DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 22 July 2020[1]

MONTENEGRO

DEPOSIT PROTECTION FUND MONTENEGRO SENIOR LINE II

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

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1 As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

As permitted by paragraph 2.6 of Section III of the Access to Information Policy, disclosure of this Board Report was deferred.

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ABBREVIATIONS / CURRENCY CONVERSIONS

AML/CFT	Anti-money Laundering/ Countering the Financing of Terrorism
AQR	Asset Quality Review
BRRD	Bank Recovery and Resolution Directive
CAR	Capital adequacy ratio
CBM	Central Bank of Montenegro
CR	Coverage Ratio
DIA	Deposit Insurance Agency
DPFM	Deposit Protection Fund Montenegro
EU	European Union
E&S	Environmental and Social
ELA	Emergency liquidity assistance
EPG	Economics, Policy and Governance
EUR OR EURO	European Union Euro
FSAP	Financial Sector Assessment Program
FX / FCY	Foreign Currency
GDP	Gross Domestic Product
GOM	Government of Montenegro
IAS OR IFRS	International Accounting Standards
IBM	Invest Bank Montenegro
IDF	Investment Development Fund (Montenegrin National Development Bank)
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession
LGD	Loss Given Default
LAW	Deposit Protection Law of Montenegro (no. 072/19 as of 26/12/2019)
MB	Managing Board
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NPLS	Non-Performing Loans
OCCO	Office of the Chief Compliance Officer
OGC	Office of the General Counsel
PBG	Policy Based Guarantee (by the World Bank)
PD	Probability of Default
PR2 / PR4 / PR9	Performance Requirements 2/4/9
PSD	Project Summary Document
RF	Resolution Funds
SBCL	Standby Credit Line
SME	Small and Medium Sized Enterprise
TC	Technical Cooperation
TI	Transition Impact
YE	Year End
Y/Y; Y/Y; YOY	Year-on-Year
WB	World Bank
WEO	World Economic Outlook (by the International Monetary Fund)

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Deposit Protection Fund of Montenegro (the "DPFM" or "Fund"), an independent public institution incorporated in Montenegro, are submitted for consideration by the Board of Directors.

The facility will consist of a stand-by credit line to the DPFM in the amount of up to EUR 50 million. The stand-by credit line will be guaranteed by the Republic of Montenegro.

The operation will enable DPFM to have adequate emergency funding arrangement in place to restore an efficient and credible protection for individual depositors and improve financial safety net in Montenegro. DPFM would be able to drawdown funds from this credit line under certain pre-agreed conditions with the purpose of making funds available to compensate insured depositors in accordance with the legal requirements.

The expected transition impact of the project is its contribution to the Resilient and Well-governed transition qualities. The project will contribute to the **Resilient** quality by improving Fund's deposit coverage ratio which will strengthen DPFM's ability to withstand any potential bank failures and continue maintaining high confidence in the Montenegrin banking sector. The project will also support the **Well-governed** quality through technical assistance programme of EUR 94,544 focused on asset and investment management practices that will allow DPFM to align its existing arrangements with international standards.

TC support for this operation includes implementation of new investment strategy, selection of experienced asset management company and training of staff at DPFM. The TC support has been provided by EBRD Shareholders Special Fund (the "SSF").

I am satisfied that the operation is consistent with the Financial Sector Strategy, the Strategy for Montenegro and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed stand-by credit line substantially on the terms of the attached Report.

Suma Chakrabarti

BOARD DECISION SHEET

MONTENEGRO - Deposit Protection Fund Montenegro Senior Line II - DTM 51810	
Transaction / Board Decision	Board approval[2] is sought for a senior loan of up to EUR 50 million in the form of a Standby Credit Line ("SBCL") in favour of Deposit Protection Fund of Montenegro ("DPFM" or "Fund"), an independent public institution, fully guaranteed by the state of Montenegro ("Project"). The new facility will replace the existing SBCL of EUR 30 million so that the DPFM continues to have a back-up liquidity line.
Client	DPFM is an independent public institution established in 2004 based on the Deposit Insurance Law. DPFM is governed by the Director of the Fund and a non-executive Management Board ("Managing Board") consisting of five members for a term of four years.
Main Elements of the Proposal	Transition impact: **Resilient** (Primary): The Project is a response to crisis and will [REDACTED] improve the overall confidence in the banking sector. [REDACTED] **Well-governed** (Secondary): Contemplated capacity building programme in the area of DPFM's investment management practices will further improve the governance of the Fund. Additionality stems from **Financing Structure** and **Risk Mitigation**. The Project will provide an emergency back-up financing facility, effectively bridging the financing gap of DPFM's temporary depleted funds in a country that does not have regular access to international capital markets. The proposed SBCL is currently the only access to emergency funding for DPFM. The Bank's involvement through the Project will enhance the Fund's investment management practices up to international standards. Sound banking: **Banking sector risk is acceptable** owing to strong capital (CAR of 17.7%) and liquidity position (21% of liquid assets) and access to CBM liquidity support of up to EUR 250 million. **Sovereign risk remains elevated but acceptable** for the size of the facility while **DPFM's asset position is expected to gradually** improve by 2023 [REDACTED].
Key Risks	Banking sector risk: The COVID-19 crisis may create pockets of vulnerability in the banking sector [REDACTED]. *Mitigant:* The proposed SBCL will restore DPFM's compliance with the target level and increase its coverage ratio to 11.4% by end-2020 [ERDACTED], allowing DPFM to cover 9 banks individually (vs. 7 w/o SBCL) or 5 cumulatively. Guarantor/Country Risk: Montenegro has tight fiscal space [REDACTED] while the COVID-19 lockdown puts additional pressure on public finance. *Mitigant:* Montenegro has good access to finance either from the IMF or World Bank, has fully lifted its lockdown measures (1st June 2020) and is expecting V-shape recovery [REDACTED]. Borrower credit risk: DPFM's depleted resources following the bankruptcies of non-systematic banks (Atlas Bank and IBM). *Mitigant:* The facility will be guaranteed by the Republic of Montenegro and DPFM has strong and experienced management team which has been tested in crisis. [REDACTED]
Strategic Fit Summary	The Project is consistent with the Bank's Strategy for Montenegro through "…additional funding support to the Deposit Insurance Agency in Montenegro" and Bank's efforts to "continue to … promote stability of the financial sector". It is also in line with Financial Sector Strategy which outlines the need for "supporting established non-bank financial institutions that play a central role in the financial sector infrastructure (e.g. supporting local deposit insurance schemes)" in order to prevent potential future shocks and crises.

[2] Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Senior debt of up to EUR 50 million in the form of a Stand-by Credit Line in favour of the Deposit Protection Fund Montenegro, fully covered by a sovereign guarantee. The new facility will replace the existing SBCL of EUR 30 million so that the DPFM continues to have a back-up liquidity line.
Existing Exposure	**Total exposure to DPFM**: EUR 30 million (OpID 40846) in form of SBCL, signed in 2010. The facility was never utilised (i.e. no drawdowns) and its availability period ceases on 8 August 2020, following the expiration of original 7-year availability period and three consecutive one-year extensions. [REDACTED]**Exposure to Montenegro as of 30 April 2020:** **Total:** EUR 352 million portfolio / EUR 254 million operating assets **Sovereign portfolio**: EUR 173 million (49.1%) **Sovereign operating assets**: EUR 90 million (35.4%) *(Please see **Annex 4** for more information on Sovereign Debt Analysis)*
Maturity / Exit / Repayment	**Availability period**: 5 years from signing. **Drawdown**: If drawn, the loan will be repaid in 7 years [REDACTED] **Maturity**: Should a drawdown occur during the availability period, the maximum tenor of the loan is 12 years [REDACTED]
Use of Proceeds	[REDACTED]The Project will promote financial stability in Montenegro and maintain confidence in the banking system in light of potential sector vulnerabilities stemming from the COVID-19 crisis. The stand-by credit line is structured as a back-up facility to: (i) be available under certain pre-agreed conditions [REDACTED] (ii) provide extra liquidity to DPFM in addition to the DPFM fund's balance and its premium income from member banks. [REDACTED] [REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	[REDACTED]
Conditions to subscription / disbursement	**Conditions Precedent to Effectiveness of the line**: ratification and effectiveness of the Loan and Guarantee Agreement. **Disbursement of the line will be conditional**: upon the occurrence of an insured event, as defined in the Deposit Protection Law.
Key Covenants	Key covenants in the loan agreement imposing certain limits on DPFM's ability to: (i) Guarantee financial obligations of Member Banks other than as required pursuant to Deposit Protection Law; [REDACTED]
Security / Guarantees	Sovereign Guarantee by the Republic of Montenegro.
Other material agreements	N/A
Associated Donor Funded TC and co-investment grants/concessional finance	**Technical Cooperation (TC)** assignment supporting Deposit Protection Fund's asset and investment management capabilities: **Objective**: Institutional Capacity Building Programme comprising implementation of new investment strategy, selection of experienced asset

	management company and training of staff, thereby contributing to Resilient and Well-governed TI quality by improving the governance of the Fund. [REDACTED] **Client Contributions**: In-kind contribution *For more details on the associated TC, please refer to* ***Annex 7 - Summary of the Institutional Capacity Building Programme.***

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

In 2019, Montenegro adopted a comprehensive financial sector legislation package under its 2019 – 2021 economic reform programme, harmonising local banking laws with European Union ("EU") directives which expanded the mandate of Deposit Protection Fund in Montenegro. Well-functioning deposit insurance scheme and properly funded resolution framework is critical for preserving financial stability as well as an important step towards EU accession.

The DPFM, together with the Central Bank of Montenegro ("CBM") and the Ministry of Finance ("MoF") are key pillars of a stable and credible financial system. Over the last years, the Montenegrin banking system's health has gradually improved, however remaining pockets of vulnerability amongst smaller banks led to two bank failures in 2019. [REDACTED] The Project enables DPFM to restore a credible balance available to withstand potential challenges to the banking sector stability in the context of the COVID-19 crisis. Montenegro has limited access to international capital markets and the CBM is prevented by law from providing emergency liquidity support to DPFM in case of a bank failure. The proposed EBRD SBCL is currently the only access to emergency funding the DPFM can have in place.

The associated technical cooperation ("TC") complements wider IFI efforts (IFC, World Bank) and supports DPFM to implement the new Deposit Protection Law. The institutional capacity building programme aims to align DPFM's investment management framework in line with international best practise through the implementation of a new investment strategy, the selection of an experienced Asset Management Company ("AMC") and training of staff.

The Project and associated TC implements operational responses to key objectives outlined in the Strategy for Montenegro which states that "the Bank may consider additional funding support to the Deposit Insurance Agency in Montenegro, in which case the Bank may help develop the Agency further and provide TC and policy dialogue to the Agency." The Strategy also outlines that "the EBRD will continue to complement efforts of the World Bank and IFC with joint policy dialogue initiatives that promote stability of the financial sector." Furthermore, the project supports the **Financial Sector Strategy** which outlines the need for "supporting established non-bank financial institutions that play a central role in the financial sector infrastructure (e.g. supporting local deposit insurance schemes)" in order to prevent potential future shocks and crises.

The Bank has developed a niche role in supporting the regional financial system by successfully completing deposit insurance projects in Bosnia and Herzegovina (2009), Montenegro (2010), Albania (2014), Serbia (2014), Bulgaria (2015) and Kosovo (2016). Most of the aforementioned credit facilities were intended to provide funding support to deposit insurance schemes and some aimed at replenishing the deposit insurance reserves and reforming the deposit insurance systems to meet best international practices. The proposed Project builds on the experience of the Bank to date, while TC introduces a new form of capacity building for much needed changes in DPFM's investment framework and activities in line with principles of safety, liquidity and adequate returns.

1.2 TRANSITION IMPACT

The Project is a response to a crisis. It will strengthen the DPFM's depleted funds (due to the liquidation of two banks in Montenegro) and will increase its credibility, which will decrease the risk of a deposit run in crisis times and improve the overall confidence in the banking sector (Resilient). Transactional TC assignment aimed to strengthen DPFM's asset and investment management capabilities up to international standards, thereby improving governance practices will contribute to the Well-governed TI quality.

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	*The project significantly enhances the resolution mechanisms available (in terms of available resources) and strengthens financial stability.*	The proposed facility would provide back-up financing for the DPFM in case the available balance of the Fund at the time of a deposit insurance event is insufficient. The stand-by line significantly increases Fund's assets by EUR 50 million [REDACTED] and enables DPFM to maintain a credible balance to withstand potential banking sector vulnerabilities stemming from the COVID-19 crisis. In addition, the Law introduces a new role for DPFM in the resolution process with a maximum potential liability of up to 5% of total guaranteed deposits.
1.2	*The project will be supported by a training program or capacity building action.*	The Project will be supported by an institutional capacity building programme enhancing DPFM's asset and investment management capabilities. This includes the implementation of a new investment strategy, the selection of an experienced asset management company and training of staff.
1.3	*The project is necessary in reaction to a crisis, for e.g. the fund being depleted due to liquidation and/or restructuring of banks and the related deposit.*	Following the bankruptcy of Atlas Bank and IBM and subsequent deposit pay-outs, DPFM's funds are temporarily depleted [REDACTED] The standby line [REDACTED] supports confidence in and stability of the banking sector in Montenegro. It also increases the Fund's ability to withstand any potential shake-up in the context of the COVID-19 pandemic.

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	*It improves the governance of the fund by making the existing arrangements work better.*	The institutional capacity building programme will also involve the development of a new Investment Policy for DPFM, amendments of internal policies and information sessions with DPFM's Managing Board, thereby strengthening the Fund's governance.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (**repeat transaction**).	The extension of the original stand-by line is needed given the DPFM's depleted funds following the liquidation of Atlas Bank and IBM. The proposed facility is currently the only access to emergency funding the DPFM can have in place.

Additionality sources	Description of additionality sources
Financing Structure - EBRD offers financing that is not available in the market from commercial sources on reasonable **terms and conditions**, e.g. a longer grace period that is rarely available in the market, restricted foreign currency financing etc. Such financing is necessary to structure the project. - EBRD offers a **large volume** instrument that fills a market funding gap and is required to structure the project. - Crisis response: EBRD financing **effectively bridges a financing gap** due to adverse market conditions. - Public sector: EBRD investment is needed to close the **funding gap**. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	-The Project will help to ensure better resilience of the financial system in Montenegro with an **increased capacity of the DPFM's depleted funds** to effectively engage in the payment of insured deposits should one or several financial institutions fail. - The facility is structured to serve as **an emergency back-up financing facility**, in a country that doesn't have regular access to international capital markets, in the form of long-term SBCL of a **significant amount**. - The proposed SBCL is **currently the only access to emergency funding** the DPFM can have in place.
Risk mitigation - EBRD provides comfort to clients and investors by **mitigating non-financial risks**, such as country, regulatory, project, economic cycle, or political risks.	- The Bank's involvement through the Project will also allow **to participate in the capacity building of DPFM** with the aim to enhance its investment management practises up to international standards.

Delivery Risks
[REDACTED] Weakening of the business environment and the banking sector may result in a potential liability for the Fund which will put strain on its ability to provide coverage in case of bank(s) failure. The EBRD credit line and DPFM's ability to raise additional funds should mitigate this risk and increase confidence in the deposit insurance system and banking sector.

1.4 SOUND BANKING - KEY RISKS

Risks	Risk mitigation factors
Banking sector systemic risk *The COVID-19 crisis may result in higher NPLs and additional provisioning weighing on banks' profitability and solvency while loan moratorium [REDACTED] can jeopardize the liquidity position of overall banking sector*	• **The banking sector in Montenegro is currently stable with a strong capital and liquidity position**. In 2019, CAR reached its record level since 2009 financial crisis of 17.7%, which is comfortably above the national requirement of 10%. The sector has ample liquidity with almost 21% of liquid assets in form of cash and deposits with CBM and securities portfolio. • **The loan moratorium will not affect profitability, as banks will not book extra provisions on loans under moratorium**. Restructured loans after moratorium will not be considered as NPLs. • **Banks are not allowed to pay out dividends in 2020**, which is estimated to strengthen sector capital position [REDACTED]. • **System-wide liquidity crisis remains remote** as systemic banks enjoy strong parent liquidity and capital support coupled with good access to international markets and IFI lines. • CBM announced availability of **EUR 250 million worth of emergency liquidity assistance (ELA) and is ready to provide liquidity support to banks in case of emergency**. CBM also reduced its obligatory reserve rate by 2 pp to 5.5% and 4.5% for demand and term deposits, respectively; as well as obligatory reserve fee[3] by 6pps to 6% to support banks liquidity. • **Sovereign guarantee scheme for commercial banks is to be introduced by end-June 2020**, which aims to provide favourable funding from IFIs and incentivize lending to end-borrowers.
Sovereign / Guarantor risk *Montenegro has tight fiscal space with high public debt [ERDACTED]. The COVID-19 lockdown can result in serious public debt crisis with expensive or limited access to finance*	• **Montenegro's sovereign risk is elevated but deemed acceptable** given the size of the facility. EBRD's sovereign exposure is at 11% of limit utilization, with potential increase to 12% including pipeline transactions. • **Montenegro has good access to financing either from the IMF** (through Rapid Financing Facility or new reform-conditioned arrangements) **or the World Bank**. In March 2020, the GoM was granted by WB's Policy Based Guarantee (PBG 2) EUR 80 million which have mobilized additional EUR 250 million of funds in mid-May 2020. The program behind PBG supports reforms to safeguard fiscal sustainability and a resilient financial sector. Additionally, the EU provided EUR 60 million emergency loan and reallocated EUR 40 million of national IPA grant funding to support the budget. • **[REDACTED]** • **V-shape recovery is expected [REDACTED]**, while the Government announced to have restrictive fiscal policy in the

	after-crisis period with potential decrease in public sector salaries. The economy started to reopen from the beginning of May and a potentially prolonged tourist season (July – October) is expected to support budget needs.
Credit risk of DPFM *The resolution of the two non-systematic banks (Atlas Bank and IBM) depleted DPFM's funds. The Fund has limited resources to pay to other banks' depositors in case of a crisis*	• **The facility will be guaranteed by the Republic of Montenegro.** • **DPFM has demonstrated sound operational and asset management capacity** over the last years.[REDACTED]

2. MEASURING / MONITORING SUCCESS

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due Date
1.1	Tailored training programme developed and implemented	Training aimed to increase the capacity of key staff in the understanding of reporting and key metrics on fund's investment performance	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Measure of deposit insurance fund's coverage: coverage limit	DPFM's increased coverage size following Montenegro's accession to the European Union.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Measure of deposit insurance fund's coverage: coverage ratio	DPFM's improved coverage ratio as a result of regular contributions from member banks and recovery of assets from Atlas Banka and IBM	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Well-Governed

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due Date
2.1	Practices of the relevant stakeholder improved	Implementation of TC on Fund's asset and investment management practises, including; (i) new	[REDACTED]	[REDACTED]	[REDACTED]

	(deposit insurance)	Investment Policy, (ii) selection of asset management company and (iii) training session to increase the capacity of key staff			

Additional Indicators

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due Date
1.1	Institution-level capacity strengthened in target area	Institution-level capacity strengthened in the financial area of asset and investment management, evidenced by positive investment returns in the next three years (as opposed to negative returns achieved in 2018).	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Recommended policy or strategy agreed by relevant stakeholder(s)	New Investment Strategy and Investment Policy approved by DPFM's Managing Board which will replace the existing Investment Policy approved back in 2015.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Tailored training programme developed and implemented	Training for key DPFM employees to enhance understanding of investment metrics and reporting on fund’s investment performance.	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Practices of the relevant stakeholder improved deposit insurance)	Improved asset and investment management practises protecting the DPFM's asset value, hence contributing to effective deposit insurance system and stability of the financial system in Montenegro.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The Deposit Protection Fund Montenegro is an independent public entity, established in 2004. In January 2006, DPFM started performing its operational mandate of protecting bank deposits and the initial funds of EUR 2.5 million were granted by KfW in 2007. Over the years, the deposit insurance limit has gradually increased from EUR 5,000 to a current level of 50,000. At 1Q2020, the Fund had 7 full-time employees.

By virtue of the Law, the purpose of the Fund is to promote the stability of and trust in the financial system of Montenegro by:

- Providing protection of deposits and paying out covered deposits;
- Maintaining depositor confidence and contributing to the stability of the banking system as a whole; and
- Providing funding support to resolution of Credit institutions pursuant to the law on Resolution of Credit Institutions. The CBM, as the resolution authority, shall determine the amount to be used for resolution.

Since its establishment, the DPFM has made good progress in developing much of the infrastructure required for an effective deposit insurance framework, including solid IT infrastructure for calculation and pay-outs of guaranteed deposits, MoU to support coordination with the CBM, regular testing of depositor data and procedures for making deposit pay-outs. DPFM is accountable to Montenegrin Government and Parliament by presenting them with the annual activity report by no later than 31 May of each year, and is subject to annual auditing of its financial statements.

Deposit Protection Fund's corporate governance

DPFM has a two-tier governance structure, consisting of the **Director General** and the **Managing Board of the Fund** ("Managing Board"). The Director General is appointed by the Managing Board for a term of 4 years with the possibility of re-appointment. In March 2020, Predrag Marković was re-reappointed as Director General of DPFM following his service in this role since October 2010.

The Managing Board consists of five members, including the Chairman of the Board, and has a four-year term with the possibility of renewal. Members of the Managing Board shall be appointed by the President of Montenegro and are nominated by the MoF, Central Bank of Montenegro, Association of Montenegrin Banks, Chamber of Economy, and the President of Montenegro. The Current composition of the Managing Board, as elected in February 2020, is detailed below:

- Vesko Lekić, President of the Managing Board (President of Montenegro nominee)
- Branislava Božović, Member (MoF nominee)
- Vlastimir Golubović, Member (Chamber of Economy nominee)
- Dejan Vujačić, Member (CBM nominee)
- Nebojša Đoković, Member (Association of Montenegrin Banks nominee)

DPFM in the context of new Deposit Protection Law

In December 2019, Montenegro adopted a new Deposit Protection Law (the "Law") harmonising its current deposit legal framework with EU Directives (Directive 2014/49/EU, 2014/59/EU) and Core Principles for Effective Deposit Insurance Systems. The Law introduced the following key changes:

(i) pay-box plus model, with additional responsibilities in banks resolution (e.g. financial support);
(ii) risk-premium calculation methodology to be applied from 2021 (the methodology prepared with technical support of World Bank);
(iii) insurance limit of up to EUR 100,000 (EUR 50,000 until Montenegro accesses EU);
(iv) target coverage ratio of 10%;
(v) accelerated pay-out process up to 7 days following the protected event date to be gradually phased-out by 2024 (up to 15 days until end-2020 and up to 10 days until end-2023); and
(vi) new governance structure (managing board of five instead of three members).

Recent pay-out history

In early 2019, two non-systemic banks in Montenegro, Atlas Bank (5% of sector assets) and IBM (1% of sector assets), were declared insolvent. This triggered subsequent payout liability amounting to EUR 112.4 million. [REDACTED]

<u>Invest Bank Montenegro (IBM)</u>

On 4 January 2019, the CBM initiated bankruptcy proceeding at IBM [REDACTED].

<u>Atlas Bank</u>

On 5 April 2019, Atlas Bank was declared bankrupt [REDACTED].

DPFM in the context of Bank Resolution

The DPFM's role in the bank resolution process is stipulated by the Deposit Protection Law and law on Resolution of Credit Institutions (OGM 72/19). In the case of a bank resolution during which depositors have access to deposits, the CBM, after obtaining an opinion from the Deposit Protection Fund, may decide that DPFM shall be liable for:

- **If bail-in tool is applied**: the amount by which depositors' covered deposits would have been written down in order to absorb the losses in a credit institution, had the covered deposits been included within the scope of bail-in and been written down to the same extent as creditors with the same level of priority in accordance with the law governing bankruptcy proceedings;
- **If one or more resolution tools are applied** (except bail-in tool): the amount of losses that covered depositors would have suffered had their loss been proportionate to the losses suffered by creditors with the same level of priority in accordance with the regulations governing credit institution bankruptcy proceedings.

The Fund is not obliged to recapitalise the credit institution and its maximum potential liability shall not be greater than the amount of losses incurred in case of bankruptcy proceedings. At the same time, the total liability shall not exceed 50% of the Fund's target fund amount (i.e. 10% of total guaranteed deposits). The Resolution Fund for bank recapitalisation is established and administered by Central Bank of Montenegro.

3.2 Guarantor

The Loan to DPFM will be guaranteed by a sovereign guarantee by the State of Montenegro (the total amount of EUR 50 million is covered upfront, upon ratification from the Parliament). The current long-term sovereign credit ratings of Montenegro are B1 (Stable Outlook, March 2020) by Moody's and B+ (Negative Outlook, May 2020) by S&P.

Key Macroeconomic Indicators	2015	2016	2017	2018	2019
Real GDP growth (%)	3.4%	2.9%	4.7%	5.1%	3.6%
CPI average prices, (%)	1.5%	-0.3%	2.4%	2.6%	0.4%
Unemployment (%)	17.5%	17.7%	16.1%	15.5%	15.8%
Current account balance (% of GDP)	-11.0%	-16.2%	-16.1%	-17.0%	-15.1%
Public debt (% of GDP) w/o guarant.	64.6%	64.4%	65.7%	70.1%	77.2%

Source: IMF, MoF Montenegro

[REDACTED]Prior to the COVID-19 outbreak, both the IMF and the Government envisaged the fall in public debt in the coming years. According to IMF’s WEO from October 2019, the debt would fall to 55% in 2024, based on the completion of fiscal adjustment strategy that began in 2017.

Measures against the coronavirus impact on the economy will lead to a temporary spike in the public debt in 2020. Large-scale fiscal measures to combat the pandemic will cause sharp deepening of the budget deficit in 2020. [REDACTED]

4. MARKET CONTEXT

4.1 COVID-19 economic impact and measures & macroeconomic outlook

The Government of Montenegro (“GoM”) introduced lockdowns on 15 March 2020 as a response to the outbreak of the COVID-19 pandemic and imposed severe lockdown measures such as movement restrictions and closure of the large number of SMEs and corporates, having strong economic consequences on Montenegrin economy. In May 2020, against the backdrop of low infection rates, the GoM introduced a plan for gradual lifting of lockdown measures, including the re-opening of hotels, restaurants and clubs amongst the first businesses on 15 May 2020.

Montenegro has introduced an unprecedented support package to mitigate the impact of the COVID-19 crisis. To support the economy to deal with the consequences of the imposed lockdowns, CBM declared a 90 days moratorium on debt repayments for both retail and corporate clients (extended for an additional 90 days only for clients with sustainable businesses and on banks’ voluntary basis), while as a part of a broad emergency response package, GoM announced a EUR 120 million Investment and Development Fund (IDF) credit line to support SMEs and corporates. The Third package of economic measures is expected to be introduced by end-June, aiming to incentivize commercial bank lending to the end-borrowers. This will include an additional EUR 70 million loan from Counsel of Europe Development Bank (CEB) for IDF’s and commercial banks on-lending and EUR 50 million worth state guarantee scheme for commercial banks.

Prior to the coronavirus outbreak, GDP growth in Montenegro slowed to 3.5% in 2019 from 5.1% in 2018. The growth was based on large investments, high level of private consumption and robust tourism [REDACTED]. The deceleration in 2019 was primarily due to the completion of large investment projects and the fall in industrial production. On the other hand, tourism continued to perform well and the 2019 season was the strongest on record.

The COVID-19 pandemic will have a dramatic impact on the country's tourism sector that counts up to 25% of GDP and creates potential challenges for public and external finances. While the Government is starting to reopen the economy, the opening of borders to foreign tourists will depend on other countries. Tourism income is therefore expected to be near zero in March–June and the economy is likely to suffer with substantial GDP contraction in 2020 [REDACTED].

4.2 BANKING SECTOR AND REGULATORY FRAMEWORK OVERVIEW

Montenegro has a small and very competitive banking sector. The banking sector in Montenegro comprised 13 banks (after two banks bankrupted in 2019) with an aggregate balance sheet of ca. EUR 4.6 billion (4.4% higher compared to end-2018). The sector is only moderately concentrated: the top five banks hold about 62% of sector assets. In such an overbanked market with 13 banks in a small country, high fixed and increasing regulatory costs put pressure on earnings, particularly for small banks.

The banking sector in Montenegro posted its best indicators (since the global financial crisis) prior to coronavirus crisis outbreak. At the end of 2019, the sector was characterized by ample liquidity (20.8% of total assets), strong bank capitalization (CAR of 17.7%) in addition to the lowest NPL ratio of 5.2% and record profitability. Asset Quality Review (AQR) of the overall banking sector is expected to start in September 2020, but the completion will be delayed due to the COVID-19 pandemic from end-2020 to 1Q 2021.

The sector displays resilience amidst the COVID-19 crisis, with no imminent liquidity needs. At 11 May 2020, 48% of total sector loans were under moratorium which translated into EUR 150 million of liquidity increase in the economy. Sector liquidity remains stable, owing to a relatively stable deposit base (-2.6% outflow between Feb-April 2020). Since the COVID-19 pandemic started banks continued to lend with EUR 185 million of new loans provided by the end of May, out of which more than EUR 100 million was provided to SMEs/corporates.

CBM is open to support any bank in case of liquidity needs due to introduced moratorium. CBM announced EUR 250 million worth of Emergency Assistance Package (ELA) as an emergency liquidity back-up [REDACTED]. Profitability of banks will not be affected by the imposed loan moratorium immediately. However, higher provisioning is expected by the end of the year, thus CBM restricted dividend payments to strengthen the capital position in response to expected asset quality deterioration.

The newly adopted comprehensive reform package supports banking sector stability and resilience. In end-2019, Montenegro adopted a comprehensive package of banking laws and aligned legislation with EU Directives (Directive 2014/49/EU and Directive 2014/59/EU) and Core Principles for Effective Deposit Insurance Systems by International Association of Deposit Insurers. The package included: (i) Law on Credit Institutions; (ii) Law on Resolution of Credit Institutions; and (iii) Deposit Insurance Law. The set of banking laws will improve banking supervision and resolution frameworks and make them consistent with the Basel Core Principles (introduction of Basel III requirements expected in 2021) and the EU's Bank Recovery and Resolution Directive (BRRD). *Please see **Annex 6** for **detailed review of banking sector and regulatory framework overview.***

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised FI (ESP 2019). This is a Deposit Protection transaction with an existing client. Since there are no adverse environmental and social issues associated with the DPF's activities, environmental & social management systems as per PR9 are not required. The client will continue to report annually on environmental and social matters, with a main focus on PR 2 and 4 reporting.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the independent public institution Deposit Protection Fund Montenegro ("DPFM"), senior management, Board members and other relevant parties. The review did not identify material integrity concerns and it was therefore concluded that this project does not pose an unacceptable reputational risk to the Bank. DPFM is an existing client of the Bank since 2010 and the experience to date has been positive. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES TO OPERATION REPORT

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	FINANCIAL ANALYSIS OF DPFM
ANNEX 3	COVID-19 MEASURES AND MACROECONOMIC OUTLOOK
ANNEX 4	SOVEREIGN DEBT ANALYSIS ON MONTENEGRO
ANNEX 5	MONTENEGRO’S SOVEREIGN DEBT EXPOSURE WITH EBRD
ANNEX 6	BANKING SECTOR OVERVIEW
ANNEX 7	TC OVERVIEW

ANNEX 1. TRANSITION IMPACT SCORING CHART

Score for primary transition quality

Quality: Resilient

Component: Financial stability

Quality average score: 73.3

Score for secondary transition quality

Quality: Well-Governed

Component: Corporate-level governance

Quality average score: 60.0

ATQ adjustment

Country: Montenegro

ATQ adjustment: Financial stability: -3.7%

Adjusted Quality score: 70.6

ATQ adjustment

Country: Montenegro

ATQ adjustment: Corporate-level governance: 0.3%

Adjusted Quality score: 60.2

Weighted TI score*

Base TI score (ATQ-adjusted): 68.0

Adjustment for Country Strategies

Adjustment: 2.0% – Strategic project alignment

CS **Adjusted score:** 69.4

Local currency / Equity uplift**

0.0% uplift

Final TI score

Final TI score: 69

***The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

** Please remove this box if the financing uplifts are not applicable.

ANNEX 2. FINANCIAL ANALYSIS OF DPFM

[REDACTED]

ANNEX 3. MEASURES AND MACROECONOMIC OUTLOOK

COVID-19 Measures

The Government of Montenegro ("GoM") introduced lockdowns on 15 March 2020 as a response to the outbreak of COVID-19 pandemic. The GoM adopted set of measures delaying the spread of infections, including closures of borders and ports (except for trade purpose), schools and public facilities, restaurants, gyms, shopping malls and shops (except those trading food, cosmetics and pharmaceutical products). Against the backdrop of low infection rates, the GoM started gradually lifting the lockdown measures from 4 May. However, economic consequences of the above mentioned lockdown measures are far more difficult for the tourism-dependent and import-oriented economy with a limited fiscal buffers and high level of public debt.

The GoM adopted set of measures to help economy to deal with the consequences of coronavirus crisis. Fiscal and social measures concern in particular deferral of taxes and contributions, wage and electricity subsidies, one-off supports to different social groups, direct support to the agriculture and fisheries, increase in salaries for health workers, postponement of rent payments for state-owned property and suspension of variable part of salaries for employees in public sector. The package is worth cc. EUR 50 million (1% of GDP) [REDACTED].

To support cash flows of individuals and businesses Central bank of Montenegro declared 90 days moratorium on debt repayments estimated to increase liquidity to approx. EUR 150 million or 3% of GDP. Moreover, national development bank (Investment Development Fund) offers EUR 120 million worth credit line to support primarily MSMEs with liquidity loans (tenor of up to 8 years and 1.5% interest rate vs. banking average of 4.66% as of end-March 2020). As of mid-May, IDF approved 243 loans worth c. EUR 45 million. Together with CBM, the Government of Montenegro is currently preparing the third package of economic measures [REDACTED]. The package is expected to be introduced by end-June with key role in post-lockdown economic recovery. Yet, banking sector posted best indicators prior to crisis and remained liquid during crisis with healthy deposits base, but profitability is expected to be deteriorated by the end of year. However, external funding for banks either from Parents of IFIs will be needed to respond on the liquidity demand in the upcoming period.

Fiscal measures	Financial and monetary measures
Deferral of tax and social contribution payments Tax debt obligations of businesses restructured for 90 days	IDF credit line of EUR 120m primarily for MSMEs: tenor of up to 8 years incl. 2 years grace period, 1.5% interest rate, max loan of up to EUR 3m
90 day moratorium on rent payments for state-owned property	90 day debt repayment moratorium for both retail and corporates (exp. to be extended only for directly affected natural persons and businesses)
Wage subsidies for: • Closed businesses: 100% of the minimum wage in the country (EUR 225) for 2 months	

+ exemption of salary taxes and contributions: • Affected sector: 50% of the minimum wage for 2 months; • New employment: 75% of the minimum wage for the next 6 months for the newly reported employees; • Quarantined employee: 70% of the minimum wage for 2 months;	
Suspension of the variable part of salaries of central government employees	**Social measures**
50% decrease in salaries of public sector employees in A and B category (highest salaries) for 2 months	One-off support of EUR 50 per pensioner, unemployed and other vulnerable categories
Increase in salaries for health workers by 15%	Electricity subsidies for vulnerable categories
Direct support to fisheries	
Electricity subsidies for businesses	

The Government of Montenegro estimates additional funding needs of EUR 350-400 million to support budget due to COVID-19. Funds expected to be obtained through external borrowings (EUR 250 million based on WB's PBG2; EUR 60 million from EU (emergency loan); EUR 40 million from IPA reallocation for budget support and EUR 74 million from IMF's Rapid Financing Instrument). Budget rebalance was adopted on 23 June 2020 with an assumption that 60% of the last year's touristic season will be achieved translated into EUR 450 million of lower revenues from tourism. In such a case, budget deficit is estimated at EUR 336 million or 7.3% of GDP, while GDP contract is projected at 6.8% prior to crisis Montenegro had budget deficit at the level of 3% of GDP).

Macroeconomic Outlook

GDP growth in Montenegro slowed to 3.5% in 2019 from 5.1% in 2018. The growth in 2018 was driven by strong investments because of major highway project (connecting the port of Bar with Serbian border), robust tourism and private consumption. The deceleration in 2019 was primarily due to highway project approaching completion (the first section of highway Bar-Boljare) or being completed (power link to Italy). [REDACTED] Government has begun implementing a fiscal adjustment strategy in order to boost the sustainability of the public figures, which are under severe pressure because of the increased public debt (80% of GDP) associated with the financing of major road infrastructure – 42 km highway priority section worth USD 1.1 billion.

Economy expected to grow based on tourism development and further investments in 2020, which are now highly challenged due to coronavirus outbreak. Highway construction of remaining sections is now officially postponed, while tourism is expected to accelerate from July, with slightly longer season of up to October. The COVID-19 pandemic exposes Montenegro's vulnerabilities to external shocks, as Montenegro is particularly affected by plummeting tourism, which is the critical driver of growth (contributing with up to 25% to GDP). [REDACTED] On 1 May, S&P confirmed B+/B long and short-term sovereign credit rating, but Montenegro's Outlook was revised from Stable to Negative on rising economic and fiscal risks due to COVID-19 pandemic.

If other external or domestic risk materialize, they could amplify the negative effect of the crisis. Uncertain evolution of pandemic in Europe and potential second wave of the outbreak could deepen the recession. The crisis also showed Montenegro's volatility in global financial markets, while appreciation of US dollar against euro could widen debt service in 2021 due to US denominated Chinese loan. Domestic risk refers to general elections scheduled for autumn 2020. In the medium term, Montenegro must work on sustainable and inclusive growth in order to make the economy more resilient to external shocks.

ANNEX 4. SOVEREIGN DEBT ANALYSIS ON MONTENEGRO

Public debt in Montenegro rose from 32% of GDP in 2007 to 77% in 2019, reaching EUR 3.8 billion at the end of 2019 (without sovereign guaranteed debt). Increase in public debt was mainly driven by external loan to fund the construction of the first and the most expensive section of the Bar – Boljare highway (42 km long priority section out of total 120 km highway) worth EUR 810 million. [REDACTED]

Fighting the coronavirus impact on the economy will lead to a temporary spike in the public debt in 2020. The fiscal policy support is crucial to help the private sector through the COVID-19 crisis, but the country's limited fiscal buffers constrain their financing and scale. [REDACTED]

ANNEX 5. MONTENEGRO'S SOVEREIGN DEBT EXPOSURE WITH EBRD

Total EBRD's portfolio in Montenegro as of 30 April 2020 amounts EUR 352 million within 40 operations while having EUR 254 million of operating assets. [REDACTED

ANNEX 6. BANKING SECTOR OVERVIEW

COVID-19 IMPACT ON BANKING SECTOR

Prior to COVID-19 pandemic banking sector posted the best indicators since 2008-2009 financial crisis with robust lending, ample liquidity, strong profitability and improved capital position, while showing the record low level of NPLs. Stable banking sector is one of the catalysts of emerged coronavirus crisis in Montenegro and therefore bore the burden of providing immediate liquidity to both retail and corporate sector through CBM's imposed 90-days moratorium (effective as of end-March 2020). This should have a positive aggregate effect of almost EUR 150 million of direct increase in liquidity. CBM has introduced following measures in order to prepare banking sector to deal with the impacts of COVID-19:

Measure	Impact
Loan repayment 90-day moratorium for both retail and corporates, in line with EBA recommendation. *Outlook: Extension of moratorium after 3 months considered only to those clients that can prove direct impact of coronavirus on their cash flows.*	**Providing direct liquidity in the economy worth EUR 150 million:** [REDACTED]
No additional provisioning for loans under moratorium. Restructured loans in due course not to be considered as an NPLs, but as new lending with appropriate provisioning	**Amortize NPLs growth** The bank may treat the restructured loan as a newly approved loan, provided that the loan beneficiary documents submitted to the bank prove that financial position has or will deteriorate in the near future due to the adverse impact of the new coronavirus. The loan will not be considered as an NPL if the bank estimates that the loan beneficiary′s creditworthiness will improve upon restructuring.
Dividend payment restriction for all banks in 2020, in line with ECB measures	To strengthen the capital position, safeguard and further enhance the stability and security of the banking system. Provide additional capital to face provisioning which will arise after 90-day moratorium. Net income of banking sector in Montenegro in 2019 was EUR 50.6 million vs. EUR 600 million of total equity as of end-2019.
Increase in exposure limit of 25% of own funds toward one person or group of borrowers (related parties) with CBM's consent on individual basis	This measure enables banks **to provide quick additional credit funds** to their corporate clients affected by the coronavirus to mitigate its impact. This measure becomes entirely rational where a legal entity operates predominantly through one bank. Establishing a business relationship and obtaining adequate credit support from another bank would require some time, which would be counterproductive in the situation of urgent credit support.
Decrease in obligatory reserve rate by 2pps: • from 7.5% to 5.5% for demand deposits • from 6.5% to 4.5% for term deposits **Decrease in obligatory reserve fee** from 12% to 6%	**To reduce negative impact on profitability and liquidity** of the banking sector, CBM decreased obligatory reserve rates by 2pps and annual fee for using obligatory reserves by 6 pps.

CBM also announced 250 million worth emergency liquidity assistance (ELA) for banks in case they face difficulties in liquidity, which includes EUR 70 million worth stand-by credit line provided from International Bank for Settlements in Basel. [REDACTED]

Since COVID-19 started banks continued to lend with EUR 185 million of new loans provided.. Except IDF loans, key role to the economic recovery will belong to the banking sector which need to provide favourable conditions to end-borrowers. This is likely to be supported by **sovereign guarantee scheme** (expected to be introduced by end-June 2020 on the back of proven experience from 2008/2009 crisis) which will allow banks to lend from IFIs with sovereign guarantee, thus incentivizing commercial lending to end-borrowers.

INDUSTRY PROFILE

Montenegro has a small and very competitive banking sector. As is common in EBRD's countries of operation, banks dominate financial intermediation in Montenegro, controlling about 92% of financial sector assets. At end-2019, the sector comprised of 13 banks and two banks under bankruptcy procedure) with an aggregate balance sheet of about EUR 4.6 billion (4.4% higher compared to end-2018). The sector is only moderately concentrated: the top five banks hold about 62% of sector assets. As of December 2018, Central Bank of Montenegro introduced temporary administration in two sensitive banks (Atlas bank and IBM) due to insufficient capital adequacy. Both banks have the same ultimate owner. [REDACTED] The market share of these banks was around 7% and they had no systemic impact on the entire financial system of Montenegro. As recapitalization of these two banks failed, the bankruptcy procedure started in 1Q 2019. [REDACTED] In addition to these two banks, another bank was a subject to continuous monitoring, but was financially stabilized.

Further consolidation of the banking sector is expected in 2020-2021. Except the fact that two banks went bankrupt in 2019, further consolidation is driven by two upcoming mergers between: (i) OTP's CKB (No. 1 by assets in 2019) and ex-SocGen renamed to Podgorička banka – member of OTP Group (No. 4); and (ii) NLB banka (No. 3) and Komercijalna banka (No. 11). In February 2019, as a part of OTP's broader regional consolidation, CKB signed the Purchase Agreement with Societe Generale Group to buy 90.6% shares of Societe Generale Montenegro for EUR 40.46 million, which was the part of SG's strategy to exit the region. The banks are operating as a separate legal entities until mid-Dec 2020 when full merge is expected, imposing higher concentration risk, as two banks will have cc. 30% of market share. On the other hand, in February 2020 Serbian Government decided to sell its stake of 83.23% in Komercijalna banka AD Beograd to the NLB bank Slovenia, both being Parent bank of subsidiaries in Montenegro. Integration strategy of NLB and Komercijalna banka is still unknown, but expected joint market share is around 15%.

The sector balance sheet reflects a basic banking business model. Lending is the mainstay of banks' business models: net loans account for about 60% of assets at end-2019 (about 80% at end-2013), with remaining funds largely invested in liquid instruments. Deposits and to a much lesser extent borrowings (mostly from parent groups) are the two main sources of funding, accounting for about 87% and 7% of total liabilities, respectively, with stable level of total deposits showing confidence in banking sector even after bankruptcy of two banks, as deposits remained in the system.

Cross-border exposures are significant. These reflect the ownership structure (85% of equity belongs to foreign owners) and search for investment opportunities against the backdrop of a highly competitive environment. Foreign subsidiaries hold nearly 80% of sector assets; the country's four largest banks are the subsidiaries of CKB (OTP subsidiary, Hungary), NLB

(Slovenia), Podgoricka banka AD – member of OTP group (now 100% owned by CKB), and Erste (Austria).

PRUDENTAL REGULATION

Regulatory and supervisory framework. The Central Bank of Montenegro (CBM) regulates the banking sector. Reforms to bring the local regulatory framework in line with EU norms are ongoing, as part of the country's EU accession process. In Dec 2019 Parliament of Montenegro adopted set of banking laws that allow the application of new banking standards aimed at strengthening bank control and further reducing risks in the sector: (i) Law on Credit Institutions (regulates, inter alia, the measures under the jurisdiction of credit institutions' supervisory authorities, which cover the issue of their recovery plans, the provision of financial assistance within a group of credit institutions, and early intervention supervision measures) – applied from Jan 2021; (ii) Law on Resolution of Credit Institutions (provides establishment of a remediation fund that will be financed annually by credit institutions. The fund will be used in the process of eventual bank resolution) – applied from Jan 2021; (iii) Deposit Insurance Law (changes in insurance & time limits – upon EU accession, premium methodology and prices, governance of the Fund, introduction of resolution fund, etc.). The set of banking laws will improve banking supervision and resolution frameworks and make them consistent with the Basel Core Principles (introduction of Basel III requirements) and the EU's Bank Recovery and Resolution Directive (BRRD).

In October 2017, the Parliament also adopted Central Bank Act, a Law on Financial Institutions, and an all-encompassing non-banking financial institutions law covering factoring, leasing, micro-crediting and credit guarantee operations. The Law on Voluntary Financial Restructuring adopted some years ago has been extended to May 2019 when it ceased to exist. CBM also prepared the Decision on the minimum standards for management of credit risk in line with the EBA guidelines (applied as of 1 July 2019) and is currently working on the package of by-laws following Law on Credit Institutions and Law on Resolution (should be adopted by mid-2020, with application form Jan 2021), such as Decisions on capital adequacy, liquidity, large exposures, LCR indicator, remuneration, conditions for acquiring qualified participation and conditions to be met by the members of managing bodies. The CBM also introduced IFRS-9 in 2018, which should results in more stringent provisioning practices. The new AML/CFT law has improved the legal framework, but there are needs to strengthen supervision. [REDACTED]

Financial safety net. Deposit insurance in Montenegro is relatively well developed, although its narrow pay-box mandate was not fully in line with EU norms. The role of DPFM was proven in 2019 due to bankruptcy procedures in two banks (Atlas and Invest Bank) [REDACTED]. Pay-out procedures are adequate; though do not conform to operational requirements set by the EU. [REDACTED] New Deposit Insurance Law was adopted in end-2019 with significant alignments to EU standards imposing introduction of risk-based premium from 2021, new insurance limit upon Montenegro's EU accession, gradual reduce in time for deposit payments (7 days by 2024).

FINANCIAL HIGHLIGHTS

[REDACTED]

ANNEX 7. TC OVERVIEW

[REDACTED]