

Pursuant to Article 44 paragraph (2) item 3) of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17) and Article 319 paragraph (2) of the Law on Credit Institutions (OGM 72/19), the Council of the Central Bank of Montenegro, at its meeting held on 28 December 2020, passed the following

DECISION ON METHODS FOR CONSOLIDATION OF MEMBERS OF A GROUP OF CREDIT INSTITUTIONS

Subject matter

Article 1

This Decision shall govern the methods for consolidation applied upon the consolidation of subsidiary undertakings referred to in Article 319 paragraph (1) of the Law on Credit Institutions (OGM 72/19) – (hereinafter: the Law).

Method for full consolidation of subsidiary undertakings

Article 2

A credit institution that is required to comply with the requirements referred to in Article 310 of the Law on a consolidated basis, shall apply the method for full consolidation of all credit institutions and financial institutions that are its subsidiary undertakings or the subsidiary undertakings of the same parent financial holding company or parent mixed financial holding company.

Method for proportional consolidation of subsidiary undertakings

Article 3

(1) By way of derogation from Article (2) of this Decision, a credit institution may, subject to the approval of the Central Bank of Montenegro (hereinafter: the Central Bank), apply the method for proportional consolidation in accordance with the share of capital it holds in the subsidiary undertaking.

(2) The credit institution referred to in paragraph (1) of this Article may apply the method for proportional consolidation where:

- 1) the liability of the parent undertaking is limited to the share of capital that the parent undertaking holds in the subsidiary undertaking in view of the liability of other shareholders (for a joint stock company), or members (for limited liability companies), in accordance with the contract limiting the liability of the shareholders and members referred to in Article 4 of this Decision;
- 2) the liability of other shareholders or members is clearly established and legally binding;
- 3) the solvency of other shareholders or members is satisfactory, in accordance with Article 5 of this Decision.

Contract limiting the liability of the shareholders and members

Article 4

The requirement laid down in Article 3 paragraph (2) item 1) of this Decision shall be deemed to be met where:

- 1) the liability of the parent undertaking and other shareholders or members in respect of the subsidiary undertaking is established by means of a contract between the parent undertaking and other shareholders or members of the subsidiary undertaking, together holding the totality of the share capital or holdings of the subsidiary undertaking;
- 2) the contract referred to in item 1) of this Article specifies:
 - the limitation of the liability of the parties, and defines it as a percentage of the total shares or holding that they hold;
 - that any potential losses arising from the subsidiary undertaking will be borne by the shareholders or members proportionately to their share of capital of the subsidiary undertaking;
 - a clause clarifying that any changes in the share of capital of individual shareholders or members are subject to the explicit consent of other shareholders or members;
 - that, should the subsidiary undertaking be recapitalised, the credit institution shall inform the Central Bank in timely manner of the progress made in the recapitalisation process, and each shareholder or member shall contribute to the recapitalisation in proportion to its share of the capital of the subsidiary undertaking; and where
 - there are no other agreements or provisions in the articles of association or separate memoranda between some or all of the shareholders or members of the subsidiary undertaking, or between some or all of the shareholders or members of the subsidiary undertaking and any third party, that override or undermine any of the conditions referred to in indents 1 to 4 of this item.

Requirements relating to the solvency of other shareholders or members

Article 5

The requirement laid down in Article 3 paragraph (2) item 3) of this Decision shall be deemed to be met where:

- 1) the solvency of other shareholders or members of the subsidiary undertaking at individual and consolidated levels is satisfactory and can be reasonably expected to remain so, and
- 2) other shareholders or members, financial sector entities subject to prudential supervision, fulfill the criteria of financial soundness within the meaning of Article 31 paragraph (1) of the Law, on an on-going basis.

Liabilities in case of termination of the contract

Article 6

(1) A credit institution to which the Central Bank has approved the application of the method referred to in Article 3 paragraph (1) of this Decision, shall inform the Central

Bank at least three months in advance of any intended change in the contract that affects the fulfilment of conditions for the application of that method.

(2) A credit institution shall apply the full consolidation method upon the Central Bank's request where, on the basis of information referred to in paragraph (1) of this Article, the Central Bank has assessed that the application of the proportional consolidation method is no longer adequate.

(3) In case of termination of the contract limiting the liability of the shareholders and members referred to in Article 4 of this Decision, a credit institution shall apply the full consolidation method.

Reporting to the Central Bank

Article 7

A parent credit institution shall report to the Central Bank on the composition of the group of credit institutions and consolidated financial statements in accordance with the decision governing the reporting to the Central Bank by the credit institutions.

Repealed Regulations

Article 8

As from the commencement date of the application of this Decision, the Decision on methods for preparation of the consolidated financial reports of the banking group (OGM 24/09) shall be repealed.

Entry into force

Article 9

This Decision shall enter into force on the day following that of its publication in the Official Gazette of Montenegro, and it shall apply from the date of application of the Law on Credit Institutions (OGM 72/19).

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

Decision number: 0101-7725-8/2020

Podgorica, 28 December 2020

**CHAIRMAN
GOVERNOR,**

Radoje Žugić m.p.