INDEMNITY AGREEMENT*

between

MONTENEGRO

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 19, 2012

Incorporating by reference IBRD General Conditions Applicable to Loans dated March 12, 2012
INDEMNITY AGREEMENT

INDEMNITY AGREEMENT (the “Indemnity Agreement”), dated July 19, 2012 between MONTENEGRO and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the “Bank”)

(A) WHEREAS the Bank has received from Montenegro a letter, dated May 25, 2012 (the “Letter of Development Policy”), describing a multi-year program of actions, objectives and policies to enhance its business environment, strengthen financial discipline and build a stable and more efficient financial sector (the “Program”), declaring Montenegro’s the commitment to the execution of the Program and requesting assistance from the Bank in support of the Program during the execution thereof;

(B) WHEREAS pursuant to a loan agreement (the “IBRD Guaranteed Loan Agreement”) dated on or about the date hereof, among Montenegro, the Agent named therein (the “Agent Bank”), the Arranger named therein and the financial institutions named therein as lenders (the “IBRD Guaranteed Lenders”) and the Bank, the IBRD Guaranteed Lenders have agreed to make available to Montenegro a loan of one hundred million Euros (EUR 100,000,000) (the “IBRD Guaranteed Loan”) to support the Program;

(C) WHEREAS at the request, and with the agreement, of Montenegro, the Bank has agreed to guarantee (the “IBRD Guarantee”), to the Agent Bank, on behalf of the IBRD Guaranteed Lenders, the repayment at stated maturity of EUR 60 million (sixty million Euros) of the principal amount of the IBRD Guaranteed Loan on the terms and subject to the conditions set out in the IBRD Guaranteed Loan Agreement, but only on the condition that Montenegro agree to reimburse to the Bank all amounts paid by the Bank directly or indirectly in relation to or arising from the IBRD Guarantee and to undertake such other obligations to the Bank as are set forth in this Indemnity Agreement; and

(D) WHEREAS, in consideration of the Bank agreeing to provide the IBRD Guarantee, Montenegro has agreed unconditionally and irrevocably to undertake the obligations to the Bank set forth in this Indemnity Agreement,

NOW, THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

Incorporation of General Conditions and Modifications

Section 1.01. (a) The following provisions of the International Bank for Reconstruction and Development “General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in paragraph (b) of this Section (hereinafter the “General Conditions”), constitute an integral part of this Indemnity Agreement:

(i) Article I (Introductory Provisions);

(ii) Section 2.06 (Financing Taxes);
(iii) Section 3.06 (Loan Terms; Place of Payment), Section 3.07 (Loan Terms; Currency of Payment), Section 3.09 (Loan Terms; Valuation of Currencies) and Section 3.10 (Loan Terms; Manner of Payment);

(iv) Section 5.07(c) (Plans; Documents; Records) as modified below, Section 5.08 (Project Monitoring and Evaluation) as modified below, Section 5.10 (Project Execution; Cooperation and Consultation), and Section 5.11(a) (Project Execution; Visits);

(v) Section 6.01 (Financial and Economic Data), and Section 6.02(a) and 6.02(c) (Negative Pledge) as modified below.

(vi) Section 8.01 (Enforceability), Section 8.03 (Failure to Exercise Rights) and Section 8.04 (Arbitration);

(vii) Section 9.02 (Legal Opinions or Certificates) as modified below.

(viii) Section 9.05 (Termination of Legal Agreements on Full Payment) as modified below.

(ix) Article X (Miscellaneous Provisions) as modified below.

(b) The General Conditions, unless the context otherwise requires, shall be modified as follows:

(i) the terms “Borrower”, “Loan Party”, “Loan Parties” and “Member Country” wherever used in the General Conditions, mean Montenegro;

(ii) the term “Effective Date” wherever used in the General Conditions, means the date specified in Article V of this Indemnity Agreement;

(iii) the term “Eligible Expenditures” wherever used in the General Conditions, means any use to which the IBRD Guaranteed Loan is put in support of the Program, other than to finance Excluded Expenditures, as defined in Section II of Schedule 1 to this Indemnity Agreement;

(iv) the terms “Loan” and “Loan Payments” wherever used in the General Conditions, mean the amounts payable by Montenegro under this Indemnity Agreement;

(v) the terms “Loan Agreement” and “Loan Agreements,” wherever used in the General Conditions, mean this Indemnity Agreement;

(v) the term “Project” wherever used in the General Conditions, means the Program as defined in the Preamble to this Indemnity Agreement; and

(vi) Section 5.07(c) is modified to read as follows: “(c) The Member Country shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the IBRD Guaranteed Loan until two years after the Closing Date. The Member Country shall enable the Bank’s representatives to examine such records.”

(vii) Section 5.08(c) is modified to read as follows: “(c) The Member Country shall prepare, or cause to be prepared, and furnish to the Bank not later than February 28, 2013, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of
the Program, the performance by the Member Country and the Bank of their respective obligations under this Indemnity Agreement and the IBRD Guaranteed Loan Agreement and the accomplishment of the purposes of the IBRD Guaranteed Loan.”

(viii) Section 6.02 (a) is modified to read as follows: “(a) It is the policy of the Bank, in making loans to, or in providing guarantees for loans to, its members not to seek, in normal circumstances, special security from the member concerned but to ensure that no other External Debt shall have priority over its loans and amounts due to the Bank from the member concerned in consequence of such guarantees in the allocation, realization, or distribution of foreign exchange held under the control or for benefit of such member. To that end, if any Lien is created on any Public Assets as security for any External Debt, which will or might result in a priority for the benefit of the creditor of such External Debt in the allocation, realization, or distribution of foreign exchange, such Lien shall, unless the Bank shall otherwise agree, ipso facto and at no cost to the Bank, equally and ratably secure the amounts payable by the Member Country under this Indemnity Agreement, which, for purposes of this Section only, shall be deemed to be equal to the Maximum IBRD Liability and the Member Country, in creating or permitting the creation of such Lien, shall make express provision to that effect; provided, however, that if for any constitutional or other legal reason such provision cannot be made with respect to any Lien created on assets of any of its political or administrative subdivisions, the Member Country shall promptly and at no cost to the Bank secure the amounts payable by the Member Country under this Indemnity Agreement by an equivalent Lien on other Public Assets satisfactory to the Bank.”

(ix) Section 9.02 is modified to read as follows: “The Member Country shall furnish to the Bank an opinion or opinions satisfactory to the Bank given by the Protector of Property-Legal Interests of Montenegro showing (A) that this Indemnity Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Member Country and is legally binding upon Montenegro in accordance with its terms; and (B) any other matter specified in this Indemnity Agreement or reasonably requested by the Bank in connection with this Indemnity Agreement for the purpose of this Section (“Additional Legal Matter”).”

(x) Section 9.05 is modified to read as follows: “The Legal Agreements and all obligations of the parties under the Legal Agreements shall forthwith terminate upon full payment of all Loan Payments due.”

(xi) Section 10.01 is modified by deleting at the beginning of the second sentence the words “Except as otherwise provided in Section 9.03(a).”

Section 1.02. Unless the context otherwise requires:

(a) the several terms defined in the General Conditions, as such terms may be modified pursuant to Section 1.01(b) above, and in the Preamble to this Indemnity Agreement, when used in this Agreement, shall have the respective meanings therein set forth;

(b) the following additional terms shall have the following:

(i) “Bank” means the International Bank for Reconstruction and Development;
(ii) "Demand" means a demand on the Bank for payment under the IBRD Guarantee, made by means of a Demand Notice;

(iii) "Demand Notice" means a demand presented to the Bank by the Agent Bank in accordance with the IBRD Guarantee and in, or substantially in, the form set out in the relevant Schedule thereto;

(iv) "Euros" or "EUR" or "€" means the lawful currency of the economic and monetary union of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

(v) "IBRD Agreements" means the IBRD Guaranteed Loan Agreement and this Indemnity Agreement;

(vi) "IBRD Guarantee" has the meaning set out in the recitals to this Indemnity Agreement;

(vii) "IBRD Guaranteed Lenders" has the meaning set out in the recitals to this Indemnity Agreement;

(viii) "IBRD Guaranteed Loan" has the meaning set out in the recitals to this Indemnity Agreement;

(ix) "IBRD Guaranteed Loan Agreement" has the meaning set out in the recitals to this Indemnity Agreement;

(x) "Maximum IBRD Liability" means EUR 60 million (sixty million Euros);

(xi) "United States Dollars" or "US$" or "US Dollars" means the lawful currency of the United States of America.

ARTICLE II

Indemnity by Member Country to the Bank

Section 2.01. In consideration of the Bank providing the IBRD Guarantee on the terms and conditions set out in the IBRD Guaranteed Loan Agreement, Montenegro hereby irrevocably and unconditionally agrees:

(a) to reimburse the Bank immediately on demand or as the Bank may otherwise direct in writing for any amount paid by the Bank under the IBRD Guarantee in Euros together with interest thereon at the rate per annum determined by the Bank and notified to Montenegro (which rate shall not exceed the Bank’s prevailing lending rate for Variable-Spread Loans denominated in Euro, as shown from time to time on the Bank’s external website) from the date such payment is made by the Bank until such amount is paid in full;

(b) to indemnify the Bank on demand and hold the Bank harmless against all actions, proceedings, liabilities, claims, losses, damages, costs and expenses brought against, suffered or incurred by the Bank directly or indirectly in relation to or arising out of or in connection with the IBRD Guarantee (except as otherwise provided in Section 8.04(i) of the General Conditions);
(c) that (i) the Bank is irrevocably authorized to comply with any Demand Notice(s) (that is supported by the documentation required under the IBRD Guarantee) served on the Bank pursuant to the IBRD Guarantee and make any payments which may be due from or claimed or made upon the Bank under the IBRD Guarantee (the Bank shall promptly notify Montenegro of any such demand, but failure to give such notice shall in no way affect the Bank’s obligation to make payment under the IBRD Guarantee or Montenegro’s obligation to reimburse or indemnify the Bank pursuant to this Indemnity Agreement); and (ii) it shall not be incumbent on the Bank to inquire whether or not any statements in such Demand Notice are in fact correct or whether payments are in fact due or whether or not any dispute exists between Montenegro and the Agent Bank or the IBRD Guaranteed Lenders;

(d) that any such Demand Notice (that is supported by the documentation required under the IBRD Guarantee) served on the Bank pursuant to the IBRD Guarantee shall, as between Montenegro and the Bank, be conclusive evidence that the demand is properly made and payment is due. Following the notification to Montenegro of the receipt by the Bank of any Demand Notice, Montenegro may investigate the validity of the statements in such Demand Notice and take such actions as Montenegro may see fit against the Agent Bank and/or the IBRD Guaranteed Lenders, in respect thereof; all without prejudice to the Bank’s obligations under the IBRD Guarantee to make a payment in respect of such Demand Notice and to Montenegro’s obligations under this Indemnity Agreement in relation to its indemnity and payment obligations to the Bank. The obligations of Montenegro hereunder shall apply notwithstanding that Montenegro disputes the validity of any such Demand Notice or the accuracy or correctness of any documentation, fact or figures relied upon or stated therein; and

(e) in the event that the Bank receives funds from Montenegro pursuant to Section 2.01(a) and, in respect of the same amounts, the Bank receives a refund of funds from the Agent Bank pursuant to the IBRD Guarantee (the “Double Payment”), then the Bank shall promptly refund to Montenegro the amount of the Double Payment.

Section 2.02. In further consideration of the Bank providing the IBRD Guarantee, Montenegro shall pay directly to the Bank a guarantee fee (the “IBRD Guarantee Fee”) equivalent to 0.50 percent (50 basis points) per annum applied against the net present value of the Maximum IBRD Liability under the IBRD Guarantee, payable up-front from the proceeds of the IBRD Guaranteed Loan. The IBRD Guarantee Fee shall be due and payable to the Bank on or before the Effective Date of the IBRD Guaranteed Loan Agreement. The IBRD Guarantee Fee shall be paid to the Bank by electronic transfer in immediately available freely transferable funds in Euro on each IBRD Guarantee Fee Payment Date to a bank account designated by the Bank.

Section 2.03. Montenegro shall pay to the Bank a front-end fee (the “IBRD Front-end Fee”) payable in a lump sum in an amount equal to 0.25 percent (25 basis points) of the Maximum IBRD Liability, which shall be due and payable on or before the Effective Date. The Bank shall furnish Montenegro with an invoice requesting payment of the IBRD Front-end Fee; provided that Montenegro shall continue to be obligated to pay such IBRD Front-end Fee notwithstanding any failure by the Bank to provide such invoice, or to provide such invoice in a timely manner.

Section 2.04. (a) The obligations of Montenegro under this Indemnity Agreement are irrevocable, absolute and unconditional irrespective of the value, genuineness, validity, regularity or enforceability of Montenegro’s obligations under the IBRD Guaranteed Loan Agreement, and shall not be discharged except by performance and then only to the extent of such performance. Such obligations shall not be subject to any prior notice to, demand upon or action against the Agent Bank, the other IBRD Guaranteed Lenders or any other person, or any prior notice to, demand upon or action against Montenegro with regard to any failure by Montenegro to pay any amount in respect of which a Demand Notice is served on
the Bank pursuant to the IBRD Guarantee. Such obligations shall not be impaired by any of the following: (i) any extension of time, forbearance, concession or other indulgence given to the Bank, Montenegro, the Agent Bank, the IBRD Guaranteed Lenders or any other person; (ii) any variation of this Indemnity Agreement, the IBRD Guaranteed Loan Agreement or any other related agreement; (iii) any assertion of, or failure to assert, or delay in asserting, by any party to the IBRD Guaranteed Loan Agreement, any right, power or remedy against Montenegro, the Agent Bank and/or the IBRD Guaranteed Lenders or any other person, or in respect of any security created or purported to be created for the IBRD Guaranteed Loan (or any part thereof or interest thereon); or (iv) any other circumstances which would or might (but for this provision) constitute a release, discharge, defense or waiver for Montenegro.

(b) The Bank may at any time, without thereby discharging, impairing or otherwise affecting any rights, powers and remedies hereby created or conferred upon it by this Indemnity Agreement or any other related agreement or by law: (i) offer or agree to or enter into any agreement for the extension or variation of the IBRD Guarantee (except one which would materially increase the obligations of Montenegro under this Indemnity Agreement unless so agreed by Montenegro), this Indemnity Agreement, the IBRD Guaranteed Loan Agreement or any other related agreement; and (ii) offer or give or agree to give any time or other indulgence to any person or entity from whom it may seek reimbursement (at law or otherwise) in respect of sums paid out or liabilities incurred by the Bank under the IBRD Guarantee.

(c) Any rights conferred on the Bank by this Indemnity Agreement shall be in addition to, and not in substitution for or derogation of, any other right that the Bank may have at any time to seek from Montenegro or any other person or entity, reimbursement of or indemnification against payments made or liabilities incurred by the Bank arising from or in connection with the IBRD Guarantee.

(d) The Bank shall not be obliged before or after taking steps to enforce any rights conferred on it under this Indemnity Agreement or exercising any of the rights, powers and remedies conferred upon the Bank under this Indemnity Agreement, the IBRD Guaranteed Loan Agreement, or any other related agreement or by law: (i) to take action or obtain judgment or award in any court or tribunal of competent jurisdiction against any other person (including persons from whom it may seek reimbursement in respect of sums paid out or liabilities incurred pursuant to the IBRD Guarantee or the IBRD Guaranteed Loan Agreement); or (ii) to enforce or seek to enforce any other rights it may have against Montenegro or its rights against, or security given by, any other person to the Bank.

Section 2.05. Any payment required to be made by Montenegro pursuant to the terms of this Indemnity Agreement shall be applied first, to pay all interest and other charges (including the IBRD Guarantee Fee and the IBRD Front-end Fee) due to the Bank and second, after such interest and other charges are paid, to pay all other amounts then due to the Bank under this Indemnity Agreement.

ARTICLE III

Other Covenants

Section 3.01. Without limitation or restriction upon any of its other obligations under this Indemnity Agreement, Montenegro hereby unconditionally undertakes to the Bank to punctually perform all of its obligations under this Indemnity Agreement and the IBRD Guaranteed Loan Agreement.

Section 3.02. Montenegro shall not take any action which would prevent or interfere with the performance by Montenegro of any of its obligations under this Indemnity Agreement, the IBRD
Guaranteed Loan Agreement or any other related agreement in connection with the Program to which it is a party, or which would have the effect of materially reversing the objectives of the Program or any action taken under the Program. Montenegro shall notify the Bank prior to agreeing to any material amendment, waiver, termination or other change to the IBRD Guaranteed Loan Agreement, and shall obtain the written consent of the Bank prior to agreeing to any such material amendment, waiver, termination or other change to such agreement which would or could in the opinion of the Bank materially affect the rights or obligations of the Bank under this Indemnity Agreement, the IBRD Guarantee or the IBRD Guaranteed Loan Agreement (including any assignment, transfer, novation, abrogation, granting of security over or other disposition of any rights or obligations under such agreements).

Section 3.03. Montenegro shall promptly: (i) notify and provide to the Bank copies of any notices, claims, demands, reimbursements or recoveries under the IBRD Guaranteed Loan Agreement that could result or relate to actions to enforce the payment of the IBRD Guaranteed Loan, or any other notices issued or received by a Government Party under this Indemnity Agreement or the IBRD Guaranteed Loan Agreement; and (ii) notify the Bank of any event or circumstance which would or could adversely affect Montenegro's ability to perform its obligations or exercise its rights under this Indemnity Agreement or the IBRD Guaranteed Loan Agreement or its progress under the Program.

Section 3.04. Montenegro shall take all lawful actions within its power to remedy and cure any of the events referred to in Sections 3.02 and 3.03 or any other event within Montenegro's control or responsibility, that would or could result in the breach or termination of this Indemnity Agreement or the IBRD Guaranteed Loan Agreement.

Section 3.05. Montenegro shall not create or permit to exist or occur any circumstance or change in the laws or regulations in effect in Montenegro after the date of this Indemnity Agreement that would render obligations under this Indemnity Agreement or the IBRD Guaranteed Loan Agreement illegal, invalid, unenforceable, ineffective or void in whole or in part. If such circumstance or change exists or occurs, Montenegro shall take all lawful actions within its power to remedy and cure the adverse effect on this Indemnity Agreement or the IBRD Guaranteed Loan Agreement of such circumstance or change in law or regulation.

Section 3.06. Montenegro may apply the proceeds of the IBRD Guaranteed Loan in support of the Program in accordance with Section II of Schedule 1 to this Indemnity Agreement.

Section 3.07. Without prejudice to Sections 5.10 (Cooperation and Consultation) and 6.01 (Financial and Economic Data) of the General Conditions, Montenegro shall, upon request, promptly provide the Bank all information necessary, in the reasonable opinion of the Bank, for the Bank's review of Montenegro's performance under the Program and of any relevant mechanisms and indicators.

Section 3.08. Montenegro declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:

(a) Montenegro and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, Montenegro shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section 3.08, Montenegro shall promptly inform the Bank of any situation that would have the effect of
materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Indemnity Agreement.

ARTICLE IV

Remedies of the Bank

Section 4.01. In the event that: (i) Montenegro fails to make any payment to or to indemnify the Bank as required pursuant to Section 2.01 of this Indemnity Agreement; (ii) Montenegro defaults in the performance of any of its obligations hereunder and such failure or default continues and remains uncured in the opinion of the Bank for sixty (60) days or more after notice thereof shall have been given to Montenegro by the Bank; (iii) any representation made by Montenegro in or pursuant to this Indemnity Agreement, or any statement furnished in connection with this Indemnity Agreement and intended to be relied on by the Bank in providing the IBRD Guarantee, shall in the opinion of the Bank have been incorrect in any material respect; (iv) a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out; or (v) the Bank determines, at any time, that any representative of Montenegro has engaged in corrupt, fraudulent, coercive or collusive practices in connection with the use of the proceeds of the IBRD Guaranteed Loan, without Montenegro having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur; the Bank shall be entitled, in addition to any other rights and remedies it may have, to suspend or cancel in whole or in part Montenegro’s right to make withdrawals under any loan or guarantee between the Bank and Montenegro or under any development credit agreement or financing agreement between the International Development Association and Montenegro, or to declare the outstanding principal and interest of any such credit or loan due and payable immediately.

ARTICLE V

Effective Date

Section 5.01. This Indemnity Agreement shall come into force and effect upon signature by the parties.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. The Minister of Finance of Montenegro is hereby designated as representative of Montenegro for the purposes of Section 10.02 (Action on Behalf of the Loan Parties and the Project Implementing Entity) of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 10.01 (Notices and Requests) of the General Conditions:
For Montenegro:

Address: Ministry of Finance,
          Stanka Dragojevića 2
          MNE-81000 Podgorica
          Montenegro

Attention: Minister of Finance

Facsimile: +382-20 224-450

For the Bank:

Address: International Bank for Reconstruction and Development
          1818 H Street, N.W.
          Washington, D.C. 20433
          United States of America

Attention: Vice President, Europe and Central Asia Region

Facsimile: +1 202 522-1589

With a copy to: Manager (Financial Solutions Group)
                Finance Economics and Urban Department (FEU)

Facsimile: +1 202 522-0761

With a copy to: Head of Banking Products

Facsimile: +1 202 522-2102
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Indemnity Agreement to be signed in their respective names in Podgorica as of the day and year first above written.

MONTENEGRO

By: __________
Authorized Representative

Name (printed): Milorad Vaticic

Title: Minister of Finance

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: __________
Authorized Representative

Name (printed): Jane Armitage

Title: Country Director
SCHEDULE 1

Program Actions; Availability of Proceeds of the IBRD Guaranteed Loan

Section 1. Actions under the Program

The actions taken by Montenegro (for the purposes of this Section, the “Borrower”) under the Program include the following:

1. The FSC has:
   (i) carried out periodic systemic risk monitoring and taken appropriate macroprudential decisions as evidenced by written minutes of meetings and the assessment methodology used;
   (ii) adopted the national contingency plan including a draft *lex specialis* [the draft Financial Stability Law] granting extraordinary powers to CBCG and the Government to provide emergency liquidity and capital, if necessary, on declaration by the FSC of a financial crisis.

2. The CBCG has:
   
   updated and approved supervisory action plans (SAPs) for 2012 for banks of special concern, based on completed on-site examinations, off-site monitoring and stress-test results as of December 2011, and made satisfactory progress in such SAPs’ implementation.

3. The Borrower and CBCG have presented evidence showing that:
   
   (i) *Prva Banka* has made satisfactory progress in the implementation of all actions required by the 2012 SAP, maintains a CAR above 12 percent pursuant to the order issued by the CBCG, and complies with all other regulatory requirements; and
   
   (ii) the Borrower has withdrawn central government deposits from *Prva Banka* in accordance with the agreed withdrawal schedule to ensure *Prva Banka*’s future financing on market terms.

4. The Borrower has enacted regulation:
   
   (i) Regulation on Informing Depositors and Potential Depositors about Deposit Protection Scheme (Official Gazette 16/12, March 19th 2012), to bring public communication protocols vis-a-vis insured depositors in line with EU Directive on Deposit Guarantee Schemes 94/19/EC and 2009/19/EC;
   
   (ii) Decision on Detailed Conditions, Manner and Procedure of the Guaranteed Deposit Payout (Official Gazette 16/12, March 19th 2012), to improve the efficiency and transparency of guaranteed deposit payouts.

5. The CBCG has, in order to implement the Standardized Basel II Approach, adopted the following regulations:
   
   (i) Capital Adequacy Decision, Official Gazette 38/11, July 1, 2011 on capital adequacy;
   
   (ii) Decision on the manner of calculating banks’ exposures, Official Gazette 15/12, March 5, 2012, on large exposures; and
(iii) Decision on Public Disclosure of Information and Data by Banks, Official Gazette 2/12, December 29, 2011 on banks transparency and information disclosure under Pillar 3 of Basel II.

6. The CBCG has adopted the decision on Minimum Standards for Credit Risk Management in Banks, Official Gazette 22/12, April 12, 2012, implementing IFRS 39 for the banking system as of January 1, 2013.

7. The Government has by its decision dated March 29, 2012 approved the Law on Financial Collateral, and thus improved the legislative framework for financial collateral and facilitated enhanced liquidity management at financial institutions.

Section II. Availability of Proceeds of the IBRD Guaranteed Loan

A. Deposits of IBRD Guaranteed Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals of the IBRD Guaranteed Loan shall be deposited by Montenegro into an account designated by Montenegro and acceptable to the Bank; and

2. Montenegro shall ensure that upon each deposit of an amount of the IBRD Guaranteed Loan into this account, an equivalent amount is accounted for in Montenegro’s budget management system, in a manner acceptable to the Bank.

B. Excluded Expenditures. Montenegro undertakes that the proceeds of the IBRD Guaranteed Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the IBRD Guaranteed Loan was used to make a payment for an Excluded Expenditure, Montenegro shall, promptly upon notice from the Bank, deposit into the account described in Part A of this Section II (or, if Montenegro cannot or fails to do so, prepay to the Agent Bank for the account of the IBRD Guaranteed Lenders in accordance with the terms of the IBRD Guaranteed Loan Agreement) an amount equal to the amount of such payment. Any such deposits made hereunder shall be utilized only for Eligible Expenditures.

"Excluded Expenditure" means any expenditure:

(a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the International Development Association has financed or agreed to finance, or which the Bank or the International Development Association has financed or agreed to finance under another loan, credit, or grant;

(b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the “SITC”), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to Montenegro:

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<th>Description of Item</th>
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<td>Alcoholic beverages</td>
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<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
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<td>122</td>
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<td>Tobacco, manufactured (whether or not containing tobacco)</td>
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<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
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<td>Tobacco processing machinery</td>
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<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)</td>
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<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
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</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of Montenegro or international agreements to which Montenegro is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of Montenegro or other recipient of the proceeds of the IBRD Guaranteed Loan, without Montenegro (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.