Pursuant to Article 44 paragraph (2) item 3) of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17), and Article 147 paragraph (4) of the Law on Credit Institutions (OGM 72/19), the Council of the Central Bank of Montenegro, at its meeting held on 28 December 2020, passed the following

DECISION
ON THE MANNER OF CALCULATING SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER RATE OF A CREDIT INSTITUTION

Subject matter

Article 1

This decision shall govern in more detail the manner of calculating the specific countercyclical capital buffer rate that a credit institution shall calculate, including the relevant credit exposures and methods for identifying geographical locations of relevant credit exposures.

Definitions

Article 2

The terms used in this Decision shall have the following meanings:

1) **general risk exposure** means the risk exposure amount calculated in accordance with Article 101 paragraph (3) of the Decision on Capital Adequacy of Credit Institutions (hereinafter: the Decision on Capital Adequacy), for the exposure referred to in Article 3 paragraph (3) item 1) of this Decision;
2) **trading book exposure** means the risk exposure amount calculated in accordance with Article 101 paragraph (3) of the Decision on Capital Adequacy for the exposure referred to in Article 3 paragraph (3) item 2) of this Decision;
3) **securitisation exposure** means the risk exposure amount calculated in accordance with Article 101 paragraph (3) of the Decision on Capital Adequacy for the exposure referred to in Article 3 paragraph (3) item 3) of this Decision;
4) **location of the obligor** means the Member State or the third country, where the natural or legal person, who is the credit institution's counterparty to a general credit exposure or the issuer of a financial instrument not included in the trading book or the counterparty to a non-trading book exposure, is ordinarily resident (in the case of a natural person), or has its registered office (in the case of a legal person), provided that for a legal person whose centre of actual administration is not in the country of its registered office, the location of the obligor shall be the Member State or the third country of its actual place of administration;
5) **location of the debtor** means the Member State or the third country, where the natural or legal person who is the credit institution’s counterparty to a trading book exposure, or the issuer of the financial instrument not included in the trading book or the counterparty to a non-trading book exposure, is ordinarily resident (in the case of a natural person), or has its registered office (in the case of a legal person), provided that for a legal person whose centre of actual

administration is not in the country of its registered office, the location of the obligor shall be the Member State or the third country of its actual place of administration;
6) **location of the income** shall mean the Member State or the third country of the location of the assets which generate the income that is the primary source of repayment of the obligation in relation to a specialised lending exposure;
7) **foreign exposure** means a general credit exposure whose obligor is not located in the Montenegro;
8) **specialised lending exposures** shall mean the general credit exposures possessing the characteristics referred to in Article 166 paragraph (9) of the Decision on Capital Adequacy.

The manner of calculating specific countercyclical capital buffer rate

Article 3

(1) The specific countercyclical capital buffer rate that a credit institution should calculate shall consist of the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the credit institution are located.

(2) The weight for calculating the weighted average of the rates referred to in paragraph (1) of this Article shall be determined by dividing the capital requirement for credit risk calculated by applying the 8% capital rate, in accordance with the provisions of the Decision on Capital Adequacy governing the calculation of capital requirements for credit and market risks, relating to relevant credit exposures that the credit institution has in a country, with total capital requirements for credit risk calculated by applying the 8% capital rate that relate to all relevant credit exposures of the credit institution.

(3) Within the meaning of this Decision, all exposure classes, except exposure classes referred to in Article 129 paragraph (1) items 1) to 6) of the Decision on Capital Adequacy, shall be deemed relevant credit exposures.

(4) Capital requirements referred to in paragraph (2) of this Article that relate to the relevant credit exposures shall include:

1) capital requirements for credit risk, specifically:
   - capital requirements for credit risk determined by applying the standardized approach in accordance with Articles 128 to 160 of the Decision on Capital Adequacy, including the effects of the application of credit risk mitigation techniques in accordance with Articles 211 to 261 of the Decision on Capital Adequacy,
   - capital requirements for credit risk determined by applying internal rating systems (IRB Approach) in accordance with Articles 161 to 210 of the Decision on Capital Adequacy, including the effects of the application of credit risk mitigation techniques in accordance with Articles 211 to 261 of the Decision on Capital Adequacy,
   - capital requirements for counterparty risk arising from the trading book business of the credit institution, in accordance with Articles 295 to 347 of the Decision on Capital adequacy;

2) capital requirements for specific risk in accordance with Articles 430 to 457 of the Decision on Capital Adequacy or capital requirements for incremental default and migration risks (IRC) in accordance with Articles 469 to 483 of the Decision on Capital Adequacy – where the relevant exposure arises from the trading book business;
3) capital requirements determined in accordance with Articles 262 to 294 of the Decision on Capital Adequacy – where the relevant exposure is a securitisation.

(5) A credit institution shall calculate the specific countercyclical capital buffer rate by multiplying the weight referred to in paragraph (2) of this Article calculated for a specific country with the corresponding countercyclical capital buffer rate determined and published for that country and the rates thus obtained for all countries in which the credit institution has an appropriate credit exposure shall be added together.

(6) In order to calculate the specific countercyclical capital buffer rates, a credit institution should identify geographical locations of relevant credit exposures in accordance with Articles 4, 5, and 6 of this Decision.

Locating general credit exposures

Article 4

(1) All general credit exposures, which do not fall under paragraphs (2) to (5) of this Article, shall be allocated to the location of the obligor.

(2) General credit exposures to collective investment undertakings (CIUs) referred to in Article 129 paragraph (1) item 15) of the Decision on Capital Adequacy shall be allocated to the location of the obligor of the underlying exposure, and if there is more than one location corresponding to the obligor of the underlying exposure of a given CIU exposure, Article 6 paragraph (2) of this Decision may also apply to that CIU exposure.

(3) Specialised lending exposures shall be allocated to the location of the income.

(4) General credit exposures referred to in Article 129 paragraph (1) item 17) of the Decision on Capital Adequacy – "*other items*" shall be treated as an exposure in Montenegro, if the credit institution cannot identify their obligor.

(5) The following may be treated as exposures in Montenegro:
1) exposures to CIUs as referred to in Article 129 paragraph (1) item 15) of the Decision on Capital Adequacy, where the credit institution cannot identify the location of the obligor or obligors of the underlying exposures based on information existing internally or available externally without disproportionate effort;
2) foreign exposures, whose aggregate does not exceed 2 % of the aggregate of the general credit, trading book and securitisation exposures of that credit institution, provided that when calculating the aggregate of the general credit, trading book and securitisation exposures, the general credit exposures located in accordance with paragraph (4) and with paragraph (5) item 1) of this Article are excluded.

(6) A credit institution shall calculate the percentage referred to in paragraph (5) item 2) of this Article, on an annual basis and whenever an event that affects the financial or economic situation of the credit institution occurs.

Locating trading book exposures

Article 5

(1) Subject to paragraphs (2) and (3) of this Article, trading book exposures shall be allocated to the location of the debtor.

(2) For trading book exposures subject to the capital requirements in accordance with Articles 469 to 484 of the Decision Capital Adequacy, a credit institution shall determine their geographical location by multiplying its aggregate risk exposure amount by the following ratio:

1) the capital requirements for sub-portfolios split according to the geographical location determined according to the model set out in the provisions of the Decision on Capital Adequacy governing securitization, and
2) the sum of capital requirements determined under item 1) of this paragraph across all geographical locations.

(3) A credit institution, whose total trading book exposures do not exceed 2% of their total general credit, trading book and securitisation exposures, may allocate those exposures to Montenegro.

(4) A credit institution shall calculate the percentage referred to in paragraph (3) of this Article, on an annual basis and whenever an event that affects the financial or economic situation of the credit institution occurs.

Locating securitisation exposures

Article 6

(1) A securitisation exposure shall be allocated to the location of the obligor of the underlying exposure.

(2) Where there is more than one location corresponding to the obligor of the underlying exposure of a given securitisation exposure, that exposure may be allocated to the location of the obligor of that exposure with the highest proportion in the underlying securitisation exposure.

(3) Securitisation exposures for which information on underlying securitisation exposures is not available, may be treated as exposures in Montenegro if the credit institution cannot identify the location of the underlying obligor based on existing available information from internal or external sources without applying a disproportionate effort to obtain the information.

Entry into force

Article 7

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

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

CHAIRMAN
G O V E R N O R,

O.br. 0101-7725-7/2020
Podgorica, 28 December 2020

Radoje Žugić,m.p.