



**Deposit Protection Fund**

**DEPOSIT PROTECTION FUND**

**ANNUAL REPORT**

**2015**

**Podgorica, maj 2016.**

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## LIST OF ABBREVIATIONS

ISA .....	<i>Insurance Supervision Agency</i>
CBCG .....	<i>Central Bank of Montenegro</i>
EBRD .....	<i>European Bank for Reconstruction and Development</i>
EFDI .....	<i>European Forum of Deposit Insurers</i>
EC .....	<i>European Commission</i>
EU.....	<i>European Union</i>
Fund .....	<i>Deposit Protection Fund</i>
FSAP .....	<i>Financial Sector Assessment Program</i>
IADI.....	<i>International Association of Deposit Insurers</i>
IADI CP.....	<i>IADI Core Principles</i>
SEC.....	<i>Securities and Exchange Commission</i>
MF .....	<i>Ministry of Finance</i>
IMF .....	<i>International Monetary Fund</i>
WB.....	<i>World bank</i>
MB .....	<i>Managing Board</i>
Law .....	<i>Deposit Protection Law</i>
Directive 94/19/EC .....	<i>Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes</i>
Directive 2014/49/EC ..	<i>Directive 2014/49/EC of the European Parliament and of the Council of 16 April 2014 on deposit-guarantee schemes</i>

## **INTRODUCTORY REMARKS**

Montenegro's approaching the EU and NATO membership necessitates the strengthening of institutions and the rule of law. By fulfilling the conditions required by the EU and the NATO will strengthen the confidence in the economic and legal system of the country, thus creating conditions for foreign investors` investing their capital and help the development of local businesses, which will significantly contribute to economic development as a whole.

Montenegro's economy is on an upward trajectory of growth, but will face with a large number of risks in the upcoming period. According to preliminary Monstat data on quarterly movements, estimated GDP annual growth is 3.2%. The most important economic policy measures should involve the continuation of fiscal consolidation, a gradual change of the growth model, improvement of competitiveness of the Montenegrin economy, acceleration of negotiations with the EU, the continuation of structural reforms and privatization, the adoption of systemic laws in line with international best practice, the continuation of deregulation, the removal of business barriers and the like.

High exposure and economic connections of Montenegro with the region and the EU, as well as the fact that local banks are in majority private foreign ownership, make the economy of Montenegro, including the financial sector, vulnerable and sensitive to negative developments in the region.

The banking sector is stable. However, although highly liquid and solvent, it is burdened with a significant share of non-performing loans and consequently still cautious lending policy of banks and high interest rates. Strengthened recovery, the application of the legal model of voluntary financial restructuring and positive international climate could contribute to further increase of the financial sector stability in parallel with increasing efficiency and productivity of the real economy.

### **Negotiations with the European Union**

The adoption of the 2015-2018 Economic Reform Program, in accordance with new requirements of the European Commission in the economic dialogue with the EU candidate countries, the Government has focused its economic policy commitments to structural reforms aimed at achieving sustainable economic growth. One of the priority tasks in the upcoming period should be the implementation of solutions identified in this strategic document.

Continued work on preserving financial stability is also of great importance and be a team effort of the Central Bank of Montenegro and other participants in the financial system of Montenegro.

## **Banking system in Montenegro**

Montenegro's banking system was highly liquid and solvent in 2015. According to the main liquidity indicators, daily and ten-day liquidity ratios were above the statutory minimum in all the banks.<sup>1</sup>

Funds deposited in banks trended upward in the reporting year at an average monthly growth rate of 1.4%. At the end of 2015, deposits with banks amounted to 2,629.7 million, which was 312.5 million or 13.49% more than at the end of 2014.

Growth of bank assets in the observed period was the result of constant and significant growth in deposits. At the end of the reporting period, bank loans were at a level lower than that of deposits. Deleveraging of banks to parent banks and other financial institutions abroad is still present in the Montenegrin banking system, with a pronounced trend of reducing the amount of banks' foreign borrowing. This is mostly due to an increase in "cheaper" domestic deposits (deposit interest rates are at a much lower level than in previous years) and high liquidity in the banking system.

Two new banks started operating in April and July 2015, which are 14 banks in total. As a result of the entry of new banks, there are expectations that such a strengthened competition in the banking market will represent an additional stimulus to reduce lending interest rates, as well as the intensify banks' lending activity in the future.

We can say that the Montenegrin deposit insurance system is highly compliant with the core principles of deposit insurance in the EU, and activities of the Fund are aimed at further implementation of international standards in deposit insurance. Together with other participants of the financial system, the Fund significantly contributes to the stability of the banking and overall financial system.

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<sup>1</sup> Central Bank of Montenegro 2015 Macroeconomic Report

# 1. BASIC INFORMATION ABOUT DEPOSIT INSURANCE

## 1.1. Deposit Protection Fund

The Deposit Protection Fund was established in accordance with the Deposit Protection Law (Official Gazette of the Republic of Montenegro 40/2003) and it officially started operating on 18 November 2004 when it was registered in the Statistical Office of Montenegro's registry. A new Deposit Protection Law (OGM 44/10, 40/11, 47/15) was further aligned with the Directive 2014/49/EC. In exercising its competences, the Fund: establishes the rate for the premium calculation; 2) collects the premiums; 3) invests its funds; 4) calculates and performs the payout of the guaranteed deposits; 5) passes secondary legislation provided for under this law, and 6) performs other activities in accordance with the law.

The main activity of the Fund is to the insurance of bank deposits and it is obliged to compensate guaranteed deposits to depositors in case of bank bankruptcy (the occurrence of the so-called "protected event"), in accordance with the law. Commercial banks licensed by the Central Bank of Montenegro are obliged to pay the premiums as required and in the manner established by the law. The deposit insurance scheme comprises deposits with banks as at or before the protected event occurrence date. A protected event occurs on the day of passing a decision on initiating bankruptcy proceedings against a bank. The Fund compensates guaranteed deposits to the level that amounts to 50,000 euros per depositor and per bank as of 1 January 2013, regardless of the number and amounts held by a depositor in a bank subject to bankruptcy proceedings.

The Fund's bodies are the Managing Board and the Director General. The Fund has seven employees.

### ***The Fund's Mission***

The Fund's mission is to ensure the safety of deposits held in banks and to provide for an efficient and expedient payout of guaranteed deposits in case of bankruptcy initiated in any of the banks in Montenegro.

### ***The Fund's Vision***

A stable financial system based on the confidence, safety, and protection of depositors.

Improved confidence of depositors in the Montenegrin banking system and improved financial stability in the country, including the protection of depositors against loss in case of a bank failure.

The Fund attains the aforesaid objectives with clearly defined obligations towards depositors, the promotion of public confidence in the system, reduction of expenses in bank resolution, and providing funds for the protection of depositors of a failed bank.

## ***Governance and Management of the Fund***

The Fund is governed by the three-member Managing Board (MB) appointed by the Central Bank of Montenegro's Council, whereby one member is nominated by the Ministry Finance and one member is nominated by the Association of Montenegrin Banks and Financial Institutions. Pursuant to the Law, the MB holds meetings at least on quarterly basis.

In addition to competences specified in the Law, in accordance with the Fund's By-Law, the MB adopts internal general acts, considers the implementation of activities, discusses the quarterly reports on the movement of deposits, considers annual and semi-annual reports on investment of funds, decides on the acquisition of immovable property, determines the way of cooperation with government authorities, organizations, and other institutions in Montenegro, defines the manner of cooperation with international financial institutions, organizations and deposit insurance schemes, decides on the transfer of certain powers to the Director General of the Fund, and performs other tasks stipulated by the Law and the By-Law.

Pursuant to the Rules of Procedure of the Fund, the MB informs the public via press releases, website of the Fund, press conferences, interviews and in other suitable ways of its work, decisions, conclusions and positions, as well as significant issues discussed.

The Director General of the Fund shall be elected as per the job vacancy announcement and appointed by the MB to a four-year term of office. The Director General represents and acts on behalf of the Fund, manages the Fund and is responsible for the legality of the Fund's operations. Pursuant to the Law, the Director General proposes the Fund's By-law and secondary legislation, the premium calculation rate, the financial plan of the Fund, annual financial statements with the auditor's report and opinion, the annual operating report of the Fund, and the investment policy of the Fund, implements decisions of the Managing Board, decides on the investment of the Fund's resources up to the amount specified under the By-law of the Fund, issues separate decisions to depositors not entitled to the guaranteed deposit payout, decides on the rights, obligations and responsibilities of the Fund employees, takes care of the utilisation of funds for covering operating costs of the Fund, and performs other tasks and duties in line with the law and the By-law of the Fund

The seat of the Fund is in Podgorica, Miljana Vukova bb Street.

Web address: [www.fzdcg.org](http://www.fzdcg.org) and-mail: [fzd@t-com.me](mailto:fzd@t-com.me).

### **1.2. Members of the Deposit Protection Fund**

Two new banks were established in the reporting year so there were 14 banks operating in Montenegro in 2015 (three domestic banks and eleven banks with foreign ownership structure and the latter accounted for 79% of the banking sector's assets).

All banks are members of the Fund, which means that deposits of all depositors in all banks are insured under the Montenegrin deposit insurance scheme, in line with the Law. The banks paid the 2015 deposit protection premium in the total amount of 12,063,645.00 € (11,963,645.00 € of the regular premium and 100,000.00 € of the initial premium).

The main share in the structure of all deposits was of household and corporate deposits that accounted for 84.8% of total deposits at the end of the reporting year, whereby both categories increased their deposits y-o-y, the first by 7.09% and the latter by 25.14%.

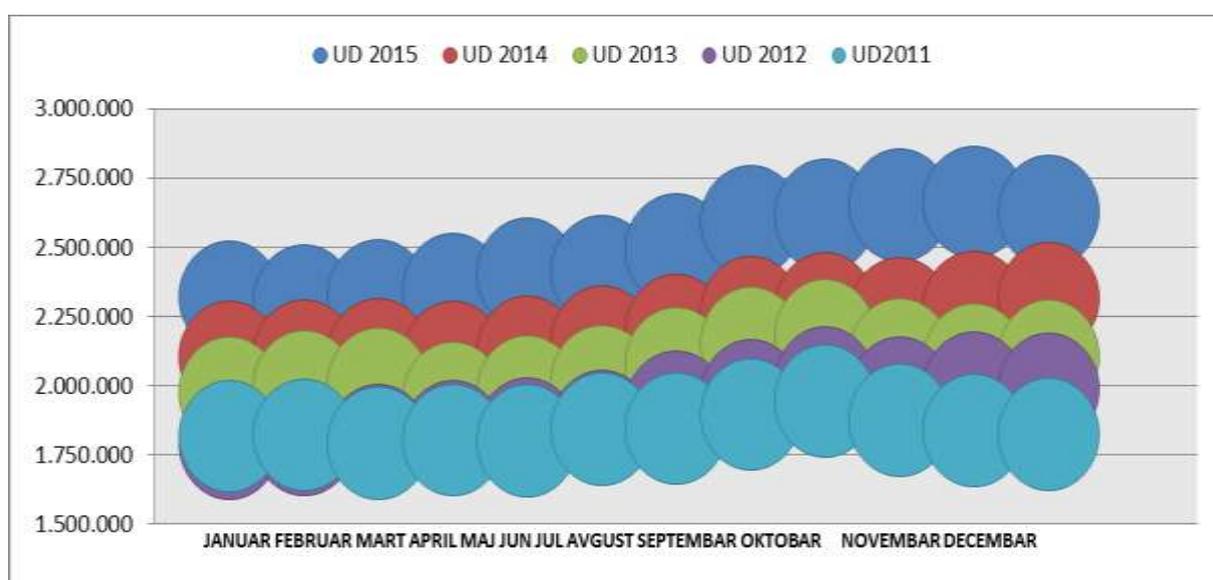
Government authorities and organisations and local government authorities are the following largest depositors in Montenegro's banking system with 120 million euros or 4.56% of total deposits in banks, recording a 34.48% y-o-y growth.

Deposits outside the deposit insurance scheme made up 8.91% of total deposits as at 31 December 2015.

Figure 1 shows the trending of total deposits over the 2011 – 2015 period. Deposits grew at an average monthly rate of 1.4% in 2015, showing a similar trend as in 2014.

Somewhat more notable uptrend in deposits in Q3 that has been present as of 2006 (since the Fund tracks data on deposit movements) is due to the summer tourist season and in Q3 2015 this increase reached 8.39% (2.76% more than in Q3 2014).

**Figure 1** Movement of total bank deposits in the period 2011- 2015, in 000 €



*\*Source: Monthly bank reports*

### **1.3. Harmonization of the legislative and institutional framework with the EU acquis in the field of deposit insurance system**

With a view to achieving full compliance and implementation of the EU acquis in the area of financial services, Montenegro was devoted to legislative alignment and strengthening of administrative capacity in the reporting year.

The Deposit Protection Fund was included in the Working group for Chapter 9 “Financial Services” and the group met several times during the year. At the start of the negotiations on this chapter, it was noted that the deposit insurance system was largely harmonized with EU legislation in this area.

Bearing in mind the passing of a new Directive 2014/49/EC which regulates deposit insurance in a different way, the implementation of this directive was a priority for the EU Member States and most of them transposed it into their legislation in 2015.

In July 2015, the Montenegrin Parliament adopted the amendments to the Deposit Protection Law that shorten the deadline for initiating the payout of guaranteed deposits from 20 to 15 working days. According to the Directive 2014/49/EC, the guaranteed deposits repayment period will be 20 working days until the end of 2018, then from the beginning of 2019 until end-2020 the repayment period will be shortened to 15 working days, then from the beginning of 2021 until the end of 2023 the repayment period will be 10 working days, and from 2024 and onward the repayment period will be 7 working days.

At the global level, an extremely important document for the establishment and functioning of an efficient system of deposit insurance is the “Core Principles for Effective Deposit Insurance Systems”. Namely, in 2009, the International Association of Deposit Insurers (IADI), in cooperation with the Basel Committee on Banking Supervision (BCBS), prepared the aforesaid document with which national deposit insurance systems have to be harmonized. This document specifically emphasizes the cooperation of deposit insurance funds with other participants in the financial system safety net (central bank and ministry of finance). These principles were officially adopted by the BCBS in 2011 (as revised and supplemented at the end of 2014) and they have been used since by the WB and the IMF in assessing deposit insurance systems as a part of their overall financial system assessment (FSAP).

In order to review the stated objectives of compliance and implementation of the EU acquis in the field of deposit insurance system, the FSAP mission carried out by representatives of the WB and the IMF in the period from 1 to 15 September 2015 assessed risks and vulnerabilities of the country’s financial sector, the quality of regulation and supervision of the financial sector, and the safety net schemes - the deposit insurance system. The general conclusion of the mission in relation to the deposit insurance system is that the Fund has developed a large part of the infrastructure necessary to ensure a rapid compensation of deposits and that it has achieved a high level of compliance with the “Core Principles for Effective Deposit Insurance Systems”.

In accordance with the Directive 2014/49/EC, one of the most important changes in the system of deposit insurance is the mandatory introduction of the system of differential premiums, i.e. the calculation of premiums based on the degree of risk incurred by banks; this requirement shall be binding on the EU Member States as of June 2016.

In order to ensure consistent application of the Directive 2014/49/EC relating to the calculation of differential premium, the EBA (European Banking Authority) issued the “Guidelines on methods for calculating contributions to deposit guarantee schemes”.

The Fund started developing a methodology for the introduction of the differential premium in the insurance of deposits in the banking sector of Montenegro in order to align with the new EU standards and best practices, and this methodology would be the basis for proposing amendments to the applicable Law. These amendments would require the Fund to apply the differential premiums for deposit insurance based on pre-defined criteria for assessing the risk of banks instead of the current fixed rates. Recommendation of the FSAP

mission is that the introduction of the risk-based premium should take account of its neutrality (to maintain the existing level of premiums) and to reach the targeted level of 10% of guaranteed deposits in the next ten years.

## 2. LEVEL AND STRUCTURE OF INDIVIDUAL DEPOSIT CATEGORIES

### 2.1. Total deposits

Total bank deposits amounted to 2.629.784,00 € as at 31 December 2015 whereas at end-2014 they totalled 2.317.256,00 €, which is the year-on-year increase of 13.49% (year-on-year growth in 2014 was 9.96%).

During 2015, total deposits` quarterly growth averaged as follows: 0.15% in Q1, 3.81% in Q2, 8.39% in Q3, and 0.52% in Q4.

**Table 1** Balance of total deposits by quarters, 2015 (000 €)

	31. 12. 2014.	31. 03. 2015.	30. 06. 2015.	30. 09. 2014.	31. 12. 2015.
<b>TOTAL</b>	2,317,256	2,325,278	2,413,817	2,616,238	2,629,784

*\*Source: Monthly bank reports*

The biggest depositors in banks were households and corporate sectors and their deposits recorded growths in 2015.

The share of household deposits in total deposits amounted to 1,402 million €, i.e. 58.54% as at 31 December 2015, making this sector the most significant depositor in the Montenegrin banking system. The number of household depositors amounted to 781,718 at end-2015, which is 91.76% of the total number of depositors.

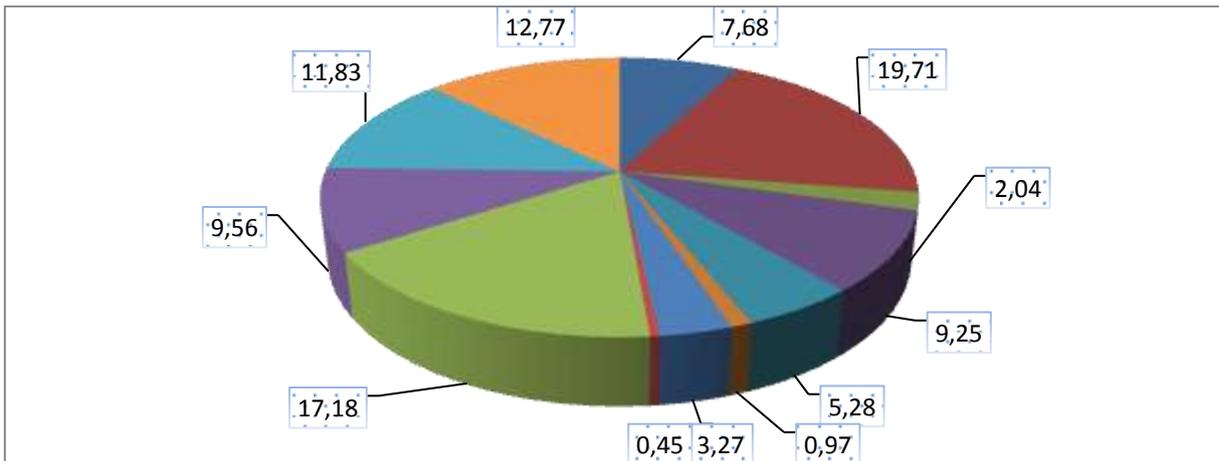
The corporate sector accounted for 41.46% or 992.9 million € of total deposits in banks. The number of corporate depositors amounted 67,797, which is 7.95% of total depositors at end-2015.

The total number of depositors was 851,887 at end-2015 and this represents the year-on-year decrease of 8.82% (934,330 in 2014) and this decline is a result of “clearing accounts” – deletion of inactive accounts with balances in euro cents that was performed by one bank in May 2015.

It is obvious that the percentage share of deposits in banks has been changing over the years, speaking in favour of redistribution of deposits by banks in the Montenegrin banking system (back at end-2008, two banks accounted for 60.33% of total deposits and at end-2015 their share reduced to 32.66%).

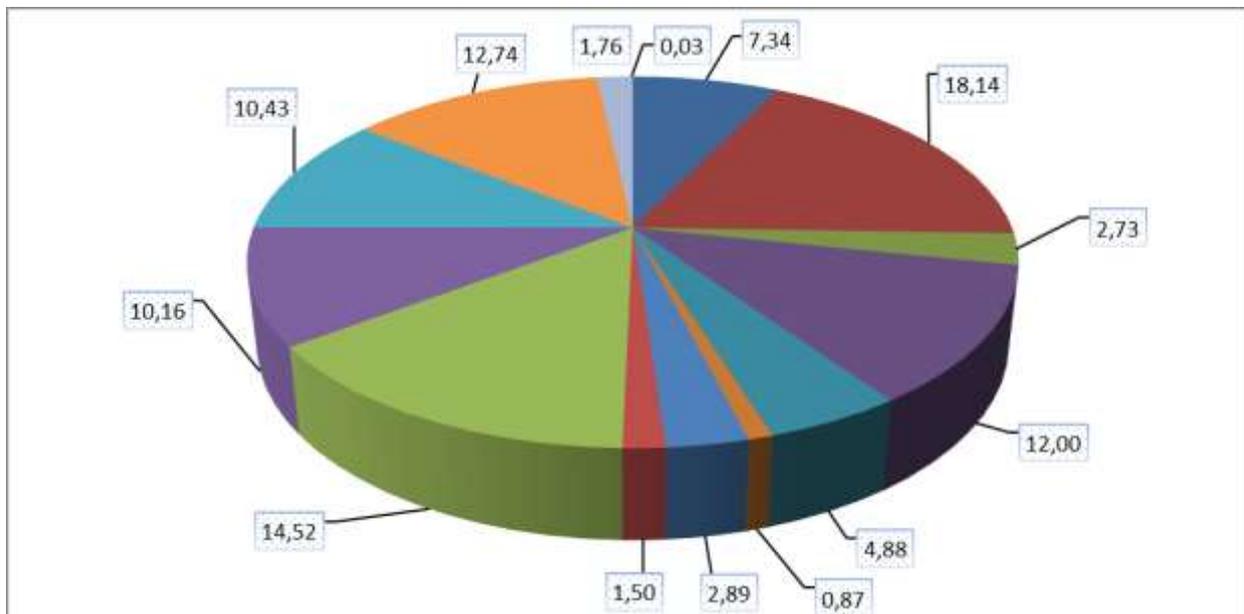
The shares of individual banks in the total deposit portfolio at end-2014 and end-2015 are presented in Figures 2 and 3, respectively.

**Figure 2** Share of banks in total deposits (2,317,256.00 €) as at 31 December 2014



*\*Source: Monthly bank reports*

**Figure 3** Share of banks in total deposits (2,629,784.00 €) as at 31 December 2015



*\*Source: Monthly bank reports*

While the biggest bank in size in terms of total deposits accounted for 19.71% of total deposits in 2014, its share declined in the reporting year to 18.14%.

The second biggest banks reduced its deposit share from 17.18% to 14.52%.

The third bank in the system slightly decreased its share in deposits from 12.77% to 12.74%.

Two banks recorded year-on-year increase of share in total deposits from 9.25% to 12% (2.74%) and from 0.45% to 1.50% (1.05%), while shares of other banks remained at almost the same levels as at end-2014.

## 2.2. Deposits by persons not entitled to the guaranteed deposit payout

Deposits by persons who are not entitled to the guaranteed deposit payout in line with Article 6 paragraph 2 points 1 to 12 and paragraph 3 points 1 and 2 of the Law are presented in Table 2 with data as at end-quarters.

Deposits by persons not entitled to the guaranteed deposit payout amounted to 234,531€ as at 31 December 2015, as compared to 214,389 € a year before, which is 9.40% increase.

Quarterly data point to great fluctuations of deposits during the reporting year, with ggrowths in Q1 and Q3 (5.79% and 15.66%, respectively), and declines in Q2 and Q4 (-7.02% and -15.66%, respectively), which resulted in the year-on-year increase of 9.40%.

The number of depositors not entitled to the guaranteed deposit payout amounted to 2,372 at end-2015, which is 6.51% more than in the previous year (2,227).

**Table 2** Deposits by persons not entitled to the guaranteed deposit payout, by quarters in 2014 (in 000 €)

	31. 12. 2014.	31. 03. 2015.	30. 06. 2015.	30. 09. 2015.	31. 12. 2015.
<b>Deposits by persons not entitled to payout</b>	214,389	226,300	210,399	243,354	234,531
<b>TOTAL DEPOSITS</b>	2,317,256	2,325,278	2,413,817	2,616,238	2,629,784
<b>% share in total deposits</b>	9.25	9.73	8.72	9.30	8.92

*\*Source: Monthly bank reports*

As at 31 December 2015, this category accounted for 8.92% of total deposits. The share of this category in total deposits slightly changed in comparison with end-2014 when it was 9.25%.

Deposits by state bodies and organisations accounted for the main share of depositors that are not entitled to the guaranteed deposit payout (51.19%). The share of deposits by financial institutions made up 5.75%, whereas deposits by legal persons engaged in insurance business accounted for 13.28%, and deposits by legal persons with either direct or indirect participation in capital or voting rights in the relevant bank of 5% or more made up 9.30%.

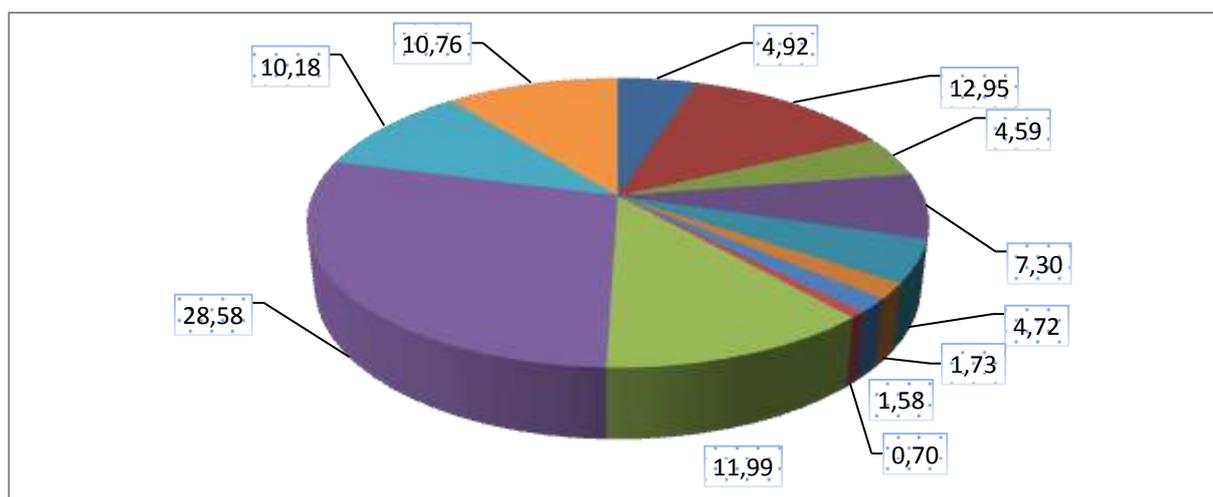
The year-on-year percentage decrease of deposits by persons not entitled to the guaranteed deposit payout (of 9.40%) is the result of the following changes in the structure of this category of deposits:

- an increase of 38% or 6 million € in deposits by persons who are members of bank governance bodies and/or standing bodies of the bank management, persons responsible for daily bank operations, managers of organizational units in bank, legal persons holding, whether directly or indirectly, at least 5% share in the bank capital or voting rights, as well as their spouses and children;
- an increase of 38.84% or 31 million € in deposits by state bodies and organizations, municipal bodies and organizations and/or other forms of local self-government;
- a decrease of 18.26% or 6 million € in deposits by legal persons engaged in insurance business;

- a decrease of 40% or 5 million € in deposits by investment funds and their management companies.

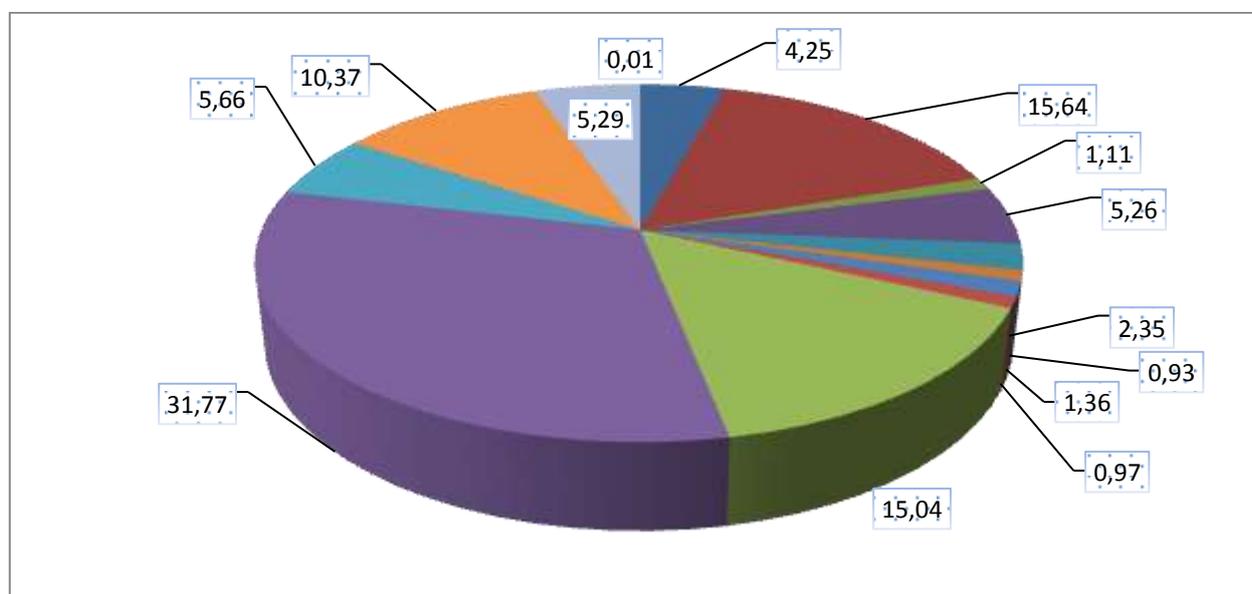
Other categories of deposits by persons not entitled to the guaranteed deposit payout experienced no significant changes at the end of the reporting year as compared to the previous year.

**Figure 4** Deposits by persons not entitled to the guaranteed deposit payout, by banks, as at 31 December 2014



\*Source: Monthly bank reports

**Figure 5** Deposits by persons not entitled to the guaranteed deposit payout, by banks, as at 31 December 2015



\*Source: Monthly bank reports

The movement of deposits by persons not entitled to the guaranteed deposit payout has no direct impact on the deposit protection scheme but it is necessary to monitor their trending from the aspect of the total deposits to guaranteed deposits ratio for the purpose of determining the methodology for the calculation of the regular premium rate.

## 2.3. Deposits by persons entitled to the guaranteed deposit payout

All depositors whose deposits are not excluded within the meaning of Article 6 paragraph 2 points 1-12 and paragraph 3 points 1 and 2 of the Law are entitled to the guaranteed deposit payout (Table 3).

Deposits by persons entitled to the guaranteed deposit payout, that is, total deposits by natural and legal persons included in the deposit protection scheme amounted to 2,395,253,000 € as at 31 December 2015, recording the year-on-year increase of 13.90% (they stood at 2,102,867,000 € at end-2014).

Deposits by persons entitled to the guaranteed deposit payout rose in Q1 2015 by 1.22% in comparison with Q4 2014. In Q2 2015 these deposits also increased quarter-on-quarter by 3.51%, continuing in the same fashion and increasing 7.69% in Q3. The quarter-on-quarter increase in Q4 2015 was minor, 0.94%.

**Table 3** Deposits by persons entitled to guaranteed deposit payout (in 000 €)

	<b>TOTAL</b>	<b>Natural persons</b>	<b>Legal persons</b>	<b>NP in % (2/1)</b>	<b>LP in % (3/1)</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>31. 12. 2014.</b>	2,102,867	1,309,415	793,451	62.27	37.73
<b>31. 03. 2015.</b>	2,128,621	1,330,271	798,350	62.49	37.51
<b>30. 06. 2015.</b>	2,203,418	1,349,859	853,559	61.26	38.74
<b>30. 09. 2015.</b>	2,376,495	1,371,978	1,004,517	57.73	42.27
<b>31. 12. 2015.</b>	2,395,253	1,402,304	992,949	58.55	41.45
<b>31. 12. '15 - 31. 12. '14.</b>	13.90%	7.09%	25.14%		
<b>31. 12. '15 - 31. 12. '14.</b>	292,386	92,888	199,497		

*\*Source: Monthly bank reports*

Deposits by natural persons accounted for the main share in the structure of deposits by persons entitled to the guaranteed deposit payout. Household deposits made up 58.54% and corporate deposits accounted for 41.45% of total deposits by persons entitled to the guaranteed deposit payout.

The structure of these deposits did not significantly change year-on-year in 2015. Both categories of deposits recorded growth in the reporting period (household deposits increased by 7.09% and corporate deposits rose 25.14%), so an increase of this category of deposits amounted to 13.90% overall.

**Table 3.1** Number of depositors entitled to guaranteed deposit payout

	<b>TOTAL</b>	<b>Natural persons</b>	<b>Legal persons</b>	<b>NP in % (2/1)</b>	<b>LP in % (3/1)</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>31. 12. 2014.</b>	932,105	867,903	64,202	93,11	6,89
<b>31. 03. 2015.</b>	940,965	876,228	64,737	93,12	6,88
<b>30. 06. 2015.</b>	824,081	758,128	65,953	90,00	8,00
<b>30. 09. 2015.</b>	830,784	764,126	66,658	91,98	8,02
<b>31. 12. 2015.</b>	849,515	781,718	67,797	92,02	7,98
<b>31. 12. '15 - 31. 12. '14.</b>	-8.86%	-9.93%	5.60%		
<b>31. 12. '15 - 31. 12. '14.</b>	-82,588	-86,181	3,597		

*\*Source: Monthly bank reports*

The total number of depositors entitled to the guaranteed deposit payout decreased year-on-year to from 932,105 in 2014 to 849,515 in 2015 or 8.86%, whereby the number of natural persons declined 9.93% (this decline is a result of “clearing accounts” – deletion of inactive accounts with balances in euro cents that was performed by one bank in May 2015) while the number of legal person increased by 5.60%.

Of 849,515 depositors entitled to the guaranteed deposit payout as at 31 December 2015, 104,156 had liabilities towards banks higher than their deposits with banks (these depositors would not be repayed guaranteed deposits as they would be set off against their due liabilities). Table 3.2 column 1 shows the number of depositors whose deposits exceed their liabilities to banks, that is, the number of depositors who would be entitled to the guaranteed deposit payout by the Fund in case of bank failure (745,359 depositors).

**Table 3.2** The number of depositors whose deposits<sup>2</sup> exceed their due liabilities to banks

	<b>TOTAL</b>	<b>Natural persons</b>	<b>Legal persons</b>	<b>NP in % (2/1)</b>	<b>LP in % (3/1)</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>31. 12. 2014.</b>	828,287	768,995	59,292	92.83	7.17
<b>31. 03. 2015.</b>	824,896	765,450	59,446	92.79	7.21
<b>30. 06. 2015.</b>	708,933	648,073	60,860	91.42	8.58
<b>30. 09. 2015.</b>	725,505	663,425	62,080	91.44	8.56
<b>31. 12. 2015</b>	745,359	681,749	63,610	91.47	8.53
<b>31. 12. 15 - 31. 12. 14.</b>	-10.01%	-11.35%	7.28%		
<b>31.12.15 - 31.12.14.</b>	-82,928	-87,246	4,318		

*\*Source: Monthly bank reports*

<sup>2</sup> Guaranteed deposit is established for every individual depositor by reducing matured liabilities of a depositor with a bank, including any accrued interest, from aggregate deposits held by the depositor with that bank as at the protected event (hence the difference in the number of depositors in Table 3.2 and Table 3.1 because a certain number of depositors have due liabilities that exceed their deposits).

The total number of depositors entitled to the guaranteed deposit payout and whose deposits exceed due liabilities (the number of depositors holding guaranteed deposits) recorded the year-on-year decrease at end-2015 of 10.01% (“clearing of accounts” – deletion of inactive accounts with balances in euro cents that was performed by one bank in May 2015).

## 2.4. Guaranteed deposits

Guaranteed deposits amounted to 1,150,627,000 € as at 31 December 2015, whereas they totalled 1,063,632,000 € the year before, thus showing the year-on-year increase in the reporting year of 8.18%.

The enactment of the new Law in 2010 and the alignment with the Directive 2009/14/EC provided for an increase of the level of insured deposit from 5,000 € to 50,000 € and the reducing of the repayment period from 90 to 15 working days. In Q4 2010 and 2011, the guaranteed deposit amounted to 20,000 €, in 2012 it was 35,000 €, and as of 1 January 2013 it rose to 50,000 €.

Growth of the guaranteed deposits in 2015 was rather uneven observed by quarters. In Q1 they slightly decreased (0.01%) in comparison with Q4 2014. The quarter-on-quarter growth in Q2 2014 was 2.06%, and this trend continued both in Q3 and Q4 when guaranteed deposits increased 4.91% and 1.04%, respectively.

On 31 December 2014, guaranteed deposits had accounted for 45.90% of total deposits, and at the end of the reporting year they stood at 43.75%.

**Table 4** Share of guaranteed deposits in total deposits in 2015 (000 €)

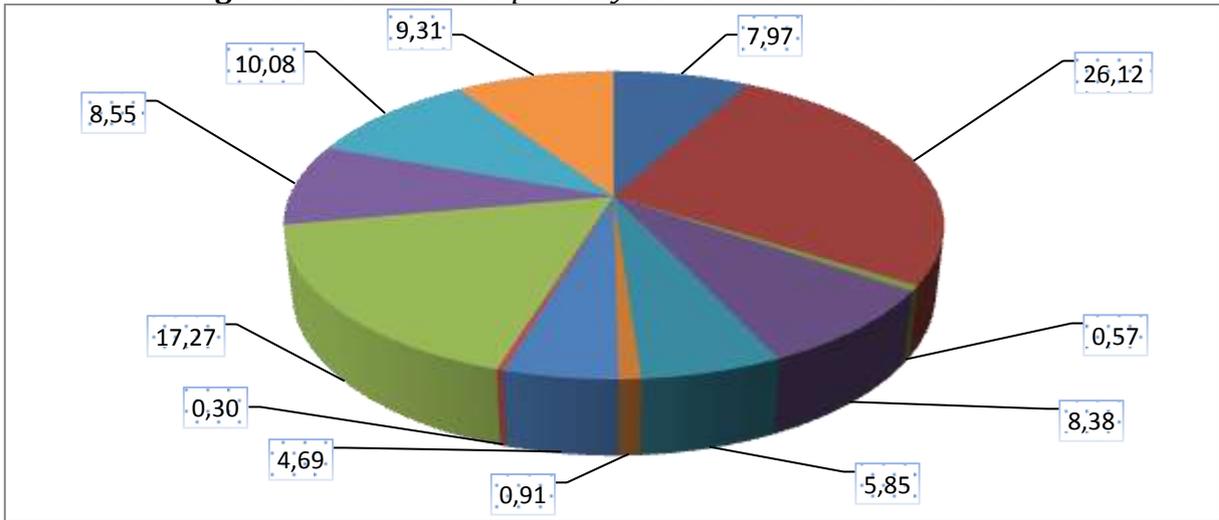
	<b>31. 12. 2014.</b>	<b>31. 03. 2015.</b>	<b>30. 06. 2015.</b>	<b>30. 09. 2015.</b>	<b>31. 12. 2015.</b>
	<b>GD - 50,000€</b>				
<b>GUARANTEED DEPOSITS</b>	1,063,632	1,063,567	1,085,470	1,138,751	1,150,627
<b>TOTAL DEPOSITS</b>	2,317,256	2,325,278	2,413,817	2,616,238	2,629,784
<b>SHARE OF GD* in TD**</b>	45.90%	45.74%	44.97%	43.53%	43.75%

*\*Source: Monthly bank reports \*Guaranteed deposits GD; \*\*Total deposits TD*

On 31 December 2015, guaranteed deposits were 86.9 million € higher than the year before.

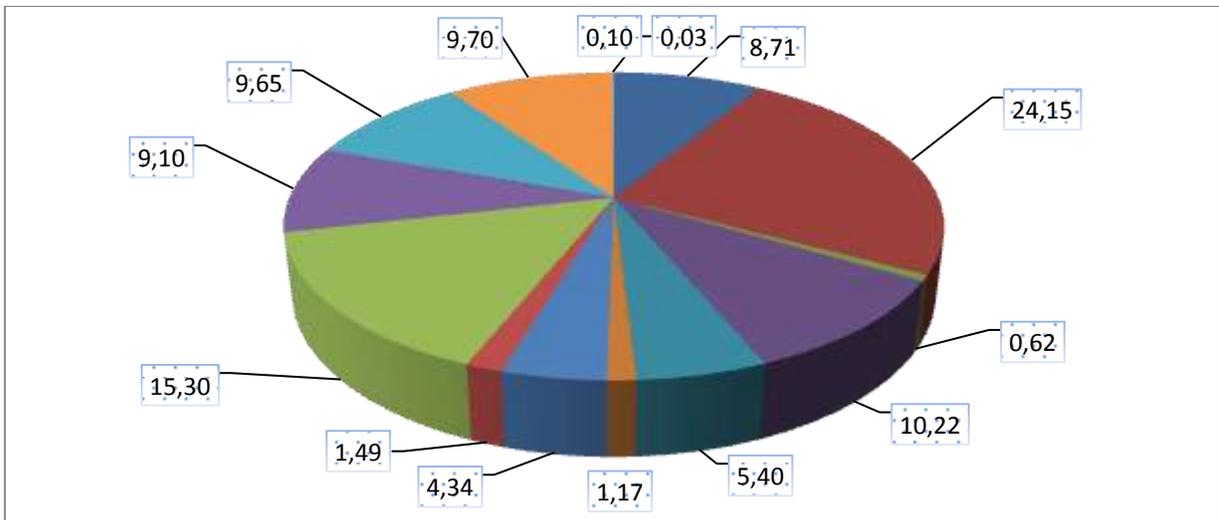
Regardless of their increase during the reporting year, the structure of guaranteed deposits did not significantly change compared to end-2014.

**Figure 6** Guaranteed deposits by banks as at 31 December 2014



\*Source: Monthly bank reports

**Figure 7** Guaranteed deposits by banks as at 31 December 2015



\*Source: Monthly bank reports

Two banks held 39.45% of total guaranteed deposits, which is the year-on-year decline (from 43.39% at end-2014).

The bank with the highest amount of guaranteed deposits reduced its share in total guaranteed deposits from 26.12% to 24.15%. The second bank in terms of size of guaranteed deposits also declined its share in total guaranteed deposits, from 17.27% to 15.30%, whereas the third bank retained a similar share of 9.65%.

At the end of the reporting year, two banks that held 32.64% of total deposits held 39.45% of guaranteed deposits, which is less than a year before when they had 36.90% of total deposits and 43.39% of guaranteed deposits, which indicates a positive trend in deposit diversification and/or risk dispersion.

**Table 4.1. Guaranteed deposits (natural and legal persons), 000 €**

	TOTAL	Natural persons	Legal persons	NP in % (2/1)	LP in % (3/1)
	1	2	3	4	5
31. 12. 2014.	1,063,632	909,735	153,898	85.53	14.47
31. 03. 2015.	1,063,567	915,934	147,633	86.12	13.88
30. 06. 2015.	1,079,090	921,357	157,733	85.38	14.62
30. 09. 2015.	1,138,751	955,943	182,808	83.95	16.05
31. 12. 2015.	1,150,627	972,077	178,550	84.48	15.52
31. 12. 15 – 31. 12. 14.	8.18%	6.85%	16.02%		
31. 12. 15 – 31. 12. 14.	86,995	62,342	24,652		

\*Source: Monthly bank reports

As at 31 December 2015, guaranteed deposits were 8.18% higher year-on-year (deposits by natural persons by 6.85% and deposits by legal persons by 16.02%).

**Table 4.2** Total number of depositors whose deposits exceed their liabilities to bank and who are entitled to the guaranteed deposit payout; and the number of depositors whose guaranteed deposit is below or equals 50,000 €

	TOTAL NUMBER OF DEPOSITORS WHOSE DEPOSITS EXCEED THEIR LIABILITIES TO BANK AND WHO ARE ENTITLED TO THE GUARANTEED DEPOSIT PAYOUT (AFTER DEDUCTING DUE LIABILITIES)			NUMBER OF DEPOSITORS HOLDING A DEPOSIT LOWER OR EQUAL TO THE AMOUNT OF GUARANTEED DEPOSIT OF 50,000 €					
	TOTAL	Natural persons	Legal persons	TOTAL	Natural persons	Legal persons	Coverage %	Coverage %	Coverage %
	1	2	3	4	5	6	7 (= 4/1)	8 (= 5/2)	9 (= 6/3)
31. 12. 14	828,287	768,995	59,292	822,128	764,164	57,964	99.26	99.37	97.76
31. 03. 15	824,896	765,450	59,446	818,712	760,522	58,190	99.25	99.36	97.89
30. 06. 15	708,933	648,073	60,860	702,662	643,154	59,508	99.12	99.24	97.78
30. 09. 15	725,505	663,425	62,080	718,903	658,407	60,496	99.09	99.24	97.45
31. 12. 15	745,359	681,749	63,610	738,779	676,768	62,011	99.12	99.27	97.49

\*Source: Monthly bank reports

The number of depositors holding the guaranteed deposit ≤ 50,000 € amounted to 738,779 (676,768 natural persons or 99.27% of the total number of private depositors entitled to payout; and 62,011 legal persons – 97.49% of the total number of legal persons entitled to payout), which made up 99.12% of the total number of depositors entitled to the guaranteed deposit payout. They accounted for 71.40% of the guaranteed deposits.

The number of depositors holding guaranteed deposits >50,000 € amounted to 6,580, of which 4,981 were natural persons (or 0.73% of the total number of entitled depositors) and 1,599 legal persons (2.51%) which accounted for 0.88% of the total number of entitled depositors whose deposits exceed their liabilities, which together made up 28.59% of the guaranteed deposits (Table 4.3).

**Table 4.3 Guaranteed deposits (natural and legal persons), 000 €**

Balance as at 31. 12. 2015.	Amount (000 €)	No. of deposit ors	Due liabilities (000 €)	Balance (000 €)	No. deposit ors holding GD	Coverag e %
Deposits	A	B	C	D	E	
<b>Deposits by persons entitled to the guaranteed deposit payout (legal and natural = 1 + 3)</b>	2.395.253	849.519	383.463	2.371.059	745.359	
<b>Deposits by natural persons entitled to the guaranteed deposit payout</b>	1.402.136	781.722	184.160	1.389.373	681.749	
Deposits by natural persons ≤50.000€	734.377	776.691	182.957	723.026	676.768	99,27
Deposits by natural persons >50.000 ≤100.000€	214.611	3.285	351	214.269	3.260	
Deposits by natural persons >100.000€	453.147.	1.746	852	452.077	1.721	
<b>GUARANTEED DEPOSITS BY NATURAL PERSONS</b>				972.077	681.749	
<b>Deposits by legal persons entitled to the guaranteed deposit payout</b>	993.116	67.797	199.303	981.685	63.610	
Deposits by legal persons ≤50.000€	102.887	66.085	169.777	98.600	62.011	97.49
Deposits by legal persons >50.000 ≤100.000€	50.698	726	4.841	49.753	696	
Deposits by legal persons >100.000€	839.530	986	24.683	833.332	903	
<b>GUARANTEED DEPOSITS BY LEGAL PERSONS</b>				178.550	63.610	
<b>GUARANTEED DEPOSITS (2+4)</b>				1.150.627	745.359	99.30

*\*Source: Monthly bank reports*

Total deposits by natural persons entitled to the guaranteed deposit payout after the deduction of their liabilities amounted to 1,389,373,768 € as at 31 December 2015, of which 723,026,816 € or 52.03% were guaranteed deposits ≤ 50.000€. The number of entitled depositors with deposit >50,000€ amounted to 4,981 and they would be repaid 249,050,000€ in case of bank failure, so the total guaranteed deposits by natural persons amounted to 972,076,816€ or 69.97% of insured deposits by natural persons.

At the same time, total deposits by legal persons entitled to the guaranteed deposit payout after the deduction of their liabilities amounted to 981,685,622€, of which 98,600,204€ or 10.04% were guaranteed deposits ≤ 50.000 €. The number of entitled depositors with deposit >50,000€ amounted to 1,599 and they would be repaid 79,950,000 € in case of bank failure, so the total guaranteed deposits by legal persons amounted to 178,550,204 € or 18.19% of insured deposits by legal persons.

Total deposits by persons entitled to the guaranteed deposit payout after the deduction of their liabilities amounted to 2,371,059,390 € as at 31 December 2015, of which 821,627,021€ or 34.65% were guaranteed deposits ≤ 50.000 €, and 329,000,000€ or 13.88% were deposits exceeding 50.000€. This means that, at the banking system level, entitled depositors would be repaid 1,150,627,021€ or 48.53% of total insured deposits.

As the deposit insurance system is basically designed to protect small, unsophisticated depositors (depositors who do not have or have very scarce knowledge about the management of financial resources), such a high coverage of depositors (99.12%) that would be fully compensated is an indication that the amount of € 50,000 is a well-designed coverage and that is in line with the economic power of depositors.

***An average amount of the guaranteed deposit*** amounted to 1,543€ as at 31 December 2015, which is 20.23% more than the year before (1,284 €).

***An average amount of the guaranteed deposit by a legal person*** amounted to 2,806€ at end-2015, which is the year-on-year growth of 8.17% (2,595 € in 2013).

***An average amount of the guaranteed deposit by a natural person*** amounted to 1,425€ or 20.53% more than at end-2014 (1,183 €).

### 3. EXPOSURE OF THE FUND TO BANKS

Total exposure of the Fund to banks is represented with the coverage ratio, i.e. the Fund's assets to liabilities ratio in case of a hypothetical bankruptcy of all banks (the Fund's assets/total guaranteed deposits).

The Fund's assets amounted to 67,740,819€ as at 31 December 2015, and the guaranteed deposits totalled 1,150,627,021€.

The coverage ratio is the internationally recognized ratio for the measurement and indication of the degree of coverage of guaranteed deposits. The coverage of guaranteed deposits with the Fund's assets at the aggregate level amounted to 5.89% (for the guaranteed deposit ≤ 50.000 €) as at end-2015, whereas it totalled 5.30% in 2014.

The Fund's exposure to individual banks (the Fund's assets to the guaranteed deposits in individual banks – the coverage of guaranteed deposits by the bank) as at 31 december 2015 is presented in Table 5 and Figure 8 below.

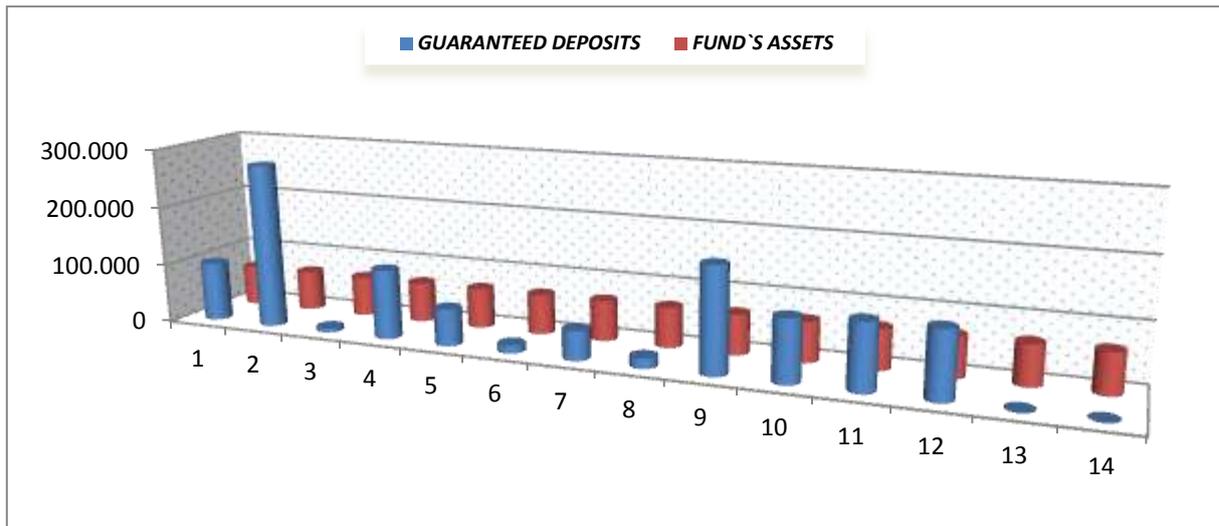
**Table 5** Coverage of guaranteed deposits with the Fund's assets ( 000 €)

BANKS	GUARANTEED DEPOSITS	FUND'S ASSETS	Coverage (%)	FUND'S ASSETS WITH EBRD FUNDS	Coverage <sup>3</sup> (%)	Lacking funds 1	Lacking funds 2
1	2	3	4	5	6	7	8
			3/2		5/2	3 - 2	5 - 2
1	100.179	67.740	67,62	97.740	97,57	-32.439	-2.439
2	277.882	67.740	24,38	97.740	35,17	-210.142	-180.142
3	7.157	67.740	946,51	97.740	1.365,69	60.583	90.583
4	117.621	67.740	57,59	97.740	83,10	-49.881	-19.881
5	62.165	67.740	108,97	97.740	157,23	5.575	35.575
6	13.513	67.740	501,28	97.740	723,28	54.227	84.227
7	49.944	67.740	135,63	97.740	195,70	17.796	47.796
8	17.201	67.740	393,82	97.740	568,23	50.539	80.539
9	175.990	67.740	38,49	97.740	55,54	-108.250	-78.250
10	104.763	67.740	64,66	97.740	93,30	-37.023	-7.023
11	111.061	67.740	60,99	97.740	88,01	-43.321	-13.321
12	111.621	67.740	60,69	97.740	87,56	-43.881	-13.881
13	1.162	67.740	5.828,87	97.740	8.410,30	66.578	96.578
14	369	67.740	18.355,39	97.740	26.484,43	67.371	97.371
<b>TOTAL</b>	<b>1.150.627</b>	<b>67.740</b>	<b>5,89</b>	<b>97.740</b>	<b>8,49</b>		

\*Source: Monthly bank reports and the Fund's bookkeeping

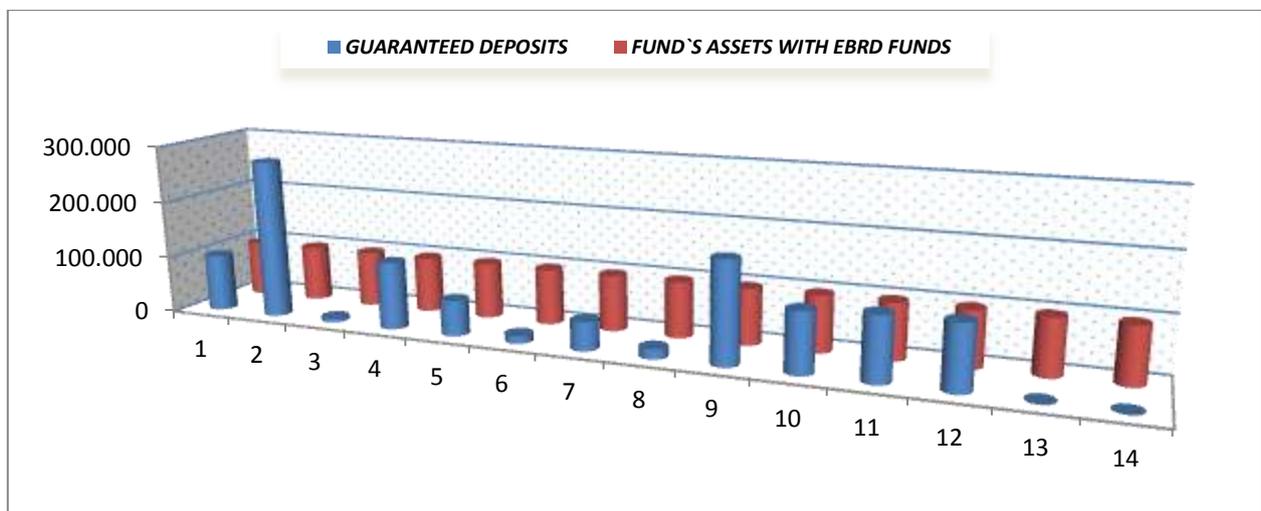
3 Calculated resources of the Fund with the donation and credit of 30.0 million € from the EBRD.

**Figure 8** The Fund's exposure to individual banks (without the EBRD funds)



*\*Source: Monthly bank reports and the Fund's bookkeeping*

**Figure 8.1** The Fund's exposure to individual banks (with the EBRD funds)



*\*Source: Monthly bank reports and the Fund's bookkeeping*

In case of introduction of bankruptcy in any of 9 banks, the Fund's assets (total of 67.7 million € at end-2015) and funds provided from the Stand-by arrangement with the EBRD (30 million €) would be sufficient for the compensation of all depositors in any of the 9 banks (of the 9 indicated banks, two have a shortfall in funds of 2.5-7.0 million € as presented in Figure 8.1)

In case of bankruptcy in one of the three biggest banks, the lacking funds in the biggest bank would total to 180 million€, the second biggest bank would have a 78 million € shortfall, and the third bank would need 13 million € (Table 5). The shortfalls by the bank were 15% lower at end-2015 than at end-2014.

The Fund would provide the shortfall from additional sources in one of the manner prescribed in the Law (charging the extraordinary premium; borrowing from the Budget of Montenegro; borrowing from foreign banks and financial institutions; and issuing securities; or a combination of two or more of the listed sources).

At the end of the reporting year, guaranteed deposits in 14 banks in the system amounted to 1,150,627,021 €, whereas the Fund's resources totalled 67,740,819 €. The coverage ratio was 5.89%. Pursuant to the Law, the aimed coverage ratio is 10% of the guaranteed deposits. When the Fund's resources (without donations) reach the level of 10% of the guaranteed deposits, the MB may pass a decision on reducing the regular premium rate and/or temporary discontinuation of the regular premium collection.

In 2010, the Fund signed the Loan Agreement with the EBRD regulating the withdrawal of 30 million € over seven years for the purpose of guaranteed deposits payout. Thus the EBRD provides the coverage ratio of 8.49% through the stand-by arrangement (to be used solely in case of a bank bankruptcy) (Table 6).

**Table 6** Coverage ratio for guaranteed deposits in the system

<b>Guaranteed deposits as at 31.12.2015.</b>	<b>Fund's resources as at 31.12.2014.</b>	<b>% of coverage of guaranteed deposits</b>
<b>1</b>	<b>2</b>	<b>2/1</b>
1,150,627,021	67,740, 819 <sup>4</sup>	5.89%
1,150,627,021	97,740, 819 <sup>5</sup>	8.49%

*\*Source: Monthly bank reports and the Fund's bookkeeping*

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<sup>4</sup>The Fund's resources (from the premium, donations, and the Fund's operating income)

<sup>5</sup>The Fund's resources increased by funds provided via the EBRD loan (30 million €)

## 4. ACTIVITIES OF THE FUND IN 2015

### 4.1. General remarks

Activities of the Fund over the reporting period were carried out in accordance with planned obligations set out in the Fund's Work programme for 2015 which resulted from regular obligations and novelties in deposit insurance schemes.

Activities of the Fund referred to regular operations, obligations related to the participation in Montenegro's negotiations with the EU that necessitate amendments to the relevant legislation, as well as the participation in the FSAP mission.

Within the FSAP mission, the Funds assessed the deposit insurance system of Montenegro's compliance with the IADI Core Principles and prepared a three-year plan to improve the compliance.

The Fund's continuous task is capacity building aimed at protecting the interests of depositors and preserving stability of the banking system. Enhancing capacity is achieved through:

- a) Education and training of employees in the Fund and banks;
- b) Timely and comprehensive information to the public on the deposit protection scheme – promotion of deposit insurance;
- c) Surveying as an indicator of business policy pursuit, and
- d) Statistical modelling of the targeted level of Fund's assets for the purpose of the methodology for establishing the risk-based premium.

Considering that the basic function of the Fund is to act as a pay-box, and as such appears as the payer of guaranteed deposits, this requires ongoing coordination between the Fund and the CBCG, and between the Fund and the MF.

- a) Training of staff was carried out on continuous basis either in the form of internal workshops or the participation of the Fund's representatives in international workshops organized by the EFDI and the IADI.
- b) During the reporting year, the Fund also paid particular attention to the marketing campaign. In accordance with the highest transparency standards, the public was timely informed about the Fund's activities, objectives, and results via press releases, promotional material, and media appearances.

Promotional material (brochures, posters and stickers) was distributed to all banks in December 2015, in line with the Guide to informing depositors and potential depositors about the deposit protection scheme.

Informing the public via radio and TV campaigns is a form of communication that the Fund uses to present the information on deposit insurance to the general public. As part of a regular campaign in December 2015 and January 2016, almost all TV and radio stations broadcast the Fund's a propaganda video of the Fund, which appropriately inform the public about the deposit insurance system.

In addition, the Fund created a special leaflet of which over 60,000 copies were distributed through print media.

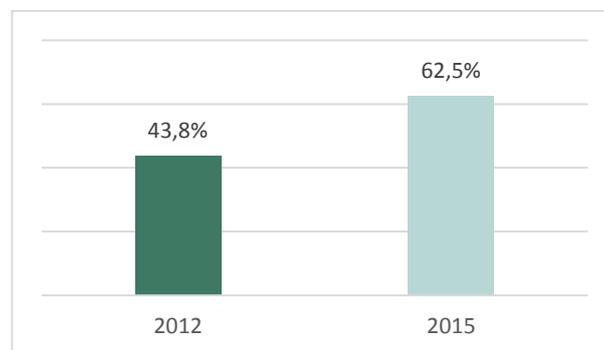
All the information on the main characteristics of the deposit protection as well as information about the Fund can be found on the the Fund`s website. Website of the Fund was visited by thousands of interested parties from 46 countries worldwide during 2015.

- c) DeFacto Consultancy Agency from Podgorica conducted a public opinion survey in October 2015 on the citizens' perception of the role of the Fund` in order to feel their pulse in relation to the insurance of deposits and quantify the general attitude of the public related to the deposit protection system.

When comparing the data from this survey with the 2012 survey data we get the following responses:

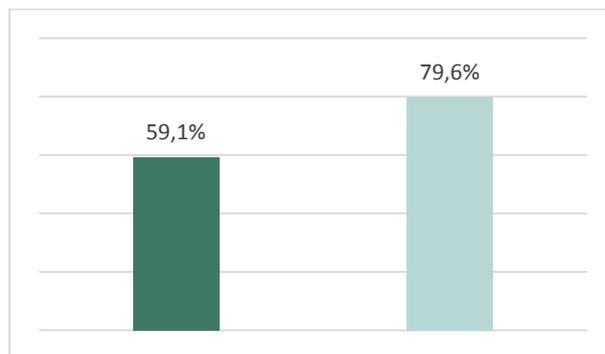
- a) Have you heard of the Fund? - 62.5% of the citizens said they had heard of the Fund. Given that activities of the Fund are, so to speak, invisible for most of the citizens, we can assess that the percentage of those who have heard of the Fund is rather big. When we look at comparative data, we see that the percentage of those who heard of the Fund has increased significantly in relation to the year 2012.

**Figure 9** Comparison of responses to the question "Have you heard of the Fund?"



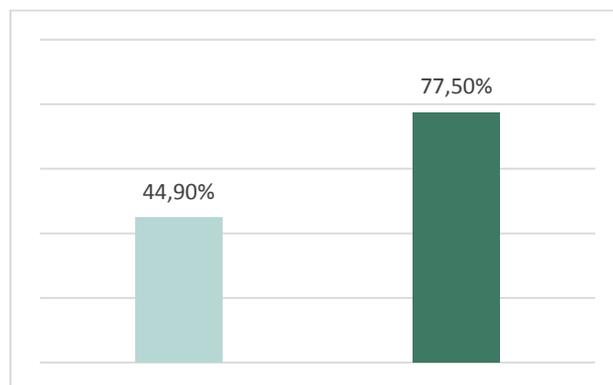
- b) What is the Fund? - More than half of respondents (56.8%) answered correctly, that it is the institution which insures deposits up to the guaranteed amount in the event of a bank failure.
- c) Who is protected by the Fund? - The vast majority of citizens (79.6%) recognized the role of the Fund as an institution that protects deposits of both natural and legal persons. In the survey conducted in 2012, the correct answer was given by much fewer respondents, 59.1%.

**Figure 10** Comparison of responses to the question "Who is protected by the Fund? "



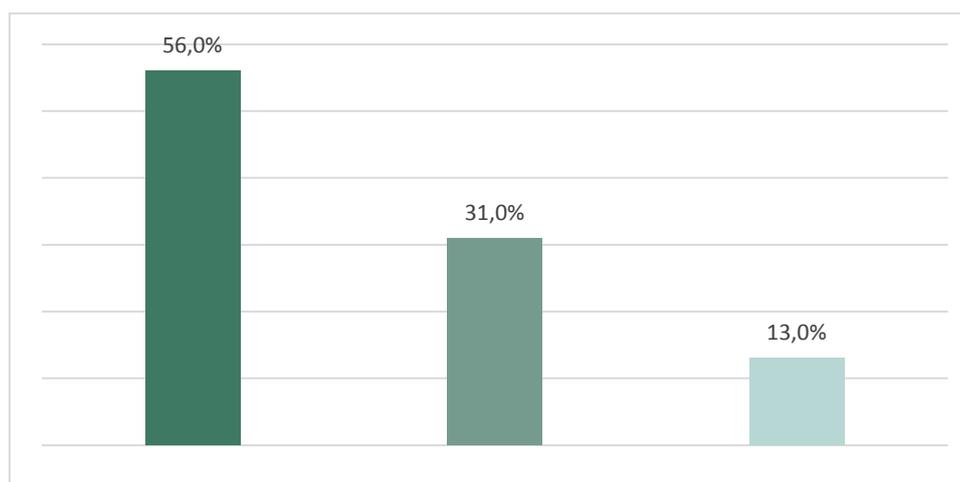
- d) Does the Deposit Protection Fund protect deposits in all banks in Montenegro? - the majority of citizens (64.9%) were aware of the fact that the Fund protects deposits in all banks.
- e) What is the amount of guaranteed deposits? - The highest percentage of those who answered this question answered correctly that the amount of the guaranteed deposit in Montenegro was €50,000, 77.5% of the respondents, which is much higher percentage if compared to the 2012 survey (44.9%).

**Figure 11** Comparison of correct answers to the question of the amount of the guaranteed deposit



- f) Then the questionnaire continued with a block of three questions about whether to reduce or increase the amount of the guaranteed deposit or keep it at the same level. Of those respondents who opted for one of these three options, most believed that the guaranteed deposit should be kept at the current level (54.3%).
- g) Do you know that the amount of the guaranteed deposit will be increased to €100,000 with Montenegro`s accession to the EU, same as in other EU member states? - As one could guess from the previous block of questions, citizens were fairly uninformed about this fact. No less than 78.7% of respondents said that they had not been aware that there will be any such increase. This question was deliberately phrased in this manner and its purpose was rather to inform the citizens about this fact than to inquire whether they were aware of this fact.
- h) In your opinion, how essential is the existence of the Fund in increasing confidence in banks? - In the figure below we see that the majority of citizens recognized the positive role that the Fund has in the citizens` confidence in banks.

**Figure 12** *The Fund's impact on citizens' confidence in banks*



The collected information can serve as a good basis for drawing some conclusions but also certain recommendations regarding the future course of action so that the Fund could enjoy even greater confidence of the Montenegrin public.

Deposit analysis is a constant task of the Fund. In order to obtain a more accurate picture of the state of affairs, the Fund exchanged information with the CBCG and based on the analysis of trends in deposits it prepared scenarios and made analyses of its exposure in relation to the amount of the guaranteed deposit.

The analysis prepared the base and enabled statistical modeling of the target level of funds which would be the basis for determining the risk-based premium rates following the adoption of the new Law and the methodology for establishing the risk-based premium rate. The targeted level of funds should be reached in 2024 (in accordance with Directive 2014/49/EC).

## **4.2. Investment activities and accounting in 2015**

The Fund invested its assets in 2015 in accordance with its Investment Policy, the Asset Management Agreement with the CBCG (dated 4 May 2012), and the financial situation in the world markets.

Through its asset management (CCGB) and in line with the Investment Policy, the Fund invested its available assets in time and overnight deposits. The Fund independently invested a part of deposits (20% of total assets) in debt securities issued by the CBCG on behalf of the MF of Montenegro.

Considering the restrictions prescribed by the Law, the Fund's By-Law and Investment Policy, the Fund may invest in:

- 1) securities issued or guaranteed by Montenegro;
- 2) securities issued by a foreign bank, a financial institution and/or a country holding a high rating assigned by an internationally recognized rating agency;

3) deposits in central banks and foreign banks holding high ratings assigned by an internationally recognized rating agency.

During the reporting year, the CBCG invested the Fund's assets in 3-month and 6-month time deposits with renowned commercial banks holding high credit ratings.

Average interest received by the Fund on the account of time deposits in H1 and H2 2015 amounted to 0.02173% and 0.00121%, respectively.

Offered and accepted rates of return for investments in 182-day T-bills ranged from 0.28% to 0.30% and from 0.20% to 0.40% in H1 and H2, respectively.

The reporting period was characterized by low interest rates in the financial market, which resulted in rather unfavourable total results as measured by interest income.

In line with the statutory obligation, the Fund hired the tender winning audit firm "Deloitte" d.o.o Podgorica to audit its 2015 annual accounts and financial statements.

The Fund independently performs its financial and accounting operations and prepares financial statements for every business year. On the basis of bookkeeping data, information and overviews were prepared with a view to monitoring the implementation of the Fund's Financial Plan, which were subject to regular reporting to the MB.

### **4.3. Normative – legal activities**

The MB of the Fund adopted the following normative acts in 2015:

- Decision on the adoption of the Annual financial statements of the Deposit Protection Fund for 2014;
- Decision on the regular premium calculation rate and the method of the regular premium calculation in 2016 (the Managing Board decided that the regular premium rate in 2016 shall be 0.50% of total deposits in banks (same as in 2015));
- Decision amending the Decision on detailed conditions, manner and procedure of the guaranteed deposit payout;
- Guidelines for the agent bank selection
- Investment policy of the Fund
- Rulebook on salaries, wages and other employee benefits in the Fund;
- Rules of Procedure of the Managing Board.

During the reporting year, the Fund's MB discussed and adopted:

- The Annual activity report of the Fund for 2014 (submitted to the CBCG Council for adoption, and to the Government and the Parliament of Montenegro for information);
- Financial statements of the Fund for 2014 (prepared in line with the IAS, adopted by the Fund's MB, and submitted to the CBCG, the Parliament, and the Government of Montenegro);
- External audit report for 2014 was considered by the Fund. The report was prepared by the audit firm "Deloitte" d.o.o. Podgorica. The opinion of the independent external auditor is that "the financial statements fairly and accurately present the position of

the Fund and they have been prepared in accordance with the laws of Montenegro and the IAS”);

- Financial plan of the Fund for 2016.

In addition to the aforesaid reports, the MB also considered monthly and quarterly reports on deposit trending in the banking system, the balance of the Fund’s assets, the fulfilment of planned activities, and investments.

#### **4.4. Managing Board of the Fund**

Members of the Fund’s MB in the reporting year were:

- Dr. Velibor Milošević, Chairman (CBCG Vice-governor);
- Bojana Bošković, member (Assistant Minister of Finance);
- Prof. Dr Marko Backović, member (professor at the Faculty of Economics in Belgrade).

The MB held eleven meetings in 2015.

#### **4.5. Human resources**

Position	Qualifications
Director General	B. Sc. Econ
Adviser to Director General	B. Sc. Econ
Secretary	B.Sc. Law
Adviser on deposit insurance	B. Sc. Econ
Adviser on deposit insurance	B. Sc. Econ
IT officer	B. Sc. IT
Accountant	economist

The Fund had seven employees as at 31 December 2015.

In 2015, the Fund ensured both general and professional training of its employees. The participation in seminars organised by international associations allowed the employees to be up-to-date with changes in the deposit insurance schemes and to apply best EU practices.

#### **4.6. International cooperation**

As a full-fledged member of the European Forum of Deposit Insurers (EFDI), which is an association of European deposit insurance funds on a voluntary basis enabling the exchange of ideas and experiences in deposit insurance in Europe, the Fund attended the conference and seminars and participated in working activities organised by this association in 2015. Representatives of the Fund used these opportunities to make contacts and share experiences in drafting secondary legislation and its alignment with the Directive 2014/49/EC.

At the same time, representatives of the Fund actively participated in surveys used as the main guidelines for the improvement of deposit guarantee schemes in all EFDI members. The EFDI objectives are achieved through sharing information on the situation in the financial and banking sectors, participation in research projects, improvement of regulatory frameworks and practices, establishment of expert bodies, secondment and education of employees, and the like.

The Fund participated in the EFDI annual conference held in Malesia in October 2015. The Fund's representatives presented Montenegro's deposit insurance model compliance with the IADI CP.

Since the period in which the FSAP mission visited Montenegro coincided with the date of the EFDI's Annual General Meeting, the Fund did not take part in this meeting which was held from 2 to 5 September 2015 in Dubrovnik, Croatia.

During 2015, the Fund had an active cooperation with institutions for deposit insurance from Balkan countries, which are members of the EFDI. Regional meetings were held in Croatia and Bosnia and Herzegovina, which were attended by representatives from Albania, Bosnia and Herzegovina, Macedonia, Croatia, and Serbia with the aim of creating a common platform for the representation of the countries' common interests in international organizations, promotion of mutual information and expertise, as well as closer cooperation that will contribute to strengthening financial stability in the region. The Memorandum of Understanding aimed at strengthening mutual cooperation and professional exchanges was prepared at these meetings and signed at the third regional meeting held in Serbia in March 2016.

## 5. FINANCIAL OPERATIONS OF THE DEPOSIT PROTECTION FUND IN 2015<sup>6</sup>

### 5.1. Statement of financial performance (Income statement) of the Fund as at 31 December 2015

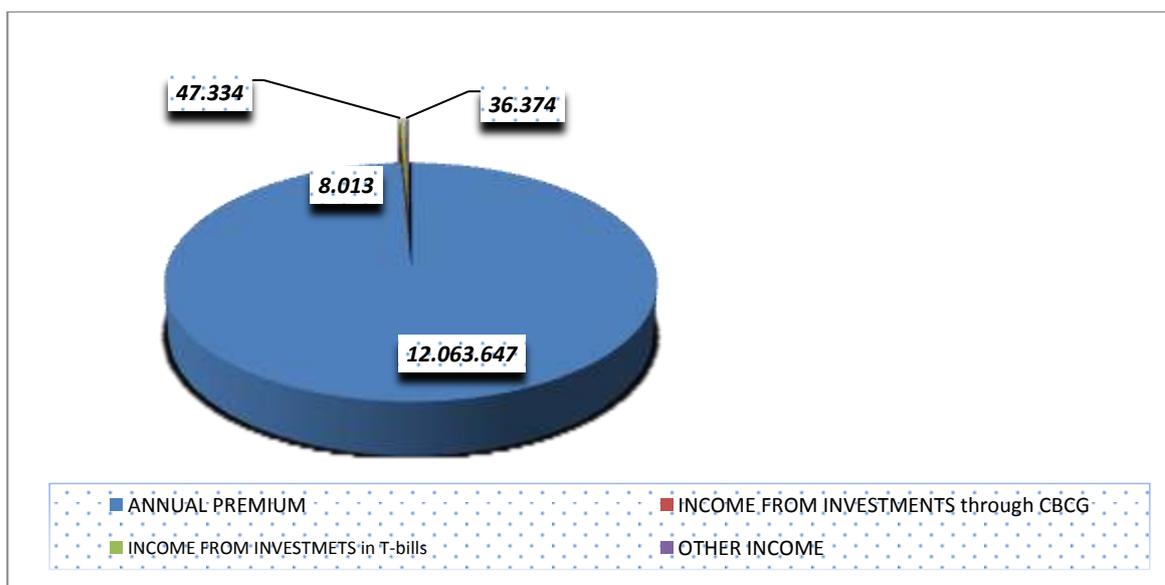
#### 5.1.1. THE FUND'S INCOME

The Fund's income amounted to **12,065,035€** in 2015, exceeding the planned income for the reporting year by 6.49% and being 11.84% higher year-on-year.

The income consists of two main groups of revenues:

- revenues from premium and
- financial and other revenues.

**Figure 14** Structure of total income in the period January – December 2015



\*Source: Bookkeeping of the Fund

5.1.1.1. The most significant income item is **revenues from premium** and they accounted for 99.25% of total income. The 2015 income plan envisaged the annual premium in the amount of 11,330,000€ (100,000€ from the initial premium collection), yet billed and collected premium amounted **12,063,647 €** or 7.42% more than planned and 11.84% more than in 2014.

The increase in these revenues is a result of the increased premium base, that is, the premium for 2015 was planned on the basis of total deposits of 2.3 billion euros, but

<sup>6</sup> Overview of income and expenditure in 2014 and 2015, as well as the plan of income and expenditure for 2015 and 2016 are given in the Annex hereto.

this category of deposits amounted to 2.6 billion euros in Q3 and Q4 due to the two new banks in the system.

5.1.1.2. Financial income amounted to **91,671€** and it was 67.18% lower than in the previous year and 67.26% lower than planned. This income covers:

- revenues from the Funds investments and
- other revenues.

5.1.1.2.1. *Revenues from the Fund's investments* amounted to **55,347€** or 80.23% less than planned and 77.42% less year-on-year, accounting for 0.46% of total income.

Such a low generation of revenues from investment of funds was due to the following reasons:

- A drastic fall in interest rates in the global financial market. In November and December 2015, German, Dutch and Luxembourg banks accounted for a negative interest rate on time and demand deposits.
- A high level of available liquid assets in the domestic market caused a decline in interest rates on T-bills of Montenegro in the domestic market.

5.1.1.2.2. *Other revenues* totalled **36,374€** and they made up 39.65% of financial income in the reporting year, being 6.36% higher than in 2014. These revenues accounted for 0.30% of total income, with the breakdown as follows:

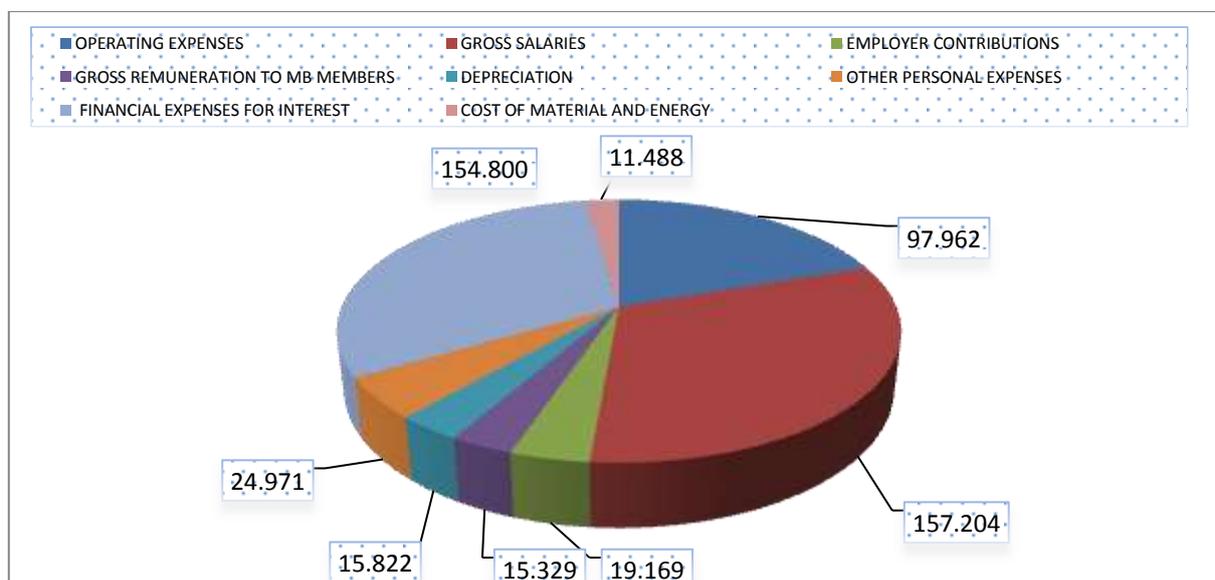
- Revenues from fines and penalties imposed by the CBCG 36,324 €
- Revenues from purchased tender documents and reduced liabilities 50 €

### 5.1.2. THE FUND'S EXPENDITURE

Total expenditure reached **496,745€**, being 7.15% lower than planned but 8.21% higher year-on-year. Total expenditure is classified in two main groups:

- financial expenses and
- operating expenses.

**Figure 15** Structure of total expenditure in the period January – December 2015



\* Source: Bookkeeping of the Fund

- 5.1.2.1. *Financial expenses* covered interest payables for the EBRD loan in the amount of **154,800€** and they accounted for 31.16% of total expenditure.
- 5.1.2.2. *Operating expenses* amounted to **341,945€** or 11.40% more than in 2014 yet 10.60% less than planned for the reporting year.

Operating expenses covered:

- *Cost of material and fuel and energy (lease and maintenance of commercial premises, cost of office supply, cost of fuel) were 10.46% lower year-on-year and 25.88% lower than planned for the reporting year.*
- *Cost of salaries, wages, remuneration to MB members, service contracts, business travel, and other personal expenses exceeded the same expenses in 2014 by 12.74%, but they were 6.20% lower than planned for 2015.*

5.1.2.2.1. *Depreciation was calculated in the amount 22.77% higher than in the previous year. These expenses accounted for 3.19% of total expenditure.*

5.1.2.2.2. *Other operating expenses totalled **97,962€** or 23.47% of the planned for the reporting year, and they were 10.02% higher than in the previous year.*

- Cost of advertising and promotional material had been planned in the amount of 36,000 €, and the amount spent was **18,628€** or 51.74% of the plan. These costs were 38.32% lower year-on-year.
- Costs of professional services covered the external audit of financial statements, and education and training and they were **15,555€** or 80.04% than in the previous year but in line with the 2015 plan.
- Costs of representation reached **4,130€** or 4.79% and 17.4% less than in 2014 and planned for 2015, respectively.
- Cost of membership fees in the international associations amounted to **11,929€**, in line with the 2015 plan.
- Cost of postal and payment system services, and other business expenses totalled **23,602€** or 54.1% below the plan for the reporting year.
- Cost of fees for T-bills purchase amounted to **24,118 €** (introduced under the MF's decision as of end-2014) and they were not envisaged in the 2015 plan.

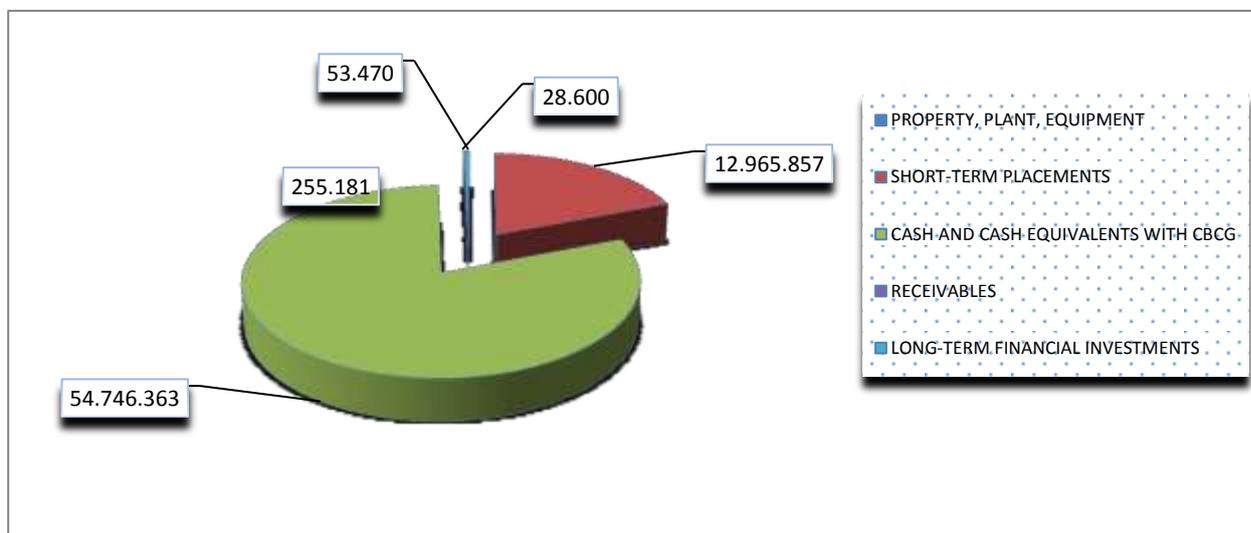
The Fund's business result in 2015 amounted to 11.723.090 €, whereas the financial result was 63,080€. Total net result amounted to 11.660.010€ or 5.26% more than planned or 9.92% more year-on-year.

## 5.2. STATEMENT OF FINANCIAL POSITION (Balance sheet)

Total assets and liabilities of the Fund amounted to **68,049,471€** as at 31 December 2015.

The year-on-year increase in assets and liabilities of **11,658,670€** or 20.67% in 2015 was primarily due to retained earnings in 2015.

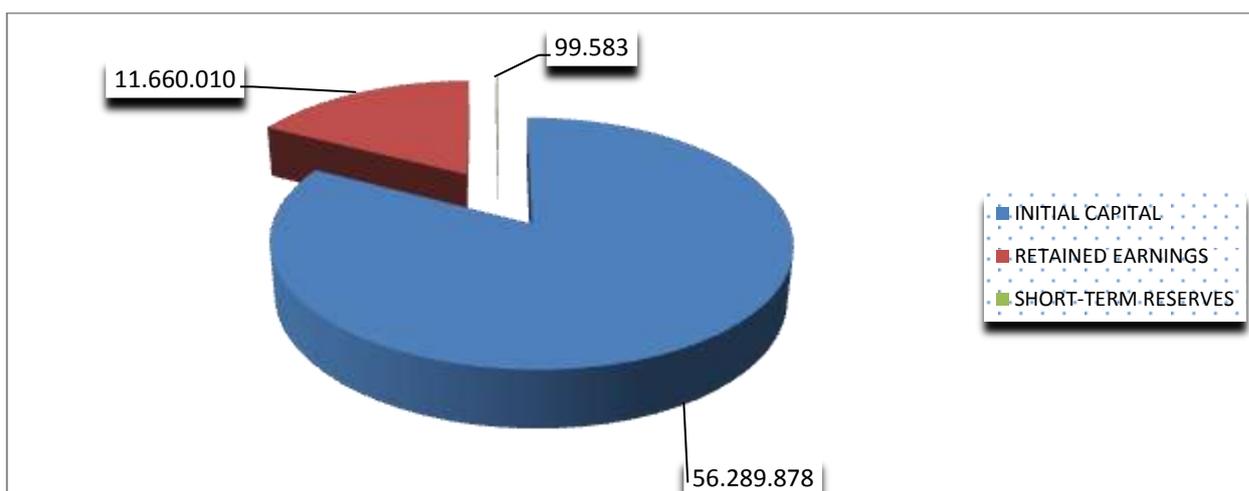
**Figure 16** Structure of balance sheet assets as at 31 December 2015



*\*Source: Bookkeeping of the Fund*

In the structure of total assets, equipment accounted for 0.08% (53.470 €), 0.04% (28,600€) were receivables, 19.05% (12,965,857 €), were investments in T-bills, 0.37% (255,181€) were long-term investments – claims on employees, and 80.45% (54,746,363 €) were funds invested with the CBCG.

**Figure 17** Structure of balance sheet liabilities as at 31 December 2015



*\*Source: Bookkeeping of the Fund*

In the structure of total liabilities, initial capital made up 82.72%, retained earnings accounted for 17.13%, whereas short-term reserves<sup>7</sup> made up 0.15%.

### **5.3. STATEMENT OF CHANGES IN EQUITY**

The balance of capital was 67,949,888€ as at 31 December 2015, which is 20.71% more than in the previous year.

Investments in T-bills amounted to 12,965,857€ (10,541,241€ in 2014) with the following maturity dates:

- a) 23. 02. 2016, with interest rate of 0.30% (4,000,000€);
- b) 23. 02. 2016, with interest rate of 0.40% (3,667,900€);
- c) 02. 03. 2016, with interest rate of 0.30% (3,230,000€);
- d) 02. 03. 2016, with interest rate of 0.35% (2,090,000€);

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<sup>7</sup> This amount represents payables to suppliers, interest payables to the EBRD, accrued income for technical assistance of the CBCG, and donation of fixed assets.

## 6. OBJECTIVES AND TASKS OF THE FUND IN 2016

The Fund's ongoing tasks involve the monitoring of deposit trending in banks, premium collections, and investment of collected funds.

As Montenegro opened EU accession negotiations with the European Commission in 2012, over the past three years (and this will continue in 2016), the Fund has made its capacities available to the working group for Chapter 9 – FINANCIAL SERVICES in the part related to DEPOSIT GUARANTEE SCHEME.

Pursuant to Directive 2014/49/EC, it is necessary to draft a new Deposit Insurance Law that would improve the existing scheme in accordance with best EU practice. This new law would allow for the moving from the current "paybox" deposit insurance system to a "paybox plus" that implies more powers of the Fund and the ability to control information that banks submit to the Fund, including greater responsibility for the banking system stability and overall financial stability as well.

Amendments to the Law basically mean the introduction of the risk-based premium, so the existing analyses and simulations prepared by the fund should serve for the preparation of the methodology for the establishment of the risk-based premium in line with the instructions prescribed by the EBA.

Considering planned amendments and supplements to several other laws (Capital Market Law, Bank Bankruptcy and Liquidation Law) and preparations for the enactment of new banking legislation (Bank Recovery and Resolution Law that should regulate the establishment of the Resolution Fund), it is necessary to maintain ongoing coordination with the relevant stakeholders.

Pored navedenog, neophodno je detaljno razmotriti argumente za proširenje djelatnosti Fonda i ekonomsku isplativost objedinjavanja funkcija prikupljanja sredstava i upravljanja sredstvima Fonda za zaštitu investitora i Sanacionog fonda.

Improvement of the institutional capacity of the Fund for the purpose of timely intervention at the moment of a "protected event" occurrence is also a constant task of the Fund. In order to achieve greater capacity for efficient and rapid compensation of the guaranteed deposits, and considering that equipment has been innovated, the Fund will perform the "protected event" simulation exercise to test real data in individual banks.

## ANNEX – Overview of planned and recorded income and expenditure

	DESCRIPTION	2014	Plan for 2015	2015	% 6/4	% 4/5	Plan for 2016
1	2	4	5	6	7	8	9
<b>A.</b>	<b>TOTAL INCOME</b>	<b>11,067,071</b>	<b>11,612,150</b>	<b>12,156,755</b>	<b>109.85</b>	<b>104.69</b>	<b>13,553,000</b>
<b>A.1.</b>	<b>OPERATING INCOME</b>	<b>10,787,675</b>	<b>11,330,000</b>	<b>12,065,035</b>	<b>111.84</b>	<b>106.49</b>	<b>13,400,000</b>
A.1.1.	PREMIUM	10,786,978	11,230,000	12,063,647	111.84	107.42	13,350,000
A.1.2.	OTHER	697	100,000	1,388	199.14	1.39	50,000
<b>A.2.</b>	<b>FINANCIAL INCOME</b>	<b>279,291</b>	<b>280,000</b>	<b>91,671</b>	<b>32.82</b>	<b>32.74</b>	<b>150,000</b>
A.2.1.	Interest on time deposits	71,257	80,000	8,013	11.25	10.02	0
A.2.2.	Interest on T-bills	173,882	200,000	47,334	27.22	23.67	150,000
A.2.3.	Fines and penalties			36,324	106.36		
<b>A.3.</b>	<b>Other</b>	<b>105</b>	<b>2,150</b>	<b>49</b>	<b>46.67</b>	<b>2.28</b>	<b>3,000</b>
<b>B.</b>	<b>TOTAL EXPENDITURE</b>	<b>459,040</b>	<b>535,000</b>	<b>496,745</b>	<b>108.21</b>	<b>92.85</b>	<b>647,500</b>
<b>B.1.</b>	<b>OPERATING EXPENSES</b>	<b>306,957</b>	<b>382,500</b>	<b>341,945</b>	<b>111.40</b>	<b>89.40</b>	<b>460,000</b>
<b>B.1.1.</b>	<b>Cost of material and energy</b>	<b>12,830</b>	<b>15,500</b>	<b>11,488</b>	<b>89.54</b>	<b>74.12</b>	<b>14,000</b>
B.1.1.1.	Cost of office supply	1,507	1,500	1,159	76.91	77.27	1,500
B.1.1.2.	Cost of fuel, water, energy, maintenance	11,323	14,000	10,329	91.22	73.78	12,500
<b>B.1.2.</b>	<b>SALARIES, FRINGE BENEFITS AND OTHER</b>	<b>192,195</b>	<b>231,000</b>	<b>216,673</b>	<b>112.74</b>	<b>93.80</b>	<b>251,500</b>
<b>B.1.2.1.</b>	<b>Gross wages and salaries</b>	<b>142,841</b>	<b>158,550</b>	<b>157,204</b>	<b>110.06</b>	<b>99.15</b>	<b>169,426</b>
B.1.2.1.1.	Net salary	90,303	100,234	101,273	112.15	101.04	109,147
B.1.2.1.2.	Taxes	18,160	20,157	18,082	99.57	89.71	19,488
B.1.2.1.3.	Contributions	34,378	37,159	37,849	110.10	99.19	40,792
<b>B.1.2.2.</b>	<b>EMPLOYER CONTRIBUTIONS</b>	<b>17,061</b>	<b>19,450</b>	<b>19,169</b>	<b>112.36</b>	<b>98.56</b>	<b>20,574</b>
<b>B.1.2.3.</b>	<b>REMUNERATION TO MB MEMBERS</b>	<b>15,404</b>	<b>16,000</b>	<b>15,329</b>	<b>99.51</b>	<b>95.81</b>	<b>34,500</b>
B.1.2.3.1.	Net remuneration to MB members	11,508	11,953	11,452	99.51	95.81	25,774
B.1.2.3.2.	Taxes	1,386	1,440	1,380	99.57	95.86	3,106
B.1.2.3.3.	Contributions	2,510	2,607	2,497	99.48	95.78	5,620
<b>B.1.2.4.</b>	<b>OTHER PERSONAL EXPENSES</b>	<b>16,889</b>	<b>37,000</b>	<b>24,971</b>	<b>147.85</b>	<b>67.49</b>	<b>27,000</b>
B.1.2.4.1.	Assistance to employees	1,660		1,550	93.37		
B.1.2.4.2.	Service contracts	1,718	12,000	3,693	214.96	30.78	5,000
B.1.2.4.3.	Daily allowances	2,265	7,000	3,976	175.54	56.80	5,000
B.1.2.4.4.	Business travel transport	7,760	10,000	6,928	89.28	69.28	7,000
B.1.2.4.5.	Business travel accommodation	3,486	8,000	8,824	253.13	110.30	10,000
<b>B.2.</b>	<b>DEPRECIATION</b>	<b>12,888</b>	<b>8,000</b>	<b>15,822</b>	<b>122.77</b>	<b>197.78</b>	<b>16,000</b>
<b>B.3.</b>	<b>OTHER OPERATING EXPENSES</b>	<b>89,044</b>	<b>128,000</b>	<b>97,962</b>	<b>110.02</b>	<b>76.53</b>	<b>178,500</b>
<b>B.3.1.</b>	<b>Cost of advertising and promotion</b>	<b>30,203</b>	<b>36,000</b>	<b>18,628</b>	<b>61.68</b>	<b>51.74</b>	<b>60,000</b>
<b>B.3.2.</b>	<b>Cost of professional services</b>	<b>17,570</b>	<b>15,600</b>	<b>15,555</b>	<b>88.53</b>	<b>99.71</b>	<b>14,500</b>
B.3.2.1.	Audit	4,082	4,100	5,831	142.82	142.22	6,000
B.3.2.2.	Education and training	13,488	6,000	2,016	14.95	33.60	6,000
B.3.2.3.	Surveying		3,000	5,236		174.53	
B.3.2.4.	Cost of licenses and copyright		2,500	2,472		98.88	2,500
<b>B.3.3.</b>	<b>Membership fees to international</b>	<b>22,010</b>	<b>12,000</b>	<b>11,929</b>	<b>54.20</b>	<b>99.41</b>	<b>13,000</b>
<b>B.3.4.</b>	<b>Cost of postal services</b>	<b>4,820</b>	<b>7,000</b>	<b>4,545</b>	<b>94.29</b>	<b>64.93</b>	<b>6,000</b>
<b>B.3.5.</b>	<b>Cost of representation</b>	<b>4,338</b>	<b>5,000</b>	<b>4,130</b>	<b>95.21</b>	<b>82.60</b>	<b>6,000</b>
<b>B.3.6.</b>	<b>Cost of payment system services</b>	<b>1,557</b>	<b>2,700</b>	<b>4,373</b>	<b>280.86</b>	<b>161.96</b>	<b>5,000</b>
<b>B.3.7.</b>	<b>T-bill auction fee</b>			<b>24,118</b>			
<b>B.3.8.</b>	<b>Other expenditure</b>	<b>8,546</b>	<b>49,700</b>	<b>14,684</b>	<b>171.82</b>	<b>29.55</b>	<b>39,000</b>
B.3.8.1.	Organisation of EFDI conference		8,000				15,000
B.3.8.2.	Legislation drafting working groups		32,000	8,570		26.78	14,000
B.3.8.3.	Other expenses	8,546	9,700	6,114	71.54	63.03	10,000
<b>C.</b>	<b>FINANCIAL EXPENSES</b>	<b>152,083</b>	<b>152,500</b>	<b>154,800</b>	<b>101.79</b>	<b>101.5</b>	<b>187,500</b>
C.1.	EBRD contracted interest	152,083	152,500	152,083	100.00	99.73	152,500
C.2.	Liabilities for time deposit interest			2,717			
	<b>TOTAL RESULT</b>	<b>10,608,031</b>	<b>11,077,150</b>	<b>11,660,010</b>	<b>109.92</b>	<b>105.26</b>	<b>12,905,500</b>
	<b>Investments</b>		10,000	755		7.55	10,000
<b>D.1.</b>	Long-term placements – claims on		290,000	271,212		93.52	

