

Pursuant to Article 17 paragraph 1 point 2) of the Law on the Central Bank of Montenegro (OG RoM no. 52/00 and 47/01), and with regard to Article 72, paragraph 2 of the Law on Banks (OG MNE no. 17/08), at its meeting held on 17 and 18 September 2008, the Council of the Central Bank of Montenegro passed the following

DECISION

On the Basics of Internal Control System in Banks

1. General Provision

Article 1

This Decision regulates the basics of organization and functioning of the bank internal control system (hereinafter: internal control system).

The internal control system implies comprehensiveness of organization, rules and procedures for efficient and effective performance of business activities at all levels, providing the sound and stable banking operations.

2. Basics of the Internal Control System

Article 2

A bank is obliged to establish, maintain and enhance a comprehensive, efficient and effective internal control system that shall be provided through:

- 1) Efficiency and efficacy of business operations at all levels of authority in a bank;
- 2) Reliability, timeliness and completeness of financial and other information regarding bank operations;
- 3) Compliance with the law and regulations and bank's internal regulations.

Article 3

Bank is obliged to establish the basics for the functioning of internal control system which shall:

- 1) ensure ongoing assessment and proper functioning of internal control system;
- 2) establish and develop procedures for the identification, evaluation, control and limitation of all important risks in bank operations;
- 3) determine an efficient organizational structure of bank;
- 4) specify, in general and other internal regulations, duties and responsibilities at all bank levels;

- 5) create an efficient information system to serve in the function of internal control system;
- 6) provide guidelines for ongoing oversight and periodic control of effectiveness, development and improvement of internal control system.

Article 4

In performing its obligations set out in the Law on Banks and with regard to the analysis and monitoring of the functioning of internal control system, the Audit Committee shall discuss, at least on quarterly basis:

- 1) the functioning of the bank's reporting system by reviewing operating reports;
- 2) the implementation of internal control system; and
- 3) all aspects of bank's accounting practices and policies.

Article 5

Bank's internal control system shall primarily include the control of management and accounting practices.

Control of bank's management shall include, as the minimum requirement:

- 1) establishing, monitoring and development of the organizational structure of bank, with defined individual duties and powers;
- 2) supervising procedures and records with regard to passing decisions on business transactions at all management levels.

Control of accounting shall, as the minimum requirements, include plans, policies and procedures that ensure:

- 1) the performance of business transactions in accordance with decisions made by bank's management bodies;
- 2) timely and accurate bookkeeping records of business transactions that enable financial reporting in line with the law and the International Accounting Standards and/or the International Financial Reporting Standards, with the possibility of verification and comparison of the bookkeeping records with the actual circumstances.

Article 6

Banks are obliged to have in place an efficient internal control system that is consistent with the nature, complexity and risk of on-balance and off-balance sheet activities, as well as changes in economic environment and bank operations.

Article 7

Internal control system must provide proper and comprehensive information relevant for decision-making, such as: financial, operating, compliance and other information that need to be reliable, timely, accessible and consistent.

The reliability of information system, which should cover all important activities of a bank, shall be measured through the assessment of security, independence of oversight, and adequacy of supporting business activities in all circumstances.

Bank shall provide efficient systems of communication to ensure that all employees are acquainted and adhere to the policies and procedures with regard to their duties and responsibilities and that appropriate personnel has access to all relevant information.

Article 8

Efficiency of internal control shall be monitored as a part of daily activities, especially the key risks, as well as through periodical evaluation of performance of all business lines.

Article 9

Bank is obliged to deliver to the Central Bank a report of the Board of Directors on the functioning of internal control system, including opinions and suggestions of the Audit Committee for the improvement of the bank's internal control system.

The report from paragraph 1 of this Article shall be submitted twice a year: at the end of March for the second half of the previous year and at the end of September for the first half of the current year.

3. Final Provisions

Article 10

With the coming into force of this Decision, the Decision on Basics of Internal Control System in Banks (OG RoM No. 37/01) shall cease to be valid.

Article 11

This Decision shall come into force on the eighth day of its publishing in the "Official Gazette of Montenegro".

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

PRESIDENT OF THE COUNCIL

Ljubiša Krgović

Decision No.0101-323/11-12
Podgorica, 18 September 2008