

CENTRAL BANK OF MONTENEGRO LAW *(Official Gazette of Montenegro 44/10, 46/10, 6/13)*

I. BASIC PROVISIONS

Subject Matter

Article 1

This Law regulates the status, objectives, functions, performance and organisation of the Central Bank of Montenegro.

Definitions

Article 2

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

- 1) “**bank**” is a legal person which performs banking operations with the permission or the approval of the Central Bank of Montenegro (hereinafter: the Central Bank) to perform such operations;
- 2) “**financial institution**” is a microcredit financial institution, credit union or a party pursuing credit-guarantee operations and which was licensed or authorized by the Central Bank;
- 3) “**deposit**” is money deposited in an account, with or without interest or other expenses, which is paid on demand or at certain maturity date, depending on the conditions agreed at the time of depositing the funds;
- 4) “**loan**” is the obligation of a lender to provide funds to a borrower, for a specified or unspecified period of time, earmarked or non-earmarked, and the borrower is obliged to repay the agreed interest and the received amount of funds to the bank at the agreed time and in the agreed manner;
- 5) “**fiscal agent**” is the function of the Central Bank where it performs operations involving securities issued by Montenegro, the payment of principal, interest and other expenses associated with those securities and other related operations;
- 6) “**Council of the Central Bank**” is the governing body of the Central Bank in accordance with Article 44 above;
- 7) “**Governor of the Central Bank**” is the managing body of the Central Bank in accordance with Article 45 hereof;

- 8) **“Audit Committee”** is the permanent body of the Council of the Central Bank;
- 9) **“Chief Internal Auditor”** is the person managing the internal audit of the Central bank.

Central Bank Status

Article 3

The Central Bank is a legal person.

The registered office of the Central Bank shall be in Podgorica.

The Central Bank shall not be registered in the Central Registry of Commercial Court.

Central Bank Objectives

Article 4

The main objective of the Central Bank shall be to foster and maintain the financial system stability, including fostering and maintaining a sound banking system and safe and efficient payment systems.

The Central Bank shall contribute to achieving and maintaining price stability.

The Central Bank shall, without prejudice to pursuing its objectives, support the pursuing of economic policy of the Government of Montenegro (hereinafter: the Government), acting thereby in accordance with the principles of free and open market and freedom of entrepreneurship and competition.

The Central Bank shall have all powers required for pursuing the objectives under this Article.

Issuing of Currency and Prohibition of Lending

Article 5

The Central Bank shall have the exclusive right to issue banknotes and coins in the event Montenegro decides to introduce a national currency.

The Central Bank may issue commemorative banknotes and coins which do not represent the means of payment.

The Central Bank may not grant loans, except under the conditions stipulated under this law.

Central Bank Property

Article 6

The Central Bank shall autonomously acquire, manage, use and dispose of the state property required for the exercising of its functions under this law.

At the proposal of the Central Bank, the Parliament of Montenegro shall decide on the disposing of property under paragraph 1 above exceeding the amount of EUR 150,000,000.

Central Bank Independence

Article 7

The Central Bank shall be independent in pursuing the objectives and exercising the functions under this law.

The Central Bank, members of its bodies and employees in the Central Bank shall be independent in the performance of their functions and their activities established under this and other laws and they may not receive or seek any instruction from the government and other bodies and organisations or any other entities.

The state and other bodies and organizations and other persons may not exert any influence on the performance and decision-making of members of the Central Bank bodies.

Central Bank Cooperation with Government Bodies and Organisations

Article 8

The Central Bank may, for the purpose of pursuing the established objectives and without prejudice to its autonomy and independence, cooperate with the Government and other government bodies and organisations, and take any actions within its authority to promote this cooperation.

The Government shall submit to the Central Bank, upon the latter's request, data and information necessary for the achievement of objectives and the exercising of functions of the Central Bank.

The Central Bank shall submit to the Government, at the latter's request, data and information necessary for the achievement of the objectives and the exercising of functions of the Central Bank, except data and information regarding entities subject to the Central Bank supervision and/or confidentiality obligation in accordance with the law.

International Cooperation

Article 9

The Central Bank may cooperate with other central banks, international financial institutions and organisations (hereinafter: international financial institutions), which scope of activities is related to the objectives and functions of the Central Bank, and it may be a member of international institutions and participate in their work.

Central Bank Seal and Statute

Article 10

The Central Bank has its own seal that contains the title "Central Bank of Montenegro" and the coat of arms of Montenegro.

The Central Bank has its Statute which is published in the "Official Gazette of Montenegro".

II. CENTRAL BANK CAPITAL

Central Bank Capital

Article 11

The Central Bank capital shall comprise the initial capital and reserves.

Central Bank Initial Capital

Article 12

The Central Bank shall have initial capital to the amount of EUR 50,000,000.

The Central Bank's initial capital shall be the state property.

The Central Bank's initial capital may not be transferred, pledged or subject to any encumbrance.

The initial capital may be increased by amounts to be determined by the Council of the Central Bank.

The increase in the initial capital of the Central Bank shall be provided from the general reserve funds. In case the general reserve funds are insufficient to cover the specified increase in the initial capital, the shortfalls may be provided from the Budget of Montenegro.

Central Bank Reserves

Article 13

The Central Bank reserves shall comprise general, special and revaluation reserves.

General reserves shall be used for the coverage of operating losses incurred by the Central Bank and increase in initial capital of the Central Bank.

The Central Bank may, after consultation with the Government, establish special reserves to be used for the coverage of specific operating expenses.

The Central Bank shall establish and maintain the revaluation reserve account for the coverage of unrealized expenses for positions in currencies other than EUR, gold, securities and other assets.

III. CENTRAL BANK FUNCTIONS

General Provisions

Article 14

The Central Bank shall:

- 1) oversee the maintenance of stability of the financial system as a whole and pass pertinent regulations and measures;
- 2) issue licenses and approvals to banks and financial institutions and supervise banks and financial institutions;
- 3) carry out bankruptcy and liquidation proceedings against banks and financial institutions in line with the law;
- 4) regulate the national and international payment system transactions and supervise payment systems;
- 5) may be a payment system owner and operator and a participant in other payment systems;
- 6) license payment systems other than the one it operates and oversee payment systems;
- 7) manage the international reserves;
- 8) act as the payment and/or the fiscal agent towards international financial institutions and may be the representative of Montenegro in international financial institutions;
- 9) perform macroeconomic analyses, including monetary, fiscal, financial and the balance of payments analyses, and communicate economic policy recommendations to the Government;
- 10) identify, analyse and assess the impact of certain factors on the financial system stability as a whole, which are in accordance with this law and law governing statistics and statistical system;
- 11) collect and statistically process data and information of importance for the achievement of objectives and the exercising of functions of the Central Bank;
- 12) set up the information system required for undisturbed exercising of its functions;
- 13) perform transfers in the national and international financial markets;
- 14) accept deposits of banks, government bodies and organisations and financial institutions and other parties in accordance with the regulations;
- 15) open accounts for banks and financial institutions, government bodies and organisations, foreign banks, central banks, international financial institutions, organisations donating funds to government bodies and organisations, and other entities in accordance with the law and other regulations, and perform payment transactions for those accounts;
- 16) pass regulations and measures pursuant to its authority granted under this and other law;
- 17) perform other activities in accordance with this and other law.

1. Monetary and Other Instruments

Open Market Operations

Article 15

In following monetary policy, the Central Bank may operate in financial markets by purchasing, selling and swapping securities and other readily marketable financial instruments, and by purchasing and selling precious metals.

Operations under paragraph 1 above may be performed by concluding spot or forward contracts, swap, netting, repurchase (repo) and other agreements.

The Central Bank shall regulate in more detail the conditions for the performance of operations under paragraph 1 above.

Credit Operations

Article 16

In case of regular bank liquidity needs, the Central Bank may grant loans to banks against adequate collateral.

The Central Bank shall prescribe in more detail the conditions for granting loans under paragraph 1 above.

Lender of Last Resort

Article 17

In exceptional circumstances, the Central Bank may, on such terms and conditions as it determines, grant financial assistance to a supervised bank or financial institution or for the bank's or the financial institution's benefit.

Financial assistance under paragraph 1 above shall only be granted by the Central Bank provided that, in the opinion of the Central Bank, the supervised bank or the financial institution is solvent and can provide adequate collateral to support the financial assistance, and the request for financial assistance is based on the bank's or the financial institution's need to improve their liquidity.

Financial assistance under paragraph 1 above may only be granted by the Central Bank for a period not exceeding 90 calendar days. On the basis of a programme specifying the remedial measures that the supervised bank or the financial institution concerned will be taking, this financial assistance may be renewed once, under the same conditions, for the period not exceeding 90 calendar days. In all the aforesaid cases, granted financial assistance must be repaid within 180 calendar days.

The Central Bank Council shall determine the minimum value of collateral to be deposited to secure the financial assistance granted or renewed. That value shall exceed the nominal value of the financial assistance granted or renewed.

Where the Central Bank ascertains that the assisted supervised bank or financial institution has failed to implement the remedial measures under paragraph 3 above or that these measures did not achieve the intended results, the Central Bank shall take appropriate measures.

Where, in the Central Bank's opinion, the provision of emergency financial assistance to a bank or a financial institution is needed with a view to preserving the financial system stability or implementing the programme specifying the remedial measures, the Government may approve emergency liquidity assistance to a bank or a financial institution, including those that do not qualify for such assistance in accordance with paragraphs 1 to 5 above.

When providing emergency financial assistance referred to in paragraph 6 above, the Central Bank shall act as the agent of the Government.

The ministry responsible for the financial affairs and the Central Bank shall prescribe in more detail the conditions and procedures for providing financial assistance referred to in paragraph 6 above.

Reserve Requirements

Article 18

The Central Bank shall prescribe the obligation for banks to calculate, allocate and maintain reserve requirements, the reserve requirement calculation base, the reserve requirement rate, the manner of holding and time limits for the calculation and allocation of reserve requirements, and the conditions under which reserve requirements may be used.

The Central Bank may pay compensation to banks on allocated reserve requirements.

A bank that improperly calculates or fails to allocate and/or hold reserve requirements within the prescribed time limit shall pay fee to the Central Bank for the lacking amount.

The compensation and fee under paragraphs 2 and 3 above shall be prescribed by the Central Bank.

Other Monetary Policy Measures and Instruments

Article 19

In the achievement of its objectives and the exercising of its functions under this law, the Central Bank may decide on the use of other monetary policy measures and instruments.

The Central Bank shall prescribe the type of measures and instruments under paragraph 1 above and the manner of their use.

2. International Reserves of Montenegro

Managing International Reserves

Article 20

The Central Bank shall hold and manage the international reserves of Montenegro (hereinafter: the international reserves).

The Central Bank shall manage the international reserves in the manner that is in compliance with the monetary policy and which ensures undisturbed fulfilment of Montenegro's international obligations.

The Central Bank shall regulate the managing of the international reserves in more detail.

Structure of International Reserves

Article 21

The international reserves shall comprise:

- 1) gold held by or for the account of the Central Bank, including credit balances in gold accounts;
- 2) banknotes and coins denominated in freely convertible foreign currencies held by or for the account of the Central Bank;
- 3) credit balances and interbank deposits payable in freely convertible currencies, on demand or in a short term, held in accounts of the Central Bank with foreign central banks, international financial institutions or foreign banks which short-term liabilities have been assigned one of the three highest ratings by two internationally recognized credit rating agencies;

- 4) readily-marketable debt securities denominated in freely convertible foreign currencies issued by foreign governments, foreign central banks or international financial institutions;
- 5) highly liquid readily-marketable debt securities denominated in freely convertible foreign currencies in accordance with a decision of the Council of the Central Bank;
- 6) claims resulting from purchase, sale and repurchase of securities (repos) under points 4) and 5) above;
- 7) special drawing rights held in the account and the reserve position of Montenegro with the International Monetary Fund, and
- 8) other assets corresponding to assets under points 1) to 7) of this paragraph.

The Central Bank shall follow the principles of liquidity and safety of investments in deciding on the form of investments under paragraph 1 above.

Opening of Accounts Abroad and Payments

Article 22

The Central Bank may open accounts with foreign central banks, international financial institutions or foreign banks which short term liabilities have been assigned one of the three highest ratings by two internationally recognized credit rating agencies.

The Central Bank may purchase and sell foreign securities in primary and secondary markets, in accordance with this law.

The Central Bank may enter into payment and settlement agreements with foreign clearing institutions.

The Central Bank may enter into agreements under paragraph 3 above on its own behalf and for its own account or for the account of Montenegro.

3. Provision and Protection of Banknotes and Coins and Redemption of Rare and Original Currency

Provision and Supply of Banknotes and Coins

Article 23

The Central Bank shall provide banknotes and coins which are means of payment in Montenegro.

Banks and other entities holding an account in the Central Bank shall be supplied with banknotes and coins from the Central Bank and shall bear all related expenses.

Withdrawal, Replacement and Destroying of Banknotes and Coins

Article 24

Withdrawal and replacement of unfit banknotes and coins shall be performed in accordance with a Central Bank regulation.

Costs of withdrawal from circulation and replacement of unfit banknotes and coins shall be borne by the Central Bank in accordance with the regulation referred to in paragraph 1 above.

Protection of Banknotes and Coins against Counterfeiting

Article 25

Banks and financial institutions shall submit to the Central Bank any suspicious sample of banknotes and coins.

The Central Bank shall temporary replenish all suspicious samples of banknotes and coins received in payment system transactions.

The Central Bank shall perform technical analysis of banknotes and coins suspect of counterfeit and it shall cooperate with competent authorities and institutions in Montenegro and abroad on taking measures to detect and suppress currency counterfeiting.

The Central Bank shall prescribe the manner of handling suspicious samples of banknotes and coins.

Redemption of Banknotes and Coins

Article 26

The Central Bank may redeem rare and original banknotes and coins.

Reproduction of Banknotes and Coins

Article 27

Reproduction and design of objects resembling banknotes, coins, cheques, securities and payment cards which are in circulation in Montenegro may be performed in accordance with the approval of the Central Bank.

4. Responsibility for the Banking System Functioning

Banks and Financial Institutions

Article 28

The Central Bank shall, in line with the law, issue licenses and approvals to banks and financial institutions, supervise banks and financial institutions, perform other activities granted to its authority under the law, and pass regulations and other acts regulating the operation of banks and financial institutions and establishing the standards of sound and safe operations for banks and financial institutions.

In performing the supervision under paragraph 1 above, the Central Bank shall have direct access to business books and other documents of banks and financial institutions, as well as of any other related participants in the activities which are subject to supervision.

Submission of Data, Information and Reports

Article 29

The Central Bank shall prescribe data, information and reports to be submitted by banks and financial institutions to the Central Bank and deadlines for their submission.

The Central Bank may disclose the submitted information and data on banks and financial institutions separately, in aggregate form or classified by banks or financial institutions or by the nature of their business, except information considered confidential in line with the law.

Measures against Banks and Financial Institutions

Article 30

In case a bank or a financial institution fails to manage risks to which it is exposed in accordance with the law or in case it acts contrary to the regulations,

the Central Bank may impose measures against, and other obligations on, such a bank or financial institution, including pecuniary fines, in accordance with the law.

The Central Bank may disclose the information on imposed measures referred to in paragraph 1 above.

Central Bank Cooperation with Foreign Supervisory Authorities

Article 31

With a view to strengthening its supervisory function, the Central Bank shall cooperate with foreign institutions authorized for the supervision of banks and financial institutions.

The exchange of information obtained in cooperation under paragraph 1 above shall not be considered a disclosure of confidential information.

5. Payment Transactions and Systems

Authorities Regarding Payment System

Article 32

The Central Bank shall perform and regulate payment system in Montenegro, in accordance with the law.

The Central Bank may prescribe the manner of performing international payment transactions.

The Central Bank shall oversee payment system transactions in Montenegro and international payment transactions, in accordance with the law.

The Central Bank shall perform international payment transactions in line with the principles of banking operations.

Opening of Accounts

Article 33

Bank is obliged to open an account with the Central Bank in accordance with the regulations.

The Central Bank may not open accounts in its books for companies and natural persons, except for employees of the Central Bank.

The Central Bank may open accounts in bank books.

Payment Systems

Article 34

The Central Bank is the owner and operator of the interbank real-time gross settlement payment system (RTGS) and it may be an owner and/or operator of a securities settlement system and another payment system, as well as a participant in another payment system.

The Central Bank shall license payment systems other than the one it operates, oversee their operation, pass regulations governing payment systems, establish rules for payment systems it operates, and perform other activities in accordance with the law.

6. Collection, Processing and Dissemination of Data and Information, Including Statistical Data and Information

Collection, Processing and Dissemination of Data and Information

Article 35

With a view to attaining its objectives and exercising its functions specified under this and other laws, the Central Bank shall collect, process, present and disseminate data and information, including statistical data and information in accordance with the law governing statistics and statistical system.

The Central Bank may request data and information from the government bodies and organisations, banks and other entities, which are obliged to submit the requested data and information to the Central Bank within specified timeframe.

In performing the activities under paragraph 1 above, the Central Bank may cooperate with foreign authorities and international institutions.

The Central Bank shall publish, in particular:

- 1) statistical data of importance for the exercising of its functions;

- 2) information on the methodology applied in the processing of statistical data;
- 3) relevant statistical data that are submitted to the international financial institutions.

Central Bank Information System

Article 36

With a view to efficient attaining of its objectives and exercising its functions, the Central Bank shall develop an automated information system and it may prescribe the manner of connecting banks and financial institutions to this system.

7. Other Activities

Credit Registry

Article 37

The Central Bank shall establish and keep the registry of certain persons' credit obligations towards banks and financial institutions (hereinafter: the Credit Registry).

Banks and financial institutions shall furnish the Central Bank with data and information required for the maintenance of the Credit Registry.

The Central Bank shall prescribe by regulation the type, manner and deadlines for the submission of data and information under paragraph 2 above.

Notwithstanding paragraph 1 above, the Credit Registry may also include other data and information required for the consideration of overall indebtedness of certain persons (electricity bills, utility bills, tax payables, foreign bank account liabilities, etc.) that the Central Bank has obtained in accordance with separate contracts signed with the relevant entities.

Banks, financial institutions and other persons may use data and information from the Credit Registry under the conditions and in the manner to be prescribed by the Central Bank.

Banks, financial institutions and other persons shall keep confidential the data and information under paragraph 5 above.

Custody Services

Article 38

The Central Bank may provide custody services.

The Central Bank shall regulate the provision of custody services.

IV. RELATIONSHIP BETWEEN THE CENTRAL BANK AND OTHER GOVERNMENT BODIES AND ORGANISATIONS

Submission of Central Bank Report

Article 39

The Central Bank shall submit, as needed, but at least annually and by 30 April of the current year, the report on its prior year's operations to the Parliament of Montenegro (hereinafter: the Parliament) for its consideration.

The report on the Central Bank's operations shall contain information on the economic environment during the reporting year, including the assessment of economic trends in the following year, emphasizing the Central Bank's policy objectives and the condition of the financial system, as a whole. The report shall also include the review and assessment of the Central Bank's policies followed during the reporting year and the description and explanation of the Central Bank's policies to be followed during the following year.

The Central Bank shall also publish reports on financial system stability and price stability matters which it shall submit to the Parliament and to the Government for information purposes, as needed, and at least once a year up to 30 June of the current year for the previous year.

Participation in the Legislative Procedure

Article 40

The Central Bank shall have the right to prepare draft laws related to the pursuing of the Central Bank's objectives and exercising of its functions.

The Central Bank shall furnish the official proposer of the law with the prepared draft laws under paragraph 1 of this Article.

The Government shall consult the Central Bank on any draft law concerning the financial system and affecting the attaining of objectives and exercising of functions of the Central Bank and which shall be subject to the Central Bank opinion, before it is submitted to the Parliament.

The Government shall submit to the Parliament the opinion of the Central Bank referred to in paragraph 3 above together with the proposal of the law.

Depository and Banker for the Government Bodies and Organisations

Article 41

The Central Bank may accept deposits from the government bodies and organisations, open accounts thereof and perform payment service transactions related thereto.

The Central Bank shall perform payment service transactions against orders of the government bodies and organisations up to the amount of deposited funds.

The Central Bank shall pay interest on deposits under paragraph 1 at least at market rates prevailing in Montenegro.

The Central Bank shall calculate and charge fees for the provision of services under paragraph 1 above.

Fiscal Agent

Article 42

The Central Bank may, on such terms and conditions to be agreed with the ministry responsible for financial affairs, provide services with regard to securities issued by Montenegro, including the registration thereof, the payment of principal, interest and other securities-related expenses, and perform other related services.

Prohibition of Lending

Article 43

The Central Bank may not, either directly or indirectly, grant any loans to the Government, other government bodies and organisations, local self-government units or any other persons owned by or in the majority ownership of the state or local self-government units.

By way of exception from paragraph 1 above, the Central Bank may, under the conditions stipulated under this law, grant credits to banks owned by or in the majority ownership of the state.

The Central Bank may not purchase debt securities issued by entities under paragraph 1 above in the primary market.

V. GOVERNANCE AND MANAGEMENT

Central Bank Council

Article 44

The Central Bank shall be governed by the Council of the Central Bank (hereinafter: the Council).

The Council shall:

- 1) determine policies of the Central Bank regarding the execution of its functions and the pursuing of its objective;
- 2) define guidelines and pass instructions for the implementation of policies under point 1) above and monitor their implementation;
- 3) adopt regulations and other acts necessary for the exercising of its functions and the attainment of its objective in line with powers granted under this and other laws;
- 4) decide on the implementation of other monetary policy measures and instruments;
- 5) decide on the Central Bank's membership and participation in the work of international financial institutions;
- 6) adopt the Statute of the Central Bank;
- 7) decide on licensing and revocation of licences to banks and financial institutions and approval for operations to foreign bank branches, in accordance with the law and pertinent regulations;
- 8) decide on initiation and completion of bankruptcy and liquidation proceedings against banks and financial institutions, in accordance with the law;
- 9) decide on licensing and revocation of licences to payment systems, in line with the law and pertinent regulations;
- 10) decide on the introduction of protective and other measures for the purpose of maintaining stability of the financial system as a whole;
- 11) adopt reports and recommendations to be submitted to the Parliament and the Government;
- 12) pass the financial plan and adopt annual financial reports and approve other reports;

- 13) appoint the independent external auditor and other persons it is authorized under this law;
- 14) determine the forms of investments that shall constitute the international reserves;
- 15) decide on the acquisition and alienation of immovable property;
- 16) assess risks and establish the Central Bank's contingency plan with a view to ensuring business security and continuity;
- 17) establish the rate for the calculation of fees for the Central Bank services;
- 18) pass acts governing the employment rights and obligations, including those of the Council members;
- 19) pass other acts on the proposal of the Governor, Vice-Governors and members of the Council.
- 20) perform other activities specified under this law and the Statute of the Central Bank.

The Council may delegate certain tasks within its competence to the Governor of the Central Bank in accordance with the Statute.

The Council shall set up the Audit Committee in accordance with this law, and it may establish other bodies and pass general acts regulating their work.

Regulations passed by the Council shall be published in the "Official Gazette of Montenegro."

Central Bank Governor

Article 45

The Central Bank shall be managed by the Governor of the Central Bank (hereinafter: the Governor).

The Governor shall:

- 1) represent and act on behalf of the Central Bank;
- 2) organize the work of the Central Bank;
- 3) ensures that the policy of the Central Bank and the Council decisions are implemented;
- 4) submit to the Council, at least ten times a year, reports on the Central Bank operations and policies implemented, financial system stability, including events and circumstances that could affect the pursuing of the objective and the exercising of functions of the Central Bank, and the financial system as a whole;
- 5) submit to the Council reports on macroeconomic analyses, including monetary, fiscal, financial and the balance of payments analyses, and propose economic policy recommendations;

- 6) pass instructions for the uniform implementation of regulations passed by the Council;
- 7) pass general acts in line with the Statute of the Central Bank and other acts governing internal operations of the Central Bank;
- 8) pass decisions on granting and revoking approvals within the Central Bank's authority which are not to be passed by the Council;
- 9) pass decisions and other acts in the process of supervision of banks, financial institutions, and payment systems;
- 10) pass other decisions and acts within the Central Bank's authority which are not passed by the Council;
- 11) appoint persons with special powers and responsibilities, unless otherwise stipulated under this law;
- 12) decide on the material and financial performance;
- 13) decide on the information system functioning and development;
- 14) decide on labour rights and obligations of the Central Bank employees;
- 15) decide on other matters for which he is empowered under this law and the Statute of the Central Bank.

The Governor may initiate the speech and upon invitation speak before the Parliament and its bodies with regard to the monetary and financial stability and the functioning of the banking system.

If a Council meeting could not be held or if the Council does not pass an act within its field of competence and the Governor deems that the failing to pass such an act shall not provide for the pursuing of objectives and the exercising of functions of the Central Bank or its ongoing operations, the Governor shall pass an act otherwise falling within the Council's competence, to be confirmed at the subsequent Council meeting.

Should the Governor deem that an act passed by the Council contravenes the law, the Statute of the Central Bank or any other general act, or if the Council fails to confirm the act passed by the Governor in line with paragraph 4 above, he shall warn the Council thereof and if the Council fails to amend its act, the Governor shall inform the Parliament thereof.

The Governor shall designate the Vice-Governor to replace him during his absence.

The Governor may delegate some of the managerial tasks within his authority to the Vice-Governors, persons with special powers and responsibilities, or other employees, in accordance with the Statute.

Council Composition

Article 46

The Council shall consist of seven members.

Members of the Council shall be the Governor, the Vice-Governor for the banking system supervision, the Vice-Governor for financial stability and payment systems and four members.

The Governor shall chair the Council meetings.

Article 47

The Vice-Governor for the banking system supervision shall perform operations related to the supervision of the banking system.

In exercising his powers, the Vice-Governor under paragraph 1 above shall propose to the Governor decisions and other acts during the supervision of banks and financial institutions.

Article 48

The Vice-Governor for financial stability and payment systems shall perform operations related to the financial stability and payment system.

In exercising his powers, the Vice-Governor under paragraph 1 above shall propose to the Governor respective decisions and other acts.

Term of Office of Council Members

Article 49

Members of the Council shall be appointed for the period of six years and may not serve more than two terms, in accordance with this law.

A member of the Council whose term of office has expired shall continue to perform his/her function until the appointment of a new member.

Appointment of Council Members

Article 50

Members of the Council shall be appointed by the Parliament.

The Governor shall be appointed by the Parliament, upon the proposal of the President of Montenegro.

The Vice-Governors shall be appointed by the Parliament, upon the proposal of the Governor.

Four members of the Council shall be appointed by the Parliament, upon the proposal of the working body of the Parliament responsible for financial affairs.

Eligibility to Serve on the Council and Incompatibility of Functions

Article 51

A member of the Council must be a person having Montenegrin citizenship, holding a university degree, having a recognized personal reputation and professional experience in economics, banking, finances or law.

A member of the Council may not be a member of a political organisation, a member of the Parliament, a member of the Government or person performing another function or duty as designated by the Parliament or the Government, except a function or a duty in international financial institutions, and he/she may not be performing a function or a duty in any local authority or trade union bodies.

A member of the Council may not be a member of a body, an employee or external associate of a bank, a financial institution, or another legal person subject to supervision of the Central Bank.

A member of the Council may be a person engaged in scientific or research activity, except a person whose work or activity could affect his/her independence or conflict the interests of the Central Bank.

A member of the Council may not hold 5% or more shares or stake in a bank or a financial institution and any other legal person subject to the Central Bank supervision, nor may he/she hold 5% or more shares or stake in an audit firm.

A member of the Council may not be a person for whom it has been established that he/she is subject to provisions of Article 53 hereof prescribing the conditions for the relieving of duty a Council member.

Prevention of Conflict of Interest

Article 52

A member of the Council is obliged to perform his/her function in the Central Bank in the manner so that he/she shall not put his/her personal interest or interests of parties related with him/her before the interests of the Central Bank.

The Council members shall report to the Council on the acquiring of direct or indirect financial interests and those of the related parties, in the manner to be prescribed by the Central Bank.

The Council members shall submit written statements to the Council presenting the facts under Article 51 paragraphs 2 to 6 herein and the report under paragraph 2 above within 15 days following his/her appointment and once a year by the end of February in the current year for the previous year.

When a member of the Council is in any way connected with the subject matter of deciding or if he/she is indirectly or directly interested in that subject matter, the member concerned shall disclose his/her interest at the beginning of the discussion and shall not participate in the discussion and deciding on such a matter, but his/her presence shall be accounted for the purpose of constituting a quorum at the relevant meeting.

Any rights and obligations of the Council members not specified in this law or the Statute shall be subject to provisions of the law governing the prevention of conflict of interest.

Relieving of Duty

Article 53

A member of the Council shall be relieved of duty prior to the expiry of his/her term of office if:

- 1) it has been established, after his/her appointment, that he/she had been appointed based on inaccurate and/or incorrect information or if any of the circumstance under Article 51 paragraphs 2 to 5 hereof has occurred;
- 2) he/she has been sentenced to unconditional prison term or convicted of offence which makes him/her unworthy of performing the function of the Council member or if he/she has been subject to the prohibition of further conduct of work or duty imposed by the competent authority;
- 3) he/she has deliberately or by gross negligence made a serious omission in performing his/her function;
- 4) he/she has requested the relieving of duty personally;
- 5) he/she has become a debtor in the bankruptcy proceedings.

A member of the Council may be relieved of duty if he/she has failed to perform his/her duties for a consecutive period of more than three months without the approval of the Council, if he/she has been unable to perform the function because of illness for a consecutive period of more than six months or if he/she has failed to submit or submits a false statement and the report referred to under Article 52 paragraph 3 herein.

A member of the Council may not be relieved of duty for reasons other than those specified under paragraphs 1 and 2 above.

Relieving of Duty at Personal Request

Article 54

A member of the Council may be relieved of duty at personal request by submitting his/her resignation from the office of the member of the Council.

A member of the Council seeking to be relieved of duty must previously notify the Council thereof in writing, at least 60 days before submitting his/her resignation to the Parliament.

Determining Conditions for Relieving of Duty

Article 55

The Council, by the majority vote of the Council members, shall establish the fulfilment of conditions referred to in Article 53 above for the relieving of duty of a Council member and shall immediately inform the Parliament thereof and propose the relieving of duty of the Council member.

If the Parliament fails to relieve of duty the Council member within 30 days following the receipt of the proposal thereof, the Council may pass a decision to suspend his/her participation in the work of the Council and/or performance of other activities within the Central Bank's competence until the passing of such a decision.

If the Parliament has sufficient reason to believe that the Council has failed to determine the existence of the conditions for the relieving of duty of the Council member, it shall appoint the commission which shall consist of the chairman performing or having performed the judicial function, and at least two other members, of which one shall be a banking or financial professional, which shall inquire into the matter and submit a report to the Parliament with the recommendations thereon.

Judicial Protection in Case of Relieving of Duty

Article 56

A decision on the removal from office of a Council member shall be final, and the discontented party may seek protection before the competent court within 30 days following the receipt of the decision on the relieving of duty.

Vacancy on the Council

Article 57

Term of office of a Council member appointed to replace the Council member who has been relieved of duty before the expiry of his/her term of office shall last until the expiry of the remaining term of the replaced member.

Governor and Vice-Governor Employment Status

Article 58

The Governor and the Vice-Governors shall be employees of the Central Bank and they perform their Council member function professionally and they may not perform any other function, job or duty unless approved by the Council.

Prohibition of Employment of Council Members after the Expiry of Term of Office

Article 59

A former member of the Council shall not be a member of a body in, or an employee of, a bank, a financial institution or other legal person subject to the Central Bank supervision during the period of 12 months following his/her expiry of the term of office, unless approved by the Council.

Remuneration of the Council Members

Article 60

The Council members shall receive remuneration for their serving on the Council.

Remuneration under paragraph 1 above and salaries and other remunerations of the Governor and the Vice-Governors shall be determined in a general act to be passed by the Council upon the proposal of the Governor and they shall be published in the Central Bank reports in line with this law.

Rights upon the Termination of Function

Article 61

During one year following their termination of function, the Governor and the Vice-Governors shall be entitled to remuneration that shall be equal to the remuneration received in the last month of their service on the Council.

The right to remuneration under paragraph 1 above shall be exercised at personal request which must be submitted no later than within 30 days following the termination of the function.

The remuneration from paragraph 1 above shall be in line with the salary of the Governor and the Vice-Governors during the period of the exercised right to remuneration.

The right under paragraph 1 above shall cease before the specified time period if its beneficiary:

- 1) becomes employed;
- 2) becomes elected or appointed to another function eligible for receiving remuneration;
- 3) exercises the right to superannuation.

The right under paragraph 1 above may be extended for another year provided that its beneficiary acquires the right to superannuation during that period.

The Council Meetings

Article 62

The Council shall decide on matters within its competence at meetings to be held once a month, as a rule, but no less than ten times in a calendar year.

Other persons may attend the Council meetings by invitation, without the right to decide.

The Council meetings shall be convened by the Governor.

The Governor shall also convene a Council meeting at a written request of three Council members.

The Council may take decisions provided that at least five members of the Council attend the meeting.

The Council shall decide by majority votes of all members of the Council on the issues under Article 44 points 1), 4), 6), 7), 8), 9), 10), 12), 16) and 17) herein, and on the transfer of competences to the Governor, whereas on other issues within its competence the Council shall decide by the majority votes of the

present Council members, provided that in case of tie vote, the Governor shall have the casting vote.

The Council shall adopt the rules of procedure of the Council.

The rules of procedure of the Council may establish that the Council meetings and decision-making may take place via telephone conference call or, in case of emergency, via other means of communication.

Transparency of the Council Operations

Article 63

Following its meetings, the Council shall immediately inform the public on its decisions passed thereat concerning the issues of importance for establishing policies for the pursuing of objectives and the exercising of functions of the Central Bank.

The Council may also inform the public on other issues discussed at a meeting and decisions passed thereat.

Minutes of the Council Meetings

Article 64

Minutes shall be kept at the Council meetings.

VI. PROPERTY, INCOME AND EXPENSES OF THE CENTRAL BANK

Central Bank Property

Article 65

Property of the Central Bank shall comprise of property rights that refer to immovable and movable property, capital and other monetary assets, precious metals and other property rights.

The Governor shall pass internal regulations prescribing the acquisition, management, use, and disposing of property referred to in paragraph 1 above, except on the acquisition and alienating of immovable property.

Central Bank Income

Article 66

The Central Bank shall make income on the basis of the following:

- 1) Fees for issuing licenses and granting approvals in accordance with the law;
- 2) Fees to be collected based on its supervisory function in accordance with the law;
- 3) Interest and other income on funds deposited abroad;
- 4) FX revaluation gains;
- 5) Interest on loans granted;
- 6) Fees for rendered services;
- 7) Purchase and sale of securities;
- 8) Other fees for performing other activities within its authority;
- 9) Use of property referred to in Article 65 paragraph 1 of this law.

The Central Bank shall determine tariffs for the calculation of fees for its services.

Central Bank Expenses

Article 67

The following shall be paid from the income made by the Central Bank:

- 1) Fees on allocated bank reserve requirements;
- 2) Interest on funds deposited with the Central Bank;
- 3) Expenses for supplying banknotes and coins;
- 4) Expenses from investments in securities;
- 5) FX revaluation losses;
- 6) Material and non-material expenses and depreciation expenses;
- 7) Central Bank employees' expenses;
- 8) Other expenses the Central Bank incurs in its operations.

Profit and Loss

Article 68

Net profits or losses of the Central Bank shall be determined for each financial year in line with the International Financial Reporting Standards.

Distributable profit shall be determined as follows:

- by deducting from net profits the total amount of unrealized revaluation gains, and by allocating the equivalent amount to the respective unrealized revaluation reserve accounts; and
- by deducting from the unrealized revaluation reserve accounts and adding to the distributable profit the amount of any unrealized profit that was deducted from net profits for one or more previous years and realized during the current financial year.

Unrealized revaluation losses will be transferred to the corresponding unrealized revaluation reserve account until such time as this revaluation reserve account reaches a zero balance, after which these losses shall be covered by the current year's profit, and subsequently in the manner described in Article 70 herein.

Allocation of Distributable Profit

Article 69

Profit determined in accordance with Article 68 paragraph 2 herein shall be allocated to general reserves in the amount of 50% of distributable profit until general reserves reach 10% of the total financial liabilities of the Central Bank.

A part of the profit may be allocated to special reserves in the amount to be determined by the Council, in accordance with this law.

Profit referred to in paragraph 2 above may not exceed 10% of the profit referred to in Article 68 paragraph 2 herein.

The remaining distributable profit shall make the revenue of the budget of Montenegro.

No distribution shall be made out of undistributed or current income, except as permitted under Article 68 of this Law.

Coverage of Losses and Deficit

Article 70

The Central Bank shall cover losses from general reserves.

Losses that cannot be covered from general reserves shall represent a deficit in the initial capital which shall be temporarily covered from the initial capital of the Central Bank.

In the event that the audited annual financial statements of the Central Bank disclose a deficit in the Initial capital, the Central Bank, in consultations with the

independent external auditor, shall prepare a report on the origins of the deficit within a period of no more than 30 days.

In the event that the Council approves the financial reports with the independent external auditor's opinion specified in paragraph 1 above, the Central Bank shall request the Government to cover the deficit from the budget of Montenegro.

Within the period of 30 days following the receipt of the request under paragraph 4 above, the Government shall transfer to the Central Bank the lacking amount in currency or in readily marketable debt instruments with a specified maturity, issued at market interest rates prevailing in Montenegro.

VII. FINANCIAL PLAN, FINANCIAL REPORTS AND OTHER REPORTING

Financial Plan and Financial Reports

Article 71

A financial year of the Central Bank shall equal a calendar year.

The Central Bank shall plan its income and expenses for the following year in a financial plan which shall be passed by 31 December of the current year.

The Central Bank shall submit the passed financial plan to the Government and the Parliament for information purposes.

The Central Bank shall prepare the financial reports in line with the International Accounting Standards and International Financial Reporting Standards.

The Central Bank shall adopt annual financial reports for the previous year, with the independent external auditor's opinion, by 30 April of the current year.

The Central Bank shall submit to the Parliament, for information purposes, annual financial reports with the independent external auditor's opinion.

Publishing Financial Reports

Article 72

The Central Bank shall publish annual financial reports under Article 71 above on its website or via other electronic or printed media.

Informing the Public

Article 73

The Central Bank shall, regularly and timely, inform the public on the attainment of its objectives and the exercising of its functions, and particularly on macroeconomic analysis, financial and monetary stability, monetary and credit trends, the balance of payments and it may publish reports and studies on other financial and economic issues.

VIII. AUDIT

Internal Audit

Article 74

Internal audit shall perform ongoing and comprehensive monitoring of the Central Bank's activities, including, but not limited to:

- 1) evaluating the effectiveness of the Central Bank's risk management;
- 2) assessing the functioning of the internal controls system in the Central Bank;
- 3) performing periodical audits of the work of employees and all organizational units of the Central Bank to ensure the implementation of the law and other acts regulating the Central Bank activities;
- 4) performing the audit of accounts and accounting procedures and controls in the Central Bank;
- 5) examining financial reports of the Central Bank and the supporting documents and cooperates with independent external auditor of the Central Bank;
- 6) communicating appropriate recommendations to the Governor and the Audit Committee for the correction of identified deficiencies and makes continuous follow-up on their realization.

Internal audit shall be managed by the Chief Internal Auditor, who shall be appointed by the Governor with the approval of the Council.

The Chief Internal Auditor shall be a person holding a university degree, of recognised personal reputation, and at least a five-year professional experience in accounting or auditing.

Provisions of Articles 51, 52 and 53 of this law shall apply accordingly to the Chief Internal Auditor.

The type, scope and time limits for the performance of internal audit and the manner of reporting shall be prescribed in more details by the general act of the

Central Bank in accordance with the internationally accepted internal auditing standards.

Audit Committee

Article 75

The Council shall establish the Audit Committee as the standing body of the Council.

The Audit Committee shall have three members, which shall not be full-time employees of the Central Bank, of which two members shall be members of the Council and one member shall be an external expert with the relevant experience in accounting or auditing.

The Audit Committee shall oversee and evaluate the functioning of the internal controls system; monitor and evaluate financial reporting; give opinion on the appointment of independent external auditor and monitor and assesses the procedure of auditing of financial reports of the Central Bank, and monitor and analyse the compliance of the Central Bank's operations with the law, other regulations and general acts.

The Audit Committee shall oversee the effectiveness and efficiency of the internal audit function.

The Audit Committee shall submit reports on its activities to the Council on quarterly basis, as a rule.

The scope and modus operandi of the Audit Committee shall be regulated in more details under a general act of the Council.

The Audit Committee shall pass its rules of procedures.

Independent External Audit

Article 76

The audit of financial statements of the Central Bank shall be performed by an internationally recognized independent external auditor in accordance with the International Standards on Auditing.

The internationally recognized independent external auditor shall have unrestricted access to business books, accounts and records and information about transactions of the Central Bank.

The auditor referred to in paragraph 1 above shall be appointed by the Council with the previously acquired approval of the working body of the Parliament responsible for financial affairs.

The internationally recognised independent external auditor may perform the audit of financial statements of the Central Bank for no more than three consecutive years.

IX. OTHER PROVISIONS

Regulations and Other Acts of the Central Bank

Article 77

The Central Bank shall have the power to pass regulations necessary for the exercising of its functions granted to it under this Law or other laws.

The Central Bank shall pass regulations under paragraph 1 of this Article in the form of decisions.

The Central Bank may also issue binding individual acts.

The Central Bank shall keep records on passed regulations and other acts.

Administrative Penalties

Article 78

The Central Bank may impose administrative penalties against all persons violating this Law or any other law or regulation with respect to the pursuing of objectives and the exercising of functions of the Central Bank.

The administrative penalties within the meaning of paragraph 1 above shall include pecuniary fines and specific measures determined under this law or other regulations, such as written warnings, revocation of licenses and other measures.

Immunity from Taxation

Article 79

The Central Bank shall be exempt from taxes, duties and levies as the government bodies and organisations, in accordance with the law.

Collection of Claims

Article 80

The Central Bank shall have the priority, without carrying out any court or other proceedings, in the collection of matured outstanding claims from debtors:

- from monetary assets of debtors kept in the account with the Central Bank;
- from the collateral security of debtors.

The Central Bank shall have the right to settle secured claims from the collateral security through public sale or direct agreement, upon the deduction of the costs of sale.

Protection of the Central Bank's Property

Article 81

The Central Bank's property and the property held and managed by the Central Bank, including gold, special drawing rights, currency, loans, deposits or securities, as well as income made on these bases may not be subject to any measure of prohibition of disposing or execution prior to the passing of the final judgment by the competent court.

Court Protection

Article 82

An administrative dispute may be instituted by bringing an action against a Central Bank decision.

An action referred to in paragraph 1 of this Article shall not put off the execution of the Central Bank decision.

Legal Protection

Article 83

A member of the Council, an employee of the Central Bank, or any person authorised by the Central Bank, shall not be held liable for damages that could be incurred during the performance of duties in accordance with the law and

regulations passed on the basis of the law, unless it has been proved that the particular action has been performed deliberately or as an act of gross negligence.

The Central Bank shall cover the expenses of the protection of the persons under paragraph 1 above in court proceedings concerning the performance of their duties.

Obligation of Keeping Confidential Information and Data

Article 84

A member of the Council and employees of the Central Bank shall be obliged to keep confidential the information and data which are considered secret in accordance with the law or another act.

The confidentiality obligation under paragraph 1 above shall last after the termination of function and/or of employment in the Central Bank.

Notwithstanding paragraph 1 of this Article, members of the Council and employees may disclose information and data to third parties outside the Central Bank in accordance with the procedure established in the special act of the Central Bank, provided that:

- 1) the person to whom the information relates has given his/her explicit consent;
- 2) it represents the provision of assistance to the competent authorities in their enforcement of the law and at a court's order;
- 3) they are submitted to the external auditor of the Central Bank;
- 4) they are given to supervisory authorities of foreign banks and financial institutions and representatives of international financial institutions for the performance of their official duties;
- 5) the interest of the Central Bank in court proceedings requires the disclosure of such information and data.

Prohibition of Accepting Gifts

Article 85

A member of the Council during his/her term of office and employees of the Central Bank may not accept gifts or other types of benefits from persons with whom they have related business or financial interests if such an acceptance would affect unbiased execution of their tasks and duties.

X. ORGANISATION OF WORK AND EMPLOYEES

Organisation of Work of the Central Bank

Article 86

The organization of work and business operations of the Central Bank, as well as the rights, obligations and responsibilities of employees in the Central Bank shall be regulated in more details in the Statute and other general acts.

Rights and Obligations of Employees

Article 87

General labour regulations shall apply to the rights and obligations of employees of the Central Bank, unless otherwise specified under this law.

The Governor shall decide on the employment in the Central Bank.

Employees of the Central Bank may not perform any activity for another employer, except based on a special approval of the Governor and provided that it is not contrary to the interests of the Central Bank.

Employees may not be guided by their political affiliations in performing their operations.

The Central Bank may open accounts for its employees.

The Central Bank may grant loans to its employees in accordance with the general act.

XI. PENALTY PROVISIONS

Offences

Article 88

A pecuniary fine ranging from EUR 1,000 to EUR 10,000 shall be imposed against a bank, a financial institution or another party if they:

- 1) improperly calculate or fail to allocate and/or hold reserve requirements within the prescribed time limit (Article 18 paragraph 3);

- 2) reproduce and design objects resembling in appearance the banknotes, coins, cheques, securities and payment cards which are in circulation in Montenegro, without the approval of the Central Bank (Article 27);
- 3) fail to provide the prescribed data, information or reports to the Central Bank (Article 29 paragraph 1);
- 4) fail to submit the prescribed data and information to the Central Bank (Article 35 paragraph 2);
- 5) fail to provide the Central Bank with the data required for the Credit Registry (Article 37 paragraph 2).

For the offences specified in paragraph 1 above, a responsible person in the bank, the financial institution and the other person shall also be fined in the amount ranging between EUR 500 and EUR 1,000.

XII. TRANSITIONAL AND FINAL PROVISIONS

Continuance of the Central Bank Activities

Article 89

The Central Bank established by the Law on the Central Bank of Montenegro (OGRM 52/00, 53/00, 47/01, 04/05) shall continue its activities under that law and shall continue with independent managing, use and disposing of property acquired to the effective date of this law.

Provision of Initial Capital

Article 90

The initial capital under Article 12 paragraph 1 of this Law shall be provided from the founding capital set in the Law on the Central Bank of Montenegro (OGRM 52/00, 53/00, 47/01, 04/05) and from general reserves at the Central Bank's disposal as at the day of entry into force of this law.

Should the funds referred to in paragraph 1 of this Article be insufficient to provide the initial capital of the Central Bank in the amount specified in Article 12 paragraph 1 of this Law, any shortfall in funds shall be provided from the budget of Montenegro.

Compliance and Passing of Acts of the Central Bank

Article 91

The Central Bank shall bring its Statute into compliance with this law within six months following the day of entry into force of this Law, and other acts referring to internal operation of the Central Bank no later than one year from the day of entry into force of this Law.

The Central Bank shall pass regulations and general acts within the authority granted to it under this law no later than one year following the day of entry into force of this law.

Provisions of the regulations and acts passed pursuant to the Law on the Central Bank of Montenegro (OGRM 52/00, 53/00, 47/01, 4/05) shall remain in effect until the passing of the Statute, regulations and acts under paragraphs 1 and 2 above.

Status of the Members of the Council

Article 92

Members of the Council of the Central Bank pursuant to this law shall be appointed within 90 days following the day of entry into force of this law.

Until the appointment of the Council members referred to in paragraph 1 above, functions of the members of the Council of the Central Bank shall be performed by the members of the Council of the Central Bank appointed pursuant to the Law on the Central Bank of Montenegro (OGRM 52/00, 53/00, 47/01, 4/05).

Exercising of Rights of Members of the Council

Article 93

Provisions of Article 61 of this Law shall also apply to the executive officers of the Central Bank appointed pursuant to the Central Bank of Montenegro Law (OGRM 52/00, 53/00, 47/01, 4/05) being the Council members as at the day of entry into force of this law.

Cease of Validity of the Law

Article 94

On the date this Law becomes effective, the Law on the Central Bank of Montenegro (OGRM 52/00, 53/00, 47/01, 4/05) shall cease to apply, except for the provisions under Article 1 paragraph 3 of that Law that shall remain in effect until the passing of the special law regulating the legal tender in Montenegro.

Entry into Force

Article 95

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