Unofficially consolidated translation

D E C I S I O N
ON RECOVERY PLANS OF CREDIT INSTITUTIONS

(OGM 127/20 of 29 December 2020, 19/22 of 22 February 2022)

I. BASIC PROVISIONS

Subject matter

Article 1

This Decision shall govern in more detail the method and scope of application of the requirements related to the drawing up of a credit institution recovery plans, as well as the contents, method and timeframes for submission of these plans and amendments to the contents of recovery plans following the assessment of recovery plans performed by the Central Bank of Montenegro (hereinafter: the Central Bank).

Definitions

Article 2

Terms used in this Decision shall have the following meanings:

1) **recovery options** mean activities, agreements, measures or strategies of a credit institution or a group covered by a recovery plan that are designed to restore financial stability in situations of a severe financial distress;
2) **situations of a severe financial distress** mean situations which threaten the financial intermediation function of a credit institution to the point of its market survival , i.e. its further undisturbed provision of services for which it is authorised and which may be caused by an external or an internal event;
3) **material change** means each change which has the potential to affect the ability of a credit institution to implement a recovery plan or to apply one or more recovery options envisaged in the recovery plan;
4) **critical functions** means activities, services or operations the discontinuance of which is likely in one or more states, to lead to the disruption of services that are essential to the real economy or to disrupt financial stability due to the size, market share, external and internal interconnectedness, complexity or cross-border activities of an institution or group, with particular regard to the substitutability of those activities, services or operations;
5) **core business lines** means business and associated services which represent material sources of revenue, profit or franchise value for a credit institution or for a group of which a credit institution forms part.
6) **a significant obstacle** means any factor that may adversely affect the timely execution of the recovery option, in particular legal, operational, business, financial and reputational risk, as well as any other risk that may result in a downgrade of the credit institution's credit rating;

7) **early warning signals** means benchmarks which constitute a part of the internal risk management process of a credit institution or a group of credit institutions and which are used to monitor its financial condition;
8) **recovery plan indicators** means qualitative or quantitative indicators established by a credit institution to identify points at which appropriate actions specified in the recovery plan can be taken, or which if they reach a certain level indicate that appropriate recovery options can be taken to preserve or re-establish sustainable business and satisfactory financial position of the credit institution;
9) **reverse stress-testing** means a form of stress testing which is based on the possible results of a near-default and identifies circumstances that might cause this to occur.
10) **significant credit institution** means a credit institution whose average amount of assets at the end of previous three business years stated in the revised financial statements exceeds 250,000 euros;
11) **significant branch or other entity** means a branch of a credit institution or other entity that:
    - significantly contributes to the profit of the credit institution or entities included in the recovery plan, or has a significant share in their assets, liabilities or capital,
    - performs key economic activities,
    - performs a critical operational function, risk management function, or management function,
    - bears high risk that could jeopardise the viability of the credit institution or group in the worst case scenario,
    - could not be sold or liquidated as it would lead to a high risk for the credit institution or group, or
    - are important for the financial stability in at least one country where they have a head office or where they operate.

II. RECOVERY PLAN STRUCTURE

Parts of a recovery plan

Article 3

(1) A recovery plan of a credit institution shall include at least the following parts:
1) a brief overview (hereinafter: summary) of the key elements of the plan and a summary of total capacity of the credit institution for recovery, including the content specified in Article 4 of this Decision;
2) information on governance including the content specified in Article 5 of this Decision;
3) a strategic analysis, in accordance with Article 15 of this Decision;
4) a communication and disclosure plan, in accordance with Article 19 of this Decision;
5) an analysis of preparatory measures contained in the recovery plan, in accordance with Article 20 of this Decision.

(2) Parts of the recovery plan referred to in paragraph (1) of this Article are separate, specially marked and described units of the plan.

Summary of key elements of the plan

Article 4

The summary of key elements of the recovery plan referred to in Article 3 item 1) of this Decision shall contain a brief overview of:

1) information on governance, including selected recovery plan indicators and established levels for considering the taking of measures from the recovery plan;
2) strategic analyses, including a summary of recovery options, identified critical functions and core business lines, while indicating scenarios with possible obstacles and options that are adequate for recovery in those scenarios;
3) all material changes in the credit institution, group of credit institutions, or recovery plan, which occurred after the submission of the latest recovery plan to the Central Bank;
4) a communication and disclosure plan, with a description of how the credit institution intends to address possible adverse market reactions; and
5) preparatory measures specified in the recovery plan.

Information on governance

Article 5

A part of the recovery plan referring to information on governance shall include a detailed explanation of how the recovery plan is included in the corporate governance system and risk management system of a credit institution, policies and procedures establishing the manner of drawing up, updating and approving the recovery plan, and identifying persons responsible for drawing up and implementing the recovery plans, in particularly the description of:

1) the manner of drawing up and updating the recovery plan, including at least:
    - the role and the functions of the persons responsible for the drawing up, implementing and updating of each part of the plan and of the plan as a whole;
    - procedures in situations where the recovery plan needs to be amended due to material changes which affect the credit institution, its group or the environment in which they operated,
    - a description of how the recovery plan is integrated in the corporate governance and in the overall risk management framework of the credit institution or its group, in particular as regards its risk profile, and the link between the recovery plan and stress testing in the internal capital adequacy assessment process (hereinafter: ICAAP);
    - where a recovery plan is drawn up for a group of credit institutions, a description of measures taken and arrangements concluded on a group level which ensure the coordination and consistency of recovery option of a group as a whole and each subsidiary;

2) policies and procedures governing the approval of the recovery plan, including whether the recovery plan has been evaluated by an internal auditor, external auditor or a risk committee, and a confirmation that the recovery plan has been assessed by the management body responsible for approving the plan;
3) the conditions and procedures for ensuring the timely implementation of recovery options, including at least:
   - a detailed description of indicators referred to in Article 6 of this Decision,
   - a description of the decision-making process for implementation of a recovery option in a situation of a severe financial distress, when individual indicators reach the value defined for taking measures from the recovery plan (including the role and function of persons included in the process, a description of their responsibilities, procedures to be applied, and the time and manner for notifying the Central Bank that the indicators have reached the determined values;
4) the consistency of the recovery plan with the risk management framework of the credit institution or group, including a description of those early warning signals, which are used for risk management in regular business or for taking appropriate actions in the part referring to risk management, where their values could be useful to inform the management that the indicators of the recovery plan could potentially be reached;
5) internal information and reporting systems, including availability of all information necessary for decision-making on the implementation of recovery options in a situation of a severe financial distress, to be taken in a reliable and timely manner.

Recovery plan indicators

Article 6

(1) A credit institution shall include in the recovery plan at least the following mandatory categories of indicators which reveal possible vulnerabilities, weaknesses or threats to different areas of business:

1) capital indicators;
2) liquidity indicators;
3) profitability indicators; and
4) asset quality indicators and risk profile.

(2) Categories of indicators from paragraph (1) of this Article shall be mandatory and may include of a set of specific indicators listed in the Table 2 Annex 1 which forms an integral part to this Decision.

(3) In addition to the categories of indicators referred to in paragraph (1) of this Article, a credit institution shall include in the recovery plan market indicators (e.g. change in exchange rate, share price, reduction of credit rating or interest) and macroeconomic indicators (e.g. changes in gross domestic product or the country's credit rating), unless the recovery plan provides a satisfactory, precise and detailed explanation why these indicators are not adequate in relation to the legal structure, risk profile, size and complexity of the business operations of that credit institution.

(4) A credit institution shall include in the recovery plan at least one indicator from each mandatory category referred to in paragraph (1) of this Article, and it shall consider including other specific additional indicators given in Table 3 of Annex 1 which forms an integral part of this Decision.

(5) When establishing indicators, a credit institution must take into account that the nature and number of indicators correspond to its size, complexity of operations, risk profile and system of indicators used in the process of regular risk management.

(6) Recovery plan indicators that the credit institution includes in a recovery plan must be qualitative and quantitative and easily monitored, and the prescribed level of each individual indicator must be higher than the minimum prescribed level and high enough to provide consideration of measures from the recovery plan before breaching regulations governing these indicators, and/or it must be determined in such a way as to enable the credit institution to take recovery measures in a timely manner.

(7) Recovery plan indicators of the credit institution referred to in paragraphs (1) and (3) of this Article shall relate to the financial position of a credit institution in case of an individual recovery plan, or to the financial position of a group of credit institutions in case of a group recovery plan.

(8) Recovery plan indicators shall be consistent with the indicators used by the credit institution or a group in the risk management process.

Capital indicators

Article 7

(1) When choosing capital indicators a credit institution shall take into account indicators that will indicate in a timely manner a significant actual or likely future decrease in capital and an increase in financial leverage.

(2) A credit institution shall include indicators from paragraph (1) of this Article into the Internal Capital Adequacy Assessment Process (ICAAP) and its existing risk management framework.

(3) The capital indicators thresholds must be calibrated based on the credit institution’s risk profile and on the time needed to activate the recovery measures; taking into consideration the recovery capacity resulting from those measures, and taking into account how quickly the capital situation may change, given the credit institution's individual circumstances.

(4) When establishing capital indicators thresholds referred to in paragraph (3) of this Article, a credit institution shall ensure a sufficient distance from a breach of the capital requirements applicable to the credit institution, including minimum requirements set out in Article 134 of the Law on Credit Institutions (hereinafter: the Law), but without taking into account any buffer requirements.

Liquidity indicators

Article 8

(1) In the framework of liquidity indicators, a credit institution shall include as a minimum:

1) minimum liquidity ratio up to 30 days in EUR and other convertible currencies in total;
2) minimum liquidity ratio up to 7 days in EUR and other convertible currencies in total;
3) liquidity coverage ratio – in all currencies in total;
4) net stable sources of funding ratio;
5) liquidity coverage and stable funding requirements referred to in Article 114 of the Law; and
6) cost of funding on the interbank market.

(2) A credit institution shall take the necessary operational measures in a timely manner to ensure that liquidity recovery plans may be implemented immediately, and such operational measures shall include, at least, holding collateral immediately available to provide credit support by the Central Bank, including holding collateral where necessary in the currency of the another country to which the credit institution has exposures, or holding collateral in the currency of the other country to whose currency it has exposure.

(3) Notwithstanding paragraph (1) of this Article, a credit institution may exclude any of the liquidity indicators referred to in that paragraph, if it explains in the recovery plan in a satisfactory manner, precisely and in detail why those indicators are not adequate with respect to its legal structure, risk profile, size and/or complexity of business operations.

(4) The credit institution's liquidity indicators refer to short-term and long-term liquidity, as well as the funding requirements of the credit institution and the credit institution's dependence on money market and retail deposits, and if necessary, liquidity segregation by different currencies, if relevant.

(5) A credit institution should integrate liquidity indicators into the internal liquidity adequacy assessment process and the existing risk management system, and/or define them in its strategies, policies and procedures.

Profitability indicators

Article 9

(1) The profitability indicators framework referred to in Article 6 paragraph (1) indent 3 of this Decision must cover all indicators related to the credit institution's income, in particular return on asset (ROA), return on equity (ROE) and significant losses arising from operational risk.

(2) Notwithstanding paragraph (1) of this Article, a credit institution may exclude any of

the liquidity indicators referred to in that paragraph, if it explains in the recovery plan in a satisfactory manner, precisely and in detail why those indicators are not adequate with respect to its legal structure, risk profile, size and/or complexity of business operations.

(3) Profitability indicators related to operational risk can have a significant impact in terms of profit and loss, including external and internal fraud as well as other similar events.

Asset quality indicators

Article 10

(1) When determining the framework of asset quality indicators, a credit institution shall include as a minimum the growth rate of bad loans in total loans and the coverage of these loans by value adjustments.

(2) A credit institution shall make sure that the indicators referred to in paragraph (1) of this Article also indicate the quality of off-balance sheet exposures of the credit institution and the impact of bad loans on the overall asset quality.

(3) Notwithstanding paragraph (1) of this Article, a credit institution may exclude any of the asset quality indicators referred to in that paragraph, if it explains in the recovery plan in a satisfactory manner, precisely and in detail why those indicators are not adequate with respect to its legal structure, risk profile, size and/or complexity of business operations.

Market indicators

Article 11

A credit institution shall establish a framework of qualitative and quantitative market indicators based on the following indicators:

1) indicators with respect to equity, which show differences in the price of shares of companies on the stock exchange, and on the basis of which the difference between the book value and market value of equity is determined;
2) debt-based indicators identifying the expectations of providers of financing services through money market, such as credit margin and non-compliance indicators under exchange agreements;
3) portfolio-related indicators that set expectations regarding the assets of each credit institution (immovable property); and
4) indicators that identify the downgrade of credit rating (long-term or short-term) that may lead to rapid changes in the expectations of market entities regarding the financial position of the credit institution.

Macroeconomic indicators

Article 12

(1) A credit institution shall establish macroeconomic indicators on measurements that affect the credit institution's performance in certain geographical areas or business sectors that are relevant to the credit institution.

(2) Macroeconomic indicators referred to in paragraph (1) of this Article include:

1) geographical macroeconomic indicators, which refer to the geographical areas in which the credit institution operates, taking into account the risks arising from potential legal obstacles; and
2) sectoral macroeconomic indicators related to the core business lines to which the credit institution is exposed.

Framework of recovery plan indicators

Article 13

(1) With the recovery plan, a credit institution must establish a framework of recovery plan indicators, with a detailed and clear definition of each selected indicators.

(2) The credit institution's recovery plan should also contain an explanation of the choice of each indicator and its level on the basis of which measures are taken from the recovery plan, and if the calculation of a particular indicator is specifically prescribed, the credit institution shall explain any deviation from the prescribed method of the calculation of indicators.

(3) The level of each individual indicator must be established so as to ensure timely taking of measures from the recovery plan, whereby the analysis must take into account the strength and speed of reaching the established level.

(4) Indicators and their levels determined in the credit institution’s recovery plan, shall:

1) be adapted to the business model, strategy, and risk profile of a credit institution. It should identify the key vulnerabilities most likely to impact the credit institution’s financial situation and lead to the point at which it has to decide whether to activate the recovery plan;
2) be adequate to the size and complexity of each credit institution. In particular, the number of indicators should be sufficient to alert the credit institution of deteriorating conditions in a variety of areas.
3) be able to warn of situations of a severe financial distress, and/or be capable of defining the point at which a credit institution has to decide whether to take an action referred to in the recovery plan or to refrain from taking such an action;
4) be aligned with the existing risk management framework and with the existing capital or liquidity plan indicators, and business continuity plan indicators;
5) be integrated into the credit institution’s governance and within the internal information and decision-making procedures; and
6) include forward-looking indicators.

(5) A credit institution shall examine the efficiency of selected indicators and the selected level of their values at least annually.

Monitoring of indicators in the recovery plan

Article 14

(1) A credit institution shall establish an adequate system of regular monitoring of selected indicators and adopt an internal act containing the dynamics and the manner of monitoring, as well as the procedure for reporting on indicators.

(2) For the purposes of paragraph (1) of this Article, a credit institution shall consider using progressive metrics ("traffic light approach") in order to inform the management board of that such indicators could potentially be reached.

(3) If a credit institution, through regular monitoring, determines that the selected indicators have reached the level determined for taking measures from the recovery plan, the management board of the credit institution shall make a decision on taking or refraining from taking measures from the recovery plan within five working days, and notify the Central Bank of that decision without delay.

(4) If the management board of a credit institution makes a decision referred to in paragraph (3) of this Article to refrain from taking measures from the recovery plan, the credit institution shall explain such decision in detail in the notification to the Central Bank.

(5) The management board of a credit institution may make a decision on undertaking the options from the recovery plan even if the established indicators have not reached the level determined for taking measures.

(6) A credit institution shall notify the Central Bank without delay of the decision referred to in paragraph (5) of this Article.

Strategic analysis

Article 15

(1) In a strategic analysis, a credit institution shall determine core business lines and critical functions and determine the procedures necessary to maintain their functioning in situations of a severe financial distress.

(2) A credit institution shall determine the critical functions and core business lines at the appropriate level of granularity (e.g.: retail deposits, retail loans, corporate deposits, and the like).

(3) The strategic analysis of a credit institution contained in the recovery plan shall include the following:

1) information on a credit institution and members of a group to which the recovery plan relates, with the contents as established in Article 16 of this Decision; and
2) recovery options, with the contents as established in Article 17 of this Decision.

Information on credit institutions and group members

Article 16

(1) Information on a credit institution and members of a group to which recovery plans referred to in this Decision relate shall include the following:

1) general information on a credit institution and members of a group covered by the recovery plan, including:
   - a description of their general business strategy and risk strategy;
   - the business model and the business plan, including a list of countries in which they operate through material branches of other legal entities;
   - core business lines and critical functions;
   - a description of the criteria for determining core business lines and critical functions;
2) distribution of core business lines and critical functions across material branches and legal entities in a group;
3) a detailed description of intra-group connections of all connected legal persons and a detailed description of the legal and financial structure of a credit institution or a member of a group to which the recovery plan relates, and in particular a description of the following:
   - all existing significant intra-group exposures, financing and capital flows within a credit institution or a group, existing guarantees within a group or guarantees the provision of which is, as appropriate, envisaged by the recovery plan;
   - legal links, including all important legally binding intra-group agreements such as domination agreements or profit and loss transfer agreements;
   - operational interconnectedness, which concern functions that are centralised in one legal entity or branch and are important for the operation of other legal entities, branches or a group as a whole, in particularly the information technology functions, treasury functions, risk control functions or administrative functions;
   - all the existing agreements on intra-group financial support, providing details of each such agreement such as the names of the members of the group who are parties to those agreements and the form and the conditions under which the financial support is provided;
4) description of external interconnectedness including:
   - a description of significant exposures and liabilities to material counterparties;
   - a description of important financial products and services which a credit institution or a member of a group covered by the recovery plan provide to other participants in the financial markets; and
   - a description of important services provided by counterparties to a credit institution or a member of a group covered by the recovery plan.

(2) Material branch or other legal entity referred to in paragraph (1) item 1) indent 2 of this

Article means a branch of a credit institution, or other legal entities that:

1) significantly contribute to the profit of a credit institution or entities covered by the recovery plan, or have an important share in their assets, liabilities and capital;
2) perform critical functions;
3) perform significant operational functions, risk management function, or administrative functions;
4) carries significant risk, which under the worst case scenario may threaten sustainability of a credit institution or a group of credit institutions;
5) could not be sold or liquidated as it would probably lead to a significant risk for a credit institution or a group of credit institutions; or
6) a branch or an undertaking is vital for the financial stability of the country in which it has a head office or in which it operates;

Recovery options

Article 17

(1) The recovery plan shall contain a wide range of recovery options that will represent a reasonable response of the credit institution to scenarios which may lead to a severe financial distress.

(2) Recovery options shall be such that it can be expected that their use will help a credit institution or a group for which the plan is being drawn up to maintain or restore sustainability of their operations and financial position.

(3) Recovery options shall be described in such a way that the Central Bank can assess the impact and feasibility of each recovery option.

(4) Recovery options shall include extraordinary measures, but also measures that could be taken as part of the regular business operations of a credit institution or a member of a group covered by the recovery plan.

(5) A recovery option may not be excluded only because its application may envisage changes in the existing nature of business operations of the credit institution.

(6) The recovery plan shall also include options to be taken by a credit institution provided the Central Bank makes a decision that the conditions for early intervention referred to in the Article 288 paragraph (1) item 1) of the Law have been met, and/or a credit institution shall clearly state in the recovery plan which options it plans to consider during the early intervention phase.

Contents of recovery options

Article 18

(1) In the section of the plan relating to recovery options, a credit institution shall list all recovery options and provide a description and analysis of each option and define what level of the selected indicator envisages taking such options.

(2) The recovery options shall contain, for individual option, an overview of the following envisaged activities, agreements, measures or strategies:

1) activities in the area of capital, required to maintain or restore business sustainability and financial situation of a credit institution or members of a group covered by the recovery plan, the main objective of which is to ensure sustainability of critical functions and core business lines;
2) activities in the area of liquidity, including agreements and measures for accessing sources of funding in crisis situations so as to ensure further provision of services and meeting of obligations as they fall due;
3) agreements and measures for reducing financial leverage;
4) agreements and measures for reducing risk exposure, or to restructure business lines, including, where appropriate, an analysis of possible material sale of assets, legal entities or business lines;
5) agreements and measures aimed at achieving a voluntary liabilities restructuring, provided this does not lead to events such as default, termination of agreement, reduction in the value of assets of a credit institution or members of a group covered by the recovery plan, etc.; and
6) other measures and strategies which ensure and restore the sustainability of regular operations and stability of the financial position of a credit institution or members of a group covered by the recovery plan.

(3) The activities referred to in paragraph (2) item 1) of this Article include activities and measures aimed at maintaining or restoring the own funds of a credit institution or own funds on a consolidated group level, through external recapitalization and the use of internal measures to increase own funds, aimed at improving the capital of the credit institution or a group for which the recovery plan is being drawn up.

(4) Activities referred to in paragraph (2) item 2) of this Article must include external measures or measures of reorganisation of the liquidity available within a group, while contingent sources of financing shall include potential sources of liquidity, the assessment of available instruments of collateral and the assessment of the possibility of liquidity transfer within a group and between individual business lines, including, where appropriate, an analysis of the possibilities of how and when an institution may, under the conditions determined by the plan, resort to the use of Central Bank instruments, specifying the assets that might be used as an instrument of collateral;

(5) By way of derogation from paragraph (2) of this Article, a credit institution which is not a significant credit institution may, when drawing up a recovery plan, leave out some of the listed activities, agreements or measures and provide a detailed explanation why these have been left out.

(6)The recovery options shall contain an assessment of the impact or each individual recovery option, including the following:

1) an assessment of the financial and operational impact, indicating the expected impact on solvency, liquidity, sources of financing, profitability and business of the

credit institution or a member of a group for which a recovery plan is being drawn up, and which is affected by an option;

2) an assessment of the external impact and an assessment of systemic consequences, indicating the expected impact on critical functions of a credit institution and members of a group covered by the recovery plan and their impact on shareholders, clients and in particular small depositors, other counterparties, and, where applicable, the rest of the group;
3) valuation assumptions and all other assumptions necessary for the assessment of items 1) and 2) of this paragraph, including the assumption of asset marketability and behaviour of other entities on the financial market.

(7) The assessment of the impact referred to in paragraph (6) of this Article shall include a detailed description of the procedures for determining the value and marketability of core business lines, the part of business operations and assets of a credit institution or members of a group covered by the recovery plan.

(8)The recovery options shall contain an assessment of the feasibility of each individual recovery option, in particular:

1) an assessment of the risk associated with an individual recovery option, based on experience in the implementation of such a recovery option or similar measures;
2) a detailed analysis and a description of material obstacles to an efficient and timely implementation of the plan and a description of the manner in which such obstacles may be removed;
3) an analysis of the possible obstacles to efficient implementation of each individual recovery option which arises from the structure of the group or intra-group agreements, including the existence of a material practical or legal obstacle to a prompt transfer of own funds, settlement of liabilities or realisation of assets within a group (in case of a group recovery plan) and the description of the manner in which these obstacles can be removed; and
4) an assessment of the manner of ensuring business continuity every time an individual recovery option is used.

(9) The assessment of business continuity referred to in paragraph (8) item 4) of this Article shall include an analysis of internal activities (e.g. information systems, human resources, public procurement) and access of the credit institution or members of a group covered by a recovery plan to market infrastructure (such as access to clearing and settlement as well as to payment system), and the assessment of operational contingency shall take into account:

1) any arrangements and measures necessary to maintain continuous access to relevant financial markets infrastructure;
2) any arrangements and measures necessary to maintain the continuous functioning of the operational processes of the credit institution or group members covered by the recovery plan, including infrastructure and IT services;
3) necessary and expected timeframe for the implementation and effectiveness of each recovery option; and

4) effectiveness of recovery options and adequacy of indicators in a range of scenarios of financial stress which assesses the impact of each of these scenarios on the credit institution or group member, in particular on their capital, liquidity, profitability, risk profile and operations, potential impact of each individual option, feasibility of recovery options as well as potential impediments to their implementation.

(10) The assessment of business continuity shall determine the recovery options of the credit institution and members of a group covered by the recovery plan that could be implemented in a certain scenario, possible impact of that recovery option, its feasibility, obstacles to its implementation and the time frame for its implementation in the conditions of a severe financial distress.

(11) The group recovery plan shall include mechanisms which ensure coordination and consistent application of the recovery options on the level of the parent company, subsidiary level and, where appropriate, on the level of material branches.

Communication and public disclosure plan

Article 19

(1) Communication and disclosure plan referred to in Article 4 paragraph (1) item 4 of this Decision, shall contain a detailed description of the manner how the credit institution shall resolve possible negative reactions of the market, and it shall contain:

1) an internal communication plan, in particular communication with employees, unions, workers' councils or other employee representatives;
2) an external communication plan, in particular communication with shareholders and other investors, Central Bank, counterparties, financial markets, financial markets infrastructure, depositors, and, where appropriate, with the public; and
3) effective proposals for managing any potential negative market reactions.

(2) The recovery plan shall also include an analysis of the manner of application of the communication and public disclosure plan in the case of implementation of one or more recovery plan measures or agreements.

(3) The communication and public disclosure plan shall also provide for special communication needs associated with a particular recovery option.

Preparatory measures

Article 20

(1) The recovery plan shall include an analysis of the preparatory measures that a credit institution or a group for which a plan is being drawn up has taken, plans to take, or will need to take to facilitate implementation or improvement of the efficacy of the recovery plan, especially for measures that require a longer time period or larger number of

activities for their implementation or which call for timely implementation in order to have efficient measure, such as the increase of own funds or sale of different forms of assets.

(2) The recovery plan shall define a time frame for the implementation of the preparatory measures referred to in paragraph (1) of this Article.

(3) In addition to preparatory measures referred to in paragraph (1) of this Article, the recovery plan shall contain measures for removing the obstacles identified in the recovery plan which are necessary for efficient implementation of the recovery options.

III. RECOVERY PLAN STRESS SCENARIOS

Stress scenarios

Article 21

(1) A credit institution shall, taking into account the nature, scope and complexity of its activities, prepare a range of stress scenarios of a severe macroeconomic and financial distress so as to determine various hypothetical events on which it will test the efficiency of recovery options as well as the adequacy of indicators and their levels determined by the recovery plan.

(2) To test a recovery plan, a significant credit institution shall use as a minimum one scenario for each of the following types of events:

1) system systemic events representing events which might have severe negative effects on the financial system or the real economy;
2) a credit institution specific events, that is events which might have serious negative effects on a credit institution, a group or a credit institution within a group; and
3) a combination of events from items 1) and 2) of this paragraph, which take place simultaneously and are interactive.

(3) A non-significant credit institution may carry out stress testing using a single scenario which comprises several systemic events referred to in Article 24 of this Decision and several specific events referred to in Article 25 of this Decision and which are specific of a credit institution or a group for which the recovery plan is being drawn up.

(4) A credit institution shall conduct stress testing of its recovery plan not less than once a year and submit it together with the recovery plan to the Central Bank.

Stress testing requirements

Article 22

(1) When preparing the stress scenarios referred to in Article 21 of this Decision, a credit institution shall make sure they meet the following requirements:

1) the scenario shall be based on the most relevant events for a credit institution or a group, taking account of the business and the financing model, the activities and

the structure, size or interconnectedness with other financial system entities or the financial system as a whole, particularly of the identified weaknesses of a credit institution or a group;

2) the events envisaged in the scenario would lead to a failure of a credit institution or a group in the case of a failure to apply on time the recovery measures; and
3) the scenario is based on extraordinary but possible events.

(2) When developing each stress scenario referred to in Article 21 of this Decision, a credit institution shall, for the purpose of meeting requirements from paragraph (1) item 2) of this Article, use events which have sufficient intensity.

(3) Where possible, a credit institution shall include in each stress scenario an assessment of the impact of events referred to in paragraph (1) of this Article on each of the following aspects of business of a credit institution or a group:

1) available capital;
2) available liquidity;
3) risk profile;
4) profitability;
5) operations, including payment and settlement systems; and
6) reputation.

(4) When developing stress scenarios which would lead to a situation where a business model of a credit institution or a group is not sustainable without successful application of recovery plan measures, a credit institution shall consider the possibility of applying a reverse stress testing.

Number of stress scenarios

Article 23

(1) A credit institution shall adjust the number of stress scenarios to the nature, scope and complexity of the activity of a credit institution or a group for which a recovery plan is being drawn up, interconnectedness with other institutions and the financial system in general and its financing models.

(2) Systemically important credit institutions, in line with Article 21 paragraph (2) of this Decision shall apply more than three scenarios.

(3) The range of stress scenarios, in the case of significant credit institutions shall also include slow and fast moving events.

Scenario covering events on overall system level

Article 24

(1) When preparing a stress scenario for events on overall system level, a significant credit institution shall take into account, as a minimum, the influence of the following

events:

1) failures of significant counterparties which affect the financial stability of the entire system;
2) a fall in the available liquidity on the interbank market;
3) increased sovereign risk and capital outflows from significant countries in which a credit institution or a group operates;
4) unfavourable developments in real estate prices and other forms of assets in one or several relevant markets; and
5) macroeconomic crisis.

(2) By way of derogation from paragraph (1) of this Article, a credit institution may, after having made a detailed analysis, decide that one of the events referred to in paragraph (1) of this Article is not relevant for it, and shall in such a case provide a detailed explanation for any such decision in its recovery plan.

Credit institution-specific scenario

Article 25

(1) When drawing up a stress scenario for events specific for a credit institution or a group, a significant credit institution shall take into account, as a minimum, the influence of the following events:

1) failures of significant counterparties;
2) damaged reputation of a credit institution or a group;
3) significant liquidity outflows;
4) unfavourable developments in the prices of real estate and other forms of assets that a credit institution or a group is exposed to in one or more relevant markets;
5) significant loan losses; and
6) significant losses arising from operational risk.

(2) By way of derogation from paragraph (1) of this Article, a credit institution may decide, after having made a detailed analysis that one of the events referred to in paragraph (1) of this Article is not relevant for it, and shall in such a case provide a detailed explanation for any such decision in its recovery plan.

IV. SCOPE OF APPLICATION AND DRAWING UP THE RECOVERY PLAN

Recovery plan scope

Article 26

(1) A significant credit institution shall apply all the provisions of this Decision in their entirety.

(2) A non-significant credit institution may reduce the number of stress scenarios in accordance with Article 21 paragraph (3) of this Decision, reduce the number of events

when making stress scenarios in accordance with Articles 21 to 25 of this Decision and reduce the requirements in accordance with Article 27 paragraph (3) of this Decision.

(3) By way of derogation from paragraph (2) of this Article, the Central Bank may issue a decision requiring a non-significant credit institution to apply the provisions of this Decision in an extended or full scope.

Drawing up, adoption and review of recovery plans

Article 27

(1) The management board of a credit institution shall assess and adopt a recovery plan, subject to a prior approval from the supervisory board.

(2) A significant credit institution shall ensure that the persons responsible for drawing up a recovery plan are not the persons responsible for conducting stress testing of the recovery plans.

(3) The risk control function of a credit institution shall:

1) coordinate the drawing up of the recovery plan;
2) monitor indicators and report to the management board on the values of the selected indicators;
3) prepare scenarios and conduct stress testing of recovery plans; and
4) report to the management board on the process of drawing up, need for updating and implementation of the recovery plan and the results of the stress testing of the recovery plans.

(4) The internal audit of a credit institution shall conduct assessment of the recovery plan and the application and efficiency of the procedures of drawing up, adoption and monitoring of recovery plans execution.

(5) A credit institution shall not fully outsource drawing up of the recovery plan.

V. SUBMITTING RECOVERY PLANS TO THE CENTRAL BANK

Submitting recovery plans

Article 28

(1) A credit institution shall update as a minimum once a year the existing recovery plan or, where appropriate, draw up a new recovery plan and submit it to the Central Bank by 31 December of the current year at the latest.

(2) A credit institution shall also update its recovery plan after each material change and submit it to the Central Bank without delay.

(3) Together with the recovery plan submitted to the Central Bank, a credit institution shall submit a decision of the management board on the adoption, and/or updating of the recovery plan along with filled in forms from Annex 2, which forms an integral part to this Decision.

VI. AMENDMENTS TO THE CONTENTS OF THE RECOVERY PLAN

Obligation to revise the recovery plan

Article 29

(1) A credit institution shall revise the content of the recovery plan when the Central Bank, after assessing that there are material deficiencies in the recovery plan or material obstacles to its implementation, in accordance with Article 128 paragraph (1) of the Law orders the credit institution to submit the revised recovery plan to the Central Bank.

(2) The Central Bank shall performed the assessment referred to in paragraph (1) of this Article in accordance with Articles 30 to 35 of this Decision.

Completeness of recovery plans

Article 30

The Central Bank shall assess the extent to which the recovery plan of the credit institution meets the requirements of Articles 125 to 130 of the Law and reviews the completeness of the plan by assessing:

1) whether the recovery plan covers all information from Article 125 paragraph (2) of the Law, as closely regulated by this Decision;
2) whether the recovery plan provides updated information regarding all material changes of the credit institution or group member, and in particular changes in their legal or organisational structure, their business or financial situation since the last submission of the plan, in accordance with Article 126 paragraph (1) of the Law;
3) where applicable, whether the recovery plan includes an analysis of how and when the credit institution or group member covered by the recovery plan may, in the circumstances envisaged by that plan, request the use of Central Bank’s instruments and whether the plan specifies assets that would be expected to qualify as collateral;
4) whether the recovery plan has adequately considered a range of scenarios of severe macroeconomic and financial stress that is relevant to the credit institution or group member covered by the plan, in accordance with Articles 21 to 25 of this Decision;
5) whether the recovery plan contains an appropriate framework of indicators for determining the levels for undertaking appropriate activities envisaged by the plan, in accordance with Articles 6 to 14 of this Decision;
6) whether the information from items 1) to 5) of this paragraph are submitted for the group as a whole;

7) whether, if applicable, the recovery plan includes arrangements for intra group financial support that have been made on the basis of an agreement on intra group financial support in accordance with Articles 182 to 202 of the Law;
8) whether the recovery plan for each scenario of severe macroeconomic and financial stress contained in the plan in accordance with Article 24 of this Decision states that there are:
    - obstacles to implementing recovery measures within the group, including at the level of individual members of the group covered by the plan;
    - significant practical or legal obstacles to the prompt transfer of own funds or repayment of liabilities or assets within the group.

Quality of recovery plans

Article 31

In assessing the fulfilment of the requirements and criteria established by the Law and the provisions of this Decision, if applicable, the Central Bank shall review the quality of the recovery plan and assess:

1) whether the recovery plan is clear, i.e. whether:
    - it is self-explanatory and clear;
    - the definitions and descriptions are clear and consistent throughout the plan;
    - the assumptions and valuations made within the plan are adequately explained;
    - references to documents not contained in the recovery plan and annexes supplement the recovery plan in a way which substantially contributes to identifying recovery options to maintain or restore the financial strength and viability of the credit institution or group covered by the recovery plan;
2) whether the information contained in the recovery plan are relevant, and/or whether such information focuses on indenting options to maintain or restore the financial strength and viability of the financial institution or group;
3) whether the plan is comprehensive, and/or whether, taking into account in particular the nature of the business of the credit institution or group member covered by the recovery plan and their size and interconnectedness to other institutions and groups and to the financial system in general, meets the following requirements:
    - the plan provides a sufficient level of detail concerning the information required to be included in recovery plans pursuant to provisions of the Law;
    - the plan contains a sufficiently wide range of recovery options and indicators, in line with Articles 6 to 12 of this Decision;
4) whether there is internal consistency of the recovery plan, and individual recovery plan and group recovery plan, that is, in case where the Central Bank requires that subsidiaries on an individual basis prepare recovery plans, that there is internal consistency between these plans and the group recovery plan.

Implementation of the arrangements proposed in the recovery plans

Article 32

(1) When assessing the extent to which the recovery plan satisfies the criterion set out in Article 127 paragraph (1) item 1) of the Law, the Central Bank shall review the following:

1) the level of integration and consistency of the recovery plan with the general corporate governance and the internal processes of the credit institution or group member to which the recovery plan applies and its/their risk management framework;
2) whether the recovery plan contains a sufficient number of plausible and viable recovery options which make it reasonably likely that the credit institution or group would be able to counter different scenarios of financial distress quickly and effectively;
3) whether recovery options included in the plan set out actions which effectively address the scenarios of severe macroeconomic and financial stress reflected in accordance with Article 125 paragraph (6) of the Law;
4) whether the timeline for implementing the options is realistic and is taken into account in the procedures designed to ensure implementation of recovery actions;
5) the level of the credit institution's or group's preparedness to redress the situation of financial stress, as determined in particular by assessing whether the preparatory measures necessary have been adequately identified and, where appropriate, those measures have been implemented or a plan to implement them has been prepared;
6) the adequacy of the range of scenarios of severe macroeconomic and financial stress against which the plan has been tested;
7) the adequacy of the processes for testing the plan against the scenarios referred to in item 6) of this paragraph and the extent to which the analysis of recovery options and indicators in each scenario is verified by that testing;
8) whether the assumptions and valuations made within the plan and each recovery option are realistic and plausible.

(2) The plausibility of each recovery option set out in the plan as referred to in paragraph (1) item 2) of this Article shall be assessed taking into account all of the following elements:

1) the extent to which its implementation is within the credit institution's or group's control and the extent to which it would rely on action by third parties;
2) whether the plan includes a sufficiently wide range of recovery options and appropriate indicators, conditions and procedures to ensure timely implementation of these options;
3) the extent to which the plan considers reasonably foreseeable impacts of the implementation of the proposed recovery option on the credit institution or group;
4) whether the recovery plan and in particular the recovery options would be likely to maintain the viability of the credit institution or group and restore its financial soundness;
5) if applicable, the extent to which the credit institution or group, or competitors with similar characteristics, have managed a previous episode of financial stress with

similar characteristics to the scenario being considered by using the recovery options described, in particular as regards timely implementation of recovery options and, in the case of a group recovery plan, the coordination of recovery options within the group.

Assessment of recovery options

Article 33

When assessing the extent to which the recovery plan satisfies the criterion set out in Article 127 paragraph (1) item 2) of the Law, the Central Bank shall review the following:

1) whether it is reasonably likely that the plan and individual recovery options can be implemented in a timely and effective manner even in situations of severe macroeconomic or financial stress;
2) whether it is reasonably likely that the plan and particular recovery options can be implemented to an extent which sufficiently achieves their objectives without any significant adverse effect on the financial system;
3) whether the range of recovery options sufficiently reduces the risk that obstacles to implementing those options or adverse systemic effects arise due to the recovery actions of other institutions or groups being taken at the same time;
4) the extent to which the recovery options may conflict with those of credit institutions or groups which have similar vulnerabilities, for example due to their similar business models, strategies or scope of activity, if the options were implemented at the same time;
5) the extent to which the implementation of recovery options by several credit institutions or groups at the same time is likely to negatively affect the impact and feasibility of those options.

Assessment of specific requirements for group recovery plans

Article 34

When assessing the extent to which a group recovery plan satisfies the criteria set out in Articles 129 paragraph (2) and Article 130 paragraph (2) of the Law, the Central Bank shall review the following:

1) the extent to which the recovery plan can stabilise the group as a whole and any credit institution of the group, in particular taking into account:
   - the availability of recovery options at the group level to restore where necessary the financial position of a subsidiary, without disturbing the group's financial soundness;
   - whether, following the implementation of a particular recovery option, the group as a whole, and any credit institution within the group which would be intended to continue to carry on business under that recovery option, would still have a viable business model;
   - the extent to which arrangements included in the plan ensure the coordination and consistency of measures to be taken at the level of the parent undertaking or of a credit institution subject to consolidated supervision pursuant to the

Law, or at the level of individual credit institutions, respectively, and the extent to which governance processes included in the plan take into account the governance structure of individual subsidiaries and any relevant legal restrictions shall be reviewed in particular;

2) the extent to which the recovery plan provides solutions to overcome any obstacles to the implementation of recovery measures within the group which are identified in relation to a scenario provided for in Article 125 paragraph (6) of the Law; if the obstacles cannot be overcome, the extent to which alternative recovery measures could achieve the same objectives;
3) the extent to which the plan provides solutions to overcome any substantial practical or legal impediments to a prompt transfer of own funds or the repayment of liabilities or assets within the group which are identified; if the impediments cannot be overcome, the extent to which alternative recovery options could achieve the same objectives.

Nature of the entity or entities being assessed

Article 35

When assessing the overall credibility of a recovery plan in accordance with Articles 31, 32 and 33 of this Decision, the Central Bank shall take into account the nature of the business of the credit institution or group member covered by the plan, their size and their interconnectedness to other credit institutions and groups and to the financial system in general.

VII. FINAL PROVISION

Article 36

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

ANNEX 1

RECOVERY PLAN INDICATORS

Table 1: CATEGORIES OF RECOVERY PLAN INDICATORS

* the first four categories are mandatory, while the last two categories may be excluded if a credit institution justifies that they are not relevant for it
Mandatory categories of indicators
1. Capital indicators - which identify any significant present and likely future deterioration in the level and quality of the credit institution's capital, including deterioration in the Common Equity Tier 1 and total capital ratio, as well as and financial leverage ratio.
2. Liquidity indicators – which ensure that a credit institution has an adequate access to sources of contingency financing, including possible sources of liquidity, assessment of available collateral, and assessment of liquidity transfer options between group members and business operations, aimed at ensuring business continuity and the fulfilment of obligations at maturity.
3. Profitability indicators – covering all aspects of a credit institution's income that could lead to a sharp deterioration in its financial position due to a reduction in retained earnings (or losses) affecting the own funds of the institution.
4. Asset quality indicators – which monitor and measures credit institution’s asset quality.
Categories subject to rebuttable presumption
5. Market-based indicators – which determine the expectations of market participants that there will be a deterioration in the financial condition of the credit institution, which may lead to disruptions in the financing of capital markets.
6. Macroeconomic indicators – which identify the deterioration of the conditions in which the credit institution operates, i.e. the concentration of exposures or sources of financing.

Table 2: RECOVERY PLAN INDICATORS[1]

Indicator name	Level of early warning	Level of initiating recovery plan options ∗
1. Capital indicators		
a) Common equity Tier 1 ratio ∗∗		
b) Total capital adequacy ratio		
c) financial leverage ratio		
2) Liquidity indicators		
a) minimum liquidity ratio (MLR) up to 30 days in EUR		
b) minimum liquidity ratio (MLR) up to 30 days in all other convertible currencies, total		
c) minimum liquidity ratio (MLR) up to 7 days in EUR		
d) minimum liquidity ratio (MLR) up to 7 days in all other convertible currencies		
e) liquidity coverage ratio (LCR) in all currencies total		
f) net stable funding ratio (NSFR)		
g) ordering specific liquidity requirements ∗∗∗		
h) cost of funding at interbank market		
3. Profitability indicators		
a) return on assets (ROA)		
b) return on capital (ROE)		
c) from the aspect of operational risk, the possibility of recording significant losses		
4. Risk indicators		
a) annual growth rate of the share of bad loans		
b) coverage of bad loans by value adjustments		
c) provisions for potential credit losses		
5. Market indicators		
a) of credit rating (negative credit rating or the reduction of credit rating)		
b) CDS spread		
c) stock price variation		
6. Macroeconomic indicators		
a) GDP variations		
b) CDS of sovereigns		

∗ If the credit institution has determined several levels for different options, please enter the level at which the first option is triggered.
∗∗ If the credit institution has explained why it does not apply this indicator, please enter “N/A - not applicable” in the column “Level of initiating recovery plan options”.
∗∗∗ Please enter only credit institutions to which specific liquidity requirements have been imposed pursuant to Article 280 of the Law on credit institutions (OGM 72/19).
∗∗∗∗ A credit institution adds rows for additional recovery plan indicators that it has identified, which are not listed in the table.

[1] For each indicator, a credit institution may clarify that it is not adequate, in which case it is necessary to replace it with another indicator that is more adequate for the credit institution.

Table 3: EXAMPLE OF ADDITIONAL RECOVERY PLAN INDICATORS

Additional recovery plan indicators
1. Capital indicators
a) Retained earnings and Reserves / Total Equity
b) Adverse information on the financial position of significant counterparties
2. Liquidity indicators
a) Concentration of liquidity and funding sources
b) Cost of total funding (retail and wholesale funding)
c) Average tenure of wholesale funding
d) Contractual maturity mismatch
e) Available unencumbered assets
3. Profitability indicators
a) Cost-income ratio (Operating costs / Operating income)
b) Net interest margin
4. Asset quality indicators
a) bad loans minus value adjustments / equity
b) Total loans/ gross bad loans
c) Growth rate of impairments on financial assets
d) Bad loans by significant geographic or sector concentration
e) Total exposures / forborne exposures
5. Market-based indicators
a) Price to book ratio
b) Reputational threat to the institution or significant reputational damage
6. Macroeconomic indicators
a) Rating under negative review or rating downgrade of sovereigns
b) Unemployment rate

ANNEX 2

TEMPLATE 1: RECOVERY OPTIONS

Option name	Areas of measures						Is it applied in early intervention phase
	Capital	Liquidity	Financial leverage	Risk management	Restructuring of liabilities	Other	

TEMPLATE 2: SCENARIOS

Scenario name	Type of scenario			Fast-/slow-developing events	Stresses and their parameters	Application of reverse stress testing	Level of indicators after stress testing	Measures that are applicable in the scenario	Level of indicators after the implementation of measures
	Specific	Systemic	Combined						