 78

Unencumbered shares or participations in CIUs that are eligible for a 40% haircut for the calculation of the liquidity coverage ratio pursuant to this Decision shall be subject to a 40% required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

50% required stable funding factor

Article 79

The following assets shall be subject to a 50% required stable funding factor:

- 1) unencumbered assets that are eligible as level 2B assets pursuant to Article 26 of this Decision, excluding level 2B securitisations and high-quality covered bonds,

- regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer;
- 2) deposits held by the credit institution in another financial institution that fulfil the criteria for operational deposits as set out in this Decision;
 - 3) monies due from transactions with a residual maturity of less than one year with:
 - the Government of Montenegro, government of a Member State or of a third country;
 - regional or local self-governments in Montenegro, in a Member State or in a third country;
 - public sector entities of Montenegro, of a Member State or of a third country;
 - multilateral development banks referred to in Article 154 paragraph (4) of the Decision on Capital Adequacy and international organisations referred to in Article 155 of the Decision on Capital Adequacy;
 - non-financial corporates, retail customers and SMEs;
 - credit unions authorised by a competent authority, personal investment companies and clients that are deposit brokers to the extent that those assets do not fall under item 2) of this paragraph;
 - 4) monies due from transactions with a residual maturity of at least six months but less than one year with:
 - the Central Bank, the European Central Bank or the central bank of a Member State;
 - the central bank of a third country;
 - financial customers;
 - 5) trade finance on-balance-sheet related products with a residual maturity of at least six months but less than one year;
 - 6) assets encumbered for a residual maturity of at least six months but less than one year, except where those assets would be assigned a higher required stable funding factor in accordance with Articles 80 to 83 of this Decision if they were held unencumbered, in which case the higher required stable funding factor that would apply to those assets if they were held unencumbered shall apply;
 - 7) any other assets with a residual maturity of less than one year, unless otherwise specified in Articles 67 to 78.

55% required stable funding factor

Article 80

Unencumbered shares or participations in CIUs that are eligible for a 55% haircut for the calculation of the liquidity coverage ratio shall be subject to a 55 % required stable funding factor, regardless of whether they comply with the operational requirements and with the requirements on the composition of the liquidity buffer.

65% required stable funding factor

Article 81

The following assets shall be subject to a 65% required stable funding factor:

- 1) unencumbered loans secured by mortgages on residential property or unencumbered residential loans fully guaranteed by an eligible protection provider as referred to in Article 169 paragraph (1) item 6) of the Decision on Capital Adequacy with a residual maturity of one year or more, provided that those loans are assigned a risk weight of 35% or less in accordance with Subtitle 2 Title II of the Decision on Capital Adequacy;
- 2) unencumbered loans with a residual maturity of one year or more, excluding loans to financial customers and loans referred to in Articles 67 to 79 of this Decision, provided that those loans are assigned a risk weight of 35% or less in accordance with Subtitle 2 Title II of the Decision on Capital Adequacy.

85% required stable funding factor

Article 82

The following assets and off-balance-sheet items shall be subject to a 85% required stable funding factor:

- 1) any assets and off-balance-sheet items, including cash, posted as initial margin for derivative contracts, unless those assets would be assigned a higher required stable funding factor in accordance with Article 83 of this Decision if held unencumbered, in which case the higher required stable funding factor that would apply to those assets if they were held unencumbered shall apply;
- 2) any assets and off-balance-sheet items, including cash, posted as contribution to the default fund of a central counterparty, unless those would be assigned a higher required stable funding factor in accordance with Article 83 of this Decision if held unencumbered, in which case the higher required stable funding factor to be applied to the unencumbered asset shall apply;
- 3) unencumbered loans with a residual maturity of one year or more, excluding loans to financial customers and loans referred to in Articles 67 to 81 of this Decision, provided that those loans are assigned a risk weight of 35% or less in accordance with Subtitle 2 Title II of the Decision on Capital Adequacy.
- 4) trade finance on-balance-sheet related products, with a residual maturity of one year or more;
- 5) unencumbered securities with a residual maturity of one year or more that are not in default in accordance with Article 218 of the Decision on Capital Adequacy and that are not eligible as liquid assets pursuant to the provisions of this Decision;
- 6) unencumbered exchange-traded equities that are not eligible as level 2B assets pursuant to the provisions of this Decision;
- 7) physically traded commodities, including gold but excluding commodity derivatives;
- 8) assets encumbered for a residual maturity of one year or more in a cover pool funded by covered bonds as referred to in Article 2 item 24) of this Decision or covered bonds which meet the eligibility requirements for the treatment as set out in Article 169 paragraphs (14) or (15) of the Decision on Capital Adequacy.

100% required stable funding factor

Article 83

- (1) The following assets shall be subject to a 100% required stable funding factor:
- 1) any assets encumbered for a residual maturity of one year or more;
 - 2) any assets other than those referred to in Articles 67 to 82 of this Decision, including loans to financial customers having a residual contractual maturity of one year or more, non-performing exposures, items deducted from own funds, fixed assets, non-exchange-traded equities, retained participation, insurance assets, defaulted securities.
- (2) A credit institution shall apply a 100% required stable funding factor to the difference, if positive, between the sum of fair values across all netting sets with positive fair value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Article 54 of this Decision.
- (3) The following rules shall apply to the calculation referred to in paragraph (2) of this Article:
- 1) variation margin received by the credit institution from its counterparties shall be deducted from the fair value of a netting set with positive fair value where the collateral received as variation margin qualifies as a level 1 asset pursuant to the provisions of this Decision, excluding extremely high-quality covered bonds, and where the credit institution is legally entitled and operationally able to reuse that collateral;
 - 2) all variation margin posted by the credit institution with their counterparties shall be deducted from the fair value of a netting set with negative fair value.

V REPORTING AND NOTIFICATION

Reporting to the Central Bank

Article 84

- (1) Reporting to the Central Bank on daily and ten-day liquidity indicators, liquidity coverage ratio and stable funding shall be done in the manner and within the deadlines set out in a separate Central Bank decision governing the reporting to the Central Bank by the credit institutions.
- (2) A credit institution shall, as at the date set out in the decision referred to in paragraph (1) of this Article, submit additional reports on the liquidity coverage ratio and the stable funding ratio where items are denominated in a currency other than the reporting currency and the credit institution has aggregate liabilities denominated in such a currency which amount to or exceed 5% of the credit institution's or the single liquidity sub-group's total liabilities, excluding own funds and off-balance-sheet items, reporting shall be done in the currency of denomination.
- (3) Where items are denominated in the reporting currency, and the total liabilities in currencies other than the reporting currency amount to or exceed 5% of the credit

institution's or the single liquidity sub-group's total liabilities, excluding own funds and off-balance-sheet items, the credit institution shall not submit additional reports in other currencies.

(4) In the event of shortfall in liquidity, the credit institution shall immediately notify the Central Bank of the amount of lacking liquid assets, reasons for liquidity shortfall and planned activities to overcome illiquidity.

Public disclosure

Article 85

A credit institution shall establish mechanisms that ensure an adequate level of public disclosure of information on the organisation and financial position of the credit institution, in particular in situations where negative information about the credit institution appears in public.

VI FINAL PROVISIONS

Repealed Regulations

Article 86

As from the commencement date of the application of this Decision, the Decision on Liquidity Risk Management in Credit Institutions (OGM 127/20, 140/21) shall be repealed.

Entry into force

Article 87

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 as of 1 January 2026.

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

**CHAIRPERSON
GOVERNOR**

Irena Radović, m.p.

Decision number: 0101-5891-10/2025
Podgorica, 25 July 2025