

LAW ON BANKS

("Official Herald of the Republic of Serbia", No. 107/2005, 91/2010 and 14/2015)

Chapter I

BASIC PROVISIONS

Subject of the Law

Article 1

This Law shall regulate the establishment, operation and organization of banks, the manner the banks are managed, as well as control, restructuring and termination of banks.

Meaning of Certain Terms

Article 2

Bank shall mean 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 which may perform other activities in compliance with the law.

Foreign bank shall mean 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 shall mean an organizational part of a bank without legal entity status, carrying out activities that a bank can carry out in compliance with the present Law.

Representative office shall mean 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 shall be a national body that is authorized by certain state regulations to issue and revoke operating licenses to persons in the financial sector, to control these persons, or supervise them or regulate their operations, in the same manner as the appropriate authority of the European Union with these responsibilities in accordance with the regulations of that union.

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

Deposit shall have the meaning established by the law which governs deposit insurance.

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

Financial sector person shall mean 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 shall exist 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 shall mean qualified, significant and controlling participation.

Qualified participation shall exist 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 shall exist 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 shall exist 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 shall mean a legal entity that holds controlling participation in such entity.

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

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

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

Group of companies shall mean 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 shall mean a legal entity in which no legal entity holds controlling participation.

Banking group shall mean 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 shall mean 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 shall be persons who meet at least one of the following conditions:

1) That two or more legal or natural persons are related so that one of them has a significant or controlling participation in the other legal person(s);

2) That two or more legal or natural persons, among whom there is no relationship referred to in item 1) above, are related so that there is a possibility that due to the deterioration of financial position of one of the persons, the other person's/persons' ability to fulfill its/their obligations deteriorates;

3) That two or more legal or natural persons are related so that a natural person is the member of the board of directors or executive board or some other governing body of the other legal person(s);

4) That two or more legal or natural persons are related so that family members of the natural person have significant or controlling share in the other legal person(s), i.e. that they are members of the board of directors or executive board or some other governing body of those legal persons;

5) That the family members of the natural persons who are members of the board of directors or executive board or some other governing body, or persons with special powers and responsibilities in a legal person, are at the same time members of the

board of directors or executive board or some other governing body or persons with special powers and responsibilities in the other legal person(s).

Persons related to a bank shall be:

- 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 the boards of the bank determined by this law, members of management and governing bodies of a member of the same banking group to which the bank belongs, 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 the present paragraph hold controlling participation.

Family members of the natural person shall include:

- 1) His blood relative in the direct line, blood relative in the collateral line to the third degree of kinship, as well as a spouse and an extra-marital partner of these persons;
- 2) His spouse and extra-marital partner and their blood relatives up to the first degree of consanguinity;
- 3) His adoptive parent or adopted child, as well as the descendants of the adoptee;
- 4) Other persons that live with that person in the same household.

Undercapitalized bank shall be a bank whose capital adequacy ratio is lower than prescribed, or whose capital is lower than required, as well as the bank whose capital adequacy ratio is lower than the one ordered by the National Bank of Serbia in accordance with Article 23 of this Law.

Bank important for the system shall be a bank whose deterioration in the financial condition or termination of operation would have serious negative consequences on the stability of the financial system. Banks that are important for the system shall be designated by the National Bank of Serbia on the basis of the criteria and methodology it prescribes which shall especially take into account the size of the bank, its links with other participants in the financial system and its substitutability in this system, as well as the complexity of its operations.

Authority responsible for the restructuring shall be a national authority authorized by regulations of a certain state to undertake measures towards persons in the financial sector that are compatible to the measures of restructuring prescribed by this Law, as well as an appropriate authority of the European Union with such responsibilities in accordance with the regulations of that union.

Critical functions shall be activities, services or operations whose interruption would probably lead to endangering of the stability of the financial system or to disturbances in the provision of essential services to the real economy due to the size, market share and the relationship between the entity that performs them with the other participants in

the financial system, especially taking into account the possibility of someone else taking over the performance of these activities, services or operations.

Key business activities shall be commercial activities and services associated with these activities whereby substantial portion of revenue of the bank or banking group to which the bank belongs is achieved.

Rating agency shall be a person engaged in assigning a credit rating of legal persons and/or financial instruments.

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 the Law regarding shares and other securities of a joint stock company, shall be applied to banks, unless in contradiction to the present Law.

Article 3a

(Deleted)

Activities the 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 the present paragraph, and are in compliance with establishment act and articles of association of the bank.

Banks may perform activities mentioned in paragraph 1, item 10 of the present 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 the present 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

The competition of the banks in the financial market shall be subject to the law governing the protection of competition.

Cooperation Related to Control Function and Restructuring

Article 8

The National Bank of Serbia cooperates with domestic and foreign regulatory authorities or authorities responsible for restructuring in order to exercise and improve its control function, and to perform tasks related to the restructuring of banks and other tasks defined by this Law.

The National Bank of Serbia may enter into agreements with the authorities referred to in paragraph 1 of this Article for the purposes of cooperation and exchange of data (information) related to the performance of activities cited in that paragraph.

The National Bank of Serbia may exchange with the authorities referred to in paragraph 1 of this Article the data (information) obtained in the exercise of its control function, in the performance of operations in connection with the restructuring of banks, as well as

other operations determined by this law, if the obligation to guard the secret information that applies to these authorities is equal to or stricter than the obligation set out in Article 9b of this Law.

The National Bank of Serbia may submit the data (information) obtained from the authorities referred to in paragraph 1 of this Article to other domestic or foreign regulatory authorities, i.e. authorities responsible for restructuring and other competent authorities, at their request, with the prior consent of the authority from which these data (information) were provided, wherein these data (information) may be exchanged only for the purposes specified in the consent, unless the law provides otherwise.

The National Bank of Serbia may, via foreign authority responsible for restructuring, implement measures from the restructuring procedure established by this law, and it may also undertake measures in order to implement the restructuring procedure that was initiated by a foreign authority in charge of restructuring - in accordance with international agreements that the Republic of Serbia concluded with the country of origin that authority.

Administrative Procedure

Article 9

The National Bank of Serbia shall perform control of solvency and legal compliance of activities of banks, implement the restructuring of the bank, and, in compliance with the competence established by the present Law, it shall make decisions regarding rights and obligations as well as legal interests of persons - within the procedure established by the present Law.

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

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

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

Administrative proceedings may be initiated against the resolution specified in paragraph 3 of the present Article, 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 the present Article cannot resolve the administrative issue for which the present Law stipulates competence of the National Bank of Serbia.

By action against the decision to revoke the bank's operation license, the decision whereby write-off and conversion of capital is implemented, and the decision adopted by the National Bank of Serbia in the procedure of restructuring, the banks may only seek the determination of illegality and the annulment of that decision, as well as compensation for damages if that was not claimed in a separate proceedings.

If the court annuls the decision referred to in paragraph 7 of this Article - third parties shall retain the rights and obligations acquired on the basis of the annulled decision,

while the plaintiff's rights shall be limited to the compensation of damages he suffered by the execution of that decision.

Decisions, minutes and other documents, as well as notices, requests and other documents of the National Bank of Serbia which are related to the bank control and restructuring and which are delivered to a bank, shall be considered as delivered to the members of the management body of the bank too and this may not subject to proving contrary.

The National Bank of Serbia may prescribe the obligation for banks to ensure the conditions for receiving decisions, minutes and other documents, as well as notices, requests and other documents of the National Bank of Serbia in the form of electronic documents.

Responsibility for Damages Caused during Performance of Duties Established by this Law

Article 9a

The National Bank of Serbia, employees of the National Bank of Serbia, persons appointed by the National Bank of Serbia for the position of provisional administrators or special administrators, as well as other persons who by decision of the National Bank of Serbia, or on the basis of this law, in the process of control or restructuring exercise duties under this Law - shall not be liable for any damage arising from the performance of these duties, unless it is proven that they did not act in good faith.

The persons referred to in paragraph 1 of this Article shall not be liable for damages referred to in that paragraph even after termination of employment in the National Bank of Serbia or termination of office.

The National Bank of Serbia shall bear the costs of legal representation of employees of the National Bank of Serbia in judicial and administrative proceedings instituted in connection with the duties that such employees perform under this Law.

The National Bank of Serbia shall also bear the costs referred to in paragraph 3 of this Article of the persons whose employment has been terminated in the National Bank of Serbia.

Interim administrator's legal representation costs shall be borne by the bank, special administrator's legal representation costs shall be borne by the bank in restructuring, and legal representation expenses of members of the management body or managers of the legal person referred to in Article 128p paragraph 1 of this law, this legal person.

If it has been established by a final decision in the appropriate procedure that the persons referred to in paragraph 1 of this Article caused damages referred to in that paragraph intentionally or by gross negligence, these persons shall be reimburse to the National Bank of Serbia, or a bank or legal person referred to in paragraph 5 of this Article, the costs of legal representation from par. 3 to 5 of this Article, as well as the amount of damages paid in accordance with the law.

Confidentiality of Data

Article 9b

Data relating to the control of creditworthiness and legality of operation of a bank and to the restructuring of a bank, as well as documents containing such data, in any manner disclosed to the employees of the National Bank of Serbia, the agency responsible for deposit insurance (hereinafter: Agency), the ministry responsible for finance affairs, or a bank, or to other persons while performing tasks related to this control, or restructuring - are designated and protected as confidential information marked with a degree of secrecy "TOP SECRET", "CONFIDENTIAL" or "INTERNAL", in accordance with the law governing the confidentiality of data.

The persons referred to in paragraph 1 of this Article shall keep the data and documents referred to in that Article as confidential information and may not make them available to third parties, except in cases required by law.

The obligation of confidentiality for persons referred to in paragraph 1 of this Article shall not cease even after termination of employment or hiring, or after the termination of the other properties on the basis of which these persons gained access to data from that paragraph.

Notwithstanding paragraph 2 of this Article, the National Bank of Serbia may make the information and documents referred to in that paragraph available to domestic and foreign regulatory authorities or authorities responsible for restructuring and other competent authorities, provided that these authorities use them solely for the purposes for which they were obtained.

The National Bank of Serbia shall designate as secret the data of interest for the Republic of Serbia whose disclosure to an unauthorized person would cause damage and for which, in the process of determining the data as secret, it determined that the need to protect the interests of the Republic of Serbia prevails over the interest of free access to information of public importance. The National Bank of Serbia shall enable access to data and documents referred to in paragraph 1 of this Article to an applicant wishing to exercise the right of access to information of public importance, if the applicant proves that disclosure of such information and documents could not be cause of serious legal or other consequences to the interests of the Republic of Serbia protected by law, as well as that interest for access to information of public interest outweighs the need to protect the interests of the Republic of Serbia.

Publication of the data referred to in paragraph 1 of this Article, expressed in aggregate form, so that it could not be used to determine the identity of individual banks, or natural and legal persons - shall not be considered a violation of the obligation of confidentiality.

Chapter II

ESTABLISHMENT OF BANKS

Section 1

Legal Form, Founders, Initial Capital, Establishment 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 individuals (founders of the bank).

Initial Capital

Article 12

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

Funds mentioned in paragraph 1 of the present 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 dinars 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 mentioned in paragraph 1 of the present Article may be prescribed by the National Bank of Serbia.

Establishment Act

Article 13

Establishment 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 individual - 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 the bank shall submit to the National Bank of Serbia a request for preliminary approval for the establishment of a bank (hereinafter: preliminary approval), with which they deliver:

- 1) Information about the founders of the bank, the amount of their investment and the number, type and nominal amount of shares they acquire;
- 2) Memorandum of association and the draft articles of association of the bank;
- 3) Statement that the cash portion of the initial capital shall be paid to a temporary account at the National Bank of Serbia;
- 4) Statement that the non-cash assets shall be transferred to the bank's initial capital;
- 5) Information on all persons who shall hold share in the bank and on the basis of such share;
- 6) List of the names of the proposed members of the board of directors and the executive board of the bank and details of their qualifications, experience and business reputation;
- 7) Proposed business policy and strategy of the bank for a period of three years and plan of activities for the first year of operations;
- 8) Proposal of strategies and policies for risk management and proposal of strategy for bank's capital management;
- 9) Evidence that the competent regulatory authority approved by the country of origin approved the foreign bank or another foreign person from the financial sector to participate in the establishment of a bank in the Republic of Serbia or evidence that, according to the laws of that state, such approval is not needed - if the bank is established as a subsidiary of a foreign bank or other foreign person from the financial sector which is subject to the control or supervision of that regulatory authority;
- 10) Evidence of compliance with the conditions referred to in Article 94, paragraph 4 of this Law if the founder of the bank is a foreign bank or foreign person from the financial sector which is subject to the control or supervision of the regulatory authority of the state of origin.

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 the present 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 the present 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 the present Law in the following cases:

1) If the establishing act and draft articles of association of the Bank are not in compliance with the law and other regulations;

2) *(deleted)*

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 business policy and strategy of the bank, action plan, strategy and risk management policy or bank's capital management strategy of the bank, is not appropriate;

5) If the ownership and management structures of the bank fail to enable effective control of solvency 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 control of this group on the consolidated basis or appropriate external and/or internal audit.

If in the process of deciding on a request under Article 15, paragraph 1 of this law, it is assessed that the proposed member of the board of directors or executive board of the bank does not have the proper qualifications or experience, or business reputation, the National Bank of Serbia shall notify the founders of the bank and ask them to nominate, within a set deadline starting from the day of delivery of such notice, another member of the administrative or executive board of the bank, and to submit the information about that person as referred to in Article 15, paragraph 1, item 6) of this law. If the founders fail to comply with such request, or it assesses that the proposed member of the board of directors or executive board of the bank does not have the proper qualifications or experience, or business reputation - the National Bank of Serbia shall reject the request under Article 15, paragraph 1 of this law.

Article 17

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

The National Bank of Serbia shall, after the receipt of the information specified in paragraph 1 of the present Article, nullify the resolution on issuance of the preliminary approval, if the conditions for issuing such approval are no longer met. In the event of a change of data and documents referred to in Article 15, paragraph 1, item 6) of this law, Article 16, paragraph 2 of this law shall be applicable mutatis mutandis.

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 established, perform only such activities which are directed to the fulfilment of conditions which are necessary for issuing of the operating license and entering in the register.

Operating License

Article 18

An operating license shall be 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 the present 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 the present 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 the present Article within 30 days from the day of receipt of the complete request.

Resolution on issuing operating license shall be published in the "Official Herald of the Republic of Serbia".

Should the National Bank of Serbia reject or refuse the request specified in paragraph 1 of the present Article, the person who 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 the present Article.

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

Article 18a

(Deleted)

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 the present Article within 60 days following the day of receipt of enactments specified in paragraph 5 of the present 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 the present 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 mentioned in paragraph 1 of the present 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

Bank's 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 fulfilment of obligations to its creditors.

Capital of a bank shall consist 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, as well as the conditions and manner of obtaining consent for the calculation of 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 dinars equivalent of EURO 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 fulfilment 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 render a decision to 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.

If there is a need for the bank to harmonize the capital adequacy ratio with the indicator set by the National Bank of Serbia - a decision referred to in paragraph 3 of this Article shall specify the time period in which the bank shall complete this harmonization and notify thereof the National Bank of Serbia.

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

Risk Weighted Assets

Article 24

Risk-weighted assets of the bank shall represent the sum of:

- 1) Total credit risk-weighted assets and
- 2) The capital requirements for market risk and capital requirements for operational risk multiplied by the reciprocal value of the capital adequacy ratio.

The National Bank of Serbia shall prescribe the detailed requirements and manner of calculating risk-weighted assets referred to in paragraph 1 of this Article, the approaches that the bank may use to calculate these assets, including approaches that bank may use only if it obtains the prior approval of the National Bank of Serbia, as well as the detailed requirements to obtain this approval.

When a prior approval of the National Bank of Serbia is prescribed for the approach referred to in paragraph 2 of this Article, the National Bank of Serbia shall decide on the request for granting such approval within six months from the date of submission of a proper request.

The National Bank of Serbia shall approve the eligibility of credit ratings awarded by a rating agency for the purpose of calculating the credit risk-weighted assets of the bank and prescribe the detailed requirements and method of giving that approval.

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 mentioned in paragraph 1 of the present Article to the persons specified in paragraph 1 of the present Article.

If the total amount of payments mentioned in paragraph 1 of the present 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 the present Article shall be performed by means of funds originating from the bank's profit.

The acquisition of shares specified in paragraph 1 of the present 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 the present 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 the present 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 shall be considered as null and void.

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

The provision of paragraph 7 of the present 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 the present 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 considered as 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 dealing with risk management.

Bank is obliged to provide a functional and organizational separation of risk management activities and regular business bank activities.

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 strategy and policies for risk management, capital management strategy, procedures for identification, measurement, and assessment of risks as well as management of risks in compliance with regulations, standards and banking practices.

The acts referred to in paragraph 5 of this Article shall contain:

- 1) Procedures for identifying, measuring and assessing risk;
- 2) Procedures for risk management;
- 3) Procedures that ensure control and consistent implementation of all internal acts of the bank related to risk management;
- 4) Procedures for regular reporting on risk management to the bodies of the bank and to the regulatory body.

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

Types of Risks

Article 29

A bank's enactments specified in Article 28 of the present 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 and in bank's real estate investments.;
- 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 shall mean the possibility of arising of negative effects on financial result and capital of the bank caused by incapability of such bank to fulfil its due obligations.

Each bank shall manage its property and obligations in such a way that it can fulfil its due obligations at all times (liquidity), and permanently fulfil 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 shall mean the possibility of arising of negative effects on financial result and capital of the bank caused by the debtor's failure to fulfil 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 fulfilment 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.

The National Bank of Serbia may prescribe detailed requirements and manner of operation of banks relating to the monitoring of the quality of the security instruments referred to in paragraph 2 of this Article and monitoring of the quality of work of persons assessing these instruments, and cases in which a bank has to write off balance sheet assets and off-balance sheet items of a certain degree of recoverability, and may also regulate in detail the content of policies referred to in paragraph 4 of this Article.

Interest Rate, Foreign Exchange, and Other Market Risks

Article 32

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

Foreign exchange risk shall mean 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 shall represent 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 shall mean 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.

The National Bank of Serbia shall prescribe the detailed requirements and manner of calculation of large exposures, and may prescribe the maximum allowable sum of all large exposures of the bank.

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, as well as in fixed assets and real estate investments of the bank must not exceed 60% of the bank's capital.

Investments specified in paragraph 2 of the present Article shall 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 shall mean 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 the present paragraph.

Obligation to Produce the Recovery Plan

Article 36a

The Bank is required to prepare and submit to the National Bank of Serbia recovery plan which envisages measures that the bank shall apply in the case of a significant deterioration in its financial condition, especially when it is undercapitalized, to re-establish its sustainable business and the corresponding financial position.

The Bank shall update the recovery plan at least once a year, and at the request of the National Bank of Serbia more often.

The Bank shall also update the recovery plan in the event of changes in the legal or organizational structure of the bank, changes in its operations or changes in its financial position, when those changes are significant, and also in the case of other changes that affect the contents of the recovery plan and the possibility of its application.

The National Bank of Serbia shall prescribe in detail the manner and deadlines for submission of the recovery plan and the updated recovery plan.

Contents of the Recovery Plan

Article 36b

Within the recovery plan, the bank shall determine different possibilities (options) for recovery and measures that would be implemented within each of these options, as well as to provide appropriate conditions and procedures for the timely undertaking of activities for its recovery.

The bank shall determine the activities and measures for recovery also on the basis of predictions of different situations in which major macroeconomic and financial disorders that are important for the bank's operations may occur, including system events and disorders related to the business of certain persons or groups of companies.

The recovery plan shall contain a description of a set of activities and measures for recovery that the bank shall undertake in relation to the capital and liquidity, predicted deadlines for the implementation of certain elements of this plan and identification of critical functions, and other elements and information as prescribed by the National Bank of Serbia.

The measures referred to in paragraph 1 of this Article, which may be determined by a recovery plan shall in particular include change of the members of management bodies and other persons in management positions in the bank, changes in the division of duties and responsibilities of employees, closing of one or more organizational units, changes in business activities and services of the bank, providing additional capital, conversion of the corresponding elements of capital into shares or other equity instruments and other.

If the bank plans to use liquidity loans or other incentives for recovery which may be granted to banks, in accordance with the regulations, by the National Bank of Serbia, the recovery plan shall include an analysis of when, how and under what conditions the bank shall file the application for usage of that loan or incentive, and also which adequate collateral shall in this case be provided to the National Bank of Serbia.

The Recovery Plan shall also include measures that the bank shall take when the conditions for early intervention under Article 113 of this Law are fulfilled.

Usage of the extraordinary financial support from the budget and other public funds (hereinafter referred to as: extraordinary financial support) may neither be determined as a recovery measure, nor the recovery plan may in any way be based on the premise of usage of that measure.

The National Bank of Serbia shall prescribe the contents of the recovery plan.

Evaluation of the Recovery Plan

Article 36c

The National Bank of Serbia shall, within six months from the date of delivery of the recovery plan, evaluate whether the plan meets the requirements of Article 36b of this Law, and in particular:

1) Whether it is likely that the implementation of the recovery plan would ensure sustainable operations of the Bank and the corresponding financial position, taking into account the preparatory measures that the bank has already taken or plans to take;

2) Whether it is likely that the recovery plan and individual options and measures referred to in Article 36b, paragraph 1 of this law could be, in the short run, effectively applied in cases of financial disturbances (both at the system level and at the level of an individual bank), and so that the implementation of this plan shall not lead to the occurrence of negative consequences for the stability of the financial system, also taking into account the situation in which other banks would be forced to implement a recovery plan in the same period;

3) Whether the activities and measures proposed by the recovery plan could adversely affect the possibility of restructuring of the bank.

While evaluating the recovery plan, the National Bank of Serbia shall also consider whether capital and sources of financing of the bank correspond to the size and organizational structure of the bank and its risk profile.

If it finds that the recovery plan does not meet the requirements of par. 1 and 2 of this Article, that the recovery plan and the measures envisaged by the plan may not be timely and effectively implemented or that recovery plan contains other important shortcomings, the National Bank of Serbia shall notify in writing the bank about that and invite it to deliver an opinion within 15 days of receipt of this notice.

If the bank fails to submit the opinion referred to in paragraph 3 of this Article within the given term in that paragraph or the National Bank of Serbia finds that the bank's statements in that opinion are not founded - it shall order the bank to, within two months from the date of receipt of the order, remove the identified deficiencies and submit the revised recovery plan. The National Bank of Serbia may extend this deadline for a month, at the request of the bank, if there are justified reasons for this extension.

If the National Bank of Serbia determines that the bank has not eliminated the identified deficiencies in the revised recovery plan, it may order the bank that within a specified period, which may not be longer than one month, in certain way alter the recovery plan and submit the so altered plan.

If in accordance with the order referred to in paragraph 4 above, the bank fails to submit revised recovery plan or if the bank failed to eliminate the identified deficiencies in the altered recovery plan, and the paragraph 5 of this Article may not be applied - the National Bank of Serbia shall order the bank to determine within a certain term which changes in its operations should be implemented in order to remedy the identified deficiencies and to report them to the National bank of Serbia.

If the bank fails to comply with the order under par. 5 or 6 of this Article or if implementation of changes in operations determined by the bank may not remedy the identified deficiencies - the National Bank of Serbia may order the bank to take appropriate measures, in particular to:

1) Reduce the risk profile, including liquidity risk;

2) Ensure timely capital increase;

3) Review the business policy and strategy;

4) Make changes in the part of business policy and strategy relating to financing, in order to provide additional protection for key business activities and critical functions;

- 5) Make changes in management;
- 6) Review the organizational structure.

In determining the measures referred to in paragraph 7 of this Article, the National Bank of Serbia shall assess the significance of identified deficiencies of the recovery plan, as well as the limitations and consequences of the implementation of measures and the recovery plan to the bank's operations.

Application of the Recovery Plan

Article 36d

The recovery plan shall include indicators by which to determine when the appropriate measure in this plan may be undertaken, while the bank still can, if justified so by the circumstances of a particular situation, based on the decision of the board of directors of the bank, undertake measures to recover even when this is not suggested by specific indicators from this plan, or not to implement measures although these indicators suggest so.

The bank shall adequately ensure regular monitoring of the indicators referred to in paragraph 1 of this Article.

The bank shall, without delay, notify the National Bank of Serbia in writing on undertaking measures from the recovery plan, or on the fact that it has not taken the measure from the recovery plan even though the requirements to do so were met, and to submit the appropriate explanation with this notice.

The National Bank of Serbia may further prescribe the minimum quantitative and qualitative indicators referred to in paragraph 1 of this Article.

Business Operations with Related Persons

Article 37

Bank in its business activities may not approve more favourable conditions to a person related to the bank, or a bank employee, than conditions granted to other persons not related to that bank, or not employed in that bank..

Legal Transactions with a Related Person

Article 38

Bank's legal transactions with a related person shall 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 the present 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 favour 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 the present Law shall be considered as null and void.

Section 3

Bank's Relationship with Clients

Protection of Clients

Article 41

For the purposes of the present Law, a client of the 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 the present Law, must be accessible to them, and a bank is obliged to provide this access at the client's request.

Each bank shall be free to decide on the choice of clients.

Detailed requirements and manner of exercising the rights specified in paragraph 2 of the present 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 the present 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.

Client's Complaint

Article 45

If a client believes that a bank is not 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 the present Article in a reasonable period of time.

The National Bank of Serbia shall be 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 shall be considered as a business secret.

The following shall be considered as 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 shall not to be considered as 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 a client fulfilling 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 paragraph 2 of the present

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 the present 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 the present Article has been enabled.

The data about a client which are considered a bank secret may be disclosed by the bank to third persons only upon the written approval of the client, unless otherwise prescribed by the present 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 Ministry of Internal Affairs, which is the authority responsible for combating organized crime and the authority responsible for preventing money laundering, according to the 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 individuals and legal entities, which are clients of banks;
- 7) To a competent authority with regard to performing the control of payment system operations of legal entities and individuals 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 control 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 the present Article, a bank shall have 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 the present 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 the present 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, reporting and publication of data and information

Financial Records

Article 50

The Bank shall keep the books of account and accounting records and prepare the annual financial statements, which reflect a true and fair view of its business and financial condition, in the content and format as determined by the law governing accounting, by this law and regulations of the National Bank of Serbia.

In preparing the annual financial statements, the bank shall apply the international financial reporting standards as of the day which the responsible international body determined as the day of commencement of their application.

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 the present Article, as well as the manner and deadlines for their submission.

The publication of data and bank information

Article 51a

Bank is obliged to publish the data on strategy and policies of the bank's risk management, bank capital, bank capital adequacy, as well as other data or information, in accordance with regulations of the National Bank of Serbia.

The Bank is not obliged to publish not materially important data and information, and data and information whose release to the public could adversely affect the competitive position of the bank in the market, as well as data and information which represents the banking secret, in line with the present Law.

National Bank of Serbia shall prescribe in more detail the content of data or information referred to in this article, as well as conditions, manner and terms for their publication.

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 the present 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 perform at the bank up to five consecutive audits of regular annual financial statements.

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.

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 mentioned in paragraph 1 of the present Article shall not be considered independent of a bank if he/she 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) Was a person related to the bank or any member of the banking group;
- 2) Was a business partner of the bank or any member of the banking group;
- 3) Was a person with direct or indirect ownership in the bank or any member of the banking group;
- 4) Was a liquidation administrator or a receiver of a member of the banking group;
- 5) Was 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 the present 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 the present 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 the present 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 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/her assessment of the efficiency of internal audit, risk management system and internal control system 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 the present Article, i.e. the assessment referred to in paragraph 2 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 established by merging 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 agreed day of merging 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 at the agreed date of absorption..

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

Detailed requirements and manner of performing the audit mentioned in paragraph 1 of the present 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 the present 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 mentioned in paragraph 1 of the present 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 the present Article, the National Bank of Serbia may take measures prescribed by the present 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 the present Article.

Except for the provision of paragraph 2 of the present 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 the present Article or if they have accepted the appointment before the deadline specified in paragraph 3 of the present 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

If it is determined that the audit of the bank, bank holding company or banking group referred to in Article 52 of this law is not made in accordance with the provisions of this law and the regulations adopted under this law, and especially if in the process of control, or otherwise, it was determined that the auditor's report was not based the true and objective facts - the National Bank of Serbia shall not accept that audit report and shall request that another external auditor repeat the audit at the expense of the bank.

Special Audit

Article 63

If it is assessed that for the purpose of exercising control referred to in this law there is a need to collect, analyze and process certain information in connection with the operation of a bank that are not covered by the audit report of the annual financial statements of the bank - the National Bank of Serbia may order the Bank to hire an external auditor to carry out special audit of financial statements of the bank and a member of a banking group or their individual parts, as well as other types of audit or

examination of certain business processes and data in connection with the operations of these persons (hereinafter referred to as: special audit).

For carrying out special audit, the National Bank of Serbia may require the bank or banking group member to appoint an auditor who is on the list referred to in Article 52, paragraph 3 of this Law. The bank or banking group member shall, without delay and limitation, deliver to the auditor all information and documents necessary for carrying out the special audit and to provide him with all necessary assistance, in accordance with 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 the present Article, as well as other enactments of the association and agreements that the association concludes with banks.

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, that define business goals of the bank for a period of at least three years;
- 2) Render the bank's articles of association and adopt amendments and addenda to the establishing act and articles of association of the bank;
- 3) Adopt financial 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) (*deleted*)
- 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 the present 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 establishment act and articles of association of the bank.

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

Detailed requirements and manner of granting consent in paragraph 4 of the present 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 the particular items to 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 the present 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) (*deleted*)

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 the particular items to 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.

Members of the board of directors or executive board of the bank shall be responsible for keeping the bank's operations in accordance with the law, as well as with by-laws and rules of the National Bank of Serbia, as well as the rules and procedures of the bank, in accordance with the duties and responsibilities of the board of directors or executive board established by this Law, the regulations adopted on basis of this law, the articles of association and internal by-laws of the bank.

A representative of the National Bank of Serbia may attend meetings of the board of directors or executive board of the bank, as well as the committees referred to in Article 79, paragraph 1 of this law, and may address the members of these committees.

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 the 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 fulfil 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 and Dismissal of Members of the Board of Directors

Article 72

The bank shall submit to the National Bank of Serbia a request for prior approval for the appointment of a member of the board of directors of the bank, attached to with it submits documents and provides data proving the business reputation and qualifications of the person nominated for a member of the board of directors of the bank.

The National Bank of Serbia shall further prescribe the requirements for approval referred to in paragraph 1 of this Article.

The National Bank of Serbia shall reject the request referred to in paragraph 1 of this Article if the person nominated as a member of the board of directors of the bank is:

- 1) A person who, at the date of revocation of bank's operation license or six months before that day, or at the day of the introduction of temporary or special administration in the bank, was authorized for to represent, or was a member of the management of that bank, unless that person and his acts or actions or failure to undertake these acts do and actions did not affect or could not affect the fulfillment of the conditions for the revocation of bank's operation license or the introduction of temporary or special administration in the bank;
- 2) A member of any management body of another bank, or a bank employee;
- 3) Convicted for a criminal offense to an unconditional prison sentence or has been convicted for a criminal offense that makes him unfit to perform these functions.

For a member of the board of directors of the bank referred to in Article 71, paragraph 6 of this law, the application referred to in paragraph 1 of this Article shall be accompanied by evidence that the person has at least three years of experience in a leadership position in the person that is part of the financial sector or six years of experience in the field finance and banking, and that he was distinguished as an expert or scholar in those areas. For other members of the board of directors, attached to the request referred to in paragraph 1 of this Article, shall be evidence referred to in paragraph 3 of this Article, and evidence that the person has at least six years of experience in the management position in a company.

The bank shall notify the National Bank of Serbia on the dismissal or resignation of a member of the board of directors of the bank, within ten days from the date of dismissal or resignation, stating the reasons for it.

Member of the bank's board of directors may not be a member of its executive board.

The National Bank of Serbia may issue a decision ordering the dismissal of a member of the board of directors if it determines that that person no longer meets the requirements of this law or acts contrary to the provisions of this law, or if he is held responsible for irregularities in the bank's operation, and if the bank fails to allow the National Bank of Serbia to control the solvency and legality of its operations.

If a member of the board of the directors of the bank is charged with a felony that makes him unfit to perform this function, the National Bank of Serbia may issue a decision to temporarily prohibit that person to exercise of that function in the bank, until

the end of criminal proceedings, and if finally convicted of this felony his function shall be terminated on the date of finality of the judgment.

The National Bank of Serbia may prescribe detailed terms and conditions of appointment of members of the board of directors of the bank.

Competence

Article 73

The board of directors of a bank shall:

- 1) Convene sessions of the assembly of the bank;
- 2) Prepare for the assembly of the bank draft decisions and is responsible for the implementation of those decisions;
- 3) Approve the proposal of business policy and strategy of the bank and submit them to the assembly of the bank for adoption;
- 4) Adopt the strategy and policies for risk management and capital management strategy of the bank;
- 5) Determine the general conditions of the bank's operations, and amendments thereto;
- 6) Appoint and dismiss the president and members of the executive board of the bank;
- 7) Appoint and dismiss members of the board of directors referred to in Article 79, paragraph 1 of this law;
- 8) Determine the amounts to which the bank's executive board may decide on lending and borrowing of the bank and decide on lending and borrowing of the bank over these amounts;
- 9) Give prior approval for the bank's exposure towards each individual person or group of linked persons that exceeds 10% of the bank's capital, or for the increase of this exposure of more than 20% of its capital;
- 10) Supervise the work of the executive board of the bank;
- 11) Establish a system of internal controls and supervise its efficiency;
- 12) Adopt the program and plan of internal audit of the bank and the methodology of its work;
- 13) Analyze the reports of the external and internal audit on the results of the performed audit, as well as the reports on the activities and work of internal audit, and approve the annual report on the adequacy of risk management and internal control of the bank;
- 14) Adopt the quarterly and annual reports of the executive board of the bank on bank's operations, including quarterly reports on risk management, and submit the adopted a financial statement to the bank's assembly for final approval;

15) Adopt its own rules of procedure and of the committee referred to in Article 79, paragraph 1 of this law;

16) Adopt the recovery plan of the bank;

17) Notify the National Bank of Serbia and other competent authorities about the determined irregularities;

18) Determine the internal organization or organizational structure of the bank which provides separation of powers, duties, and responsibilities of employees, members of governing bodies and other persons in management positions in the bank, in a manner that prevents conflict of interest and provides a transparent and documented process of making and implementing decisions;

19) Adopt a policy of salaries and other employee benefits in the bank;

20) Perform other duties in accordance with the bank's articles of association.

A bank's board of directors shall be responsible for the accuracy of all reports on the operations, financial condition and results of operations of the bank sent 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.

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 the present 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.

While executing legal transactions and conducting legal affairs belonging to the competence of the executive board, the chairman of the executive board of the bank is obliged to provide the signature of a member of that committee.

The members of the executive board shall be 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.

The provisions of this law relating to the appointment and dismissal of the members of the board of directors of the bank shall apply mutatis mutandis to the appointment and dismissal of members of the executive board of the bank.

Competence

Article 76

The executive board of the bank shall organize and supervises the daily operations of the bank.

The executive board of the bank shall be responsible for the implementation and effective functioning of the bank's internal controls system.

The Executive Board of the Bank shall:

- 1) Implement the decisions of the bank's assembly and the board of directors;
- 2) Suggest the business policy and strategy of the bank to the board of directors, as well as strategy and policy for risk management and capital management strategy of the bank;
- 3) Implement business policy and strategy of the bank by making the appropriate business decisions;
- 4) Implement the strategy and policies for risk management and the strategy of bank's capital management by adopting risk management procedures, or for identifying, measuring and assessing risk, and ensuring their implementation, and report to the board of directors about these activities;
- 5) Analyze the risk management system and report, at least quarterly, to the bank's board of directors on level of risk exposure and risk management;
- 6) Decide on lending and borrowing of the bank up to the amount determined by the board of directors of the bank;

- 7) Decide, with a prior approval of the board of directors of the bank, on any increase in bank's exposure to a person related to the bank and notify the board of directors of the bank;
- 8) Provide safety and regular monitoring of information technology systems and treasury operations of the bank;
- 9) Inform the bank's board of directors of all actions which are not in accordance with the regulations and other documents of the bank;
- 10) At least once in a business quarter, submit the review of business activities, the balance sheet and income statement of the bank to the bank's board of directors;
- 11) Promptly notify the board of directors of the bank and the National Bank of Serbia on any deterioration in the financial condition of the bank or the existence of danger of such deterioration, as well as on other facts that may significantly affect the financial condition of the bank;
- 12) Ensure that all employees are familiar with the regulations and other acts of the bank regulating their employment obligations;
- 13) Adopt its rules of procedure;
- 14) Decide on all matters that are not within the competence of the assembly and the 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 EURO 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 the present 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 the present 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 the present 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 the present 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 strategy and policy 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) *(deleted)*

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 the present Article shall be obliged to perform.

Section 2

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

System of Internal Controls

Article 82

The Bank shall establish and implement an effective system of internal controls in a way that provides continuous monitoring of risks to which the bank is or may be exposed in its operations, which particularly includes:

- 1) Risk management functions;
- 2) Compliance functions;
- 3) Internal audit functions.

The National Bank of Serbia may prescribe detailed terms and conditions of managing and implementing the internal control systems.

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

Article 83

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

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

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

Employees of the bank shall enable the organizational unit specified in paragraph 1 of the present 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 the present Article shall be prescribed in detail by the National Bank of Serbia.

Article 84

The organizational unit the competence of which includes control 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 the present Article shall be adopted by the bank's executive board.

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

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

The manager of the organizational unit specified in paragraph 1 of the present Article shall be 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 the present 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 the present Article shall be 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 control of compliance of the bank's activities;
- 2) Ensure adequate identification and control 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 the present Article, employees of the bank shall submit written explanations concerning deficiencies and errors in their work, and they shall eliminate them.

The organizational unit specified in paragraph 1 of the present 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 the present Article together with its annual financial statement.

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

The contents of the report specified in paragraph 1 of the present 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 the present 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 the present Article shall be prescribed by the National Bank of Serbia.

Establishment of Other Organizational Forms of Banks Abroad

Article 90

Provisions of the present 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 the present 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 the present 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 establishment 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 the present 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 the present 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 the present Article within 60 days following the day when the complete request was received.

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

If the applicant for the consent specified in paragraph 1 of the present 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 control 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 the present Article.

In the resolution by which the National Bank of Serbia grants the consent specified in paragraph 1 of the present 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 individuals 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 the present Article fail to acquire the ownership within the time period specified in paragraph 5 of the present 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 the present 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 the present 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 individuals, where the relation specified in items 1 - 11 of the present 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 the present Law, a person acts as a single acquirer with another person also if no relation specified in paragraph 1 of the present 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 the present 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) The acquisition of participation has a negative impact on the ability of banks to ensure that its business is in accordance with the law, regulations and provisions of the National Bank of Serbia;
- 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;
- 12) There are indications that the activities associated with the acquisition of participation were executed for the purpose of money laundering or terrorist financing, in accordance with the law governing the prevention of money laundering and terrorist financing.

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 the present 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 the present 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 the present 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 considered as null and void.

Should the National Bank of Serbia revoke a Resolution on consent granting specified in Article 94, Paragraph 1 of the present Law, it should prohibit, by the same Resolution, a person to whom the consent for the acquisition of ownership in the bank has been revoked, disposal with all rights attached to shares in respect of which that property has been acquired, and it may also order that person to dispose of that property.

National Bank of Serbia shall deliver the Resolution referred to in Paragraph 3 of the present Article, to the Securities Commission and to the Central Securities Depository and Clearing House (hereinafter: the Central Registry).

Acquisition of Ownership without Consent

Article 100

A person may acquire ownership specified in Article 94 paragraph 1 of the present 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 the present 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 the present 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 the present Article in the manner and within the deadlines specified in Article 94 of the present Law.

Should the National Bank of Serbia refuses by a Resolution to give consent for the acquisition of property referred to in paragraph 1 of this Article, it shall prohibit, with the same Resolution, a person referred to in that paragraph to dispose with all rights attached to shares in respect of which this property has been acquired and ordered that person to dispose this property to the extent and within period specified under that Resolution.

National Bank of Serbia shall deliver the Resolution from the paragraph 5 of the present Article to the Securities Commission and the Central Registry.

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 the present 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 fulfilment 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 the present Law, to submit to it all the information and documentation specified in paragraph 1 of the present 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 the present 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 the present Article.

Section 1a

Diagnostic Examination

Article 101a

The National Bank of Serbia may, for the purpose of collection, processing and analysis of necessary data, perform diagnostic examination of bank's business by direct inspection of its books and other documents.

Article 102 para. 4 and 5 and Art. 103 and 104 of this law shall apply *mutatis mutandis* to the diagnostic examination referred to in paragraph 1 of this Article.

Section 2

Control of Solvency and Legal Compliance of Bank's Business Activities

Control by the National Bank of Serbia

Article 102

The National Bank of Serbia shall control the solvency and legality of bank's operations in accordance with this law and other law under which the National Bank of Serbia is responsible for overseeing the operations of banks.

The National Bank of Serbia shall carry out the control within the meaning of paragraph 1 of this Article indirectly - through control of reports and other documents that the bank submits to the National Bank of Serbia in accordance with this law, as well as of other data on the operations of the bank which the National Bank of Serbia has access to, and directly - by inspecting the books of account and other documentation of the bank.

The National Bank of Serbia may execute control over any member of a banking group in a manner defined in paragraph 2 of this Article.

In exercising control defined in this Article, the National Bank of Serbia shall have the right to examine the information about the total amount, type and timeliness in fulfillment of obligations of natural and legal persons customers of banks that are collected by a specific person (credit bureau), and the right to examine the books of account and other documentation of legal persons that are linked with a bank wherein the control is carried out by property, management and business relations, and may require such persons to deliver some other data.

Persons subject to control referred to in this Article shall provide the authorized persons of the National Bank of Serbia with unhindered execution of control and cooperate with them.

The National Bank of Serbia may by regulation establish the obligation of banks to pay a fee for control under this article, as well as the method of calculation, payment deadlines and other issues regarding this fee.

The National Bank of Serbia may prescribe detailed requirements and manner of execution of control under this Article.

Article 102a

(Deleted)

Persons Authorized for On-Site Control

Article 103

On-site control 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.

Some other person, not employed by the National Bank of Serbia, may be designated to participate in the direct control by the resolution referred to in paragraph 1 of this Article, if, because of the appropriate expertise, such person may provide support to employees referred to in that paragraph.

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 control 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 control, as well as the subject of control, shall be stated in the resolution specified in paragraph 1 of the present Article.

On-Site Control

Article 104

A bank shall enable authorized persons of the National Bank of Serbia (hereinafter referred to as: authorized persons) to conduct the control 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 control 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 control of computer programs.

On-site control in compliance with the present Law shall be conducted by authorized persons on week days, during regular working hours, and when necessary due to the scope and nature of the control, authorized persons may also conduct control 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 control;
- 3) Require that copies of all the documentation related to the subject of control 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 control 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 control in an unhampered way.

Report on Control

Article 105

Authorized persons who perform control shall prepare a report on the performed control (hereinafter referred to as: report on control).

Report on control shall be made even when irregularities in bank's operations are detected in the process of indirect control, except in the case when the bank has notified the National Bank of Serbia on such irregularities.

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

The National Bank of Serbia shall not consider the objections of the bank to the report on control which relate to the change in the factual situation occurred after the period for which the control was executed (the cut-off date), but it may take them into account when imposing measures under this law.

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

Addendum of the Report on Supervision

Article 106

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

The addendum of the report on control shall be submitted to the bank within 15 working days following the day of submitting the remarks to this report.

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 control, or if irregularities of lesser importance were established, or if the bank, in its remarks submitted within the time period specified by the present Law, justifiably disputes all findings in the report on control, i.e. in the addendum of 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 the present Article shall be submitted to the bank.

Undertaking Measures

Article 108

If the bank, within the time limits prescribed by this law, fails to deliver remarks on the report on control or in delivered remarks it fails to reasonably question the report's findings whereby the bank acted in contravention of the regulations or in any manner that threatens its solvency, the National Bank of Serbia shall undertake towards that bank one of the measures under this law.

If the National Bank of Serbia, after checking the bank's statements from the remarks to the control report, determines that they do not significantly alter the state of facts, it shall undertake towards that bank one of the measures under this law.

Article 109

Notwithstanding the provisions of the Article 102 of the present Law, if the National Bank of Serbia in the course of the direct control or based on reports provided by indirect control, shall estimate that a bank has committed more grave irregularities, or that its financial condition worsened or that there is a possibility of a significant deterioration of financial condition or liquidity of a bank, or that the interests of depositors are in jeopardy, or that there is a possibility that those interests could be in jeopardy, a bank shall be instructed by a temporary order to undertake one or more activities under Article 112, paragraph 2 and Article 113 of this Law.

Section 3

Measures in Control Procedure

Corrective and Coercive Measures

Article 110

If during control referred to in Article 102 of this Law it is established that the bank acted in contravention of the provisions of this Law, other laws under which the National Bank of Serbia is competent for overseeing the operations of banks, regulations of the National Bank of Serbia or other regulations, or standards of prudent banking operations, i.e. in some other manner that threatens the solvency of the bank - the National Bank of Serbia shall, in accordance with the criteria laid down in Article 116 of this Law, undertake one of the following measures:

- 1) Send a written warning;

- 2) Impose orders and measures to eliminate the determined irregularities;
- 3) Revoke its operating license.

The National Bank of Serbia shall issue a decision imposing the measures referred to in paragraph 1, items 2) and 3) of this Article.

When it determines that the bank acted in a timely manner in accordance with the measures referred to in paragraph 1, items 1) and 2) of this Article (and to what extent), the National Bank of Serbia shall terminate the proceedings of bank control or it shall impose a new measure under that paragraph on the bank, or some of the measures referred to in Art. 113 to 115 of this Law, in accordance with the criteria referred to in Article 116 of this Law.

Written Warning

Article 111

A written warning shall be sent to the bank in whose operations some irregularities were detected which have neither directly nor significantly impacted its financial condition, but could have such an impact if they were not to be removed.

A written notice shall contain a deadline for removal of irregularities referred to in paragraph 1 of this Article.

Decision on Orders and Measures

Article 112

The decision imposing orders and measures for removal of irregularities detected in the operations shall be made for:

- 1) A bank where during control some irregularities in its operations were detected that could jeopardize its financial condition;
- 2) A bank where the National Bank of Serbia in accordance with Article 23 of this Law determined a higher capital adequacy ratio than prescribed, if that bank has not aligned with that indicator in the given deadline.

By the decision referred to in paragraph 1 of this Article, the bank shall be ordered to conduct, within a certain time period, one or more of the following activities:

- 1) To harmonize its business operations with the regulations;
- 2) To increase the amount of capital;
- 3) To provide a higher capital adequacy ratio, i.e. greater capital than the minimum prescribed amount if the bank's capital is not sufficient to cover all risks to which the Bank is or may be exposed, and if the bank has not established an appropriate process of internal assessment of its capital adequacy, or if that process is not implemented consistently;

4) To increase the amount of special reserves for potential losses, i.e. to adopt and implement specific provisioning policy or treatment of a particular asset;

5) To suspend or limit the following activities:

(1) Granting loans and providing other financial services to persons whose creditworthiness is not satisfactory, to some of its shareholders, members of the board of directors and executive board, or other persons linked to the bank,

(2) Taking new loans, receiving new deposits and borrowing in any other way, as well as taking undertaking off-balance sheet liabilities,

(3) Investing in property and in other legal persons,

(4) Introduction of new products;

6) To reduce the costs of its operations, including the amounts of bonuses and rewards that depend on the degree of achievement of the business goals, which are paid to the members of the executive board and the board of directors or to the employees;

7) To sell assets or shares or interest in a subordinate company;

8) To adopt and implement measures to:

(1) Limit the granting of loans,

(2) Reduce or limit exposure,

(3) Improve the process of collection of overdue receivables,

(4) Properly value the balance sheet assets and off-balance sheet items,

(5) Improve the risk management system, including the process of internal capital adequacy assessment,

(6) Improve the reporting system,

(7) Improve the system of internal controls, especially internal audit;

9) Use the net profit for the bank's capital increase;

10) Report often or further to the National Bank of Serbia on individual indicators of its business;

11) Ensure compliance with specific requirements relating to liquidity, including limiting the maturity mismatch between assets and liabilities;

12) Dismiss the member of the board of directors and/or executive board of the bank, or other person in a management position in the bank;

13) Suspend or restrict the payment of interest to individual or all shareholders and other persons whose rights towards the bank are based on the elements of bank's supplementary capital;

- 14) Close one or more organizational units, or to cease or limit the expansion of its organizational network;
- 15) Suspend payments from its accounts, except for payments for which obtains prior permission of the National Bank of Serbia;
- 16) Suspend payments abroad, except for payments for which obtains prior permission of the National Bank of Serbia;
- 17) Change the management or organizational structure of the bank;
- 18) Make the structure of the banking group whose member it is more transparent;
- 19) Publish additional data and information;
- 20) Undertake or discontinue other activities.

The decision referred to in paragraph 1 of this Article shall contain the manner in which the bank will eliminate any detected irregularities, as well as the deadlines in which it shall do that and notify about that the National Bank of Serbia, and may also contain the designation of the management body or a member of this body that is responsible for the implementation of activities referred to in that decision.

Measures of Early Intervention

Article 113

If during control referred to in Article 102 of this Law the National Bank of Serbia establishes that the bank acted in contravention of the provisions of this Law, the regulations of the National Bank of Serbia or other regulations, or it is likely that, among other things due to the fact that its financial situation is rapidly worsening, including the deterioration in liquidity, increase of the level of indebtedness, non-performing loans or concentration of exposure, the bank shall soon to act contrary to these provisions - the National Bank of Serbia may, independently of the measures taken under Art. 111 and 112 of this Law towards that bank, in accordance with the criteria laid down in Article 116 of this Law, undertake one or more of the following measures:

- 1) Order the management bodies of the bank to carry out one or more measures of the recovery plan or, if the circumstances that led to the early intervention differ from assumptions contained in this plan, to update that plan and within a certain deadline implement one or more of the measures from the updated plan;
- 2) Order the management bodies of the bank to analyze the situation, identify measures to solve all identified problems and develop an action plan to solve them, with deadlines for the implementation of these activities;
- 3) Instruct the bank's board of directors to convene an assembly of the bank, or directly convene this assembly if the board of directors fails to convene it, while the National Bank of Serbia shall in both cases determine the agenda of the assembly and suggest deliberation about adopting the appropriate decisions;

4) If necessary, order the management bodies of the bank to develop a plan of negotiations on debt restructuring with creditors of the bank, in accordance with the recovery plan;

5) Order changes in the bank's business strategy;

6) Order the bank to get in touch with potential buyers.

The decision on imposing the measures referred to in paragraph 1 of this Article shall specify the period in which the bank is obliged to comply with these measures and to provide the National Bank of Serbia with appropriate evidence of it.

In the case referred to in paragraph 1 of this Article, the National Bank of Serbia shall obtain all necessary information for update of the restructuring plan and for preparation for the possible implementation of the restructuring process, as well as for valuation of the assets and liabilities of the bank referred to in Article 128i of this law.

When the National Bank of Serbia establishes that the bank acted in a timely manner in accordance with the measures referred to in paragraph 1 of this Article (and to what extent) - the National Bank of Serbia shall terminate the procedure of bank's control, or it shall impose on the bank a new measure referred to in that paragraph, or one of the measures referred to in Article 110 of this law, in accordance with the criteria referred to in Article 116 of this law.

Dismissal of the Member of the Management Body or another Person with a Management Position in the Bank

Article 114

In the event of a significant deterioration in the financial condition of the bank or a serious breach of the law, regulations of the National Bank of Serbia and other regulations or the articles of association of the bank, upon finding that the measures referred to in Article 113 of this law are not sufficient to improve that situation in the bank - the National Bank of Serbia may issue a decision to order the dismissal of all or individual members of the management body of the bank, or the dismissal of other persons in management position in the bank, regardless of the fulfillment of the other requirements for dismissal of members of the management body referred to in Article 72, paragraph 7 of this Law.

With the decision under paragraph 1 of this Article addressed to the person referred to in that paragraph, the National Bank of Serbia may:

1) Prohibit him or restrict his performance of any activity in the bank;

2) Prohibit him or restrict his direct or indirect exercise of voting rights in the bank;

3) Demand that he disposes of, directly or indirectly, his ownership in the bank, within the time period set by the National Bank of Serbia;

4) Prohibit him to exercise official duty in any bank or banking group or to participate in operations of the bank or the banking group without prior approval of the National Bank of Serbia.

New members of the management body, or other persons in a management position, shall be appointed in accordance with this law and must fulfill all the conditions prescribed for that appointment.

Interim Administration

Article 115

The National Bank of Serbia may issue a decision on the appointment of one or more temporary administrators of the bank when it finds that the measures referred to in Article 114 of this law are not sufficient to improve the situation in the bank.

The objectives and tasks of the interim administration are determined in the decision referred to in paragraph 1 of this Article, and they may relate to the determination of the true financial condition of the bank, managing the overall operations of the bank or any part thereof in order to preserve or restore an adequate financial position of the bank and/or its stable and safe operations, and the like.

Interim administrator shall be appointed for a time period of up to a year, and his mandate, exceptionally, may be extended if the National Bank of Serbia determines the requirements of paragraph 1 of this Article are still fulfilled. The National Bank of Serbia may at any moment during the mandate of the temporary administrator adopt a decision to relieve him of his duties, or modify his powers and duties determined by the decision on the appointment.

The interim administrator must be a person independent from the bank who meets the requirements of Article 72 of this Law.

With the decision referred to in paragraph 1 of this Article, the National Bank of Serbia determines whether the interim administrator replaces the board of directors and the executive board of the bank or manages the bank together with these bodies, establishes the powers and duties of interim administrator, and in particular the division of responsibilities between the interim administrator and these bodies, as well as decisions and legal actions due to which those authorities must obtain the opinion of the interim administrator, i.e. his consent - if it is determined that they manage the bank together.

The decision referred to in paragraph 1 of this Article may determine that the interim administrator shall, prior to taking certain legal actions, obtain the approval of the National Bank of Serbia, and this approval is necessary for him to convene the assembly of the bank and determine the agenda of the assembly.

Interim Administrator shall submit to the National Bank of Serbia a report on the bank's operations and its financial condition, as well as the actions he took while carrying out his duties, at least quarterly, and at the request of the National Bank of Serbia more often. Interim administrator shall also submit the report to the National Bank of Serbia at the beginning and at the end of his mandate.

The National Bank of Serbia shall announce on its website the appointment of an interim administrator, except when the interim administrator has no authority to represent the bank.

The introduction of the interim administration, appointment and dismissal of interim administrator, as well as the termination of the interim administration in the bank shall be entered in the register of companies on the day of the decision referred to in paragraph 1 of this Article which shall be delivered by the National Bank of Serbia to the agency responsible for keeping the register of companies (hereinafter: Business Registers Agency) on the same day when it is passed.

The National Bank of Serbia shall prescribe the detailed requirements and manner of conducting the interim administration.

Discretion Right of the National Bank of Serbia

Article 116

The decision on the measure taken towards the bank shall be reached by the National Bank of Serbia on the basis of discretion by assessing of the following factors:

- 1) The severity of the observed irregularities;
- 2) The demonstrated willingness and ability of the bank bodies to rectify the irregularities found;
- 3) The extent to which the bank jeopardizes financial discipline and smooth functioning of the banking system.

In assessing the severity of the observed irregularities in the bank's operations the following shall be assessed in particular:

- 1) The financial position of the bank;
- 2) The level of capital adequacy in relation to the risks incurred;
- 3) The impact of the committed irregularity on the future position of the bank;
- 4) The number of determined irregularities and their mutual dependence;
- 5) The duration and frequency of committed irregularities;
- 6) The legality of the bank's operations.

In assessing the demonstrated willingness and ability of the bank's bodies to rectify the determined irregularities the following shall be assessed in particular:

- 1) The ability of bank's management to identify, evaluate and oversee the risks from the bank's operations and to manage them;
- 2) The effectiveness of the internal control system in the bank and in particular the internal audit function;
- 3) The efficiency in the removal of earlier irregularities, especially in the implementation of the previously imposed measures;

4) The degree of cooperation between the board of directors and the executive board and persons in a managerial position in the bank with authorized persons during the control.

In assessing the extent to which the bank jeopardizes financial discipline and smooth functioning of the banking system the importance of the bank in the financial system shall be evaluated, especially taking into account the size of the bank, its links with other participants in the financial system and substitutability in this system, as well as the complexity of its operations and how branched out its business network is.

Fine

Article 117

The National Bank of Serbia may, independently of taking the measures referred to in Art. 111 to 115 of this Law, or in conjunction with these measures, impose a fine to the bank, as well as to the member of the board of directors or the executive board of the bank, for conduct contrary to the provisions of this Law, regulations of the National Bank of Serbia and other regulations.

By adopting a decision to impose a fine, the National Bank of Serbia shall impose a fine to the bank which may not exceed 10% of total income of the bank generated in the previous fiscal year, to the member of the board of directors and the executive board of the bank a fine which shall not be less than the one fold or greater than twelve fold amount of the average monthly salary or compensation of that person received for performing these functions in the three months preceding the "as of" date referred to in Article 105, paragraph 3 of this Law, taking into account the criteria referred to in Article 116 of this Law.

Notwithstanding paragraph 2 of this Article, if a member of the board of directors of the bank does not receive compensation for performing this position, or have not received that compensation for the three months preceding the "as of" date referred to in Article 105, paragraph 3 of this Law, or the amount of that compensation is abnormally low, the National Bank of Serbia shall adopt a decision on imposing a fine that shall contain a fine which may neither be less than one fold amount nor greater than the twelve fold amount of the average of salaries of members of the executive board of the bank for the three months preceding the "as of" date referred to in Article 105, paragraph 3 of this Law, and taking into account the criteria referred to in Article 116 of this Law.

When imposing a fine to the member of the executive board of the bank, the National Bank of Serbia, in addition to the criteria referred to in Article 116 of this Law, assesses the level of responsibility of this member, taking into account the division of responsibilities for tasks within the scope of the administrative or executive committee established by this law, statute and internal by-laws of the bank, as well as the powers and responsibilities in the management of the bank vested in this member.

For the conduct contrary to the provisions of this Law, the regulations of the National Bank of Serbia and other regulations in relation to activities within the scope of the executive board of the bank - the president of this board shall be imposed with a fine in the amount at least equaling the one being imposed on the member of that board who is in charge of these tasks.

If a fine is imposed in the control procedure, the decision referred to in paragraph 2 of this Article shall be adopted without the special plea of the bank or a member of the board of directors or the executive board of the bank on the facts and circumstances which are relevant for the decision on the imposition of this fine, unless it regards the person whose function of the member of the board of directors or the executive board of the bank has ceased.

The Bank shall submit the report on control and decision on imposing the fine to a person who was in office as the member of the board of directors or the executive board of the bank during the period referred to in the report. After the expiry of 30 days from its receipt in the bank - it is considered that the report on control and the decision on imposing a fine have been delivered to these persons.

The decision imposing the fine, after its submission to the person referred to in paragraph 1 of this Article, shall represent an executive document.

If a member of the board of directors, or the executive board of the bank, including former members of these boards, fails to pay the fine within the time period specified in the decision imposing the fine - the bank shall pay this fine within eight days from the expiry of the time period specified in this decision.

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

Total income referred to in paragraph 2 of this Article shall have the meaning set out by the law governing the protection of competition.

Art. 117a-121

(Deleted)

Section 4

Control of Banking Group on a Consolidated Basis

Control on a Consolidated Basis

Article 122

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

The control referred to in the paragraph 1 of the present 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 control 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 the present 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 control specified in the present Article.

Transparency of Banking Group's 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 the present 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 the present Article, it shall take measures prescribed by the present 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 the present 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 the present 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 the present 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 the present 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 the present 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 the present 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 the present 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 the present Article as well as detailed requirements and manner of risk management at the banking group level.

Recovery Plan of the Banking Group

Article 127a

The ultimate parent company of the banking group over which the National Bank of Serbia performs control on a consolidated basis in accordance with this Law shall prepare and submit to the National Bank of Serbia a recovery plan for the banking group to which it belongs (hereinafter referred to as: the recovery plan of the banking group), in order to achieve stability and the re-establishment of the appropriate financial position at the level of the banking group as a whole, and especially banks as members of this group, taking into account the financial position of the other members of the group.

Recovery plan for the banking group shall be prepared in accordance with Art. 36a to 36d of this Law and shall include measures and activities referred to in these Articles which relate to the banking group as a whole, as well as specific measures and actions to be taken at the highest level of the ultimate parent company and subsidiaries, taking into account the need for coordination and mutual coordination of these measures and activities.

The National Bank of Serbia, pursuant to Article 36c of this Law, shall assess whether recovery plan of the banking group meets the conditions laid down in Art. 36a to 36d of this Law, or the requirements set forth in para. 1 and 2 of this Article.

The National Bank of Serbia may, in addition to the order and measures referred to in Article 36c of this Laws, order that certain members of the banking group make and deliver to the National Bank of Serbia a recovery plan at the individual level.

If not responsible for the supervision of certain members of the banking group, the National Bank of Serbia may also order that member to submit and prepare the recovery plan at the individual level after obtaining the opinion of the regulatory body that supervises the operations of that member.

The National Bank of Serbia shall prescribe the preparation, content and assessment of the recovery plan of the banking group.

Agreement on Financial Support within the Banking Group

Article 127b

The bank, the ultimate parent company of the banking group over which the National Bank of Serbia executes control on a consolidated basis in accordance with this Law, and the member of that banking group may conclude an agreement with other members of the banking group for the purpose of providing financial support to that party of this agreement which fulfills the requirements to be subject to early intervention measures (hereinafter: the agreement on financial support within the banking group), with the prior approval of the National Bank of Serbia.

The financial support from paragraph 1 of this Article may be provided in the form of a credit or a loan, guarantee or other means of unfunded credit protection or provision of property that can be used as collateral.

The agreement on financial support within the banking group shall contain in particular the determination of the method of calculation of compensation payable by the financial support beneficiary for the support it receives, and the obligation to determine that compensation at the time of providing financial support.

The rights and obligations under the agreement on financial support within a banking group may not be transferred to third parties.

The bank, i.e. the ultimate parent company of the banking group and a member of the banking group shall publish information on whether they concluded an agreement on financial support within the banking group, with a description of the general conditions of the agreement and the business names of the group members who executed it and to update this information at least annually.

The National Bank of Serbia shall further prescribe the content of the information referred to in paragraph 5 of this Article, as well as the conditions, method and deadlines for their disclosure.

Giving Consent to an Agreement on Financial Support within the Banking Group

Article 127c

The person referred to in Article 127b, paragraph 1 of this Law shall submit to the National Bank of Serbia a request for giving a prior consent for the conclusion of the agreement on financial support within the banking group, attached to which it submits the text of the proposed agreement, as well as other documents prescribed by the National Bank of Serbia.

The National Bank of Serbia shall decide on the request referred to in paragraph 1 of this Article, within four months from the date of receipt of a proper request.

The National Bank of Serbia may give consent referred to in paragraph 1 of this Article only if it finds that at the moment of filing the request for consent, the person referred to in that paragraph does not fulfill the conditions for early intervention measures referred

to in Article 113 of this Law, or that the other parties to the agreement on financial support within the banking group do not fulfill the conditions for early intervention measures prescribed by the regulations of their countries of origin.

In the decision on giving consent referred to in paragraph 1 of this Article, the National Bank of Serbia shall determine the time period within which the persons referred to in Article 127b, paragraph 1 of this law shall conclude an agreement on financial support within the banking group, which may not be longer than one year from the date of adoption of this decision.

After obtaining the consent referred to in paragraph 1 of this Article, the board of directors, or the competent management body of the person referred to in that paragraph, shall submit the proposed agreement for whose conclusion this consent is given, to general meeting of shareholders or members for approval. Agreement on financial support within the banking group may produce legal effect only after being approved by the general meeting of shareholders, or members.

A person who has obtained the consent referred to in paragraph 1 of this Article shall submit the text of the concluded agreement on financial support within the banking group to the National Bank of Serbia within 15 days of its conclusion, or, if the agreement was not concluded within the term of six months of the day the consent under that paragraph was given, to inform the National Bank of Serbia about the reasons why the agreement was not concluded.

The managing authority referred to in paragraph 5 of this Article shall at least once a year report to the National Bank of Serbia and to the general meeting of shareholders, or members, about the implementation of the agreement on financial support within the banking group and about the implementation of each decision taken in accordance with that agreement.

The National Bank of Serbia shall further prescribe the requirements for giving consent referred to in paragraph 1 of this Article.

Conditions of Providing Financial Support within the Banking Group

Article 127d

The person referred to in Article 127b, paragraph 1 of this Law may provide financial support under the agreement referred to in that paragraph only if the following conditions are met:

- 1) It is reasonable to expect that given support shall significantly reduce the financial difficulties of its recipient;
- 2) The purpose of providing this support is to preserve or restore the financial stability of the group as a whole or any member of the group and it is in the interest of donor of support;
- 3) Financial support is provided for a compensation determined and calculated according to this agreement;
- 4) Based on data available to the managing authority of the support donor at the moment the decision to provide that support was made, it is reasonable to expect that

its recipient shall pay the compensation referred to in item 3) of this paragraph, and that, if support is provided in the form of credit or loan - it shall return the credit or loan, i.e. that it shall, if support was provided in the form of guarantees or collateral - settle the obligation that would occur if the guarantee or security is to be activated;

5) Providing financial support would not jeopardize the liquidity or solvency donor support;

6) Providing financial support would not jeopardize the stability of the financial system of the Republic of Serbia;

7) The support donor, at the moment of providing support, acts in accordance with the provisions of this Law and the regulations of the National Bank of Serbia that regulate capital, liquidity and large exposures and the provision of financial support shall not lead to a violation of these provisions;

8) Providing financial support would not jeopardize the possibility of restructuring of the donor of support.

The managing body of the person referred to in paragraph 1 of this Article shall adopt a decision on the provision of financial support within the banking group in accordance with the agreement on this support, in which the objective of the proposed financial support and fulfillment of the conditions for financial support under that paragraph have to be explained.

The National Bank of Serbia may further regulate the conditions referred to in paragraph 1 of this Article.

Previous Evaluation of the Provision of Financial Support within the Banking Group

Article 127e

Before providing financial support within the banking group, the managing body of the person who intends to provide this support shall submit the notice of that intention to the National Bank of Serbia.

The notice referred to in paragraph 1 of this Article shall include a reasoned proposal of a decision referred to in Article 127d, paragraph 2 of this Law, and a detailed description of the proposed financial support, including a copy of the agreement on financial support within the banking group.

Within five working days of receipt of a proper notice under paragraph 2 of this Article, the National Bank of Serbia may prohibit or restrict the provision of financial support - if it estimates that the conditions for the financial support of the group referred to in Article 127d, paragraph 1 of this Law have not been met.

The decision on prohibiting or restricting the provision of financial support within the banking group shall be delivered without delay by the National Bank of Serbia to the regulatory body responsible for supervision on a consolidated basis, as well as to the regulatory body responsible for the supervision of the member of the group who should have received this support.

If the National Bank of Serbia does not issue a decision within the period referred to in paragraph 3 of this Article - the person referred to in paragraph 1 of that Article may provide financial support in accordance with the notice it submitted to the National Bank of Serbia, but it shall immediately notify the National Bank of Serbia about that, i.e. the regulatory body responsible for supervision on a consolidated basis and the regulatory body responsible for the supervision of the member of the group that receives financial support.

If the regulatory body abroad restricts or prohibits the provision of financial support to the recipient of support in the Republic of Serbia, and a recovery plan of the group as a measure of recovery provides financial support within the banking group - the National Bank of Serbia may request the regulatory body responsible for supervision on a consolidated basis to launch a re-evaluation of the group's recovery plan, or, if the recovery plan is made on an individual basis - that such recipient submits a revised recovery plan.

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 the present 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 mentioned in paragraph 1 of the present 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 the present Article are not eliminated after taking the measures specified in paragraph 2 of the present 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 the present Article before the expiration of deadline specified in paragraph 1 of the present Article.

If the member of a banking group specified in paragraph 1 of the present Article is a person that is subject to control 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 Va

RESTRUCTURING OF THE BANK

Section 1

Objectives and Principles

The Objectives of Restructuring

Article 128a

Restructuring of the bank shall be carried out to:

- 1) Achieve continuity in performing critical functions of banks;
- 2) Avoid significant adverse impact on the stability of the financial system;
- 3) Protect the budgetary and other public funds;
- 4) Protect the depositors and investors;
- 5) Protect cash and other assets of clients.

The objectives referred to in paragraph 1 of this Article (hereinafter: the objectives of the restructuring) are of equal importance, and the manner of their mutual adjustment depending on the circumstances of each individual case is determined during the implementation of the restructuring process.

The principles of the process of restructuring

Article 128b

The restructuring process shall be implemented in accordance with the following principles:

- 1) The losses shall first be borne by the shareholders of the bank;
- 2) The bank creditors shall bear losses after the shareholders, in a way that ensures equal treatment of creditors whose claims are in the same order of settlement in bankruptcy proceedings under the law regulating bankruptcy and liquidation of banks and insurance companies, unless the law stipulates otherwise;
- 3) The shareholders and creditors of the bank may not suffer losses greater than would have suffered in case of implementation of the bankruptcy proceedings against the bank;
- 4) The insured deposits shall be fully protected up to the insured amount stipulated by the law governing deposit insurance;
- 5) The members of the management bodies of the bank shall be dismissed, unless the law stipulates otherwise;
- 6) The members of the management bodies and persons in management position in the bank shall provide any assistance that is necessary to achieve the objectives of the restructuring;
- 7) The members of the management bodies of the bank and other persons who have contributed to the bank's fulfillment of the requirement of Article 128h paragraph 1, item 1) of this law, shall be responsible, in accordance with the law, for failures in their work and the damage they have caused;
- 8) The measures to protect shareholders and creditors of the bank, as well as third parties, shall apply in accordance with this Law;
- 9) If the restructuring is carried out against a member of the banking group, the negative impact of restructuring on the other members of the banking group and the stability of the financial system shall be reduced.

Section 2

Restructuring Planning

Planning of Restructuring

Article 128c

The National Bank of Serbia prepares a restructuring plan for each bank.

Restructuring plan envisages the use of appropriate instruments and restructuring measures and exercise of the powers of the National Bank of Serbia after the decision

on restructuring, if the conditions for the restructuring of the bank are fulfilled in accordance with this Law.

When making the decision on bank's restructuring, or application of appropriate instruments of restructuring, the National Bank of Serbia shall not be obliged to implement the restructuring instruments provided for in the restructuring plan for that bank.

The National Bank of Serbia updates restructuring plans at least once a year.

The National Bank of Serbia shall also update the restructuring plan in the event of changes in the legal or organizational structure of the bank, changes in its operations or its financial position, when these changes are essential for the implementation of the restructuring plan, as well as in the case of other changes that affect the contents of that plan and the possibility of its application.

Restructuring plan shall contain in particular:

- 1) The summary of key elements of the restructuring plan;
- 2) The brief overview of important changes that have occurred in the bank after the last modification of the restructuring plan;
- 3) The display of the manner in which, to the extent necessary, the bank could separate critical functions and key business activities from other operations, in order to ensure business continuity in case of fulfillment of conditions for restructuring;
- 4) The deadlines for implementation of the essential elements of the restructuring plan;
- 5) The detailed description of the assessment of the possibility for restructuring and the description of measures needed to remove barriers to restructuring, as determined in accordance with Article 128f of this Law;
- 6) The description of procedures for determining the market value of the critical functions, key business activities and assets of the bank;
- 7) The detailed description of the manner in which the continuous gathering of updated information and data from the bank is provided;
- 8) The explanation of the manner in which the funding of implementation of different possibilities (options) and instruments of restructuring envisaged in the restructuring plan shall be provided, which may not be based on the premise of using extraordinary financial support, loans for maintaining liquidity or liquidity loans with collateral, repayment period and interest rates that deviate from the usual;
- 9) The detailed description of the different possibilities for the application of restructuring instruments, with deadlines for their implementation, based on the consideration of different situations in which major macroeconomic and financial disorders important for the bank's operations may occur;
- 10) The description of potential systemic consequences of bank's restructuring;

- 11) The description of different options for preserving access to payment services and systems and the evaluation of transferability of clients' assets;
- 12) The analysis of the impact of the restructuring plan to the employees, including the analysis of costs that may arise due to that;
- 13) The plan to provide information to the media and the public in connection with the restructuring of the bank;
- 14) The minimum requirements for capital and eligible obligations under Article 128 and the term within which the bank is required to reach the prescribed level of these requirements;
- 15) The description of activities and systems in the bank which are essential for the continuous conduct of operational activities of the bank;
- 16) The analysis of when, how and under what conditions a bank may submit a request for use of loans to maintain liquidity or other benefits that may be authorized by the National Bank of Serbia, as well as what means of collateral for usage of these loans and benefits would be expected.

Following the drafting of the restructuring plan, the National Bank of Serbia shall deliver to the bank information referred to in paragraph 6, item 1) of this Article.

The Bank shall provide the National Bank of Serbia, at its request, with all necessary assistance, as well as information and data that are necessary in the process of drafting and updating of the restructuring plan.

The National Bank of Serbia shall further prescribe the content of the information and data referred to in paragraph 8 of this Article, as well as the manner and deadlines for their submission.

The Restructuring Plan of the Banking Group

Article 128d

The National Bank of Serbia shall prepare a restructuring plan of the banking group over which it conducts supervision on a consolidated basis in accordance with the provisions of this Law (hereinafter referred to as: the restructuring plan of the bank group), which includes restructuring either the restructuring of the ultimate parent company of the banking group, or the other members of the group.

The provisions of Article 128c paragraphs 1 to 4 of this Law shall apply mutatis mutandis to the drafting of the restructuring plan of the banking group.

The plan for restructuring the banking group shall in particular include:

- 1) The description of the activities and measures to be taken against the members of the banking group;
- 2) The detailed description of the different possibilities for the application of instruments of restructuring of the banking group based on consideration of different situations in

which major macroeconomic and financial disturbances relevant to the business of the group may occur;

3) The explanation of the manner in which funding of application of different possibilities (options) and instruments of the restructuring of the banking group foreseen by this plan shall be provided, which may not be based on the premise of using extraordinary financial support, loans to maintain liquidity or liquidity loans with collateral, repayment deadlines and interest rates that deviate from the usual;

4) The assessment of the possibility of undertaking coordinated actions and measures to restructure the banking group when supervision over its members is not exclusively performed by the National Bank of Serbia, including measures to sell the group as a whole to a third party and to separate key business activities that carried out by certain members of the group, as well as to describe measures needed to remove obstacles for restructuring in particular in connection with the coordination of activities of various competent authorities;

5) The description of the possibilities of cooperation with foreign regulatory bodies and the bodies competent for restructuring, in connection with the restructuring of the banking group, when the members of the banking group have their headquarters outside the Republic of Serbia;

6) The description of the separation of certain functions or business activities necessary for eliminating obstacles for the unhindered restructuring of the banking group;

7) The description of other measures and actions to be taken to restructure the banking group, which are not expressly set forth in this Law.

The provisions of Article 128c paragraphs 7 and 8 of this Law shall apply *mutatis mutandis* to obligations of the ultimate parent company and the member of the banking group when the National Bank of Serbia draws up a plan for restructuring of the banking group.

Assessment of the Possibilities for Restructuring

Article 128e

In developing and updating the restructuring plan the National Bank of Serbia assesses whether the bank can be restructured, identifies and analyzes the obstacles to its restructuring, i.e. assesses what measures can be taken to remove these obstacles.

It shall be considered that the bank can be restructured if it is possible to carry out the bankruptcy or liquidation or restructuring proceedings in it, provided that the execution of these proceedings, to the extent possible, does not lead to the occurrence of significant negative consequences on the stability of the financial system and that their implementation provides continuity of execution of critical functions of the bank.

In assessing the possibility of restructuring of the bank, the National Bank of Serbia shall in particular take into account:

- 1) The possibility of achieving the goals of restructuring by application of available instruments of restructuring;
- 2) The effects of restructuring of the bank on the stability of the financial system, the economy of the Republic of Serbia and the citizens' confidence in the banking system, as well as whether the use of instruments restructuring shall prevent the spread of negative consequences of the bank's inability to continue with operations to the banking system;
- 3) The consequences of restructuring to the creditors, depositors, contracting parties and employees;
- 4) The effects of restructuring of the bank to the unhindered functioning of the payment system and system of the settlement of securities;
- 5) The ability of the bank to ensure continuity of performance of critical functions and key business activities;
- 6) The level of harmonization of legal and organizational structure with critical functions and key business activities carried out in the bank;
- 7) The ability of the bank, in accordance with the already concluded business deals and capabilities, to provide the minimum staffing and infrastructure capabilities, as well as funding, liquidity and capital, which are sufficient to maintain critical functions and key business activities;
- 8) The separation of key business activities from other activities of the bank;
- 9) The applicability of procedures and measures for risk management;
- 10) The amount and type of eligible obligations under Article 128q of this Law;
- 11) The adequacy of the risk management of information system with regard to providing access to information and data necessary for the implementation of the restructuring.

Assessment of possibilities of restructuring may not be based on the premise of using extraordinary financial assistance, loans to maintain liquidity or liquidity loans with collateral, repayment period and interest rates that deviate from the norm.

In developing and updating the restructuring plan of the banking group, the National Bank of Serbia shall assess the possibility of restructuring of the banking group by mutatis mutandis application of para. 1 to 4 of this Article.

Removing Obstacles to Restructuring

Article 128f

If, in accordance with Article 128e of this Law it assesses that there are significant obstacles to restructuring of the bank, the National Bank of Serbia shall issue a decision ordering the bank to furnish the proposal of possible measures to resolve or remove these obstacles, within a term of four months from the date of receipt of this decision.

If it assesses that the measures which the bank suggested in accordance with paragraph 1 of this Article may not effectively reduce or eliminate obstacles to restructuring, the National Bank of Serbia shall render a decision that would order the bank to take other measures to resolve or remove the obstacles under that paragraph and identify deadlines for the implementation of these measures.

In the case referred to in paragraph 2 of this Article, the National Bank of Serbia may order the bank in particular:

- 1) To amend the agreement on financial support within the banking group or consider the conclusion of this agreement if it is not already concluded, or to conclude a contract for the provision of appropriate services either within a group, or with third parties;
- 2) To limit exposure to a single person or group of linked persons;
- 3) To regularly submit additional information and data relevant to the restructuring of the bank or to submit certain information and data relevant to the restructuring in the individual case;
- 4) To dispose of a certain part of the property;
- 5) To limit or cease to perform or develop a certain type of operations, or not to start new businesses or to cease to develop them further;
- 6) To execute, i.e. ensure the appropriate legal and/or organizational changes in the bank and/or any other member of the banking group to which this bank belongs, in order to reduce the complexity of this bank and/or group, and allow the separation of its critical function from other operations during implementation of the restructuring process;
- 7) To ensure eligible obligations to cover losses which meet the requirements of Art. 128q and 128r of this Law;
- 8) To undertake other measures in order to meet minimum capital requirements and obligations referred to in item 7) of this paragraph, as prescribed in Article 128r of this Law.

In making the decision referred to in paragraph 2 of this Article, the National Bank of Serbia shall assess the possible implications of implementation of measures under that decision on the stability of the financial system and the operation and stability of the bank.

The Bank shall submit to the National Bank of Serbia a plan for compliance with the measures laid down in the decision referred to in paragraph 2 of this Article, within the term of one month from the date of receipt of that decision.

Para. 1 to 5 of this Article shall apply mutatis mutandis to the removal of obstacles to restructuring of the banking group.

The National Bank of Serbia shall take measures under this Article towards the member of the banking group based in the Republic of Serbia over whom it does not conduct supervision, after obtaining the opinion of the regulatory body that supervises the operations of that member.

Section 3

Write-off and Conversion of Capital

Article 128g

Before starting the process of restructuring the National Bank of Serbia may undertake the write-off of appropriate elements of capital of the bank or their conversion into shares or other equity instruments of that bank, and after starting that procedure, it shall execute the write-off or conversion of capital prior to the application of the appropriate instrument of restructuring.

The National Bank of Serbia may adopt a decision to perform write-off or conversion of the bank's capital before starting the process of restructuring of the bank if it determines that at least one of the following conditions was met:

- 1) The conditions to initiate restructuring process under Article 128h of this Act were fulfilled;
- 2) The bank probably will not be able to continue to operate in the sense of Article 128h this Law if this write-off or conversion is not performed, and it is unlikely that any other measure of the bank or a person from the private sector, or a measure taken during the control process in accordance with this Law, except that write-down, i.e. conversion, could within a reasonable time remove the obstacles for the continuation of the bank's operations, taking into account all circumstances of the individual case;
- 3) If the bank requested an extraordinary financial assistance, except in the case of Article 128h paragraph 2, item 4) sub-items 1), 2) and 3) of this Law.

Write-off and conversion referred to in paragraph 1 of this Article shall be made without the consent of shareholders, depositors and other creditors of the bank or any third party.

Before making the write-off or conversion referred to in paragraph 1 of this Article, the National Bank of Serbia shall provide an independent assessment of the assets and liabilities of the bank referred to in Article 128i of this law, on the basis of which the calculation of the amount of the write-off shall be made, i.e. the level of conversion of elements of capital required to cover losses and/or to recapitalize bank.

The National Bank of Serbia shall perform the write-off or i.e. conversion of bank's capital in the following order:

- 1) Firstly, the basic share capital is reduced in proportion to the amount of losses up to the amount of that capital, and the National Bank of Serbia shall undertake one or both measures referred to in Article 128t, paragraph 1 of this Law towards the bank's shareholders;
- 2) Elements of supplementary capital shall be written off and/or converted into shares of the bank that may be included in the bank's basic share capital to the extent necessary to achieve the objectives of the restructuring or up to the total amount of these elements of capital, whichever is less.

In the case of write-off of capital elements, payment obligations on that basis towards the holder of the corresponding capital element shall cease in the write-off amount of that element, except the already accrued liabilities, and this holder shall not be paid any compensation under this write-off.

For the purposes of implementing the conversion from paragraph 5, item 2) of this Article, the National Bank of Serbia may order the bank to issue shares that may be included in the bank's basic share capital to holders of certain elements of capital from that item.

Detailed conditions of conversion of capital elements referred to in paragraph 7 of this Article shall be prescribed by the National Bank of Serbia.

If the conversion of elements of the bank's capital would lead to the acquisition or increase of ownership in the bank across the percentages prescribed in Article 94, paragraph 1 of this Law - the National Bank of Serbia shall timely assess whether the conditions for approval of the acquisition of ownership were met, so that this assessment does not affect the postponement of this conversion.

It shall be considered that the banking group will not be able to continue to operate within the meaning of paragraph 2, item 2) of this Article, when it fails to act or it is unlikely that it will act in accordance with the provisions of this Law governing the indicators relating to risk management at the level of the banking group, due to which the National Bank of Serbia may impose this bank with a measure under this law, especially if it suffered or is likely to suffer a loss in the amount of its overall capital or its substantial portion.

Para. 1 to 8 of this Article shall apply mutatis mutandis to the write-off and conversion elements of capital of the banking group member who is not a bank.

The National Bank of Serbia shall undertake the write-off and conversion of elements of capital towards the member of the banking group based in the Republic of Serbia over whom it does not conduct supervision, after obtaining the opinion of the regulatory body that supervises the operations of that member.

Section 4

Initiation of the Restructuring Process

Conditions for Initiation of the Restructuring Process

Article 128h

The National Bank of Serbia shall initiate the process of restructuring when it determines that the following conditions are met:

- 1) That the state of the bank is such that it cannot or likely will not be able to continue to operate;
- 2) That it is unlikely that any other measure of the bank or a persons from the private sector, a measure taken in the control procedure in accordance with this Law, or a

measures referred to in Article 128g of this Law - could remove, within a reasonable time, the obstacles for continuation of bank's operations, taking into account all the circumstances of the individual case;

3) That the restructuring of bank is in the public interest.

In terms of this Law, it shall be deemed that the condition of the bank is such that it cannot or likely will not be able to continue to operate if at least one of the following conditions is fulfilled:

1) The reasons referred to in Article 130 of this Law for which the National Bank of Serbia could revoke the operation license have occurred or it is likely that they will occur soon, especially when the bank incurred losses in its operations that would be covered at the expense of the whole or a substantial amount of the bank's capital, or when it is probable that such losses will arise;

2) If the bank's assets are lower than its liabilities, or that it is likely that they will be soon;

3) If the bank is insolvent or it is likely that it will be soon, unless the bank was granted financial support from item 4) sub-items (1) and (2) of this paragraph;

4) If a bank requested an extraordinary financial assistance, except in a special case when, taking into account the principles of Article 128b items 1) and 2) of this law, that support is given to a solvent bank in order to eliminate a serious disturbance in the economy and to maintain the stability of the financial system, as a temporary and appropriate measure, in one of the following forms:

(1) Guarantee that the Republic of Serbia gives in favor of the National Bank of Serbia for the settlement of liabilities of the bank arising from the loans to maintain liquidity or other benefits granted to the bank under the terms established by the National Bank of Serbia,

(2) Guarantee of the Republic of Serbia for bank's new liabilities,

(3) Recapitalization or purchase of equity instruments under the conditions that do not give the bank an advantage in the market, up to the extent necessary to avert a shortage of capital, under the terms established by the National Bank of Serbia - only if at the time of providing this support the conditions referred to in items 1) to 3) of this paragraph were not met, as well as the conditions for the write-off and conversion of capital referred to in Article 128g of this law.

It shall be considered that the restructuring is in the public interest, in terms of paragraph 1 of this Article, if it relates to a bank important for the system, as well as in the event when by implementing the restructuring one or more objectives of the restructuring could be adequately accomplished, but which could not be accomplished in equal measure by implementing bankruptcy or liquidation proceedings against the bank.

In order to determine whether the restructuring is in the public interest, taking into account the assessment referred to in Article 128i of this law made prior to the restructuring of the bank, the National Bank of Serbia shall in particular prepare a report on the least cost test, which shall determine whether the implementation of the

restructuring process and application individual instruments and restructuring measures would be more expedient than implementation of the bankruptcy or liquidation proceedings against the bank, especially taking into account the possible costs of paying the insured deposits and granting financial support, as well as the limitations prescribed in Article 128z of this law.

The National Bank of Serbia shall submit to the Agency for its opinion, the draft report referred to in paragraph 4 of this Article.

The Agency shall submit to the National Bank of Serbia opinion on the draft report referred to in paragraph 4 of this Article, within five days from the delivery of this draft.

Upon receipt of the opinion referred to in paragraph 6 of this Article, i.e. if no opinion is delivered after the expiry of the period referred to in that paragraph - The National Bank of Serbia shall prepare a final report on the least cost test.

Undertaking measures of early intervention under Art. 113 to 115 of this law shall not be a prerequisite for the initiation of the restructuring process.

The Bank shall promptly notify the National Bank of Serbia on occurrence of circumstances referred to in paragraph 1, item 1) of this Article.

Upon reception of the notification referred to in paragraph 9 of this Article, or if during performance of control or otherwise learns that circumstances under that paragraph occurred - the National Bank of Serbia shall without delay determine whether the conditions referred to in paragraph 1 of this Article were met.

Para. 1 to 10 of this Article shall apply mutatis mutandis to the fulfillment of conditions for initiation of the restructuring process of the banking group.

Independent Appraisal of Assets and Liabilities of the Bank

Article 128i

Before starting the process of restructuring, the National Bank of Serbia shall provide an independent, fair and realistic appraisal of the assets and liabilities of the bank.

The appraisal referred to in paragraph 1 of this Article shall be made to provide appropriate information and data to the National Bank of Serbia for determining fulfillment of conditions for the restructuring of the bank, i.e. for selection of the appropriate restructuring instrument or measure if it finds that these conditions are met, and also to ensure that the all the losses of the bank have been fully disclosed in its business records and financial statements.

The appraisal referred to in paragraph 1 of this Article shall be conducted by an auditor from the list referred to in Article 52, paragraph 3 of this Law, or by other person in accordance with the regulation of the National Bank of Serbia.

The person referred to in paragraph 3 of this Article shall be independent of any public authority or institution vested with public authority, as well as by the bank to which the appraisal relates or banking group whose member the bank is.

The appraisal referred to in paragraph 1 of this Article shall be based on cautious assumptions, including a prudent appraisal of the level of losses incurred due to the occurrence of default status of the debtor, and may not be based on the premise of using extraordinary financial assistance, loan to maintain liquidity or liquidity loan with collateral, repayment period and interest rates that deviate from the norm.

In performing the appraisal referred to in paragraph 1 of this Article any claim of the National Bank of Serbia based on compensation of costs related to the implementation of the restructuring process shall be taken into account, as well as expenses for interests and compensations for the possible use of loans or guarantees which were granted to the bank from the restructuring financing funds.

The appraisal referred to in paragraph 1 of this Article shall be accompanied by updated financial statements of the bank, including the analysis and appraisal of the accounting value of the property, as well as a list of outstanding balance sheet and off-balance sheet commitments represented in business books and records of the bank with stated priority in payment of liabilities classified in accordance with the law governing bankruptcy and liquidation of banks and insurance companies.

The appraisal referred to in paragraph 1 of this Article shall also include an appraisal of the total amount that would go to each priority class of creditors in the event of the implementation of the bankruptcy proceedings, but shall not exclude the obligation to conduct special independent appraisal referred to in Article 128w of this Law.

If due to urgency it is not possible to carry out an appraisal in accordance with para. 7 and 8 of this Article - the person referred to in paragraph 3 of this Article shall conduct preliminary appraisal, which is temporary and is used in the process of restructuring until that person makes a final appraisal of the value of assets and liabilities of the bank (hereinafter: the final appraisal).

Exceptionally, if it is not possible to provide an independent appraisal referred to in paragraph 1 of this Article before the initiation of the restructuring process - The National Bank of Serbia shall conduct a preliminary appraisal of the value of assets and liabilities of the bank, which is temporary and is used in this procedure until the person referred to in paragraph 3 of this Article performs final appraisal.

Preliminary appraisal referred to in para. 9 and 10 of this Article provide for additional reserves for losses which are specifically explained.

The National Bank of Serbia may initiate the process of restructuring and apply the instruments and measures of restructuring on the basis of a preliminary appraisal referred to in para. 9 and 10 of this Article.

In the case referred to in para. 9 and 10 of this Article, as well as in other cases where the appraisal referred to in paragraph 1 of this Article is not made prior to the initiation of the restructuring process in accordance with the requirements of this Article - a person referred to in paragraph 3 of this Article shall perform the final appraisal as soon as the appropriate conditions for that are fulfilled.

If the value of net assets of the bank determined in the final appraisal is larger than the value of these assets determined in the preliminary appraisal - the National Bank of Serbia may adopt a decision altering the amounts of receivables of creditors or shareholders whose receivables were written-off or will be written-off using the

instruments of the restructuring referred to in Article 128q of this law, or order the bank for special purposes, the Agency or legal person referred to in Article 128p of this Law to make additional payment to the bank or shareholders based on the transfer of shares, assets or liabilities.

The appraisal referred to in paragraph 1 of this Article shall form an integral part of the statement of reasons of the decisions referred to in Art. 128g and 128j of this law and can be challenged only by court action against these decisions.

The National Bank of Serbia shall select the persons referred to in paragraph 3 of this Article who shall perform the appraisal referred to in that paragraph, while the fee for performing this appraisal shall be paid by the bank.

The provisions of this Article shall apply mutatis mutandis to the independent appraisal of assets and liabilities of the member of the banking group.

The National Bank of Serbia shall prescribe detailed terms and conditions of the appraisal referred to in this Article.

Decision to Initiate the Restructuring Process

Article 128j

If it finds that the conditions referred to in Article 128h of this law were met, the National Bank of Serbia shall render a decision on the initiation of the restructuring process.

The decision referred to in paragraph 1 of this Article shall determine the instruments and measures of restructuring or the bank or the member of the banking group, based on the results of the least cost test referred to in Article 128h paragraph 7 of this law.

The decision referred to in paragraph 1 of this Article may determine that the instruments and measures of restructuring shall also be undertaken towards the member of the banking group based in the Republic of Serbia over which the National Bank of Serbia does not carry out supervision only if the ultimate parent company and that member fulfill the conditions under Article 128h of this law, after obtaining the opinion of the regulatory body that supervises the operations of this member.

If the restructuring process is initiated in the bank whose operating license has been revoked, the decision referred to in paragraph 1 of this Article shall be rendered simultaneously with the decision on revoking the operation license of the bank.

The decision referred to in paragraph 1 of this Article shall be delivered to the Agency, the ministry in charge of finance affairs, Business Registers Agency and the system operator referred to in Article 128x paragraph 5 of this law wherein the bank participates, on the same day when it was delivered to the bank.

The initiation of the bank's restructuring process shall be entered in the Register of Companies as of the day the decision referred to in paragraph 1 of this Article was rendered.

Summary of the decision referred to in paragraph 1 of this Article with the explanation of the consequences of the process of restructuring on the users of financial services provided by the bank shall be published on the website of the National Bank of Serbia

and the bank. Legal transactions executed by the bank until the date of rendering of the decision referred to in paragraph 1 of this Article shall remain in force, and the implementation of instruments and measures of restructuring, as well as any other circumstance which is directly related to those instruments and measures may not in itself be a reason for the other contractual party to terminate or annex the concluded contracts, or to require set-off or activation of collateral under those contracts, provided that the obligations under those transactions are smoothly executed.

Powers of the National Bank of Serbia in the Process of Restructuring

Article 128k

In the process of restructuring, the National Bank of Serbia shall undertake all measures that it determines necessary to ensure the implementation of the restructuring instruments.

The measures referred to in paragraph 1 of this Article shall include in particular:

- 1) The dismissal of the board of directors and the executive board of the bank;
- 2) Taking over the powers of the board of directors, the executive board and the assembly of the bank and delegating those powers to a special administrator referred to in Article 128l of this law;
- 3) Reduction of the nominal value (write-off) and cancellation of shares of the bank;
- 4) Issuing common and preferred shares of the bank;
- 5) The abolition of the right to further acquire shares;
- 6) Requesting the Securities Commission to annul the decision on approval of publication of the prospectus, i.e. the decision to approve the prospectus for admission of securities on a regulated market;
- 7) Annexing and termination of contracts concluded by the bank;
- 8) Requiring the Agency that the bank in bankruptcy whose assets and liabilities are transferred to the acquirer provides the acquirer with operational assistance necessary to effectively continue to perform the operations that were transferred to the acquirer;
- 9) Requesting the court to stay the proceedings to which the bank is a party, up to the completion of the restructuring process;
- 10) Temporary suspension of all payments and enforcements of other obligations under contracts concluded by the bank and suspension of the rights of the other contracting party to cancel the contract and activate instruments of collateral - from the moment of publication of the decision on temporary suspension until midnight the next working day, except for obligations based on insured deposits and obligations towards the payment systems and systems for settlement of securities that were in line with the law determined as essential systems, i.e. towards operators of these systems and participants in those systems, that arose on the basis of participation in those systems.

The National Bank of Serbia has the right of access to all data that are necessary in the process of restructuring, in the manner prescribed in Article 102 of this Law while the bank, the bank's employees, shareholders and other persons shall provide this access on request, i.e. deliver this data.

Special Administration

Article 128I

The National Bank of Serbia shall render a decision on the introduction of special administration in the bank undergoing restructuring, appointing one or more special administrators, if it considers that the changes in the way the bank is managed and operated may contribute to achieving the objectives of the restructuring.

The National Bank of Serbia may issue the decision referred to in paragraph 1 of this Article at any moment in the process of restructuring.

The National Bank of Serbia shall render a decision referred to in paragraph 1 of this Article when it starts the process of restructuring of the bank whose operating license is undergoing revocation.

A special administrator shall be appointed by the longest for a year, and his mandate may exceptionally be extended for another year if the National Bank of Serbia estimates that such extension is necessary to finalize the activities started in order to achieve the objectives of the restructuring, i.e. that the conditions under paragraph 1 of this Article are still fulfilled.

The decision referred to in paragraph 1 of this Article shall determine the amount of remuneration for work of the special administrator to be paid by the bank.

The National Bank of Serbia may, during the mandate of the special administrator, issue a decision to dismiss him and appoint another special administrator.

The special administrator shall be a person independent from the bank who meets the requirements of Article 72 of this Law.

On the date of rendering of the decision referred to in paragraph 1 of this Article the functions of members of the board of directors and the executive board and powers of the bank's assembly shall terminate, while the powers and duties of the board of directors and the executive board and the bank's assembly shall be taken over by the special administrator.

The special administrator shall take all measures necessary to achieve the objectives of the restructuring, as well as to implement the restructuring instruments and measures, in accordance with the decision of the National Bank of Serbia referred to in Article 128j of this law.

The special administrator may hire, at the expense of banks, independent experts in the field of banking and financial law, accounting, or other appropriate discipline under conditions approved by the National Bank of Serbia.

The special administrator shall submit to the National Bank of Serbia a report on bank's operations and financial condition, as well as the actions he took in carrying out his

duties, at least quarterly, and at the request of the National Bank of Serbia more frequently. The special administrator shall submit the report to the National Bank of Serbia at the beginning and at the end of his mandate.

Control over the performance of the functions and powers of the special administrator shall be carried out by the National Bank of Serbia.

The decision referred to in paragraph 1 of this Article may determine certain limitations of functions and powers of the special administrator, as well as his duty, prior to undertaking certain legal actions, to obtain the consent of the National Bank of Serbia.

The National Bank of Serbia shall publish on its website the appointment of the special administrator.

The introduction of special administration, appointment and dismissal of the special administrator, and end of the special administration of the bank shall be entered in the Register of Companies as of the date the decision referred to in paragraph 1 of this Article was rendered, delivered by the National Bank of Serbia to the Business Registers Agency at the same day it was rendered.

Section 5

Restructuring Instruments

Types and Basic Characteristics of the Restructuring Instruments

Article 128m

Instruments of restructuring are:

- 1) Sale of shares or assets and liabilities;
- 2) Transfer of shares, i.e. assets and liabilities to the bank for specific purposes (hereinafter: transfer to the bank for specific purposes);
- 3) Separation of property;
- 4) Distribution of losses to shareholders and creditors (hereinafter referred to as: distribution of losses).

In the process of restructuring the National Bank of Serbia may apply one or more instruments referred to in paragraph 1 of this Article, provided that the instrument - separation of property may not be applied separately without the use of any other instrument referred to in that paragraph.

The transfer of shares or assets and liabilities using the instruments referred to in paragraph 1, items 1) to 3) of this Article, and the adoption of by-laws and execution of activities using the instruments of distribution of losses shall be made without the consent of shareholders, depositors and other creditors of the bank in restructuring or any other third party, other than the acquirer.

The transfer referred to in paragraph 3 of this Article may be done multiple times during the process of restructuring the bank.

The law regulating the capital market shall not apply to the transfer under paragraph 3 of this Article, unless this Law provides otherwise.

The law which regulates companies shall not apply to the transfer under paragraph 3 of this Article, except for the provisions of that law which regulate competences of managing bodies of that company. If the decision on the acquisition of shares or assets and liabilities stated in paragraph 1 items 1) and 3) of this Article is within the competence of the general meeting of shareholders of the acquirer - the deadline for rendering that decision shall be seven days from the day of delivery of the summons for the convening of general meeting of shareholders.

The transfer referred to in paragraph 3 of this Article shall not be subject to the payment of taxes, duties or other fees to competent authorities.

Revenue generated from the transfer of shares referred to in paragraph 3 of this Article from the shareholder to the acquirer, minus the amount of funds used to finance the restructuring and costs of the restructuring process - shall belong to those shareholders, while the revenue generated through transfer of all assets or liabilities or a part thereof, from the bank in restructuring or a specific purposes bank to the acquirer, minus the amount of funds used to finance the restructuring and costs of the restructuring process - shall belong to the transferring bank.

The acquirer to whom the shares in the restructuring bank were transferred to by applying the instruments referred to in paragraph 1, items 1) to 3) of this Article shall take the place of the shareholders, while the acquirer to whom the assets or liabilities of the bank were transferred by application of these instruments shall take the place of the bank in the contracts which it concluded, and which relate to those assets and liabilities unless a decision under Article 128j of this law provided otherwise. The acquirer referred to in paragraph 9 of this Article shall take place of the bank in all judicial, administrative or other proceedings relating to the shares, assets and liabilities referred to in that paragraph, unless a decision under Article 128j of this law provided otherwise.

The rights of the bank on the basis of membership in payment systems, securities settlement systems, stock exchanges and other shall be transferred to the acquirer referred to in paragraph 9 of this Article who meets the requirements for that membership, while the acquirer who does not meet these requirements - may continue to exercise these rights within a period specified in the decision referred to in Article 128j of this law.

Permits, approvals, special rights, other incentives and exemptions that are given or recognized to the bank in connection with the shares, assets or liabilities that are under transfer - being taken over by the acquirer referred to in paragraph 9 of this Article, unless the decision referred to in Article 128j of this Law or the regulations governing the their transfer or recognition determined otherwise.

In case of application of the instrument referred to in paragraph 1, items 1) to 3) of this Article - shareholders and creditors of the bank in restructuring and other third parties whose assets or liabilities are not transferred by application of this instrument, have no rights with respect to shares, assets or liabilities that are under transfer by application of that instrument, or in relation to the acquirer and its management bodies.

In the case of opening of bankruptcy proceedings against a bank whose assets and liabilities were transferred using the instrument referred to in paragraph 1, items 1) to 3) of this Article - the provisions of the bankruptcy law governing the refutation of legal actions of the debtor shall not apply in respect to the transfer of these assets and liabilities.

If the application of the instruments of restructuring would lead to the acquisition or increase of ownership in the bank above the percentage referred to in Article 94, paragraph 1 of this law - the National Bank of Serbia shall timely assesses whether the conditions for giving consent to the acquisition of ownership were fulfilled, so that this assessment does not contribute to the delay of implementation of this instrument.

The National Bank of Serbia shall without delay notify the depositors, creditors and debtors of the bank on its website and through the media that the transfer referred to in paragraph 3 of this Article was executed.

Instruments and measures referred to in paragraph 1 of this Article that apply to banks shall apply in the process of restructuring of the banking group member.

The National Bank of Serbia may order other members of the banking group whose member is the bank in restructuring to continue to provide appropriate services in a given period to that bank or to the acquirer of shares, assets and liabilities of this bank, in order to achieve continuity in performing critical functions of the bank.

The Sale of Shares or Assets and Liabilities

Article 128n

The National Bank of Serbia may sell the shares of the bank in restructuring or all assets or liabilities of that bank, or part thereof, to the acquirer who is not a bank for a specific purpose.

The National Bank of Serbia concludes a sale contract referred to in paragraph 1 of this Article with the acquirer of shares or assets and liabilities of the bank in restructuring.

The National Bank of Serbia shall take all reasonable measures to execute the transfer based on the sale referred to in paragraph 1 of this Article at market conditions, taking into account the independent appraisal of the assets and liabilities of the bank referred to in Article 128i of this law.

The acquirer's title to the restructuring bank's shares is entered in the Central Registry immediately after the conclusion of the contract referred to in paragraph 2 of this Article.

The National Bank of Serbia may return the transferred shares, or assets and liabilities referred to in paragraph 1 of this Article, to their original owners, or to the bank undergoing the process of restructuring without their consent, but with the consent of the acquirer.

The National Bank of Serbia may prescribe detailed terms and conditions for obtaining and choosing the takeover offer for shares, assets and liabilities referred to in paragraph 1 of this Article, or sale under this Article.

Transfer to the Bank for Specific Purposes

Article 128o

The National Bank of Serbia may issue a decision to transfer to the bank for specific purposes the following:

- 1) Shares of one or more banks in restructuring;
- 2) All assets and/or liabilities of one or more banks in restructuring or a part thereof.

The bank for specific purposes is established by the Republic of Serbia to maintain the critical functions of the bank in restructuring by taking over its shares, assets or liabilities, and later to execute the sale of transferred shares or assets and liabilities.

The total value of liabilities transferred to the bank for specific purposes may not exceed the total value of assets of the bank in the restructuring that is transferred to the bank for specific purposes or is provided to that bank from other sources.

Shares, assets and liabilities transferred to the bank for specific purpose may be returned to the bank in restructuring by the National Bank of Serbia if this possibility is explicitly determined in the decision referred to in paragraph 1 of this Article, or if certain shares, assets or liabilities in their essence do not belong to the category of shares, assets or obligations determined in this decision or do not fulfill the requirements for transfer as referred to that decision.

The transfer referred to in paragraph 4 of this Article shall be made without the consent of shareholders, depositors and other creditors of the bank in restructuring or any third party, except for the bank for specific purposes, and may be done within a deadline and under the conditions laid down in the decision referred to in that paragraph.

The operating license of the bank for specific purposes shall be issued by the National Bank of Serbia at the request of the Republic of Serbia.

In addition to the request under paragraph 6 of this Article, the Republic of Serbia shall submit:

- 1) The memorandum of association and articles of association of the bank;
- 2) The proof of payment of the minimum capital;
- 3) The names of the proposed members of the board of directors and the executive board of the bank and data on their qualifications, experience and business reputation.

The National Bank of Serbia shall render a decision on the request referred to in paragraph 6 of this Article, not later than the day following the receipt of a proper request.

The decision granting the operating license to the bank for specific purposes includes the period for which the bank is established, which may not be longer than two years from the day of the last executed transfer referred to in paragraph 1 of this Article, as well as the possibility for an extension of that deadline in accordance with this law. This decision is published in the "Official Herald of the Republic of Serbia".

The bank for specific purposes in its business name must contain the words "new" and "bank".

When submitting a request under paragraph 6 of this Article, the Republic of Serbia shall ensure that the bank for the specific purposes has a minimum initial capital of at least 5,000,000 Euros in dinar equivalent, as well as that, after being granted the operating license it conducts business in accordance with the provisions of this Law relating to its capital and operating indicators of the bank.

Notwithstanding paragraph 11 of this Article, the bank for specific purposes may also be formed without the fulfillment of the conditions referred to in that paragraph, i.e. it may operate for a period not exceeding three months from the establishment without compliance with the provisions of this Law relating to its capital and indicators of bank's operation, if the National Bank of Serbia deems it necessary in order to achieve the objectives of the restructuring.

In the case referred to in paragraph 12 of this Article, the operating permit referred to in paragraph 6 of this Article also contains a time limit within which the bank for specific purposes shall coordinate its operations with the provisions of this Law relating to its capital and indicators of the bank's operations.

The Republic of Serbia shall submit the request for registration of a bank for specific purposes in the Register of Companies no later than the day following the day the operating license referred to in paragraph 6 of this Article was granted.

The provisions of the law governing capital markets shall not apply to the establishment of the bank for specific purposes, but, for the purpose of establishing this bank, the by-laws shall be adopted and the actions executed by the competent authorities, as prescribed by law no later than the next working day from the day the request was submitted.

The National Bank of Serbia:

- 1) Gives prior consent to the memorandum and articles of association of the bank for specific purposes;
- 2) Gives prior consent to the appointment of the management body of the bank for specific purposes;
- 3) Gives preliminary approval to salaries of members of the management body under item 2) of this paragraph and to a by-law determining their duties;
- 4) Approves the strategy and risk profile of the bank for specific purposes.

Notwithstanding paragraph 9 of this Article, the National Bank of Serbia can issue a decision to extend the deadline referred to in that paragraph for a year if it deems it necessary in order to achieve the objectives of the restructuring, especially if the activities referred to in paragraph 18 items 1), 2) and 4) of this Article would thus be finalized.

The National Bank of Serbia shall render a decision on revoking the operating license of the bank for specific purposes in the following cases:

- 1) If the bank for specific purposes merges with another bank or is taken over by that bank, in accordance with this Law;
- 2) If the entire assets and liabilities of the bank for specific purposes or their major part is sold to a third party;
- 3) If the time period referred to in paragraph 9, i.e. paragraph 17 of this Article expires;
- 4) If the assets of the bank for specific purposes are fully divested, i.e. sold and its obligation are fully settled.

The decision referred to in paragraph 18 of this Article shall be submitted to the competent court for initiation of bankruptcy or liquidation proceedings against the bank for specific purposes, in accordance with the provisions of the law governing bankruptcy and liquidation of banks and insurance companies that relate to bankruptcy or liquidation of banks.

If the shares of the bank for specific purposes are sold to a third party, after the registration of such person in the Central Registry as the owner of shares of that bank, the bank for specific purposes continues to operate as a bank in accordance with this Law.

The National Bank of Serbia shall prescribe in detail the content of the documents and evidence referred to in para. 7 and 16 of this Article, and may prescribe detailed terms and conditions of sale of assets and/or liabilities of the bank for specific purposes, or of that sale's advertising.

Separation of Assets

Article 128p

The National Bank of Serbia may adopt a decision to transfer the assets and liabilities of the bank in restructuring or the bank for specific purposes to the Agency or other legal person that is not a bank for specific purpose, if at least one of the following conditions is fulfilled:

- 1) If the market situation is such that the sale of these assets in the bankruptcy proceedings could adversely affect the financial market;
- 2) If the transfer is necessary to ensure the smooth operation of the bank whose assets or liabilities were transferred;
- 3) If the transfer is necessary in order to achieve the highest possible income from liquidation or sale of transferred assets with as fewest costs as possible.

Other legal entity referred to in paragraph 1 of this Article (hereinafter: asset management company) may be established by the Republic of Serbia, in order to assume the entire assets and liabilities of one or more banks in restructuring or a bank for specific purposes, or a part thereof.

The National Bank of Serbia:

- 1) Gives prior consent to the memorandum of association of the asset management company;
- 2) Gives prior consent to the appointment of the managing bodies of the asset management company;
- 3) Approves the salaries of members of the management body of the asset management company and a by-law specifying their duties;
- 4) Approves the strategy and risk profile of the asset management company.

Agency or asset management company manages the transferred assets to increase its value through sale or liquidation or otherwise.

The National Bank of Serbia may issue a decision referred to in paragraph 1 of this Article to transfer the assets and liabilities of the transferring bank to the Agency and/or one or more asset management companies.

The National Bank of Serbia may return the transferred assets and liabilities referred to in paragraph 1 of this Article to the bank in restructuring if that option is explicitly determined in the decision under that paragraph, i.e. if certain assets or liabilities in their essence do not belong to the category of assets or liabilities set forth in this decision, or do not fulfill the requirements for transfer under that decision.

The transfer referred to in paragraph 6 of this Article shall be made without the consent of shareholders, depositors and other creditors of the bank in restructuring or any third party.

The National Bank of Serbia shall determine the amount of compensation that the Agency or the asset management company pays for the assets and liabilities it assumes, which can have a negative value.

The compensation referred to in paragraph 8 of this Article may also be paid in the form of a debt instrument issued by the Agency or the asset management company, with prior approval of the ministry in charge of finance affairs.

Agency and asset management company shall conduct the operations related to the transferred assets and liabilities referred to in paragraph 1 of this Article with due care and diligence and report thereon to the National Bank of Serbia, within deadlines and in the manner determined by the decision referred to in that paragraph.

The National Bank of Serbia shall prescribe in detail the conditions and manner of giving the consent referred to in paragraph 3 of this Article.

Distribution of Losses

Article 128q

The National Bank of Serbia may apply the instrument of distribution of losses in order to:

1) Recapitalize the bank in the restructuring, to the extent necessary for its further smooth operation in accordance with this law and maintaining sufficient confidence in the bank at the financial market;

2) Convert into equity or to write-off (reduce) the principal of liabilities or debt instruments that are transferred to the bank for specific purposes with the aim of providing capital for that bank or are transferred within the instruments of sale of shares or assets and liabilities or separation of assets of the bank in restructuring.

The National Bank of Serbia may apply the instrument of distribution losses in order to recapitalize the bank in restructuring only if it can be reasonably expected that the implementation of this instrument, along with other measures, including measures to be implemented in accordance with the plan of reorganization of operations under the Article 128u of this law, along with fulfillment of the appropriate objectives of restructuring - will re-establish the bank's adequate financial position and long-term sustainability.

Liabilities of the bank in restructuring that may be subject to write-off and conversion referred to in paragraph 1 of this Article (hereinafter referred to as: eligible liabilities) include all liabilities of that bank, except:

1) The liabilities based on insured deposits, up to the insured amount in accordance with the law;

2) The liabilities whose fulfillment is secured by a lien, instrument of financial security or other related right, including repo transactions, covered bonds and liabilities arising from financial instruments used for hedging and form an integral part of the assets to cover and which are provided in a similar manner as covered bonds;

3) The liabilities incurred in management of assets and money belonging to clients, including clients' assets or money that the bank in restructuring keeps for the account for investment and pension funds;

4) The liabilities towards domestic and foreign banks and investment companies, with original maturity of less than seven days, except liabilities towards members of the same group;

5) The liabilities with remaining maturity of less than seven days according to the payment systems and securities' settlement systems that were, in accordance with the law, determined as essential systems, or operators of those systems and participants in those systems, that have arisen on the basis of participation in these systems;

6) The liabilities towards employees in respect of accrued but unpaid salaries, pension contributions or other fixed-income, except for a portion of salary based on the employee contribution to business success of the employer (awards, bonuses, etc.) and other remunerations of variable amount for which the employer has no legal obligation to pay to its employees;

7) The liabilities to creditors based on transactions of sale of goods or provision of services to the bank in restructuring, which are essential for continuous and daily operations of that bank, including information technology services, utility services, rental services, servicing and maintenance of the business premises;

8) The tax liabilities and liabilities on the basis of contributions for compulsory social insurance;

9) The liabilities towards the Agency on the basis of the deposit insurance premium.

Initiation of the process of restructuring and implementation of distribution of losses does not affect the assets that are secured covered bonds. These assets remain protected, separated and with a defined level.

The National Bank of Serbia may, in spite of Paragraph 3, Item 2) and paragraph 4 of this Article, also apply the instrument of distribution losses to the share of liabilities that exceed the value of the assets, the subject of pledge, lien right or other security instrument with which fulfillment of that liability is secured.

Notwithstanding paragraph 3 of this Article, the National Bank of Serbia may also fully or partially exclude the application of write-off and conversion referred to in paragraph 1 of this Article to other eligible liabilities if at least one of the following conditions is met:

1) This obligation may not be written-off or converted within a reasonable time period not even with necessary activities which the National Bank of Serbia would undertake for the purpose of timely and effective implementation of that instrument;

2) This exclusion is necessary and proportionate for further performing critical functions and key business activities of the bank in restructuring;

3) This exclusion is necessary and proportionate to prevent the spread of financial disturbances in the market, particularly in relation to deposits of natural persons, sole traders and micro, small and medium-sized legal persons, due to which the stability of the financial system could be jeopardized in a way that could also produce serious disturbance in the economy;

4) Write-off or conversion of these liabilities would lead to such impairment of value that the losses to be borne by other creditors would be higher than if those liabilities were excluded from the write-off or conversion.

If the National Bank of Serbia fully or partially excludes the application of write-off or conversion to some eligible liabilities in accordance with paragraph 6 of this Article and if the losses would be covered by the write-off or conversion of these liabilities are not fully transferred to other creditors - the funds of the Republic of Serbia provided for restructuring of the bank may be used to:

1) Cover all the losses that were not covered by the write-off or conversion of those liabilities and to re-establish a zero net value of the assets of the bank in restructuring in accordance with Article 128s, paragraph 1, item 1) of this Law;

2) Purchase the shares of the bank in restructuring in order to recapitalize that bank in accordance with Article 128s, paragraph 1, item 2) of this Law.

The National Bank of Serbia prescribes in detail the conditions and manner of performing write-off and conversion of liabilities of the bank in restructuring, as well as the conditions for use of the funds provided for restructuring for the purposes referred to in paragraph 7 of this Article.

Article 128r

The bank shall at all times to meet the minimal requirement for capital and eligible liabilities.

Minimal requirement referred to in paragraph 1 of this Article shall be calculated and expressed in percentages as the ratio of the sum of capital and eligible liabilities to the sum of equity and total liabilities of the bank.

The National Bank of Serbia determines for each bank a specific minimal requirement referred to in paragraph 1 of this Article on the basis of the following criteria:

- 1) The need to ensure the possibility of restructuring of the bank by application of instruments of restructuring, including the application of the instrument of distribution of losses, in a way that achieves the objectives of the restructuring;
- 2) The need to ensure that the bank has sufficient eligible liabilities so that in case of application of the instrument of distribution of losses it would cover losses and re-establish the capital adequacy ratio at the level that would allow further smooth operation and maintenance of sufficient confidence in the financial market in the bank;
- 3) The need to, if the restructuring plan envisages the possibility that certain types of eligible liabilities will be excluded from distribution of losses under Article 128q paragraph 6 of this Law or that certain types of eligible liabilities will be fully transferred to the recipient on the basis of partial transfer - ensure that the bank has enough other eligible liabilities to cover losses and restore the bank's capital adequacy ratio at the level that would enable it to continue unhindered operations;
- 4) Size, business model, financing model, and risk profile of the bank;
- 5) Assessment of the possible amount of funds of the Deposit Insurance Fund that could be used to finance the restructuring process in accordance with this Law;
- 6) Assessment of the negative consequences of the termination of the bank's operations on the stability of the financial system, including the expansion of financial difficulties to other banks too, given their mutual connection or connections to other parts of the financial system.

The provisions of this Article shall also apply *mutatis mutandis* to the ultimate parent company, i.e. the banking group on a consolidated basis.

The National Bank of Serbia shall prescribe in detail the conditions under which eligible liabilities are included in the calculation of minimal capital requirement and eligible liability, and may also prescribe the additional criteria on the basis of which that requirement is determined.

Article 128s

If the instrument of distribution of losses is applied, the National Bank of Serbia shall, on the basis of an independent appraisal referred to in Article 128i of this law, determine the total sum of the following amounts:

- 1) The amount by which the eligible liabilities shall be written-off order to re-establish zero net asset value of the bank in restructuring;
- 2) The amount by which the eligible liabilities must be converted into equity in order to restore the prescribed capital adequacy ratio of the bank in restructuring or the bank for specific purposes.

In determining the amount referred to in paragraph 1 of this Article, the National Bank of Serbia takes into account the funds for financing of the restructuring provided in accordance with this law, as well as the need to maintain confidence in the financial markets in the bank in the restructuring or in the bank for specific purposes and ensuring the smooth further operations of this bank for a period of at least one year.

If the National Bank of Serbia intends, next to the instrument of distribution of losses, to also apply the instrument of separation of assets, when calculating the amount to be deducted from eligible liabilities the assessment of the need for capital of the asset management companies must be taken into account.

Article 128t

The National Bank of Serbia, in applying the instrument of distribution of losses or write-off or conversion of capital referred to in Article 128g of this law, conducts one or both of the following measures:

- 1) Annul the shares or transfers them to creditors who bear losses incurred by using this instrument;
- 2) Significantly reduce the nominal value of the shares and other appropriate rights of bank's shareholders, as a result of the conversion of elements of supplementary capital or eligible liabilities of the bank in restructuring into treasury shares, provided that in accordance with an independent appraisal referred to in Article 128i of this law the assets of the bank in restructuring have a positive net value.

The measures referred to in paragraph 1 of this Article shall also apply to the shareholders and holders of other equity instruments who are the recipients of the appropriate issued shares or other equity instruments, or their transferees on the basis of:

- 1) Conversion of debt instruments into shares or other equity instruments in accordance with the terms agreed in relation to the appropriate debt instruments, no later than on the day when the National Bank of Serbia established that the conditions for restructuring the bank were met, or
- 2) Conversion of appropriate instruments of the capital into instruments of core capital in accordance with Article 128g of this law.

When deciding on the measure to be taken in accordance with paragraph 1 of this Article, the National Bank of Serbia takes into account:

- 1) Independent appraisal referred to in Article 128i of this Law;
- 2) Extent to which, according to the assessment of the National Bank of Serbia, the elements of core capital must be written off (reduced), and the corresponding elements

of supplementary capital write-off (reduced) or converted, in accordance with Article 128g paragraph 5 of this Law;

3) Total sum of the amounts referred to in Article 128s, paragraph 1 of this Law.

Without prejudice to the provisions of Article 128q para. 3 and 6 of this Law, the National Bank of Serbia, in applying the instrument distribution of losses, carries out write-off and conversion in the following order:

1) Core capital elements are reduced in accordance with Article 128g paragraph 5, item 1) of this Law;

2) If the total reduction of core capital elements under item 1) of this paragraph is less than the sum of the amounts referred to in paragraph 3 items 2) and 3) of this Article, the principal of elements of supplementary capital shall be reduced to the extent necessary, up to the total amount of those elements;

3) If the total reduction of core capital elements and supplementary capital elements under items 1) and 2) of this paragraph is lower than the sum of the amounts referred to in paragraph 3 items 2) and 3) of this Article, the principal of subordinated liabilities that are not included in the calculation of supplementary capital shall be reduced to the extent necessary, up to the total amount of these liabilities;

4) If the total reduction elements of core and supplementary capital and subordinated liabilities under items 1) to 3) of this paragraph are less than the sum of the amounts referred to in paragraph 3 items 2) and 3) of this Article, the principal or the outstanding amount of other eligible liabilities shall be reduced to the extent necessary, in order of payment of claims in bankruptcy proceedings in accordance with the law governing bankruptcy and liquidation of banks, up to the total amount of these liabilities.

The National Bank of Serbia evenly distributes the losses among shareholders and creditors in accordance with paragraph 4 of this Article by reducing the amount of elements of core and supplementary capital, subordinated and other eligible liabilities in the amount proportional to their value, unless the National Bank of Serbia fully or partially excluded certain eligible liabilities from the write-off or conversion in accordance with Article 128q paragraph 6 of this law.

In performing the conversion under paragraph 4 of this Article, the National Bank of Serbia may apply different rates of conversion for different categories of shareholders and creditors from that paragraph, taking into account that the same rate applies to all creditors of the same payment order in accordance with the law governing bankruptcy and liquidation of banks and insurance companies, and that a more favorable conversion rate shall apply to the higher payment priority.

Before performing the write-off or conversion referred to in paragraph 4, item 4) of this Article, the National Bank of Serbia shall reduce or convert the principal of instruments under items 2) and 3) of this paragraph if those instruments are not already converted, and the conditions under which they were issued i.e. obtained provide that the principal of the instrument decreases, i.e. that their conversion into shares or other equity instruments is carried out when certain circumstances associated with financial condition, solvency or levels of bank's capital occur.

Article 128u

If the National Bank of Serbia applies the instrument of distribution of losses due to the recapitalization of the bank in accordance with Article 128nj paragraph 1, item 1) of this Law, the board of directors of the bank, or special administration under Article 128l of this Law shall, within the time period of one month from the day the application of this instrument started, prepare a business reorganization plan and submit it to the National Bank of Serbia.

If the instrument of distribution of losses referred to in paragraph 1 of this Article applies to two or more members of the banking group controlled by the National Bank of Serbia on a consolidated or sub-consolidated basis, the business reorganization plan shall be drafted and submitted to the National Bank of Serbia by the ultimate parent company, and it shall include all members of the group.

Notwithstanding paragraph 1 of this Article, the National Bank of Serbia may extend the period referred to in that paragraph for another month, if that is necessary to achieve the objectives of the restructuring.

The operations' reorganization plan includes measures aimed at restoring the long term sustainability of the bank or part of its operations within a reasonable time, which are based on realistic assumptions regarding the market conditions under which the bank will operate and which allow the identification of the main weaknesses and risks in bank's operations.

The operations' reorganization plan shall contain at least the following elements:

- 1) The detailed view of the circumstances, factors and problems that have caused such a state that the bank can no longer continue to operate or it is likely that it will not be able to continue to operate;
- 2) The description of measures aimed at restoring the long term sustainability of the bank;
- 3) The time periods for implementation of these measures.

Measures to restore long-term sustainability of the bank may include:

- 1) The reorganization of the bank's operations, especially in order to make the bank competitive again;
- 2) The changes in the system of bank's management, risk management system in the bank, system of internal controls, information system and other systems in the bank, as well as changes in the infrastructure of the bank;
- 3) The withdrawal from the part of operations which creates losses;
- 4) The sale of assets or individual operations of the bank.

The National Bank of Serbia assesses whether it is probable that the long-term sustainability will be achieved through implementation of the proposed plan and renders a decision to give consent to the plan if it considers that this aim can be achieved, within a period of one month from the date of receipt of the operations' reorganization plan.

If it considers that it is unlikely that the plan can achieve long-term sustainability, the National Bank of Serbia shall inform the board of directors of the bank or special administration of the bank on its remarks and requests amendment of the plan in accordance with these remarks.

The bank's board of directors, or special administration shall, within 14 days of receipt of the notice referred to in paragraph 8 of this Article, submit the revised plan to the National Bank of Serbia for consent, and the National Bank of Serbia shall analyze the revised plan and within seven days of receipt of that plan it shall inform the board of directors i.e. the special administration about whether the plan covers the remarks referred to in paragraph 8 of this Article, or is it necessary to further amend the plan.

The bank's board of directors, or special administration shall implement the plan of reorganization to which the National Bank of Serbia gave consent, report to the National Bank of Serbia on the progress in implementing the plan at least once every six months, and modify the plan if, in the opinion of the National Bank of Serbia, that is necessary in order to achieve the objectives referred to in paragraph 7 of this Article, and obtain the prior consent of the National Bank of Serbia for such modifications.

The National Bank of Serbia may further prescribe the content of the operations' reorganization plan referred to in paragraph 1 of this Article.

Article 128v

When the National Bank of Serbia undertakes the measure of equity write-off and conversion, i.e. the instrument of distribution of losses, that measure, or instrument shall have immediate legal effect towards the bank in restructuring, shareholders of that bank and creditors to which that measure or instrument relate.

The National Bank of Serbia may perform the necessary actions or require the adoption of appropriate by-laws and implementation of all necessary actions of other competent authorities and persons necessary for the execution of the measure or instrument referred to in paragraph 1 of this Article, and in particular:

- 1) Registration or amendment of appropriate data in the registers and records maintained by the Business Registers Agency, the Central Registry and the other competent authorities and organizations;
- 2) Exclusion of the shares or other equity or debt instruments from trade, i.e. listing of the corresponding market;
- 3) Accepting new shares or other equity instruments to trading, i.e. to the listing of the corresponding market;
- 4) Re-admission to trading or to the listing in the corresponding market of written-off debt instruments, without issuing a prospectus.

If the National Bank of Serbia fully executes the write-off of certain liabilities, those liabilities, as well as all other claims and liabilities that are associated with them but not accounted for at the time of measure taking - shall be considered as paid, or settled and the it may not be proven contrary in any proceedings in connection with the bank in restructuring or its legal successor.

If the National Bank of Serbia partially writes-off (reduces) the principal of the liability or the outstanding amount of the liability:

- 1) The liability shall be considered as paid up to the level of the reduced amount;
- 2) The instrument or contract which created the original liability continues to apply in relation to the remaining principal or the outstanding amount of the liability after the reduction, in accordance with the changes the amount of interests that reflect the reduction of the principal and any other change in conditions and terms that the National Bank of Serbia could unilaterally carry out.

The National Bank of Serbia during the restructuring process, when it is necessary to achieve the objectives of the restructuring, may unilaterally change the maturities of debt instruments or other eligible liabilities, the amount of interest that would be paid on the basis of these instruments and liabilities, or the due date of payment of that interest, including suspension of payments in a given period, except for the obligations of Article 128q paragraph 3, Item 2) of this law.

The National Bank of Serbia may require the bank to maintain the number of authorized shares at a level that would be needed for the effective implementation of the conversion of eligible liabilities to those shares, taking into account the possibility of application of this instrument under the restructuring plan.

The Bank shall ensure that the contracts under which the liabilities of this bank are created contain a provision under which the creditor agrees that the liability may be written-off or converted and under which he agrees to all the reductions, conversion or annulment of the principal or the amount outstanding, as a result of taking measures of the National Bank of Serbia in accordance with this Law, provided that the law of other country applies to that liability, and that that liability is not excluded on the basis of Article 128q paragraph 3 of this Law, or that it is not a liability based on a deposit that is insured.

The National Bank of Serbia may take measures of debt write-off and conversion in connection with the liabilities referred to in paragraph 7 of this Article if the contract concluded by the bank does not contain the provisions of that paragraph.

Section 6

Measures to Protect Shareholders, Creditors and Third Parties

Independent Assessment of the Losses of Shareholders, Creditors and the Fund for Deposit Insurance in the Process of Restructuring and in Bankruptcy Proceedings

Article 128w

The National Bank of Serbia provides that, immediately after the restructuring process was initiated, or after instruments or measures of restructuring referred to in Article 128g of this Law were implemented, an independent assessment shall be carried out, on the issue of whether the shareholders and creditors of the bank would be in a better position if instead of restructuring process the bankruptcy proceedings against the bank were initiated.

Assessment referred to in paragraph 1 of this Article shall determine:

1) The losses incurred by shareholders and creditors of the bank or by the deposit insurance fund in the process of restructuring;

2) The losses that shareholders and creditors of the bank or the deposit insurance fund would have suffered if on the day of initiation of the restructuring process, the bankruptcy proceedings against the bank was initiated;

3) Possible difference in the amount of these losses and its amount.

The assessment referred to in paragraph 1 of this Article may be performed only by a person who meets the requirements of Article 128i para. 3 and 4 of this law, while the costs of the assessment, as a rule shall be borne by the bank in restructuring.

If the assessment referred to in paragraph 1 of this Article is carried out by a person who performed an independent appraisal of the value of the assets and liabilities of the bank referred to in Article 128i of this law - these evaluations must be separated.

If an extraordinary financial support was provided to the bank in the process of restructuring - the amount of this support shall not taken into account in the assessment referred to in paragraph 1 of this Article.

If the assessment referred to in paragraph 1 of this Article determines that the shareholder or creditor of the bank, or deposit insurance fund suffered greater losses in the restructuring process than the losses that would be suffered in bankruptcy proceedings - these persons are entitled to compensation for the difference up to the amount of losses that would have been suffered in the bankruptcy proceedings and this compensation shall be settled from the funds for the restructuring of the bank provided by the Republic of Serbia, based on the decision of the Government of the Republic of Serbia.

Para. 1 to 6 of this Article shall apply mutatis mutandis to the rights of shareholders and creditors of the bank group member who is not a bank in the restructuring of this Article, or to the implementation of the measures referred to in Article 128g.

The National Bank of Serbia may prescribe a methodology for performance of assessment referred to in this Article.

Protection of the Financial Contract's Counterparty

Article 128x

It is neither allowed to transfer to the acquirer in the process of restructuring only part of the rights and obligations determined as eligible to be subject of settlement or set-off by a contract on financial collateral with transfer of property title, settlement contract or set-off contract (netting) executed by the bank, nor it is possible to seek, by using the ancillary rights arising from these contracts, an amendment or termination of the contractual provisions governing these rights and obligations due to the initiation of restructuring process or the executed transfer in that process.

Not even a part of the rights and obligations which are the subject of the contract on structured financing or covered bonds may be transferred to the acquirer in the process of restructuring, nor the amendment or termination of these rights and obligations due

to the initiation of the restructuring process or executed transfer in that process may be sought, using the ancillary rights based on these transactions,.

In the process of restructuring:

1) It is not possible to transfer to the acquirer the assets which secured the fulfillment of certain obligation, if the acquirer has not taken over that obligation in the transfer and if the creditor has not retained all rights towards the acquirer which he had towards the prior debtor on the basis of the secured claim;

2) It is not possible to transfer to the acquirer the obligation under Article 128q paragraph 3, item 2) of this Law if the creditor has not retained all rights towards the acquirer which he also had towards the previous debtor and provider of collateral on the basis of the secured claim;

3) It is not possible to transfer the rights affecting the collateral provider under Article 128q paragraph 3, item 2) of this Law, if the claim secured by that collateral is not transferred too;

4) It is not possible, by using a right based on the transaction under this Article, to seek its amendment or termination if, due to that, the claim from this transaction would no longer be secured.

Notwithstanding para. 1 to 3 of this Article, the National Bank of Serbia may transfer the insured deposits that are subject of the contracts under these paragraphs without simultaneous transfer of other assets or obligations that are the subject of the same contract, and may also transfer, modify or write-off these assets and obligations without simultaneous transfer of insured deposits - provided that this is necessary to ensure full protection of these deposits.

The usage of instruments of restructuring and measures in the process of restructuring does not affect the rights and obligations of third parties determined by the law governing settlement finality in payment and settlement systems of securities.

The provisions of para. 1 to 5 of this Article shall apply mutatis mutandis to the process of restructuring of a banking group member who is not a bank.

The National Bank of Serbia may further regulate the types of contracts and financial instruments to which para. 1 to 5 of this Article shall apply.

Section 7

Restructuring Funding

Funds to finance restructuring

Article 128y

Funds to finance restructuring are provided from the deposit insurance fund, in accordance with the limitations under Article 128z of this law, and from the funds of financial support which, under the terms of this Article, may be provided by the Republic of Serbia.

If the funds of the deposit insurance fund provided in accordance with Article 128z of this law are not sufficient to finance the restructuring of the bank, based on the report about the least cost test under Article 128h paragraph 7 of this law and assessment of the possibility to meet the objectives of restructuring to the fullest extent possible by applying other instruments of restructuring, and particularly to preserve the stability of the financial system - the National Bank of Serbia shall submit to the ministry in charge of finance affairs a request for giving a positive opinion on the provision of funds of financial support referred to in paragraph 1 of this Article, which contains a reasoned overview of foreseen instruments and measures of restructuring of the bank, as well as an amount, method and time period within which the financial support needs to be provided, bearing in mind the principles referred to in Article 128b of this law.

In addition to the request from paragraph 2 of this Article, the National Bank of Serbia shall submit a report on the least cost test referred to in Article 128h paragraph 7 of this Law and the Agency's opinion about that report, as well as the appraisal of assets and liabilities of the bank referred to in Article 128i of this law.

Based on the positive opinion of the ministry in charge of finance affairs, the National Bank of Serbia shall submit to the Government a proposal on providing funds of financial support, which contains an reasoned overview of foreseen instruments and measures of bank's restructuring, as well as the amount, manner and timeframe necessary for provision of this support, attached with the documentation referred to in paragraph 3 of this Article.

On the basis of the proposal referred to in paragraph 4 of this Article, the Government shall adopt a decision on provision of funds for financial support and without delay deliver it to the National Bank of Serbia and the Agency.

Financial support provided under this Article shall be treated as allowable state aid in order to eliminate the danger of damage in extraordinary situations, in terms of the law governing state aid control.

In the event that the Government does not accept the proposal referred to in paragraph 4 of this Article, the National Bank of Serbia shall render a decision to revoke the bank's operating license, unless the license of the bank was revoked during determination of conditions for the launch of the restructuring process.

The National Bank of Serbia may not bear the cost of financing the restructuring.

Detailed conditions and manner of providing funds of financial support under this Article shall be governed by the cooperation agreement concluded between the National Bank of Serbia and the ministry in charge of finance affairs.

The provisions of para. 2 through 9 of this Article shall apply mutatis mutandis to the provision of funds of financial support of the Republic of Serbia for the restructuring of the banking group member.

Using the Funds of the Deposit Insurance Fund in the Process of Restructuring

Article 128z

If using the instruments of restructuring, i.e. undertaking measures in the restructuring process ensures that depositors of the bank in restructuring continue to freely dispose

of their deposits - funds of the deposit insurance fund are used to finance the restructuring:

1) If the instrument of distribution losses is applied, in the amount of losses that would be suffered by depositors if their claims based on insured deposit were included in the eligible liabilities and were written-off to cover the losses of the bank in restructuring together with the claims of other creditors who are in the same payment order in accordance with the law governing bankruptcy and liquidation of banks and insurance companies;

2) If other instrument of restructuring is applied, in the amount of losses that would be suffered by depositors on the basis of insured deposits if they participated with other creditors of the same payment order in covering these losses.

Funds of the deposit insurance fund to finance the restructuring are provided solely in cash.

Funds of the deposit insurance fund may not be used to directly cover the loss of the bank in restructuring, for its recapitalization, or to ensure the bank's capital for specific purposes.

The amount referred to in paragraph 1 of this Article that may be used to finance restructuring may not exceed the amount that would be paid from the funds of the deposit insurance fund in the event that, instead of restructuring process, the bank was subject to bankruptcy proceedings or liquidation proceedings, provided that that amount may not exceed 50% of the amount of funds in the deposit insurance fund after whose reaching the payment of deposit insurance premiums may be suspended, in accordance with the law governing deposit insurance.

Usage of funds of the deposit insurance fund to finance the restructuring of the bank shall be determined by the decision of the National Bank of Serbia, while the Agency shall execute the transfer of these funds in the period and in the manner prescribed by that decision.

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 the present Law;

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

Section 1

Revocation of an Operating License

Article 130

The National Bank of Serbia revokes the operating license of the bank in the following cases:

1) If interim administration is introduced and until the expiry of the period for which this administration was introduced the reasons that led to its introduction were not eliminated, and the National Bank of Serbia estimates that the conditions for the launch of the process of restructuring are not fulfilled;

2) If the assets and liabilities of the bank in restructuring are transferred using the instruments referred to in Art. 128n and 128o of this Law, and the National Bank of Serbia estimates that the goals of restructuring were fulfilled by performed transfer;

3) If after the initiation of the restructuring process the National Bank of Serbia estimates that the restructuring objectives may not be achieved;

4) If the bank for six months continuously suspends the acceptance of deposits or the granting of loans, except if that was ordered by a corrective measure of the National Bank of Serbia or by a measure in the restructuring process;

5) If the Government does not accept the proposal for granting financial support under Article 128y, paragraph 4 of this Law.

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 the present Law are no longer met;

6) It determines that the bank is undercapitalized;

7) *(deleted)*

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 under Art. 112 and 113 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.

11a) it determines that a bank shall not be able to fulfill its obligations to depositors and other creditors;

11b) it determines that a bank spends the funds (assets) irrationally due to conducts contrary to regulations or standards of safe and sound banking operation, which may result in deterioration of the bank's financial state;

11c) a bank does not enable the National Bank of Serbia to perform the control of solvency and legal compliance of its operations.

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 launch of the bank's restructuring process, i.e. initiation of the bankruptcy proceedings.

Section 2

Voluntary Cessation of the Bank's Activities

Article 131

Based on the decisions of the bank's assembly regarding cessation of the bank's activities, the bank shall submit a request to the National Bank of Serbia for granting consent for the decision on cessation of the bank's activities.

Together with the request from paragraph 1 of this Article, the bank shall submit to the National Bank of Serbia a decision of bank's assembly on the cessation of the bank's activities, as well as an unconditional, irrevocable and payable on first demand bank guarantee issued by first class bank in the amount that guarantees coverage of all obligations of the bank from paragraph 1 of the present Article - in favor of the Agency. National Bank of Serbia may demand from the bank other documentation necessary to consider the request from the paragraph 1 of the present Article.

National Bank of Serbia shall determine the criteria for defining a first class bank in line with the Paragraph 2 of the present Article.

National Bank of Serbia shall decide on the request from paragraph 1 of the present Article within seven days of reception of the complete request.

In the decision on granting consent referred to in paragraph 1 of this Article, the Agency shall be appointed for the liquidation administrator, with the rights and obligations stipulated by the law regulating companies.

If the National Bank of Serbia does not give consent from the paragraph 1 of the present Article because a bank did not submit the documentation in accordance with paragraph 2 of the present Article, it shall simultaneously revoke the operating license of a bank.

National Bank of Serbia shall deliver the Resolution from paragraphs 5 and 6 of the present Article to the Agency the latest on the working day that follows the day the Resolution has been rendered.

Decision on cessation of bank's activities shall have legal effect on the day of rendering of the Resolution from paragraph 5 of the present Article.

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 the present 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 the present 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 the present Law;

8) Analysis that the respective merging cannot have any negative impact on the situation in the financial market;

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 the present 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 establishment 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 the present Article, the bank to which another bank is absorbed shall submit to the National Bank of Serbia the following:

- 1) Amendments to the establishment 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 the present Law;
- 5) Analysis that the respective absorption cannot have any negative consequences on the situation in the financial market;

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 the present 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.

The National Bank of Serbia shall make a decision regarding the request specified in paragraph 1 of the present 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.

Article 134

(Deleted)

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 the present 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 the present 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 the present 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 the present 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.

Article 136a

A person who, without permission of the National Bank of Serbia in its business name has, or in carrying out its activities uses or employs the word "bank" or a derivative of that word, shall be punished for a criminal offence by a prison sentence of three months to five years.

If, by the offence referred to in paragraph 1 of the present 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.

For the offence referred to in paragraphs 1 and 2 of this Article the responsible person in legal entity shall be also be punished.

Bank's violations

Article 137

A bank shall be fined from 300,000 to 2,000,000 dinars for violation if it:

1) (*deleted*)

2) appoints an external auditor whose income from the audit of the bank in the previous year is higher than half of its total revenue, or appoints an external auditor who has already performed more than five consecutive annual audits of its financial statements, or an external auditor who has conducted audit of financial statements of the bank and provided consulting services in the same year, or an external auditor who conducted the audit for the year in which he was providing such services (Article 53, paragraphs 1 to 3);

3) opens representative office abroad without the consent of the National Bank of Serbia (Article 91, paragraph 1).

For the acts referred to in paragraph 1 of the present Article the responsible person in the bank shall also be fined from 50,000 to 150,000 dinars.

Commercial Offences of Other Legal Entity

Article 138

A fine of 300,000 to 1,000,000 shall be imposed on a bank if it:

1) fails to dispose of own shares within one year from the date of their acquisition, or fails to withdraw them and cancel them as a charge against its share capital (Article 26, paragraph 7);

2) concludes a legal transaction the subject of which is to give credits, advances, warranties or guarantees by the bank for the purpose of direct or indirect acquisition of this bank's shares, of a person holding participation in this bank, or of that bank's subordinate company (Article 27);

3) approves to a person related to the bank, or to an employee of the bank a more favorable conditions than the conditions granted to other persons who are not related with the bank or are not employed by the bank (Article 37);

4) approves its shareholders credit before the expiration of the period of one year following the date when the bank commenced its business (Article 39);

5) does not submit to the National Bank of Serbia, along with appropriate statement, a written notification regarding resignation or removal of the external auditor of the bank, bank holding company or banking group, within 15 days following the day of the resignation and/or removal (Article 60, paragraph 1);

6) at least once a year, or upon requirement of the National Bank of Serbia fails to inform the National Bank of Serbia of the identities of all persons having participation in the bank, or of the increase or decrease of participation in that bank, within 15 days from the day when it became aware of that increase or decrease, or fails to inform it about any change of the status of any person related to that bank, within 15 days from the day when it became aware of such change (Article 101 paragraph 4, 5 and 6).

For the acts referred to in paragraph of 1 the present Article the responsible person in a legal entity shall be fined from 20,000 to 50,000 dinars.

Violations of other persons

Article 139

The responsible person in the National Bank of Serbia shall be fined from 50,000 to 150,000 dinars for violation 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 the present 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 the present 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 the present Law within the deadlines prescribed by these Articles.

Article 139a

A fine of 100,000 to 150,000 dinars shall be imposed on the interim administrator if he fails to submit to the National Bank of Serbia the report on the bank's financial condition and the actions he performed (Article 115, paragraph 7).

A fine of 100,000 to 150,000 dinars shall be imposed on a special administrator if he fails to submit to the National Bank of Serbia a report on the bank's operations and its financial condition, as well as on the actions he took in carrying out his duties (Article 128k, paragraph 11).

Article 139b

A fine from 100,000 to 1,000,000 dinars shall be imposed on another legal entity if it:

- 1) as a founder of the bank withdraws the assets invested in the initial capital of the bank (Article 12, paragraph 5);
- 2) as an external auditor performs more than five consecutive audits of annual financial statements of the bank, or if in the same year conducts both an audit of the financial statements and provides consulting services to such bank (Article 53 paragraphs 2 and 3);
- 3) fails to obtain prior consent of the National Bank of Serbia for acquiring direct or indirect ownership in the bank, which provides the achievement of voting rights in the percentages specified in Article 94 paragraph 1 of the present Law;
- 4) does not inform the National Bank of Serbia of the acquisition of ownership in a bank for which the National Bank of Serbia gave consent specified in Article 94 paragraph 1 of the present Law, within 15 days from the day of such acquisition (Article 97);
- 5) does not provide the National Bank of Serbia, within the prescribed time limits, information, documents and data in accordance with the Article 101 paragraphs 2 and 3 of the present Law;
- 6) as the ultimate parent company of a banking group, fails to submit consolidated financial statements to the National Bank of Serbia in accordance with Article 126 of the present Law.

For the acts referred to in paragraph 1 of this Article the responsible person in legal entity shall be fined from 50,000 to 150,000 dinars.

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 the present 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 the present 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 the present Article.

An individual - founder of a bank shall be fined 20,000 to 50,000 dinars for the activities specified in paragraph 1 of the present Article.

Article 140a

A fine from 100,000 to 1,000,000 dinars shall be imposed on a legal entity if it:

1) as an external auditor in the report and opinion on the annual financial statement of the bank does not indicate that the annual financial report of the bank is false and biased when displaying the bank's financial state, business results and cash flows in the business year, or does not provide the board of directors and executive board of the bank and the National Bank of Serbia with opinion on efficiency of functioning of the internal audit, risk management system and internal controls system, or at the request of the National Bank of Serbia fails to provide additional information regarding the performed audit (Article 56);

2) as an external auditor fails to notify the board of directors and executive board of the bank, or a member of the banking group, as well as the National Bank of Serbia, about the facts referred to in Article 58 paragraph 1 of the present Law, after becoming aware of such facts;

3) as an external auditor in the case referred to in Article 60 paragraph 2 of the present Law, does not obtain in prescribed time period a written statement of the previous external auditor on the reasons of his resignation, or dismissal, or if does not inform the National Bank of Serbia that the statement was not received within the prescribed period (Article 60 paragraphs 2 and 3);

4) as an external auditor does not inform the National Bank of Serbia about the noticed error in a published report from the Article 61 of the present Law (Article 61, paragraph 7);

5) exercises any influence on the management or on business policy of the bank in which it acquired ownership in line with Article 100 paragraph 1 of the present Law, or exercises voting rights based on such ownership, without obtained consent of the National Bank of Serbia (Article 100, paragraph 2);

6) does not provide information and relevant documentation at the request of the National Bank of Serbia pertaining to fulfillment of the criteria for giving consent specified in Article 94 paragraph 1 of the present Law (Article 101, paragraph 1);

7) does not allow the National Bank of Serbia to inspect the data on total amount, type and timeliness in meeting the obligations of natural and legal persons that are clients of the bank, i.e. to inspect the books of account and documentation, or at the request of the National Bank of Serbia fails to submit other data (Article 102, paragraph 4).

For the acts referred to in paragraph 1 of this Article the responsible person in legal entity shall be fined from 20,000 to 50,000.

Protective measure of prohibiting the performance of certain duties for a period of three months to one year and a protective measure of public announcement of the verdict could be imposed in addition to the fine for violation specified in paragraph 2 of the present Article.

Article 141

An individual person shall be fined 10,000 to 50,000 dinars for an offence if:

1) - 3) *(Deleted)*

4) Such individual in the capacity of a member of the board of directors and the executive board, and within the deadlines stated in Article 78 of the present 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 the present 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 the present 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 the present Law (Article 101 paragraph 2);

Chapter VIII

TRANSITIONAL AND FINAL PROVISIONS

Banks and Other Financial Organizations

Article 142

The banks established 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 Herald", Nos. 72/2003 and 61/2005) shall be obliged to harmonize their operations, organization and enactments with the provisions of the present 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 the present Article.

Other financial organizations established pursuant to the Law on Banks and Other Financial Organizations shall be obliged to harmonize their operations, organization and enactments with the provisions of the present Law within one year from the day of the present Law coming into force at the latest.

The harmonization specified in paragraph 3 of the present 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 day of the present Law coming into force, 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 the present Article.

The National Bank of Serbia shall render the decision on the consent specified in paragraph 5 of the present 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 the present 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 the present Law within the deadline specified in paragraph 3 of the present Article.

Until the completion of harmonization in the manner specified in paragraph 4 of the present 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 established 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 the present Law within one year from the day it came into force.

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 the present Article.

Association of Banks

Article 144

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

By-laws of the National Bank of Serbia

Article 145

The National Bank of Serbia shall render bylaws regulating the implementation of the present 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 day of the present Law coming into force shall be completed in compliance with those provisions.

Application of Provisions on Control and Financial Reporting on Consolidated Basis

Article 147

Provisions of the present Law regulating the control of 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 day of the present Law coming into force, the Law on Banks and Other Financial Organizations ("FRY Official Gazette", Nos. 32/93, 61/95, 44/99, 36/2002 and "RS Official Herald", Nos. 72/2003 and 61/2005) shall cease to be valid.

Article 149

The present Law shall come into force on the eight day following its publication in the "Official Herald of the Republic of Serbia" and shall apply as of 1 October 2006, except

from the provisions of Articles 10-20 and Articles 94-101 which shall apply as of 1 July 2006.

Independent Article of the Law on Amendments to the Law on Banks

("Official Herald of the Republic of Serbia", No. 91/2010)

Article 50

Banks are obligated to harmonize their organization and enactments with the provisions of Articles 9 to 12 and Articles 17, 19, 21 and 22 of the present Law until 1 July 2011.

National Bank of Serbia shall undertake measures within own jurisdiction against a bank that does not act in the manner specified in paragraph 1 the present Article.

Article 51

National Bank of Serbia shall harmonize the regulations rendered under the Law on Banks (Official Herald of the RS, No. 107/05) with the provisions of the present Law within six months from the day of its coming into force.

Article 52

Separate agreement mentioned in Article 32 of the present Law, which establishes the criteria for determination of a bank that is important for the system, the National Bank of Serbia and the Ministry of Finance shall conclude within three months from the day of this law's coming into force.

Article 53

This Law shall come into force on the eighth day following its publication in the "Official Herald of the Republic of Serbia".

Independent Article of the Law on Amendments to the Law on Banks

("Official Herald of the Republic of Serbia", No. 14/2015)

Article 60

Banks are required to harmonize internal by-laws with the provisions of this Law by July 1, 2015.

The Bank is required to submit the recovery plan referred to in Article 20 of this Law to the National Bank of Serbia until 30 September 2015.

Article 61

The National Bank of Serbia shall prepare restructuring plans referred to in Article 51 of this Law for the banks which on the day of entry into force of this Law have the

operating license issued by the National Bank of Serbia - not later than one year from the day of entry into force of this Law, while the restructuring plans for a banking group not later than two years from the day of entry into force of this Law.

The National Bank of Serbia may initiate the process of restructuring and apply the restructuring instruments in accordance with this Law regardless of whether the restructuring plans referred to in paragraph 1 of this Article and recovery plans referred to in Article 60 of this Law were drafted.

Article 62

This Law shall enter into force on the eighth day after the day of its publication in the "Official Herald of the Republic of Serbia", and shall apply from 1 April 2015.

- regulation published in „Official Herald of the RS”, Nos 107/2005 from 2nd December 2005, entered into force on 10th December 2005

- last correction published in „Official Herald of the RS”, Nos 14/2015 from 4th February 2015, entered into force on 12th February 2015

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