

Pursuant to Article 17 paragraph 1 point 2) of the Central Bank of Montenegro Law (OGRM 52/00, 47/01) and Article 136 of the Banking Law (OGM 17/08), the Council of the Central Bank of Montenegro, at its meeting held on 23 and 24 February 2009, passed the following

## **DECISION**

### **on the methods for preparing the consolidated financial reports of the banking group**

#### **1. General Provision**

##### **Article 1**

The Decision regulates the methods that the banks subject to consolidated reporting requirements use for the preparation of the consolidated financial reports of the banking group, including reports on performance indicators of the banking group.

#### **2. Consolidation Methods**

##### **Article 2**

Consolidated financial reports of the banking group, in the meaning of this decision, shall be:

- 1) Balance sheet;
- 2) Income statement;
- 3) Report on changes in capital;
- 4) Report on cash flows;
- 5) Notes to the financial reports.

The Bank subject to consolidated reporting requirements shall prepare consolidated financial reports of the banking group in accordance with this decision and International Accounting Standards and/or International Financial Reporting Standards (hereinafter: IAS/IFRS).

##### **Article 3**

Consolidated financial reports of the banking group with superior bank or financial holding shall be prepared based on the financial reports of the superior bank and/or financial holding and financial reports of subordinate members of the banking group.

Financial reports of subordinate members of the banking group controlled by the superior bank and/or financial holding shall be included in the consolidated financial reports of the banking group applying the full consolidation method, whereas the financial reports of the insurance companies, investment fund management companies and voluntary pension fund management companies shall be excluded.

Bank's share in subordinated members of the banking group that are insurance companies, investment fund management companies or voluntary pension fund management companies shall be shown in the consolidated financial reports of the banking group based on equity method.

The financial reports of the subordinated members of the banking group to which the bank or financial holding is superior has equity participation of 20% to 50%, shall be included into the consolidated financial reports of the banking group using equity method.

Notwithstanding paragraphs 2 and 4 above, the bank may use proportional consolidation method for subordinate member of the banking group if it may submit the evidences to the Central Bank of Montenegro (hereinafter: the Central Bank) that the responsibility of the superior member of the banking group is limited only to its equity participation, taking into consideration the responsibility of other shareholders of the subordinate member whose solvency must be at satisfactory level.

Besides cases referred to in paragraph 5 above, proportional consolidation method may be applied to equity participations of the bank or financial institution managed by the member of the banking group in Montenegro along with one or several banks or financial institutions non-banking group members in Montenegro, if the responsibility of those persons is limited to the level of their equity participation in such person.

#### **Article 4**

The Central Bank shall determine the methods of consolidation for cases not included in Article 3 herein.

#### **Article 5**

Bank superior to a banking group shall ensure that members of the banking group to which the full consolidation method applies, implement accounting policies and/or valuation principles applied by the superior bank, and that members of the banking group report positions in individual financial reports in uniform manner.

If uniform implementation of policies and/or principles referred to in paragraph 1 above is not possible, the superior bank shall oblige members of the banking group to ensure that individual financial reports, as a minimum, be in compliance with IAS/IFRS.

### **3. Methods for calculating the performance indicators of the banking group on consolidated basis**

#### **Article 6**

Performance indicators of the banking group on consolidated basis are:

- 1) Report on solvency ratio;
- 2) Report on equity investments, real estate investments and investments in fixed assets;
- 3) Report on exposures to a person or group of related parties,
- 4) Report on sum of large exposures;
- 5) Report on exposures to persons related with a bank.

#### **Article 7**

The calculation of own funds of the banking group shall be performed using data from the consolidated financial reports of the members of the banking group by applying relevant Central Bank's regulations on capital adequacy of banks.

Banking group core capital shall include:

- 1) Core elements of own funds which are, in accordance with the Central Bank regulation on capital adequacy of banks, included in core capital of a bank, and
- 2) Minority shares of third persons in capital of subordinate members of the banking group.

When calculating own funds of the banking group, off set items shall be:

- 1) Items which, in accordance with the Central Bank regulation on capital adequacy of banks, represent off set items in calculation of bank's own funds, and
- 2) Equity participation in subordinate members of the banking group that represent insurance companies, investment fund management companies or voluntary pension fund management companies, and that are shown by equity method in the consolidated financial reports.

#### **Article 8**

Total risk weighted assets of credit risk of the banking group shall be calculated applying full consolidation method, or other method depending on the relation of the superior member and other members of the banking group.

Notwithstanding paragraph 1 above, if capital adequacy for one or more subordinate members of the banking group is calculated applying special regulations, risk weighted assets for those persons shall be calculated applying those regulations with the exclusion of mutual relations with members of the banking group, and the obtained

amount shall be added to the amount of the risk weighted assets of the banking group calculated based on the financial reports of other members of the banking group.

#### **Article 9**

Capital needed for position risks and foreign exchange risk on consolidated basis shall be determined applying the aggregation method without possibility of netting net long and short positions between members of the banking group.

By the way of exception from paragraph 1 above, full consolidation method may be applied to calculation of capital requirement for position risk and foreign exchange risk on consolidated basis if the superior bank in the banking group submits to the Central Bank evidences on meeting the following conditions:

- 1) Superior bank in the banking group identifies, measures, monitors and controls position and foreign exchange risks at entire group level (centralised risk management);
- 2) All subordinate members of the banking group controlled by the superior bank maintain solvency ratio at the prescribed level, and
- 3) Superior bank in the banking group has sufficient staff and is technically equipped to apply consolidation methods on daily basis.

In case referred to in paragraph 2 above, when determining capital needed for position and foreign exchange risks, netting of short and long positions in same financial instruments between members of the banking group may be performed.

If the superior bank uses the approach referred to in paragraph 3 above, the same approach must use all subordinate members of the banking group.

#### **Article 10**

Capital requirement for operational risk on consolidated basis shall be calculated applying aggregation method.

#### **Article 11**

Reports on equity investments, real estate investments and investments in fixed assets, report on exposures to a person or group of related persons, reports on the sum of large exposures and reports on exposures to persons related with bank shall be prepared using the aggregation method.

### **4. Reporting**

#### **Article 12**

A reporting bank on consolidated basis shall submit to the Central Bank the following:

- 1) Unaudited consolidated financial reports of the banking group and performance indicators reports of the banking group as of 30 June of the current year - not later than within 90 days following the day of the preparation of the reports;
- 2) Annual audited financial reports and reports on performance indicators of the banking group as of 31 December of the current year – not later than 180 days following the day of the preparation of the reports.

### **Article 13**

Bank which is a member of the banking group with superior bank, superior financial holding or superior mixed holding and which is subject to consolidated reporting requirements, shall submit to the Central Bank information on the composition of the banking group to which it belongs as well as the information on the members of the banking group.

Information referred to in paragraph 1 above shall be submitted to the Central Bank once a year, using the forms SBG and ČBG which are attached to this Decision making its constituent part, on 31 March of the current year, using the financial information as of 31 December of the previous year, or frequently upon the Central bank's request.

Bank referred to in paragraph 1 above shall inform the Central bank on the change in composition of the banking group or data on members of such group that are important for the consolidated supervision within 30 days following the occurrence of this change.

## **5. Final provisions**

### **Article 14**

On the day this Decision enters into force, the Decision on Bank Supervision on Consolidated Basis (OGRM 52/03) shall cease to be valid.

### **Article 15**

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

## **THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO**

Decision number 0101-325/2-27

**P R E S I D E N T**

Podgorica, 24 February 2009

**Ljubiša Krgović m.p.**

\_\_\_\_\_  
(Name and head office of the bank)

\_\_\_\_\_  
(Bank's ID number)

**INFORMATION ON BANKING GROUP COMPOSITION\***

No.	ID number	Name and head office of the member of the banking group

**BANKING GROUP SCHEME**

\*) Form is filled for the banking group with superior bank, financial holding or mixed holding.

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Information prepared by

\_\_\_\_\_  
(contact phone)

\_\_\_\_\_  
(signature)

(Name and head office of the bank)

Form ČBG

\_\_\_\_\_  
(Bank's ID number)

As of: \_\_\_\_\_

**INFORMATION ON MEMBER OF THE BANKING GROUP**

<b>NO</b>	<b>Description</b>	<b>Sign</b>	<b>Content</b>
1.	Name of the member of the group	-	
2.	Member's ID number	-	
3.	Head office and address	-	
4.	Contact information	-	Phone, fax and e-mail
5.	Organisation form of the member	01	Join stock company
		02	Limited liability company
		03	Partnership
		04	Other
6.	Type of legal person	01	Bank
		02	Micro-credit financial institution
		03	Credit-guarantee fund
		04	Business organisation performing financial lease operations
		05	Insurance company
		06	Fund management company
		07	Other
7.	Connection of the superior member of the banking group with group member	01	Control
		02	Share (20%-50%)
		03	Other
8.	Activity of the member	-	Review of registered activities
9.	Assets (balance sheet and off balance sheet) of member of the group	-	As at 31 December of the previous year

10.	Capital of member of the group	-	As at 31 December of the previous year
11.	Percentage of the share of banking group in capital of the member of the group	-	
12.	Percentage of share of the banking group in voting rights with member of the group	-	
13.	Exposure of the banking group to member of the group		
14.	Composition of the board of directors of member of group		
15.	Number of employees with member of group		
16.	Last year when audit of financial reports of member of group is performed and information on audit		

In \_\_\_\_\_, \_\_\_\_\_ 200\_

Information prepared by

\_\_\_\_\_  
(contact phone)

\_\_\_\_\_  
(signature)