

Pursuant to Article 44 paragraph (2) item 3) of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17), and Article 237 paragraph (2) of the Law on Credit Institutions (OGM 72/19), the Council of the Central Bank of Montenegro, at its meeting held on 29 December 2020, passed the following

DECISION ON PUBLIC DISCLOSURE OF INFORMATION BY A CREDIT INSTITUTION

I. BASIC PROVISIONS

Subject matter

Article 1

This Decision shall prescribe the minimum data on financial situation, operations and risk profile to be publicly disclosed by credit institutions and the manner and deadlines for their disclosure.

Requirements for public disclosure of data

Article 2

(1) A credit institution shall establish and maintain internal processes and systems concerning the disclosure of data in accordance with this Decision, and the control of their disclosure.

(2) A credit institution shall describe or explain the data to be disclosed in accordance with this Decision in the understandable manner and provide their regular update.

(3) A credit institution shall establish whether the data to be disclosed in accordance with this Decision present its overall risk profile to market participants and if needed, it shall disclose additional data that are materially important, provided that such data are not considered proprietary or confidential in accordance with this Decision.

Materially important, proprietary and confidential information

Article 3

(1) Materially important information, within the meaning of this Decision, means information whose omission or misstatement could change or influence the assessment or decision of a user of that information relying on it for the purpose of making economic decisions.

(2) Proprietary information, within the meaning of this Decision, means information whose disclosure could undermine the competitive position of a credit institution or render the investments credit institution therein less valuable.

(3) Confidential information, within the meaning of this Decision, means, in addition to data to be protected in accordance with the law, information whose confidentiality is contracted with the client or other counterparty.

Risk management objectives and policies

Article 4

(1) A credit institution shall disclose its risk management objectives and policies for each separate category of risk, including the risks referred to under this Decision, which shall include:

- 1) the strategies and processes to manage those risks;
- 2) the structure and organisation of the relevant risk management function including information on its authority in accordance with the statute of a credit institution and other acts governing the management in a credit institution;
- 3) the scope and nature of risk reporting and measurement systems;
- 4) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;
- 5) a declaration approved by the management body of a credit institution on the adequacy of arrangements for managing risk profile and strategy of the credit institution, which shall at least include:
 - a description of risk profile of the credit institution associated with its business strategy;
 - a description how the credit institution manages risk profile, and how the risk profile of the credit institution interacts with the risk tolerance;
 - information on transactions within the group and connected persons that may have material impact on risk profile of the group on a consolidated basis.

(2) A credit institution shall disclose the following information regarding governance arrangements:

- 1) the number of directorships held by members of the management body;
- 2) the recruitment policy and procedures for the selection of members of the management body and their actual knowledge, skills and expertise;
- 3) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;
- 4) whether or not the credit institution has set up a separate risk committee and the number of times the risk committee has met;
- 5) the description of the information flow on risk to the management body.

Scope of application

Article 5

A credit institution shall disclose the following information:

- 1) the name of the credit institution;

- 2) a reconciliation between the consolidated financial statements prepared in accordance with the regulation governing the methods of consolidation of a group of credit institutions (hereinafter: prudential consolidation) and a description of the applied consolidation method if it differs from the accounting consolidation method;
- 3) a breakdown of assets and liabilities of consolidated financial statements;
- 4) a reconciliation identifying main sources of differences between the carrying value amounts in financial statements in accordance with the prudential consolidation, and the exposure amount used for regulatory purposes; that reconciliation shall be supplemented by qualitative information on those main sources of differences;
- 5) for exposures from the trading book and non-trading book that are adjusted in accordance with Articles 16 and 109 of the Decision on Capital Adequacy, a breakdown of the amounts of the constituent elements of a credit institution's prudent valuation adjustments, by type of risks and the total of constituent elements separately for the trading book and non-trading book positions;
- 6) any current or expected impediments to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries;
- 7) the aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation, and the names of such subsidiaries;
- 8) if applicable, the information on the application of exceptions laid down in Article 309 paragraph (4) or the method of individual consolidation referred to in Article 319 of the Law on Credit Institutions (OGM 70/19) – (hereinafter: the Law).

Disclosure of own funds

Article 6

A credit institution shall disclose the following information regarding their own funds:

- 1) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and prudential filters and deductions applied pursuant to Articles 14 to 18 and Articles, 48, 58 and 88 of the Decision on Capital Adequacy to own funds of the credit institution and the balance sheet in the audited financial statements of the credit institution;
- 2) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the credit institution;
- 3) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;
- 4) separate disclosure of the nature and amounts of the following:
 - each prudential filter applied pursuant to Articles 14 to 17 of the Decision on Capital Adequacy;
 - each deduction made pursuant to Articles 18, 48 and 58 of the Decision on Capital Adequacy;
 - items not deducted in accordance with Articles 31, 38, 48, 58 and 88 of the Decision on Capital Adequacy;

- 5) a description of all restrictions applied to the calculation of own funds in accordance with the Decision on Capital Adequacy and the instruments, prudential filters and deductions to which those restrictions apply;
- 6) a comprehensive explanation of the basis on which those capital ratios are calculated where those capital ratios are calculated using elements of own funds determined on a basis other than the basis laid down in the Decision on Capital Adequacy.

Disclosure of own funds requirements and risk-weighted exposure amounts

Article 7

A credit institution shall disclose the following information regarding its compliance with the requirements laid down in Article 279 paragraph (1) item 1) of the Law:

- 1) a summary of the credit institution's approach to assessing the adequacy of its internal capital to support current and future activities;
- 2) the amount of additional own funds requirements based on the supervisory review process as referred to in Article 279 paragraph (1) item 1) of the Law and its composition in terms of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;
- 3) the result of the credit institution's internal capital adequacy assessment process, in accordance with the regulation governing the internal capital adequacy assessment;
- 4) the total amount of risk-weighted exposures and the corresponding total own funds requirements calculated in accordance with Article 101 of the Decision on Capital Adequacy, to be broken down by the different risk categories set out in Part Three of the Decision on Capital Adequacy and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds;
- 5) the on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for each category of specialised lending referred to in Table 1 Article 172 paragraph (7) of the Decision on Capital Adequacy and the on- and off-balance-sheet exposures and risk-weighted exposure amounts for the categories of equity exposures set out in Article 174 paragraph (3) of the Decision on Capital Adequacy;
- 6) exposure value and risk-weighted exposure amount of own funds instruments held in any insurance undertaking, reinsurance undertaking or insurance holding company that the credit institution does not deduct from its own funds in accordance with Article 39 of the Decision on Capital Adequacy when calculating its capital requirements on individual and consolidated basis;
- 7) the supplementary own funds requirements and the capital adequacy ratio of the financial conglomerate calculated in accordance with regulations governing the financial conglomerates, the variations in risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding

disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations, if applicable.

Disclosure of exposures to counterparty credit risk

Article 8

(1) A credit institution shall disclose the following information regarding its exposure to counterparty credit risk:

- 1) a description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including methods used to assign those limits to exposures to central counterparties;
- 2) a description of policies that relate to guarantees and other instruments for mitigating credit risk, such as policies for securing collateral and establishing credit reserves;
- 3) a description of policies with respect to General Wrong-Way risk and Specific Wrong-Way risk as defined in Article 327 of the Decision on Capital Adequacy;
- 4) the amount of collateral the credit institution would have to provide if its credit rating was downgraded;
- 5) the amount of segregated and unsegregated collateral received and posted per type of collateral, further broken down between collateral used for derivatives and securities financing transactions;
- 6) for derivative transactions, the exposure value before and after the credit risk mitigation as determined under the methods set out in Part Three Title II Subtitle 6 Sections 3 to 6 of the Decision of Capital Adequacy, whichever method is applicable, and the associated risk exposure amounts broken down by applicable method;
- 7) for securities financing transactions, the exposure values before and after the effect of credit risk mitigation as determined under the methods set out in Part Three Title II Sections 4 and 6 of the Decision on Capital Adequacy, whichever method is applicable, and the associated risk exposure amounts broken down by applicable method;
- 8) the exposure values after the credit risk mitigation effects and the associated risk exposures for credit valuation adjustment capital charge, and the associated risk exposure for each method set out in Part Three Title VI of the Decision on Capital Adequacy;
- 9) the exposure value to central counterparties and the associated risk exposures within the scope of Part Three Title II Subtitle 6 Section 9 of the Decision on Capital Adequacy, separately for qualifying and non-qualifying central counterparties, and broken down by types of exposures;
- 10) the notional amounts and fair value of credit derivative transactions; credit derivative transactions shall be broken down by product type; within each product type, credit derivative transactions shall be broken down further by credit protection bought and credit protection sold;
- 11) the estimate of α in the case referred to in Article 320 paragraph (9) of the Decision on Capital Adequacy;

12) for credit institution using the methods referred to in Part Three Title II Subtitle 6 Sections 4 and 5 of the Decision on Capital Adequacy, the size of on- and off-balance derivative business as calculated in accordance with Article 298 paragraph (1) or (2) of the Decision on Capital Adequacy, as applicable.

(2) Where the Central Bank of Montenegro (hereinafter: the Central Bank) provides liquidity assistance in the form of collateral swap transactions to a credit institution, the Central Bank may, based on the established objective criteria, exempt the credit institution from the disclosure requirements referred to in paragraph (1) items 4) and 5) of this Article, where it considers that the disclosure of information could reveal that emergency liquidity assistance has been provided to the credit institution.

Disclosure of countercyclical capital buffers

Article 9

A credit institution shall disclose the following information in relation to its compliance with the requirement for a countercyclical capital buffer:

- 1) the geographical distribution of its risk-weighted credit exposures relevant for the calculation of its countercyclical capital buffer;
- 2) the amount of its credit institution specific countercyclical capital buffer.

Disclosure of exposures to credit risk and dilution risk

Article 10

A credit institution shall disclose the following information regarding its exposure to credit risk and dilution risk:

- 1) scope of application and definitions for accounting purposes of “past due” and “impaired” and the differences, if any, between the definitions of “past due” and “default” for accounting and regulatory purposes;
- 2) a description of the approaches and methods adopted for determining specific and general credit risk adjustments;
- 3) the amount and quality of credit exposures (performing, non-performing and forborne exposures), debt securities exposures and off-balance sheet exposures, including their related accumulated impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received;
- 4) the ageing analysis of accounting past due exposures;
- 5) the gross carrying amounts of both defaulted and non-defaulted exposures, accumulated general and specific credit risk adjustments, the accumulated write-offs taken against those exposures and the net carrying amounts and their distribution by geographical area and industry type and for loans, debt securities and off-balance sheet exposures;
- 6) any changes in the gross amounts of defaulted on- and off-balance sheet exposures, including, as a minimum, information on the opening and closing balances of those exposures, the gross amount of any of those exposures reverted to a non-defaulted status or subject to a write-off;

- 7) the breakdown of loans and debt securities by residual maturity.

Disclosure of encumbered and unencumbered assets

Article 11

(1) A credit institution shall disclose information concerning their encumbered and unencumbered assets and use the carrying amount per exposure class broken down by asset quality and the total amount of the carrying amount that is encumbered and unencumbered.

(2) When disclosing information on encumbered and unencumbered assets, a credit institution shall not reveal emergency liquidity assistance provided by the Central Bank in accordance with the Law.

Disclosure of the use of the Standardised Approach

Article 12

A credit institution that calculates risk-weighted exposure amounts in accordance with Part Three Title II Subtitle 2 Section 1 of the Decision on Capital Adequacy shall disclose the following information for each of the exposure classes set out in Article 129 of the Decision on Capital Adequacy:

- 1) the names of the nominated external credit assessment institutions (hereinafter: the ECAIs) and export credit agencies (hereinafter: the ECAs) and the reasons for any changes of the nominated institutions during the disclosure period;
- 2) the exposure classes for which each ECAI or ECA is used;
- 3) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;
- 4) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Subtitle 2 of the Decision on Capital Adequacy, or referring to the internet page of the Central Bank where such associations are disclosed;
- 5) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Subtitle 2 of the Decision on Capital Adequacy as well as those deducted from own funds.

Disclosure of exposure to market risk

Article 13

A credit institution calculating its own funds requirements in accordance with Article 101 paragraph (3) items 2) and 3) of the Decision on Capital Adequacy shall disclose those requirements separately for each risk, whereas the own funds requirement for specific interest rate risk of securitisation positions shall be disclosed separately.

Disclosure of operational risk management

Article 14

A credit institution shall disclose the following information about its operational risk management:

- 1) the approach for the assessment of own funds requirements for operational risk that the credit institution qualifies for;
- 2) a description of the approaches set out in Article 348 paragraphs (4) and (5) of the Decision on Capital Adequacy, if used by the credit institution, which shall include a discussion of relevant internal and external factors being considered in the credit institution's advanced measurement approach;
- 3) in the case of partial use, the scope and coverage of the different methodologies used.

Disclosure of key metrics

Article 15

A credit institution shall disclose the following key metrics:

- 1) the composition of its own funds and its own funds requirements as calculated in accordance with Article 101 of the Decision on Capital Adequacy;
- 2) the total risk exposure amount as calculated in accordance with Article 101 paragraph (3) of the Decision on Capital Adequacy;
- 3) where applicable, the amount and composition of additional own funds which the credit institution is required to hold in accordance with Article 279 paragraph (1) item 1) of the Decision on Capital Adequacy;
- 4) its combined buffer requirement which the credit institution is required to hold in accordance with the Law;
- 5) its leverage ratio and the total exposure measure as calculated in accordance with Article 496 of the Decision on Capital Adequacy;
- 6) the following information in relation to its liquidity coverage ratio as calculated in accordance with the regulation governing liquidity risk management:
 - the average of its liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;
 - the average of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;
 - the averages of its liquidity outflows, inflows and net liquidity outflows, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;
- 7) the following information in relation to their net stable funding requirement as calculated in accordance with Part Six Title IV of the Decision on Capital Adequacy:
 - the net stable funding ratio at the end of each quarter of the relevant disclosure period;

- the available stable funding at the end of each quarter of the relevant disclosure period;
- the required stable funding at the end of each quarter of the relevant disclosure period.

Disclosure of exposures to interest rate risk arising from non-trading book positions

Article 16

A credit institution shall disclose the following information on the exposures to interest rate risk arising from non-trading book positions not held:

- 1) the nature of interest rate risk and key assumptions used for the measurement of the exposure to interest rate risk (including the assumptions on early loan repayment and demand deposits' trend);
- 2) the changes in the economic value, income or other relevant measures that the credit institution uses for measuring, monitoring and managing interest rate risk, which arise from the changes in interest rates in accordance with the methods used for calculating interest rate risk, broken down by currencies.

Disclosure of exposures to securitisation positions

Article 17

A credit institution calculating risk-weighted exposure amounts in accordance with Part Three Title II Section 5 of the Decision on Capital Adequacy or own funds requirements in accordance with Article 444 or 445 of the Decision on Capital Adequacy shall disclose the following information separately for their trading book and non-trading book activities:

- 1) a description of its securitisation and re-securitisation activities, including their risk management and investment objectives in connection with those activities, their role in securitisation and re-securitisation transactions, whether it uses the simple, transparent and standardised securitisation (hereinafter: STS) as defined in Article 262 paragraph (1) item 10) of the Decision on Capital Adequacy, and the extent to which they use securitisation transactions to transfer the credit risk of the securitised exposures to third parties with, where applicable, a separate description of their synthetic securitisation risk transfer policy;
- 2) the type of risks it is exposed to in their securitisation and re-securitisation activities by level of seniority of the relevant securitisation positions providing a distinction between STS and non-STS positions and:
 - the risk retained in own-originated transactions;
 - the risk incurred in relation to transactions originated by third parties;
- 3) the approach for calculating the risk-weighted exposure amounts that the credit institution applies to its securitisation activities, including the types of

securitisation positions to which each approach applies and with a distinction between STS and non-STS positions;

- 4) a list of securitisation special purpose entities (hereinafter: SSPEs) falling into any of the following categories, with a description of their types of exposures to those SSPEs, including derivative contracts:
 - SSPEs which acquire exposures originated by the credit institution;
 - SSPEs sponsored by the credit institution;
 - SSPEs and other legal entities for which the credit institution provides securitisation-related services, such as advisory, asset servicing or management services;
 - SSPEs included in the credit institution's regulatory scope of consolidation;
- 5) a list of any legal entities in relation to which the credit institution has disclosed that it has provided support in accordance with of Part Three Title II Section 5 of the Decision on Capital Adequacy;
- 6) a list of legal entities affiliated with the credit institution and that invest in securitisations originated by the credit institution or in securitisation positions issued by SSPEs sponsored by the credit institution;
- 7) a summary of its accounting policies for securitisation activity, including where relevant a distinction between securitisation and re-securitisation positions;
- 8) the names of the ECAs used for securitisations and the types of exposure for which each agency is used;
- 9) where applicable, a description of the Internal Assessment Approach as set out in Part Three Title II Section 5, including the structure of the internal assessment process and the relation between internal assessment and external ratings of the relevant ECAI disclosed in accordance with item 8) of this paragraph, the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review, the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels;
- 10) separately for the trading book and the non-trading book, the carrying amount of securitisation exposures, including information on whether credit institution has transferred significant credit risk in accordance with Articles 265 and 267 of the Decision on Capital Adequacy, for which the credit institution acts as originator, sponsor or investor, separately for traditional and synthetic securitisations, and for STS and non-STS transactions and broken down by type of securitisation exposures;
- 11) for the non-trading book activities, the following information:
 - the aggregate amount of securitisation positions where credit institution acts as originator or sponsor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1,250%, broken down between traditional and synthetic securitisations and between securitisation and re-securitisation exposures, separately for STS and non-STS positions, and further broken

- down into a meaningful number of risk-weight or capital requirement bands and by approach used to calculate the capital requirements;
- the aggregate amount of securitisation positions where credit institution acts as investor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1,250%, broken down between traditional and synthetic securitisations, securitisation and re-securitisation positions, and STS and non-STS positions, and further broken down into a meaningful number of risk weight or capital requirement bands and by approach used to calculate the capital requirements;
 - for exposures securitised by the credit institution, the amount of exposures in default and the amount of the specific credit risk adjustments made by the credit institution during the current period, both broken down by exposure type.

Disclosure of remuneration policy

Article 450

- (1) A credit institution shall disclose the following information regarding their remuneration policy and practices for those categories of employees whose professional activities have a material impact on the risk profile of the credit institution:
- 1) information concerning the decision-making process used for determining the remuneration policy;
 - 2) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;
 - 3) the ratios between fixed and variable remuneration;
 - 4) information on the performance criteria on which the entitlement to financial instruments is based;
 - 5) the main parameters and rationale for any variable component scheme and any other non-cash benefits;
 - 6) aggregate quantitative information on remuneration, broken down by business area;
 - 7) aggregate quantitative information on remuneration, broken down by senior management and other employees whose professional activities have a material impact on the risk profile of the credit institution, indicating the following:
 - the amounts of remuneration awarded for the financial year, split into fixed remuneration including a description of the fixed components, and variable remuneration, and the number of beneficiaries;
 - the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other types separately for the part paid upfront and the deferred part;

- the amounts of deferred remuneration awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years;
 - the amount of deferred remuneration due to vest in the financial year that is paid out during the financial year, and that is reduced through performance adjustments;
 - the guaranteed variable remuneration awards during the financial year, and the number of beneficiaries of those awards;
 - the severance payments awarded in previous periods, that have been paid out during the financial year;
 - the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and highest payment that has been awarded to a single person;
- 8) the number of individuals that have been remunerated EUR 50,000 or more per financial year, broken down into pay bands of EUR 25,000;

(2) A large credit institution shall disclose quantitative information on remuneration of its management body.

(3) A large credit institution shall have the meaning as specified in the decision governing the assessment of internal capital adequacy.

Disclosure of the leverage ratio

Article 19

(1) A credit institution that is subject to Part Seven of the Decision on Capital Adequacy shall disclose the following information regarding their leverage ratio as calculated in accordance with Article 496 of the Decision on Capital Adequacy and its management of the risk of excessive leverage:

- 1) the leverage ratio;
- 2) a breakdown of the total exposure measure referred to in Article 496 paragraph (4) of the Decision on Capital Adequacy, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements of the credit institution;
- 3) where applicable, the amount of exposures calculated in accordance with Articles 496 paragraph (13) and Article 497 of the Decision on Capital Adequacy and the adjusted leverage ratio calculated in accordance with Article 497 paragraph (11) of the Decision on Capital Adequacy;
- 4) a description of the processes used to manage the risk of excessive leverage;
- 5) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers.

(2) A credit institution referred to in Article 497 paragraph (3) of the Decision on Capital Adequacy shall disclose the leverage ratio without the adjustment to the total exposure measure determined in accordance with Article 497 paragraph (1) item 4) of the Decision on Capital Adequacy.

(3) In addition to the requirements referred to in paragraph (1) items 1) and 2) of this Article, a large credit institution shall disclose the leverage ratio and the breakdown of the total exposure measure referred to in Article 496 paragraph (4) of the Decision on Capital Adequacy based on averages calculated in accordance with the reports laid down regulation referred to in Article 233 paragraph (2) of the Law.

Disclosure of liquidity requirements

Article 20

In addition to information referred to in Article 17 paragraph (1) item 6) of this Decision, a credit institution shall disclose policies, systems, processes and strategies established for identifying, measuring and monitoring liquidity risk and managing that risk in accordance with Article 113 of the Law.

Disclosure of the use of the IRB Approach to credit risk

Article 21

(1) A credit institution calculating the risk-weighted exposure amounts under the Internal Ratings Based Approach (hereinafter: IRB) to credit risk shall disclose the following information:

- 1) the permission of the approach or approved transition;
- 2) for each exposure class referred to in Article 166 of the Decision on Capital Adequacy, the percentage of the total exposure value of each exposure class subject to the Standardised Approach laid down in Part Three Title II Section 2 or to the IRB Approach laid down in Part Three Title II Section 3, as well as the part of each exposure class subject to a roll-out plan; where the credit institution has received permission to use own loss given default (hereinafter: LGD) and conversion factors for the calculation of risk-weighted exposure amounts, they shall disclose separately the percentage of the total exposure value of each exposure class subject to that permission;
- 3) the control mechanisms for rating systems at the different stages of model development, controls and changes, which shall include information on:
 - the relationship between the risk management function and the internal audit function;
 - the rating system review;
 - the procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models;

- 4) a summary of reporting related to credit risk models;
- 5) a description of the internal ratings process by exposure class, including the number of key models used with respect to each portfolio and a brief discussion of the main differences between the models within the same portfolio, covering:
 - the definitions, methods and data for estimation and validation of probability of default (hereinafter: PD), which shall include information on how PDs are estimated for low default portfolios, whether there are regulatory floors and the drivers for differences observed between PD and actual default rates at least for the last three periods;
 - the definitions, methods and data for estimation and validation of LGD, such as methods to calculate downturn LGD, how LGDs are estimated for low default portfolio and the time lapse between the default event and the closure of the exposure;
 - where applicable, the definitions, methods and data for estimation and validation of conversion factors, including assumptions employed in the derivation of those variables;
- 6) as applicable, the following information in relation to each exposure class referred to in Article 166 of the Decision on Capital Adequacy:
 - its gross on-balance-sheet exposure;
 - its off-balance-sheet exposure values prior to the relevant conversion factor;
 - its exposure after applying the relevant conversion factor and credit risk mitigation;
 - any model, parameter or input relevant for the understanding of the risk weighting and the resulting risk exposure amounts disclosed across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk;
 - separately for those exposure classes in relation to which credit institution has received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, and for exposures for which the credit institution does not use such estimates, the values referred to in items (1) to (4) of this paragraph subject to that permission;
- 7) a credit institution's estimates of PDs against the actual default rate for each exposure class over a longer period, with separate disclosure of the PD range, the external rating equivalent, the weighted average and arithmetic average PD, the number of obligors at the end of the previous year and of the year under review, the number of defaulted obligors, including the new defaulted obligors, and the annual average historical default rate.

(2) For the purposes of paragraph (1) item 2) this Article, the credit institution shall use the exposure value as defined in Article 185 of the Decision on Capital Adequacy.

Disclosure of the use of credit risk mitigation techniques

Article 22

(1) A credit institution using credit risk mitigation techniques shall disclose the following information:

- 1) the core features of the policies and processes for on- and off-balance-sheet netting and an indication of the extent to which credit institution makes use of balance sheet netting;
- 2) the core features of the policies and processes for eligible collateral evaluation and management;
- 3) a description of the main types of collateral taken by the credit institution to mitigate credit risk;
- 4) for guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purpose of reducing capital requirements, excluding those used as part of synthetic securitisation structures;
- 5) information about market or credit risk concentrations within the credit risk mitigation taken;
- 6) for credit institution calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, the total exposure value not covered by any eligible credit protection and the total exposure value covered by eligible credit protection after applying volatility adjustments;
- 7) the corresponding conversion factor and the credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effect;
- 8) for credit institution calculating risk-weighted exposure amounts under the Standardised Approach, the on- and off-balance-sheet exposure value by exposure class before and after the application of conversion factors and any associated credit risk mitigation;
- 9) for credit institution calculating risk-weighted exposure amounts under the Standardised Approach, the risk-weighted exposure amount and the ratio between that risk-weighted exposure amount and the exposure value after applying the corresponding conversion factor and the credit risk mitigation associated with the exposure;
- 10) for credit institution calculating risk-weighted exposure amounts under the IRB Approach, the risk-weighted exposure amount before and after recognition of the credit risk mitigation impact of credit derivatives; where institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, they shall make the disclosure set out in this point separately for the exposure classes subject to that permission.

(2) Information referred to in paragraph (1) item 6) of this Article shall be disclosed separately for loans and debt securities, including a breakdown of defaulted exposures.

(3) Information referred to in paragraph (1) item 9) of this Article shall be disclosed separately for each exposure class.

Disclosure of the use of the Advanced Measurement Approaches to operational risk

Article 23

A credit institution using the Advanced Measurement Approaches set out in Articles 357 to 360 of the Decision on Capital Adequacy for the calculation of their own funds requirements for operational risk shall disclose a description of their use of insurance and other risk-transfer mechanisms for the purpose of mitigating that risk.

Use of internal market risk models

Article 24

A credit institution calculating their capital requirements in accordance with Article 470 of the Decision on Capital Adequacy shall disclose the following information:

- 1) for each sub-portfolio covered:
 - the characteristics of the models used;
 - where applicable, for the internal models for incremental default and migration risk and for correlation trading, the methodologies used and the risks measured through the use of an internal model including a description of the approach used by the credit institution to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;
 - a description of stress testing applied to the sub-portfolio;
 - a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;
- 2) the scope of permission by the Central Bank referred to in Article 470 of the Decision on Capital Adequacy;
- 3) a description of the extent and methodologies for compliance with the requirements set out in Articles 106 and 109 of the Decision on Capital Adequacy;
- 4) the highest, the lowest and the mean of the following:
 - the daily value-at-risk measures over the reporting period and at the end of the reporting period;
 - the stressed value-at-risk measures over the reporting period and at the end of the reporting period;

- the risk numbers for incremental default and migration risk and for the specific risk of the correlation trading portfolio over the reporting period and at the end of the reporting period;
- 5) the elements of the own funds requirement as specified in Article 471 of the Decision on Capital Adequacy;
 - 6) the weighted average liquidity horizon for each sub-portfolio covered by the internal models for incremental default and migration risk and for correlation trading;
 - 7) a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period.

Exemptions form the requirement to disclose information

Article 25

(1) A credit institution is not required to disclose information listed in this Decision where the information provided by those disclosures is not regarded as material or where the information that is regarded as proprietary or confidential, except for the disclosures laid down in Article 4 paragraph (2) items 3) and Articles 6 and 18 of this Decision.

(2) In case referred to in paragraph (1) of this Article, a credit institution shall disclose the reasons for not disclosing the information, and publish more general information about the subject matter which is in itself proprietary or confidential.

Frequency of disclosures by large credit institutions

Article 26

(1) Large institutions shall disclose the information outlined below with the following frequency:

- 1) all the information required under this Decision on an annual basis;
- 2) on a semi-annual basis the information referred to in:
 - Article 6 item 1) of this Decision;
 - Article 7 item 5) of this Decision;
 - Article 8 paragraph (1) items 5) to 11) of this Decision;
 - Article 9 of this Decision;
 - Article 10 items 3), 5), 6) and 7) of this Decision;
 - Article 12 item 5) of this Decision;
 - Article 13 of this Decision;
 - Article 16 of this Decision;
 - Article 17 paragraph (1) items 7), 8) and 9) of this Decision;
 - Article 21 paragraph (1) item 6) of this Decision;
 - Article 22 paragraph (1) items 6) to 10) of this Decision;
 - Article 24 items 4), 5) and 7) of this Decision;

- 3) on a quarterly basis the information referred to in:
 - Article 7 items 4) and 6) of this Decision;
 - the key metrics referred to in Article 15 of this Decision.

(2) By way of derogation from paragraph (1) of this Article, a large credit institution that is non-listed credit institution shall disclose the information outlined below with the following frequency:

- 1) all the information required under this Decision on an annual basis;
- 2) the key metrics referred to in Article 15 of this Decision on a semi-annual basis.

Frequency of disclosures by small and non-complex credit institutions

Article 27

1. Small and non-complex institutions shall disclose the information outlined below with the following frequency:

- 1) on an annual basis the information referred to in:
 - Article 4 paragraph (1) items 1) and 5) of this Decision;
 - Article 7 paragraph (1) item 4) of this Decision;
 - Article 18 paragraph (1) items 1), 2), 3), 6), 7) and 8) of this Decision;
- 2) on a semi-annual basis the key metrics referred to in Article 15 of this Decision.

(2) A small and non-complex credit institution shall have a meaning as established in the decision governing the assessment of internal capital adequacy.

(3) By way of derogation from paragraph (1) of this Article, small and non-complex credit institution that is non-listed credit institution shall disclose the key metrics referred to in Article 15 of this Decision on an annual basis.

Frequency of disclosures by other credit institutions

Article 28

(1) Credit institutions that are not subject to provisions of Articles 26 and 27 of this Decision shall disclose the information outlined below with the following frequency:

- 1) all the information required under this Decision on an annual basis;
- 2) the key metrics referred to in Article 15 of this Decision on a semi-annual basis.

(2) By way of derogation from paragraph (1) of this Article, other institutions that are non-listed institutions shall disclose the following information on an annual basis:

- Article 4 paragraph (1) items 1) and 5) and paragraph (2) items 1), 2) and 3) of this Decision;
- Article 6 item 1) of this Decision;
- Article 7 items 4) and 5) of this Decision;
- key metrics referred to in Article 15 of this Decision;
- Article 18 paragraph (1) items 1), 2), 3), 6), 7) and 8) of this Decision.

Publication deadlines

Article 29

(1) A credit institution shall publish the disclosures required under this Decision on annual basis no later than 31 May of the current for the previous year.

(2) A credit institution shall publish the disclosures required under this Decision on semi-annual and quarterly basis within 40 days, at the latest, following the expiry of the corresponding semi-annual or quarterly period.

Means of disclosures

Član 30

(1) A credit institution shall make available on its website information required to be disclosed.

(2) Information referred to in paragraph (1) of this Article shall be disclosed in a separate document or as a separate part of the financial statements of the credit institution.

(3) The documents referred to in paragraph (2) of this Article must be made available in period that may not be less than the storage period set by the law governing the accounting.

(4) A credit institution shall make tabular formats for the key metrics referred to in Article 15 of this Decision.

Repealed regulation

Article 31

As from the commencement date of the application of this Decision, the Decision on Disclosure of Data and Information by Banks (OGM 2/12) shall be repealed.

Entry into force

Article 32

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

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

Decision number: 0101-7776-5/2020
Podgorica, 29 December 2020

**CHAIRMAN
G O V E R N O R,
Radoje Žugić, m.p.**