Pursuant to Article 44 paragraph 2 point 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), the Council of the Central Bank of Montenegro, at its meeting held on 30 November 2017, 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) – (hereinafter: the Decision) Articles 13 and 14 shall be deleted.

Article 2

Articles 15 and 16 shall be replaced by the following:

"Implementation of IAS/IFRS

Article 15

A bank shall value and disclose balance sheet asset items and off-balance sheet items in accordance with the International Accounting Standards and the International Financial Reporting Standards.

Methodology

Article 16

A bank shall determine the methodology for classification, measurement and impairment of financial assets in accordance with International Financial Reporting Standard 9 – "Financial Instruments".

The implementation of the methodology referred to in paragraph 1 above shall ensure the following:

1) All analysis, assumptions, assessments and other procedures in the process of assessment of the impairment amount of balance sheet asset items and probable losses related to off-balance sheet items should be detailed and documented;
2) The assessment of the impairment amount of balance sheet asset items and probable losses related to off-balance sheet items should be based on accurate and updated information and take into account all important internal and external factors that may influence the collectability of receivables.

The bank shall apply consistently methodology referred to in paragraph 1 above, review it at least once a year, and if needed, adjust it to the results of the review, and adjust the assumptions on which the methodology is based."

Article 3

Three new paragraphs shall be added in Article 25 after paragraph 1 to read:

"Balance sheet asset items and off-balance sheet items which expose the bank to credit risk shall be balance sheet asset items which expose the bank to a default risk and off-balance sheet items representing contingent liabilities of the bank, and in particularly:

1) Loans and receivables from banks (including funds with banks, interests and fees);
2) Loans and receivables from clients (including interests and fees, receivables based on lease, forfaiting and factoring);
3) Financial assets carried at fair value through profit or loss (debt and equity securities not included in trading book, or included in trading book but the bank does not calculate for these items capital required for market risks in accordance with the decision governing capital adequacy of banks);
4) Securities measured at amortised cost and securities at fair value through other comprehensive income;
5) Equity investments, excluding equity investments representing deductible item from bank's own funds in accordance with decision governing capital adequacy of banks;
6) Guarantees issued;
7) Credit obligations given (approved, unused loans);
8) Bill of exchange securities and bill of exchange acceptances;
9) Other sureties;
10) Uncovered letters of credit.

Balance sheet asset items and off-balance sheet items which do not expose the bank to a credit risk shall be the following:

1) Cash and deposit account with central banks (cash and cash equivalents, which include cash and other short-term highly liquid instruments with original maturity up to three months, and for which there is low risk of change in value);
2) Derivative financial assets used as hedging instruments;
3) Investment properties, properties, plant and equipment and intangible assets;
4) Equity investments representing deductible item from banks' own funds in accordance with the decision governing capital adequacy of banks;
5) Financial assets included in trading book, for which the bank calculates capital requirement for market risks in accordance with the decision governing capital adequacy of banks;
6) Guarantees obtained;
7) Credit obligations obtained;
8) Written-off loans;
9) Collateral obtained;

10) Custody assets.

The bank shall determine if all balance sheet asset items and off-balance items other than items referred to in paragraphs 2 and 3 above expose it to credit risk, and it shall classify those items into the corresponding classification category in accordance with the provisions herein.“

Article 4

Article 49 shall be amended to read:

“A bank shall determine the difference between the amount of provisions for estimated losses calculated in accordance with Article 48 herein and the sum of the amount of allowances for impairment and provisioning for off-balance sheet items calculated in accordance with the provisions herein governing the manner of valuation of asset items by applying International Accounting Standards and International Financial Reporting Standards.

The positive difference between the amount of calculated provisions for estimated losses and the sum of the amount of allowances for impairment and provisioning for off-balance sheet items, determined by individual sub-accounts, shall be the provisions required for estimated losses.

The bank shall submit the reports to the Central Bank on the classification of balance sheet assets and off-balance sheet items, and on the amount of loss provisions calculated in accordance with the decision governing banks’ reporting to the Central Bank.“

Article 5

Articles 49a and 49b shall be deleted.

Article 6

When determining annual financial statements, banks may transfer funds from the accounts of reserves for estimated losses under regulatory requirement, fully or partially, to the account of retained earnings or keep them at that account.

Article 7

Banks shall disclose data on receivables from interim records, which are identified in accordance with Article 49b herein as at 31 December 2017, at the off-balance sheet account until the completion of their collection.

The collection process of the receivables shall be deemed completed, within the meaning of paragraph 1 above, when:

1) the decision on the completion of bankruptcy proceedings against debtor has become legally valid;
2) the bank has renounced a certain receivable (debt forgiveness) based on the confirmed debtor’s reorganisation plan;

3) the decision has been made on the suspension of the execution proceedings since it is not possible to enforce the execution on the proposed case of execution, or
4) the bank has passed a decision on the completion of the collection process of a receivable due to economic non-viability of further collection (if the court expenses would exceed the amount of collected receivable, if the bank has, with the diligence of conscious custodian, unsuccessfully taken all actions for the collection of receivables, etc.).

Article 8

This Decision shall enter into force on the eighth day following that of its publication in the Official Gazette of Montenegro, and it shall be applied from 1 January 2018.

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

CHAIRMAN
G O V E R N O R,

Decision number 0101-9793-4/2017
Podgorica, 30 November 2017

Radoje Žugić, m.p.