

Pursuant to Article 82 paragraph 1 point 2 and Article 91 paragraph 1 of the Constitution of Montenegro, the 24th Parliament of Montenegro at the tenth sitting of the first ordinary session in 2010, passed on 16 July 2010 the

LAW AMENDING THE BANKING LAW

Article 1

Article 3 point 8) of the Banking Law (OGM 17/08), shall be amended so as to read:

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

- one party controls or has direct or indirect participation in capital or voting rights of other party of at least 20%,
- two or more parties are controlled by a third party,
- the same persons represent the majority members of the board or another governing body in two or more legal persons,
- two or more parties are family members (a spouse, a person who lives in community equal to matrimony pursuant to the law, and children and other persons who live in household of that party),
- two or more parties, pursuant to a contract, an agreement or informally, jointly performing business activities of a significant volume;
- if a deterioration or improvement in financial situation of one party may lead to deterioration or improvement in financial situation of the other party or other parties, or there is a possibility of loss, profit or creditworthiness transmission among these parties.”

Point 13 shall be amended to read:

“13) **a group of related parties** shall be considered related parties under point 8) indents 1-6 of this Article and parties related to them.”

Article 2

Article 9, paragraph 3 shall be amended to read:

“A group of related parties related pursuant to Article 3 point 8) indents 1 to 5 of this Law, shall be deemed as one acquirer of participation in a bank capital and/or voting rights.”

Article 4 is deleted.

Article 3

After Article 10, a new Article shall be added to read:

“Procedure involving the request for granting approval for acquiring qualified participation

Article 10a

The Central Bank shall inform the applicant in writing on the reception of the request for granting the approval for acquiring qualified participation within two business days upon the reception of the orderly request.

If any of the prescribed documentation is not submitted together with the request for granting the approval under paragraph 1, the Central Bank shall, within three business days upon the receipt of the request, send a written notice to the applicant requesting the submission of the lacking documentation within the deadline that shall not be shorter than 8 or longer than 15 business days.

The Central Bank shall decide on the request for granting the approval for acquiring qualified participation within 30 business days following the day of sending the notice under paragraph 1 above in case when the prescribed documentation is submitted with the request, and in case under paragraph 2 above, within 30 business day following the expiry of the deadline specified for the submission of the lacking documentation.

During the procedure of deciding upon the request, within 20 working days following the day of sending the request under paragraph 1 above and/or upon the expiry of the deadline specified for the submission of the lacking documentation, the Central Bank may send a written request to the applicant and other parties to provide additional data and information required for the decision-making process.

The procedure shall remain inactive from the day the request for additional information and data under paragraph 4 above was sent until the day of the submission thereof, and this period shall not last more than 15 business days following the request delivery.

Exceptionally from paragraph 5 of this Article, the inactivity of the decision-making procedure may last up to 20 business days if the applicant has its registered office and/or permanent residence abroad or in case it is not subject to supervision of the relevant authority.

In the procedure of deciding on the request for granting the approval for qualified participation, the Central Bank shall inform the applicant on the date of expiration of the period envisaged for deciding on the request within five business days

following the date of submission of complete documentation and/or within five business days following the date of cessation of the decision-making inactivity period.

If the Central Bank fails to decide on the request within the specified timeframes under this Article, it shall be deemed that it has given its approval for acquiring qualified participation.”

Article 4

Article 11 shall be amended to read:

“When deciding on granting the approval for acquiring qualified participation, the Central Bank shall assess the eligibility and financial condition of the applicant based on the following:

- 1) reputation of the applicant with respect to its financial and business activities, including whether the applicant’s property has been subject to bankruptcy proceedings and/or whether the applicant – natural person has occupied a managerial position in the bank or any other corporate entity at the time such an entity has been subjected to bankruptcy proceedings;
- 2) indicators that may be of importance for the assessment of the applicant’s influence on risk management in a bank,
- 3) reputation, relevant professional capabilities and experiences of parties who will be proposed by the applicant to run the banking operations after the acquisition of qualified participation,
- 4) financial condition of the applicant, especially in relation to the kind of operations performed by the bank in which qualified participation is acquired,
- 5) capabilities of the bank to adhere to the provisions of this Law, in particular those regulating whether a group which member the bank is to become has such an ownership structure which enables efficient supervision, efficient exchange of information between the competent supervisory authorities and determination of division of responsibilities among the authorities;
- 6) the existence of valid reasons to suspect, pursuant to regulations governing the prevention of money laundering and terrorist financing, that the acquisition involves or may involve money laundering or terrorist financing, or that such an acquisition could increase the risk of money laundering and terrorist financing.”

Article 5

Article 12 shall be amended to read:

“Denial of the Request

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

- 1) the applicant does not submit to the Central Bank the prescribed and/or requested documentation within the timeframe referred to in Article 10a of this law
- 2) the applicant does not meet eligibility and financial condition criteria referred to in Article 11 above;
- 3) the qualified participation would exceed the limits referred to in Article 10 above; or
- 4) the granting of approval would lead to the concentration of the participants at financial market which significantly prevents, restricts or violates the competition, primarily through the creation or strengthening of dominant position at financial market.”

Article 6

In Article 14 paragraph 1, after word “the bank” a comma shall be added to be followed by the words “nor exercise the right to dividend payment“.

After paragraph 2 a new paragraph shall be added to read:

“If illegal acquirer of shares does not alienate the shares within the time period specified in the decision of the Central Bank, such illegally acquired shares shall become shares carrying no voting rights until their alienation.“

Former paragraph 3 shall become paragraph 4.

Article 7

Article 30, shall be amended to read:

” The Board of Directors shall govern a bank and oversee its business activities.

Foreign citizens may be elected members of the Board of Directors.

The Board of Directors shall have at least five members, provided that at least two members of the Board of Directors must be persons independent from the Bank.

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

- 1) not holding a qualified participation in the bank or in a superior company in the banking group to which the bank belongs;
- 2) that has not been employed in that bank or its subsidiary in the last three years.

Employees of the bank may not be members of the Board of Directors.

By way of exception from paragraph 5 of this Article, executive directors of the bank may be members of the Board of Directors, provided that the total number of the executive directors in the Board of Directors may not exceed one third of the total number of the members of the Board of Directors.

Chairman of the Board of Directors shall be elected by the Board of Directors from among their members.

Executive director cannot be elected chairman of the Board of Directors.

The chairman and members of the Board of Directors shall be elected for the period of four years and they may be re-elected.

A member of the Board of Directors may only be a person holding a university degree, of recognized personal reputation and professional qualifications, professional ability and experience in managing a bank by applying the rules of prudent business, unless otherwise restricted by provisions of Article 31 of this law.

The Central Bank shall prescribe detailed requirements under paragraph 10 of this Article.”

Article 8

In Article 31, point 3) the words “24 months” shall be replaced with the words “12 months”.

A new point shall be added after point 3) to read:

3a) a person who has been the Director General or a member of the Managing Board of the Deposit Protection Fund over the last 12 months;”

Article 9

In Article 32, after the current paragraph 5, two new paragraphs shall be added to read:

"The approval under paragraph 1 of this Article shall cease to be valid:

- 1) if the person whose appointment has been approved is not elected within six months following the approval or the person has not started to perform his/her function;
- 2) on the day of termination of the function of a Board of Directors member;"

The approval referred to in paragraph 1 above shall not cease to be valid in case of re-election of the member of the Board of Directors during his term of office.

Article 10

In Article 35 paragraph 3 shall be amended to read:

"The Board of Directors shall decide by the majority vote of the total number of members of the Board of Directors".

Article 11

Article 36 shall be amended to read:

"A bank shall have at least two executive directors, of which one shall be the Chief Executive Officer.

Only a person holding a university degree, of recognized personal reputation and professional qualifications, professional ability and experience at managerial positions in a bank or in the financial sector may be elected executive director, provided that there are no obstacles set out in Article 31 hereof to his/her election.

Foreign citizens may be elected executive directors, and at least one executive director must speak the language that is in official use in Montenegro.

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

Article 12

Article 37 shall be amended to read:

“Approval for the Executive Director Election

A person that has obtained prior approval of the Central Bank may be elected executive director.

The evidence to prove the meeting of the election requirements under Article 36 of this law must be submitted together with the request for granting the approval for the election of the executive director.

When deciding on granting the approval for the election of the executive director, the Central Bank may require the prospective candidate to submit the presentation on managing bank’s operations.

The Central Bank shall issue approval under paragraph 1 above if, based on the evidence under paragraph 2 above, presentation under paragraph 3 above and other information available, it evaluates that the prospective candidate meets the requirements for his/her election as the executive director of the bank.

The approval of the Central Bank under paragraph 1 above shall be the condition for the registration in the CRCC.

The Central Bank shall revoke the approval under paragraph 1 above if it has been issued on the basis of incorrect data or if the executive director does not meet the requirements based on which the approval has been issued.

The approval referred to in paragraph 1 above shall cease to be valid if:

- 1) the approved person is not elected within 30 days following the approval, or the approved person has not started to perform its function;
- 2) on the day of the termination of the executive director function;
- 3) an employment contract with a banks expires to executive director as of the day of the contract expiry”.

Article 13

Article 38 shall be amended to read:

“Powers and Responsibilities of Executive Directors

Executive directors shall be responsible for the organisation and management of the bank and supervise the work of the employees of the bank on daily basis.

The Chief Executive Officer shall represent the bank and act on its behalf.

The Chief Executive Officer must provide the signature of at least one more executive director when undertaking legal actions for and on behalf of the bank.

Executive directors shall, in particular:

- 1) implement the specified strategies of the bank;
- 2) implement decisions of the bank's General Meeting and Board of Directors;
- 3) decide on business transactions in line with the bank's internal acts;
- 4) ensure that bank employees are familiar with the regulations and other acts of the bank regulating their labour obligations;
- 5) ensure security and regular monitoring of the IT system of the bank;
- 6) inform the Board of Directors on actions that are not in accordance with the regulations and other acts of the bank;
- 7) report to the Board of Directors in accordance with the bank's acts;
- 8) immediately inform the Board of Directors and the Central Bank on any deterioration or potential deterioration of the financial condition of the bank, as well as on other facts that may significantly impact the financial condition of the bank;
- 9) decide on other issues that are not under the competence of the bank's General Meeting and Board of Directors.

Executive directors shall be responsible for managing all risks the bank is exposed to in its operations and performing other obligations in accordance with the law and the bank bylaw."

Article 14

In Article 39 paragraph 3 point 1) shall be amended to read:

"1) analyse and monitor the functioning of the system for managing risks the bank is exposed to in its operations and proposes the improvement of risk management strategies, policies and procedures;"

Point 5 shall be amended to read:

"5) analyse financial reports of the bank prior to its submission to the Board of Directors;"

The words in point 6) "monitor activities of executive directors and other parties for the purpose of informing the Board of Directors and" shall be deleted.

Article 15

In Article 43, after point 2 a new point shall be added to read:

„3) division by forming one or more banks “.

Article 16

After Article 46, a new Article shall be added to read:

„Division by forming one or more banks

Article 46a

A bank which is in the process of restructuring through division by forming one or more banks, shall submit to the Central Bank also a request for issuing approvals for the division of a part of its assets and liabilities to one or more banks which are being formed (hereinafter: a new bank) and request for issuing the licence for a new bank, supplemented with:

- 1) A decision of the bank's shareholders' assembly on the division of a part of its assets and liabilities when forming a new bank;
- 2) Balance sheet and income statement of the bank which divides a part of its assets and liabilities when forming the new bank, according to the data from the month that precedes the submission of the request from this paragraph;
- 3) Act of incorporation of the new bank;
- 4) Suggestion of the Articles of association of the new bank;
- 5) Information on names, qualifications and working experience of the proposed members of the Board of Directors and Executive Directors of the new bank;
- 6) Business plan of the new bank for the next three years;
- 7) Conditions and reasons for the division of a part of the assets and liabilities when forming a new bank;
- 8) Information on staffing and technical capability of the new bank.

The Central Bank shall decide upon the request referred to in paragraph 1 of this Article within 90 days from the reception of the request and prescribed documentation.

The provisions of this Law governing the issuing of licences for new banks shall apply to the issuing of a licence to a new bank.”

Article 17

In Article 53 a new paragraph shall be added after paragraph 2 to read:

“The Central Bank may prescribe minimum requirements for the information system functioning”.

Article 18

In Article 62 paragraph 2 shall be deleted.

Article 19

In Article 85 paragraph 2 point 1) indent 2 shall be amended to read:

“- to the competent judicial authority”

Point 4) shall be amended to read:

“4) the information on the account number of a legal person and a natural person performing the registered activity may be disclosed to the taxation authority, as well as the creditor of the bank’s client who presents the bank with an executive court decision or another executive document determined by the law.”

A new point shall be added after point 5) to read:

“6) Information on a client’s borrowing from this bank and regularity of repayment of the loan granted shall be made available to persons having contingent liability toward the bank due to being the loan endorsers, guarantors and the like.”

Article 20

In Article 92 after paragraph 2 a new paragraph shall be added to read:

“Banking ombudsman shall be appointed for a five-year term of office and may be re-elected only once”.

After paragraph 3 that becomes paragraph 4 a new paragraph shall be added to read:

“The banking ombudsman shall exercise labour rights and rights based on labour in the Central Bank.”

Former paragraphs 4 to 8 become paragraphs 6 to 10.”

Article 21

In Article 97 paragraph 1, shall be amended to read:

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

In paragraph 2 words: “or de-merge” shall be replaced by words “de-merge or division”.

Article 22

In Article 106 paragraph 2, the words ““that perform duties referring to performance of supervisory role of the Central Bank” shall be replaced with the words “as well as agents, interim administrators, external auditors and any party retained by the Central Bank in connection with the exercise of its functions under this law.”

In paragraph 3 words “the persons referred to in paragraph 1” shall be replaced with the words “the persons referred to in paragraph 2” above.

Article 23

In Article 108 a new point shall be added after point 2 to read:

“2a) issuing preventive warnings aimed at ensuring the bank’s compliance with the applicable regulations”.

Article 24

In Article 115 paragraph 2 shall be amended to read:

“The irregularities in a bank’s operations, within the meaning of this Law, shall be considered:

- 1) inadequate managing of risks to which the bank is exposed in its operations;
- 2) bank’s action and/or failure to act which is not in accordance with the law and regulations passed on the basis of the law;
- 3) applying unsafe or unsound banking practices.”

After paragraph 2 a new paragraph shall be added to read:

“Unsafe or unsound banking practice referred to in paragraph 2 point 3) above shall mean every action or failure to act which is contrary to the generally accepted standards of prudent banking operations and the consequences of which, in case of a continuing risk, could result in loss or damage to the bank.”

The former paragraph 3 shall now become paragraph 4.

Article 25

Article 116 shall be amended to read:

“If the Central Bank establishes irregularities in the bank’s operations, it may take one of the following measures:”

- 1) warn the bank in writing about the irregularities found and request the bank to undertake one or more activities to remove the irregularities;
- 2) conclude a written agreement with the bank making the bank bound to remove the irregularities found within a specified time;
- 3) issue an order imposing one or more of the following measures:
 - order the bank to remove the irregularities found 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 the activities that, as the Central Bank has established, caused losses for the bank or are contrary to best banking practices;
 - order the bank to establish stricter limits in operations than prescribed by the Central Bank or the bank’s policies;
 - order a bank classification of assets based on the exposure to credit risk in 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, ensure higher solvency ratio and/or other capital adequacy indicators than those prescribed if one or more conditions under Article 71 above are met;
 - order a bank to discharge a member of the Board of Directors, an executive director or an official with special powers and responsibilities and set the timeframe for conducting the procedure of their relieving of duty and, as a rule, prohibit these persons to further perform their functions until the completion of the ordered procedure;
 - revoke the previously granted approval to a board of directors member;

- 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 imposing of restrictions to salaries and other benefits of the bank's executive directors and other officials with special powers and responsibilities;
 - order that all deposit interest rates do not exceed market prevailing interest rates for comparable amounts and maturities;
 - order the bank to require from its subsidiary to reduce the intensity of or cease the activity which is deemed by the Central Bank to have caused significant losses for the bank or to represent a large risk to the bank;
 - prohibit or restrict the growth of 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 an outsourcing agreement that poses a high operational risk to the bank.
 - temporarily prohibit the performance of certain or all activities
 - temporarily prohibit or restrict the opening of new organisational units or the introduction of new products,
 - temporarily prohibit the acceptance of new deposits and other repayable funds,
 - temporarily prohibit dividend or any other profit payment,
 - order the bank to discontinue applying unsafe or unsound banking practices,
 - order the bank to conduct measures aimed at ensuring safe and efficient payment system, including the prohibition of disposing of funds in an account and measures of prohibiting crediting or debiting the account;
 - order the bank to pass and enforce measures for: improving the procedure of collection of due claims, proper evaluation of balance sheet and off-balance sheet items, improve its accounting and information system and/or improve the system of internal controls and internal audit.”
- 4) pass a decision ordering the bank to prepare a plan to improve the condition of the bank, which must contain detailed measures and activities taken by the bank to provide adequate management of risks the bank is exposed to in its operations and/or to remove the identified irregularities, as well as timeframes for their implementation.”
- 5) institute interim administration in the bank in accordance with Article 120 of this Law.
- 6) revoke the bank's license.

The bank shall submit to the Central Bank for its approval the plan for the improvement of the bank condition prepared in accordance with provisions under paragraph 1 point 4) above.

In the course of the procedure of granting the approval under paragraph 2 above, the Central Bank may require the bank to make amendments to the plan. “

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

The provisions of Article 114 above shall not apply in the procedure of imposing measures referred to in paragraph 4 above.

Article 26

In article 118, paragraph 1, point 3) words: “on account of additional depositor protection from consequences of possible bankruptcy or liquidation procedure that may be instituted in the bank,” shall be deleted.

In paragraph 2, point 1) words: “for the purposes specified in paragraph 1, point 3) above“are deleted.

Article 27

A new Article shall be added after Article 118 to read:

”Authorized person of the Central Bank

Article 118a

Once the Central Bank undertakes the measures to the bank set forth in Article 116 of this law, or determines that the enhanced supervisory activities for monitoring of the financial condition and activities of the bank are necessary, it may pass a decision on appointing a person to be authorized for monitoring the implementation of measures imposed against the bank or a person to be authorized for monitoring the state of affairs in the bank (hereinafter: the authorized person).

The decision referred to in paragraph 1 of this Article shall specify the period in which the authorized person is engaged in the fulfilment of obligations referred to in paragraph 3 of this Article.

The authorised person shall be obliged to monitor all activities taken by the bank with regard to the imposed measures or the state of affairs in the bank and to report to the Central Bank thereof.

During the monitoring of implementation of measures or situation in the bank, the authorized person shall have the right to directly monitor the implementation of imposed measures and/or situation in the bank, including the right to attend meetings of the General Meeting, the Board of Directors, the Audit Committee and bodies of the Board of Directors and participate in their work, but without the voting right.

The authorized person shall have the right to convene a meeting of the Board of Directors.

The bank shall be obliged to enable the authorized person to exercise the rights under paragraph 4 and 5 above, to have unlimited access to banking books, other business documents and records, as well as insight into the bank's IT functioning and computer database."

Article 28

In Article 120 paragraphs 1 and 2 shall be amended to read:

"The Central Bank shall pass a decision on imposing interim administration in the bank if:

- 1) the bank's own funds and/or solvency ratio are below a half of the prescribed level;
- 2) the bank that was imposed one or more measures under Article 116 paragraph 1 point 3) of this Law has failed to fully implement the measures within the determined timeframes, whereby this failure may jeopardize the bank's liquidity and/or solvency,
- 3) the bank was imposed the measure under Article 116 paragraph 1 point 4) hereof but it has failed to submit the plan for improving the condition in the bank within the prescribed timeframe, or the bank has failed to meet the obligations set out in such a plan within the specified timeframe or the Central Bank has not approved the submitted plan,

The Central Bank may issue a decision on imposing interim administration in the bank if:

- 1) the bank's own funds and/or solvency ratio are below two thirds of the prescribed level;

- 2) it has been found that the bank is illiquid or the liquidity of the bank has worsened down to the level that threatens interests of depositors and other creditors of the bank;
- 3) it has been found that during the timeframe envisaged for the removal of identified irregularities in its operations, the bank has been illiquid or its liquidity has worsened down to the level that threatens interests of depositors and other creditors of the bank;
- 4) the bank has engaged in unsafe or unsound practices or acted contrary to the provisions of the law and regulations passed on the basis of the law and thus jeopardized the interests of the bank depositors or reduced the bank assets;
- 5) the bank precludes or obstructs the Central Bank in performing its supervisory function, including concealing or failing to furnish data or any other information and documents on the bank's operations."

In paragraph 3 words "referred to in paragraph 1 above" shall be replaced with words: "on imposing interim administration"

Article 29

In Article 122 paragraph 1 the words: "ranging from 15-fold to 30-fold official minimum monthly salary in Montenegro", shall be replaced by words: "equal to amount of an average salary of Executive Directors in the bank in the month preceding the introduction of interim administration in the bank".

In paragraph 2, the full stop after the text shall be replaced with a comma to be followed by the wording: "and no more than fivefold the average salary of the bank's executive directors received in the month preceding the introduction of interim administration in the bank."

In paragraph 3 the words: "Shareholders` Assembly of the bank" shall be replaced by words: "the Central Bank, to be charged to the bank".

Article 30

In Article 123 paragraph 1 the words "except for the powers specified in Article 122 paragraph 2 and article 127 of this Law" shall be deleted, and the words "the management" shall be replaced with the words "executive directors".

Paragraph 2 shall be amended to read:

"The respective term of office of members of the Board of Directors and duties of the executive directors shall be terminated on the day of passing the decision on the introduction of interim administration."

The words “executive directors” in paragraph 3 shall be added after the words “Board of Directors”.

Article 31

In Article 125 the following six new paragraphs shall be added after paragraph 1 to read:

“The Central Bank may request the Interim Administrator to deliver information on the implementation of the Interim Administration.

The Central Bank may, upon the proposal of the Interim Administrator, order the suspension of payments to other parties from all accounts owned by the delinquent debtor of the bank under interim administration until such a debtor has paid all outstanding liabilities existing at the time of issuing the order.

The Central Bank may, upon a proposal of the Interim Administrator, issue an order to temporarily suspend payments of liabilities in the bank under interim administration (moratorium) for a period of up to 90 days with a possibility of extending the period for another 90 days.

During the moratorium, the Interim Administrator shall suspend all payments, except for liabilities referring to salaries and other personal income of the bank’s creditors, life and health insurance claims and current expenditures necessary for the bank’s regular functioning.

By the way of exception from paragraph 5 of this Article, the Central bank may, during the moratorium, allow the Interim Administrator to pay out deposits up to the amount of guaranteed deposits and only to persons entitled to the guaranteed deposit payout in accordance with the law governing deposit protection.

During the period of moratorium:

- 1) all proceedings against the bank and the Interim Administrator which have arisen from the bank’s operations shall be suspended;
- 2) the bank’s assets may not be subject to the execution of a judgment;
- 3) the bank may not assume any new liabilities, except the liabilities to the Government of Montenegro, the Central Bank and the Deposit Protection Fund;”

Article 32

Article 126 shall be amended to read:

“Responsibilities of the Interim Administrator

The Interim Administrator shall take all measures and activities necessary for the bank continuity and the protection of its property, in particular the following:

- 1) the removal of irregularities identified in the bank's operations;
- 2) the collection of the bank's receivables, especially non-performing loans;
- 3) the restriction of the growth of the bank's assets and off-balance sheet commitments;
- 4) the decrease in the bank's operational costs;

Immediately upon the appointment, the Interim Administrator shall secure the bank's property and documents, including their physical protection.

The Interim Administrator shall, within 30 business days following the imposing of the interim administration against the bank, submit to the Central Bank the following:

- 1) Report on the financial and operating conditions of the bank containing at least:
 - data on bank's property upon the completed inventory;
 - balance sheet and income statements of the bank on the day of the appointment of the interim administrator;
 - review of all claims and liabilities of the bank per individual borrowers and/or creditors of the bank;
 - evaluation of the possibility for the bank continuity, including the assessment of capability and willingness of the bank shareholders to recapitalize the bank;
- 2) a plan of activities to be implemented by the Interim Administrator during his administration, which shall contain a proposal for the bank resolution with a detailed explanation of advantages and weaknesses of the proposed activities in relation to other possible solutions for the bank resolution.

The proposal for the bank resolution may include the following measures and activities:

- 1) the compliance of the bank's operations with this law and other regulations, and which may include the following:
 - monthly timeline for the collection of claims and settlement of liabilities;
 - rationalization of bank's operational costs;

- a proposal of changes in the bank's internal organization and job position scheme;
 - a sale of the bank's assets;
 - the bank recapitalization;
 - other measures and activities in accordance with the law.
- 2) transfer of the bank's assets and liabilities to another bank, in line with Article 127c of this Law;
 - 3) the bank restructuring;
 - 4) the revocation of the bank licence.

Upon the request of the Interim Administrator, the Central Bank may extend the deadline referred to in paragraph 3 of this Article for additional 30 business days, if it estimates that it is necessary due to the complexity and the size of activities involved in the determining the situation in the bank.

The Interim Administrator shall obtain the necessary approval from the Central Bank before carrying out the bank recapitalization, the transfer of assets and liabilities to another bank and the bank restructuring.

The Interim Administrator shall submit to the Central Bank monthly reports on its activities and accomplishment of the Activity plan under paragraph 3 point 2) above.

If the Central Bank deems necessary that emergency measures are required for the resolution of the bank under interim administration in order to maintain the banking system stability, the plan of activities of the Interim Administrator need not contain a detailed explanation of advantages and weaknesses of the proposed activities in relation to other possible solutions for the bank resolution referred to in paragraph 3 point 2) above."

Article 33

A new Article shall be added after Article 126 to read:

"Recapitalization of the bank under interim administration

Article 126a

Before initiating recapitalization of the bank under interim administration, the Interim Administrator shall:

- 1) determine the extent of losses;
- 2) prepare the bank's balance sheet.

Upon the preparation of the balance sheet referred to in paragraph 1 point 2) above, the Interim Administrator shall determine the amount of the additionally required share capital at least up to amount that provides the required level of own funds and/or solvency ratio adequate to the risk profile of the bank for which new issue of shares is required.

The Interim Administrator shall determine the price at which the shares issued for sale shall be sold to the existing shareholders in the following manner:

- 1) Total nominal value of the existing shares of the bank shall be increased by the amount of issue premiums reported in the bank's balance sheet, and the obtained amount is then increased or decreased by the amount of profit or loss reported in the bank's balance sheet;
- 2) The amount calculated in accordance with point 1) above shall be divided by total number of the existing shares of the bank, and the obtained amount shall represent the price at which the issued shares shall be sold.

The Interim Administrator shall carry out the issue of shares to be sold exclusively by the existing shareholders of the bank, within the timeframe to be specified by him/her, except in cases when:

- 1) the bank recapitalization ordered by the Central Bank prior to the introduction of interim administration had failed;
- 2) the Central Bank determines that a speedy resolution of the bank under interim administration is necessary with a view to preventing the endangering of safety and soundness of the banking system.

If the existing shareholders fail to recapitalize the bank in line with paragraph 4 above, the Interim Administrator shall pass a decision on the issue of bank shares to be sold to persons other than the existing shareholders of the bank (hereinafter: new shareholders).

In the case under paragraph 5 above, the existing shareholders shall not have the pre-emptive right or the right to purchase additionally issued shares.

Shares issued during recapitalization of the bank under interim administration may be purchased only by persons who have previously obtained the Central Bank's approval for the acquiring of qualified participation in the bank, unless the purchase of such shares provides them with qualified participation in the bank or these persons already have the appropriate approval of the Central Bank.

By way of exception from Article 10a hereof, the Central Bank shall decide on the request for approval under paragraph 7 of this Article within five working days following the receipt of the request.

The Securities and Exchange Commission and the Central Depository Agency (hereinafter: the CDA) shall take respective decisions on the approval of the prospectus and registration of shares issued in line with this Article within eight days following the receipt of the request.

The issue of shares for the bank recapitalization shall be considered successful only if the sale of the issued shares has reached the level of the required additional share capital at least to the amount that provides own funds and/or solvency ratio corresponding to the risk profile of the bank.

The Interim Administrator shall immediately inform the Central Bank on the results of recapitalization of the bank under interim administration.”

Article 34

Article 127 shall be amended to read:

“Sale of shares of bank’s shareholders, with mandatory recapitalisation

If the issue of shares performed on the basis of the Interim Administrator’s decision on bank recapitalisation in line with Article 126a hereof fails, the Central Bank may order the Interim Administrator to organise a sale of shares owned by the bank shareholders (hereinafter: shares of the existing bank shareholders) to new shareholders, with mandatory recapitalisation up to the level providing the required level of own funds and/or solvency ratio adequate to the risk profile of the bank

By way of exception from paragraph 1 above, if the Central Bank determines that a speedy resolution of the bank under interim administration is necessary with a view to maintaining financial stability, it may allow the Interim Administrator to organize the sale of shares of the existing bank shareholders with mandatory recapitalization and without the issue of shares under Article 126a hereof.

The Interim Administrator shall determine the amount of additional capital requirement for which new shares will be issued and the prices of shares necessary for the mandatory bank recapitalization in line with Article 126a paragraph 2 hereof.“

Article 35

Three new Articles shall be added after Article 127 to read:

“Sale of shares of the existing bank shareholders

Article 127a

The Interim Administrator shall inform potential investors via the electronic and printed media distributed in the entire territory of Montenegro about the planned sale of shares of the existing bank shareholders, the manner of the sale, and the initial prices of the shares, as well as on the amount of the funds needed for mandatory recapitalisation of the bank.

The buyer of shares of the existing bank shareholders during the interim administration may only be a person who shall acquire qualified participation in the bank with such a purchase and who has obtained prior approval of the Central Bank for acquiring qualified participation in the bank in accordance with this law.

The Central Bank shall decide on the request for acquiring qualified participation referred to in paragraph 2 of this Article within 10 business days following the day of submitting the request.

The Interim Administrator shall instruct the authorized participant in the securities market to sell the shares of the existing bank shareholders at the stock exchange, to include the information on the initial price of the shares and the duration of the sale, and instruct the sale of these shares only to the persons under paragraph 2 above.

The offer for the sale of shares at the initial price shall last two business days, reducing by 10% every subsequent day, provided that total price reduction may not exceed 70% of the initial price of shares.

In addition to the sale laid down in paragraph 4 above, shares of the existing bank shareholders may be sold as a packet of shares, in line with the law.

After the clearing and netting of the sold shares of the existing bank shareholders, the CDA shall transfer them to the securities accounts of the new buyers and proceeds from the sale shall be paid to the special transaction account at the CDA and remain in these accounts until the buyers have performed the required bank recapitalisation, i.e. until the expiration of the deadline for the payment of funds for the purchase of new shares of the bank.

Mandatory recapitalisation of the bank

Article 127b

The day following the sale of shares of the existing bank shareholders the Interim Administrator shall pass a decision on the issue of bank shares through closed offering up to the amount determined under Article 127 paragraph 3 hereof with a view to their sale to the buyers of shares of the existing bank shareholders.

Buyers of shares of the existing bank shareholders shall be obliged to buy a part of the new issue of shares proportional to their share in the purchase of shares of the existing bank shareholders.

The issue of shares referred to in paragraph 1 above shall be considered successful if all shares of such issue are sold.

When the issue of bank shares under paragraph 1 above is successful, the CDA shall transfer the shares from the transaction account under Article 127a paragraph 7 hereof and the new purchased shares to the securities account of the buyers of the bank shares, simultaneously transferring the funds from the transaction account to the accounts of previous bank shareholders, and proceeds from the sale of shares of the new issue to the bank account.

In case the issue of shares has failed, the CDA shall return the shares of the existing bank shareholders to the accounts of previous owners of the bank shares and funds in the transaction account referred to in article 127a paragraph 7 shall be returned to buyers who failed to perform the required bank recapitalization.

Transfer of assets and liabilities to another bank

Article 127c

The Interim Administrator may transfer a part or total assets and/or liabilities to another bank or banks by way of contract (hereinafter: the other bank).

The transfer under paragraph 1 above shall be performed without approval of depositors and other creditors as well as without the approval of the debtors of the bank.

Taxes, contributions, duties and other levies stipulated in the law shall not be paid for the transfer under paragraph 1 above.

Assets encumbered with mortgage or other rights of realty may also be transferred in accordance with the contract on the transfer of a bank's assets and liabilities to the other bank.

Assets subject to the execution judgment or assets under the prohibition of disposal may not be transferred.

The value of assets and/or liabilities to be transferred to the other bank shall be determined in the contract on transfer of assets and/or liabilities of the bank to other bank.

The Central Bank shall approve the transfer of assets and/or liabilities of the bank to the other bank in the form of approval to the contract referred to in paragraph 6 above.

The Central Bank may grant the approval under paragraph 7 above if the other bank, after the transfer of assets and/or liabilities, continues its operations in the manner which does not jeopardize the bank's financial condition and compliance of its business with this law.

The Interim Administrator shall, within five business days following the transfer, inform depositors, other creditors and debtors of the bank on the transfer of assets and/or liabilities completed in accordance with this Article.

If the transfer of assets and/or liabilities is to be performed along with the payment of the premium by the other bank, the premium shall be paid to the bank under interim administration.

Article 36

The words "up to one year" in Article 128 paragraph 1 shall be replaced by the words "up to six months" and the words "for additional six months" shall be replaced by words "for additional three months."

A new paragraph shall be added after paragraph 4 to read:

"The powers transferred to the Interim Administrator in line with Article 123 paragraph 1 hereof shall be returned to the General Meeting on the day of holding the General Meeting convened in line with paragraph 4 above, provided that the function of the Board of Directors and duties of the executive directors shall be exercised by the Interim administrator until the appointment of a new board of directors and executive directors. "

Article 37

Article 129 shall be amended so as to read:

“The Central Bank shall revoke the bank license when:

- 1) application for registration in the CRCC has not been submitted within the prescribed time limit or the bank has not commenced banking operations within 60 days as of the day of registration;
- 2) the license was issued on the basis of incorrect data;
- 3) the bank no longer fulfils the conditions under which the license was granted;
- 4) the bank ceased to engage in deposit taking and lending operations for more than six months, unless it has been ordered by the Central Bank;
- 5) the bank acted two or more times or continuously against the Law, other regulations or standards of prudential operation, thus jeopardizing deposits safety;
- 6) the competent authority of the bank has ordered a decision on the bank liquidation;
- 7) the solvency ratio is below one quarter of the prescribed level,
- 8) the bank has not paid its due cash liabilities for five consecutive days;
- 9) the bank's liabilities exceed its assets.

The Central Bank may revoke a bank license if:

- 1) it determines that the banks is critically undercapitalized;
- 2) the bank has a critically low level of liquidity;
- 3) the bank committed one or more serious violations of the provisions of this law or any other law;
- 4) the bank does not meet its obligations with respect to deposit protection;
- 5) the activities of the bank are related to money laundering and/or terrorist financing or with the performance of other activities sanctioned by the criminal law;
- 6) operations of deposit taking and lending are performed in a scope which is considerably disproportional to the previous or planned volume of such activities;
- 7) the bank does not implement measures ordered by the Central Bank;
- 8) measures taken for the bank rehabilitation have not lead to the improvement of situation in the bank;
- 9) the Central Bank had ordered the bank to relieve of duty a member of the Board of Directors, an Executive Director or a person with special powers and prohibit those persons to perform their functions until the finality of the relieving of duty procedure, and the bank has failed to implement the imposed measures within the specified deadline;

- 10) the bank has repeatedly violated the obligation of timely reporting or correct reporting to the Central Bank,
- 11) the bank has repeatedly prevented the performing the supervision of the Central Bank.

The resolution of revocation of license shall be published in the "Official Gazette of Montenegro" and shall be forwarded to CRCC.

Upon the issuing of the resolution referred to in paragraph 3 above, the issued approvals for the performance of other services shall also cease to be valid.

When the Central Bank revokes the licence to a bank, it shall immediately make either a resolution on opening bankruptcy proceedings against the bank or a resolution on the bank liquidation.

The Central Bank shall pass a resolution on the opening of bankruptcy proceedings against the bank when the bank's liabilities exceed its assets, while the resolution on the bank liquidation shall be made when the conditions for performing bankruptcy proceedings have not been met.

The resolution referred to in paragraph 5 above shall be published in the "Official Gazette of Montenegro" and in at least two daily printed media distributed in the territory of Montenegro and it shall be forwarded to the CRCC.

The resolutions under paragraphs 3 and 5 above shall be final.

An administrative dispute may be taken against the resolutions referred in paragraphs 3 and 5 of this Article."

Article 38

In Article 146 paragraph 2, point 3) after the word "bank" the following words "established by the internationally recognized Bank rating agency" shall be added.

Article 39

In Article 165 paragraph 1, the words "50-fold to 300-fold amount of minimum official monthly salary in Montenegro" shall be replaced with words "from EUR 5,000 to EUR 15,000".

Point 14a shall be added in Article 165 paragraph 1 to read:

"14a) if it does not enable the authorized person to attend meetings of the General Meeting, the Board of Directors, the Audit Committee and bodies of the

Board of Directors or if, upon his request, it does not convene a meeting of the Board of Directors or does not allow free insight into banking books, other business documents and records, or insight into bank's IT functioning and computer database (Article 118a)."

In paragraph 2, the words "10-fold up to 20-fold amount of minimum official monthly salary in the Republic" shall be replaced with words "from EUR 500 to EUR 1,000".

Article 40

The banks shall bring their general acts and corporate governance into compliance with the provisions of this Law and no later than within six months following the day of its entry into force.

Article 41

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

No. 01-437/6
Podgorica, 16 July 2010

THE 24th PARLIAMENT OF MONTENEGRO

PRESIDENT

Ranko Krivokapic