

17 Annex - Economic and monetary policy

146. BANKING LAW

Pursuant to Article 95, item 3 of the Constitution of Montenegro I hereby issue the

DECREE PROMULGATING THE BANKING LAW

I hereby promulgate the Banking Law adopted by the Parliament of Montenegro at its second extraordinary session held on 14 February 2008.

No: 01-316/2

Podgorica

27 February 2008

The President of Montenegro

Filip Vujanović

BANKING LAW

I. GENERAL PROVISIONS

Scope and Purpose of the Law

Article 1

This Law regulates the setting up, management, operations and supervision of banks and micro-credit financial institutions and credit unions and the conditions and supervision of operations of parties involved in credit and guarantee operations with a view to establishing and maintaining a safe and sound banking system that ensures the protection of interests of depositors and other creditors.

Application of Other Laws

Article 2

Provisions of the law regulating the legal status of business organizations shall apply to banks, unless otherwise specified in this Law.

Terms and Definitions

Article 3

Terms and definitions used in this Law shall have following meanings:

- 1) **bank** is a legal person that performs banking operations on the basis of the licence or the approval issued by the Central Bank of Montenegro (hereinafter: the Central Bank) for the performance of such operations;
- 2) **banking operations** are activities of accepting cash deposits and granting loans for its own account;
- 3) **credit and guarantee operations** are activities of issuing guarantees for regular meeting of

obligations of loan beneficiaries;

4) **deposit** is a sum of money paid to a bank's account, based on the contract or other legal transactions which results in a bank's obligation to recover the amount on demand of a depositor or at the maturity date of the contracted period, excluding funds that represent additional element of the bank's own funds;

5) **branch** is a part of a bank which does not have the status of a legal person and performs all or just some of the bank's activities ;

6) **founding capital** means capital which is provided by founders when setting up a bank and which may be in money, in kind, and in rights, as appraised by the authorized appraiser;

7) **qualified participation** is:

- independently or mutually with other related parties, direct or indirect participation in capital or voting rights of a legal person of at least 5%,
- possibility of making significant influence on the management, i.e. policy of a legal person based on an agreement or a contract with another party, or in any other way, regardless of the amount of participation in capital or voting rights in a bank;

8) **related parties** are two or more parties that are connected in at least one of the following forms:

- one party controls the other party;
- one party has direct or indirect participation in capital or voting rights of the other party of at least 20%;
- two or more parties are controlled by a third party;
- a director, a member of the board of directors or other managing body of one legal person is at the same time the director, the member of the board of directors or the member of other managing body of the other legal person;
- a family member of a director, a member of the board of directors or a member of other managing body of one legal person is the director, the member of the board of directors or the member of other managing body of the other legal person;

9) **indirect participation** is a investment in the capital or voting stocks in a legal person, through a third party, where the indirect acquirer is:

- a party for whose account another party (direct acquirer) has acquired the voting stocks or participation in the bank's capital;
- a party who controls another party (the direct acquirer);

10) **significant influence** are facts indicating that a certain party:

- may appoint at least one representative in the board of directors or a similar body of that legal person, either as a result of shares ownership, on the shareholders` consent , authorizations, or in any other way;
- participates in decision-making in that legal person, regardless of whether that party can control such decision-making or exercise influence over that legal person;

11) **control** means:

- individual or jointly with other related party, direct or indirect participation in capital or voting rights in a legal person of at least of 50%,
- possibility of exerting a controlling influence in decision-making, business policy and strategy of a legal person, individually or jointly with other parties, regardless of the percentage of participation in capital;

12) **bank related parties** are:

- members of bank bodies, shareholders, bank employees, as well as members of their immediate family (spouses and children);
- legal person in which the party holding a qualified participation in the bank also has a qualified participation;
- legal person in which one of the parties under indents 1 and 2 of this point has a significant influence, or a party referred to in indent 1 above is a director or a member of the board of directors or other managing body of such a legal person;
- a party holding at least 50% in capital or voting rights of a legal person that has qualified participation in the bank.

13) **insolvency** is the financial situation when liabilities of a bank exceed its assets according to its balance sheet;

14) **illiquidity** is the situation when the bank has no monetary assets to meet its due liabilities when required by creditor;

15) **party** is a domestic or foreign natural or legal person,

16) **banking group** is a group of related parties in which a bank or a financial holding with the registered office in Montenegro is superior in relation to one or more banks, financial institutions and/or other parties offering financial services, the operations of which are governed by other laws.

17) **superior bank** in a banking group is the bank which:

- controls other members of the banking group and/or
- has participation in capital or voting rights of at least 20% in every other members of the banking group.

18) **financial holding** is a joint-stock company or a limited liability company which has participation in the capital or voting rights in banks or other parties rendering financial services, if it controls at least one bank;

19) **superior financial holding** in a banking group is the financial holding which:

- controls at least one bank with the registered office in Montenegro,
- controls or has participation in the capital or voting rights of at least 20% in other members of the banking group,
- is not at the same time controlled by a bank or a financial holding with the registered office in Montenegro, and
- is not at the same time controlled by a bank licensed in another country;

20) **mixed holding** is a joint-stock company or a limited liability company which has participation in the capital or voting rights of parties engaged in financial activities as well as parties engaged in non-financial activities, if it controls at least one bank.

Prohibition of Performing Banking Operations

Article 4

No natural person or legal person in Montenegro may engage in the profession or activity of banking, without the required licence issued by the Central Bank.

Should any indications exist that a person has engaged in the activities referred to in paragraph 1 above without the required licence or approval of the Central Bank, the Central Bank may, for the purpose of gathering additional information, review business books and other documentation of such a party.

The party referred to in paragraph 1 above shall allow the authorized examiners of the Central Bank to review the documentation and operations of such a party.

Use of the Word “Bank” and Other Words

Article 5

A bank shall have the word “bank” in its title.

A bank must not have in its title any words or derivative words that could lead bank’s clients or other parties to incorrect conclusions regarding the status and/or competitive position of such a bank, or that may violate the rights of other parties, particularly the words or derivative words that may create a confusion regarding:

- 1) the scope of the bank’s operations;
- 2) identity of the bank, i.e. its founders;
- 3) the bank’s connection with other legal persons;
- 4) competitive advantages of such a bank in its relationship with clients.

No party may use the word “bank” or derivative of the word “bank” in its title or in the title of its products or services, unless in case when this word is used in accordance with this Law.

Bank Business Operations

Article 6

A bank shall perform banking operations.

In addition to the operations referred to in paragraph 1 above, a bank may perform the following operations:

- 1) issue guarantees and assume other off-balance sheet obligations;
- 2) purchase, sell and collect claims (factoring, forfeiting, etc.);
- 3) issue, process and record payment instruments;
- 4) domestic and international payment transactions pursuant to the regulations governing payment systems;
- 5) financial leasing;
- 6) operations involving securities, in accordance with the law governing the securities transactions,
- 7) trade on its own behalf and for its own account or for a client’s account with:
 - foreign means of payment, including exchange operations,
 - financial derivatives:
- 8) Safe keeping operations;
- 9) drafting analysis and communicating information and advices on creditworthiness of legal persons and entrepreneurs, and other issues with respect to the business operations,
- 10) offering safe deposit boxes;
- 11) activities that are part of banking operations, activities that are of ancillary nature in relation to the operations of that bank, and other activities directly related to the operations of that bank in accordance with the bank’s articles of association.

The bank may also perform, with the prior approval of the Central Bank, other operations in accordance with the law.

Bank Founders

Article 7

A bank may be founded only as a joint stock company.

A bank may be founded by domestic and foreign legal persons and/or natural persons.

A bank may have one founder.

Founding Capital

Article 8

The amount of share capital may not be less than EUR 5 000 000.

The share capital referred to in paragraph 1 above must be paid in full before the bank's registering in the Central Registry of the Commercial Court (hereinafter referred as CRCC).

Qualified Participation in a Bank

Article 9

No legal or natural person may acquire qualified participation in a bank without the prior approval of the Central Bank.

A party with qualified participation may not further increase its participation in capital or voting rights in a bank to reach the level of 20%, 33%, or 50% of participation in voting rights or capital of the bank, without the prior approval of the Central Bank.

A group of related parties shall be deemed as one acquirer of participation in capital or voting rights in the bank.

The Central Bank shall reach a decision on the request for granting approval for the acquisition of qualified participation in a bank within 30 days as of the day the duly submitted request.

Restrictions of Mutual Investments

Article 10

A legal person engaged in financial activity and in which a bank has participation in capital or voting rights of at least 20%, may not acquire participation in capital or voting rights in that bank of 20% or more.

A legal person engaged in non-financial activity and in which a bank has participation in capital or voting rights of at least 20%, may not acquire participation in capital or voting rights in that bank of 5% or more.

A bank may not acquire participation in capital or voting rights of 20% or more in a legal person engaged in financial activity and which has participation in capital or voting rights in the bank of at least 20%.

A bank may not acquire participation in capital or voting rights of 5% or more in a legal person engaged in non-financial activity and which has participation in capital or voting rights of in the bank at least 20%.

Deciding on Granting the Approval for Acquiring Qualified Participation

Article 11

When deciding on granting the approval for acquiring qualified participation, the Central Bank shall determine eligibility of the applicant for acquiring qualified participation by assessing the following:

- 1) financial position of the applicant;
- 2) transparency of the ownership structure of the applicant;
- 3) accuracy and fairness of the financial statements of the applicant;
- 4) transparency of the financial investments of the applicant;
- 5) other indicators of the applicant that are of importance for the evaluation of its influence on the implementation of the rules for risk management in a bank.

When the applicant becomes a superior member of the banking group through the acquisition of qualified participation, the Central Bank shall review whether the reputation, competency and experience of the members of the management and organizational structure and organization of the banking group ensure undisturbed preparation and submission of information required for the supervision and undisturbed performance of supervision on individual or consolidated basis.

Denial of the Request

Article 12

The Central Bank shall deny the granting of approval for the acquisition of qualified participation in a bank if:

- 1) the applicant does not meet eligibility criteria referred to in Article 11 above;
- 2) there are restrictions to mutual investment referred to in Article 10 above;
- 3) business activities of the applicant could induce significant risk for safe and legitimate management of a bank or a banking group;
- 4) the granting of such an approval would lead to the participant's financial market concentration which significantly prevents, restricts or violates competition, primarily through the creation or strengthening of the dominant position in the financial market;
- 5) the bank would become a member of a banking group for which the effective supervision on individual or consolidated basis is impossible or difficult;
- 6) it is not possible to determine the applicant's sources of funds for the acquisition of bank's shares;
- 7) there are other facts indicating that the applicant would adversely influence the bank's risk management or hinder the exercising of the supervisory function of the Central Bank.

In the process of deciding on the request of foreign parties for the acquisition of qualified participation in a bank, the Central Bank shall cooperate and exchange information with the supervisory authority of the parent bank with regard to the performance, reputation, experience of members of the bodies of the applicant, as well as other relevant information concerning the applicant.

Acquisition of Qualified Participation without Central Bank Approval

Article 13

If there are facts indicating that a party has a qualified participation in a bank for which it does not have appropriate approval, the Central Bank may request such a party, other bank shareholders, parent legal person of that party and the bank to submit the information and documentation relevant for establishing the existence of qualified participation of such a party in the bank.

The parties referred to in paragraph 1 above shall submit the requested data and information to the Central Bank no later than eight days as of the day of the receipt of the request referred to in paragraph 1 above.

If the Central Bank, on the basis of data and information referred to in paragraph 1 of this Article, or on the basis of other available data and information, determines that a party has acquired or increased qualified participation in a bank without the appropriate approval of the Central Bank, the Central Bank shall inform such party in writing, within eight days following the day of the receipt of the information, that it may submit the request to the Central Bank for the issuing of the relevant approval and shall notify such party on the consequences referred to in Article 14 paragraph 2 of this Law.

Legal Consequences of Illegal Acquisition of Qualified Participation

Article 14

A party referred to in Article 13 paragraph 3 of this Law may not exercise voting rights above the level of voting rights which the party has had prior to the acquisition and/or increase of qualified participation in the bank on the basis of voting shares acquired until it obtains the relevant approval of the Central Bank.

The Central Bank shall order a party, which does not submit request for granting the appropriate approval within the timeframe referred to in Article 13 paragraph 3 of this Law, or which request for granting the approval has been denied, to dispose of shares within the timeframe that may not be shorter than three or longer than six months, on the basis of which such party would exercise rights above the level of qualified participation for which it has had appropriate approval of the Central Bank.

If shares referred to in paragraph 2 above are alienated, the new legal acquirer of such shares shall acquire all rights arising from the title to these shares.

Timeframes for the Acquisition of Qualified Participation

Article 15

A party that has been granted the approval for acquiring qualified participation in a bank shall acquire such participation within six months as of the date of the approval granted.

Exceptionally, the Central Bank may, upon the request of the party referred in paragraph 1 above, extend the timeframe referred to in paragraph 1 above for a period that shall not exceed six months.

Cessation of Validity of Approval

Article 16

If a party that has been granted the approval for the acquisition of qualified participation in a bank acquires, within the timeframes specified in Article 15 of this Law, qualified participation in a bank below the level for which the approval has been requested, the approval shall be valid only for the actually acquired participation in capital or voting rights in the bank.

If a party holding qualified participation in a bank decreases its qualified participation through the alienation of shares or in any other way, the approval shall be valid only for the level of participation in capital or voting rights which that party has had after the decrease in qualified participation.

Revoking the Approval for Acquisition of Qualified Participation

Article 17

The Central Bank may revoke the approval for acquisition of qualified participation if:

- 1) the acquirer of the qualified participation, which is a superior company in a banking group, has violated the provisions of this law referring to the supervision of banks on consolidated basis;
- 2) any of the circumstances under Article 12 of this Law have occurred.

Legal consequences specified in Article 14 of this Law shall arise with the revocation of the approval for the acquisition of qualified participation.

Informing the Central Bank by Qualified Acquirers

Article 18

A party holding qualified participation in a bank that intends to decrease their qualified participation in the bank, through the sale of shares or in any other way, below the level for which it has been granted the approval, shall previously inform the Central Bank thereof.

A legal person holding qualified participation in the bank shall immediately inform the Central Bank on restructuring of that legal person.

A financial or a mixed holding that represents a superior company in a banking group shall inform the Central Bank on each change in the composition of its board of directors or the executive director.

Shareholder's Agreement

Article 19

A group of bank shareholders whose total participation in capital or voting rights does not represent qualified participation in a bank, and who have concluded a written or an oral agreement on joint performance of managerial functions (hereinafter : the Shareholder's agreement) shall inform the Central Bank on such an agreement.

A new shareholder may not accede the Shareholder's agreement referred to in paragraph 1 above without the prior approval of the Central Bank, if the joining of the shareholder would result in an increase in total participation in capital or voting rights of all shareholders up to the level that represents qualified participation in a bank.

A group of bank shareholders whose total participation in capital or voting rights represents qualified participation may not sign Shareholder's agreement without the prior approval of the Central Bank.

Participants in the agreement referred to in paragraph 3 above may not, without a new approval of the Central Bank, increase their participation in capital or voting rights that would result in an increase in their total participation in capital or voting rights in the bank above the level for which the approval has been granted.

A new shareholder may not accede to the Shareholder's agreement referred to in paragraph 4 above without the prior approval of the Central Bank if the joining of the shareholder would result in an increase in the total participation in capital or voting rights of all participants in that bank above the level for which the approval has been granted.

The provisions of this Law referring to the granting of approval for the acquisition of qualified participation in a bank shall apply to the granting of the approval for the conclusion of the Shareholder's agreement.

Approval for the conclusion of the Shareholder's agreement shall be deemed to be the approval for the acquisition of qualified participation in a bank.

Central Bank Register

Article 20

The Central Bank shall keep the registries of banks, micro-credit financial institutions and credit unions, branches of foreign banks, and representative offices of foreign banks.

Information from the registry referred to in paragraph 1 above shall be public and published at the Central Bank's website.

The content and the manner of keeping registries under paragraph 1 above shall be specified in more details in the regulation of the Central Bank.

II. GRANTING LICENCES AND APPROVALS

I. Granting a Licence

Application for a Bank Licence

Article 21

The bank founders shall submit to the Central Bank the application for the bank licence, supported by the following documents:

- 1) authorization for a person which will cooperate with the Central Bank in the procedure of consideration of the application for bank licence;
- 2) proposal of the bank's articles of association;
- 3) statement of the founders on the payment of the founding capital and evidence of sources of these funds;
- 4) documents and information on legal persons with qualified participation in the bank, which specifically contain the confirmation of registration or another corresponding excerpt from the public registry, financial reports for the last three years with the authorized external auditor's opinion, the bank related parties and the description of their connection, including information on parties having significant influence on the operations of such a group of related parties based on ownership or in any other way ;
- 5) an appropriate document of the supervisory authority that there are no obstacles for a foreign bank or other financial institution to be the founder of the bank;

- 6) documents, data and information on natural persons with qualified participation in the bank, which specifically contain their names and addresses of permanent or temporary place of residence and other identification data, appropriate evidence of the sources of the founding capital, bank related parties and their connected interest;
- 7) biographical data on the proposed members of the board of directors containing the following, as the minimum: information on identification, professional qualifications and working experience and information on their achieved and planned education;
- 8) business plan of the bank for the first three years, which specifically contains an overall strategy of the bank, the targeted market, the balance sheet, income statement and cash flow projections;
- 9) proposal of the strategy for capital management and the strategy for risk management in the bank;
- 10) documentation on technical capabilities and organizational structure, which specifically contains the evidence of the use of business premise and equipment required for the performance of the projected activities, a proposal of rules and regulations on the organization and job position scheme, and a detailed description of organization of accounting and IT support.

Besides the documentation referred to in paragraph 1 of this Article the Central Bank may require the bank to submit additional information and data.

Meeting Prior to the Submission of Application

Article 22

A meeting of the authorized representatives of the Central Bank with potential bank founders at the request of the parties which intend to found a bank, whose initial contribution enables qualified participation in a bank, shall be held prior to the submission of application referred to article 21 above and it may be attended by other bank founders..

The potential bank founders shall inform the Central Bank representatives at the meeting referred to in paragraph 1 above on the following:

- 1) planned timeframes for founding the bank and submitting the application for bank licence;
- 2) bank's business strategy;
- 3) its financial condition and performance, including information on related interests;
- 4) dynamics of the bank's development with regard to the increase in capital, deposit and credit potential;
- 5) the manner of risk management in the bank.

Minutes of the meeting under paragraph 1 above shall be taken and signed by one representative of the Central Bank and one representative of potential founders.

Deciding on Application

Article 23

The Central Bank shall decide on the application from Article 21 hereof no later than 180 days after the bank licence application has been submitted.

The Central Bank shall issue a decision on the application under Article 21 of this Law.

The decision referred to in paragraph 2 above shall be final.

An administrative dispute may be carried out against the decision specified in paragraph 2 above.

Denial of Application

Article 24

The Central Bank shall deny the application under Article 21 of this Law if:

- 1) the prescribed and/or requested documentation and data has not been submitted by the founders or the submitted documentation contains untrue and/or inaccurate data;
- 2) the bank's proposed articles of association are not in compliance with the law;
- 3) the proposed members of the board of directors do not meet the requirements for their appointment as members of the board of directors as determined under this Law;
- 4) one or more founders holding more than 5% of participation in the bank's capital or voting rights do not meet the requirements for the acquisition of qualified participation in the bank, as specified by this Law;
- 5) the bank's business plan is not qualitatively prepared using appropriate methodologies, contradictions between certain elements of the business plan are evident, or the projected balance sheet and income statement of the bank or cash flows are not based on reasonable assumptions;
- 6) the ownership structure of the bank prevents effective banking supervision;
- 7) the law and other regulations in the country of the bank founders prevent the supervision on consolidated basis.

Allowable Activities of a Bank

Article 25

The operations that a bank may perform shall be specified in the decision on licence issuing. .

In addition to operations specified in the decision on granting the licence, bank may also perform the following operations with the prior approval of the Central Bank:

- 1) operations under Article 6 paragraph 2, which are not determined in the decision on granting a licence for a bank;
- 2) operations referred to in Article 6 paragraph 3 of this Law.

The Central Bank shall deny the approval for performing the operations from paragraph 2 above if:

- 1) the bank does not have sufficient technical and staffing capacity to perform operations for which it requests the approval;
- 2) the performance of such operations is not justified with regard to its impact on the risk profile of the bank.

Registration

Article 26

The application for the registration of a bank in the CRCC shall be submitted within 60 days after the delivery of the decision on granting the bank licence.

The bank shall commence its operations no later than 60 days as of the day of its registration in the CRCC.

2. Granting Approvals

Deadline for Deciding

Article 27

The Central Bank shall decide on the approvals under this law within 60 days as of the day the duly submitted application for obtaining approval, unless other timeframes have been stipulated by this law.

The Central Bank shall prescribe in its regulation the documentation to be submitted together with the application for obtaining approval under paragraph 1 above which is not regulated under this Law.

Resolution upon the Request

Article 28

The Central Bank shall decide on granting, denying and revoking of the approvals under this law, by way of decision.

The decisions under paragraph 1 above shall be final.

An administrative dispute may be carried out against the decisions specified in paragraph 1 above.

III. CORPORATE GOVERNANCE

Shareholders' Assembly

Article 29

Shareholders' Assembly of a bank shall:

- 1) adopt the bank's articles of association;
- 2) review the annual report on the bank's operations with an independent external auditor's report;
- 3) appoint and relieve from duty members of the bank's board of directors;
- 4) decide on the distribution of profits;
- 5) decide on capital increase and decrease;
- 6) decide on restructuring and closing of the bank;
- 7) establish the amount of remuneration of members of the board of directors;
- 8) decide on other issues as specified in the bank's articles of association.

Board of Directors

Article 30

The bank shall be governed by the board of directors.

Foreign citizens may be appointed members of the board of directors.

The board of directors shall consist of at least five (5) members, of which at least two must be persons independent from the bank.

A person independent from the bank shall be considered the person:

- 1) without a qualified participation in the bank or the superior company in the banking group to which the bank belongs;
- 2) that has not been employed in that bank or its dependent legal person for the last three years.

At least one of the members of the board of directors must be familiar with the language that is in the official use in Montenegro and reside in Montenegro during the performance of its duties as a member of the board of directors.

The chairman of the board of directors shall be appointed by the board of directors from among their members.

The chairman of the board of directors and members of the board of directors shall be appointed for the period of four years and may be reappointed.

Members of the board of directors may also be executive directors in the bank, provided that the total number of executive directors in the board of directors may not be higher than one-third of the total number of the board members.

The executive director of the bank may not be the chairman of the board of directors.

Requirements for the Appointment of Board Members

Article 31

A member of the board of directors may not be:

- 1) a person who controls or is a member of the board of directors or an executive director of another bank or financial institution, a legal person controlled by another bank or financial institution, or a financial holding;
- 2) a person who is connected with a legal person:
 - in which the bank has qualified participation, or
 - which is a subordinate member of a banking group to which the bank belongs;
- 3) a person who has been employed in the Central Bank for the last 24 months and had an insight in the information on the banks' operations considered confidential and the knowledge of which could lead to competitive advantage in relation to other banks;
- 4) a person whose assets have been subject to bankruptcy proceedings or significant enforcement has been conducted over personal property;
- 5) a person who had been holding leading positions in the bank or another business organization at the time when such organization was subject to bankruptcy or liquidation proceedings, unless the Central Bank establishes that the person was not responsible for such bankruptcy or liquidation;
- 6) a person who had been a member of the board of directors or an executive officer in the bank at the time when the interim administration was introduced in the bank;
- 7) a person who has been subject to a safety measure prohibiting further conduct of his professional work, business activity or duty, as imposed by the competent court;
- 8) a person who has been sentenced for a crime which makes him or her unworthy of performing the function of a member of the board of directors;
- 9) a person to which the bank's total exposure exceeds 2% of the bank's own funds or a person who is the owner, a member of the board of directors or the executive director of a business organization to which the bank has a large exposure.

Approval of the Election of Members of the Board of Directors

Article 32

A member of the board of directors may not be elected without the prior approval of the Central Bank.

The evidence of compliance with the requirements referred to in Article 30 above shall be enclosed together with the request for obtaining the Central Bank's approval. .

The Central Bank shall grant the approval under paragraph 1 above if, based on the documents from paragraph 2 above and other available information, the Central Bank evaluates that the candidate meets the requirements for being appointed as the member of the board of directors.

The approval under paragraph 1 above, given by the Central Bank, shall be the condition for the registration with the CRCC.

The Central Bank shall revoke the approval from paragraph 1 above if it has been granted on the basis of false information or if there are impediments for the appointment referred to in Article 31 above.

Responsibilities of the Board of Directors

Article 33

The board of directors shall:

- 1) establish and maintain the system of managing risks to which the bank is exposed in its operations;
- 2) determine the bank's objectives and strategies and ensure their implementation;
- 3) establish risk management policies and procedures for all risks to which the bank is exposed in its operations;
- 4) define the bank's annual plan, including the financial plan ;
- 5) adopt the bank's annual financial statements together with the external auditor's report and reports on the bank's annual operations ;
- 6) approve transactions that may significantly affect the structure of the bank's balance sheet and risk profile, in accordance with the risk management policies and procedures;
- 7) periodically consider and evaluate divergences from the established policies and procedures;
- 8) adopt the internal audit annual plan and internal audit reports;
- 9) establish the bases of the internal control systems adequate to the size, complexity of operations and the level of assumed risk;
- 10) review the Central Bank's examination reports;
- 11) appoint executive directors and other persons responsible for managing the bank's operations and set their salaries;
- 12) elect the bank's external auditor;
- 13) appoint members of the audit committee;
- 14) review annual reports of the audit committee;
- 15) prepare proposals of decisions to be approved by the Shareholders' Assembly and ensure their implementation;

- 16) pass the bank's general acts, except those passed by the Shareholders' Assembly;
- 17) establish the code of conduct for the bank employees;
- 18) approve the introduction of new products and services of the bank;
- 19) convene meetings of the Shareholders' Assembly;
- 20) perform other duties specified in the law and the bank's articles of association.

Responsibilities of the Board of Directors

Article 34

The board of directors shall:

- 1) establish the risk management system for all risks to which the bank is exposed in its operations;
- 2) ensure that the bank's operations are in compliance with the law, the Central Bank's regulations and the bank's internal policies and procedures, as well as that all measures imposed by the Central Bank are implemented;
- 3) be responsible for the operational safety and financial stability of the bank;
- 4) be responsible for the accuracy of all operating reports of the bank that are published and submitted to the Shareholders' Assembly, the Central Bank and competent authorities.

Meetings of the Board of Directors

Article 35

Meetings of the board of directors shall be held as needed, but at least once a month.

The board of directors may decide if the majority of the board members are present.

The board of directors shall decide by the simple majority vote of the board members, unless the articles of association prescribe absolute majority vote.

In case of a conflict of interest, a member of the board of directors shall inform the board thereof and shall not have a right to vote on the matters that involve such a conflict of interest.

The modus operandi and other matters related to the work of the board of directors shall be specified in more details by the board's rules of procedure.

The Central Bank may require an extraordinary meeting of the Board of Directors to be held to jointly consider individual issues relevant to the bank's safe and sound operations.

Executive Directors

Article 36

A bank shall have executive directors.

Executive directors shall manage the key areas of the bank's operations on a daily basis.

The key areas of the bank's operations, within the meaning of this law, shall be those entailing the most prominent risks to which the bank is exposed in its operations.

The bank's articles of association shall, subject to the bank size and complexity of its products and services, determine the key areas of the bank's operations, the number of executive directors,

representation of and acting for the bank, and the manner of daily coordination of duties in the bank.

Requirements for the Appointment of Executive Directors

Article 37

An executive director in a bank shall be a person that meets the following requirements, in addition to those prescribed for the board member by this law:

- 1) to hold a university degree, and
- 2) having competences and professional experience in managerial positions in the financial sector, corresponding in relevance and time to the key areas of operation and size of that bank.

Foreign citizens may be appointed executive directors.

At least two executive directors must be familiar with the language that is in the official use in Montenegro and reside in Montenegro during the performance of their duties as executive directors.

Powers and Responsibilities of Executive Directors

Article 38

Executive directors shall be full-time employees of the bank.

Executive directors shall be responsible for the enforcement of the acts passed by the board of directors, the organization and management of operations, and risk management in the key areas of the bank's operation they manage, in accordance with the professional conduct.

Executive directors shall monitor the work of employees in charge of the key areas of the bank's operations.

Audit Committee

Article 39

The audit committee shall consist of at least three members, the majority of which shall not be connected with the bank, and have experience in holding positions in the area of finance.

Bank executive directors shall not be elected as members of the audit committee.

The audit committee shall:

- 1) analyse the bank's financial statements;
- 2) analyse and monitor the functioning of internal control systems;
- 3) discuss internal audit programs and reports and give opinion on internal audit findings;
- 4) monitor the implementation of internal audit recommendations;
- 5) monitor and analyse the bank's compliance with the law and the bank's rules and regulations,
- 6) monitor activities of executive directors and other parties for the purpose of informing the board of directors and evaluate the quality of reports and information before their submission to the board of directors, including, but not limited to:
 - the application of accounting policies and procedures;

- decisions requiring a high-level evaluation;
- the impact of unusual transactions on financial reports;
- the quality of policies of data assembling;
- changes occurred as the result of completed audits;
- assumptions on sustainability of operations;
- compliance with the International Financial Reporting Standards and regulations;

7) give opinion on the selection of the external auditor and propose the audit fee.

The audit committee shall draw up proposals, opinions and standpoints on the issues within their scope of work that are to be decided by the board of directors.

The audit committee shall submit annual reports on its work to the board of directors.

Bodies of the Board of Directors

Article 40

The board of directors may form a standing or temporary bodies for the supervision of risk management in individual areas of the bank's operations, for the proposal of the amount of salaries, for the proposal of appointment of executive directors and certain categories of employees with special powers and responsibilities, and the like.

The composition and scope of work of the bodies under paragraph 1 above shall be specified in more details in the bank's regulations, in accordance with the law and banking regulations.

Compliance Monitoring Function

Article 41

The bank shall designate in its organizational structure, subject to its size and complexity of operations, an organizational unit or persons responsible for monitoring the bank's compliance with the law, regulations governing the prevention of money laundering and terrorism financing, the Central Bank's regulations and the bank's internal rules and policies.

Employees of the organizational unit or persons under paragraph 1 above may not perform any other duties in the bank, which performance could lead to the conflict of interest.

The manager of the organizational unit or persons referred to in paragraph 1 above shall:

- 1) immediately inform the board of directors on any identified irregularities in regarding the bank's compliance ;
- 2) periodically, but at least annually, report to the board of directors on the bank's compliance.

IV. ORGANIZATIONAL PARTS AND RESTRUCTURING

Founding an Organizational Units and Subsidiaries

Article 42

A bank may establish branches, representative offices and other organizational units (hereinafter: the bank units) in Montenegro and foreign countries, which do not have the status of a legal person, and subsidiaries, under the provisions of this Law.

Bank subsidiaries and bank units in foreign countries shall be established with the prior approval of the Central Bank.

Bank Restructuring

Article 43

A bank may be restructured through:

- 1) bank amalgamation that may be performed by:
 - forming a new bank;
 - merger with another bank;
- 2) de-merger into two or more banks.

Amalgamation of Banks Resulting in a New Bank

Article 44

Bank that intends to restructure through amalgamation resulting in the forming of a new bank, shall submit to the Central Bank a request for granting the licence for the bank that will be established through amalgamation, supported by the following:

- 1) decisions of the bank's Shareholder's Assembly on amalgamation;
- 2) the incorporation charter of the bank resulting from amalgamation;
- 3) proposal of the articles of association of the bank resulting from amalgamation;
- 4) names and information on qualifications and working experience of the proposed members of the board of directors and executive directors of the bank resulting from amalgamation;
- 5) the upcoming three-year business plan of the bank resulting from amalgamation;
- 6) consolidated balance sheet and income statement of banks subject to amalgamation, using information for the month preceding the submission of the request referred to in this paragraph;
- 7) information on technical and staffing capacities of the bank resulting from amalgamation;
- 8) documents elaborating conditions and reasons for the amalgamation;
- 9) approval of the Central Bank for the performance of concentration at the financial market.

The Central Bank may require the bank subject to amalgamation to submit other data and documents.

The Central Bank shall reach a decision on the request from paragraph 2 above within 120 days as of date of the receipt of the duly submitted request.

The provisions of this Law referring to bank licensing shall accordingly apply to granting a licence for a bank resulting from amalgamation.

Merger of a Bank

Article 45

In the case of restructuring performed through a bank's merger with another bank, a bank with which the other bank is merged (hereinafter: the absorbing bank) shall submit a request to the Central Bank for granting the approval for merger, supported by the following:

- 1) decision of Shareholder's Assembly of the merged bank on the merger with the absorbing bank;
- 2) decision of Shareholders Assembly of the absorbing bank on the acceptance of the merger;
- 3) documents elaborating conditions and reasons for the merger;
- 4) consolidated balance sheet and income statement of the merged bank and the absorbing bank using the information for the month preceding the submission of the merger request ;
- 5) decision on the issue of shares resulting from bank merger;
- 6) approval of the Central Bank for the performance of concentration at the financial market.

The Central Bank may require the bank with which the other bank is to be merged to submit other data and documents.

The Central Bank shall grant the approval from paragraph 1 above if:

- 1) the merger does not jeopardise financial position of the absorbing bank;
- 2) the absorbing bank has the system of organization, management, decision-making and information technology which enables it to completely integrate the merged bank into its system in the manner that does not jeopardise its functioning;
- 3) the merger is economically viable.

The Central Bank shall reach a decision on request referred to in paragraph 1 above within 90 days as of the day of receipt of the duly submitted request.

Bank De-Merger

Article 46

A bank that intends to perform restructuring through de-merger shall submit a request to the Central Bank for granting the licences for banks that will be founded through the de-merger, supported by the following:

- 1) decision of Shareholder's Assemblies of banks on de-merger;
- 2) the incorporation charter of banks resulting from de-merger;
- 3) proposed articles of association of banks resulting from de-merger;
- 4) names and data on qualifications and working experience of the proposed members of the board of directors and executive directors of the banks resulting from the de-merger;
- 5) the upcoming three-year business plan of banks resulting from the de-merger;
- 6) documents elaborating conditions and reasons for the bank de-merger;
- 7) information on technical and staffing capacity of the banks resulting from the de-merger;

The Central Bank shall reach a decision on the request under in paragraph 1 above within 90 days as of the day of receipt of the duly submitted request.

The provisions of this Law referring to granting a bank licence shall accordingly apply to granting a licence for banks resulting from de-merger.

V. BANK PERFORMANCE

1. Risk Management in Bank

Risk Management Obligation

Article 47

A bank shall continuously manage all risks it is exposed to in its operations in accordance with the law, regulations of the Central Bank and best risk management practices.

The Central Bank may issue guidelines for the application of best risk management practices in banks.

Establishing Risk Management System in Bank

Article 48

A bank shall establish the risk management system that provides the following:

- 1) identification of current risks and risks that may arise from new business products or activities;
- 2) measurement of risks through the establishment of mechanisms and procedures for the accurate and timely assessment of risks;
- 3) risk monitoring and analysing ;
- 4) risks control by limiting and minimizing risks.

Risk management system in a bank must correspond to the size of the bank, complexity of its products and services and the level of assumed risk.

Elements of Risk Management System

Article 49

Risk management system shall include, the following, as the minimum:

- 1) defined appropriate risk management strategy;
- 2) adopted policies and developed processes for risk management;
- 3) clearly defined powers and responsibilities for risk management;
- 4) efficient and safe information technology system;
- 5) contingency plans;
- 6) stress testing.

Risk Management Strategy

Article 50

A strategy for the managing of risks the bank is exposed to in its operations shall include the following, as the minimum:

- 1) objectives, which the bank wants to accomplish with the strategy;
- 2) selection of the bank's prevailing business activities, products and services ;
- 3) expected return to risks ratio for parts of the bank's portfolios and total assets;
- 4) general criteria and methods relevant for the creation of risk management frameworks.

The strategy for managing risks the bank is exposed to in its operations shall be adopted for the period of no less than three years.

The bank shall periodically, but at least annually, review the adequacy of its risk management strategy.

Risk Management Policies

Article 51

Risk management policies must provide the implementation of risk management strategy on a daily basis.

Risk management policies shall include the following, as the minimum:

- 1) areas in which the identification of risk and methods for risk identification are performed;
- 2) methods, indicators and timeframes for measurement of individual risks;
- 3) limits and control procedures for individual exposures to risks and overall exposure to individual risks that correspond to the size of a bank, complexity of products and services and the level of assumed risk;
- 4) the manner and the frequency of reporting and informing the bank's board of directors and management on managing individual risks;
- 5) the manner of connection of activities of individual risk management in a bank with activities that are performed in dependent legal persons and other entities subject to supervision on consolidated basis and the manner for incorporation of these activities in the structure of risk management on consolidated basis;
- 6) methods and timeframes for back-testing of risks management quality.

A bank shall periodically, and at least annually, review the adequacy of the adopted policies and processes for management of individual risks.

The Central Bank may require the bank to document the processes for managing individual risks.

Powers and Responsibilities in Risk Management Process

Article 52

A bank shall clearly define in its rules and procedures the powers and responsibilities for risk management in the bank at all levels of the working process and decision-making.

A bank shall ensure that risk taking is separated from risk identification, measurement, monitoring and control.

A bank shall designate, within its organizational structure, an organizational unit or persons, depending on the size and complexity of the bank's operations, to be directly responsible for individual risk management on a daily basis.

The organizational units or persons referred to in paragraph 3 above shall furnish the bank's board of directors with reports on risk management activities, if needed and at least once a month.

Information System of the Bank

Article 53

A bank shall establish and maintain a reliable information system that adequately ensures the gathering and processing of information for the following:

- 1) measurement and monitoring of risk exposures on a daily basis and in other specified periods;
- 2) monitoring if the established limits for risk management are followed;
- 3) creation of reporting formats for bank bodies and other parties involved in the risk management process.

A bank shall ensure secure electronic backups of information and data on a daily basis and store them at a secure location.

Stress Testing

Article 54

A bank shall also perform, using several types of stress scenarios, the testing of the bank's sensitivity to individual types of risks on an aggregate basis.

Stress scenario shall include, within the meaning of this law, assumptions of dramatic changes in the market and other factors which could have a significant material impact on the bank's performance.

The minimum standards for testing the bank's sensitivity to risks, by using stress scenarios, shall be laid down in a Central Bank regulation.

Types of Risks

Article 55

Risks the bank is exposed to in its operations and for which it must establish risk management system are the following:

- 1) liquidity risk,
- 2) credit risk,
- 3) market risks,
- 4) operational risk,
- 5) interest rate risk not resulting from bank trading activities,
- 6) country risk,
- 7) other risks (reputation risk, compliance risk, etc.)

Liquidity Risk

Article 56

Liquidity risk is the risk that a bank will not be able to provide a sufficient amount of cash to meet its obligations as they become due or risk that the bank will have to obtain funds with significant expenses to meet the matured obligations.

Bank shall operate so that it can meet all its obligations in cash as they become due.

The minimum standards for liquidity risk management shall be prescribed by the regulation of the Central Bank.

Credit Risk

Article 57

Credit risk is the risk of incurring losses in a bank's operations due to the debtor's failure to meet its obligations to the bank.

The minimum standards for credit risk management shall be prescribed by the regulation of the Central Bank.

Exposure Limits

Article 58

Total exposure of a bank to one party or a group of related parties may not exceed 25% of the bank's own funds.

In accordance with the Central Bank's regulation, bank's exposure to one party or a group of related parties, shall be the total amount of all bank claims on loans and other assets, including the amount of off-balance sheet obligations and uncollected written-off assets, decreased by the amount of claims secured by quality security instruments.

The exposure of a bank to one party or group of related parties shall be deemed large if it equals or exceeds 10% of the bank's own funds.

The sum of all large exposures of a bank must not exceed 800% of the bank's own funds.

The bank shall apply the following limits for the exposures to the bank related parties:

5) total exposure of the bank to all bank related parties may not exceed the amount of 200% of the bank's own funds;

6) total exposure to a party that is a member of the board of directors, audit committee or the executive director, including members of its immediate family, may not exceed 2% of the bank's own funds;

7) total exposure to legal persons that are controlled by the persons referred to in point 2 above and/or members of their immediate family may not exceed 10% of the bank's own funds;

8) total exposure to an employee not referred to in point 1 above may not exceed 1% of the bank's own funds;

9) total exposure to a shareholder that does not have qualified participation in the bank, including the exposure to legal persons that are controlled by such a shareholder, may not exceed 10% of the bank's own funds;

10) the sum of total exposures of the bank to the following parties may not exceed 20% of the bank's own funds:

- shareholders that have qualified participation in the bank, including the exposure to legal persons that are controlled by such shareholders;
- legal persons controlled by a party that controls the bank, and
- legal persons controlled by the bank.

The Central Bank may also prescribe other exposure limits.

A bank shall establish and keep the central registry of exposures, which includes the information on total exposure of the bank to a party, a group of related parties, and parties related with a bank.

Classification of Assets and Capital Requirements

Article 59

A bank shall classify all assets items on the basis of the amount of credit risk and evaluate the amount of losses resulting from credit risk.

The classification of assets based on which the bank is exposed to credit risk shall depend on the evaluation of the following:

- 1) credit capacity of the debtor, taking into account:
 - the current financial condition of the debtor,
 - future primary sources of funds for the debtor's meeting of obligations,
- 2) the quality of security instruments for the bank's claims (hereinafter: the collateral), taking into account the following:
 - net value of the collateral,
 - market conditions for the foreclosure of the collateral in case of the debtor's failure to meet the obligations;
- 3) regularity in the debtor's prior meeting of obligations;
- 4) general economic conditions;
- 5) other relevant information pertinent for the assessment of credit risk exposure.

A bank shall measure the exposure to credit risk and determine capital required for all assets and off-balance sheet items on the basis of which the bank is exposed to credit risk.

Individual exposures to credit risk may be clustered if they have common risk characteristics.

A bank shall establish the capital required for each individual exposure to credit risk based on the risk assessment and classification of exposure arising from that assessment.

In the calculation of capital requirements, the exposures to credit risk shall be weighted by appropriate weight for that type of risk.

The methodology and criteria for the classification of individual exposures in risk categories and the calculation of total risk weighted assets for credit risk shall be prescribed by the Central Bank regulation.

The Use of External Rating Agencies and Institutions

Article 60

A bank may use, as approved by the Central Bank, external ratings of the debtor assigned by independent specialized institutions and agencies (hereinafter: the external institutions and export credit agencies) for the classification of individual exposures in risk categories by applying the methodology specified in Article 59 paragraph 7 of this Law.

The Central Bank shall grant the approval for the use of rating assigned by the external institution or export credit agency if the criteria of fairness in the assessment of the methodology, institutional independence, transparency of findings and access to information are met, as well as the adequacy of resources and credibility of the external institution and/or the export credit agency.

The conditions for granting the approval under paragraph 1 above shall be prescribed in more details by the Central Bank regulation.

Internal Ratings Based Approach

Article 61

Banks may, as approved by the Central Bank, use internal rating based approach for the calculation of capital requirements for credit risk instead of the methodology referred to in Article 59 paragraph 7 of this Law.

The conditions under which banks may use the internal rating based approach for the calculation of capital requirements for credit risk shall be prescribed by the regulation of the Central Bank.

Market Risks

Article 62

Market risk is the probability of incurring losses in a bank's balance sheet and off-balance sheet financial instruments arising from changes in interest rates, foreign exchange rates, prices, indices and/or other market factors impacting the value of financial instruments, as well as the risks associated with the marketability of financial instruments.

Market risks shall include the following;

- 1) "Interest rate risk", which is the probability of incurring losses due to interest rate changes;
- 2) "Foreign exchange risk", which is the probability of incurring losses under balance sheet and off-balance sheet positions due to changes in currency rates and/or mismatches in the volume of assets, liabilities and off-balance sheet items in the same currency;
- 3) "Price risk", which is the probability of incurring losses due to changes in the prices of the financial instruments, recorded in the balance sheet or off-balance sheet;
- 4) Risks associated with the marketability of financial instruments:
 - "Counterparty risk", which means the probability of incurring losses due to the counterparty's failure to perform on a derivative contract during its validity;
 - "Issuer risk", which means the probability of incurring losses due to changes in the value of the financial instrument arising from changes in the financial condition of the issuer of the instrument; and
 - "Placement risk", which means the probability of incurring losses due to default or deterioration in the financial condition of a financial institution where the bank holds deposits/funds.

The minimum standards for market risk management shall be prescribed by the regulation of the Central Bank.

Capital Requirements for Market Risks

Article 63

A bank shall measure its exposure to market risks and determine total capital against such risks according to the standardized methodology prescribed by the Central Bank.

Bank may use, as approved by the Central Bank, internal models for the calculation of capital requirements for market risks instead of the methodology referred to in paragraph 1 above or together with the methodology under paragraph 1 under the conditions prescribed by the regulation of the Central Bank.

Operational Risk

Article 64

Operational risk is the risk of incurring losses in the bank's operation, as a result of inadequate internal systems, processes and controls, including inadequate information technology due to outsourcing, weaknesses and errors in performance, illegal actions and external events that could expose the bank to losses, including legal risk as well.

In case of outsourcing provided through an outsourcing agreement or otherwise, a bank shall allow the Central Bank, in the process of operational risk examination, to review the quality of rendered services, including the direct examination with such service provider.

The minimum standards for operational risk management shall be prescribed by the regulation of the Central Bank.

Capital Requirements for Operational Risk

Article 65

A bank shall measure its exposure to operational risk and calculate capital requirements for operational risk in accordance with the methodologies prescribed by the Central Bank.

Country Risk

Article 66

Country risk is the possibility of incurring losses by a bank due to its inability to collect receivables from the entities outside of Montenegro, which results from political, social and economical environment in the country in which the debtor has its registered office or residence (hereinafter: the debtor's country).

Country risk shall include:

- 1) political and economical risk, which means the probability of incurring losses arising from a bank's inability to collect receivables due to limits established by rules and procedures of government and other authorities of the debtor's country, as well as from economic and systemic conditions in the country;
- 2) transfer risk, which is the probability of incurring losses due to inability to collect receivables in currency other than the official currency of the debtor's country, arising from restriction in the payment of obligations to creditors from other countries in a particular currency, established by rules and procedures of government and other authorities of the debtor's country.

A bank shall measure its exposure to country risk and determine total capital requirements for country risk in accordance with the methodologies prescribed by the Central Bank.

Interest Rate Risk Not Resulting From Bank Trading Activities

Article 67

Interest rate risk not resulting from bank trading activities shall be the risk of incurring losses in a bank's operations due to the interest rate changes for balance sheet and off-balance sheet items not available for trade.

A bank shall identify assets not available for trade and record them in its business books separately from the assets available for trade in accordance with the International Accounting Standards.

The minimum standards for managing interest rate risk not resulting from bank trading activities shall be prescribed by the regulation of the Central Bank.

2. Capital Adequacy

Determining Capital Adequacy

Article 68

A bank shall determine capital requirements on the basis of its own funds in absolute terms, and the solvency ratio as the indicator of the bank's capital adequacy in relative terms.

Bank's Own Funds

Article 69

Own funds of a bank shall represent the sum of paid-in share capital and other core and supplementary elements of own funds reduced by deductible items.

The Central Bank shall prescribe the core and supplementary elements of own funds and deductible items.

A bank's own funds must always be at the level equal to or higher than:

- 1) the minimum financial portion of the founding capital specified in this Law; and
- 2) the total amount of capital required for all risks.

Solvency Ratio

Article 70

A bank shall maintain the minimum solvency ratio and other capital adequacy ratios at the levels determined by this Law and the Central Bank's regulation.

The solvency ratio maintained by a bank on an individual or consolidated basis shall not be lower than 10% or lower than the level prescribed under Article 71 of this Law.

The solvency ratio shall be the percentage ratio of own funds to the sum of:

- 1) total amount of risk weighted assets for credit risk, calculated in accordance with Article 59 of this Law;
- 2) risk weighted assets for market risks, calculated as the amount of capital requirements for market risks determined in accordance with Article 63 of this Law and multiplied by 10;
- 3) risk weighted assets for operational risk calculated as the amount of capital requirement determined in accordance with Article 65 of this Law and multiplied by 10; and
- 4) risk weighted assets for other risks.

The Central Bank shall prescribe in its regulation other capital adequacy indicators and the method for their calculation.

Additional Requirements for Capital Adequacy

Article 71

A bank shall maintain higher levels of own funds, solvency ratio and/or other capital adequacy ratios than those prescribed, if:

- 1) Risk management in a bank does not correspond to the level of assumed risk, the bank's size and complexity of its products and services;
- 2) The volume and/or composition of risk assumed are such that they are not effectively covered by the existing level of own funds, particularly when there is:
 - a significant exposure to risks due to the concentrations of loans and other assets or high volume of non-performing assets;
 - risks arising from new activities;
 - a significant interest rate risk not resulting from bank trading activities;
 - an insufficient level of available funds and/or deficiencies in liquidity risk management;
 - a significant exposure due to reputation risk:
- 3) The existence of circumstances that could lead to material losses not accounted for by the existing level of own funds;
- 4) bank shareholders' ability to provide the support to the bank is unsatisfactory;
- 5) the bank's capital levels and assumed risks are significantly unfavourable when measured against comparable banks;
- 6) the bank is receiving special supervisory attention by the Central Bank due to its risk profile;
- 7) the bank has or is expected to incur losses that will result in capital inadequacy;
- 8) the bank's assets and/or level of risk is growing at an accelerated pace;
- 9) the bank may be adversely affected by the activities of its parent bank and other members of its banking group.

3. Internal Controls System and Internal Audit

Internal Controls System

Article 72

A bank shall establish, maintain and strengthen an effective internal controls system, which corresponds to the size of the bank and complexity of its business activities and which includes , as the minimum, clear principles of delegation of authorities and responsibilities, delegation of duties, accounting of assets and liabilities, compliance of accounting data, insurance of the bank's funds and provision of an independent internal audit and the compliance function for the implementation and compliance with positive laws and regulations.

The basics of the internal controls system in banks shall be prescribed by the regulation of the Central Bank.

Internal Audit

Article 73

A bank shall organize the internal audit as an independent function in the bank, which shall provide the following:

- 1) evaluation of adequacy and effectiveness of the internal controls system;
- 2) identification of key risk areas in the bank's operations and evaluation of the application and effectiveness of the procedures and methodologies for risk assessment;
- 3) evaluation of quality and reliability of the information system;
- 4) review of accuracy, timeliness and reliability of accounting and financial statements and records;
- 5) evaluation of corresponding levels of capital and risks in the bank's operations;
- 6) testing of transactions and the functioning of certain internal control procedures;
- 7) evaluation of monitoring of compliance of the bank's rules and operations with the law, regulations and the established policies and procedures;
- 8) communicating appropriate recommendations for the removal of identified irregularities and the improvement of the existing procedures and the manner of work.

Internal Auditor

Article 74

Internal auditor or a separate organizational unit of a bank shall perform the internal audit function depending on the volume and complexity of the bank's operations.

Exceptionally, a bank may take on a party outside the bank to perform the internal audit, with the prior approval of the Central Bank.

A person performing internal audit operations may not perform other operations in the bank.

Internal auditor or a person that manages organizational unit for internal audit must hold at least a university degree and have at least a three-year working experience in accounting or auditing in the financial sector.

Restrictions referred to in Article 31 of this Law, which are prescribed for the appointment of members of the board of directors, shall apply to the appointment of internal auditor.

Internal Audit Plan

Article 75

A bank shall adopt annual internal audit plans based on risk assessment, which shall define the following, as the minimum:

- 1) internal audit aims and objectives;
- 2) business areas in which the risks are particularly evident;
- 3) business areas that will be subject to internal audit;
- 4) internal audit scope and details for particular business areas of the bank;
- 5) audit procedures for the most important areas of the bank activities;
- 6) timeframes for the execution of projected activities;
- 7) frequency of reporting on internal audit findings.

Internal Audit Organization Standards

Article 76

The bank shall organize the internal audit in the manner to provide an ongoing performance of internal audit, audit access to all operations in the bank, internal audit independence, fairness and impartiality, adequate organization of the internal audit function, and timely reporting of internal audit findings.

The Central Bank shall prescribe in more details the principles of organizing and functioning of internal audit in banks.

4. Limits and Restrictions in Bank Operations

Restriction of Violation of Competition

Article 77

A bank shall not conduct undesirable concentration at banking market.

Undesirable concentration at banking market, in the context of this Law, shall be bank restructuring through amalgamation or other actions, if such restructuring or actions materially prevent, limit or violate competition at banking market.

Undesirable concentration shall be determined through the application of the following criteria:

- 1) share of total balance sheet assets of individual bank in total balance sheet assets of all banks in Montenegro;
- 2) share of bank assets of in total assets of banks in Montenegro;
- 3) share of a bank in market coverage with individual products and services;
- 4) the concentration of bank's credit activities to certain target groups;
- 5) other criteria important for determining undesirable concentration at the financial market.

A bank shall submit the request to the Central Bank for the approval of the accomplishment of concentration at the market prior to the submission of the request to the Central Bank for the approval of restructuring through bank amalgamation.

The approval for the accomplishment of concentration at the financial market shall be the prerequisite for submitting the request for approval of bank restructuring through amalgamations.

Operations with Bank Related Parties

Article 78

When a bank provides or uses services of the bank related parties, it shall not render services to them under more favourable conditions than those to other parties, or it shall not use the services of bank related parties under the conditions which are less favourable than those under which other parties would render such services to the bank.

A bank shall establish procedures to identify and record on a regular basis all bank related parties and all operations, activities or transactions with the bank related parties.

Members of the board of directors, executive directors and other employees of the bank may not participate in the decision-making process regarding the rendering or using the services of parties related to them.

The Central Bank shall, in its regulation, prescribe in more details operations with bank related parties.

Purchase of Elements of Own Funds of a Bank

Article 79

The purchase of elements of own funds of a bank using funds which are directly or indirectly obtained from loans or other legal transactions concluded with that bank shall be null and void.

Acquisition of Elements of Own Funds of Bank

Article 80

Total amount of own shares and other elements of own funds acquired by a bank may not exceed 5% of the bank's own funds.

The bank shall alienate its own acquired shares within six months after the day of their acquisition.

If the bank fails to alienate shares within the timeframe prescribed in paragraph 2 above, it shall cancel such shares.

Restriction of Taking as Pledge Bank's Own Shares

Article 81

A bank may not pledge its own shares or other elements of own shares of that bank.

Acquiring Real Estates and Fixed Assets

Article 82

Bank investments in real estates and fixed assets may not exceed the level which provides required technical capacity of a bank for carrying out business activities.

The minimum standards for bank investments in real estates and fixed assets shall be prescribed by the Central Bank regulation.

Restrictions and Limitations of Payment of Dividends

Article 83

A bank may payout dividends in the amount exceeding the amount of net profit for the year in which dividends are paid out, only with the prior approval of the Central Bank.

The Central Bank shall deny the approval under paragraph 1 above if the condition of the bank is such that the payment of dividends would pose adverse impact on capital adequacy or financial condition of the bank.

The Central Bank may restrict or limit the payout of dividends to shareholders or interest on other elements of own funds, if this jeopardises or would jeopardise the bank's capital adequacy, liquidity or operations.

5. Banking Secret

Definition of Banking Secret

Article 84

The banking secret shall be considered:

- 1) information about the account holders and their account numbers opened in a bank;
- 2) information on individual deposit accounts and transactions in individual accounts of legal persons and natural persons opened in a bank;
- 3) other information on a client in the bank's knowledge obtained on the basis of providing services to the bank client.

The banking secret shall represent the business secret.

Liability of Keeping Banking Secret

Article 85

Members of the board of directors, shareholders, all bank employees and other persons that, during their operations with the bank or on behalf of the bank, have obtained information and data representing banking secret under this law shall be obliged to keep confidential such information and data during their employment in the bank and after leaving the bank and may not use them to their personal advantage or reveal them to any third parties.

Notwithstanding paragraph 1 of this Article,

- 1) information representing banking secret shall be disclosed to the following institutions:
 - the Central Bank,
 - the competent court;
 - other parties, based on the explicit written approval of a client.
- 2) The information in accordance with the law governing the prevention of money laundering and terrorism financing may be disclosed to the competent authority for the prevention of money laundering and terrorism financing;
- 3) The information may be disclosed to the Deposit Protection Fund pursuant to the law governing deposit protection;
- 4) The information on the number of accounts of a legal person and an entrepreneur may be disclosed to the creditor of the bank's client who presents to the bank an enforceable court decision or another enforceable document determined by the law;
- 5) The information on credit capacity and credit borrowings of a bank client may be disclosed to another bank or a member of a banking group for the purpose of credit risk management.

Handling Information Representing Banking Secret

Article 86

Parties that have obtained information representing banking secret in accordance with Article 85 paragraphs 2 and 3 of this Law shall use such information exclusively for the purpose for which they have been obtained and may not make it available to third parties, except in cases prescribed by the law.

6. Protection of Clients

Liabilities of Informing Client

Article 87

A bank shall inform the client, at his/her request, on the condition of the loan or deposit account and provide him/her with the access to other information that may be available to the client in accordance with this law.

Disclosing General Operating Conditions

Article 88

A bank shall display in its business premises, at visible location, general operating conditions and any amendments thereof.

General operating conditions, within the meaning of this law, shall be each document that contains standard operating requirements that could apply to all bank clients, general conditions that refer to the relationship between clients and the bank, communication between clients and the bank, and the general conditions of performing transactions between clients and the bank.

A client may require the bank to provide additional explanations and instructions that refer to the implementation of general operating conditions.

Calculation and Reporting of Effective Interest Rate

Article 89

A bank shall calculate and report lending and deposit effective interest rate and inform its clients and the public on the effective interest rates in the manner specified in a regulation of the Central Bank.

Conditioning a Client

Article 90

A bank may not condition its granting of loans by the use of its other services or services of any of the bank related parties, which are not connected to the main business.

Procedure in Case of a Client's Objection

Article 91

A client that deems that the bank does not meet its contractual obligations may submit an objection to the competent organizational unit or other body of the bank authorized for decision-making on clients' objections.

The bank shall respond to the complaining client under paragraph 1 of this Article in a reasonable timeframe and not later than 30 days as of the day of submission of the objection.

Banking Ombudsman

Article 92

A client of a bank or a micro-credit financial institution and a credit union that is not satisfied by any document, action or failure to act by the bank or the micro-credit financial institution and the credit union may appeal to the protector of client's rights (hereinafter: the banking ombudsman), as an independent party which participates in out-of-court settlement of disputes between clients and banks and/or micro-credit financial institutions and credit unions.

The banking ombudsman shall be elected by the Parliament of Montenegro upon the proposal of the board competent for finances.

A party, which is not connected with banks and/or micro-credit financial institutions and credit unions, having substantial experience in banking operations and whose fairness may not be disputed may be elected as banking ombudsman.

The banking ombudsman shall:

- 1) consider clients' objections and propose a settlement or other way of ending the dispute between the parties in dispute;
- 2) communicate recommendations to banks and micro-credit financial institutions and credit unions for the improvement of their relationships with clients;
- 3) advise clients with respect to the further conduction of the dispute;
- 4) perform other operations contributing to the protection of clients' rights.

The banking ombudsman shall adhere to the principles of impartiality, independence, justice, fairness, availability, consistency and informality in its operations.

A bank client may appeal to the banking ombudsman only if he has previously used all legal options to protect his rights in the proceedings against the bank and/or micro-credit financial institution and credit union.

The proceedings before the banking ombudsman shall not prevent the client from instigating a lawsuit under the same matter before the competent court.

The Central Bank shall prescribe in its regulations detailed requirements to be met by the banking ombudsman, including the principles on which the operations of the banking ombudsman are to be based, his powers and responsibilities, the manner of provision of material and technical conditions for his operations, and the procedure of the protection of clients' rights before the banking ombudsman.

VI. ACCOUNTING, AUDITING AND REPORTING

1. Accounting

Maintaining Business Books

Article 93

A bank shall maintain business books, draw up accounting statements, evaluate assets and liabilities and prepare financial statements in accordance with this Law, regulations adopted on the basis of this Law, the International Accounting Standards and the International Financial Reporting Standards.

A bank shall maintain business books in accordance with the chart of accounts for banks prescribed by the Central Bank.

2. External Audit

Obligatory External Audit

Article 94

Annual financial statements of banks and annual consolidated financial statements of banking groups shall be subject to obligatory external audit.

Requirements for External Auditor

Article 95

An audit of annual financial statements of banks or banking groups shall be performed in accordance with the special audit regulations applicable in Montenegro.

An auditor or an audit firm may be elected to perform the audit of annual financial statements of banks or banking groups, subject to the approval of the Central Bank.

The Central Bank shall deny the approval under paragraph 1 above if:

- 1) the auditor, or a person leading the audit, does not have three years of experience in bank auditing;
- 2) the auditor, the audit firm, or a person commissioned by the audit firm, is a party related to the bank or a member of the banking group;
- 3) the auditor, the audit firm, or a person commissioned by the audit firm has a direct or indirect financial interest in the bank or a member of the banking group arising from the business relationship with the bank;
- 4) the auditor, the audit firm, or a person commissioned by the audit firm has provided consulting services to the bank in the audited year;
- 5) the auditor, the audit firm, or a person commissioned by the audit firm has performed the audit of financial statements of that bank in the last three consecutive years;
- 6) information available to the Central Bank indicates that the auditor or the audit firm have not audited the bank's financial statements in a satisfactory manner.

Audit Report

Article 96

The auditor shall draw up a report and give the opinion on:

- 1) the compliance of the bank's annual financial statements with this Law, the International Financial Reporting Standards and/or International Accounting Standards, the law governing accounting and auditing and other regulations, and whether the financial statements fairly and objectively reflect the bank's financial position, operating results and cash flows for that year in all substantive matters;
- 2) compliance with the regulations governing risk management in a bank;
- 3) the quality of the information system in a bank.

Audit in Case of Bank Restructuring

Article 97

In case of bank restructuring, the bank that has resulted from amalgamation, or the bank with which another bank has merged, or the bank that has been formed from de-merger, shall hire an auditor to perform the audit of its financial statements as of the date of such amalgamation or de-merger.

The bank from paragraph 1 above shall supply the Central Bank, within 60 days after registering the status change with the CRCC, with the auditor's report on the fairness and objectiveness of its opening balance as of the date of amalgamation, merger or de-merger.

Auditor's Cooperation with Central Bank and Bank's Board of Directors

Article 98

The auditor shall notify the bank's board of directors and the Central Bank, as soon as it comes to his or her knowledge, of any fact that represents:

- 1) a violation of the laws and regulations issued by the Central Bank;
- 2) a material change in the financial results shown in unaudited annual financial statements;
- 3) a violation of internal procedures or acts of the bank or the banking group to which the bank belongs;
- 4) a circumstance that could lead to material loss to the bank or a member of the banking group or could jeopardise their operations.

Notification of External Auditor's Termination of Engagement

Article 99

In case of dismissing or otherwise terminating the engagement of the external auditor, a bank or a superior company in the banking group shall notify in writing the Central Bank of the reasons for the termination of engagement of that auditor no later than within 15 days.

Audit Report Submission and Disclosure

Article 100

A bank shall submit to the Central Bank its annual financial statements, with the external auditor's report and opinion, within 150 days after the end of the business year.

A superior company in the banking group shall submit to the Central Bank consolidated annual financial statements of the banking group, with the external auditor's report and opinion, within 180 days after the end of the business year.

The bank, or the superior company in the banking group, shall publish a summary external auditor's report in at least one daily newspapers distributed in the territory of the Republic.

Engagement of Another External Auditor

Article 101

If the Central Bank finds that the audit of annual financial statements of a bank or banking group has not been conducted in accordance with the applicable audit legislation, the Central Bank shall not accept such report and shall require that another external auditor repeats the audit at the Central Bank's expense.

Special Audit

Article 102

The Central Bank may require a special purpose audit of a bank or a member of a banking group if their statements are incorrect or they have entered into transactions that may inflict or have inflicted a major damage to the bank.

The Central Bank may appoint an external auditor for the purpose of special audit of a bank or a member of a banking group.

The bank or the banking group member shall make available to such auditor all data and documents required for the audit.

The costs of the special purpose audit shall be covered by the bank or the banking group member.

3. Reporting

Reporting to Central Bank

Article 103

Banks, foreign bank branches and micro-credit financial institutions and credit unions and other parties licensed by the Central Bank shall prepare and submit to the Central Bank, in a timely manner, correct reports and other data on their financial condition and operations.

The Central Bank shall prescribe in its regulation the types, form and contents of information and data under paragraph 1 above and the timeframes for their submission to the Central Bank.

Public Disclosure

Article 104

The bank shall disclose qualitative and quantitative data that are relevant to making the public aware of its financial position and performance, and it shall disclose, as the minimum, data on the following:

- 1) scope of application of internationally accepted documents on risk management in banks and the establishment of capital adequacy;
- 2) level and adequacy of capital;
- 3) exposure to risks in operations and the manner of managing those risks.

Data referred to in paragraph 1 above shall be considered all data which nondisclosure or misstatement could have adverse effects on the users of such data when deciding to establish or continue their business relationship with the bank.

The bank shall determine in its acts, depending on the size, scope and complexity of its operations, the level of assumed risk and its financial position, the following:

- 1) type of data to be disclosed;
- 2) timeframes and method of disclosure.

The Central Bank may prescribe the minimum information, manner and minimum timeframes for the disclosure under paragraph 1 above.

VII. SUPERVISION OF BANKS AND OTHER PARTIES

Entities Subject to Supervision

Article 105

In the performance of its supervisory role, the Central Bank shall supervise:

- 1) banks;
- 2) foreign bank branches;
- 3) micro-credit financial institutions and credit unions and other parties licensed by the Central Bank, and
- 4) parties involved in credit and guarantee operations

1. Supervision of Banks

Authority for Performing Supervision

Article 106

The Central Bank shall perform the supervision of the banks' operations, in accordance with the law and internationally accepted standards of efficient banking supervision and with a view to establishing and maintaining a sound banking system and protecting depositors and other creditors of banks, by assessing their capacity to manage risks and comply with the law and the Central Bank's regulations.

Members of the Council of the Central Bank, authorized examiners and other employees in the Central Bank that perform duties related to the performance of supervisory role of the Central Bank shall not be held liable for any damage that could incur during the performance of their duties in accordance with the law and regulations passed on the basis of the law, unless it has been proved that the particular action was deliberate or an act of gross negligence.

The expenses of the court protection of the persons for all disputes arising from the execution of duties under paragraph 1 above shall be covered by the Central Bank.

Cooperation with Other Institutions

Article 107

In performing its supervisory function, the Central Bank shall cooperate with representatives of foreign banking supervision authorities and with domestic authorities and institutions responsible for the supervision of financial operations, with which it has concluded adequate cooperation and confidentiality agreements regarding the exchange of information.

The exchange of information under paragraph 1 above shall not be considered as revealing a secret.

Communication with Banks

Article 108

As part of its ongoing supervision process, the Central Bank shall maintain communication with banks, reflected primarily in:

- 1) consultative meetings, as needed, with the bank management before commencing onsite examination;
- 2) meetings with the bank board of directors and management after drawing up the onsite examination report;
- 3) the presence of authorized representatives of the Central Bank at meetings of the bank board of directors;
- 4) correspondence related to the follow-up on the imposed rehabilitation measures;
- 5) meetings and correspondence related to regulatory issues, best practices in risk management in banking operations and other banking issues.

Methods of Supervision

Article 109

The Central Bank shall perform the supervision referred to in Article 105 above by:

- 1) analyzing the reports, information and data that banks deliver to the Central Bank in accordance with the law and the Central Bank regulations, information and data that banks deliver at the Central Bank's request, and other data on banks' operations available to the Central Bank;
- 2) onsite examination of business books, accounting and other records of banks and their counterparts in the supervised transactions.

Authorized Examiners

Article 110

Banking supervision shall be performed by employees of the Central Bank, authorized for the conduct of such duties by the Central Bank.

Notwithstanding paragraph 1 above, the Central Bank may also authorize persons outside the Central Bank to perform certain tasks in the process of bank supervision.

Examination Notice

Article 111

The Central Bank shall inform a bank of the planned onsite examination, as a rule, ten business days before the examination commencement.

Notwithstanding paragraph 1 above, if the reports and information held by the Central Bank indicate that there are irregularities that may be relevant to the safety and soundness of the bank, onsite examination may start without a prior notice.

Bank's Obligations during Examination Procedure

Article 112

The bank shall provide the Central Bank's authorized examiners with free access to business books, other business documentation and records, insight in the functioning of information technologies and databases, and it shall provide, upon the request of authorized examiners, copies of business books, other business documentation and records, in hard copy and/or electronic format.

Examination Report

Article 113

Reports shall be drawn up on the completed examinations.

The examination reports shall be confidential and may not be disclosed either partly or wholly without the approval of the Central Bank.

Procedure for Raising Objections to Examination Report

Article 114

The bank may submit its objections to the Central Bank within eight working days after the day of receiving the examination report.

The Central Bank may directly verify the bank's remarks contained in its objections to the report and, in that case, the Central Bank shall prepare an appendix to the report, and the bank may submit its objections to this appendix within three business days after the day of its receipt by the bank.

The Central Bank shall consider the received objections and notify the bank of accepting or rejecting thereof within eight days of the day of receiving objections to the examination report or objections to its appendix to the examination report.

Process of Imposing Measures against Bank

Article 115

If a bank fails to submit objections to the examination report within the prescribed time limit or fails to provide reasonable grounds for its objections to the report or appendix to the report stating identified irregularities in the bank's operations, the Central Bank shall impose measures for the removal of the irregularities.

The irregularities in a bank's operations, within the meaning of this Law, shall mean:

- 1) the bank's actions that are not in accordance with best risk management practices and could lead to the jeopardising of the bank's financial position;
- 2) the bank's actions or failure to act which are not in accordance with this law, regulations passed on the basis of this law, and other laws.

Notwithstanding paragraph 1 above, the Central Bank may impose measures for the removal of the identified irregularities during the on-site examination, if:

- 1) it has been determined that the bank has violated the law or other regulations to the extent that necessitates urgent removal of those irregularities;

- 2) the bank's financial condition is assessed as threatening to the bank's further operation.

Types of Measures

Article 116

If the Central Bank establishes that a bank has not managed the risks to which it has been exposed in its operation in an adequate manner or contrary to regulations, it may take one of the following measures:

- 1) warn the bank in writing about the identified irregularities and obligate the bank to undertake one or more activities to remove these irregularities within a specified time, limit including activities that may be imposed by the order under paragraph 1 point 3 of this Article;
- 2) conclude a written agreement with the bank obligating the bank to remove the identified irregularities within a specified time limit;
- 3) issue an order imposing one or more of the following measures:
 - order the bank to remove the irregularities identified in its operations and/or undertake other activities to improve the condition in the bank;
 - order the bank to scale down or cease one or more of its activities which, as the Central Bank has established, incurred losses to the bank or are contrary to best banking practices;
 - order the bank to establish stricter limits in operations than those prescribed by the Central Bank or the bank's policies;
 - order the bank to classify assets, based on the exposure to credit risk, into riskier group,
 - order a bank to establish adequate reserves for losses based on country risk;
 - order the bank to increase the amount of own funds, provide a higher solvency ratio and/or higher other capital adequacy indicators than those prescribed if one or more conditions under Article 71 above have not been met;
 - instruct the bank to suspend or replace a member of its senior management or managing bodies;
 - order the bank to prepare capital restoration plan acceptable to the Central Bank, within 60 days;
 - order the bank to reduce overhead expenses, including the restriction of salaries and other benefits of the bank's executive directors and other bank officials with special powers and responsibilities;
 - instruct that all deposit interest rates may not exceed market interest rates for comparable amounts and maturities;
 - order the bank to require from its subsidiary to decrease or cease the activity which has, as established by the Central Bank, incurred significant losses to the bank, or represent a high risk to the bank;
 - prohibit or restrict the growth in the bank's assets;
 - order the bank to sell a part of its assets;
 - prohibit further investments in other legal persons;
 - order the bank to terminate outsourcing agreements that pose a high operational risk to the bank.
- 4) institute interim administration in the bank;

5) revoke the bank's licence.

If own funds of a bank, solvency ratio and/or other indicators of the bank's capital adequacy are below the prescribed levels, the Central Bank shall prohibit the bank, by way of an order, to engage in one or more activities specified in the respective licence or approval issued by the Central Bank, before taking any other measures laid down in this law.

Provisions of Article 114 above shall not apply to the procedure of imposing measures under paragraph 2 above.

Considerations in Choosing Measures against Banks

Article 117

In deciding on the type of measures to be taken against a bank, the following shall be considered:

- 1) the assessment of impact of the identified irregularities on:
 - the current and future financial position of the bank;
 - the bank's exposure to individual types of risks;
- 2) number and severity of the identified irregularities and the number, frequency and duration of identified irregularities in previous operations of the bank;
- 3) the assessment of willingness and capability of the bank's bodies and management to remove the identified irregularities based on the evaluation of:
 - the capability of the bank's bodies and management to manage risks in the bank's operations;
 - the efficiency of internal control systems in the bank;
 - the efficiency of the bank's bodies and management in the removal of irregularities found in the bank's operations in past;
 - degree of cooperation of the bank's management with authorized examiners during the bank examination;
- 4) the assessment of the degree of impact of the identified irregularities on the financial discipline, safety and stability of the banking system.

Order Imposing Measures

Article 118

The order referred to in Article 116 paragraph 1 point 3) above shall specify:

- 1) the dates for the removal of the identified irregularities;
- 2) the time limits in which the bank shall notify the Central Bank on the measures taken to eliminate the irregularities;
- 3) the amount of funds that the bank is obliged to pay to the Deposit Protection Fund for additional protection of depositors from consequences of possible bankruptcy or liquidation procedure that may be instituted in the bank, given that such amount may range from 0.1% to 1% of the bank's own funds.

The order referred to in Article 116 paragraph 1 point 3) above may also indicate:

- 1) the amount of funds that the bank's executive directors and members of the board of directors are obliged to pay to the Deposit Protection Fund for the purposes specified in paragraph

1 point 3) above, given that individual amount of such funds may range from twofold to tenfold average net salary of the bank employees;

- 2) the authorized person for onsite follow-up on the implementation of the imposed measures.

The order under Article 116 paragraph 1 point 3) above shall be final.

An administrative dispute may be carried out against the order specified in Article 116 paragraph 1 point 3) above.

The order referred to in Article 116 paragraph 1 point 3) above shall represent an enforceable instrument with respect to the contents set forth in paragraph 1 point 3 and paragraph 2 point 1 above.

Procedure after Imposing Measures

Article 119

Once the identified irregularities have been removed, and not later than immediately upon the expiry of the time limits for the removal of the irregularities, the bank shall submit to the Central Bank a report on the removed irregularities, supplemented with appropriate evidence.

The Central Bank shall pass a decision with the conclusion that the bank has removed the irregularities in its operations once it determines that the bank has removed all the irregularities identified in its operations on the basis of the report referred to in paragraph 1 above or on-site examination, .

If the bank fails to remove the identified irregularities within the time limit stipulated in paragraph 1 above, the Central Bank shall, on the basis of available evidence or, as needed on the basis of onsite examination, take measures allowed by the law against the bank.

Conditions for Introducing Interim Administration

Article 120

The Central Bank shall pass a decision on introducing interim administration in a bank if the bank's own funds and/or solvency ratio is below the amount equal to one half of the prescribed level.

The Central Bank may pass a decision on introducing interim administration in a bank if:

- 1) the bank has failed to take one or more ordered measures under Article 116 point 3 above within the time limit prescribed for their enforcement;
- 2) the bank's own funds and/or solvency ratio is below the amount equal to two thirds of the prescribed level;
- 3) it has been found, during the period allowed for the removal of the identified irregularities, that the bank has become illiquid or the bank's liquidity has drawn down to the level that poses a threat to the interests of depositors and other creditors of the bank.

The decision under paragraph 1 above shall appoint the Interim Administrator and specify the period of interim administration.

The decision under paragraph 1 above shall be final.

An administrative dispute may be brought against the decision referred to in paragraph 1 above.

The decision on imposing interim administration shall be published in the "Official Gazette of Montenegro" and shall be forwarded to the competent court.

Requirements for the Appointment of Interim Administrator

Article 121

Interim administrator may be a person who:

- 1) has extensive experience in banking industry,
- 2) is not the bank related party;
- 3) has not been convicted for an act that makes him unworthy of performing this duty.

Fee and Bonus for Interim Administrator

Article 122

Interim administrator shall be entitled to a fee, ranging from 15-fold to 30-fold official minimum monthly salary in the Republic.

Interim administrator may be awarded a special bonus, in proportion to the achieved results.

The fee under paragraph 1 above and the bonus from paragraph 2 above shall be determined by the Shareholders' Assembly of the bank.

Assuming Powers of Bank Management Bodies

Article 123

On the day of appointing the interim administrator, all powers of the Shareholders' Assembly, except those specified in Article 122 paragraph 2 and Article 127 of this Law, the management and governance bodies, and the bank's agents shall be transferred to the interim administrator.

The interim administrator shall protect the assets and documentation of the bank.

Previous members of the board of directors, other bank officials with special powers and responsibilities and other employees in the bank shall allow the interim administrator access to all business and other documentation of the bank and draw up reports thereof.

Relieve of Duty of Interim Administrator

Article 124

Interim administrator may be relieved of duty before the completion of the interim administration if:

- 1) he fails to perform the duties under this law in a satisfactory manner;
- 2) at his personal request.

In case the interim administrator has been relieved of duty before the completion of the interim administration, the Central Bank shall appoint a new interim administrator within seven (7) days.

The released interim administrator shall hand over to the newly appointed interim administrator the responsibilities and all the information and documents related to his work, which shall be evidenced in the minutes thereof and signed by both administrators.

On the occasion of handing over the duties and responsibilities to the newly appointed administrator, the released interim administrator shall prepare the balance sheet and income statement of the bank as of the date of the release.

Responsibilities of the Central Bank

Article 125

The Central Bank may issue obligatory instructions to the interim administrator for managing the bank's operation during the interim administration.

Interim Administrator's Report

Article 126

The interim administrator shall submit to the Central Bank, within 60 days of his appointment, the following:

1) the report on the financial position and operating conditions of the bank that must include, as the minimum:

- data on the bank's property based on the list of inventory made;
- balance sheet and income statement of the bank as of the appointment date of the interim administrator;
- review of all claims and liabilities of the bank by individual debtors and creditors;
- assessment of the bank's prospects, including the assessment of the bank shareholders' ability and willingness to recapitalize the bank,

2) the bank rehabilitation plan, prepared in accordance with the assessment of the bank's prospects that must include in particular, but not limited to:

- steps to remove the identified irregularities in the bank's operations;
- schedule for the collection of claims and payment of liabilities, by months;
- rationalization of the bank's operating expenses;
- proposed changes in the bank's organization;
- assessment of possibilities for increasing own funds and/or solvency ratio up to the required level.

The interim administrator shall submit to the Central Bank monthly reports on his work and implementation of the activities under paragraph 1, point 2) above.

Convening the Shareholders' Assembly for Recapitalization

Article 127

If the Central Bank finds, on the basis of the interim administrator's report, that it is necessary to increase the bank's capital and to provide the solvency ratio that is adequate to the bank's risk profile, it shall order the interim administrator to convene a meeting of the bank's Shareholders' Assembly within 30 days in order to pass a decision on the issuing of shares.

In the period between the convening and holding of the Shareholders' Assembly meeting, the interim administrator shall inform all shareholders about the situation in the bank and warn them of the consequences in case the decision on the issuing of shares was passed or in case the decision on the issuing of shares was passed, but the issue was unsuccessful.

Completion of Interim Administration

Article 128

Interim administration may last up to one year, and it may be extended for another six months if the Central Bank estimates that in the following six months the bank may attain the required level of own funds or solvency ratio and meet the due obligations on a regular basis.

Upon the completion of interim administration in the bank, the Central Bank shall:

- 1) return the bank under the control of its shareholders;
- 2) commence bankruptcy proceedings against the bank.

Interim administration in the bank shall be completed before the expiry of the time limit under paragraph 1 above if:

- 1) the Central Bank evaluates that the bank rehabilitation measures have given satisfactory results;
- 2) bankruptcy proceedings have been instigated against the bank.

In case the bank is returned under the control of its shareholders, the Central Bank shall order the interim administrator to prepare, within 45 days at the latest, all the required documentation and acts and convene and hold a meeting of the Shareholders' Assembly of the bank.

Revoking a Bank Licence

Article 129

The Central Bank shall revoke a bank licence when:

- 1) the bank has acted a number of times or for a longer time contrary to the Law, other regulations or standards of prudential operations, thereby jeopardising the safety of deposits;
- 2) the licence was issued on the basis of false data;
- 3) the bank no longer fulfils the conditions under which the licence was granted;
- 4) application for registration with the CRCC has not been submitted within the prescribed time limit or the bank did not commence banking operations within 60 days as of the day of its registration in the court registry.

The Central Bank may revoke a bank licence if:

- 1) it establishes that the bank has committed one or more violations of provisions of this or other laws;
- 2) if the bank does not meet its obligations with respect to deposit insurance;
- 3) if the bank ceased to engage in accepting deposits and lending activity for more than six months, or if it performs these operations in a scope that is significantly disproportionate to the earlier or planned volume of such operations.

The decision to revoke the bank licence shall be final.

An administrative dispute may be brought against the decision under paragraph 3 above.

The decision referred to in paragraph 3 above shall be published in the "Official Gazette of Montenegro" and shall be forwarded to the competent court.

Issued approvals for the performance of other services shall also be repelled with effect as of the date of passing of decision under paragraph 3 above.

2. Supervision on a Consolidated Basis

The Manner of Performing Supervision

Article 130

The Central Bank shall supervise the banking groups on a consolidated basis.

The Central Bank shall perform consolidated supervision through:

- 1) the analysis of consolidated financial reports of banking groups and consolidated financial statements of the parties referred to in Article 135 below,
- 2) onsite examination of the accuracy of data from consolidated financial reports and risks to which banks have been exposed as members of banking groups, and
- 3) the evaluation of the condition of the banking group by using applicable international methodologies for this evaluation.

Subject of Supervision

Article 131

Banking supervision on consolidated basis shall include the consolidated financial reports of:

- 1) banking groups with a superior bank,
- 2) banking groups with a superior financial holding,
- 3) banking groups with a superior mixed holding and
- 4) parties referred to in Article 135 below.

The Central Bank may perform an onsite examination of the accuracy of data in consolidated financial reports of all bank group members.

Group Consolidation with a Superior Mixed Holding

Article 132

The bank that is subordinate to a mixed holding is obliged to provide the Central Bank with information on all parties subordinate to the mixed holding.

Based on the information referred to in paragraph 1 above, the Central Bank shall assess whether there is a need for consolidated reporting for the group with the mixed superior holding.

In case it is determined that consolidated financial reports must be prepared for the group of parties with the mixed superior holding, the Central Bank shall also decide which subordinate parties from the group should be included in the consolidated financial reports and which method and scope of consolidation shall be applied.

The banking group with a mixed superior holding within the meaning of this law shall be the group of parties with a mixed superior holding that the Central Bank decides to be subject to the obligation of preparing consolidated financial reports.

Party Obligated to Prepare Consolidated Reports

Article 133

Consolidated financial reports of a banking group with a superior bank shall be prepared by the superior bank.

Consolidated financial reports for a banking group with a financial or mixed superior holding shall be prepared by the bank that is controlled by that holding and has its registered office in Montenegro.

Members of a banking group shall timely deliver the information necessary for consolidation purposes to the party obliged to prepare consolidated reports.

Exclusions from Consolidation

Article 134

Consolidated financial reports of the banking group shall not include subordinate members of the banking group which balance sheets comprise less than 1% of the balance sheet of the superior member of the group.

If several subordinate members of the banking group meet the condition referred to in paragraph 1 above, the Central Bank may order these members of the banking group to be included in the consolidated financial reports, if the sum of their balance sheets is relevant to the determination of the financial condition of the banking group.

The superior bank may exclude from consolidated financial reports, subject to the prior approval of the Central Bank, information on a subordinate member of the banking group:

- 1) the registered office of which is located in the country where there are legal impediments for the submission of data and information necessary for the preparation of consolidated financial reports to the superior bank;
- 2) the inclusion of which in the consolidated financial reports would not be relevant for the determination of financial condition of the banking group;
- 3) the inclusion of which in the consolidated financial reports would be misleading with respect to the financial condition of the bank group;
- 4) in other events specified in the International Accounting Standards.

The superior bank shall submit the application for obtaining the approval under paragraph 3 above, with explanation, to the Central Bank no later than 30 days before the expiry of the reporting period.

Consolidation in Other Cases

Article 135

The Central Bank may order a bank that has subordinate non-financial parties to consolidate their individual operations, groups of operations, or perform full consolidation of the financial condition and operations of these parties, regardless of their business, if it is necessary for the purpose of full and fair presentation of the financial condition and operations of the bank.

The parties from paragraph 1 above shall be obliged to supply the bank with the information required for the preparation of consolidated financial reports.

Consolidation Methods

Article 136

Consolidation methods to be applied by banks in the preparation of consolidated financial reports shall be specified in a Central Bank's regulation.

Obligation to Comply with Prescribed Restrictions

Article 137

The superior bank shall provide that the following performance indicators of the banking group, reported on the consolidated basis, do not exceed the limits prescribed for banks by the law and regulations of the Central Bank:

- 1) the solvency ratio,
- 2) investments in capital, real estate and fixed asset,
- 3) exposure to an individual party or groups of connected parties,
- 4) the sum of large exposures,
- 5) the exposure to bank related parties.

3. Supervision Fee

Establishing the Fee

Article 138

The Central Bank shall charge a fee for the performance of the supervisory functions.

The fee referred to in paragraph 1 above shall consist of:

- 1) a fee for granting licences to banks and micro-credit financial institutions and credit unions;
- 2) a fee for granting approvals under this law;
- 3) a fee for the supervision of banks, foreign bank branches and micro-credit financial institutions and credit unions.

The total annual amount of the fee from paragraph 2 above shall not exceed 0.5% of total amount of banks' assets in Montenegro at the end of the year preceding the year for which the fee is charged.

The amount of the total annual fee under paragraph 2 above and amounts of individual fees shall be determined by a special regulation of the Central Bank.

VIII. OPERATIONS OF FOREIGN BANKS IN MONTENEGRO

Branches of Foreign Banks

Article 139

A foreign bank may operate in Montenegro through its branch with prior obtaining of the approval of the Central Bank for the branch operations.

The approval under paragraph 1 above shall specify operations which the foreign bank branch may perform in Montenegro.

Request for Granting Approval for Branch Operations

Article 140

A request for granting the approval for branch operations shall be submitted to the Central Bank.

The following documents shall be submitted with the request under paragraph 1 above:

- 1) statement from the relevant registry in the country in which the foreign bank has its registered office, which may not be older than 30 days;
- 2) articles of association or other appropriate documents of the foreign bank;
- 3) policies and procedures of the foreign bank on risk management;
- 4) information on members of the board of directors and other foreign bank bodies;
- 5) financial statements of the foreign bank for the last three years with the external auditor's opinion;
- 6) evidence on the long-term credit rating of the foreign bank assigned by an internationally recognized rating agency;
- 7) description of operations that a branch will conduct and a business plan for the following three years;
- 8) information on the foreign bank owners;
- 9) documents and information on the foreign bank shareholders, legal entities holding more than 5% of the voting stock, which specifically contain the statement of registration or another appropriate statement from the public registry, the bank related parties and their connected interest;
- 10) documents, data and information on the foreign bank shareholders, natural persons holding more than 5% of the voting stock, which specifically contain their names and addresses of permanent or temporary residence and other identification data, the bank related parties and their connected interest;
- 11) evidence that the foreign bank is included in a deposit insurance scheme and information on the amount of insured deposit, as well as the evidence that its branch will be included in the deposit insurance scheme in the country of the foreign bank up to the level and extent of coverage prescribed for banks operating in Montenegro, but it will not exceed such a level;
- 12) document of supervisory authority of a country in which the foreign bank has its registered office, granting the approval to the foreign bank to commence its operations in Montenegro through its branch, or an appropriate document of that authority that such approval is not required pursuant to the regulations of that country;
- 13) data and information on persons who will manage the branch operations;
- 14) documentation on business premises and technical capacity for the branch operation.

The Central Bank may request the foreign bank to submit additional data and information in the procedure of issuing the approval referred to in paragraph 1 above.

Deciding Upon Request

Article 141

The Central Bank shall decide on the request referred to in Article 140 above within 6 months after the duly submission of the request.

The Council of the Central Bank shall pass a decision on the request referred to in Article 140 above.

The decision specified in paragraph 2 above shall be final.

An administrative dispute may be carried out against the decision under paragraph 2 above.

Denial of Request

Article 142

The Central Bank shall deny the approval for branch operations if:

- 1) the prescribed or requested documentation and data have not been submitted together with the request, or the submitted documentation contains untrue data;
- 2) the long-term credit rating of a foreign bank assigned by Standard & Poor's is lower than A, or lower than the rating assigned by another internationally recognized rating agency equivalent to the A rating;
- 3) the branch's business plan does not contain the prescribed elements, and the projected balance sheet and income statement are not based on realistic assumptions;
- 4) the deposit insurance scheme in the country in which the foreign bank has its registered office does not provide deposit insurance to at least the equivalent level of deposit insurance in Montenegro;

Branch Registration and Commencement of Operations

Article 143

The approval for branch operations shall be the condition for its registration with the CRCC.

The branch shall be registered within 60 days after the delivery of the approval.

The branch shall commence its operations no later than 60 days as of the day of its registration.

Limitations to Branch Operations

Article 144

A foreign bank branch shall operate in the way that its payables at all times exceed its receivables to its parent bank.

Imposing Measures

Article 145

If the branch does not have adequate liquidity risk management in place, the Central Bank may request the branch to:

- 1) remove the maturity mismatch between assets and liabilities;
- 2) place a deposit with the Central Bank equivalent to at least 4% of the branch liabilities to other parties in Montenegro;
- 3) maintain its performing assets in Montenegro at a level equivalent to at least the amount of liabilities to depositors - natural persons in Montenegro;
- 4) obtain from the parent bank appropriate guarantee for meeting the branch obligations, until the irregularities in its liquidity risk management have been corrected.

The request under paragraph 1 above shall determine the timeframes for the branch compliance with the request.

The request from paragraph 1 above shall be submitted to the supervisory authority of the parent bank of the branch.

Revoking the Approval

Article 146

The Central Bank shall revoke the approval to a foreign bank branch if:

- 1) the supervisory authority of the foreign bank revokes licence or approval for operations to the foreign bank;
- 2) the approval has been issued on the basis of false and incorrect data;
- 3) the branch is not registered within 60 days after the issuing of the approval;
- 4) the branch did not commence its operations within 60 days after the registration with CRCC;
- 5) the branch is unable to meet its obligations.

The Central Bank may revoke the approval to a foreign bank branch if:

- 1) the branch does not operate in Montenegro in accordance with the law and regulations;
- 2) the branch does not comply with the written request of the Central Bank referred to in Article 145 above;
- 3) the rating of the foreign bank significantly deteriorates in relation to the rating assigned when granting the approval to the branch;
- 4) the interim administration or other measures of intensified supervision have been introduced in the foreign bank.

Representative Office of a Foreign Bank

Article 147

A foreign bank may establish its representative office in Montenegro with the prior approval of the Central Bank.

The foreign bank representative office shall represent the interests of that bank and may not perform bank operations.

Operations and Supervision of Branch Operations

Article 148

Provisions of this Law governing banking secret (Articles 84 to 86), protection of clients (Articles 87 to 92) and the manner and procedure of banking supervision (Articles 108 to 114) shall also apply to foreign bank branches.

IX. MICRO CREDIT FINANCIAL INSTITUTIONS AND CREDIT UNIONS AND PARTIES INVOLVED IN CREDIT AND GUARANTEE OPERATIONS

1. Common Provisions

Granting a Licence

Article 149

The Central Bank shall pass a decision on the application for licence to a micro-credit financial institutions and credit unions.

The decision referred to in paragraph 1 above shall be final.

An administrative dispute may be carried out against the decision under paragraph 1 above.

Acquiring the Status of Legal Person

Article 150

The micro-credit financial institution and credit union shall acquire the status of a legal person upon their registration with the CRCC.

The application for the registration of a micro-credit financial institution and credit union shall be submitted within the period of 60 days after the day of licensing.

2. Micro-Credit Financial Institution

Establishing an MFI

Article 151

A micro-credit financial institution (hereinafter: MFI) shall be established as a joint-stock company or a limited liability company.

MFI must contain the words “micro-credit financial institution” in its title.

Capital of MFI

Article 152

The minimum monetary amount of the initial capital requirement for an MFI shall be EUR 100,000.

MFI Operations

Article 153

An MFI may perform the following operations:

- 1) grant loans for specified purposes for development projects to business organizations, for business improvement to entrepreneurs and earmarked loans to natural persons from its own funds and from funds borrowed in the money market;
- 2) invest in short-term securities issued by the Government of Montenegro and in other high-quality short-term financial market instruments;

- 3) provide financial leasing services; and
- 4) provide consulting services.

Measures against MFI

Article 154

If it determines that an MFI has acted contrary to the regulations or its business policy acts or has entered into unsafe and unsound operations, the Central Bank may:

- 1) warn the MFI in writing thereof;
- 2) conclude a written agreement with the MFI to oblige the MFI to eliminate the identified irregularities within a specified time limit;
- 3) order the MFI to eliminate the identified irregularities and comply its operations with the regulations;
- 4) order temporary suspension of duties for a member of the MFI's bodies or management.

The order referred to in paragraph 1 point 3 above shall be final.

An administrative dispute may be brought against the order under paragraph 1 point 3 above.

Licence Revocation

Article 155

The Central Bank shall revoke an MFI licence:

- 1) when the MFI fails to commence its operations within six months as of the date of its registration with the CRCC;
- 2) when the MFI fails to act under the orders referred to in Article 154, point 3;
- 3) when the MFI has engaged in illegal activities;
- 4) when the authorized examiners of the Central Bank are obstructed in the MFI examination and/or the submission of the requested documentation is prevented or avoided;
- 5) when the MFI submits false statements of its operations to the Central Bank.

The Central Bank shall revoke the MFI licence if it establishes that the licence was issued on the basis of false data.

The decision on revoking the MFI licence shall be final and shall be published in the "Official Gazette of Montenegro".

An administrative dispute may be brought against the decision under paragraph 3 above.

MFI Bankruptcy and Liquidation

Article 156

Bankruptcy and liquidation of MFIs shall be governed by the legislation regulating bankruptcy and liquidation of business organizations.

Operations and Supervision of MFI

Article 157

Provisions of this law governing bank licensing (Articles 21 to 24), banking secret (Articles 84 to 86), protection of clients (Articles 87 to 92) and the manner and procedure of banking supervision (Articles 108 to 114) shall also apply to MFIs.

The minimum standards for risk management in MFIs shall be prescribed by the Central Bank regulation.

3. Credit Union

The Term

Article 158

Credit union (hereinafter: the Union) is a financial institution owned by its members, organized on the principles of voluntary membership, mutuality, connection and equal rights of all members of the Union which shall grant loans and provide other financial services to its members primarily from its own funds and deposits of the Union members..

Founders

Article 159

The Union may be founded by at least 30 natural persons with the working capacity or entrepreneurs connected through the same profession or in other way, under the conditions set forth in this law.

The connection under the paragraph 1 above shall include in particular, but not limited to: the connection of individuals on the basis of engaging in the same profession, affiliation to the same association, territorial connection, employment with the same employer, affiliation to the same trade union, and other types of the connection that are acceptable to the Central Bank.

Founding Capital

Article 160

The minimum founding capital of the Union shall be EUR 10,000.

The capital referred to in paragraph 1 above shall be member contributions and donor funds.

Union Operations

Article 161

The Union may perform the following operations:

- 1) accept deposits from the Union members,
- 2) grant loans to the Union members from their own funds, deposits of the Union members and funds obtained in the money market;
- 3) issue guarantees to and undertakes other similar commitments for the Union members,

- 4) provide the national payment system services for the Union members, in accordance with the agreement signed with the bank with which the Union holds accounts for regular operation;
- 5) invest available funds in short-term securities issued by the Government of Montenegro or other high-quality short-term instruments of the money market;
- 6) provide financial lease services for the Union members.

Credit Union Bankruptcy and Liquidation

Article 162

Bankruptcy and liquidation of credit unions shall be governed by the legislation governing bank bankruptcy and liquidation.

Operations and Supervision of Credit Unions

Article 163

Provisions of this Law relating to the operations and supervision of banks shall also apply to the credit unions, unless otherwise prescribed by a Central Bank's regulation.

3. Parties Involved in Credit and Guarantee Operations

Conditions for Performing Credit and Guarantee Operations

Article 164

Legal persons that have obtained the appropriate approval of the Central Bank for performing the credit and guarantee operations may engage in such operations.

The Central Bank shall pass a decision on the request for granting the approval under paragraph 1 above within 120 days as of its submission.

The conditions for granting the approval from paragraph 1 above, as well as the minimum founding capital, operations, supervision, and revocation of the approval under paragraph 1 above shall be prescribed in a regulation of the Central Bank.

X PENALTY PROVISIONS

Article 165

A fine ranging from 50-fold to 300-fold minimum official monthly salary in Montenegro shall be imposed against a bank or other legal person or an entrepreneur if:

- 1) it is engaged in banking operations without having the required approval of the Central Bank (Article 4);
- 2) it uses the word "bank" or any derivative of the word "bank" in its name or in the name of its product or services except when that word is used in accordance with the provisions of this Law (Article 5);
- 3) it acquires or increases qualified participation in a bank without the required approval of the Central Bank (Article 9);

- 4) it establishes bank units in foreign countries without approval of the Central Bank (Article 42 paragraph 2);
- 5) it fails to establish a system for risk management (Article 48);
- 6) it exceeds the prescribed exposure limits (Article 58);
- 7) it fails to perform asset classification or fails to evaluate the amount of losses resulting from credit risk (Article 59);
- 8) it provides or uses the services of the bank related parties under more favourable conditions than those under which it provides such services to other parties, or if it uses the services of bank related parties under the conditions which are less favourable than the conditions under which other parties would provide such services to the bank (Article 78);
- 9) it acquires bank shares or other elements of own capital above the allowed level or fails to alienate acquired own shares in the prescribed time limit (Article 80);
- 10) it has investments in real estates and fixed assets above the level prescribed by the Central Bank regulation (Article 82);
- 11) it conditions its credit granting by the use of its other services or the services of any of the bank related parties, which are not associated with the main business (Article 90);
- 12) it fails to maintain business books in line with the prescribed chart of accounts or fails to prepare financial reports in accordance with the International Accounting Standards, the International Financial Reporting Standards and special regulations (Article 93);
- 13) it appoints an external auditor or an audit firm without the approval of the Central Bank (Article 95);
- 14) it submits incorrect reports and other data on its financial condition and performance or it fails to submit them in a timely manner to the Central Bank (Article 103);
- 15) it fails to submit, in a timely manner, to the reporting party on consolidated basis under the law its financial reports and other information required for drawing up the consolidated financial reports (Article 133 paragraph 3).

For the offence specified in paragraph 1 above, a responsible person in the bank and the counterparty shall be also imposed a fine ranging from 10-fold up to 20-fold the minimum official monthly salary in the Republic.

For the offence specified in paragraph 1, points 1) and 3), a natural person shall be imposed a fine ranging from 10-fold up to 20-fold the minimum official monthly salary in the Republic.

XI TRANSITIONAL AND FINAL PROVISIONS

Adoption and Application of Regulations

Article 166

The Central Bank shall issue regulations that it is authorized to issue under this Law within no longer than six months from the date of entry into force of this Law.

Regulations adopted under the Law on Banks (Official Gazette of the Republic of Montenegro 52/00, 32/02) shall apply until the passing of regulations under paragraph 1 above, provided that they are not contrary to this law.

Compliance Timeframe

Article 167

The banks shall:

- 1) bring acts and corporate governance into compliance with the provisions of this Law no later than six months from the day of entry into force of this Law;
- 2) Bring their operations in compliance with the provisions of this Law and regulations issued on the basis of this Law, no later than one year from the day of entry into force of this Law.

The Central Bank shall take measures laid down in this Law against any bank that has not conformed to the requirements referred to in paragraph 1 above.

Provisions of paragraphs 1 and 2 above shall also apply to bank affiliates that have their registered offices outside of Montenegro.

Licences

Article 168

Licences of banks and foreign bank affiliates with the registered offices outside of Montenegro issued before the day this Law enters into force shall remain valid.

Non-Governmental Organizations

Article 169

Non-governmental organizations that have obtained the approval of the Central Bank for the performance of operations referred to in Article 8 of the Decision on Micro-Credit Financial Institutions (Official Gazette of the Republic of Montenegro 01/03), may continue their operations no longer than one year from the day of entry into force of this Law.

The granted approval shall cease to be valid after the expiration of the time limit set forth in paragraph 1 above.

Parties with Qualified Participation

Article 170

Parties holding participation in capital or voting rights in a bank that represents a qualified participation under the provisions of this Law and as at the day of entry into force of this Law, and for which they do not have the required approval, shall submit to the Central Bank a request for granting the approval for the acquisition of qualified participation within three months from the day of entry into force of this Law.

Appointment of the Banking Ombudsman

Article 171

The Parliament of Montenegro shall appoint the banking ombudsman within one year from the day of entry into force of this Law.

Cease of Validity of Regulations

Article 172

The Law on Banks (Official Gazette of the Republic of Montenegro 52/00, 32/02) shall cease to apply as of the day of entry into force of this Law.

Entry into Force

Article 173

This Law shall enter into force on the eighth day following that of its publication in the Official Gazette of Montenegro.

SU-SK, No. 01-790/16

Podgorica, 14 February 2008

Parliament of Montenegro

President

Ranko Krivokapić