

Pursuant to Article 44 paragraph 2 item 3 of the Central Bank of Montenegro Law (OGM 40/10, 46/10, 06/13, 70/17) and in conjunction with Article 57 paragraph 2 of the Banking Law (OGM 17/08, 44/10, 73/17), the Council of the Central Bank of Montenegro, at its meeting held on 23 July 2019, passed the following

DECISION

amending the Decision on Minimum Standards for Credit Risk Management in Banks

Article 1

In the Decision on Minimum Standards for Credit Risk Management in Banks (OGM 22/12, 55/12, 57/13, 44/17, 82/17, 86/18) in Article 26 item 3 shall be deleted.

Current item 4 shall become item 3.

Article 2

Articles 28 and 29 shall be deleted.

Article 3

In Article 33 paragraph 2 item 2 indent 5 comma and the following “and” at the end of the sentence shall be replaced by full stop and item 3 shall be deleted.

Article 4

Article 35 paragraph 2 item 7 shall be deleted.

After paragraph 2 a new paragraph shall be added worded as follows:

“A loan that is over 90 days past due may not be classified in higher classification category and/or sub-category other than sub-category “C1”, and a loan that is over 150 days past due may not be classified in higher classification category and/or sub-category other than sub-category “C2”.”

Article 5

Article 38 shall be deleted.

Article 6

In Article 42, paragraph 2 shall be amended, worded as follows:

“By way of derogation from paragraph 1 of this Article, if more than 90% of total carrying value of all loans (including outstanding interest) referred to in paragraph 1 of this Article has been classified into the classification categories “A” or “B” (hereinafter: “group of performing loans”), a bank may keep such loans within the same classification categories.”

Article 7

In Article 43 the title of the Article shall be amended to read: “**Restructured loans**”.

Paragraphs 4 through 8 shall be deleted.

Article 8

Article 43a shall be amended, worded as follows:

“Classification of restructured loans

Article 43a

A restructured loan that belongs to the category of non-performing assets may be classified by a bank into the group of performing loans the expiry of a period of at least 12 months and provided that the conditions referred to in paragraph 3 of this Article have been met.

A 12-month period referred to in paragraph 1 above shall start from:

- 1) The moment of loan restructuring, if the restructuring arrangement has not specified grace period for loan repayment; or
- 2) The expiry of grace period specified under the debt restructuring arrangement, whereby grace period shall be the period during which no principal and interests are made or only interest payment is made.

After the expiry of grace period referred to in paragraph 1 of this Article, the restructured loan may be classified into the group of performing loans only where the bank has determined that:

- 1) a restructured loan meets the requirements for its classification into the group of performing loans by applying the criteria referred to in Article 26 of this Decision;
- 2) a regular repayment of restructured loan was established in the period of at least 12 months and in accordance with amended repayment plan;
- 3) a debtor repaid a significant amount of debt within the meaning of Article 43b paragraph 3 of this Decision or the analysis of debtor’s financial situation determined its ability to repay the debt in full in accordance with the restructuring arrangement.

A regular repayment of restructured loan, within the meaning of paragraph 3 item 2 of this Article, shall be the loan repayment that is not more than 30 days past due.”

Article 9

After Article 43a a new Article shall be added, worded as follows:

“Status of restructured loans

Article 43b

A bank may stop treating the loan as a restructured loan if the following conditions have been met at the end of probation period:

- 1) restructured loan is classified in the group of performing loans;
- 2) a debtor has repaid a significant portion of debt through regular principal or interest payments during at least half of the probation period; and
- 3) there are no arrears in repayment longer than 30 days under any of the obligations to the bank.

A probation period referred to in paragraph 1 of this Article shall be a period of two years that begins from the moment when a restructured loan is classified into the group of performing loans.

The significant amount of debt, within the meaning of paragraph 1 item 2 of this Article, shall be deemed to be repaid if the debtor has paid, in accordance with regular payments under the

restructuring arrangement, total amount that is equal to the amount of previous outstanding debt (if any) or the amount that was written-off (where no outstanding liabilities existed) under the restructuring arrangement.

If the requirement referred to in paragraph 1 item 1 of this Article has been met at the end of the probation period referred to in paragraph 2 of this Article, and any of the requirements referred to in paragraph 1 items 2 and 3 of this Article have not been met, the probation period shall be extended until the fulfilment of those requirements, and the loan shall be treated as a restructured loan that do not belong to the group of non-performing loans until the expiry of such a period.

A bank shall check the fulfilment of the requirements referred to in paragraph 1 items 2 and 3 of this Article at least on quarterly basis.

A bank may continue to classify a receivable that was classified into the group of performing loans in the moment of restructuring into the same category if the restructuring has not led to the fulfilment of the requirements for classifying such a receivable into the group of non-performing assets.

In addition to the restructured loans classified into the group of non-performing loans in the moment of restructuring, the bank shall classify the following into the same category:

- 1) loans that met the requirements to be classified into the group of non-performing loans before the restructuring;
- 2) restructured loans from the group of non-performing loans that were classified into the group of performing loans in accordance with Article 43a paragraph 1 of this Decision and for which the bank made additional concessions for the debtor during the probation period referred to in paragraph 2 of this Article, and/or if the debtor repays obligations under such a receivable in arrears longer than 30 days;
- 3) loans classified in accordance with paragraph 6 of this Article for which the bank made additional concessions for the debtor after the second restructuring.”

Article 10

In Article 48, paragraph 2 shall be amended, worded as follows:

“The base for calculating loan loss provisions referred to paragraph 1 of this Article for individual asset item and/or off-balance sheet items shall be the carrying amount of such an item deducted by the amount secured by:

- 1) cash deposit placed with the bank if it has been agreed that it will be used as collateral for certain receivables of the bank, and its maturity is not shorter than the maturity of receivable and it is solely at the disposal of the bank;
- 2) pledge of gold;
- 3) debt securities, guarantees, counter-guarantees, other forms of surety or other similar instruments of unfunded credit protection, whose issuers are:
 - central governments and central banks that are assigned 0% risk weight in accordance with the decision governing the capital adequacy of banks;
 - multilateral development banks and international organisations that are assigned 0% risk weight in accordance with the decision governing the capital adequacy of banks;
 - banks that would qualify for at least credit quality step 2 in accordance with the decision governing the capital adequacy of banks.”

After paragraph 2 a new paragraph shall be added, worded as follows:

“Provisions in the amount of 0.5% shall be allocated to the gross carrying value of asset items and/or off-balance sheet items deducted in accordance with paragraph 2 of this Article.”

Article 11

This Decision shall enter into force on the eighth day following that of its publication in the Official Gazette of Montenegro, and it shall apply from 1 January 2020.

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

Decision number: 0101-6713-2/2019
Podgorica, 23 July 2019

**CHAIRMAN
G O V E R N O R,**

Radoje Žugić, m.p.