

## LAW ON BANKS AND OTHER FINANCIAL ORGANIZATIONS

(Published in the "Official Gazette of the FRY", No. 32/93, 61/95, 44/99, 36/2002 and "Official Gazette of the RS", No. 72/2003)

### BASIC PROVISIONS

#### *Article 1*

This Law shall regulate the founding, organization, operating and the manner of management of banks and other financial organizations.

For the purposes hereof, the term *other financial organization* shall be understood to mean the Postal Savings Bank, a savings-credit organization and a savings-credit cooperative.

#### *Article 2*

A bank and other financial organization shall be founded as a joint-stock company, under the provisions of the Memorandum of Association, and by providing funds for the initial capital fund of the bank or some other financial organization.

#### *Article 3*

A bank and some other financial organization shall be legal entities.

#### *Article 4*

The provisions of the Enterprise Law relating to shares being owned by multiple shareholders, cancellation/write-offs of personal shares, declaration that certain shares are null and void, replacement of damaged shares, share restructuring and share split, protection of rights of minority shareholders and responsibility for the damage, shall apply to banks and other financial organizations.

### I BANK

#### 1.1. *Bank Founding*

#### *Article 5*

A bank may be founded by domestic and foreign legal and physical entities under the conditions stipulated hereby.

Foreign persons may found a bank subject to reciprocity.

A bank may be founded by at least two founders.

#### *Article 6*

The Memorandum of Association shall stipulate the following in particular:

1. names and head office addresses of the bank founders;
2. name and head office address of the bank founded;
3. amount of the total initial capital of the bank in both pecuniary and non-pecuniary forms, as well as the share of each founder in that capital;
4. term within which the founders have been obliged to pay the pecuniary funds and transfer the non-pecuniary assets into the initial capital fund of the bank;
5. rights, obligations and responsibilities of the bank founders regarding the commitments of the bank;
6. conditions for the acquisition and termination of the founders' rights;
7. business operations which the bank performs;
8. manner of distributing part of the profit among the bank founders;
9. manner of bearing risks and covering losses of the bank;
10. conditions for and manners of increasing the initial capital fund and the reserves of the bank;
11. manner of settling disputes between the bank founders;
12. conditions for the dissolution of the bank – if there is no economic interest in the further operating of the bank;
13. manner of decision-making on the changes of the bank status, and the founders' rights in case the bank has undergone status changes.

#### *Article 7*

A bank shall have its Articles of Association.

The Articles of Association of a bank shall stipulate the following in particular:

1. organization and operating of the bank and the authorizations of its transitional units in legal affairs;
2. issues to be decided on at the bank assembly;
3. measures and responsibilities of the bank organs for securing liquidity of the bank;
4. issues to be decided upon by other organs of the bank, the composition of such organs and their decision-making procedure;
5. rights, obligations and responsibilities of the manager and other persons vested with special authorizations and liabilities stipulated by the Articles of Association of the bank;
6. authorization to sign and act on behalf of the bank;
7. manner of performing internal control and internal audit of the bank;
8. data and documents which are considered to be business secrets of the bank, as well as the treatment of the bank's business secrets;
9. procedure of enacting bank's enactments;
10. other issues in connection with the bank's operating.

The National Bank of Serbia shall stipulate the basic principles of the organization and work of internal control and internal audit of a bank.

#### *Article 8*

The founders of a bank shall submit to the National Bank of Serbia an application for bank operating license, to which they shall enclose the following:

1. bank's Memorandum of Association;
2. founders' statement that they shall pay the pecuniary funds representing the initial capital funds into a suspense account kept with the NBS, or the statement of the foreign person that it will pay foreign currency into a special account kept with the National Bank of Serbia;
3. proof that the bank founders shall transfer the non-pecuniary assets into the initial capital fund of the bank;

4. proof of origin of the foreign investment and proof of the existence of reciprocity, presented by the foreign founder of the bank;
5. proposal of the Articles of Association of the bank;
6. proposal of the decision on first issue of bank's shares;
7. data necessary to determine founders' credit rating and data on their mutual proprietary and managing relationships;
8. names of and references for the nominated members of the bank's managing and supervisory boards, as well as for the nominated persons who are to be vested with special authorizations and responsibilities in the bank;
9. bank's programme of activities for the period of five years and the proposal of fundamentals of the bank's business policy for the year in which it is founded;
10. data on bank's staff and technical resources for the performance of the operations stated in the memorandum and enactments of the bank's business policy.

#### *Article 9*

The National Bank of Serbia shall be obliged to estimate, on the basis of the application referred to in Article 8 hereof, whether the legal requirements have been met and whether the founding of the bank is justifiable, within 60 days from the application submitting date.

The Governor of the National Bank of Serbia shall make a decision on the application stated in Article 8 hereof.

The decision made by the Governor of the National Bank of Serbia shall be final.

#### *Article 10*

A bank shall acquire the status of a legal entity by being entered into the court register.

The application for the entry into the court register shall be submitted within 45 days from the day of the receipt of the decision on the issuing of the operating license.

The following shall be enclosed with the application for the entry in the court register:

1. Memorandum of Association;
2. Bank's Articles of Association;
3. Proof that the bank founders have paid the pecuniary funds representing the initial capital funds into a suspense account kept with the NBS' Clearing and Payments Department, and the proof that the foreign person has paid foreign currency into a special account kept with the National Bank of Serbia;
4. Proof that the bank founders are transferring the non-pecuniary assets into the initial capital fund of the bank and the proof of the authorized appraiser on the appraisal of the non-pecuniary assets ;
5. Decision of the National Bank of Serbia to issue the operating license, and the approval of the National Bank of Serbia regarding the bank's Memorandum of Association and Articles of Association;
6. Other documents required by regulations governing the entry into the court register;

The bank sections shall also be entered into the court register, pursuant to the regulations governing the entry into the court register.

A bank shall be obliged to enter into the court register the increase as well as the decrease of the equity capital within 10 days from the day of the increase/decrease of the equity capital.

A legal entity may not be entered into the court register as a bank if it has not been founded as a bank in conformity herewith.

A bank may use in its title the elements which denote the operations it performs.

*Article 10a*

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

The banks which are merging shall submit to the National Bank of Serbia an application for operating license of the bank which is formed by their merging, to which they shall enclose the following:

1. Decisions made by the respective assemblies of banks which are merging;
2. Memorandum of Merging, which shall, apart from the elements of the Articles of Association of the bank prescribed by the Article 6 hereof, also include the provisions stipulating the following:
  - names and head office addresses of the banks which are merging;
  - agreed date of merging which must be the last day of the month preceding the month in which the application has been submitted;
  - name and head office address of the bank created by merging;
  - legal succession of the bank concerning all the rights and obligations of the banks which are merging;
  - manner and term of replacement of the shares of the merging banks for the shares of the bank created by merging;
  - data on the manner of entering into books the business changes arising in the period between the date of the conclusion of the memorandum of merging and the date of making the balance sheet, or the date of entry of the bank into the court register;
  - organizational units of the bank (branch offices, business units etc.)
3. Proposal of the bank's articles of merging containing the elements of the bank's Articles prescribed by Article 7 hereof;
4. Re-classified balance sheet and profit and loss account of the bank as of the day of the conclusion of the memorandum of merging;
5. Report on the accomplished relative indicators of the bank's business operations prescribed by the provisions of Articles 26 and 27 hereof, as of the date of the memorandum of merging conclusion;
6. Report on the classification of bank's balance sheet and off-balance sheet assets, as of the date of the memorandum of merging conclusion;
7. Names of and references for the nominated members of the bank's managing and supervisory boards, as well as of the nominated person who are to be vested with special authorizations and responsibilities in the bank;
8. Bank's programmed of activities for the period of five years and the proposal of fundamentals of the bank's business policy for the year in which it is to be founded by merging;
9. Data on bank's staff and technical resources for the performance of the operations stated in the memorandum and enactments of the bank's business policy.

Based on the application stated in Paragraph 2 of this Article, the National Bank of Serbia shall be bound to make a decision in the procedure and in the manner prescribed by Article 9 hereof.

*Article 11*

In its legal dealings a bank shall have the right to conclude contracts and other legal arrangements and perform operations within the scope of its business line.

A bank shall be liable for its commitments by its assets.

The founders of the bank shall also be liable for its commitments up to the amount of funds invested in the initial capital fund of the bank.

#### *Article 12*

An acquirer of shares shall be obliged to obtain an approval from the National Bank of Serbia for acquiring bank's managing shares entitling it to 15% participation in the bank's equity capital, as well as for each increase of that participation.

'An acquirer' as stated in Paragraph 1 of this Article shall be understood to mean all the persons related by proprietary and managing relations.

The National Bank of Serbia shall grant the approval if, on the basis of the submitted documentation, it finds the credit rating of the person stated in Paragraph 1 of this Article to be a satisfactory one.

The National Bank of Serbia shall prescribe the basic elements and documentation on the basis of which the credit rating and the proprietary and managing relations stated in Paragraph 2 of this Article are to be determined.

The National Bank of Serbia shall be bound to decide on the request for the approval stated in Paragraph 1 of this Article within 30 days from the day of the submitting of the request.

Legal affairs concerning the acquisition of shares stated in Paragraph 1 of this Article without the approval of the National Bank of Serbia shall be null and void.

#### *Article 13*

The bank founding meeting cannot be held prior to receipt of the decision of the National Bank of Serbia to issue the bank operating license.

The bank founding meeting must be held within 30 days at latest from the date of the receipt of the decision referred to in Paragraph 1 of this Article.

#### *Article 14*

The Articles of Association of the bank shall be enacted, management board elected, acting director of the bank appointed and business policy set at the bank's founding meeting, by two thirds majority vote of all the founders.

#### *Article 15*

The National Bank of Serbia shall make a decision to issue the bank operating license for the branch of a foreign bank with the status of a legal entity (affiliate) in the territory of Serbia, under the conditions for the issuance of bank operating licenses, stipulated hereby.

The provisions hereof affecting the business, management and organization of a bank shall also apply to the branches of foreign banks referred to in Paragraph 1 of this Article.

#### *Article 16*

The National Bank of Serbia shall make a decision to issue the license for opening of a foreign bank's representative office in the territory of Serbia, in conformity with the federal law governing the foreign trade operations.

A representative office of a foreign bank cannot perform deposit, credit and other operations stipulated hereby.

## *1.2. Initial Capital Fund (equity capital)*

### *Article 17*

The bank founders shall provide the assets for the initial capital fund of the bank, and such assets may be pecuniary or non-pecuniary (buildings, equipment and other assets serving for bank's operating).

The initial capital fund referred to in Article 1 hereof shall be considered equity capital pursuant to the federal law governing accounting.

Equity capital of the bank which the shareholders of the bank provide in non-pecuniary form shall be appraised by an authorized appraiser.

### *Article 18*

The pecuniary part of the initial capital fund cannot be lesser than EUR 10,000,000.00 in dinar counter value, calculated at the average exchange rate on the day of the payment of the funds.

Should the pecuniary part of the initial capital fund be greater than the sum referred to in Paragraph 1 of this Article, the bank founders shall stipulate in the Memorandum of Association the term within which they shall be bound to pay the difference of pecuniary funds, which cannot be longer than a year from the date of the bank's entry into the court register.

### *Article 19*

In return for the pecuniary funds paid into the bank's initial capital fund and the non-pecuniary assets transferred by the founders to the initial capital fund, the founders shall be given shares, in conformity with the federal law governing the securities and the bank's Memorandum of Association.

The bank founders may not draw the assets invested in the bank's initial capital fund.

### *Article 19a*

The legal business whose subject is granting advances or loans by a bank for the purpose of acquiring shares of that bank, as well as acquiring shares by using the funds of loans or advances of that bank, shall be null and void.

### *Article 19b*

A bank may exceptionally acquire its own shares if those are the shares which shareholders offered in secondary trade, the shares whose sale to other persons would inflict significant damage to the bank shareholders.

The acquisition of shares referred to in Paragraph 1 of this Article shall be performed out of funds arising from the bank's profit.

The acquisition of shares referred to in Paragraph 1 of this Article cannot be carried out without previously obtained approval of the National Bank of Serbia.

Besides the request for obtaining the approval referred to in Paragraph 3 of this Article, a bank shall be obliged to furnish the National Bank of Serbia with the conditions of and reasons for acquiring its own shares.

The National Bank of Serbia shall be obliged to make a decision as to the request stated in Paragraph 4 of this Article within 30 days from the day of submitting the request.

Legal operations accompanying the acquisition of bank's own shares performed without the approval of the National Bank of Serbia shall be null and void and shall have no legal effect.

A bank shall be obliged to alienate shares within one year from the day of their acquisition, and if it fails to do so it shall be obliged to withdraw and cancel them.

The provisions of Paragraph 7 of this Article shall be applied in the cases of acquisition of bank's own shares on the basis of legal succession, gift, inheritance and in other similar cases.

#### *Article 19c*

A bank can increase its equity capital as follows:

1. by issuing shares of the subsequent series (by new deposits);
2. on the basis of the decision, made by the bank's assembly, not to distribute the non-allocated profit belonging to shareholders but to use it to increase equity capital;
3. by debt-equity swap, in conformity with the decision on the issue of shares.

A bank shall adjust the values of the equity capital on the basis of the revaluation effects in conformity with the federal law governing the accounting.

A bank shall be bound to inform the National Bank of Serbia on the activities referred to in Paragraph 1 of this Article within five days from the day of undertaking them.

#### *Article 19d*

The increase of the shareholders' capital stated in Article 19c, Paragraph 1, Item 1 hereof shall be performed in the manner and under the conditions stipulated by the federal law governing issuance of securities.

A bank may not increase equity capital by issuing shares of subsequent series, unless the shareholders met the obligations in conformity with Article 18, Paragraph 2 hereof.

In the cases stated in Paragraph 1 of this Article, a bank may issue preference shares whose total nominal value cannot exceed 30% of the bank's equity capital.

Shareholders of the bank referred to in Paragraph 3 of this Article shall exercise rights in conformity with the law governing the issuing of securities, Memorandum of Association, Articles of Association, and decision on the shares issue.

Bank reserves may not be used for the increase of equity capital.

#### *Article 19e*

The decrease of the bank's equity capital may occur in the following cases:

1. if the bank withdrew and cancelled its own shares in conformity with the Article 19b, Paragraph 7 hereof;

2. if the bank's shares have been written off since they disappeared or were destroyed, and bank has not replaced them;
3. if the bank covered the loss declared in the annual statement of accounts by charging it to the equity capital, in conformity herewith.

A bank shall be obliged to inform the National Bank of Serbia about the activities stated in Paragraph 1 of this Article within five days from the day of undertaking them.

In the cases referred to in Paragraph 1 of this Article the principle of equality among shareholders may not be violated.

In the case of the equity capital decreasing, a bank shall withdraw and cancel its own shares first.

#### *Article 19f*

In the cases stated in Article 19b, Paragraph 8 and Article 19e, Paragraph 1, Item 2 hereof, the bank shall increase the bank reserves.

#### *Article 19g*

Bank founders and persons which subsequently purchased bank shares from the issues following, shall be the shareholders of the bank.

Bank shareholders referred to in Paragraph 1 of this Article shall exercise rights in conformity with the law governing the issuing of securities, Articles of Association, Articles of Agreement, and decision on the shares issue.

### *1.3. Bank's Activities*

#### *Article 20*

A bank shall conduct its business independently with a view to generating profit.

#### *Article 21*

A bank may engage in deposit, credit and other banking operations in the country, including:

1. reception of all kinds of money deposit (deposit operations);
2. granting and taking credits (credit operations);
3. foreign exchange, foreign exchange-currency transactions and exchange operations;
4. issuing securities and money cards (issuing operations);
5. safekeeping of assets and securities and their management (safekeeping operations);
6. purchase and sale of securities (operations with securities);
7. issuing sureties, guaranties, backing guarantees and other warranties (guaranty operations);
8. payment operations, in conformity with the federal law.

The legal entities which do not possess operating licenses issued by the National Bank of Serbia may not engage in the operations referred to in Paragraph 1 of this Article, with the exception of those referred to in Items 4 and 6 of this Article.

#### *Article 21a*

A bank may not grant loans to its shareholders before the expiry of one year from the day of the entry into the court register.

#### *Article 22*

Besides the operations referred to in Article 21 hereof, a bank may also engage in other operations, such as:

1. mediation in the securities trading,
2. buying and collection of claims, and
3. provision of other financial services.

The bank shall be bound to perform the operations referred to in Paragraph 1 of this Article under the conditions and in the manner prescribed by a separate federal law.

#### *Article 23*

A bank may engage in foreign payment operations, foreign credit operations, foreign exchange and currency transactions, and exchange office operations in the country, if it obtains the authorization therefore, in conformity with the federal law governing the foreign exchange operations.

#### *Article 23a*

The National Bank of Serbia shall prescribe the basic elements of the procedures, as well as the minimal contents of the documentation for the performance of the operations referred to in Articles 21 and 22 hereof.

#### *Article 24*

A bank shall stipulate in greater detail the conditions for and the manner of performing the operations referred to in Articles 21 and 22 hereof in its business policy enactments.

#### *Article 25*

The particulars about citizens' money deposits held with a bank shall be considered a business secret and they may be divulged only at the written request of a court, if court proceedings have been instituted against the citizen concerned.

#### *Article 26*

When operating a bank shall be obliged to provide that the pecuniary part of the equity capital in the dinar counter value should always amount to at least EUR 10,000,000.00 calculated at the daily average exchange rate.

A bank shall be obliged to adjust its scope of operations so that:

1. it maintains the ratio between the capital and total assets and off-balance asset items weighted according to the degree of risk;
2. it maintains the ratios between various kinds of liabilities;
3. it maintains the ratios between various kinds of assets and various kinds of liabilities;
4. it observes the provisions relating to large and largest possible loans granted to a single borrower and the total amount of large loans;
5. the participation of a bank in the capital of a legal entity individually cannot exceed 15% of the bank's capital;
6. the participation of a bank in the capital of legal entities and investment into fixed assets together cannot exceed 60% of the bank's capital;

7. it observes other prescribed rules of operation.

The legal entities referred to in Paragraph 2, Items 5 and 6 of this Article shall not be understood to mean a bank or some other financial organization.

For the purpose of Paragraph 2, Item 4 of this Article, a large loan shall be understood to mean a loan or some other claim or guarantee granted to a single borrower, the amount of which is greater than 10% of the bank's capital.

For the purpose of Paragraph 2, Item 4 of this Article, a largest possible loan shall be understood to mean a loan, or some other claim or guarantee amounting altogether up to 25% of the bank's capital.

Exceptionally to the Paragraph 5 of this Article, the largest possible loan granted to a single borrower shall be the loan, other claim and guarantee which altogether amount up to 5% of the bank's capital, if the borrower is:

1. a shareholder of the bank, or a legal or physical entity related to a shareholder of the bank through proprietary and control relations,
2. a person which is the member of a bank's organ or a person which is the member of the immediate family of the person which is the member of a bank's organ,
3. a person with special authorizations and responsibilities in the bank, as well as the members of this person's immediate family.

The total amount of large loans and the largest possible loans may not exceed **400%** of the bank's capital.

The National Bank of Serbia shall stipulate in greater detail the conditions for the application of the provisions of this Article.

#### *Article 27*

A bank shall be obliged to keep the volume and the structure of its risk-weighted investments within the ratios prescribed by the National Bank of Serbia.

#### *Article 28*

A bank shall be obliged to ask the approval from the National Bank of Serbia for:

1. its Memorandum of Association and Articles of Association, as well as for amendments thereto;
2. founding a bank abroad, and opening a branch, business unit or representative office abroad, as well as for investing capital in banks abroad;
3. changes of its name or head office address;
4. decision on the appointment of the manager, or decision on the appointment of the acting manager.

Enactments, or activities referred to in Paragraph 1 of this Article made or performed without the previous approval of the National Bank of Serbia shall be considered null and void, and shall not have legal effects.

The National Bank of Serbia shall decide on the request for approval within 30 days from the day of submitting the request.

#### *Article 29*

A bank shall be bound to inform the National Bank of Serbia of the following:

1. any increase of the bank's initial capital fund and new share issue;
2. any investment in the capital of banks, other financial organizations and other legal entities, as well as investments in fixed assets;
3. any granting of a large loan and a largest possible loan;
4. any sale of the bank's shares entitling the acquirer to more than 10% of the initial capital fund;
5. any opening of branches, business units and representative offices in the country;
6. any change of membership of the bank's management and supervisory boards.

A bank shall be bound to inform the National Bank of Serbia on the activities stated in Paragraph 1 of this Article within 5 days from the day of undertaking such activity.

#### *Article 30*

Article canceled.

#### *Article 31*

A bank shall be obliged to insure citizens' deposits and pay the insurance premium.

The deposits referred to in Paragraph 1 of this Article shall be insured by the bank concerned with the Deposit Insurance and Bank Rehabilitation Agency or with insurance organizations.

The amount of the premium referred to in Paragraph 1 of this Article and the terms for its payment shall be set by the legal entities referred to in Paragraph 2 of this Article, taking into account the financial standing of the bank concerned and the degree of risk to which such legal entities are exposed.

A bank cannot insure deposits with a legal entity referred to in Paragraph 2 of this Article if it is the founder of that entity or if it has some other proprietary and control relations with that legal entity.

#### *Article 32*

The legal entities referred to in Article 31, Paragraph 2 hereof, may perform the operations referred to in that Paragraph if they secure funds in a special deposit insurance fund, amounting to no less than 20% of the deposits insured.

#### *Article 33*

The legal entities referred to in Article 31, Paragraph 2 hereof, shall be obliged to keep in their books a separate record of the funds collected on the basis of citizens' deposit insurance premiums.

#### *Article 34*

The National Bank of Serbia shall also give its opinion about the credit rating of the legal entities referred to in Article 31, Paragraph 2 hereof, and determine whether the conditions have been met concerning the amount of funds in the special deposit insurance fund referred to in Article 32 hereof.

Should the National Bank of Serbia find that the legal entities referred to in Article 31, Paragraph 2 hereof have not met the conditions referred to in Paragraph 1 of this Article, or should it give a negative opinion on their credit rating, such persons cannot engage in citizen deposit insurance operations.

*Article 35*

The legal entities engaged in the insurance of citizens' deposits shall be liable for their commitments under insurance contracts by their assets.

*Article 36*

A bank shall be bound to provide the audit of its annual statement of accounts within six months from the expiry of the calendar year, in conformity with the federal law.

*Article 37*

The person performing the audit referred to in Article 36 hereof shall present the auditor's report to the supervisory board of the bank.

*Article 38*

A bank shall be obliged to publish in daily newspapers its balance sheet and profit and loss account from the last report on the audit of the annual statement of accounts, together with the auditor's report.

*Article 38a*

A bank's shareholder shall have the right to hire, at its own expense, an auditing firm which would perform the audit of the accounting statements of the bank, independent from the audit prescribed by Article 36 hereof, if that has been stipulated by the Memorandum of Association.

*1.4. Bank Organization and Organs*

*Article 39*

The organization of a bank shall be governed by its Articles of Association.

The sections of a bank which are vested with certain authorizations in legal dealings, as well as the scope of such authorizations, shall be stipulated in its Articles of Association.

The sections of a bank referred to in Paragraph 2 of this Article shall carry out their financial transactions through a special account included in the giro-account of the bank.

The sections of a bank referred to in Paragraph 2 of this Article shall not have the status of a legal entity.

*Article 40*

A bank shall be managed by its founders, depending on the amount of their initial capital, in conformity with the bank's Memorandum of Association and Articles of Association.

The founders of a bank may form an association and thus exercise controlling rights on the basis of the total number of shares in their possession, provided that they present to the bank concerned an agreement of association in writing, which must include a provision authorizing one person to act on behalf of all associated founders.

The shareholders of a bank which have at least one tenth of the equity capital or a smaller part stipulated by the Articles of Association, as well as the shareholders of a bank which have bank's preference shares, shall exercise their rights in conformity with the law, Memorandum of Association, Articles of Association and decision on the issue of shares.

The creditors of a bank may, under the conditions stipulated by the Memorandum of Association and the Articles of Association, perform certain functions of management of the bank, if such a possibility has been stipulated by a special contract between the bank and its creditors.

A bank shall be obliged to enter into the court register the data relating to the cases referred to in Paragraphs 3 and 4 of this Article.

#### *Article 41*

The organs of a bank shall be its assembly, management board, supervisory board and its manager.

The manager and employees of a bank cannot be members of the management board and of the supervisory board.

Formation of other organs, their scope of activities and responsibilities can be also stipulated by certain provisions of the bank's Articles of Association.

The members of the management board, supervisory board, and other bank organs, as well as the bank manager cannot be appointed members of the management board, supervisory board, other bank organs or bank manager in some other bank or in some other financial organization, and they cannot be appointed members of the management of a company or members of the supervisory board of a company if they performed the said functions on the day of revocation of the operating license or on the day of making the decision on the fulfillment of conditions for instituting the bankruptcy procedure, as well as if they had performed the said functions a year before that day.

The forbiddance stated in Paragraph 4 of this Article shall last 10 years from the day of revocation of the operating license to a bank or some other financial organization, or from the day of making the decision on the fulfillment of the conditions for instituting the bankruptcy procedure in the respective bank.

#### *Article 41a*

The members of the management and supervisory boards and the manager of the bank shall be obliged to compensate a damage to the bank if they, contrary hereto:

1. returned the investments to the shareholders;
2. acquired their own shares;
3. distributed profit;
4. decreased equity capital.

In the cases referred to in Paragraph 1 of this Article, members of the management and the supervisory boards and the manager of the bank shall be relieved from their duties by the assembly of the bank.

#### *Article 41b*

The members of the management and the supervisory boards and the manager of the bank shall vouch with all their property for any damage made in the cases stipulated hereby and by the bank's Articles of Association.

*Article 42*

The assembly of a bank shall consist of its founders having controlling rights.

The founders shall exercise their controlling rights directly or through their representatives.

The minimum number of shares may be specified in the bank's Articles of Association as the condition for membership in the bank's assembly.

*Article 43*

The assembly of the bank shall:

1. enact the bank's business policy documents;
2. enact the bank's Articles of Association;
3. consider and adopt the annual reports of the bank's management board, supervisory board and manager;
4. adopt the bank's annual statement of accounts and decide on the utilization and distribution of the profit generated and on the coverage of losses;
5. decide on the increase of the bank's initial capital fund and investment of the initial capital fund in an enterprise or another bank, as well as on the amount to be invested in the bank's fixed assets;
6. appoint and dismiss members of the bank's management and supervisory boards and the manager;
7. determine the funds for the members of the management and supervisory boards to be given from the non-allocated profit of the bank;
8. decide on changes of the bank's status and its dissolution, if there is no economic interest in the further operation of the bank;
9. appoint and dismiss the auditor, in conformity with the federal law.

The bank's assembly may not delegate the authority for making decisions referred to in Paragraph 1 of this Article to some other bank organ, with the exception of that referred to in Item 1 of this Article, between two sessions of the bank's assembly.

The Articles of Association of a bank may also include other rights and duties.

*Article 44*

The controlling organ of a bank shall be its management board.

The members of the management board of a bank shall be elected among its founders who possess managing shares.

*Article 45*

The management board of a bank shall:

1. schedule the session of the bank's assembly;
2. prepare propositions for the bank's assembly and execute its decisions;
3. consider and adopt the bank's business reports during the year;
4. submit business report to the bank's assembly and to the supervisory board;
5. perform other duties pursuant to the bank's Articles of Association.

*Article 46*

The members of the bank's supervisory board shall be elected among the bank's founders and other bank specialists, in conformity with the Articles of Association.

The members of the bank's supervisory board cannot be elected among the members of the bank's management board, neither can that be persons who have been convicted for such criminal activities which would make them unfit for the performing of this function.

The membership of a member of the supervisory board who was elected among the bank founders shall be terminated once he or a legal entity he represents stops being the bank founder with controlling rights, or when his employment with the legal entity-the bank founder has been terminated.

*Article 47*

The supervisory board of a bank shall:

1. monitor and control the activities of the bank's management board, its manager and employees;
2. consider the decisions made by the bank's organs;
3. consider the auditor's reports;
4. inform the bank's assembly and, if necessary, the supervisory board, about the results of the control;
5. give its opinion about the decisions and other enactments of the bank's organs that alter the amount and the structure of the bank's initial capital fund or the position and rights of the bank's founders;
6. take part in the work of the bank's assembly and possibly propose certain issues to be put on the agenda;
7. perform other duties pursuant to the bank's Articles of Association.

*Article 48*

Should the supervisory board find that the bank is operating contrary to the law, regulations, Articles of Association and some other bank enactment, or if that is evident from the auditor's report, or if it finds other irregularities in the bank's operations, it shall take the following actions:

1. suggest to the bank's organs to eliminate the irregularities observed;
2. schedule a special session of the bank's assembly;
3. inform the National Bank of Serbia and other relevant organs about the irregularities observed.

*Article 48a*

A person may be a member of management or supervisory boards, or some other organ of a bank, in one bank exclusively.

The appointment made contrary to the provision of Paragraph 1 of this Article shall be considered null and void.

*Article 49*

The manager of a bank shall be appointed by the bank's assembly, at the suggestion of the bank's management board.

The bank's assembly may appoint, as the manager of the bank, a candidate who is experienced in industrial, banking and financial operations and who has not been sentenced to prison for some criminal action against the economy or official duty.

*Article 50*

The manager of a bank shall:

1. Represent and act on behalf of the bank;
2. Execute the decisions of the bank's assembly, management board and supervisory board;
3. Organize the activity and manage the operations of the bank;
4. Decide on all the matters which are not within the terms of reference of the bank's assembly, management board and supervisory board.

*Article 51*

The manager of a bank shall answer to the bank's assembly for his activity and for the performance of the bank.

*Article 52*

The manager of a bank and any other person vested with special authorizations and responsibilities in that bank may not found a bank or some other financial organizations, either directly or through a legal entity co-founded by it, while being employed in the bank concerned, as well as within two years after the termination of the respective employment.

*1.5 Determination of Bank Income and Profit*

*Article 53*

A bank shall determine its income, expenses and profit in conformity with the federal law.

A bank shall declare as non-allocated profit the part of its income which, according to the annual statement of accounts, is left over after bank's expenses and other legal obligations have been covered.

The profit referred to in Paragraph 2 of this Article shall be allocated pursuant to a decision of the bank's assembly, as follows:

1. To the bank's reserves;
2. To the bank's founders proportionally to the assets invested in the bank's initial capital fund;
3. For other purposes pursuant to the relevant legal regulations.

*Article 53a*

Dividends cannot be paid to the shareholders out of equity capital.

Should the equity capital decrease due to the coverage of the bank's losses, shareholders shall not have right to dividends, till the funds used from the equity capital for the coverage of the losses have not been compensated.

*Article 54*

With a view to providing security of operations, a bank shall form – to the debit of its income – a special reserve as insurance against potential losses, as to assets and off-balance sheet items of a specific degree of the possibility of collection.

The National Bank of Serbia shall stipulate the criteria for the classification of assets and off-balance sheet items according to their degree of the possibility of collection, as well as the amount of the special reserve referred to in Paragraph 1 of this Article.

A bank shall be obliged to earmark the amount of the special reserve referred to in Paragraph 1 of this Article to the debit of expenses.

#### *Article 55*

Reserves shall be formed for the purpose of covering bank's operating risks.

A bank shall form its reserves pursuant to a decision of the bank's assembly from the part of the profit generated by the bank while conducting its business, as well as on some other basis stipulated in Article 19f hereof.

The founders of a bank may not obtain shares on the basis of the investments referred to in Paragraph 2 of this Article.

#### *Article 56*

If the income of the bank declared in the bank's annual statement of accounts is not sufficient for covering its expenses and other legal obligations, the bank shall declare loss.

The reserves of a bank shall be decreased by the amount of its loss, and if they are not large enough for that, the bank's initial capital shall also be decreased.

### *1.6. Bank Liquidity*

#### *Article 57*

A bank shall be bound to maintain its liquidity.

A bank shall not be liquid if it does not have sufficient funds to meet its due obligations within the stipulated terms.

A bank which is not liquid may not grant and release credits, issue guarantees, open letters of credit and make other payments from its giro account.

### *1.7 Bank Supervision*

#### *Article 57a*

The NBS shall supervise the financial soundness and the legality of banking operations in accordance herewith and the law governing its position, organization, powers and functions.

#### *Article 57b*

If examination based on Article 57a hereof reveals that a bank has acted contrary to regulations or jeopardized its financial soundness, the NBS, depending on the gravity of the irregularity in question, on the demonstrated readiness and capability of the bank's bodies to

remove the irregularity discovered as well as on the extent of undermining financial discipline and smooth functioning of the banking system, shall take against the bank the following measures:

- 1) To give a written reprimand;
- 2) To send an ordering letter;
- 3) To issue orders for removing the irregularities discovered, with the simultaneous imposition of a fine;
- 4) To introduce administration; and
- 5) To revoke the operative license.

The NBS Governor or the person that he/she has authorized shall issue a decision on enforcing the measures referred to in Paragraph 1, Items 3, 4, and 5, of this Article.

The decision referred to in Paragraph 1 of this Article shall be final.

#### Article 57c

The written reprimand referred to in Article 57b, Paragraph 1, Item 1, hereof (hereinafter: the written reprimand) shall be given to a bank manager owing to minor irregularities of such nature that could not have a material and direct effect on the bank's financial condition.

The written reprimand shall stipulate the deadline for the bank to inform the NBS about the actions it has undertaken to remove the irregularities referred to in Paragraph 1 of this Article.

#### Article 57d

The ordering letter referred to in Article 57b, Paragraph 1, Item 2, hereof (hereinafter: the ordering letter) shall be sent to a bank where examiners discovered acting or omitting to act contrary to regulations or standards of prudent banking practices that could jeopardize the bank's financial condition.

The ordering letter shall be sent to the management board, the supervisory board, and the bank manager, and shall contain in particular:

- 1) The description of the bank's operations that are not being conducted in the prescribed fashion, or are threatening its financial soundness;
- 2) The proof of the bank's acting or omitting to act that has caused the unsatisfactory state of its operations;
- 3) The request that the bank within a specified deadline furnish to the NBS a plan of actions for removing the irregularities discovered (hereinafter: the action plan) so as to obtain approval of it;
- 4) The deadline for implementing the action plan, which may not be longer than six months; and
- 6) The manner and the deadlines for the bank to inform the NBS on implementing the action plan.

#### Article 57e

The decision giving orders for removing the irregularities discovered shall be issued to:

- 1) A bank to which the ordering letter has been sent and which within the timeframe set has not furnished to the NBS the action plan for approval, or to which the NBS has not approved the action plan, or a bank which has not implemented the action plan, or a bank where examiners have found that during the implementation of the action plan the bank's financial condition has deteriorated; and
- 2) A bank where examiners discovered acting or omitting to act contrary to regulations

or standards of prudent banking practices that could jeopardize the bank's financial condition.

The decision referred to in Paragraph 1 of this Article shall order the bank to carry out one or more of the following actions within a period not exceeding one year:

- 1) To bring its operations in line with regulations;
- 2) To increase the pecuniary part of the initial capital;
- 3) To conduct its operations in such a way that its capital equals at least 8% of the total amount of risk on-balance sheet assets and off-balance sheet items;
- 4) To raise the amount of specific loan-loss reserves;
- 5) To stop adding interest on the assets of the specified degree of recoverability;
- 6) To suspend lending to some of its shareholders and other persons;
- 7) To stop investing for a period of time;
- 8) To suspend new borrowing and accepting new depositors or deposits;
- 9) To remove from office the manager and other executives;
- 10) To discontinue dividend payments to particular or all shareholders;
- 11) To close one or more organizational units;
- 12) To stop payments from its giro account except the payments for which prior approval has been obtained from the NBS;
- 13) To stop payments abroad except the payments for which prior approval has been obtained from the NBS;
- 14) To rationalize its internal organization; and
- 15) To undertake or discontinue other actions.

The decision referred to in Paragraph 1 of this Article shall stipulate the manner and the deadlines for the bank to remove the irregularities discovered and inform the NBS thereof.

By the decision referred to in Paragraph 1 of this Article the NBS shall impose on the bank a fine that may not be lower than 1% or higher than 1% of the prescribed pecuniary part of the initial capital.

By the decision referred to in Paragraph 1 of this Article the NBS shall impose on the bank's manager and other executives a fine that may not be lower than the sum of those persons' salaries in the last 3 months or higher than the sum of those persons' salaries in the last twelve months, starting from the date of the decision.

The fines referred to in Paragraphs 4 and 5 of this Article shall be paid into the giro account of the NBS.

The decision referred to in Paragraph 1 of this Article with reference to Paragraphs 4 and 5 of this Article shall constitute an enforceable document.

#### Article 57f

The NBS Governor shall issue a decision on introducing administration in the bank if:

- 1) The bank's capital is lower than 4% of the total amount of risk on-balance sheet assets and off-balance sheet items;
- 2) The bank fails to carry out the orders given by the decision referred to in Article 57e hereof; and
- 3) The bank's financial condition deteriorates during the carrying out of the orders given by the decision referred to in Article 57e hereof.

The decision referred to in Paragraph 1 of this Article shall be issued if it is assessed that the change in the fashion of managing the affairs of the bank could help remove the irregularities in its operations and improve its financial condition, and its bodies and management were unable to bring about such a change.

## Article 57g

By the decision referred to in Article 57f two administrators shall be appointed, the duration of the administration determined, which could not exceed one year, and the amount of remuneration fixed for the work of the administrators to the debit of the bank.

As of the date of issuing the decision referred to in Paragraph 1 of this Article the functions of the management board, the supervisory board, and the manager shall be transferred to the administrators.

Introducing administration in the bank shall be inscribed in the register of the competent authority.

Both administrators shall sign decisions in connection with the bank's operations and disposition of its property.

## Article 57h

Administrators shall have a right of insight into the bank's business books and other documents, and the bank's employees shall be obliged, at the former's request, to provide all necessary data and information.

Administrators shall be under no obligation to comply with the decisions of the shareholders' meeting if they assess that those decisions will not contribute to improving the bank's financial condition.

Administrators shall have a right to call the bank's shareholders' meeting and propose adopting specified decisions.

Should the bank's shareholders' meeting refuse adopting the decisions referred to in Paragraph 3 of this Article, administrators themselves may adopt those decisions subject to approval by the NBS Governor.

The decisions referred to in Paragraph 4 of this Article shall be furnished to the bank's shareholders' meeting and shall have the same force and effect as the decisions adopted by the latter.

## Article 57i

Administrators shall be obliged to follow in their work the instructions of the NBS Governor and at least once a month to inform him/her on the bank's operations.

## Article 57j

Administration of the bank may be terminated before the elapse of the deadline set in Article 57e hereof if administrators or the NBS assess that introducing administration has not attained any improvement in the bank's financial condition or the latter has improved to such an extent that administration is no longer necessary.

## Article 57k

The NBS Governor shall issue a decision on revoking the operative license to a bank if:

- 1) It is established that the operative license was given based on untrue data supplied by the founders;
- 2) The bank within the prescribed timeframe has not applied for inscription into the court register;

- 3) The bank within 60 days of inscription into the court register has not started operating;
- 4) It is established that the pecuniary part of the bank's initial capital is lower than hereby prescribed;
- 5) It is established that the number of founders is smaller than prescribed by law;
- 6) The bank within the timeframe set has not complied with the NBS orders from the decision referred to in Article 57e hereof;
- 7) The bank's financial condition has deteriorated during the implementation of the orders from the decision referred to in Article 57e hereof;
- 8) Administrators or the NBS before the elapse of the deadline set in Article 57e hereof assess that introducing administration into the bank cannot remove the irregularities in its operations or attain any improvement in the bank's financial condition or if, after the elapse of the deadline set by decision, the administration of the bank has not removed the irregularities in its operations or attain any improvement in its financial condition;
- 9) The bank has not allowed the NBS and an independent auditor to exercise supervision of its operations.

In addition, the NBS may issue a decision on revoking a bank's operative license if it finds that the bank is not operating in conformity with law, as well as failing to furnish thereto the prescribed reports and data on its operations.

The decisions referred to in Paragraphs 1 and 2 of this Article shall be final.

Should the NBS revoke the operative license to a bank, the former shall initiate bankruptcy proceedings against it pursuant to legislation governing bankruptcy.

As of the date of issuing the decision on revoking the operative license, the NBS shall block all accounts of the bank.

## II OTHER FINANCIAL ORGANISATIONS

### *Article 58*

Other financial organization shall acquire the status of a legal entity by being entered into the court register.

The application of an other financial organization to be entered in the court register shall be submitted in the manner and under the conditions hereby prescribed for a bank.

### *Article 59*

The provision hereof relating to the founding, operating, enactments, initial capital fund and bank reserves, bank organs, determination of income and profit, bank liquidity and control over operations of a bank shall also apply to other financial organizations, unless otherwise provided hereby.

While operating, other financial organizations shall be bound to provide that the pecuniary part of the equity capital in dinar counter value should always amount to no less than the amount in euro, prescribed hereby for the founding of these institutions.

Other financial organizations shall be bound to insure the deposits they collected from citizens, with the legal entities referred to in Article 31 hereof, in the manner and under the conditions hereby prescribed for banks.

1. - Deleted –

*Article 60*

- Deleted –

*Article 61*

- Deleted –

*Article 62*

- Deleted –

*Article 63*

- Deleted –

2. *Savings Bank*

*Article 64*

A savings bank may be founded if its founders provide the pecuniary part of the initial capital fund amounting to no less than the dinar counter value of EUR 2,000,000.00, calculated at the average exchange rate valid on the day the funds have been paid.

*Article 65*

A savings bank may be founded by the Republic of Serbia, city, municipality, domestic legal and physical persons.

*Article 66*

A savings bank may have its own branches, offices and other organizational parts. Organizational parts of the savings bank shall not have the legal entity status.

*Article 67*

A savings bank shall perform the following operations:

1. collection of dinar savings and deposits from physical persons;
2. granting of credits to physical persons;
3. performance of payment operations in conformity with the federal law;
4. performance of other banking operations for the needs of physical persons, in conformity with the federal law.

Pursuant to the decision of its founders, a savings bank may use the funds which it has not used for granting credits to physical persons, so that it should grant credits to legal entities for improved housing construction, public utilities and development of entrepreneurship.

Pursuant to the decision of its relevant organs, a savings bank may use the funds which it has not utilized for granting credits referred to in Paragraph 2 of this Article, so as to grant credits to legal entities through banks.

2. *Savings and Credit Organization*

*Article 68*

A savings and credit organization may be founded if its founders provide the pecuniary part of the initial capital fund amounting to no less than the dinar counter value of EUR 1,200,000.00, calculated at the average exchange rate valid on the day the funds have been paid.

*Article 69*

A savings and credit organization may be founded by legal entities which are organized for the performance of activities and services and mutually linked in the conduct of business.

*Article 70*

A savings and credit organization may have its own branches, offices and other organizational sections.

The organizational sections of a savings and credit organization shall not have the legal entity status.

*Article 71*

A savings and credit organization shall perform the following operations:

1. collection of funds for the financing of trade of certain goods and services within the scope of activities of its founders;
2. collection of dinar saving deposits from the employees of legal entities which have founded it;
3. granting and taking credits for the needs of its founders;
4. performance of payment operations, in conformity with the federal law;
5. performance of other banking operations for the needs of employees of the legal entities which have founded it.

*3. Savings and Credit Cooperative*

*Article 72*

A savings and credit cooperative may be founded if its founders provide the pecuniary part of the initial capital fund amounting to no less than the dinar counter value of EUR 200,000.00, calculated at the average exchange rate valid on the day the funds have been paid.

Exceptionally to the Paragraph 1 of this Article, if the savings and credit cooperative is founded as farming cooperative, its founders provide the pecuniary part of the initial capital fund amounting to no less than the dinar counter value of EUR 50,000.00, calculated at the average exchange rate valid on the day the funds have been paid.

*Article 73*

A savings and credit cooperative may be founded by farming, crafts, housing and other cooperatives, as well as by the legal entities and physical persons who are members of such cooperatives.

*Article 74*

A savings and credit cooperative may have its own branches, offices and other organizational sections.

The organizational sections of a savings and credit cooperative shall not have the legal entity status.

*Article 75*

A savings and credit cooperative shall perform the following operations:

1. collection of earmarked dinar savings and deposits from physical persons;
2. granting and taking credits within the scope of activities of its founders;
3. performance of payment operations in conformity with the federal law;
4. performance of other payment operations for the needs of physical persons, in conformity with the federal law.

*IIA ASSOCIATION OF BANKS AND OTHER FINANCIAL ORGANISATIONS**Article 75a*

Banks and other financial organizations may, with a view to improving their own functioning and to adjusting their scope of operations, found a business association.

The adjustment of the scope of operations shall include the following in particular:

1. unifying the banking practice by rules, standards, business behavior codices and ethics;
2. organizing integral information system of banks and other financial organization;
3. organizing professional staff training in the fields of banking and finance;
4. representing the members of the business association both in the country and in international trade and other organizations where a collective membership of banks or employees should be;
5. accepting international rules which improve the technique and technology of banking-financial operations, introduction of standardized financial instruments, and certification of knowledge of the clerks performing foreign business operations;
6. organizing arbitration and expert opinion rendering;
7. performing common operations for banks relating to paying cards.

The rights of the members of a business association cannot be expressed in terms of securities.

A business association shall have the status of a legal entity.

A business association shall be entered into the court register.

A business association shall act in legal dealings in its own name and for account of its members.

The Memorandum of Association of the respective business association shall stipulate the name, time of founding, scope of activities, head office address, manner of management, acting, responsibility and activities in legal dealings, termination of work as well as other issues important for the founding of association.

*III REPORTING ABOUT  
ISSUED LICENCES AND AUDITS**Article 76*

The National Bank of Serbia shall be obliged to forward semi-annually to the federal ministry in charge of finance the data relating to the following:

1. decisions to issue operating licenses to banks and other financial organizations;

2. decisions not to issue operating licenses to banks and other financial organizations;
3. decisions to revoke operating licenses to banks and other financial organizations;
4. decisions to issue operating licenses to foreign bank branches with the legal entity status in the territory of the Federal Republic of Serbia;
5. decisions to issue operating licenses for the opening of a foreign bank's representative offices in the territory of the Federal Republic of Serbia;
6. supervision of the operations of banks and other financial organizations and measures applied to banks and other financial organizations.

#### *Article 77*

Audit of banks' annual statement of accounts is performed in line with the law regulating the statement of accounts audit and also in line with the international accounting standards.

A bank or some other financial organization shall be bound to present the auditor's report on its financial statement of accounts for the previous year to the National Bank of Serbia and to the Ministry of Finance, by July 15 of the current year at latest.

Should the statement of account referred in Paragraph 2 of the present Article fail to comply to the audit standards, or the audit report content for banks, the National Bank of Serbia may require from a bank to, in a certain time frame, submit a new audit report prepared by another licensed auditor, in line with the legal regulations.

### *IV PENAL PROVISIONS*

#### *1. Criminal Offences*

##### *Article 77a*

One who engages in deposit, credit and other banking operations without obtaining the operating license from the National Bank of Serbia shall be punished for the criminal offence by being sentenced to prison, three months to five years.

If the offence referred to in Paragraph 1 of this Article served to acquire property exceeding the amount of YUD 50,000.00, the offender shall be sentenced to prison, one to eight years.

If the act referred to in Paragraph 1 of this Article served to acquire property exceeding the amount of YUD 500,000.00, the offender shall be sentenced to prison, two to ten years.

A responsible person in the legal entity shall also be punished for the activity referred to in Paragraphs 1, 2 and 3 of this Article, if the legal entity engages in deposit, credit, and other banking operations without the operating license issued by the National Bank of Serbia.

#### *2. Economic Offences*

##### *Article 78*

A bank shall be fined YUD 600,000.00 to YUD 3,000,000.00 for economic offence:

1. if it fails to enter into the court register an increase or decrease of the equity capital within 10 days from the day of the increase or decrease of the equity capital (Article 10, Paragraph 5);
2. if it concludes a contract or engages in other legal arrangements and operations beyond the scope of its line of business (Article 11, Paragraph 1);
3. if it acquires its own shares without previous approval of the National Bank of Serbia (Article 19b, Paragraph 3);

4. if it does not alienate its own shares within one year from the day of acquiring them, that is, if it does not withdraw or cancel the shares (Article 19b, Paragraph 7);
5. if it fails to inform the National Bank of Serbia about the cases referring to the increase of the equity capital of the bank (Article 19c, Paragraph 3);
6. if it increases the equity capital by issuing shares of the subsequent issues, in spite of the fact that shareholders have not fulfilled obligations pursuant to Article 18, Paragraph 2 hereof (Article 19d, Paragraph 2);
7. if it uses the bank's reserves for the increase of the equity capital (Article 19d, Paragraph 5);
8. if it issues preference shares whose total nominal value is bigger than 30% of the equity capital of the bank (Article 19d, Paragraph 3);
9. if it uses bank reserves and non-allocated profit to increase the equity capital, in case the bank has declared loss in its annual statement of accounts (Article 19d, Paragraph 5);
10. if it fails to inform the National Bank of Serbia about the cases relating to the decrease of the equity capital of the bank (Article 19e, Paragraph 2);
11. if it performs deposit, credit and other banking operations without the license of the National Bank of Serbia (Article 21, Paragraph 2);
12. if it grants loans to its shareholders before the expiry of the term of one year from the day of the bank's entry into the court register (Article 21a);
13. if it performs operations from the Article 22, Paragraph 1 hereof contrary to the terms and to the method prescribed by a special federal law (Article 22, Paragraph 2);
14. if it performs foreign payment operations, foreign credit operations or foreign exchange and currency transactions or exchange office operations in the country without authorization pursuant to the federal law governing exchange operations (Article 23);
15. if it fails to adjust the volume of its transaction to the provisions of Article 26 hereof;
16. if it fails to maintain the volume and structure of its risk-weighted placements within the ratios prescribed by the National Bank of Serbia (Article 27);
17. if it fails to seek approval from the National Bank of Serbia for: making amendments to its Memorandum of Association and Articles of Association; founding a bank abroad and opening a branch, business unit or representative office abroad; changing the bank's name and address (Article 28, Paragraph 1);
18. if it fails to ask for the opinion of the National Bank of Serbia about the decision on the appointment of manager or acting manager (Article 28, Paragraph 4);
19. if it fails to inform the National Bank of Serbia of: an increase of the initial capital fund or a new share issue; participation in the capital of banks, other financial organizations and other legal entities, as well as about investments into fixed assets of the bank; any granting of large loans and the largest possible loans, any sale of its shares entitling the buyer to more than 10 percent of the initial capital fund; opening of branches, business units and representative offices in the country; changes in the composition of its management board and supervisory board (Article 29, Paragraph 1);
20. if it fails to insure the citizens' deposits and pay insurance premiums (Article 31, Paragraph 1);
21. if it insures deposits with the Deposit Insurance and Bank Rehabilitation Agency or an insurance organization whose founder it is, or it has some other proprietary and managing relations with such legal entities (Article 31, Paragraph 3);
22. if it fails to arrange for its annual statement of accounts to be audited within six months from the end of the calendar year (Article 36);
23. if it fails to publish every year, in daily newspapers, its balance sheet and profit and loss account taken from the latest report on the audit of the annual statement of accounts, together with the auditor's report (Article 38);
24. if it prevents the auditing company which a shareholder of the bank hired at its own expense from performing the audit of accounting statements of the bank, if thus stipulated by the Memorandum of Association of the bank (Article 38a);
25. if it fails to enter into the court register the data relating to the cases prescribed by Article 40, Paragraphs 3 and 4 hereof (Article 40, Paragraph 5);
26. if it pays dividends to shareholders out of the equity capital (Article 53a, Paragraph 1);
27. if it pays dividends to shareholders before it has recompensed funds from the equity capital used for covering a certain loss (Article 53a, Paragraph 2);

28. if it fails to form, as a charge to its income, a special reserve as insurance against potential losses (Article 54, Paragraph 1);
29. if it fails to earmark an amount of a special reserve referred to in Paragraph 1, Article 54 hereof as a charge to its expenses, (Article 54, Paragraph 3);
30. if it fails to maintain its liquidity (Article 57, Paragraph 1);
31. if, while not being liquid, it grants and releases credits, issues guarantees, opens letters of credit and makes other payments from its giro account (Article 57, Paragraph 2).
32. if it fails to forward to the National Bank of Serbia and the Ministry of Finance the auditor's report on its annual statement of accounts for the previous year, by July 15 of the current year at latest, or otherwise fails to comply and provide a new auditors' report on request of the National Bank of Serbia (Article 77).

The manager of the bank and a person vested with special authorizations and responsibilities in the bank shall also be fined YUD 30,000.00 to YUD 300,000.00 for economic offence.

#### *Article 79*

Some other financial organization shall be fined YUD 600,000.00 to YUD 3,000,000.00 for any of the acts referred to in Article 78, Paragraph 1 hereof.

The manager and a person vested with special authorizations and responsibilities in some other financial organization shall be fined YUD 30,000.00 to YUD 300,000.00 for any of the acts referred to in Paragraph 1 of this Article.

#### *Article 80*

Besides a fine for any of the economic violations referred to in Article 78, Paragraph 1, and Article 79, Paragraph 1, hereof, a protective measure shall be applied to the manager of the bank and a person vested with special authorizations and responsibilities in the bank, or the manager of some other financial organization and a person vested with special authorizations and responsibilities in some other financial organization, involving a three-year ban on the performance of managing duties in a bank or some other financial organization, starting from the effective date of the ruling.

#### *Article 81*

The Deposit Insurance and Bank Rehabilitation Agency and an insurance organization shall be fined YUD 600,000.00 to YUD 3,000,000.00 for economic violation in the event of their failure to keep in their books a separate record of the funds collected as premiums for the insurance of citizens' deposits (Article 33).

The manager or a person vested with special authorizations and responsibilities in the Deposit Insurance and Bank Rehabilitation Agency or in an insurance organization shall be fined YUD 30,000.00 to YUD 300,000.00 for the economic violation referred to in Paragraph 1 of this Article.

#### *Article 81a*

A legal entity shall be fined YUD 600,000.00 to YUD 3,000,000.00 for economic violation if it fails to obtain the approval of the National Bank of Serbia for any acquisition of shares with controlling right, entitling it to 15% of participation in the equity capital of the bank, as well as for any increase of the mentioned participation. (Article 12, Paragraph 1).

A responsible person in the legal person shall also be fined YUD 30,000.00 to YUD 300,000.00 for economic offence stated in Paragraph 1 of this Article.

### *3. Infractions*

*Article 82*

The Governor of the National Bank of Serbia shall be fined YUD 2,100.00 to YUD 21,000.00 in the event of:

1. his failure to make a decision to issue the operating license to a bank or to renounce the bank's application within 60 days from the day on which the bank concerned submitted its application (Article 9, Paragraph 1);
2. his failure to make a decision as to the request for obtaining approval on the acquisition of the bank's own shares within 30 days from the day on which the bank concerned submitted its application (Article 19b, Paragraph 5);
3. his failure to make a decision as to the request for obtaining approval referred to in Article 28, Paragraph 1, Items 1 through 4 hereof within 30 days from the day on which the bank concerned submitted its application (Article 28, Paragraph 3).

*Article 83*

The manager or a person vested with special authorizations and responsibilities shall be fined YUD 2,100.00 to YUD 21,000.00 for infraction if he founds a bank or some other financial organization either directly or through a legal entity of which he is a co-founder, for the duration of his employment or within the term prescribed hereby. (Article 52, Paragraph 1)

*Article 83a*

A physical person shall be fined YUD 2,100.00 to YUD 21,000.00 for infraction if it fails to obtain the approval of the National Bank of Serbia for any acquisition of shares with controlling right entitling it to 15% of participation in the equity capital of the bank, as well as for any increase of the mentioned participation. (Article 12, Paragraph 1).

## V TRANSITIONAL AND CONCLUDING PROVISIONS

*Article 84*

The banks and mixed-ownership banks founded under the Law on Banks and Other Financial Organizations ('SFRY Official Gazette, Nos. 10/89, 40/89, 87/89, 18/90, 72/90, 79/90) shall be obliged to adjust their operations, organization and enactments to the provisions hereof no later than June 30, 1997.

The existing banks having a share in the capital of other banks and the banks founded by other banks, shall be bound to adjust their operations and mutual relations to the provisions hereof no later than June 30, 1997.

Other financial originations founded under the Law on Banks and Other Financial Organizations ("SFRY Official Gazette, Nos. 10/89, 40/89, 87/89, 18/90, 72/90, 79/90) shall be obliged to adjust their operations, organization and enactments to the provisions hereof within six months from the effective date hereof.

Banks, mixed-ownership banks and other financial organizations stated in Paragraphs 1, 2, and 3 of this Article shall be bound to provide the pecuniary part of the initial capital fund prescribed hereby within six months from the effective date hereof.

Upon the expiry of the terms stated in Paragraphs 1 through 4 of this Article, banks, mixed-ownership banks and other financial organizations which fail to comply with the provisions of Paragraphs 1 through 4 of this Article shall cease to operate.

*Article 85*

Legal entities engaged in deposit, credit and other banking operations and not established under the Law on Banks and Other Financial Organizations ("SFRY Official Gazette, Nos. 10/89, 40/89, 87/89, 18/90, 72/90, 79/90) shall be obliged to adjust their operations to the provisions hereof within six months from the effective date hereof.

Any legal entity shall cease to operate and shall be deleted from the court register in the event of its failure to adjust its operations to the provisions hereof before the expiry of the term set in Paragraph 1 of this Article.

*Article 86*

The banks which the Federal Deposit Insurance and Bank Rehabilitation Agency has decided to rehabilitate, as well as the banks undergoing rehabilitation, shall be bound to adjust their operations, organization and enactments to the provisions hereof within the term set for rehabilitation.

The banks which fail to adjust their operations, organization and enactments to the provisions hereof within the term referred to in Paragraph 1 of this Article shall cease to operate.

*Article 87*

Within six months from the effective date hereof, Banks, mixed-ownership banks and other financial organizations shall be bound to present to the National Bank of Serbia proof showing that the manager of the bank, mixed-ownership bank or some other financial organization concerned meets the requirements set in Article 49, Paragraph 2 hereof.

On the basis of the proof stated in Paragraph 1 of this Article, the National Bank of Serbia shall, within 30 days from the day of proof submitting, grant its agreement so that the appointed manager may continue performing his function.

*Article 88*

The bank which have formed, pursuant to Article 33, Paragraph 2 of the Law on Banks and Other Financial Organizations ("SFRY Official Gazette, Nos. 10/89, 40/89, 87/89, 18/90, 72/90, 79/90) other funds, on the basis of a decision made by the bank's assembly may decide to transfer such funds to the bank's initial capital fund or reserves.

*Article 89*

Branches, business units and representative offices of foreign banks in the Federal Republic of Serbia which were founded in conformity with Article 64k of the Law on Banks and Other Financial Organizations ("SFRY Official Gazette, Nos. 10/89, 40/89, 87/89, 18/90, 72/90, 79/90) shall be obliged to adjust their operations, organization and enactments to the provisions hereof within one year at latest from the effective date hereof.

Branches, business units and representative offices of foreign banks shall cease to operate and shall be deleted from the court register in the event of their failure to adjust their operations to the provisions hereof before the expiry of the term set in Paragraph 1 of this Article.

*Article 90*

The procedures for the issuance of bank operating licenses which started prior to the effective date hereof and which have not been completed shall be completed in conformity with the provisions hereof.

*Article 91*

Pending the enactment of a federal law which should govern the auditing of the accounting statements of legal entities, the annual statements of accounts of banks and other financial organizations shall be audited by the Domestic Payment Operations Service.

*Article 92*

The National Bank of Serbia shall enact or adjust to the provisions hereof the regulations it is authorized for pursuant to this Law, within 60 days from the effective date hereof.

*Article 93*

On its effective date, this Law shall supersede the Law on Banks and Other Financial Organizations ("SFRY Official Gazette, Nos. 10/89, 40/89, 87/89, 18/90, 72/90, 79/90).

*Article 94*

This Law shall come into force on the eighth day upon its publication in *FRY Official Gazette*.

**SEPARATE INDEPENDENT ARTICLES OF THE LAW ON AMENDING AND SUPPLEMENTING THE LAW ON BANKS AND OTHER FINANCIAL ORGANIZATIONS**

*The Law was published in "FRY Official Gazette" No. 44/99*

*Article 42*

Banks and other financial organizations founded prior to the effective date hereof shall be obliged to provide the pecuniary part of the equity capital stipulated hereby in the following manner:

- 1) 50% within six months from the effective date hereof and
- 2) 50% within one year from the effective date hereof.

Banks and other financial organizations referred to in Paragraph 1 of this Article shall be obliged to adjust their operations, Articles of Association and business policy enactments to the provisions hereof within one year from the effective date hereof.

Banks and other financial organizations that fail to act according to the provisions of Paragraphs 1 and 2 of this Article shall cease to operate.

*Article 43*

This Law shall come into force on the day following its publication in "FRY Official Gazette".

**SEPARATE INDEPENDENT ARTICLES OF THE LAW ON AMENDING AND  
SUPPLEMENTING THE LAW ON BANKS AND OTHER FINANCIAL ORGANIZATIONS**

*The Law was published in "FRY Official Gazette" No. 36/2002*

*Article 28*

The Post Office Savings Bank shall be obliged to transform into bank and adjust its operations, organization and enactments to the provisions hereof till December 31, 2002, except for the pecuniary part of the equity capital prescribed hereby, which it should provide till December 31, 2003.

The Post Office Savings Bank transformed in the manner stated in Paragraph 1 of this Article can be entered into the court register under its present name.

Banks and other financial organizations founded prior to the effective date hereof shall be bound to adjust their operations, organization and enactments with the provisions hereof by December 31, 2002, except for the pecuniary part of the equity capital prescribed hereby, which they should provide till December 31, 2003.

The National Bank of Serbia shall prescribe the dynamics of adjustment of operations and the pecuniary part of the equity capital of the banks and other financial organizations, pursuant to the provisions of the Paragraphs 1 and 3 of this Article.

The National Bank of Serbia shall revoke the operating license and institute the liquidation/bankruptcy procedure of a bank or some other financial organization, if it fails to adjust its operations, organization and enactments to the provisions hereof by the term set in Paragraphs 1 and 3 of this Article.

*Article 29*

The National Bank of Serbia shall enact regulations for the implementation of this Law within 60 days from its effective date.

*Article 30*

This Law shall come into force on the eighth day after its publication in "*FRY Official Gazette*".

**A SEPARATE INDEPENDENT ARTICLE OF THE LAW ON AMENDING AND  
SUPPLEMENTING THE LAW ON BANKS AND OTHER FINANCIAL ORGANIZATIONS**

*The Law was published in "RS Official Gazette" No. 72/2003*

*Article 11*

This Law shall come into force on the eighth day after its publication in "*RS Official Gazette*".