

LAW ON BANKS

Chapter I

BASIC PROVISIONS

Subject of the Law

Article 1

This Law shall regulate the founding, operating and organization of banks, the manner of bank management as well as supervision and cessation of activities of banks.

Meaning of Certain Terms

Article 2

Bank means a joint stock company headquartered in the Republic of Serbia, with the operating license granted by the National Bank of Serbia, which performs deposit and credit activities and may perform other activities in compliance with the law.

Foreign bank means a legal entity headquartered outside the Republic of Serbia which is founded and entered in the register of the competent authority as a bank, in compliance with regulations of the home country, which has the operating license granted by the regulatory authority of such country, and which performs credit and deposit activities.

Branch means an organizational part of a bank without legal entity status, carrying out activities that a bank can carry out in compliance with this Law.

Representative office means an organizational part of a bank abroad or a foreign bank in the Republic of Serbia which does not have the status of a legal entity, which cannot conduct activities that may be conducted by banks, but activities related to market research, and which represents the bank and/or the foreign bank which part it is.

Regulatory authority is a national authority of a country which is empowered by regulations of such country to issue and revoke operating licenses from financial sector persons, or to supervise and/or monitor these persons.

Home country means the country in which a foreign bank or other financial sector person has been established and granted the operating license.

Deposit has the meaning established by the law which governs deposit insurance.

Credit has the meaning established by the law which regulates contracts and torts.

Financial sector person means a bank, insurance company, sponsor of an issue of securities, investment and voluntary pension funds management company, broker-dealer company, business company engaged in activities of financial leasing, and any other legal entity engaged primarily in financial activities within the country or abroad.

Indirect ownership exists when a person not having direct ownership in a legal entity has the ability in fact to realize ownership rights in such entity using ownership that another person directly has in such legal entity.

Participation means qualified, significant and controlling participation.

Qualified participation exists when one person has:

- 1) Direct or indirect right or ability to realize 5 percent or more of voting rights of a legal entity, and/or direct or indirect ownership of 5 percent or more of capital of such legal entity; or
- 2) The ability in fact to exercise influence over the management of a legal entity or over the business policy of such legal entity.

Significant participation exists when one person has:

- 1) Direct or indirect right or ability to realize 20 percent or more of voting rights of a legal entity, and/or direct or indirect ownership of 20 percent or more of capital of such legal entity; or
- 2) The ability in fact to exercise influence over the management of a legal entity or over the business policy of such legal entity.

Controlling participation exists when one person has:

- 1) Direct or indirect right or ability to realize 50 percent or more of voting rights of a legal entity, and/or direct or indirect ownership of 50 percent or more of capital of such legal entity; or
- 2) The ability to elect at least half of the members of the board of directors or other management body in such legal entity; or
- 3) The ability in fact to exercise dominant influence over the management of a legal entity or over the business policy of such legal entity.

Parent company of a legal entity means a legal entity that holds controlling participation in such entity.

Subsidiary of a legal entity means a company in which such entity holds controlling participation.

Associated company of a legal entity means a company in which such entity holds significant participation.

Subordinated company of a legal entity means a subsidiary or an associated company of such entity.

Group of companies means a group consisting of the ultimate parent company of a legal entity, its subordinated companies and associated companies of the subsidiaries of the legal entity.

Ultimate parent company of a group of companies means a legal entity in which no legal entity holds controlling participation.

Banking group means a group of companies which consists exclusively of financial sector persons, and which includes at least one bank being the ultimate parent company or a subsidiary.

Bank holding company means the ultimate parent company in a banking group other than a bank. Where the ultimate parent company cannot be clearly determined, the National Bank of Serbia shall determine it.

Related persons are persons where at least one of the following conditions is met:

- 1) Two or more legal entities or physical persons are related in such a way that one of them holds participation in another legal entity;
- 2) Two or more legal entities or physical persons where the relation specified in item 1 of this paragraph does not exist are related in such a way that there is a possibility that worsening or improvement of financial position of one person may cause worsening or improvement of financial position of other person or persons, and, according to the assessment of the National Bank of Serbia, there is a possibility of transfer of losses, profit or creditworthiness;
- 3) A legal entity and a physical person are related in such a way that the physical entity is a proxy of such legal entity.
- 4) Two or more legal entities and physical persons are related in such a way that the physical entity is a member of the board of directors or executive board or other management body in another legal entity or other legal entities;
- 5) Two or more legal entities and physical persons are related in such a way that family members of the physical person are members of the board of directors or executive board or other management body in another legal entity or other legal entities;
- 6) Family members of physical persons who are members of the board of directors or executive board or other management body or persons with special authorizations and responsibilities in one legal entity are at the same time members of the board of directors or executive board or other management body or persons with special authorizations and responsibilities in another legal entity or other legal entities.

Persons related to a bank are:

- 1) Members of the same banking group as the bank;

2) Members of the board of directors and executive board of the bank, members of management and governing bodies of a member of the same banking group in which the bank is, bank employees, as well as family members of these persons;

3) Persons with participation in the bank and in entities which are the members of the same banking group in which the bank is, as well as family members of these persons;

4) Legal entities in which persons specified in items 2 and 3 of this paragraph hold controlling participation.

Family members have the meaning specified in the law which governs business companies.

Undercapitalized bank means a bank whose capital adequacy ratio is below the prescribed one, and/or whose capital is lower than the prescribed amount, but which is not a significantly undercapitalized bank.

Significantly undercapitalized bank means a bank whose capital adequacy ratio is, by one-third or more, lower than the prescribed one, and/or whose capital is, by one-third or more, lower than the prescribed amount, but which is not a critically undercapitalized bank.

Critically undercapitalized bank means a bank whose capital adequacy ratio is, by one-half or more, lower than the prescribed one, and/or whose capital is, by one-half or more, lower than the prescribed amount.

Application of the Law which Governs Business Companies

Article 3

Basic provisions of the law which governs business companies which refer to establishment of a business company, responsibility of founders and other persons, head office and business name, representation and representatives, persons owing duties to a company, individual and derivative complaints, as well as informing, publishing and obsolescence, as well as the provisions of that Law regarding shares and other securities of a joint stock company shall be applied to banks, unless in breach of this Law.

Activities that Banks May Perform

Article 4

Banks may perform the following activities in compliance with the law:

- 1) Deposit activities (accepting and placing deposits);
- 2) Credit activities (granting and taking credits),
- 3) Foreign exchange, foreign exchange-currency transactions, and exchange operations;
- 4) Activities regarding payment operations;
- 5) Issuing payment cards;
- 6) Activities regarding securities (issuing securities, custody bank activities etc.);
- 7) Brokerage – dealership activities;
- 8) Issuing guaranties, sureties and other types of warranties (guarantee operation);
- 9) Purchase, sale and collection of receivables (factoring, forfeiting etc.)
- 10) Insurance agency activities;
- 11) Activities for which they are authorized by the law;
- 12) Other activities which are essentially similar or connected to activities specified in items 1- 11 of this paragraph, and are in compliance with founding act and articles of association of the bank.

Banks may perform the activities from paragraph 1, item 10 of this Article with the prior consent granted by the National Bank of Serbia.

Detailed requirements and manner of issuing and revocation of the consent specified in paragraph 2 of this Article shall be prescribed by the National Bank of Serbia.

Activities that May be Performed Solely by Banks

Article 5

No person other than a bank shall engage in acceptance of deposits.

No person other than a bank shall engage in granting credits and issuing payment cards unless authorized by law.

Business Name of a Bank and Unauthorized Use of the Word “Bank”

Article 6

A bank is required to use the word “bank” in its business name.

No person other than a bank shall have in its business name, and/or in conducting its activities, use and/or utilize the word “bank” or derivatives of the word.

Prohibition of Violation of Competition

Article 7

No bank shall conclude any agreements which substantially prevent, limit, or violate competition, nor shall it abuse dominant position or perform concentration which substantially prevents, limits, or violates competition, particularly by making and/or strengthening dominant position in the financial market.

The National Bank of Serbia shall determine that the violation of competition from paragraph 1 of this Article has occurred and shall take measures in that regard pursuant to this Law.

When determining the violation of competition from paragraph 1 of this Article the National Bank of Serbia may request an opinion of an organization competent for the protection of free competition.

The National Bank of Serbia shall give consent to the concentration which a bank performs in the financial market.

Detailed requirements and manner of determining the violation of competition in paragraph 1 of this Article shall be prescribed by the National Bank of Serbia.

Provisions of the law which regulates free competition shall be accordingly applied to the procedure of determining the violation of competition in paragraph 1 of this Article.

Cooperation between the National Bank of Serbia and Regulatory Authorities

Article 8

The National Bank of Serbia shall cooperate with foreign and domestic regulatory authorities, with a view to performing and improving its supervisory function, as well as performing other activities established by this Law.

The National Bank of Serbia may share the data obtained in performing its supervisory function and other activities established by this Law, with bodies specified in paragraph 1 of this Article.

Administrative Procedure

Article 9

The National Bank of Serbia shall perform supervision of safety and soundness and legal compliance of activities of banks and, in compliance with the competence established by this Law, make decisions regarding rights and obligations as well as legal interests of persons – within the procedure established by this Law.

Provisions of the law that governs general administrative procedure shall be accordingly applied to the procedure in paragraph 1 of this Article unless otherwise regulated by this Law.

In the procedure specified in paragraph 1 of this Article, the National Bank of Serbia shall render the decision by the resolution.

The resolution specified in paragraph 3 of this Article shall be final.

Administrative proceedings may be initiated against the resolution specified in paragraph 3, but charges against such resolution cannot prevent or postpone implementation of such resolution.

The court competent in the administrative proceedings against the resolution specified in paragraph 3 of this Article cannot resolve the administrative issue for which this Law stipulates competence of the National Bank of Serbia.

Chapter II

ESTABLISHMENT OF BANKS

Section 1

Legal Form, Founders, Initial Capital, Founding Act and Articles of Association

Legal Form

Article 10

A bank shall be established as a joint stock company.

Founders

Article 11

A bank may be established by domestic and foreign legal entities and physical persons (founders of the bank).

Initial Capital

Article 12

Founders of the bank shall provide funds for the initial capital of the bank.

Funds from paragraph 1 of this Article may be in pecuniary or non pecuniary form (objects and rights used for business activities of the bank).

Pecuniary portion of the initial capital of the bank cannot be less than EUR 10,000,000.00 in dinar equivalent, calculated at the official middle exchange rate on the day of payment of the funds.

The bank founders may not withdraw the assets invested in the initial capital of the bank.

Evaluation of contributions in objects and rights which are used for business activities of the bank shall be regulated by provisions of the law which governs business companies, and which refer to joint stock companies.

Detailed requirements and manner of providing the funds in paragraph 1 of this Article may be prescribed by the National Bank of Serbia.

Founding Act

Article 13

Founding act of a bank shall include:

- 1) Business name and head office of the legal entity – founder of the bank, and/or name and permanent residence of the physical person – founder of the bank;
- 2) Business name and head office of the bank
- 3) Amount of total initial capital of the bank in pecuniary and non-pecuniary form, as well as each founder's stake in the capital;
- 4) Time period in which founders of the bank are obliged to pay pecuniary funds, and/or transfer non-pecuniary assets into initial capital of the bank;
- 5) Rights, obligations and responsibilities of founders of the bank;
- 6) Number of shares and their nominal value in the first issue, types and classes of shares that the bank is authorized to issue, as well as rights of shares in each class;
- 7) Activities performed by the bank;
- 8) Method of the coverage of bank's losses;
- 9) Method of solving disputes among the bank's founders;
- 10) Rights of the bank's founders in case of the bank's status changes;
- 11) Total or estimated amount of expenses related to establishment of the bank;
- 12) Other elements and/or data.

The National Bank of Serbia may prescribe other compulsory elements and/or data for the bank's articles of association to include.

Articles of Association

Article 14

Each bank shall have articles of association.

Articles of association of a bank shall include:

- 1) Organization and manner of conducting business activities of the bank;
- 2) Issues decided by the bank's assembly;
- 3) Issues decided by other bodies of the bank, their structure and procedure of making decisions by such bodies, as well as term of office of members of such bodies;
- 4) Measures and responsibilities of the bank's bodies as to providing liquidity and solvency of the bank;
- 5) Rights, obligations and responsibilities of members of board of directors and executive board, and other persons with special authorities and responsibilities established by the bank's articles of association;
- 6) Authority regarding signing and acting on behalf of the bank;
- 7) Manner of performing internal control and internal audit of the bank;
- 8) Data and documents considered business secret of the bank, and manner of dealing with such data and documents;
- 9) Other elements and/or data.

The National Bank of Serbia may prescribe other compulsory elements and/or data for the bank's articles of association to include.

Section 2

Preliminary Approval and Operating License

Preliminary Approval

Article 15

The founders of a bank shall file with the National Bank of Serbia a request for preliminary approval for founding a bank (hereinafter: preliminary approval), together with which they shall submit the following:

- 1) Data on the founders, the amount of their stakes, number, type and nominal value of the shares they are acquiring;
- 2) The bank's founding act and draft articles of association;
- 3) The founders' statement that they shall pay the pecuniary portion of the initial capital in a suspense account with the National Bank of Serbia;
- 4) Statement that the bank founders shall transfer any non pecuniary assets to the initial capital of the bank;
- 5) Data on all persons that will hold participation in the bank, as well as the basis of such participation;
- 6) Names and data relating to the qualifications, experience and business reputation of nominated members of the bank's board of directors and executive board;
- 7) The bank's proposed program of activities for the period of three years and draft business policy;
- 8) Draft procedures for risk management and internal control of the bank;
- 9) If the bank which is being established will be a subsidiary of a foreign bank or other foreign financial sector person that is subject to foreign regulatory authority supervision and/or monitoring, proof that the competent regulatory authority of the home country has granted approval to the foreign bank or other foreign financial sector person regarding participation in establishment of a bank in the Republic of Serbia, or proof that no such approval is necessary under the regulations of such country;
- 10) If bank's founder is a foreign bank or a foreign financial sector person that is subject to supervision and/or monitoring by the home country regulatory authority, proofs that the requirements specified in Article 94, paragraph 3 of this Law are met.

The National Bank of Serbia may require founders of the bank to provide additional data and documents.

The National Bank of Serbia shall make a decision regarding the request specified in paragraph 1 of this Article within 90 days from the day of receipt of the complete request.

Founders of the bank shall, at the latest within 60 days after being granted preliminary approval, file with the National Bank of Serbia a request for issuing operating license.

Should the founders of the bank fail to submit the request specified in paragraph 4 of this Article within the deadline specified in the paragraph, the preliminary approval shall cease to be valid.

The National Bank of Serbia may prescribe detailed requirements and manner of acquiring the preliminary approval.

Article 16

The National Bank of Serbia shall refuse the request specified in Article 15, paragraph 1 of this Law in the following cases:

- 1) If the founding act and draft articles of association of the Bank are not in compliance with the law and other regulations;
- 2) If any of the proposed members of the board of directors and executive board of the bank does not possess the appropriate qualifications or experience, and/or adequate business reputation;
- 3) If any person that would acquire a participation in the bank, fails to meet the requirements for acquiring such participation;
- 4) If the proposed program of the bank's activities, plan of business policies and procedures for risk management and internal control are not appropriate;
- 5) If the ownership and management structures of the bank fail to enable effective supervision of safety and soundness and legal compliance of the bank or appropriate external and/or internal audit of the bank;
- 6) If the structure of the banking group whose member a bank would become is not transparent or impedes performing supervision of this group on the consolidated basis or appropriate external and/or internal audit.

Article 17

Should the data or the documents specified in Article 15, paragraph 1 of this Law be changed after issuance of the preliminary approval, the founders of the bank shall promptly inform the National Bank of Serbia of that.

The National Bank of Serbia shall, after the receipt of the information specified in paragraph 1 of this Article, nullify the resolution on issuance of the preliminary approval, if the conditions for issuing such approval are no longer met.

The founders of the bank whose request for preliminary approval has been rejected or refused, or the granted preliminary approval has ceased to be valid, shall not be allowed to submit such request in the course of one year following the rejection or refusal of such request, and/or cessation of validity of the preliminary approval.

After being granted preliminary approval, and prior to entering the bank in the register of economic entities, the founders of the bank may, in the name of the bank which is being founded, perform only such activities which are directed to the fulfillment of conditions which are necessary for issuing of the operating license and entering in the register.

Operating License

Article 18

An operating license is issued by the National bank of Serbia following the issuance of the preliminary approval and filing of the request for issuing of this license.

Together with the request specified in paragraph 1 of this Article, the bank founders shall submit the following:

- 1) The proof of payment of pecuniary portion of the initial capital, the proof of transfer of non-pecuniary assets into the initial capital of the bank, as well as the statement regarding the origin of such assets;

2) Proof that the founders have provided: the appropriate business premises, acquired and prepared equipment for undisturbed business activities of the bank, that the premises meet the requirements established by the law which refer to technical equipment, work safety, and protection and improvement of the environment, as well as that the premises and equipment enable access to all relevant data and information required for conducting supervisory function of the National Bank of Serbia;

3) Evidence that the founders have engaged an external auditor for the bank included in the list specified in Article 52, paragraph 3 of this Law;

4) Data on the organizational structure and human resource capacity of the bank.

The National Bank of Serbia shall make a decision regarding the request specified in paragraph 1 of this Article within 30 days from the day of receipt of the complete request.

Resolution on issuing operating license shall be published in the “Official Gazette of the Republic of Serbia”.

Should the National Bank of Serbia reject or refuse the request specified in paragraph 1 of this Article, the person that filed such request may not file a request for preliminary approval within one year following the day of rejection or refusal of the request specified in paragraph 1 of this Article.

The National Bank of Serbia may prescribe in detail the content of evidence and data specified in paragraph 2 of this Article.

Section 3

Founding Assembly and Registration

Founding Assembly

Article 19

The bank’s founding assembly meeting shall be held after receipt of the resolution of the National Bank of Serbia on issuing operating license to the bank i.e. within 30 days following receipt of such resolution, at the latest.

Founding assembly shall consist of the founders of the bank.

The founders shall realize voting rights at the founding assembly, proportionate to their respective stakes.

At the bank’s founding assembly meeting, by two thirds majority votes of the bank founders, the Articles of Association of the bank shall be rendered, the president and members of executive board and board of directors elected, program of activities of the bank for the period of 3 years adopted, as well as the business policy of the bank, and the decision regarding the first share issue made.

Founders of the bank shall submit the enactments adopted at the foundation assembly meeting to the National Bank of Serbia for consent within five working days following the day of adoption.

The National Bank of Serbia shall make a decision on granting consent specified in paragraph 5 of this Article within 60 days following the day of receipt of enactments specified in paragraph 5 of this Article.

Registration

Article 20

Founders of the bank shall file the application for entering in the register of economic entities within 30 days from the day when the consent specified in Article 19 paragraph 5 of this Law was granted.

The resolution of the National Bank of Serbia on issuing of the operating license as well as the consent specified in that paragraph shall be submitted together with the application from paragraph 1 of this Article.

The bank shall commence existence as a legal entity by being entered in the register of economic entities.

Founders of the bank shall submit the resolution on entering in the register to the National Bank of Serbia within five days following the receipt of such resolution.

Should nullity of the registration of establishment of the bank be determined in the procedure specified in the law which governs registration of economic entities, such nullity of the registration shall have no legal effects on legal transactions of such bank with conscientious third parties.

By determination regarding nullity of the registration of establishment of the bank, the bank's shareholders shall become jointly responsible for settlement of receivables of the bank's creditors.

Chapter III

BANK'S OPERATING ACTIVITIES

Section 1

Banks' capital

Amount and Form of Capital

Article 21

A bank shall maintain the appropriate amount of capital for the purpose of stable and safe business activities and/or fulfillment of obligations to its creditors.

Capital of a bank consists of core and supplementary capital, as well as any other forms of capital prescribed by the National Bank of Serbia.

The National Bank of Serbia shall prescribe the method of calculation of a bank's capital and capital adequacy.

Minimal Amount of Capital

Article 22

In conducting its business activities, each bank shall maintain the amount of capital so that it shall never be lower than the dinar equivalent of EUR 10,000,000 at the official middle exchange rate.

Capital Adequacy Ratio

Article 23

With a view to stable and safe business activities and/or fulfillment of obligations to creditors, each bank shall maintain capital adequacy ratio at the prescribed level.

Capital adequacy ratio is the relation between capital and risk weighted assets of a bank.

The National Bank of Serbia may determine a higher capital adequacy ratio than the prescribed one for a bank if, on the basis of the type and level of risk and business activities of the bank, it is established that this is necessary for stable and safe business activities, and/or fulfillment of obligations to creditors.

The National Bank of Serbia shall prescribe the criteria for determining the capital adequacy ratio specified in paragraph 3 of this Article.

Risk Weighted Assets

Article 24

Risk weighted assets of a bank represent the sum of book values of positions of balance sheet assets and off balance sheet items multiplied by weighting factors of credit, market, and other risks.

Weighting factors of the risks specified in paragraph 1 of this Article shall be prescribed by the National Bank of Serbia depending on riskiness of the positions which represent risk weighted assets of a bank.

Distribution of Profit

Article 25

A bank may not distribute the profit through payment of dividends to its shareholders, or pay profit sharing and/or other grants from the bank's profit to members of management bodies and the bank's employees in the following cases:

- 1) If the bank fails to maintain its liquidity in compliance with regulations of the National Bank of Serbia;
- 2) If, due to the distribution, the bank would not be able to maintain its liquidity in compliance with regulations of the National Bank of Serbia;
- 3) If the bank failed to eliminate weaknesses and deficiencies as ordered by the National Bank of Serbia regarding the inaccurate carrying of business changes and other events that may have an impact to the bank's income statement;
- 4) If the bank failed to act in compliance with orders to eliminate irregularities;
- 5) If the National Bank of Serbia orders so by its corrective measure.

A bank may not perform any advance payments regarding the distribution of profit from paragraph 1 of this Article to the persons specified in paragraph 1 of this Article.

If the total amount of payments from paragraph 1 of this Article exceeds 10% of bank capital or the bank's income statement shows loss in the current or previous quarter, and/or for the business year by the date, the bank can perform the distribution of these payments solely upon prior approval of the National Bank of Serbia.

Acquisition of Own Shares

Article 26

A bank may not acquire its own shares unless they are offered by shareholders in secondary sale, and the sale of which to other persons would cause significant loss to the bank's shareholders.

The acquisition of shares specified in paragraph 1 of this Article shall be performed by means of funds originating from the bank's profit.

The acquisition of shares specified in paragraph 1 of this Article cannot be performed without prior consent granted by the National Bank of Serbia.

Together with the request with justification for granting consent specified in paragraph 3 of this Article, the bank shall submit to the National Bank of Serbia the data on conditions for acquiring own shares.

The National Bank of Serbia shall make a decision regarding the request specified in paragraph 4 of this Article within 30 days from the day of receipt of the complete request.

Any legal transaction related to acquisition of own shares which has been performed without the consent of the National Bank of Serbia is null and void.

A bank is obliged to dispose of its own shares within one year following the date of the acquisition, and if it fails to do so, it is obliged to withdraw and cancel them as a charge against its share capital.

The provision of paragraph 7 of this Article shall also be applied to acquisition of own shares based on inheritance, legal succession or other acquisition independent of the will of the bank.

Detailed requirements and manner of granting consent in paragraph 3 of this Article may be prescribed by the National Bank of Serbia.

Prohibited Activities Aimed at Acquisition of Shares of Banks

Article 27

Any legal transaction, performed by a person holding participation in the bank or by a bank's subordinated company, dealing with granting credits, advance payments, warranties or guarantees by the bank for the purpose of direct or indirect acquisition of the bank's shares, as well as acquisition of the bank's shares by means of funds obtained in such ways shall be null and void.

Section 2

Risk Management

Manner of Risk Management

Article 28

Each bank shall identify, measure and assess risks it is exposed to in its business activities and manages such risks.

Each bank shall form a special organizational unit the competence of which includes risk management.

Risk management shall be adjusted to the size and organizational structure of the bank, to the volume of operations, and types of activities performed by the bank.

A bank shall, in its enactments, prescribe procedures for identification, measurement, and assessment of risks as well as management of risks in compliance with regulations, standards and banking practices.

The enactments specified in paragraph 4 of this Article shall include:

- 1) Provisions that ensure functional and organizational segregation of activities of risk management and regular business activities of the bank;
- 2) Procedures for identification, measurement, and assessment of risks;
- 3) Procedures for risk management;

- 4) Procedures enabling supervision and consistent implementation of all internal procedures of the bank related to risk management;
- 5) Procedures for regular reporting to the bank's bodies and the regulatory authority on risk management.

The National Bank of Serbia may prescribe detailed requirements and manner of identification, measurement, and assessment of risk specified in paragraph 1 of this Article as well as management of such risks.

Types of Risks

Article 29

A bank's enactments specified in Article 28 of this Law shall include all types of risks the bank is exposed to in its business activities, and in particular:

- 1) Liquidity risk;
- 2) Credit risk;
- 3) Interest rate, foreign exchange, and other market risks;
- 4) Risks of exposure of the bank to one person or a group of related persons;
- 5) Risks of investments of the bank in other legal entities and in fixed assets;
- 6) Risks related to home country of the person the bank is exposed to;
- 7) Operational risk, also including legal risk, as well as risk resulting from inadequate management of information and other technologies of importance for business activities of the bank.

Liquidity Risk

Article 30

Liquidity risk means the possibility of arising of negative effects on financial result and capital of the bank caused by incapability of such bank to fulfill its due obligations.

Each bank shall manage its property and obligations in such a way that it can fulfill its due obligations at all times (liquidity), and permanently fulfill all of its obligations (solvency).

For the purpose of efficient liquidity risk management, competent body of the bank shall adopt and enforce the policy of liquidity management which shall include planning of inflow and outflow of pecuniary assets, monitoring the liquidity and rendering appropriate measures for preventing or eliminating causes of illiquidity.

The National Bank of Serbia shall prescribe the manner of establishing and levels of liquidity of banks, including critically strained level of liquidity.

Credit Risk

Article 31

Credit risk means the possibility of arising of negative effects on financial result and capital of the bank caused by the debtor's failure to fulfill their obligations to the bank.

Each bank shall identify, measure, and assess credit risk according to the creditworthiness of a debtor and their timeliness in fulfillment of obligations to the bank, as well as according to the quality of security instruments for the bank's receivables.

For the purpose of adequate and efficient credit risk management, each bank shall, in compliance with regulations of the National Bank of Serbia and its own enactments, calculate and

earmark reserves for estimated losses which may be incurred on the basis of balance sheet assets and off balance sheet items of the bank.

Each bank shall, in its internal enactments, prescribe special policies and procedures for identification and management of bad assets, as well as for regular reporting to the bank's bodies on the quality of the credit portfolio.

Interest Rate, Foreign Exchange, and Other Market Risks

Article 32

Interest rate risk means the possibility of arising of negative effects on financial result and capital of the bank caused by changes in interest rates.

Foreign exchange risk means the possibility of arising of negative effects on financial result and capital of the bank caused by changes in exchange rates.

Each bank shall adjust volume and structure of its property and obligations in a manner that enables efficient market risk management.

Each bank shall, in its internal enactments, prescribe special policies and procedures for identification and management of market risks, as well as for regular reporting to the bank's bodies on types and level of these risks.

Bank's Exposure Risks

Article 33

A bank's exposure to one person represents total amount of receivables and off balance sheet items towards such person or a group of related persons (credits, investments in debt securities, ownership investments and participations, issued guarantees and sureties etc.).

Large exposure of a bank means exposure of the bank to a single person or a group of related persons amounting to at least 10% of the bank's capital.

Exposure of a bank to a single person or a group of related persons must not exceed 25% of the bank's capital.

Exposure of a bank to a person related to the bank must not exceed 5% of the bank's capital.

Aggregate exposure of the bank to persons related to the bank may not exceed 20% of the Bank's capital.

The National Bank of Serbia shall prescribe total of all large exposures of a bank, which may not be less than 400% nor may be more than 800% of the bank's capital.

Bank's Investment Risks

Article 34

Investment of a bank in a single non-financial sector person must not exceed 10% of the bank's capital.

Total investments of a bank in non-financial persons and fixed assets of the bank must not exceed 60% of the bank's capital.

Investments specified in paragraph 2 of this Article do not include acquisition of shares with a view to their further sale in the period of six months after the date of acquisition.

Operational Risk

Article 35

Operational risk means the possibility of arising of negative effects on financial result and capital of the bank caused by omissions in the employees' work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events.

Article 36

The National Bank of Serbia shall prescribe the criteria for identification, measurement, assessment and management of risks including:

- 1) method of calculation of individual business indicators of a bank related to management of risks and limitations pertaining to such risks;
- 2) Manner, form and deadlines for reporting of a bank regarding indicators specified in item 1 of this paragraph.

Business Operations with Related Persons

Article 37

Each bank in its business activities may not approve more favorable conditions to a person related to the bank than the conditions approved to other persons not related to that bank.

Legal Transactions with a Related Person

Article 38

Bank's legal transactions with a related person include activities which the bank concludes with this person and with a person related to the bank's related person.

Each bank may conclude a legal transaction with a related person after being granted the written approval of the bank's board of directors.

The approval specified in paragraph 2 of this Article shall not be obligatory in case of:

- 1) Placing deposits of related persons;
- 2) Granting credit collateralized by a linked deposit of a related person;
- 3) Granting credit collateralized by debt securities of the Republic of Serbia or the National Bank of Serbia, and/or debt securities of persons ranked by recognized international agencies, whose rating is not lower than "A".

A member of a bank's board of directors must not participate in consideration or approval of any legal transaction between them and the bank, between them and any member of their family, and between the bank and a legal entity in which they or any member of their family participates in management or governance, or in which they have a significant or controlling participation.

Each bank may undertake legal transactions in favor of related persons, as well as persons related to related persons of such bank after being granted a written approval of the bank's board of directors.

Prohibition from Granting Credits to Shareholders

Article 39

Each bank may not approve credits to its shareholders before the expiration of the period of one year following the day when the bank commenced its business activities.

Nullity of Legal Transactions

Article 40

Legal transaction concluded by a bank in breach of the conditions prescribed in Articles 37 – 39 of this Law shall be null and void.

Section 3

Bank's Relationship with Clients

Protection of Clients

Article 41

For the purposes of this Law, a client of a bank shall be any person who uses or has used services offered by the bank, or a person who has turned to the bank with a view to using services and who has been identified by the bank as such.

A client of the bank shall have the right to access all the data which, according to provisions of this Law, must be accessible to them, and a bank is obliged to provide this access at the client's request.

Each bank is free to decide on the choice of clients.

Detailed requirements and manner of exercising the rights specified in paragraph 2 of this Article may be prescribed by the National Bank of Serbia.

Disclosure of General Operating Conditions

Article 42

Each bank shall make general operating conditions, as well as their amendments and additions, clearly visible in its business premises, not later than 15 days prior to their implementation.

The implementation of general operating conditions shall be ensured by a written contract concluded between a bank and a client.

A client may request from a bank appropriate explanations and instructions regarding the implementation of general operating conditions.

For the purposes of this Law, general operating conditions are considered to be all documents containing standard operating conditions applicable to all clients of a bank, general conditions for establishing relationship between clients and the bank, the procedure regarding communication between clients and the bank, and general conditions for conducting transactions between clients and the bank.

The National Bank of Serbia may prescribe detailed requirements and manner of the disclosure and implementation of the bank's general operating conditions.

Unique Method of Calculating and Publishing Expenses, Interests and Fees Regarding Banking Services

Article 43

The National Bank of Serbia may prescribe a unique method of calculating and publishing expenses, interests and fees regarding banking services, and in particular as to credit and deposit activities.

Notification of Clients

Article 44

A bank shall provide the client, upon their request, with information regarding balance of their credit, and/or deposit account, as well as other information related to business relationship between a client and a bank.

On its Web site, a bank shall publish the data on names of the persons who hold participation in that bank and/or who are members of its board of directors and executive board as well as the data on the capacity of those persons.

The National Bank of Serbia may prescribe detailed requirements and manner of notification of bank's clients.

Clients' Complaint

Article 45

If a client believes that a bank is acting in compliance with the obligations from the contract concluded, they may file a complaint regarding the bank's actions to the manager of the bank's organizational unit the competence of which includes internal audit, competent organizational unit or competent body of the bank.

A bank shall give a response to the person that filed the complaint specified in paragraph 1 of this Article in a reasonable period of time.

The National Bank of Serbia is authorized, within its supervisory function, to inspect whether a bank acts in compliance with good business practices, disclosed general operating conditions and provisions of contracts concluded with its clients.

The National Bank of Serbia may prescribe detailed requirements and manner of bank's actions in response to the client complaint.

Section 4

Secrecy of Data

Bank Secret

Article 46

Bank secret is a business secret.

The following is considered to be a bank secret:

- 1) Data which are known to a bank, and which refer to personal data, financial status and transactions, as well as ownership or business relations of the clients of such bank or another bank;
- 2) Data on balance and transactions on individual deposit accounts;
- 3) Other data which the bank has become aware of in the course of performing business activities with clients.

The following is not to be considered a bank secret:

- 1) Public data and data accessible from other sources to interested persons with legitimate interest;
- 2) Consolidated data on the basis of which the identity of an individual client is not disclosed;
- 3) Data on bank shareholders and the amount of their participation in the bank share capital, as well as the data on other persons holding a participation in the bank and the data on such participation, regardless of whether they are bank clients;
- 4) Data related to timeliness of client's fulfilling of obligations towards the bank.

Obligation to Guard Bank Secrets

Article 47

The bank and members of its bodies, shareholders and bank employees, as well as the external auditor of the bank and other persons who, due to the nature of the activities they perform, have access to the data specified in Article 46 of this Law, may not disclose such data to third persons, use such data against the interest of the bank and its clients, nor may they enable third persons to have access to such data.

The obligation to guard banking secrets for persons referred to in paragraph 1 of this Article shall not cease even after termination of their status on the basis of which their access to the data specified in paragraph 1 of this Article has been enabled.

The data about a client which are considered bank secret may be disclosed by the bank to third persons only upon the written approval of the client, unless otherwise prescribed by this Law or some other law.

Exceptions from Obligation to Guard Bank Secrets

Article 48

The obligation to guard bank secrets shall not apply if the data are disclosed:

- 1) On the basis of the decision or request of the competent court;
- 2) For the needs of the body competent for money laundering prevention, in compliance with anti money laundering regulations;
- 3) In connection with property proceedings, on the basis of a request of the guardian of the property or the consular representative offices of foreign states, upon submission of written documents which prove legitimate interest of these persons;
- 4) In the case of execution by the competent authority regarding property of the bank's client;
- 5) To regulatory authorities of the Republic of Serbia for the purpose of performing activities within their field of competence;

6) To a person established by banks for the purpose of collecting data on the total amount, type and timeliness in fulfilling obligations of physical persons and legal entities, which are clients of banks;

7) To a competent authority with regard to performing the supervision of payment system operations of legal entities and physical persons conducting their activities, in compliance with payment system regulations;

8) To tax administration pursuant to regulations which regulate activities within its field of competence;

9) To the authority competent for the supervision of foreign currency operations;

10) Upon the request of the organization for deposit insurance, in compliance with the law which governs deposit insurance;

11) To foreign regulatory authority under the conditions stipulated in the Memorandum of Understanding, concluded between the foreign regulatory authority and the National Bank of Serbia.

Except for the provisions specified in paragraph 1 of this Article, a bank has the right to disclose the data that represent bank secret to the investigative judge, public prosecutor, and courts and/or other bodies that have public and legal authorities, solely for the purpose of the protection of its rights in compliance with the law.

Handling Data Representing a Bank Secret

Article 49

The National Bank of Serbia, courts and other bodies that have public and legal authorities may use the data they have obtained in compliance with Article 47 of this Law, exclusively for the purpose for which such data have been acquired, and may not disclose such data to third persons or enable third persons to become aware of and use such data, except in cases stipulated by the law.

Provisions of paragraph 1 of this Article shall accordingly apply to persons that are employed, and/or have been employed at bodies referred to in that paragraph.

Section 5

Financial Records And Reporting

Financial Records

Article 50

A bank shall maintain business books and accounting records, and prepare annual financial statements, which truthfully and objectively reflect its operations and financial condition, with contents and in form that are prescribed by the law which governs accounting and audit, by this Law, and by the regulations of the National Bank of Serbia.

Reporting to the National Bank of Serbia

Article 51

Each bank shall prepare and submit to the National Bank of Serbia reports related to management of the bank, as well as operating of organization structures, planned business activities, liquidity, solvency, and profitability of the bank and its subordinated companies, for the purpose of

assessment of the financial condition of the bank and its subordinated companies, on an individual and a consolidated basis.

The National Bank of Serbia shall prescribe the contents and form of the report referred to in paragraph 1 of this Article, as well as the manner and deadlines for their submission.

Section 6

External Audit

Appointment of External Auditor

Article 52

In order to conduct annual audit of its financial reports, each bank, banking group, and bank holding company shall annually hire an external auditor (audit firm).

The bank or bank holding company shall notify the National Bank of Serbia on appointment of external auditor within 15 days from the day of such appointment.

The National Bank of Serbia shall determine and publish a list of external auditors that can perform auditing of banks specified in paragraph 1 of this Article, on the basis of criteria it prescribes.

Article 53

A bank may not appoint an external auditor whose income from auditing that bank in the previous year exceeds one-half of the external auditor's total income.

The external auditor may conduct not more than three consecutive annual financial statements audits of the bank.

The external auditor may not conduct both an audit of the bank's financial statements and provide consulting services to such bank during the same year, nor may they conduct an audit for the business year in which they provided consulting services to such bank.

Should an audit be performed by the external auditor who is not included in the list specified in Article 52 paragraph 3 of this Law, and/or if the audit has been conducted in breach of provisions of this Law and other regulations, the National Bank of Serbia shall not accept the auditor's report.

Article 54

The person who manages auditing of the bank and signs the external auditor's report, must have the highest professional degree in the field of audit, in compliance with the law which governs auditing, 3 years of experience in conducting audits of banks, and be independent of the bank.

The person from paragraph 1 of this Article shall not be considered independent of a bank if they or the audit firm in which such person is engaged, or the manager of that firm – in the current and two previous business years, as well as during conducting the audit:

- 1) Were a person related to the bank or any member of the banking group;
- 2) Were a business partner of the bank or any member of the banking group;
- 3) Were a person with direct or indirect ownership in the bank or any member of the banking group;
- 4) Were a liquidation administrator or a receiver of a member of the banking group;
- 5) Were a contractual party in a contractual relationship with a person who might have a negative impact on his impartiality and independence.

Audit on a Consolidated Basis

Article 55

Annual audit of banking groups financial reports must be performed on a consolidated basis.

Each subordinated company of a bank or a bank holding company shall provide external audit of its individual annual financial statements.

The audit specified in paragraph 1 of this Article shall be performed by the external auditor appointed by the ultimate parent company of a banking group.

With the consent of the National Bank of Serbia, the non-banking subordinated company need not be included in the audit specified in paragraph 1 of this Article if:

1) Its capital according to the balance sheet is less than 5% of total capital of the bank, according to the balance sheet of the bank, and/or bank holding company;

2) The subordinated company has realized less than 5% of the income of the bank, and/or bank holding company during the previous business year;

With the consent or upon the request of the National Bank of Serbia, the non-banking subordinated company need not be included in the audit of the banking group if, in the opinion of the National Bank of Serbia, that would contribute to the objective perceiving of financial situation of such group.

Detailed requirements and manner of providing the funds in paragraph 1 of this Article may be prescribed by the National Bank of Serbia.

External Auditor's Report

Article 56

The external auditor shall prepare a report and provide opinion as to whether the annual financial statement of the bank has been composed in compliance with the international financial reporting standards, and/or the international accounting standards, law which governs accounting and audit and regulations of the National Bank of Serbia, and whether it provides true and objective overview of the bank's financial position, business results and cash flows for the business year regarding all issues of material importance.

External auditor shall provide his opinion regarding efficiency of functioning of the internal audit, systems of risk management and internal control, to the bank's board of directors and executive board, as well as to the National Bank of Serbia.

The National Bank of Serbia shall prescribe minimum scope and contents of the auditor's report specified in paragraph 1 of this Article.

The National Bank of Serbia may request additional information from the external auditor regarding the performed audit.

Audit in Case of Status Changes

Article 57

Each bank founded by merger shall submit to the National Bank of Serbia an opinion of the external auditor on truthfulness and objectivity of its opening balance sheet on the day of merger within 60 days as of the day entering the bank in the register of economic entities.

The bank to which another bank is absorbed shall hire an external auditor to conduct audit of its financial statements as of the day of absorption.

External auditor's report specified in paragraph 2 of this Article shall be submitted by the bank from that article to the National Bank of Serbia within 60 days as of the day of entering the merger in the register of economic entities.

Detailed requirements and manner of performing the audit in paragraph 1 of this Article may be prescribed by the National Bank of Serbia.

External Auditor's Duty of Notification

Article 58

The external auditor shall notify the board of directors and executive board of a bank, and/or a member of the banking group, as well as the National Bank of Serbia promptly after becoming aware of any fact which represents:

- 1) Violation of the law and by-laws of the National Bank of Serbia;
- 2) Materially important change in the financial result carried in annual financial statements which have not been audited;
- 3) Violation of internal procedures or enactments of the bank or the group the bank belongs to;
- 4) Any circumstances that could result in a material loss for the bank or a member of the banking group or that could jeopardize their continuous business operations.

Notification referred to in paragraph 1 of this Article shall not be considered a violation of secrecy of the bank's data or confidential information, and the external auditor shall not bear responsibility because of it.

Detailed requirements and manner of notification in paragraph 1 of this Article may be prescribed by the National Bank of Serbia.

Measures on the Basis of External Auditor's Report

Article 59

When the irregularities in the activities of the bank are established in the external auditor's report, the bank shall eliminate those irregularities and inform the National Bank of Serbia of that.

Should the bank fail to eliminate the irregularities specified in paragraph 1 of this Article, the National Bank of Serbia may take measures prescribed by this Law.

Resignation or Removal of an External Auditor

Article 60

The bank and bank holding company shall submit to the National Bank of Serbia a written notification regarding resignation or removal of the external auditor of a bank, bank holding company or banking group, including a statement of the reasons for the resignation and/or removal – at the latest within 15 days following the day of the resignation and/or removal.

Where an external auditor of a bank, bank holding company or banking group has resigned or been removed, no other external auditor shall accept an appointment as auditor of the bank, bank holding company or banking group, unless they obtain the written statement of the previous auditor specified in paragraph 1 of this Article.

Except for the provision of paragraph 2 of this Article, the appointment of the external auditor of a bank, bank holding company, or banking group may be accepted even without obtaining such statement if the new auditor notifies the National Bank of Serbia that they have not received the statement within 15 days as of the day the request for providing such statement was requested.

The National Bank of Serbia shall not accept the report of an auditor who was appointed for the function unless they have requested the statement specified in paragraph 1 of this Article or if

they have accepted the appointment before the deadline specified in paragraph 3 of this Article has expired.

Detailed requirements and manner of resignation or removal of the external auditor may be prescribed by the National Bank of Serbia.

Submitting and Publishing Annual Financial Statements with the External Auditor's Report

Article 61

A bank shall submit to the National Bank of Serbia individual financial statements of the bank and its bank holding company together with the external auditor's report for the preceding business year - within 120 days after the end of such year.

The National Bank of Serbia may require any member of the banking group to submit individual financial statements together with the external auditor's report.

A bank shall submit consolidated financial statements of the banking group together with the auditor's report for the previous business year – within 150 days after the end of such year.

A bank and the bank holding company shall publish the external auditor's report in an abbreviated form in at least one of the daily newspapers distributed in the whole territory of the Republic of Serbia within 15 days after receiving such report.

A bank shall publish on its Web site a complete report of the external auditor on annual financial statements regarding the bank, bank holding company and banking group, including notes to the financial statements.

In addition to publishing the audited annual financial statement, a bank shall quarterly publish on its Web site financial statements that have not been audited, within 30 days following expiration of the appropriate accounting period, which include balance sheet with off-balance sheet items, income statement, and a report on cash flows, as well as the names of members of the board of directors and the executive board of the bank, and persons holding participation in the bank or bank holding company and data on these persons, along with organizational structure and list of organizational units of that bank.

If an error has been noticed in the published reports and data, the bank or the external auditor shall promptly inform the National Bank of Serbia of the error, and the bank shall publish corrected reports and data again.

Refusal by the National Bank of Serbia to Accept the Auditor's Report

Article 62

Should the National Bank of Serbia establish that the audit of the bank, bank holding company or banking group has not been performed in compliance with provisions of this Law, the National Bank of Serbia shall not accept such audit report and it shall require that another external auditor perform the audit again at the bank's expense.

Special Audit

Article 63

The National Bank of Serbia may require that a special audit of a bank or a banking group member if the reports of the bank or members of the banking group are inaccurate, or the concluded transactions which may have or have resulted in significant damage to the bank.

The National Bank of Serbia may appoint an auditor for the special audit of the bank or member of banking group. A bank or member of a banking group shall submit to that auditor all data and documents necessary for audit without delay and restrictions, and provide all necessary assistance pursuant to the provisions of this Law.

Costs related to the conduct of a special audit shall be covered by the bank.

The National Bank of Serbia may prescribe detailed requirements and manner of conducting the special audit.

Section 7

Association of Banks

Establishment of Association of Banks

Article 64

With a view to improvement of its own operations and harmonization of its activities, banks may establish business associations.

Association of banks shall be a legal entity.

Association of banks shall be entered in the register, in compliance with law.

The name, activities and head office location, acting on behalf of the association and responsibilities in legal transactions, cessation of association of activities and manner of association management as well as other issues relevant for establishment of the association shall be determined in the contract on establishment of the association of banks.

Association of banks shall submit to the National Bank of Serbia contract specified in paragraph 4 of this Article, as well as other enactments of the association and agreements that the association concludes with banks.

Each bank shall submit to the National Bank of Serbia agreements it concludes with other banks in order to improve its own operations and harmonize its activities.

Bank may not conclude agreement with other bank or association of banks which could violate the competition.

Detailed requirements, deadlines, and manner of submitting contracts, agreements, and enactments specified in paragraphs 5 and 6 of this Article may be prescribed by the National Bank of Serbia.

Chapter IV

ORGANIZATION OF BANKS AND MANNER OF BANK MANAGEMENT

Section 1

Bank's Bodies

The Bank's Assembly

Composition

Article 65

The bank's assembly consists of the bank's shareholders.

Shareholders shall realize the voting right directly or through their representatives.

Articles of association of the bank may not preclude direct exercising of voting rights of shareholders holding 1% or more of voting shares.

Competence

Article 66

The bank's assembly shall:

- 1) Adopt business policy and strategy of the bank;
- 2) Render the bank's articles of association and adopt amendments and addenda to the founding act and articles of association of the bank;
- 3) Adopt annual statement of the bank, and decide on usage and distribution of the realized income, and/or coverage of losses;
- 4) Decide on the increase of the bank's capital, and/or investments of the capital into another bank or other legal entities, as well as on the amount of investments in fixed assets of the bank;
- 5) Appoint and remove the president and members of the bank's board of directors;
- 6) Determine fees for members of the bank's board of directors;
- 7) Decide on status changes, as well as on cessation of the bank's activities;
- 8) Decide on acquisition of liquidation and/or bankruptcy estate of a bank undergoing liquidation and/or bankruptcy proceedings;
- 9) Appoint and remove the external auditor;
- 10) Render the rule book of its activities and decide on other issues in compliance with the law and articles of association of the bank.

Articles of association of the bank may determine other rights and obligations of the bank's assembly.

The bank's assembly may not transfer the competence for rendering the decisions specified in paragraph 1 of this Article to any other body of the bank.

The National Bank of Serbia shall give consent to the articles of association, and/or amendments to the founding act and articles of association of the bank.

The articles of association and/or amendments to the founding act and articles of association of the bank shall not come into effect before the consent specified in paragraph 4 of this Article has been submitted.

Detailed requirements and manner of granting consent in paragraph 4 of this Article may be prescribed by the National Bank of Serbia.

Regular Meetings of the Bank's Assembly

Article 67

The bank's assembly shall be held at least once a year, according to the manner stipulated in the bank's articles of association.

The National Bank of Serbia may require that particular items be included in the agenda of the regular meeting of the assembly.

Provisions of the law which governs business companies which relate to assembly of a joint stock company shall apply to the procedure of calling, informing and activities of the regular meetings of the bank's assembly, unless otherwise regulated by this Law.

Extraordinary Meetings of the Bank's Assembly

Article 68

Extraordinary meeting of the bank's assembly may be called upon the request of:

- 1) The bank's board of directors or other body of the bank which is empowered by the bank's articles of association to call an extraordinary assembly meeting;
- 2) the bank's shareholders holding at least 10% of voting shares;
- 3) The liquidation administrator of the bank undergoing voluntary liquidation.

The procedure related to calling of an extraordinary meeting of the bank's assembly shall be governed by provisions of the law which regulates business companies.

The bank's board of directors shall call an extraordinary meeting of the bank's assembly in the following cases:

- 1) If the bank becomes undercapitalized;
- 2) If it is requested by the bank's internal audit, external auditor of the bank, or the committee for monitoring business activities of the bank;
- 3) If it is requested by the National Bank of Serbia;
- 4) Whenever it estimates that the meeting is necessary.

The National Bank of Serbia may require that particular items be included in the agenda of the regular meeting of the assembly.

Attendance by Representatives of the National Bank of Serbia at the Bank's Assembly Meetings

Article 69

A representative of the National Bank of Serbia may attend the bank's assembly meeting, and address the shareholders.

The bank's board of directors shall inform the National Bank of Serbia of the date and the agenda of the bank's assembly meeting within the deadline stipulated for notifying members of the bank's assembly.

Board of Directors and Executive Board of a Bank

Article 70

Board of directors and executive board of a bank are management bodies of a bank.

The board of directors and executive board of a bank shall take measures for preventing illegal or inappropriate activities and impacts which are detrimental or are not in the best interest of the bank and its shareholders, which are performed by persons holding significant or controlling participation in such bank.

Board of Directors

Composition

Article 71

Board of directors of a bank shall consist of not less than five members, including the president.

At least one-third of members of the board of directors of a bank shall be persons independent of the bank.

A person not holding direct or indirect ownership in the bank and in a member of the bank's banking group shall be considered as a person independent of a bank.

The National Bank of Serbia may prescribe additional requirements which a person must fulfill so as to be considered independent of a bank.

Members of the bank's board of directors must have the appropriate business reputation and qualifications, which are prescribed by the National Bank of Serbia.

At least three members of the bank's board of directors must have the appropriate experience in the field of finance.

At least one member of the bank's board of directors must be fluent in Serbian language and have permanent residence in the Republic of Serbia.

Appointment of Members of the Bank's Board of Directors

Article 72

Each bank shall submit to the National Bank of Serbia a request for granting prior consent regarding appointment of a member of the board of directors of the bank, together with which it submits documents and provides data proving adequate business reputation and qualifications of the person proposed for a member of the bank's board of directors.

The National Bank of Serbia shall prescribe detailed requirements regarding granting the consent specified in paragraph 1 of this Article.

The National Bank of Serbia shall reject the request from Paragraph 1 of this Article if the person nominated for a member of the bank's board of directors:

1) Has been a person who, on the day of initiation of the bankruptcy proceedings and/or revocation of the operating license, and/or 6 months prior to that day, was authorized to represent and to act on behalf of the bank, and/or was a member of management and supervisory bodies of a bank against which bankruptcy proceedings were initiated, or whose operating license was revoked – unless three years elapsed following the initiation of bankruptcy proceedings, and/or revocation of the license;

2) Is a member of any management body of another bank;

3) Has been convicted of a criminal offence and pronounced unconditional prison sentence or has been convicted of a criminal offence against the law on the basis of labor, property, economy, constitution and security of the Republic of Serbia and State of Union Serbia and Montenegro, state bodies, judiciary, legal operations and professional duty, or other punitive act which makes them unworthy of the conduct of such function.

Members of the bank's board of directors specified in Article 71 paragraph 6 of this Law shall, together with the request specified in paragraph 1 of this Article, submit the evidence proving that they have at least three years of experience in management position in a financial sector person, or six years of experience in management position in a business company, or six years of experience in the field of finance and banking, and that they have distinguished themselves as experts or scientist in such fields.

For other members of the board of directors, evidence from paragraph 3 of this Article, or evidence that such person has at least six years of experience in management position in a business company, shall be submitted along with request specified in paragraph 1 of this Article.

Within 10 days following removal or resignation of any member of the bank's board of directors, the bank shall inform the National Bank of Serbia of that, stating the reasons for such removal or resignation.

Members of the bank's board of directors may not be members of the executive board of the bank.

The National Bank of Serbia may prescribe detailed requirements and manner of appointment of the members of bank's board of directors.

Competence

Article 73

A bank's board of directors is responsible for business operations of the bank to be in compliance with the law, regulations and enactments of the National Bank of Serbia as well as enactments and other procedures established by the bank's bodies.

A bank's board of directors is responsible for implementation and supervision of the unique system of risk management in the bank, and it shall also ensure that the bank's executive board identifies risks which the bank is exposed to, as well as to control these risks, in compliance with the approved policies and procedures.

The bank's board of directors shall:

- 1) Call meetings of the bank's assembly;
- 2) Prepare draft decisions for the bank's assembly and is responsible for carrying out of those decisions;
- 3) Render, between two sessions of the bank's assembly, enactments which implement business policy of the bank;
- 4) Establish general operating conditions of the bank, as well as their amendments and additions;
- 5) Elect and remove the president and members of the bank's executive board;
- 6) Elect and remove members of the board specified in Article 79, paragraph 1 of this Law;
- 7) Determine amounts up to which the bank's executive board may decide on placements and indebtedness of the bank and decide on placements and indebtedness of the bank exceeding those amounts;
- 8) Give prior consent for the exposure of the bank to one person or a group of related persons which exceeds 10%, and/or for the increase of this exposure exceeding 20% of the bank's capital;
- 9) Supervise activities of the executive board;
- 10) Adopt the program and plan of the internal audit of the bank;
- 11) Implement the system of internal control;
- 12) Render the procedures for identification, measurement, and assessment and management of risks;
- 13) Review reports of external and internal audit;
- 14) Adopt quarterly and annual reports of the bank's executive board on bank's business activities and submit the adopted annual report to the bank's assembly for final adoption;
- 15) Render the rule book of its activities as well as the rule book of activities of the executive board;
- 16) Inform the National Bank of Serbia and other competent bodies of the established irregularities;
- 17) Perform other activities in compliance with the bank's articles of association.

The bank's board of directors shall be responsible for the accuracy of all reports on business activities and the financial situation and business results of the bank submitted to the bank's shareholders, the public, and the National Bank of Serbia.

Meetings

Article 74

The bank's board of directors shall meet when needed and at least quarterly.

The meetings of the bank's board of directors shall be held at least quarterly in premises of the bank's head office or other organizational parts of the bank within the territory of the Republic of Serbia.

The bank's board of directors shall have an extraordinary meeting upon the request of the National Bank of Serbia, in order to discuss specific issues.

Should the National Bank of Serbia find it necessary, the representative of the National Bank of Serbia may be present at the meeting of the bank's board of directors, and address its members.

The bank's board of directors shall inform the National Bank of Serbia of the date and the agenda of the bank's assembly meeting within the deadline stipulated for notifying members of the bank's assembly.

Together with the annual report which it submits to the National Bank of Serbia in compliance with this Law, each bank shall submit the report on total number of meetings of the bank's board of directors held and the location they were held at.

Executive Board of the Bank

Composition

Article 75

Executive board of a bank shall consist of not less than two members, including the president.

The president of the bank's executive board shall represent and act on behalf of the bank.

On the occasion of undertaking legal transactions in the name and for the bank, the president of the executive board shall provide signature of one member of the executive board.

The members of the executive board are full time permanent employees of the bank.

The members of the bank's board of directors must have good business reputation and appropriate qualifications, which are prescribed by the National Bank of Serbia.

At least one member of the bank's executive board must be fluent in Serbian language, and have permanent residence in the Republic of Serbia, and all members of the executive board must have residence in the Republic of Serbia.

Provisions of this Law relating to the appointment of the members of the bank's board of directors shall be accordingly applied to the appointment of the members of the bank's executive board.

Competence

Article 76

The bank's executive board shall organize business activities of the bank and supervise the activities of the bank's employees on a daily basis.

Executive Board of the Bank shall:

- 1) Carry out the decisions of the bank's assembly and board of directors;
- 2) Ensure legal compliance of the bank's activities;
- 3) Make decisions regarding placements and indebtedness of the bank up to the amount determined by the bank's board of directors;
- 4) Make decisions on any increase of exposure of the bank to a person related to the bank and inform the bank's board of directors of that;
- 5) Implement the business strategy of the bank;
- 6) Identify and measure risks the bank is exposed to in its business activities, and implement principles of risk management approved by the bank's board of directors;
- 7) Render the organizational structure of the bank that is suitable for the bank's strategy;
- 8) Implement procedures of supervision of the bank's activities, regularly evaluate their quality and improve them, if necessary, in accordance with the business policy of the bank;

- 9) Ensure that all employees of the bank are aware of the regulations and other enactments of the bank regulating their business duties;
- 10) Ensure safety and regular monitoring of the bank's information technology systems;
- 11) Ensure safety and regular monitoring of systems regarding treasury activities;
- 12) Inform the board of directors of all activities which are not in compliance with regulations and other enactments of the bank;
- 13) Present an overview of business activities, balance sheet and income statement of the bank to the bank's board of directors at least once during each business quarter;
- 14) Promptly inform the bank's board of directors and the National Bank of Serbia of any deterioration of the financial situation of the bank, or the existence of the danger of such deterioration, as well as other facts that may significantly affect the financial situation of the bank;
- 15) Make decisions regarding any issues that are not in competence of the bank's assembly and board of directors of the bank.

Obligation of Informing the Bank's Assembly on the Income of Management Bodies Members

Article 77

Bank's assembly shall, at least once per year, review written information which contains detailed data on all salaries, fees and other earnings of the members of the board of directors and executive board of a bank, and on all contracts between a bank and the members of these boards, and other persons related to those members, and which result in proprietary benefit for such persons, as well as the proposal of the board of directors regarding salaries, fees and other proprietary benefits of these persons for the following year.

Conflict of Interests

Article 78

Within one month of assuming their positions, the members of the bank's board of directors and executive board shall submit to the board of directors of the bank a statement in writing which shall contain:

- 1) All proprietary rights of such persons and members of their families, whose market value exceeds dinar equivalent of EUR 10,000 at the official middle rate on the day of the assessment of the value of such proprietary rights;
- 2) the legal entity in which the persons that issue the statement, or the members of their families, participate in management or governance bodies or hold participation in that legal entity, and/or have the status of a partner or general partner.

If the data specified in paragraph 1 of this Article change, the members of the board of directors and executive board shall inform the bank's board of directors of that change within one month as of the date when they became aware of such change.

The bank's board of directors shall submit the data specified in paragraph 1 of this Article to the bank's assembly at least once a year.

The National Bank of Serbia may prescribe for the statement specified in paragraph 1 of this Article to contain additional data.

The members of the bank's board of directors and executive board shall promptly inform the bank's board of directors of the legal entity specified in item 2, paragraph 1 of this Article with which the bank has established, or plans to establish a business relationship.

Other Committees of the Bank

Article 79

A bank shall establish the committee for monitoring business activities of the bank (audit committee), credit committee and committee for managing assets and liabilities.

A bank may establish other committees as well.

Committee for Monitoring Business Activities of the Bank (Audit Committee)

Article 80

Committee for monitoring business activities of the bank shall consist of at least three members, at least two of which are members of the bank's board of directors who have the appropriate experience in the field of finance.

At least one member of the committee for monitoring business activities of the bank shall be a person independent of the bank.

Members of the Committee for monitoring business activities of the bank cannot be persons related to the bank, except by virtue of their membership in the board of directors of the bank or the management and/or supervisory bodies of a component entity of the same banking group.

Committee for monitoring business activities of the bank shall assist the bank's board of directors in supervising activities of the executive board and employees of the bank.

Committee for monitoring business activities of the bank shall:

- 1) Analyze annual and other financial statements of a bank, which are submitted for review and adoption to the bank's board of directors;
- 2) Analyze and adopt draft policies and procedures of a bank regarding risk management and the system of internal controls, which are submitted for review and adoption to the bank's board of directors;
- 3) Analyze and supervise implementation and adequate enforcement of adopted policies and procedures for risk management and the implementation of the system of internal controls;
- 4) At least once per month report to the board of directors on its activities and detected irregularities, and give suggestions for the manner in which the detected irregularities will be eliminated, and/or the manner of improvement of policies and procedures for risk management and the implementation of the system of internal controls;
- 5) Review investments and activities of the bank, upon proposal of the board of directors or executive board or external auditor of the bank;
- 6) Give proposal regarding the external auditor of a bank to the bank's board of directors and assembly;
- 7) Review annual audits of the financial statements of the bank with the bank's external auditor;
- 8) Suggest to the board of directors that certain issues pertaining to the bank's external and internal audit be included into the agenda for the assembly meeting;
- 9) Render rulebook of its activities.

Should the committee for monitoring business activities of the bank assess that the bank's operations are in breach of the law, other regulation, articles of association or other enactment of the bank, or if that can be concluded from the auditor's report, and/or if it establishes other irregularities in the bank's business activities, it shall suggest the bank's board of directors to eliminate the detected irregularities, as well as to call an extraordinary meeting of the bank's assembly if it determines irregularities that may have severe consequences regarding business activities of the bank.

Members of the Committee for monitoring business activities of the bank shall meet at least once a month, and at least quarterly, at the bank's head office.

Credit Committee and Committee for Managing Assets and Liabilities

Article 81

Credit committee shall make decisions regarding credit requests within the limits established by the bank's enactments, and perform other activities established by the bank's enactments.

Committee for managing assets and liabilities shall monitor the bank's exposure to risks resulting from the structure of its balance sheet obligations and receivables and off-balance sheet items, propose measures for management of interest rate risk and liquidity risk, and perform other activities established by the bank's enactments.

The National Bank of Serbia may prescribe additional activities that committees specified in this Article shall be obliged to perform.

Section 2

System of Internal Controls, Function of Supervision of Compliance of Bank's Business Activities and Internal Audit Function

Internal Control

Article 82

Members of the bank's executive board shall be responsible for performing internal control of business activities of the bank at all levels, in compliance with the established system of internal control.

Committee for monitoring business activities of the bank and the bank's internal audit shall perform supervision of regularity of the bank's activities and efficiency of functioning of the system of internal controls.

The bank shall organize and implement internal control system procedures so as to enable continuous monitoring and measurement of risks which may have an adverse impact on realization of the established business aims of the bank, such as: credit risk, risk of the debtor country, foreign currency risk, market risk, interest rate risk, liquidity risk, operational, and other types of risks

The bank shall develop the internal control system so as to enable timely evaluation of the existing and new risks, including the risks that have not been supervised before and the risks beyond the banks' control (external risks), as well as the supervision of those risks which will reduce to the lowest possible level the adverse impact on the business activities and on the safety and soundness of the bank.

The National Bank of Serbia may prescribe detailed requirements and manner of organizing and implementing of the internal control system.

Function of Supervision of Compliance of the Bank's Business Activities

Article 83

Each bank shall have the organizational unit the competence of which shall include supervision of compliance of the bank's business activities.

The manager of the organizational unit specified in paragraph 1 of this Article shall be appointed and removed by the bank's board of directors.

The manager of the organizational unit specified in paragraph 1 of this Article shall be responsible for identification, and monitoring of the risk of compliance of the bank's business activities as well as for the management of this risk, which specifically includes the risk of

sanctions imposed by the regulatory authority, and the risk of financial losses as well as the reputational risk. Risk of compliance of the bank's business activities arises as a consequence of failure to harmonize business activities with the law and other regulation, business standards, procedures for prevention of money laundering and financing of terrorism, and other enactments which regulate business activities of the bank.

The manager of the organizational unit specified in paragraph 1 of this Article and employees of such organizational unit shall be independent in their work and shall exclusively perform activities specified in paragraph 3 of this Article.

Employees of the bank shall enable the organizational unit specified in paragraph 1 of this Article to inspect all documentation and provide all requested information necessary.

The manner and requirements of identification, monitoring and management of risk specified in paragraph 3 of this Article shall be prescribed in detail by the National Bank of Serbia.

Article 84

The organizational unit the competence of which includes supervision of compliance of the bank's business activities shall at least annually identify and evaluate key risks of such compliance of the bank's business activities and propose plans for such risks management, about which it shall compose the report which it shall submit to the executive board and the committee for monitoring business activities of the bank.

The report specified in paragraph 1 of this Article shall be adopted by the bank's executive board.

The manager of the organizational unit specified in paragraph 1 of this Article shall promptly inform the executive board and the committee for monitoring business activities of the bank of any noticed omissions regarding compliance of business activities.

The organizational unit specified in paragraph 1 of this Article shall compose the program regarding monitoring of compliance of the bank's business activities, which shall contain in particular: methodology of activities of such organizational unit, planned activities, manner and deadlines for composing the reports, manner of checking of such compliance, as well as the plan regarding training of the employees.

Internal Audit Function

Article 85

Each bank shall have the organizational unit the competence of which shall include internal audit.

The basic tasks of the organizational unit specified in the paragraph 1 of this Article are to give independent and objective opinion to the bank's board of directors on issues which are subject to audit, to perform advisory activity aimed at the advancement of the existing system of internal controls and business activities of the bank, and to provide assistance to the bank's board of directors in accomplishment if its aims, specifically through application of systematic, disciplined and documented approach to the evaluation and advancement of the existing manner of risk management, manner of control and manner of management of processes.

The bank shall perform internal audit function in compliance with the regulations which regulate basic principles of organization and activities of the bank's internal audit.

The bank shall have at least one employee in the organizational unit specified in paragraph 1 of this Article, who shall have the degree specified by the law which governs auditing and other regulations in that field.

The manager of the organizational unit specified in paragraph 1 of this Article shall be appointed and removed by the bank's board of directors.

The manager of the organizational unit specified in paragraph 1 of this Article shall compose the program of internal audit and determine methodology of activities of the internal audit, and in particular: instructions regarding activities of the internal audit, manner and deadlines for composing reports on internal audit, manner and deadlines for submitting reports on internal audit of the bank's activities to the competent bodies of the bank, manner of monitoring the advised activities for eliminating the established irregularities and deficiencies in the bank's activities, as well as the manner and responsibility regarding composing, usage and keeping of the documentation on the performed internal audit activities in compliance with the annual plan. This manager shall report to the board of directors on the results of the performed audit.

The manager of the organizational unit specified in paragraph 1 of this Article has the right to directly address the bank's board of directors whenever necessary.

The manager of the organizational unit specified in paragraph 1 of this Article is authorized to propose calling of a meeting of the committee for monitoring business activities of the bank and inform the board of directors of it, and if the meeting of the committee is not held, he shall inform the bank's assembly of that at the first following meeting.

The employees at the organizational unit specified in paragraph 1 of this Article may not perform any managing or other activities within the competence of the bank, except for the activities related to performing internal audit, nor may they participate in the preparation and composing of enactments and other documentation which may be subject to internal audit.

The manager of the organizational unit specified in paragraph 1 of this Article is responsible for efficient, continuous, regular and quality performing of the function of internal audit and efficient implementation of the programs and operating annual plans of the internal audit.

The internal audit shall:

- 1) Assess adequacy and reliability of the bank's system of internal control and function of supervision of compliance of the bank's activities;
- 2) Ensure adequate identification and supervision of risks;
- 3) Determine deficiencies in the activities of the bank and its employees, as well as cases of failure to perform duties and excess of authority and prepare proposals for elimination of these deficiencies as well as recommendations for their prevention;
- 4) Hold meetings with the bank's board of directors, as well as with the committee for monitoring business activities of the bank;
- 5) Prepare reports on activities of the internal audit on a regular basis and submit them to the bank's board of directors, as well as to the committee for monitoring business activities of the bank.

The National Bank of Serbia may prescribe detailed requirements and manner of performing of the functions of internal audit.

Authorities of the Internal Audit

Article 86

The employees of the organizational unit the competence of which includes internal audit shall have the right to examine all documents of the bank, its subordinated companies, as well as the members of the same banking group, to supervise business activities of the bank without restrictions, and participate in the meetings of the bank's board of directors and its committees.

Upon request of the employees of the organizational unit specified in paragraph 1 of this Article, employees of the bank shall submit written explanations concerning deficiencies and errors in their work, as well as to eliminate them.

The organizational unit specified in paragraph 1 of this Article shall submit reports on its activities to the committee for monitoring business activities of the bank and board of directors of the bank.

Annual Report on the Adequacy of Risk Management and Internal Control

Article 87

The bank shall submit an annual report to the National Bank of Serbia on the adequacy of risk management and internal control in the bank.

The bank shall submit the report specified in paragraph 1 of this Article together with its annual financial statement.

The report specified in paragraph 1 of this Article shall be approved by the bank's board of directors.

The contents of the report specified in paragraph 1 of this Article and deadlines for its submission shall be prescribed in detail by the National Bank of Serbia, and the report shall include the following statements:

- 1) Statement on whether the bank's board of directors and executive board have identified all material risks;
- 2) Statement on whether the bank's internal control and risk management policies are adequate and whether they have been effectively implemented;
- 3) Statement on whether accurate overviews of risk management policies and internal control systems have been submitted to the National Bank of Serbia;
- 4) Statement that an action plan to eliminate deficiencies has been established and is being implemented, or that such plan will be defined and submitted to the bank's board of directors for adoption.

Section 3

Branches and Representative Offices

Establishment of Branches and Other Organizational Forms within the Territory of the Republic of Serbia

Article 88

Each bank shall inform the National Bank of Serbia of the establishment of a branch or other organizational form within the territory of the Republic of Serbia, at the latest within 8 days following the day of such establishment.

Establishment of Representative Offices of Banks Abroad

Article 89

In order to establish a branch abroad, a bank shall submit a request for consent to the National Bank of Serbia.

Each bank shall promptly inform the National Bank of Serbia of all changes regarding activities of a branch abroad and it shall submit the annual report on business activities of the branch to the National Bank of Serbia.

The Manager of the branch abroad must meet the requirements prescribed by this Law for appointment of members of the executive board of a bank.

Detailed requirements and manner of issuing and revocation of the consent specified in paragraph 1 of this Article shall be prescribed by the National Bank of Serbia.

Establishment of Other Organizational Forms of Banks Abroad

Article 90

Provisions of this Law which refer to banks branches abroad shall be accordingly applied to other organizational forms of banks abroad.

Establishment of Representative Offices of Banks Abroad

Article 91

In order to establish a representative office abroad, each bank shall submit a request for consent to the National Bank of Serbia.

Detailed requirements and manner of issuing and revocation of the consent specified in paragraph 1 of this Article shall be prescribed by the National Bank of Serbia.

Establishment of Representative Offices of a Foreign Bank in the Republic of Serbia

Article 92

The representative office of a foreign bank in the Republic of Serbia shall be registered in compliance with the law governing the registration of economic entities.

Together with the request for entering the representative office of a foreign bank into the register of economic entities, the foreign bank shall submit the consent of the National Bank of Serbia.

Together with the request specified in paragraph 2 of this Article, the following shall be submitted:

- 1) Confirmation of the regulatory authority of the home country that the foreign bank holds a valid operating license and required authorization for establishment of the representative office in the Republic of Serbia, or a proof that such authorization is not necessary according to regulations of the home country;
- 2) Information on the name, legal status and head office of the foreign bank;
- 3) Copy of the founding act of such foreign bank;
- 4) Information related to the financial condition of the foreign bank;
- 5) Decision of the competent authority of the foreign bank on opening a representative office;
- 6) Decision on appointing a person in charge of operation of the representative office and authorization for that person;
- 7) Proposed name and location of the representative office;
- 8) Proposed activities and program of activities of the representative office of the foreign bank;
- 9) Information related to the management of the foreign bank;
- 10) Certified statement of such foreign bank which confirms that it is willing to take over any obligations that arise from business activities of the representative office.

The National Bank of Serbia shall revoke the consent specified in paragraph 2 of this Article to the foreign bank if:

- 1) The foreign bank's operating license ceases to be valid in the home country;
- 2) The representative office of a foreign bank performs activities not permitted to the representative office;
- 3) The foreign bank submits a request for deleting the representative office from the register.

Detailed requirements and manner of issuing and revocation of the consent specified in paragraph 2 of this Article shall be prescribed by the National Bank of Serbia.

Records on Branches and Representative Offices

Article 93

The National Bank of Serbia shall keep registers of granted consents regarding the establishment of branches, other organizational forms, and representative offices of banks abroad, as well as registers of established representative offices of foreign banks in the Republic of Serbia.

Chapter V

SUPERVISORY FUNCTION BY THE NATIONAL BANK OF SERBIA

Section 1

Participation in a Bank

Consent Regarding Acquisition of Ownership

Article 94

No person may acquire direct or indirect ownership in the bank which provides 5% to 20%, over 20% to 33%, over 33% to 50% and over 50% of voting rights, without the prior consent granted by the National Bank of Serbia.

The National Bank of Serbia shall make a decision on the request for consent specified in paragraph 1 of this Article within 60 days following the day when the complete request was received.

Detailed requirements and manner of granting consent in paragraph 1 of this Article shall be prescribed by the National Bank of Serbia.

If the applicant for the consent specified in paragraph 1 of this Article is a foreign bank or a foreign financial sector person subject the National Bank of Serbia shall issue such consent if the following requirements are met:

- 1) Regulatory authority of the applicant's home country performs supervision on a consolidated basis in the manner which meets the conditions prescribed by the National Bank of Serbia;
- 2) There is a possibility of an adequate cooperation between the National Bank of Serbia and the regulatory authority of the applicant's home country;
- 3) Other requirements prescribed by the National Bank of Serbia have been met.

The National Bank of Serbia shall prescribe terms under which the international financial organization may acquire ownership specified in paragraph 1 of this Article.

In the resolution by which the National Bank of Serbia grants the consent specified in paragraph 1 of this Article, the National Bank of Serbia shall specify the time period within which the applicant for such consent may acquire ownership for which the consent has been granted, and which in case of physical persons cannot be longer than one year following the submission of such resolution, and in case of legal entities not later than the day of adoption of the next annual financial and/or audited financial statements of such legal entities.

Should the applicant for the consent for the acquisition of ownership specified in paragraph 1 of this Article fail to acquire the ownership within the time period specified in paragraph 5 of this Article, the granted consent shall cease to be valid.

Acquirer of Ownership

Article 95

The following persons shall be presumed to be acting as a single acquirer for the purpose of acquisition of ownership specified in Article 94, paragraph 1, of this Law:

- 1) A legal entity and persons participating in management of such legal entity or its subordinated company;
- 2) A legal entity and persons directly appointed and removed by a management or governance body of such legal entity or its subordinated company;
- 3) A legal entity and representatives and liquidation administrators of such legal entity or of its subordinated company;
- 4) Family members;
- 5) Legal entities in which the persons specified in item 4 of this paragraph participate in management or governance or hold controlling participation;
- 6) Legal entities – members of the same group of companies;
- 7) Persons participating in management or governance of the same legal entity;
- 8) Persons holding controlling participation in the same legal entity;
- 9) Grantor or recipient of a credit for purchase of shares of the bank or bank holding company;
- 10) Person that is instrumental in obtaining financing for the other person to purchase shares of the bank or bank holding company, and such other person;
- 11) The authorizer and the proxy;
- 12) Two or more legal entities or physical persons, where the relation specified in items 1 – 11 of this paragraph does not exist, are related in such a way that there is a possibility that worsening or improvement of financial position of one person may cause worsening or improvement of financial position of the other person or persons, and, according to the assessment of the National Bank of Serbia based on documentation, there is a possibility of transfer of losses, profit or creditworthiness;

For the purpose of acquiring the ownership in Article 94, paragraph 1, of this Law, a person acts as a single acquirer with another person also if no relation specified in paragraph 1 of this Article exists between them, provided that each such person acts as a single acquirer with the same third person in some of the manners established in items 1 – 12 of that paragraph.

Refusal of Request

Article 96

The National Bank of Serbia shall refuse the request for consent specified in Article 94, paragraph 1, of this Law if:

- 1) The financial condition of the applicant is not appropriate;
- 2) The applicant does not have a good business reputation;
- 3) Business activities of the applicant could pose a significant risk to safe and sound and legally compliant management of the bank, and/or bank holding company;
- 4) Granting the consent would lead to a violation of competition from Article 7 of this Law;
- 5) The applicant has submitted the data which could not be verified, or data not complying with by-laws of the National Bank of Serbia;
- 6) Any person with a significant or controlling participation in the applicant does not have a good business reputation;
- 7) A member of the applicant's management body who acquires significant or controlling participation does not have a good business reputation and appropriate experience;
- 8) A bank would become a member of a banking group which fails to meet the requirements pertaining to transparency;

- 9) It is not possible to identify the persons with participation in the applicant;
- 10) It is not possible to identify the source of funds that the applicant intends to use to purchase the bank's, and/or bank holding company's shares;
- 11) Any of the funds to be used to purchase the bank's and/or bank holding company's shares would be furnished by a person that does not have a good business reputation.

Notifying the National Bank of Serbia of Acquisition of Ownership

Article 97

The applicant of the request for granting consent specified in Article 94, paragraph 1, of this Law shall inform the National Bank of Serbia of the acquisition of ownership for which the consent has been granted within 15 days from the day of such acquisition.

Nullification of the Resolution on Granted Consent

Article 98

The National Bank of Serbia may nullify the resolution on granting the consent specified in Article 94, paragraph 1, of this Law if it determines that requirements for granting such consent are no longer met, or if the person who was granted such consent uses their rights in the manner which jeopardizes stable business activities of the bank.

Legal Consequences of Unauthorized Acquisition and Nullification of the Resolution on Granting Consent

Article 99

Should a person acquire direct or indirect ownership in a bank providing 5% to 20%, over 20% to 33%, over 33% to 50% and over 50% of voting rights or capital of the bank without prior consent of the National Bank of Serbia, it shall order such person to dispose of such shares, and/or prohibit such person from direct or indirect realization of voting rights in the bank, and from exerting influence over management or business policy of the bank.

Should the person who acquired ownership from paragraph 1 of this Article without prior consent of the National Bank of Serbia fail to perform the disposal of ownership in the manner and within the time period determined by the National Bank of Serbia, the legal transaction on the basis of which such ownership has been acquired shall be null and void.

Should the National Bank of Serbia adopt a Resolution specified in Article 98 of this Law, it shall prohibit to the person to whom the consent for acquisition of ownership has been nullified from directly or indirectly exercising voting rights in the bank, and from exerting influence over management or business policy of the bank, and it may order such person to dispose of this ownership.

Should the person to whom the resolution specified in paragraph 3 of this Article has been nullified fail to perform the disposal of ownership specified in paragraph 1 of this Article in the manner and within the time period determined by the National Bank of Serbia, the bank shall cancel the shares based on which the ownership has been acquired, as a charge against share capital of the bank.

Acquisition of Ownership Without Consent

Article 100

A person may acquire ownership specified in Article 94 paragraph 1 of this Law even without the consent of the National Bank of Serbia, if it was acquired through inheritance, legal succession or other acquisition independent of the will of the acquirer.

The person who acquired ownership in the manner specified in paragraph 1 of this Article may not exercise any influence on the management or business policy of the bank in which it acquired ownership or exercise voting rights based on such ownership until they have been granted the consent of the National Bank of Serbia regarding such acquisition.

The person specified in paragraph 1 of this Article shall submit to the National Bank of Serbia a request for granting consent to that acquisition within 30 days following the day of the acquisition of ownership specified in the paragraph, or shall inform the National Bank of Serbia within that time period that they have performed the disposal of the ownership.

The National Bank of Serbia shall make a decision on the request specified in paragraph 3 of this Article in the manner and within the deadlines specified in Article 94 of this Law.

Should the National Bank of Serbia refuse by its resolution to grant the consent to the acquisition of ownership specified in paragraph 1 of this Article, it shall order the person defined in paragraph 1 of this Article to dispose of the acquired ownership to the level and within the time period defined by the resolution. Should the person fail to do so, the bank shall cancel the shares based on which the ownership has been acquired as a charge against share capital of the bank.

Requirement to Submit Information

Article 101

If there is any doubt indicating that any person may have acquired ownership specified in Article 94, paragraph 1, of this Law without the consent of the National Bank of Serbia, it may require such person or the parent company of such person, as well as members of the bodies of such persons, to submit to it all the information and relevant documentation pertaining to fulfillment of the criteria for giving consent.

The National Bank of Serbia may require persons that have been granted the consent specified in Article 94, paragraph 1, or Article 100, paragraph 2, of this Law, to submit to it all the information and documentation specified in paragraph 1 of this Article, within the validity period of the granted consent, as well as after acquiring ownership, and at least once per year.

The persons specified in paragraph 2 of this Article shall submit to the National Bank of Serbia the data and information pertaining to the newly appointed members of the management bodies, to the person who acquires participation in such persons, to the new partner (general partnership), new general partner (limited partnership) at the latest within 15 days from the day of appointment and/or acquisition of such position.

Each bank shall at least once a year, and upon the requirement of the National Bank of Serbia, inform the National Bank of Serbia of the identities of all persons having participation in the bank.

Each bank shall inform the National Bank of Serbia of any increase or decrease of participation in the bank within 15 days from the day when it became aware of such increase or decrease.

Each bank shall inform the National Bank of Serbia of any change of the status of any person related to such bank, within 15 days from the day when it became aware of such change.

The National Bank of Serbia may prescribe detailed requirements and manner of submission of data and information specified in this Article.

Section 2

Supervision of Safety and Soundness and Legal Compliance of Bank's Business Activities

Supervision by the National Bank of Serbia

Article 102

Supervision of safety and soundness and legal compliance of activities of banks shall be exercised by the National Bank of Serbia in compliance with this Law and the law that governs position, organization, authorizations and functions of the National Bank of Serbia.

The National Bank of Serbia shall perform supervision from paragraph 1 of this Article as off-site – by supervision of reports and other documentation that the bank submits to the National bank of Serbia, in compliance with this Law, and other data on operations of the bank which the National Bank of Serbia possesses, and on-site – by inspection of business books and other documentation of the bank.

The National Bank of Serbia may exercise supervision of any member of a banking group in the manner specified in the paragraph 2 of this Article.

In exercising supervision specified in this Article the National Bank of Serbia has the right to inspect business books and other documentation of legal entities which are related by proprietary, management and business relationships to the bank which is subject to supervision, and it may also request from these entities to submit other information.

Persons subject to supervision specified in this Article shall not impede the ability of authorized persons of the National Bank of Serbia to perform supervision, and shall cooperate with them.

The National Bank of Serbia may prescribe detailed requirements and manner of exercising supervision specified in this Article.

Persons Authorized for On-Site Supervision

Article 103

On-site supervision of bank operations in compliance with policies and procedures of the National Bank of Serbia shall be conducted by the employees of the National Bank of Serbia designated by the resolution of the Governor of the National Bank of Serbia or the person authorized by him.

Authorized persons from a foreign regulatory authority which supervises and/or monitors business activities of members of the same banking group the bank is a member of, may take part in bank on-site supervision procedure, in accordance with the Memorandum of Understanding concluded between the National Bank of Serbia and such body.

The bank and/or other persons subject to supervision, as well as the subject of supervision, shall be stated in the resolution specified in paragraph 1 of this Article.

On-Site Supervision

Article 104

A bank shall enable authorized persons of the National Bank of Serbia (hereinafter: authorized persons) to conduct the supervision of its business activities at the head office of the bank, and at all its organizational parts.

A bank shall enable authorized persons of the National Bank of Serbia to conduct supervision of regulatory compliance of its business books and other documentation, as well as of information technology.

A bank shall present for inspection to the authorized persons, business books and all documentation required by such persons, in hard copy and/or electronic form, as well as enable them to have access to the data base system that the bank uses, for the purpose of exercising supervision of computer programs.

On-site supervision in compliance with this Law shall be conducted by authorized persons of on week days, during regular working hours, and when necessary due to the scope and nature of the supervision, authorized persons may also conduct supervision after and/or before working hours of the bank.

The authorized persons may:

1) Enter all organizational parts and premises of the bank, observing all security procedures of the bank;

2) Require to be provided with a separate room for conducting supervision;

3) Require that copies of all the documentation related to the subject of supervision be provided;

4) Communicate directly with managers and employees of the bank, in order to receive necessary clarifications.

The bank which processes data or keeps its business books and other documentation in electronic form, shall, upon their request, provide to the authorized persons all necessary technical support for supervision of those books and/or that documentation.

The bank shall appoint its representative who shall offer all necessary support to authorized persons in order to perform supervision in an unhampered way.

Report on Supervision

Article 105

Authorized persons who perform supervision shall prepare a report on the performed supervision (hereinafter: report on supervision).

The National Bank of Serbia shall submit the report on supervision to the bank, and the bank may file the remarks within 15 days from the day when such report was submitted to the bank.

The remarks of the bank that refer to changes in the factual state which arose after the examined period ("as of" date) shall not be considered by the National Bank of Serbia.

By the supervision specified in Article 102 paragraph 2 of this Law, the National Bank of Serbia shall verify the statements of the bank included in the remarks specified in paragraph 2 of this Article.

Supplement to the Report on Supervision

Article 106

The supplement to the report on supervision shall be prepared in cases where, by the verification of the statements made in the bank's remarks to the report on supervision, it is established that the factual state is materially different from the one stated in the report.

The supplement to the report on supervision shall be submitted to the bank within 15 days following the day of submitting the remarks to this report.

The bank may file its remarks to the supplement to the report within five days from the day when the supplement to the report was submitted to the bank.

Conclusion on Termination of the Supervisory Procedure

Article 107

The National Bank of Serbia shall render a conclusion on termination of the supervisory procedure if no irregularities have been established in the report on supervision, or if irregularities of lesser importance were established, or if the bank, in its remarks submitted within the time period specified by this Law, justifiably disputes all findings in the report on supervision, and/or in the supplement to this report or a part of the findings so that the remaining irregularities represent irregularities of lesser importance.

The conclusion specified in paragraph 1 of this Article shall be submitted to the bank.

Undertaking Measures

Article 108

If a bank fails to submit, within the time periods prescribed by this Law, its remarks to the report on supervision, and/or to the supplement to the report, or in its submitted remarks it fails to justifiably dispute the findings contained in such report, and/or in the supplemented report by which it is established that the bank has acted in breach of regulations or in the manner which jeopardizes its safety and soundness, the National Bank of Serbia shall take one of the measures specified in Article 112 of this Law against such bank.

If, in verifying the statements in the bank's remarks to the report on supervision, and/or to the supplement to the report, the National Bank of Serbia establishes that the remarks do not significantly change the factual state, the National Bank of Serbia shall take one of the measures specified in Article 112 of this Law against such bank.

Article 109

Except for provisions of Article 102 of this Law, if the National Bank of Serbia establishes, during the on-site supervision or based on the reports obtained through off-site supervision, that the bank has committed serious irregularities, and/or that the financial situation of the bank has deteriorated significantly, and/or that there is a possibility of significant deterioration of financial situation or liquidity of the bank, the National Bank of Serbia shall, by the resolution on temporary measures, prohibit the bank to undertake any activity aiming at disposal of the bank's property and shall order the bank to undertake one or more activities from Article 116, paragraph 1, of this Law.

Section 3

Corrective and Enforcement Measures

Undercapitalized bank

Article 110

If a bank is undercapitalized, it shall promptly inform the National Bank of Serbia of that, and submit the information containing the reasons why the bank is undercapitalized.

From the moment when an undercapitalized bank becomes aware of the fact that it is undercapitalized, it may not:

- 1) Engage in any new line of business without the consent of the National Bank of Serbia;
- 2) Increase its risk-weighted assets without the consent of the National Bank of Serbia;
- 3) Pay dividends or perform distribution of capital in any form;
- 4) Pay higher than defined fees to members of the bank's board of directors and executive board.

Significantly Undercapitalized Bank

Article 111

If a bank is significantly undercapitalized, it shall promptly inform the National Bank of Serbia of that, and submit the information containing the reasons why the bank is significantly undercapitalized.

From the moment when a significantly undercapitalized bank becomes aware of the fact that it is significantly undercapitalized, it may not perform activities specified in Article 110, paragraph 2, of this Law, nor may it:

- 1) Accept new deposits;
- 2) Pay interest rates on deposits in excess of average market ones;
- 3) Increase salaries or other form of compensation for work, or pay any bonuses to members of the bank's board of directors and executive board;
- 4) Conclude legal transactions with related persons without the consent of the National Bank of Serbia, and/or undertake legal transactions on behalf of related persons or persons related to related persons.

Measures in Case of Violation of Regulations or Practice Jeopardizing Banks

Article 112

If in the supervision specified in Article 102 of this Law it is determined that a bank acted in breach of provisions of this Law, regulations of the National Bank of Serbia and other regulations, as well as standards of prudent banking activities, and/or in any other way which jeopardizes its safety and soundness, the National Bank of Serbia shall, in compliance with the criteria prescribed in Article 120 of the Law, take one of the following measures:

- 1) Send written warning;
- 2) Send ordering letter;
- 3) Declare orders and measures for eliminating the established irregularities;
- 4) Introduce receivership;
- 5) Revoke operating license of the bank.

The National Bank of Serbia shall render a resolution on implementing measures from items 3-5, paragraph 1 of this Article.

Fines

Article 113

Independently of the undertaken measure from Article 121, paragraph 1, of this Law, the National Bank of Serbia may declare a fine to a bank, as well as to a member of the board of directors and executive board of a bank.

By the resolution on declaring a fine, the National Bank of Serbia shall declare a fine to a bank, which cannot be less than 1% or higher than 5% of the prescribed pecuniary portion of the

initial capital, and to a member of the board of directors and executive board of a bank, a fine which cannot be less than one salary, or higher than the total of 12 salaries that such persons received in the period until the day of rendering such resolution, taking into consideration the criteria specified in Article 120 of this Law.

Fines from paragraph 1 of this Article shall be paid in the account of the National Bank of Serbia.

After being submitted to the person specified in paragraph 1 of this Article, the resolution specified in that paragraph shall become an executive document.

Written Warning

Article 114

The written warning shall be submitted to the bank in which business activities the irregularities have been established that have not had a significant and direct impact on the bank's financial condition, but might have such impact if not eliminated.

The written warning shall also include the deadline for eliminating the irregularities specified in paragraph 1 of this Article.

Ordering Letter

Article 115

The ordering letter shall be sent to the bank where supervision established that in business activities there were actions and/or failure to act, which are in breach of regulations or standards of safe and sound banking activities, and which might jeopardize its financial condition.

The ordering letter shall contain:

- 1) Overview of actions and/or failure to act specified in paragraph 1 of this Article that have jeopardized bank's safety and soundness, and/or which have caused or might have caused dissatisfactory situation in its business operations, as determined by the National Bank of Serbia;
- 2) The obligation of the bank to submit an action plan within the specified deadline to the National Bank of Serbia for the elimination of the established irregularities, with a view to obtaining the consent regarding the plan;
- 3) The time period in which the action plan must be carried out;
- 4) The manner and the deadlines within which the bank will inform the National Bank of Serbia of implementing the action plan, together with the submission of evidence on implementation of the action plan.

Resolution on Orders and Measures

Article 116

The resolution by which orders and measures for eliminating the established irregularities in business activities are declared shall be rendered regarding:

- 1) A bank to which the ordering letter has been sent and which, within the set time period, has not submitted the action plan specified in Article 115, paragraph 2, item 2, of this Law to the National Bank of Serbia for consent, or the National Bank of Serbia has not granted the consent regarding the plan, or a bank which fails to implement such plan, or in the supervision of the bank it

has been established that the financial condition has deteriorated during the implementation of such plan;

2) A bank in business activities of which the supervision established actions and/or failure to act, which are in breach of regulations or standards of safe and sound banking activities, that may jeopardize the bank's financial condition.

By the resolution specified in paragraph 1 of this Article, the bank shall be ordered to carry out one or more of the following activities within the specified deadline:

- 1) To adjust its operations to regulations;
- 2) To increase the amount of capital;
- 3) To adjust capital adequacy;
- 4) To increase the amount of the special reserve for security against potential losses;
- 5) To discontinue accruing interest on assets of a certain level of collectability;
- 6) To temporarily discontinue lending to some of its shareholders and other persons;
- 7) To stop placement of funds for a certain period of time;
- 8) To temporarily discontinue or limit taking new credits, as well as acceptance of new deposits and other forms of indebtedness;
- 9) To remove a member of the board of directors and executive board, as well as another person holding managing positions;
- 10) To discontinue distribution of capital to some or all of the shareholders;
- 11) To close one or more organizational units, and/or discontinue or limit expansion of its organizational network;
- 12) To discontinue payments from its accounts, except for payments for which it has obtained prior approval of the National Bank of Serbia;
- 13) To discontinue payments abroad, except for the payments for which it has previously obtained approval of the National Bank of Serbia;
- 14) To rationalize its internal organization;
- 15) To make transparent the structure of the banking group which member it is;
- 16) To undertake and/or discontinue other activities.

The resolution specified in paragraph 1 of this Article shall establish the manner and the deadlines within which the bank will eliminate the established irregularities and inform the National Bank of Serbia of that.

Receivership

Article 117

The National Bank of Serbia shall render a resolution on introducing receivership in a bank:

- 1) If supervision of business activities of such bank has established acting and/or failure to act, which are in breach of regulations or standards of safe and sound banking business activities, that have jeopardized its financial condition;
- 2) If the bank fails to carry out the orders specified in the resolution within the time period in the resolution specified in Article 116 of this Law;
- 3) Which financial situation deteriorates during the period before the deadline for carrying out the orders in the resolution specified in Article 116 of this Law.

The National Bank of Serbia shall render the resolution specified in paragraph 1 of this Article if it assesses that a change in manner of management of a bank might eliminate irregularities in its business activities and improve its financial situation, and bodies and management of the bank cannot carry out such change.

By the resolution specified in paragraph 1 of this Article, two official receivers shall be appointed, duration of receivership defined, and compensation for work of the official receivers determined, which shall be charged to the bank.

Official receivers must be persons independent of the bank and have good business reputation and adequate qualifications, and they must also meet the requirements specified in Article 72, paragraph 4 of this Law.

Official receivers may not be persons specified in Article 72, paragraph 3, of this Law.

On the day of rendering the resolution specified in paragraph 1 of this Article, functions of the bank's board of directors and executive board shall be transferred to official receivers.

Introduction of official receivership in a bank shall be entered into the register of economic entities.

Official receivers shall not be obliged to act according to decisions of the bank's assembly if they assess that such decisions do not contribute to the improvement of the bank's financial situation.

Official receivers shall have the right to call the bank's assembly and suggest rendering of certain decisions. These decisions shall be submitted to the bank's assembly and they shall have the same legal effect as decisions rendered by the bank's assembly. If a bank's assembly refuses to render the decisions of the official receivers, such decisions may be rendered by official receivers, with consent of the National Bank of Serbia.

In performing their activities, official receivers shall follow instructions of the National Bank of Serbia, and inform it at least once a month of the business activities of the bank which is under receivership.

Official receivership in a bank may be terminated before expiry of the deadline specified in paragraph 3 of this Article, if official receivers or the National Bank of Serbia assess that the introduction of receivership has not caused an improvement of the bank's financial situation or that the financial situation of that bank has improved so that the official receivership is no longer needed.

The National Bank of Serbia may prescribe detailed requirements and manner of exercising receivership over a bank.

Removal and Suspension of a Member of the Board of Directors of Executive Board of the Bank

Article 118

The National Bank of Serbia may order removal of a person from their position of a member of the board of directors or executive board of a bank, if the National Bank of Serbia determines that such person fails to meet the requirements set forth in this Law or has acted in breach of provisions of this Law and/or is responsible for irregularities in business operations of the bank.

In the case specified in paragraph 1 of this Article, the National Bank of Serbia must take into consideration severity of the determined irregularities, as well as whether such person's remaining in the function of a member of the bank's board of directors or executive board could have further negative impact on interests of depositors and creditors of the bank.

By the order specified in paragraph 1 of this Article, the National Bank of Serbia may:

- 1) Prohibit such person from, or limit such person's participation in performing any business activity of the bank;
- 2) Prohibit the person from direct or indirect exercise of the voting right in the bank;
- 3) Require the person specified in that paragraph to dispose of direct or indirect ownership they have in the bank, within the deadline it determines;
- 4) Prohibit the person from executing the function or participating in performing business activities of any bank or any member of the banking group without prior consent of the National Bank of Serbia.

Article 119

If a member of the board of directors or executive board of a bank has been convicted of a criminal offence and pronounced unconditional prison sentence or has been convicted of a criminal offence against the law on the basis of labor, property, economy, constitution and security of the Republic of Serbia and the State Union of Serbia and Montenegro, state bodies, judiciary, legal operations and professional duty, the National Bank of Serbia will issue an order by which such person shall be removed from their position, in addition to which it may also declare one or more measures specified in Article 118, paragraph 3, of this Law.

If the person specified in paragraph 1 of this Article has been charged with a criminal act specified in that paragraph, the National Bank of Serbia may issue an order temporarily prohibiting such person from executing that function in the bank, and prohibiting such person from direct or indirect exercise of the voting right in the bank, until the conclusion of the criminal proceedings.

Discretionary Right of the National Bank of Serbia

Article 120

The National Bank of Serbia shall render the decision on a measure it takes regarding a bank in which operation it established irregularities, according to a discretionary evaluation of:

- 1) Severity of the established irregularities;
- 2) Demonstrated readiness and competence of the bank's bodies to eliminate the established irregularities;
- 3) Extent to which such bank jeopardizes financial discipline and unhampered functioning of the banking system.

In evaluating severity of the established irregularities in a bank's operations, the following shall be evaluated in particular:

- Financial position of the bank;
- Capital adequacy level in relation to assumed risks;
- The bank's exposure to specific types of risks;
- Effects of the committed irregularity on future position of the bank;
- Number and mutual dependence of the established irregularities;
- Duration and frequency of the irregularities;
- Legal compliance of the bank's activities.

In evaluating the demonstrated readiness and capability of the bank's bodies to eliminate the established irregularities, the following shall be evaluated in particular:

- Capability of the bank's management to identify, evaluate and monitor the risks in business activities of the bank, and manage those risks;
- Effectiveness of the internal audit system in the bank;
- Efficiency in eliminating any previously established irregularities, and particularly in implementing the measures referred to in Article 112 of this Law;
- Knowledge of the bank's shareholders, persons holding participation in the bank, board of directors and executive board of the bank, of difficulties in the bank's operations;
- Level of cooperation of the bank's management and board of directors with the authorized persons during supervision;
- Acting and/or failure to act by the bank's bodies regarding previously established irregularities and warnings by the National Bank of Serbia.

In evaluating the extent to which a bank affects financial discipline and unhampered functioning of the banking system, the following shall be evaluated in particular:

- The importance of the respective bank in the financial system;
- Scope and types of such bank's business activities;
- How branched out the bank's business network is in the country and abroad;

– The bank’s relationships with other banks and other financial sector persons in terms of ownership, management, and debtor-creditor relations.

Responsibility for the Damage Caused by the Execution of Duties Established by this Law

Article 121

The National Bank of Serbia, the employees of the National Bank of Serbia, as well as the person executing duties upon the direction of the National Bank of Serbia in compliance with this Law shall not be held responsible for the damage that arises by the execution of such duty, unless it has been proven that such damage was caused intentionally or by extreme negligence.

The persons specified in paragraph 1 of this Article shall not be held responsible for the damage specified in that paragraph even after the termination of employment in the National Bank of Serbia, and/or the termination of execution of duties.

The National Bank of Serbia shall reimburse the expenses of representation of the employees of the National Bank of Serbia in court and administrative proceedings initiated in relation to the duties that such employees exercise pursuant to this Law.

The National Bank of Serbia shall reimburse the expenses specified in paragraph 3 of this Article also to the persons whose employment with the National Bank of Serbia has ceased.

Section 4

Supervision of a Banking Group on a Consolidated Basis

Supervision on a Consolidated Basis

Article 122

The National Bank of Serbia shall exercise supervision of a banking group on a consolidated basis.

The supervision referred to in the paragraph 1 of this Article shall be exercised by the regulatory authority of the home country of a bank holding company:

- 1) If the head office of the bank holding company is located outside of the Republic of Serbia;
- 2) If the regulatory authority of the bank holding company’s home country exercises supervision on a consolidated basis in the manner which meets the conditions prescribed by the National Bank of Serbia;
- 3) If there is an adequate cooperation between the National Bank of Serbia and the regulatory authority specified in the item 2 of this paragraph.

The National Bank of Serbia may order a bank whose bank holding company is outside of the Republic of Serbia to perform a consolidation of financial statements of the members of the banking group with the head office in the Republic of Serbia.

The National Bank of Serbia may prescribe detailed requirements and manner of exercising supervision specified in this Article.

Transparency of Banking Groups’ Structure

Article 123

The structure of a banking group must be transparent to allow the National Bank of Serbia to determine:

- 1) The ultimate parent company of the banking group and persons who hold controlling or significant participation in that company;
- 2) Location and types of business activities conducted within the banking group;
- 3) The financial situation and business results of the banking group and its members;
- 4) Types and levels of risks that the banking group and its members are exposed to;
- 5) The manner in which risk management is organized and implemented at the banking group level;
- 6) The business, financial and other relationships between members of the banking group.

Organizational structure of a banking group must be such as to enable adequate internal and external audit as well as not to impede the National Bank of Serbia's ability to perform its supervisory duties.

Subordinated Companies of a Bank

Article 124

A bank may establish or acquire a subordinated company only with the consent of the National Bank of Serbia.

Only financial sector persons may be subordinated companies of a bank.

Detailed requirements and manner of granting consent in paragraph 1 of this Article shall be prescribed by the National Bank of Serbia.

Subordinated Companies of a Bank Holding Company

Article 125

A bank holding company may not establish or acquire direct or indirect ownership in a subordinated company if such acquisition may have a negative impact on business activities of the bank in which the bank holding company holds controlling participation.

A bank holding company shall inform the National Bank of Serbia of the acquisition of direct or indirect ownership in a subordinated company within 15 days after the date of the acquisition.

Should the National Bank of Serbia establish that such acquisition of direct or indirect ownership in a subordinated company may have negative consequences on the bank specified in paragraph 1 of this Article, it shall take measures prescribed by this Law.

Consolidated Financial Statements of a Banking Group

Article 126

The ultimate parent company of a banking group shall prepare and submit consolidated financial statements to the National Bank of Serbia.

A bank and the ultimate parent company of the banking group shall be held responsible for all obligations related to submitting consolidated financial statements of the banking group in compliance with this Law.

The National Bank of Serbia may request from any member of the banking group to submit the external auditor's report in addition to individual financial statements.

The statements of the banking group specified in paragraph 1 of this Article are drawn up in compliance with the International Financial Reporting Standards and/or International Accounting Standards.

The National Bank of Serbia shall prescribe the scope and frequency of submitting the statements from paragraph 1 of this Article, as well as the contents of these statements.

The National Bank of Serbia may instruct a bank which is a member of the banking group to carry out consolidation of individual items of financial statements specified in paragraph 1 of this Article, operations or groups of operations within the banking group if that is necessary for complete and objective determining of financial situation and operating results of the banking group or a bank which is a member of the group.

Risk Management at the Level of Banking Group

Article 127

For banking groups on a consolidated basis, the following shall be determined:

- 1) Capital adequacy ratio;
- 2) Large exposures;
- 3) Investments in other legal entities and fixed assets;
- 4) Limitations on open net currency position;

Should the National Bank of Serbia determine, based on the data from paragraph 1 of this Article, and/or based on consolidated financial statements of the banking group, that the level of the capital of the banking group jeopardizes stable business activities of the bank, it may request from the bank to provide for additional capital or to determine the capital adequacy ratio for the bank to be above the prescribed level, in compliance with Article 23 of this Law.

Each banking group must provide procedures for risk management and procedures for internal audit and internal control that correspond to the group's activities, as well as regular monitoring and updating of those procedures.

A bank and the ultimate parent company shall be responsible for determining and submitting the data specified in paragraph 1 of this Article to the National Bank of Serbia.

The National Bank of Serbia may prescribe the manner for determining and submitting of data specified in paragraph 1 of this Article as well as detailed requirements and manner of risk management at the banking group level.

Taking Measures Against Members of Banking Group and Persons with Participation

Article 128

Should the National Bank of Serbia establish that any member of a banking group other than a bank has committed any violation of provisions of this Law, or regulations rendered by the National Bank of Serbia, or that activities or financial condition of any member are having a detrimental effect on the financial stability of the bank or might jeopardize interests of the bank's depositors, it shall order such member of the group to eliminate the determined irregularities within the deadline determined by the National Bank of Serbia.

If the irregularities from paragraph 1 of this Article are not eliminated within the determined deadline, the National Bank of Serbia may take the following measures:

- 1) Order temporary suspension of any further investment by the bank in its subordinated company;
- 2) In the case of a bank holding company, to order temporary suspension of exercising of the rights and privileges resulting from controlling participation of such holding company in the bank, including the direct or indirect exercising of voting rights, and/or order the holding company to perform additional investment in the bank's capital;
- 3) In the case of any member of the banking group, to order temporary suspension of all business activities (direct or indirect) between the bank and such member;

4) In the case of legal entity in which controlling participation is held by another person having also participation in the bank, order temporary suspension of the rights and privileges resulting from such person's participation in the bank, including direct or indirect exercise of voting rights and/or order temporary suspension of all business relations (direct or indirect) between the bank and such persons.

If the irregularities specified in paragraph 1 of this Article are not eliminated after taking the measures specified in paragraph 2 of the Article, the National Bank of Serbia may also take the following measures:

1) Require the bank to reduce its investments in the subordinated company to the point where such company is no longer a subordinated company of the bank;

2) Nullify the resolution on granting consent to bank holding company to acquire controlling participation in the bank;

3) Require bank holding company to dispose of significant or controlling participation in its subordinated company;

4) Revoke the consent to acquire participation in the bank granted to the person which holds participation in the bank and in which person another person holds controlling participation.

Where the circumstances demand urgent action, the National Bank of Serbia may take the measures specified in paragraphs 2 and 3 of this Article before the expiration of deadline specified in paragraph 1 of this Article.

If the member of a banking group specified in paragraph 1 of this Article is a person that is subject to supervision by another regulatory authority in the Republic of Serbia, the National Bank of Serbia shall inform such authority of measures taken regarding such person.

Chapter VI

CESSATION OF BANK'S OPERATION

Grounds for Cessation of Validity of the Operating License

Article 129

A bank's operating license shall cease to be valid:

1) By revocation of the operating license;

2) By voluntary cessation of the bank's activities;

3) By status change of the bank;

4) If the bank's founding assembly meeting is not held in the time period prescribed by this Law;

5) If the bank fails to submit the request for entering in the register of economic entities within the deadline prescribed by this Law.

Section 1

Revocation of an Operating License

Article 130

The National Bank of Serbia shall revoke the bank's operating license if:

1) It establishes that the bank is critically undercapitalized;

2) It failed to enable the National Bank of Serbia to perform supervision of safety and soundness and legal compliance of its activities;

3) It continuously ceased to engage in activities of receiving deposits or granting credits during six months, except if it has been ordered to do so by the corrective measure declared by the National Bank of Serbia.

The National Bank of Serbia may revoke the bank's operating license if:

- 1) It determines that the bank has critically strained liquidity;
- 2) It determines that the bank's operating license was issued on the basis of false data;
- 3) The bank's founder withdraws the funds invested in the initial capital of the bank;
- 4) It determines that the bank fails to commence its operations within 60 days following entry into the register of economic entities;
- 5) It determines that conditions specified in Article 16, paragraph 1, items 5 and 6 and Article 19, paragraph 1 of this Law are no longer met;
- 6) It determines that the bank is significantly undercapitalized;
- 7) It determines that the undercapitalized bank fails to meet any of the business indicators prescribed by this Law or bylaws of the National Bank of Serbia;
- 8) It establishes that the bank has committed gross or persistent violations of the law or other regulation;
- 9) Within the prescribed time period, the bank fails to act in compliance with the orders specified in Article 116 of this Law;
- 10) The bank fails to pay deposit insurance premium in compliance with the law which governs deposit insurance;
- 11) The activities of the bank are related to money laundering, financing of terrorism, or performing other punishable acts.

When the National Bank of Serbia revokes the bank's operating license, it shall promptly render the resolution on fulfillment of conditions for initiation of bankruptcy proceedings, and/or resolution on liquidation of the bank, in compliance with the law which governs bankruptcy and liquidation of banks.

The resolution on fulfillment of conditions for initiation of bankruptcy proceedings over a bank shall be rendered only when the bank's obligations exceed its property.

On the day of rendering the resolution on revocation of the bank's operating license, the National Bank of Serbia shall block all of the bank's accounts, and by the same resolution it shall simultaneously declare the measure of prohibition of disposal of the bank's property until the initiation of bankruptcy proceedings and/or liquidation.

Legal transactions in the name and for the bank which operating license has been revoked, concluded in the period from rendering the resolution on revocation of the bank's operating license to the initiation of bankruptcy proceedings and/or liquidation shall be null and void.

Section 2

Voluntary Cessation of the Bank's Activities

Article 131

Based on the decision of the bank's assembly regarding cessation of the bank's activities, the bank shall submit the request to the National Bank of Serbia for granting consent regarding conducting of the voluntary liquidation proceedings, in compliance with the law which governs bankruptcy and liquidation of banks.

Section 3

Status Changes

Merger of banks

Article 132

The National Bank of Serbia shall issue the operating license to a bank which is founded by merging of two or more banks, at the request of banks which are merging.

In addition to the request from paragraph 1 of this Article, the banks which are merging shall enclose the following:

- 1) Decisions of the banks' assemblies on merging;
- 2) Founding act, which shall, besides the elements specified in Article 13 of this Law, also include data on the manner and deadline for the replacement of the shares of the these banks;
- 3) Draft articles of association of the bank which is founded by merging;
- 4) Names and data regarding qualifications, experience and business reputation of the nominated members of the board of directors and executive board of the bank which is founded by merging;
- 5) Bank's program of activities for the period of three years and the draft business policy of the bank for the year in which the merging takes place;
- 6) Data on the staff and technical capability for conducting activities of the bank which is founded by merging;
- 7) Analysis of economic justifiability of merging, drafted based on the most recent statements which these banks submitted to the National Bank of Serbia pursuant to Article 51 of this Law;
- 8) Analysis that the respective merging cannot have any negative impact on the situation in the financial market, and/or violate competition, as specified in Article 7 of this Law;

The National Bank of Serbia may also request from the merging banks to submit to it other data and documents.

The National Bank of Serbia shall make a decision regarding the request specified in paragraph 1 of this Article within 90 days from the day of receipt of the complete request.

The National Bank of Serbia may prescribe detailed requirements and manner of merging of banks.

Absorption of Banks

Article 133

The bank to which another bank is absorbed shall submit to the National Bank of Serbia the request for issuing consent regarding absorption.

The bank to which another bank is absorbed shall amend its founding act so as to:

- 1) State the amount of its total share capital in pecuniary and non pecuniary form after the absorption, as well as each founder's stake in share capital;
- 2) State that it is the legal successor of all the rights and obligations of the bank which is absorbed to it.

Together with the request specified in paragraph 1 of this Article, the bank to which another bank is absorbed shall submit to the National Bank of Serbia the following:

- 1) Amendments to the founding act;
- 2) Bank's assembly decision on the acceptance of the absorption;
- 3) Decision of the assembly of the bank which is absorbed to it on the absorption;

4) Analysis of economic justifiability of the absorption, drafted based on the most recent statements which the banks submitted to the National Bank of Serbia in compliance with Article 51 of this Law;

5) Analysis that the respective absorption cannot have any negative consequences on the situation in the financial market, and/or violate competition, as specified in Article 7 of this Law;

The National Bank of Serbia may also request from the bank to which another bank is absorbed to submit other data and documents.

The National Bank of Serbia shall give the consent for absorption of a bank if:

1) Such absorption does not jeopardize financial condition of the bank to which another bank is absorbed;

2) The bank to which another bank is absorbed has such system of organization, managing, decision making, and information technology that, by the day of submitting the request specified in paragraph 1 of this Article, enabled it to adequately manage risks in business activities, and which will enable it to completely integrate the bank which is to be absorbed to it into its system, in a way so as not to jeopardize its functioning;

3) The absorption is economically justified and/or may not have negative consequences on the situation in the financial market nor does it violate competition as specified in Article 7 of this Law.

The National Bank of Serbia shall make a decision regarding the request specified in paragraph 1 of this Article within 90 days from the day of receipt of the complete request.

The National Bank of Serbia may prescribe detailed requirements and manner of bank's absorption to another bank.

Assuming of Rights and Obligations of the Bank undergoing Liquidation and/or Bankruptcy Proceedings

Article 134

A bank shall submit to the National Bank of Serbia request for granting consent regarding assuming of rights and obligations of the bank undergoing liquidation and/or bankruptcy proceedings.

Provisions of Article 133 of this Law shall be accordingly applied to the request specified in paragraph 1 of this Article.

Chapter VII

PENALTY PROVISIONS

Criminal Offences

Article 135

A person who engages in accepting deposits without a license issued by the National Bank of Serbia shall be punished for a criminal offence by a prison sentence of three months to five years.

If, by the activity referred to in paragraph 1 of this Article, a proprietary benefit was acquired exceeding 100,000 dinars the perpetrator shall be punished by a prison sentence of one to eight years, and if the amount of the benefit exceeds 1,500,000 dinars the perpetrator shall be punished by a prison sentence of two to ten years.

A responsible person in a legal entity shall be punished for the activities referred to in paragraphs 1 and 2 of this Article, if the legal person engages in accepting deposits without the operating license issued by the National Bank of Serbia.

Article 136

A person who engages in granting of credits and issuing of payment cards without a license issued by the National Bank of Serbia, and is not authorized for it by law, shall be punished for a criminal offence by a prison sentence of three months to five years.

If, by the act referred to in paragraph 1 of this Article, a proprietary benefit was acquired exceeding 100,000 dinars the perpetrator shall be punished by a prison sentence of one to eight years, and if the amount of the benefit exceeds 1,500,000 dinars the perpetrator shall be punished by a prison sentence of two to ten years.

A responsible person in a legal entity shall be punished for the activities referred to in paragraphs 1 and 2 of this Article, if the legal person engages in granting credits and issuing of payment cards without a license of the National Bank of Serbia and is not authorized for it by law.

Commercial Offences of a Bank

Article 137

A bank shall be fined from 300,000 to 3,000,000 dinars for a commercial offence if it:

1) concludes any agreements which substantially prevent, limit, or violate competition, if it abuses dominant position or performs concentration which substantially prevents, limits, or violates competition, particularly by making and/or strengthening dominant position in the financial market (Article 7, paragraph 1);

2) Fails to ensure in its business activities that the amount of capital always remains at a level not lower than the dinar equivalent of 10,000,000 EUR at the official middle exchange rate (Article 22);

3) Fails to maintain the capital adequacy ratio at a prescribed level (Article 23, paragraph 1);

4) Distributes the profit through payment of dividends to its shareholders, or pay profit sharing and/or other grants from the bank's profit to members of management bodies and the bank's employees in cases stipulated by Article 25, paragraph 1 of this Law (Article 25, paragraph 1);

5) Disburses advance payments to persons referred to in Article 25, paragraph 1 of this law, which relate to profit sharing from that paragraph in cases stipulated by Article 25, paragraph 1 of this Law (Article 25, paragraph 2);

6) Without prior approval of the National Bank of Serbia, it distributes the profit referred to in Article 25, paragraph 1, the total amount of which exceeds 10% of the bank's capital or the bank's income statement shows loss in the current or previous quarter, and/or in the business year by the date (Article 25, paragraph 3);

7) Acquires its own shares without prior consent of the National Bank of Serbia (Article 26, paragraph 3);

8) fails to dispose of its own shares within one year following the date of their acquisition, that is, if it fails to withdraw and cancel them as a charge against its share capital (Article 26, paragraph 7);

9) concludes legal transactions dealing with granting credits, advance payments, warranties or guarantees by the bank for the purpose of direct or indirect acquisition of such bank's shares, by the person holding a participation in it or its subsidiary (Article 27).

10) Fails to form a special organizational unit dealing with risk management, or fails to prescribe procedures for identification, measurement, assessment and management of risks in compliance with regulations, standards and banking practices (Article 28, paragraphs 2 and 4).

11) Fails to calculate and earmark reserves for estimated losses which may occur on the basis of balance sheet assets and off balance sheet items of the bank in accordance with the regulations of the National Bank of Serbia and its regulations, and/or if it fails to prescribe, by its internal enactments, special policies and procedures for identification and management of bad assets, as

well as for regular reporting to the bank's bodies on the quality of the credit portfolio (Article 31, paragraphs 3 and 4);

12) Fails to adjust volume and structure of its assets and obligations in the manner which enables efficient management of market risks, and/or if it fails to prescribe by its enactments special policies and procedures for identification of market risks and their management, as well as for regular reporting to the bank's bodies on the types and levels of these risks (Article 32, paragraphs 3 and 4);

13) Exposure of a bank to a single person or a group of related persons exceeds 25% of the bank's capital, and/or the exposure of a bank to a person related to the bank exceeds 5% of the bank's capital (Article 33, paragraphs 3 and 4);

14) Aggregate exposure of the bank to persons related to the bank exceeds 20% of the bank's capital, and/or if the total of all large exposures of a bank is not within the limits prescribed by the National Bank of Serbia (Article 33, paragraphs 5 and 6).

15) Invests in a single non-financial sector person more than 10% of the bank's capital, i.e. if total investments of the bank in non-financial persons and fixed assets of the bank exceeds 60% of the bank's capital (Article 34, paragraphs 1 and 2);

16) Approves more favorable conditions to person related to the bank than to other persons not related to that bank (Article 37);

17) Concludes a legal transaction with a related person without the written approval of the bank's board of directors, and/or undertakes legal transactions in favor of related persons, as well as persons related to related persons of such bank (Article 38, paragraphs 2 and 5);

18) Approves credits to its shareholders before expiration of the period of one year following the day when the bank commenced its business activities (Article 39);

19) Fails to make the information on general operating conditions as well as their amendments and additions clearly visible in its business premises at least 15 days prior to their implementation (Article 42, paragraph 1);

20) Fails to provide the client, upon his request, with information regarding balance of their credit, and/or deposit account, as well as other information related to their business relationship, and/or if it fails to publish on its Web site the data on the name of the persons who hold participation in that bank and/or who are members of the board of directors and executive board, as well as the data on the capacity of these persons (Article 44);

21) Fails to act in compliance with the obligations assumed according to the contract concluded with the client, as well as in compliance with good business practices and disclosed general operating conditions (Article 45, paragraph 3);

22) Fails to keep business books and accounting records and/or prepare annual financial statements in accordance with Article 50 of this Law (Article 50);

23) Fails to prepare and submit to the National Bank of Serbia prescribed reports related to bank's administration, as well as business operations of organizational structures, planned business activities, liquidity, solvency, and profitability of that bank and its subordinated companies, for the purpose of the assessment of the financial condition of the bank and its subordinated companies, on an individual and consolidated basis (Article 51);

24) Appoints an external auditor that derived more than a half of the total income from having audited that bank in the previous year, and/or if it engages the same external auditor who performed more than three consecutive audits of its financial statements, and/or an external auditor who conducted an audit of the bank's financial statements and provided consulting services to such bank during the same year, and/or if the auditor conducted an audit for the business year in which they provided consulting services to such bank (Article 53, paragraphs 1-3);

25) Fails to submit to the National Bank of Serbia a written notification regarding resignation or removal of the external auditor of a bank, bank holding company or banking group, including the prescribed statement at the latest within 15 days following the day of such resignation and/or removal of the auditor (Article 60, paragraph 1);

26) Fails to submit to the National Bank of Serbia, within the stipulated deadline, the individual financial statements of the bank and its bank holding company together with the external auditor's report for the preceding business year, and/or consolidated financial statements of the banking group together with the external auditor's report for the previous business year, and/or if it fails to publish them in the manner and within the deadline stipulated by Article 61 of this Law, and/or if it fails to notify the National Bank of Serbia on the error observed in the published statements and data and fails to publish the corrected statements and data again (Article 61);

27) Fails to acquire prior consent from the National Bank of Serbia for the appointment of a member of the board of directors and executive board, and/or fails to notify the National Bank of Serbia of the removal or resignation of that member and reasons thereof within the stipulated deadline (Article 72, paragraphs 1 and 5 and Article 75, paragraph 7);

28) Fails to establish the committee for monitoring business activities of the bank, credit committee, and asset and liability management committee (Article 79, paragraph 1);

29) Fails to organize, implement and develop procedures for internal control in accordance with Article 82, paragraphs 3 and 4 of this law (Article 82, paragraphs 3 and 4).

30) Fails to establish an organizational unit dealing with internal audit (Article 85, paragraph 1);

31) Fails to perform the internal audit function in accordance with Article 85, paragraphs 2-10 of this Law (Article 85, paragraphs 2-10);

32) Fails to submit to the National Bank of Serbia an annual report on the adequacy of risk management and internal control in the bank with the prescribed content, approved by the board of directors of the bank, and/or fails to submit it with the annual financial statement (Article 87);

33) Establishes a branch abroad, without a consent from the National Bank of Serbia, fails to submit to the National Bank of Serbia the annual report on the business activities of such branch, and fails to promptly inform the National Bank of Serbia of all changes regarding the activities of that branch (Article 89, paragraphs 1 and 2);

34) Establishes a representative office abroad without the consent of the National Bank of Serbia (Article 91, paragraph 1);

35) Fails to cancel the shares pursuant to Article 99, paragraph 4 and Article 100, paragraph 5 of this Law (Article 99, paragraph 4 and Article 100, paragraph 5);

36) Fails to notify the National Bank of Serbia at least once a year or upon the request of the National Bank of Serbia of the identity of all persons holding participation in the bank, and/or of the increase or decrease of participation in that bank, within 15 days from the day it became aware of this increase or decrease, and/or fails to notify the National Bank of Serbia of the change in the status of person related to the bank, within 15 days from the day it became aware of such change (Article 101, paragraphs 4, 5 and 6);

37) Fails to appoint its representative who will provide the authorized persons from the National Bank of Serbia with all the necessary assistance so as to perform the supervision in an unhindered manner (Article 104, paragraph 7);

38) Fails to inform the National Bank of Serbia that it is undercapitalized and fails to submit to the National Bank of Serbia the information containing the reasons why it is undercapitalized, and/or if it performs the activities specified in Article 110, paragraph 2 of this Law (Article 110);

39) Fails to inform the National Bank of Serbia that it is significantly undercapitalized and fails to submit to the National Bank of Serbia the information containing the reasons why it is significantly undercapitalized, and/or if it performs activities specified in Article 111, paragraph 2 of this Law (Article 111);

40) Fails to obtain the consent of the National Bank of Serbia for the establishment or acquisition of subordinate company (Article 124, paragraph 1);

41) Fails to submit to the National Bank of Serbia the consolidated financial statements (Article 126, paragraph 2);

42) Fails to determine and submit the data pursuant to Article 127, paragraph 1 of this Law (Article 127);

43) Merges with another bank without the operating license from the National Bank of Serbia (Article 132, paragraph 1);

44) Fails to obtain the consent of the National Bank of Serbia for merger with another bank, and/or fails to change its founding act (Article 133, paragraphs 1 and 2);

The responsible person in a bank also shall be fined 50,000 to 200,000 dinars for economic offence, for the activities specified in paragraph 1 of this Article.

In addition to the fine for economic offence specified in paragraph 2 of this Article, the protective measure of prohibiting the performance of certain duties for the period of one to five years and protective measure of public announcement of the sentence may also be pronounced to the responsible person.

Commercial Offences of Other Legal Entity

Article 138

Other legal entity shall be fined 100,000 to 1,000,000 dinars for commercial offence if such entity:

- 1) Is engaged in accepting deposits (Article 5, paragraph 1);
- 2) Is engaged in granting of credits or issuing of payment cards without a license of the National Bank of Serbia and authorization by law for such activity (Article 5, paragraph 2);
- 3) Has the word “bank” or derivatives of the word in its business name, and/or uses this word or derivatives of the word in conducting its business activities (Article 6, paragraph 2);
- 4) Withdraws, in the capacity of the bank founder, the funds invested in the bank's initial capital (Article 12, paragraph 4);
- 5) Performs, in the capacity of the external auditor, more than three consecutive audits of the bank's annual financial statements, and/or performs the audit of the bank's financial statements and provides consulting services to such bank during the same year (Article 53, paragraphs 2 and 3);
- 6) In the capacity of the external auditor, fails to point out in the bank's annual financial statement and in its opinion regarding the annual financial statement, that such statement presents the bank's financial position in an untrue and biased way, business results and cash flows for the business year, and/or fails to provide to board of directors and executive board, as well as to the National Bank of Serbia its opinion regarding the efficiency of functioning of the internal audit, the systems of risk management and internal control, and/or fails to provide, upon the request of the National Bank of Serbia, additional information regarding the performed audit (Article 56);
- 7) In the capacity of the external auditor, fails to inform the board of directors and executive board or a member of the banking group, as well as the National Bank of Serbia about the facts specified in Article 58, paragraph 1 of this Law promptly after becoming aware of these facts (Article 58, paragraph 1);
- 8) In the capacity of the external auditor, in the case specified in Article 60, paragraph 2 of this Law, fails to obtain within the specified deadline written statement of the previous external auditor on the reasons for their resignation and/or removal, and/or fails to notify the National Bank of Serbia that they have not received such statement within the prescribed deadline (Article 60, paragraph 2 and 3);
- 9) In the capacity of the external auditor, fails to notify the National Bank of Serbia of the error identified in the published report specified in Article 61 of this Law (Article 61, paragraph 7);
- 10) Fails to obtain prior consent of the National Bank of Serbia for the acquisition of direct or indirect ownership in the bank which enables the exercising of voting rights in percent specified in Article 94 paragraph 1 of this Law (Article 94 paragraph 1);
- 11) Fails to notify the National Bank of Serbia of the acquisition of ownership in the bank for which the National Bank of Serbia gave prior consent, within 15 days from the day of such acquisition (Article 97).

12) Exercises any kind of influence over the management of the bank in which it acquired ownership in the sense of Article 100, paragraph 1 of this Law or over business policy of such bank, and/or exercises voting rights on the basis of such ownership (Article 100, paragraph 2);

13) Fails to submit, at the request of the National Bank of Serbia, the information and relevant documentation pertaining to fulfillment of the consent requirements specified in Article 94, paragraph 1 of this Law (Article 101, paragraph 1);

14) Fails to submit to the National Bank of Serbia the information, documentation and data pursuant to Article 101 paragraphs 2 and 3, within the prescribed deadline (Article 101, paragraphs 2 and 3);

15) In the capacity of the ultimate parent company of the banking group, fails to submit to the National Bank of Serbia consolidated financial statements pursuant to Article 126 of this Law (Article 126).

The responsible person in the legal entity also shall be fined 50,000 to 200,000 dinars for activities specified in paragraph 1 of this Article.

Article 139

The responsible person in the National Bank of Serbia shall be fined 50,000 to 200,000 dinars for commercial offence if such person:

1) Has not made a decision on the request for preliminary approval within 90 days following the receipt of complete request (Article 15, paragraph 3);

2) Has not made a decision on issuing of bank's operating license within 30 days following the receipt of complete request (Article 18, paragraph 3);

3) Has not made a decision on granting of consent to the enactments specified in Article 19, paragraph 5 of this Law within 60 days following the receipt of these enactments (Article 19, paragraph 6);

4) Has not made a decision on the request submitted by the person specified in Article 94, paragraph 1 of this Law within 60 days following the receipt of complete request (Article 94 paragraph 2);

5) Has not made decisions regarding the requests from Article 89, paragraph 4, Article 91, paragraph 2, Article 100, paragraph 4, Article 132, paragraph 4, Article 133, paragraph 6, and Article 134, paragraph 2 of this Law within the deadlines prescribed by these Articles.

Offences

Article 140

Legal entity – founder of a bank shall be fined for offence 10,000 to 600,000 dinars if:

1) Data or documents specified in Article 15, paragraph 1 of this Law have been changed after the granting of preliminary approval, without promptly notifying of the National Bank of Serbia of it (Article 17 paragraph 1);

2) Fails to exercise activities pursuant to Article 17, paragraph 4 of this Law on behalf of the bank which is being founded (Article 17, paragraph 4);

3) Fails to submit to the National Bank of Serbia for consent the enactments adopted at the founding assembly within five days from the date of their adoption (Article 19, paragraph 5);

4) Fails to file the application for entering in the register of economic entities within 30 days from the day when the National Bank of Serbia granted consent, and/or fails to submit the resolution on entering in the register to the National Bank of Serbia within five days following the receipt of such resolution (Article 20 paragraphs 1 and 4).

The responsible person in the legal entity – founder of a bank shall be fined 20,000 to 50,000 dinars for the activities specified in paragraph 1 of this Article.

The physical person – founder of a bank shall be fined 20,000 to 50,000 dinars for the activities specified in paragraph 1 of this Article.

Article 141

The physical person shall be fined 10,000 to 50,000 dinars for an offence if:

- 1) Such physical person participates in the capacity of a member of bank's board of directors in consideration or approval of any legal transaction in cases specified in Article 38, paragraph 4 of this Law (Article 38, paragraph 4);
- 2) Such physical person in the capacity of a member of the board of directors, in case the board fails to ensure the establishment and supervision of the unified system of risk management in the bank, and/or fails to ensure that the bank's executive board identifies risks which the bank is exposed to, and/or fails to control these risks in compliance with the approved policies and procedures (Article 73, paragraph 2);
- 3) Such physical person in the capacity of a member of the board of directors, in case the board submits to the bank's shareholders, the public, and the National Bank of Serbia inaccurate reports on bank's business activities, financial situation and business results (Article 73, paragraph 4);
- 4) Such physical person in the capacity of a member of the board of directors and the executive board, and within the deadlines stated in Article 78 of this Law a written statement containing the data specified in that article is not submitted and/or the notification of the change of this data is not submitted (Article 78);
- 5) Fails to obtain prior consent of the National Bank of Serbia for acquisition of direct or indirect ownership in a bank which enables the exercising of voting rights in the percentages specified in Article 94, paragraph 1 of this Law (Article 94, paragraph 1);
- 6) Fails to notify the National Bank of Serbia on the acquisition of ownership in the bank for which the National Bank of Serbia granted consent, within 15 days from the date of such acquisition (Article 97);
- 7) Exercises any kind of influence over the management of the bank in which it acquired ownership in the sense of Article 100, paragraph 1 of this Law or over business policy of such bank, and/or exercises voting rights on the basis of such ownership (Article 100, paragraph 2);
- 8) Fails to submit, upon request of the National Bank of Serbia, the information and documentation pertaining to the fulfillment of the requirements for granting this consent (Article 101, paragraph 1);
- 9) Fails to submit within the prescribed deadline to the National Bank of Serbia the information, documentation and data pursuant to Article 101, paragraph 2 of this Law (Article 101, paragraph 2);

Chapter VIII

TRANSITIONAL AND FINAL PROVISIONS

Banks and Other Financial Organizations

Article 142

The banks founded pursuant to the Law on Banks and Other Financial Organizations ("FRY Official Gazette", Nos. 32/93, 61/95, 44/99, 36/2002 and "RS Official Gazette", Nos. 72/2003 and 61/2005) shall be obliged to harmonize their operations, organization and enactments with the provisions of this Law by its effective date at the latest.

The National Bank of Serbia shall revoke the bank's operating license of the bank which fails to act in compliance with the manner stipulated in paragraph 1 of this Article.

Other financial organizations founded pursuant to the Law on Banks and Other Financial Organizations shall be obliged to harmonize their operations, organization and enactments with the provisions of this Law within one year from the effective date of this Law at the latest.

The harmonization specified in paragraph 3 of this Article shall mean that other financial organization shall have the following obligations:

- 1) Conversion into a bank;
- 2) Absorption to a bank,
- 3) Cessation of business activities.

Within three months from the effective date of this Law, other financial organizations shall be obliged to submit for consent to the National Bank of Serbia a plan regarding the obligation of harmonization foreseen in the paragraph 4 of this Article.

The National Bank of Serbia shall render the decision on the consent specified in paragraph 5 of this Article, within 30 days from the day of submission of the plan referred to in that paragraph.

The National Bank of Serbia shall revoke the operating license of other financial organization if the consent to the plan specified in paragraph 5 of this Article has not been submitted within the prescribed deadline, or if the National Bank of Serbia has not issued the consent for such plan to that financial organization, or if that financial organization failed to harmonize its operations with this Law within the deadline specified in paragraph 3 of this Article.

Until the completion of harmonization in the manner specified in paragraph 4 of this Article, other financial organizations shall operate in compliance with the Law on Banks and Other Financial Organizations.

Affiliates and Representative Offices of Foreign Banks

Article 143

Affiliates and/or representative offices of foreign banks, which were founded in compliance with the Law on Banks and Other Financial Organizations, shall be obliged to harmonize their operations, organization and enactments with the provisions of this Law within one year from its effective date.

The National Bank of Serbia shall revoke the operating license, and/or delete from the registry the affiliate, and/or representative office of a foreign bank if it fails to act in the manner specified in paragraph 1 of this Article.

Association of Banks

Article 144

Associations of banks established by the effective date of this Law shall continue to operate in compliance with provisions of the Law on Banks and Other Financial Organizations until the effective date of this Law and they shall be obliged to submit to the National Bank of Serbia enactments specified in Article 64, paragraph 5, of this Law within 30 days from the effective date of this Law.

By-laws of the National Bank of Serbia

Article 145

The National Bank of Serbia shall render bylaws regulating the implementation of this Law by 30 June 2006 at the latest.

Procedures in Progress

Article 146

The procedures regarding issuance of bank's operating licenses which were commenced prior to 30 June 2006 shall be completed in compliance with provisions of the Law on Banks and Other Financial Organizations.

The procedures for granting consent of the National Bank of Serbia which were commenced prior to the effective date of provisions of this Law shall be completed in compliance with those provisions.

Application of Provisions on Supervision and Financial Reporting on Consolidated Basis

Article 147

Provisions of this Law regulating the supervision of a banking group on a consolidated basis and consolidated financial statements shall be applied as of 31 December 2006.

Coming into Force

Article 148

On the effective date of this Law, the Law on Banks and Other Financial Organizations ("FRY Official Gazette", Nos. 32/93, 61/95, 44/99, 36/2002 and "RS Official Gazette", Nos. 72/2003 and 61/2005) shall cease to be valid.

Article 149

This Law shall come into force on the eight day following its publication in the "Official Gazette of the Republic of Serbia" and shall be applied as of 1 October 2006, except from the provisions of Articles 10-20 and Articles 94-101 which shall be applied as of 1 July 2006.