

**TECHNICAL CHARACTERISTICS OR SPECIFICATIONS OF THE  
SUBJECT MATTER OF PUBLIC PROCUREMENT OR BILL OF  
QUANTITIES**

No.	Description of the subject matter of procurement, i.e. a part of the subject matter of procurement	Important characteristics of the subject matter of procurement in respect of quality, performance and/or dimensions	Unit of measure	Quantity
1.	Managing the asset quality review project of banks in Montenegro, which involves the organisation and coordination of the process, providing expert support to the CBCG with respect to the implementation of asset quality review in stages, work blocks, quality	<p>1. The Bidder undertakes to organise and coordinate the process of asset quality review of the entire banking system and to provide expert support to the CBCG regarding the implementation per the stage of AQR, work blocks, quality assurance and consulting services.</p> <p>Within this process, the Bidder is expected to:</p> <ul style="list-style-type: none"> <li>• Propose a comprehensive concept of organisation of the performance of the AQR per the work block whilst undertaking to provide the necessary resources for the timely completion of each stage of the work block-review per the bank.</li> <li>• define a well-substantiated optimal scope and content of the process of implementation of the AQR, and a manner of coordination with the banks' consultants.</li> <li>• regularly inform the CBCG about the progress of the AQR process, including about the</li> </ul>	Piece	1

	<p>assurance and consulting services</p>	<p>drafting of the final report on the results of the AQR for the entire banking system, per the bank.</p> <p>The Bidder shall provide:</p> <ol style="list-style-type: none"> <li>(1) periodic (on a fifteen-day basis) reports to the operational CBCG team on the progress and deadline observation,</li> <li>(2) reports following the finalisation of each work block, and</li> <li>(3) final report following the completion of the AQR with the results per the bank.</li> </ol> <p>The Bidder is expected to assist the CBCG in the preparatory stage of the AQR, including the Portfolio Selection, development of guidelines for the selection of reputable criteria for banks' AQR providers and collateral valuers, adjustments to portfolio sampling, as well as the development of the AQR manual (methodology), quality assurance methodology for activities per the work block, as well as all templates and questionnaires necessary for filling in loan tapes that have been adjusted to Montenegro's banking market. Methodological base for the development of the manual and the supporting documentation is contained in the ECB's Asset Quality Review Phase 2 Manual. The prepared manual, methodology and templates shall remain solely in the CBCG's ownership and may not be disposed of or used without the consent from the CBCG;</p> <p>2. The asset quality review will be</p>		
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		<p>carried out in all 13 banks which are present in the Montenegrin market, using banks' financial data available as at 31 December 2019. The asset quality review will be carried out in line with the methodology based on the ECB's "Asset Quality Review Phase 2 Manual" from June 2018, adjusted to local institutional and legal framework and the specificities of the market. The basic objective of hiring Bidders with experience in implementing asset quality review is the provision of unbiased and independent assessment of the quality of the assets of the Montenegrin banking system.</p> <p>2.1. The Bidder shall propose a comprehensive concept on how the asset review of the domestic market will be organized and implemented, including the organization of processes, time limits and deadlines, and resource availability.</p> <p>The Bidder shall provide a detailed schedule of task performance timing, taking into consideration the deadline for the publication of results, as well as for determining the optimal sample of exposures given the time limits for conducting the review and the maximum work load in man/hours set by the Bidder.</p> <p>2.2. Determining the review scope – Portfolio Selection – Stage 1 of the AQR:</p> <ul style="list-style-type: none"> <li>• The Bidder shall propose and, jointly with the CBCG, fine-tune the review scope (Portfolio Selection – Stage 1 of the AQR)</li> </ul>		
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		<p>taking into consideration the following:</p> <ul style="list-style-type: none"> <li>○ Banks – applying a uniform or a differentiated approach to different banks;</li> <li>○ Portfolios – determining of significant business lines or functions – bearers of the highest risk in each bank;</li> <li>○ Exposures – determining the methodology for selection of individual exposures which are subject to review;</li> </ul> <ul style="list-style-type: none"> <li>● The Bidder shall propose a procedure for the selection of specific exposures and portfolios subject to mandatory review. The selection should be performed based on a proposed set of parameters (e.g. delay, renegotiations, concentrations, restructuring measures, cessions, non-performing loans, etc.);</li> <li>● The Bidder shall identify the need for the verification of conformity with the requirements prescribed under the <b>Decision on Capital Adequacy of Banks</b> (OGM 38/11, 55/12, 82/17) used by banks when calculating own funds and capital requirements for specific risk types;</li> <li>● The Bidder shall ensure conformity</li> </ul>		
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		<p>and representativeness of the sample selected from the selected portfolios, as well as of the specific exposures and portfolios subject to mandatory review, in line with the risk and business profiles of each specific bank;</p> <ul style="list-style-type: none"> <li>• Portfolio Selection as well as the subsequent sampling in Work-block 3 must reflect the principles from the ECB’s manual.</li> </ul> <p>2.3. The methodology shall be based on the “Asset Quality Review Phase 2 Manual” of June 2018, the ECB-developed manual for conducting a detailed quantitative evaluation of the assets of the EU banking system. For the purposes of the CBCG’s AQR, the Bidder shall adjust the methodology of asset quality review as well as the loan tapes and other relevant documents, questionnaires, and supplemental manuals to the Montenegrin banking market, all with a view to achieving a high quality AQR implementation.</p> <p>2.4. The Bidder shall include in the methodology all work blocks envisaged in the ECB’s Phase 2 Manual. At the same time, the methodology must reflect the specific features of the domestic market, local legislation, and, in line with those, it shall maintain the appropriate level of conservativeness and the ECB’s Manual principles;</p> <p>2.5. The Bidder shall assist the CBCG</p>		
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		<p>in defining the minimum criteria through the development of Guidelines that the independent persons (banks' independent consultants for the AQR implementation and the independent valuers for the implementation of Work Block 5) must fulfil so that the banks may hire them for the implementation of the AQR;</p> <p>2.6. The Bidder shall define specific tasks and obligations of independent persons regarding the performance of the asset quality review in each bank and in individual sub-stages and timeframes for their completion, as well as identify the need for using the independent persons for checking the adequacy and trustworthiness of the assessments used by banks that relate to asset value, security and accrued accounting impairment;</p> <p>2.7. The Bidder shall propose and establish a quality assurance system for the processes of the AQR work block review in coordination with the CBCG's Quality Assurance Team, including setting up procedures for meeting the set time limits in case of contingency;</p> <p>2.8. The Bidder undertakes to, jointly with the CBCG, organise and participate in the process of verification of the quality and authenticity of the data received from banks that were used in the process of asset quality verification;</p>		
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		<p>2.9. The Bidder shall assist the CBCG in creating the methodology and guidelines for quality assurance per the work block.</p> <p>2.10. The Bidder shall assist the CBCG in collecting and answering the frequently asked questions (FAQ) during the AQR. The Bidder shall, jointly with the CBCG's CPMT, banks' AQR consultants and valuers, resolve all methodological ambiguities and interpretations of the adjusted Manual and other relevant documents and open issues by organising workshops and other forms of communication.</p> <p>2.11. The Bidder shall submit: (1) periodic reports (on a fifteen-day basis) to the operational CBCG team on the progress and deadline observation, (2) reports following the finalisation of each work block, and (3) final report following the completion of the AQR with the results per the bank.</p> <p>The Bidder shall periodically (on a fifteen-day basis) inform the CBCG of the progress per individual stages of quality assessment of assets and instruments. The Bidder shall, on a fifteen-day basis, deliver to the CBCG's central operational team, the CBCG's central management team (CMT), information about the progress of activities in the review process, observance of the set time limits, as well as upon the completion of <u>each work block stage</u>, and especially upon</p>		
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		<p>the completion of work blocks. All periodic reports (on a fifteen-day basis), as well as the reports per work blocks that the Contracting Authority shall deliver to the Bidder and that the Bidder shall deliver to the Contracting Authority may be in Montenegrin or in English language.</p> <p>All periodic reports (on a fifteen-day basis) and, ultimately, the final report must be submitted to the CBCG as draft versions to be commented on prior to the compilation of the final report.</p> <p>Reports following the completion of each work block that are submitted by bidders should include the following components:</p> <ul style="list-style-type: none"> <li>• Introduction and context;</li> <li>• Scope of work and purpose of the report;</li> <li>• Main limitations of the analysis;</li> <li>• Methodology and assumptions used;</li> <li>• Assessment and verification of the asset quality assurance team</li> </ul> <p>2.12. The Bidder shall organise and coordinate the implementation of this Project, and provide expert methodological support to the CBCG and the independent external persons in connection with the review, the summing up of results and calculating adjusted capital ratios for banks.</p> <p>2.13. The Bidder, jointly with the CBCG, shall draw up a final report</p>		
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		<p>upon the completion of the AQR, and shall develop a strategy for publication of the results. The Bidder shall deliver all final results and the entire AQR report to the CBCG in Montenegrin as well as in English language.</p> <p>2.14. Contracting Authority shall provide the selected bidder with workspace and supporting equipment as well as with translators.</p>		
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**Quality guarantees:**

As part of the bid, the Bidder shall submit a statement, thereby confirming that the following minimum professional requirements in terms of team qualifications are fulfilled:

- At least two project managers (General Project Sponsor and Operational Project Sponsor) of the team or teams sufficient for the implementation of each stage of the Project;
- The General Project Sponsor possesses academic and professional resources rated as “partner/director/principal” – who comes from the EMU Member State and who has the experience of participating in at least 2 AQRs as a team leader in the past 6 years considered from the date of filing of the bid.
- Operational Project Sponsor with the academic and professional resources rated as “principal/partner/director/senior manager”, and has the experience of participating in 2 AQRs in the past 6 years considered from the date of filing of the bid.
- Experts (50% of the team comprised of experts) must have the experience of participating in at least 2 projects related to asset quality review in the past 6 years considered from the date of filing of the bid;

As part of the bid, the Bidder shall also submit the following statement:

- Any change in the team during the AQR can take place only after the Contracting Authority (CBCG) approves new persons in accordance with the requirements specified in these Tender documents.

- All team members shall sign a statement of confidentiality.
- During the Contract, the Bidder may not participate in AQR contracts with the banks subject to this review.
- The Bidder shall provide technical staff.

Other conditions:

**- Documents to be included in the bid:**

- The Bidder shall present the conceptual framework for the execution of tasks mentioned in items 1 and 2 of Important characteristics of the subject matter of procurement in respect of quality, performance and/or dimensions within the Technical characteristics or specifications of the subject matter of public procurement, or bill of quantities (hereinafter: Technical characteristics), as well as a preliminary schedule of individual phases of work and activities included therein.
- Each stage of the project referred to in items 1 and 2 of the Technical characteristics is accompanied by an estimate of the work schedule - the number of working days/hours per provider of services required to perform the appropriate workload in stages as well as an estimate of related costs.
- Each Bidder is required to present their activities and capabilities. The presentation shall include, as a minimum, a description of the structure of the company, the types of activities performed, and list of similar projects undertaken by the company over the last three years, considered from the date of filing of the bid.
- The Bidder shall provide detailed information on the extent to which it knows the market in Montenegro, both previous and current situation in this market. The presentation must contain information on the knowledge of the Montenegrin regulatory framework in the area of banking supervision as well as the banking system of Montenegro.
- If the company is operating in Montenegro, a description of its past and present activities in the Montenegrin market shall be provided.
- Each bidder is required to present their team, with whom they intend to perform the asset quality review. It is necessary to indicate the number of staff to be permanently engaged in the implementation of the Contract, how many of them with high qualifications, and what type of experience the team members have in working on similar projects. Information on the qualifications and expertise of each team member (CV), including evidence of compliance with the criteria from performance guarantees, as well as the specific tasks to be carried out in accordance with the requirements of items 1 and 2 of

Technical characteristics, must be provided.

- If an additional number of experts is required for the implementation of the project, the Bidder must also provide information about these experts.
- A statement on the methodology containing information on how the Bidder will ensure the implementation of the planned project, as well as a description of the procedure and capacities that will be available for the implementation of quality assurance.
- If there is a partial conflict of interest in accordance with the conditions described in these Tender documents, it should be explained as well as remedial actions to neutralize such conflict of interest.
- Clarify the methods and instruments that will be used to ensure the confidentiality of information.
- Bidder's statement that the prepared manual, methodology and templates shall remain solely in the CBCG's ownership and may not be disposed of or used without the consent from the CBCG.

**- Schedule with precisely determined deadlines in the form of a statement:**

Statement of the Bidder that the work on organising the asset quality review, the current Project management and data analysis shall be organised so that the final results of the asset quality review are made available no later than 30 November 2020 and the final report is available to the CBCG by 31 December 2020.

**- Conflict of interest in line with the standards prescribed by the ECB:**

In order to ensure the highest transparency standards of the AQR implementation process, the CBCG **shall not consider** the bids from potential bidder that are in **absolute conflict of interest** with the CBCG. Bidders in absolute conflict of interest shall be:

- a. Bidders who provided external auditing services to the CBCG for 2018 and 2019.
- b. Bidders in absolute conflict of interest with the CBCG based on their internal documents and rules regarding conflict of interest.
- c. Bidder, its subsidiaries or affiliates involved in any cause of incompatibility or exemption in accordance with professional deontological codes.

The Contracting Authority will consider the bids from a Bidder in partial conflict of interest with the CBCG. Partial conflict of interest with the CBCG shall constitute:

- a. The Bidder, its subsidiaries or affiliates, which have had, or had a business relationship

with the CBCG during the previous two financial years (2018 and 2019), that did not refer to the provision of external audit services of the CBCG or parts thereof.

- b. The Bidder, its subsidiaries or affiliates involved in any cause of partial incompatibility or exemption in accordance with professional deontological codes.
- c. The Bidder who considers that a cause of partial conflict of interest applies, in line with its internal codes and ethics.
- d. An individual member of the team proposed for this engagement is held in any of the causes of conflict interest, either absolute or partial, acting as an individual or as a part of the team under the on-going professional relationship with the bidder or past professional relationships with other service providers to the CBCG during 2018 and 2019.

In order to avoid conflicts of interest, bidders are required to submit, at least, the following information:

- A list of the engagements with which the bidder has conflicts of interest, either absolute or partial, according to any of the causes described above. This list should contain enough detail about the nature, scope, parties involved and timeframe of the mandate.
- A description of how the bidder intends to neutralise existing partial conflicts of interest, considering alternatives such as those included in the following illustrative and non-exhaustive list:
  - Ensure that there are strict obstacles to the flow of information (“Chinese walls”) around the execution team;
  - Give the CBCG the option to refuse individual members of the team based on their past professional relationships with the bank;
  - Ensure the highest confidentiality standards.
- A description of how bidder plans to avoid potential conflicts of interests arising during the timeframe of this mandate (AQR), at least until the results of the AQR are put into the public domain. The following illustrative and non-exhaustive list includes some of the options that could be considered:
  - Routine conflict of interest checks;
  - Establish internal control process to ensure that upcoming engagements are not conflicted with this one;
  - Inform the CBCG promptly if any new conflict of interest emerges and agree with the CBCG about the following course of action;
  - Restrict the nature and scope of upcoming engagements during the timeframe of this mandate;

- Ensure that any potential subcontractor of the selected Bidder will respect the same conditions described under the Conflict of interest.
- If a bidder should face a (potential) conflict of interest and if the bidder is not able to prove that it will guarantee that this will not in any way have any adverse effect on the delivery of the services, this may lead to either the limitation of the scope of the mandate or the exclusion of the bidder.
- If the CBCG considers that the selected bidder has materially violated the agreed provisions, fails to meet the agreed deadlines or fails to comply with the required level of quality, the CBCG reserves the right to terminate the contract with the selected candidate and appoint different consultant to implement and/or complete the AQR.
- In such a case, the originally selected bidder will be required to cooperate with the CBCG as well as with the newly appointed consultant and, while respecting confidentiality obligations, exchange all necessary information to enable the newly appointed consultant to continue the AQR.