

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, 40/11, 73/17), the Council of the Central Bank of Montenegro, at its meeting held on 27 December 2018, 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, 055/12, 057/13, 044/17, 87/17) three new paragraphs shall be added in Article 18 after paragraph 1, worded as follows:

“When assessing future cash flows based on collections from collateral taken in the form of real estate or movable property, a bank shall apply appropriate impairment (haircut) factors to the market value of individual types of collateral, expressed in percentages, and relevant internally assessed period for the collection of those types of collateral.

The impairment factors and collection periods under paragraph 2 above shall take into account bank’s practices and past experience in the collection of appropriate instruments of collateral, economic and legal environment in which a bank operates and relevant characteristics of instruments of collateral.

When determining the impairment factor level and the length of collection period referred to in paragraph 2 above, a bank shall take into account the fact that various types of instruments of collateral reflect different levels of risk”.

Paragraph 2 shall become paragraph 5.

Article 2

Article 30 shall be deleted.

Article 3

In Article 31 after paragraph 1 a new paragraph shall be added, worded as follows:

“When classifying asset items, a bank shall take into account the relations within the group of connected parties and identify in its internal documents situations in which loans of other entities from the same group should be classified in the same category due to the classification of one debtor from the group of connected parties into the category of non-performing loans”.

Article 4

Article 38 shall be amended, worded as follows:

“A bank may classify loan that is fully secured by prime collateral referred to in Article 29 herein into classification category “A”, if:

- 1) all conditions for recognising credit protection, which are laid down in the decision regulating capital adequacy of banks that refer to such type of collateral, have been met;
- 2) debtor settles its loan obligations without any delay or with delay that does not exceed 90 days; and
- 3) bankruptcy proceedings have not been initiated against a debtor, or a reorganisation plan of the debtor has been adopted after the initiation of bankruptcy proceedings in accordance with the regulations governing bankruptcy proceedings of business organisations.

If debtor defaults on loan repayment more than 90 days or other conditions under paragraph 1 above have no longer been met, a bank shall classify a loan that is fully secured by prime collateral referred to in Article 29 herein and calculate loan loss provisions as follows:

- 1) applying criteria set forth herein, without taking into account that the loan has been secured by prime collateral, a bank shall classify such a loan into the corresponding classification category and/or sub-category; and
- 2) a bank shall calculate loan loss provisions that correspond directly to higher classification category and/or sub-category than the category and/or sub-category in which such loan would be classified applying classification criteria under item 1) above.

A loan that belongs to the category of non-performing loans, and which is partially secured by prime collateral, shall be classified as follows:

- 1) for outstanding portion of loan that is secured by prime collateral, the classification and calculation of provisions shall be performed in accordance with paragraph 2 above;
- 2) for the remaining portion of outstanding loan, the classification and calculation of provisions shall be performed in accordance with the provisions herein governing classification of loans not secured by prime collateral.”

Article 5

In Article 42 paragraph 2 item 1 indent 1 the following “or adequate” shall be deleted.

Article 6

In Article 43 paragraph 4 shall be amended, worded as follows:

“A bank shall classify restructured loan after restructuring into the classification category and/or sub-category in which it was classified before restructuring or into lower classification category and/or sub-category and it may classify such a loan into higher classification category and/or sub-category only upon expiry of a period of minimum 12 months”.

Three new paragraphs shall be added after paragraph 4 to read:

“The restructured loan may be classified into the classification category “A” after a period of minimum 12 months provided the bank has determined, based on an assessment of a debtor’s creditworthiness, that the following conditions have been met:

- 1) information of debtor’s financial position show that the debt repayment is based on reliable cash flows;
- 2) a regular repayment of restructured loan has been established for at least 12 months and during that period the debtor has made significant debt repayments.

The period of minimum 12 months referred to in paragraph 4 of this Article shall begin on the last of the following events:

- 1) at the time of loan restructuring, provided that grace period for loan repayment has not been determined by the restructuring arrangement; or
- 2) at the end of the grace period under the restructuring arrangement, provided that such restructuring arrangement identified grace period for loan repayment in which no payments were made.

Regular repayment of the restructured loan, within the meaning of paragraph 5 item 2) above, shall be loan repayment which has not been defaulted more than 30 days”.

Article 7

Article 44 shall be deleted.

Article 8

In Article 48 paragraph 1, in table, the percentage “0%” shall be replaced by the following “0.5%”.

Article 9

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 July 2019.

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

**CHAIRMAN
GOVERNOR,**

Decision number 0101-9467-4/2018
Podgorica, 27 December 2018

Radoje Žugić, m.p.