



**GUIDE TO
BANKING AND
FINANCE**

JPM

JANKOVIĆ POPOVIĆ MITIĆ

2018

TABLE OF CONTENTS

I	INTRODUCTION	3
II	BANKING	4
III	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS	9
IV	INSURANCE	16
V	NBS CONTROL	19
VI	ADEQUACY OF CAPITAL, RISKS AND RESERVES	23
VII	INVESTMENT FUNDS AND INVESTMENT FUNDS MANAGEMENT COMPANY	28
VII	CONSUMER PROTECTION IN FINANCIAL SERVICES	30
VIII	LEASING	32

Disclaimer:

The sole purpose of this publication is to provide general information about specific topics. It makes no claims to completeness and does not constitute legal advice.

The information it contains is no substitute for specific legal advice. By this, readers are instructed to request the specialist advice on particular issues emphasized herein and to verify above introduced statements before relying on them.

If you have any queries regarding the issues raised or other legal topics, please get in touch with your usual contact at JPM Jankovic Popovic Mitic.

In the modern world, a large number of deals are conditioned by various transactions, which entail cooperation with banks, insurance companies and other financial institutions. Therefore, banking and finance law is an unavoidable necessity for each individual and legal entity. Since banking and finance law has a significant impact on various business and private decisions, increased awareness can lead to optimal results. The fact that the supervision over transactions in this field is exercised by the National Bank of Serbia (hereinafter referred to as: NBS), as the governing institution of the banking and financial system of Serbia, demonstrates the extent to which this area is recognised as equally important and sensitive.

We would like to share with you a fraction of our vast experience in the banking and finance system by presenting the fundamentals on which the system is based, your possibilities within the system and also reflect on protection of your rights.

I. INTRODUCTION

Banking and insurance tradition in Serbia is not as established as in some other countries. The first Serbian bank was founded in 1869, with the capital of 200.000 florins, while the first insurance company in Serbia was founded in 1897 under the name "Belgrade Cooperative".

Today the banking system in Serbia consists of NBS and 28 business banks and representative offices of 5 foreign banks. Serbian market of payment services includes 12 payment institutions, 1 domestic and 6 foreign electronic money institutions currently operate in Serbia.

Regarding the insurance market in Serbia currently operate 17 insurance companies, 4 re-insurance companies and a large number of insurance brokers and agents, agencies and business units for other services in insurance.

The control of legality of the financial institutions in Serbia is exercised by NBS, as an autonomous and independent institution reporting directly to the National Assembly of the Republic of Serbia. The principal goal of NBS is to achieve and maintain stability of prices. NBS, without jeopardizing achievement of its principal goal, contributes to preservation and strengthening of the financial system stability.

The functions of NBS include:

1. establishing and implementing monetary and foreign currency policies;
2. foreign currency reserves management;
3. establishing and implementing, within its competencies, activities and measures for preservation and strengthening of the financial system stability;
4. issuance of notes and coins and cash flow management;
5. organizing, control and improvement of uninterrupted functioning of monetary transactions within the country and with foreign countries, in compliance with the law;
6. granting to the banks and depriving the banks of the operating licenses, control of financial standing of the banks and legality of business operations of the banks, in compliance with the laws governing banks;
7. granting to the insurance companies and depriving the insurance companies of the operating licenses, control and supervision of the insurance activities, granting the licenses and depriving of the licenses for engagement against certain activities within the field of insurance, etc., in compliance with the laws governing insurance;
8. granting to the companies and depriving the companies of the operating licenses for engagement in activities of financial leasing, supervising of financial leasing activities and other activities, in compliance with the laws governing financial leasing;
9. granting to the companies the licenses for operating and management of voluntary pension funds and depriving them of the same, supervising such activities, and other activities in compliance with the laws governing voluntary pension funds;

10. granting to the payment institutions and depriving the payment institutions of the operating licenses, and to electronic money institutions the licenses for electronic money issuance, and engages in other activities in compliance with the laws governing payment services;
11. protection of the rights and interests of beneficiaries of services rendered by banks, insurance companies, financial leasing providers, companies managing voluntary business funds, payment services providers and electronic money services providers, in compliance with the law;
12. determination of fulfilment of requirements for initiating restructuring of banks or members of a group of banks and exercising relevant procedures, deciding upon instruments and measures to be undertaken during restructuring of banks, and other tasks in connection with restructuring, in compliance with the laws governing banks;
13. granting licenses to payment system operators to operate and depriving them of the licenses; supervision over their activities and other activities in compliance with the laws governing payment services;
14. engaging in activities on behalf of the Republic of Serbia, as specified by the law, or under an agreement;
15. engaging in other activities from its operating scope, in compliance with the law.

II. BANKING

Operations of banks include:

1. deposits (acceptance and laying of deposits);
2. loans (granting and taking of loans);
3. foreign currency, local currency and exchange operations;
4. payment transactions;
5. credit cards issuance;
6. transactions with securities (issuance of securities, custody, etc.);
7. broker and dealer transactions;
8. warranties, guaranties and other forms of bonds (guarantee deals);
9. purchase, sale and collection of claims (factoring, forfeiting, etc.);
10. representation in insurance (with prior NBS approval);
11. transactions a bank is authorized to engage in under the law;
12. other transactions the nature of which is similar or related to the transactions under points from 1) to 11), in compliance with the Incorporation Act and the Statute of a bank.

Activities to be performed exclusively by the banks are:

- acceptance of deposits;
- granting of loans and
- issuance of payment cards,

with the exception that loans may be granted and payment cards issued by other legal entities if authorized for such activities under the law.

There are two means of engaging in banking activities in the Republic of Serbia - incorporating a bank and purchase shares of one of the existing banks.

B) Incorporation of a bank

The first alternative – incorporation of a bank appears more attractive, in the sense that from the very beginning it is possible to set grounds on which the bank will operate, however, such an undertaking will require significant financial funds. Namely, the pecuniary portion of initial capital of a bank shall be no less than EUR 10,000,000 in RSD equivalent calculated at the official medium exchange rate on the payment date.

After you have managed to overcome the initial obstacle – financing, you will be encountered with other requirements you need to satisfy in order to incorporate a bank.

The stages in the bank incorporation process are the following:

1. Obtaining preliminary approval for incorporation;
2. Obtaining an operating license.

Preliminary approval

The first step in incorporation of the bank is obtaining the NBS approval for incorporation of a bank, in a form of the preliminary approval. In order to obtain the preliminary approval, the founders shall submit to NBS the application for preliminary approval for incorporation of a bank. Enclosed with the application, founders shall submit to NBS documentation specified by the law (data on bank founders and their contributions; on persons who will be members of the bank bodies, proposed bank activities program; proposed procedures, etc.) as well as additional data and documents requested by NBS. NBS shall render a decision within 90 days following the day of the receipt of the application with all the duly completed documentation.

Founders of a bank whose application for the preliminary approval has been rejected or refused, or whose preliminary approval has expired, shall not be entitled to file this application again before expiry of one (1) year from the date of rejection or refusal, or expiry of the validity of preliminary approval.

After they have obtained the preliminary approval, and before registration of a bank with the Serbian Business Register Agency (hereinafter referred to as: “Business Registers Agency”), founders may, on behalf of a bank under incorporation, engage only in activities required for obtaining the operating license and for registration with the Business Registers Agency.

Operating license

The next step in incorporation of the bank is obtaining the NBS operating licence. Namely, no later than sixty (60) days after obtaining the preliminary approval, founders of a bank shall, submit to NBS the application for obtaining the operating license accompanied by various documents relating to initial capital, business premises and equipment, engagement of an independent auditor, organizational structure and human resources capabilities of a bank. Should the founders of a bank fail to file the application within the specified term, the preliminary approval shall be deemed invalid.

NBS shall render a decision within 90 days following the day of the receipt of the application with all the duly completed documentation.

If the NBS rejects or refuses the application for obtaining the operating license, the founders shall not be entitled to file this application again before expiry of one (1) year from the date of such rejection or refusal.

The founders of a bank shall hold the Incorporation General Meeting session no later than thirty (30) days after obtaining - the operating license. The founder shall be obliged to deliver to NBS for approval all acts adopted at the Incorporation General Meeting session within five (5) days.



After NBS has rendered the resolution on approval of the said acts within sixty (60) days, the founders shall have the thirty (30) days term to register incorporation of a bank with the Business Registers Agency.

A bank shall acquire the capacity of a legal entity at the moment of registration with the Business Registers Agency.

Branch and representative offices

In the domestic financial market, the bank can perform its activities through an extensive network of branch offices or other organizational forms of which opening NBS shall be informed by no later than eight (8) days from the opening date.

Upon obtaining the approval of NBS domestic banks can expand their business on the foreign financial market by opening a branch office. In such case the domestic bank will be obliged to submit the annual report on the operations of a branch office and to timely notify NBS of any changes relating to the activities of the branch.

Should a foreign bank wish to expand its business to the Republic of Serbia and perform detailed research of Serbian financial market for that purpose, it can do so by opening a representative office in the Republic of Serbia.

The representative office is an organizational unit of a Serbian bank abroad or of a foreign bank in the Republic of Serbia, without legal entity status, which shall not engage in activities a bank is allowed to perform, but may nevertheless engage in market research activities and represent a bank it belongs to.

In order to be registered in the Republic of Serbia, a foreign bank representative office shall obtain the NBS consent. Together with the application to be submitted to NBS, a foreign bank shall also submit various documentation (e.g. the resolution of foreign bank's authority in charge on opening of a representative office, a copy of the foreign bank's Incorporation Act, data on the foreign bank's financial standing, etc.). The foreign bank's representative office in the Republic of Serbia shall be registered in compliance with laws governing registration of commercial companies.

Purchase of shares of an existing bank - acquiring a share in a bank

Purchase of shares in one of the existing banks on the Serbian market is a viable alternative to the complex incorporation of the bank. Number of purchased shares determines the voting rights and the opportunity to participate in bank management.

However, you will need prior consent of NBS if you decide to purchase bank shares in the amount which would secure the following percentages of voting rights:

- from 5% to 20%,
- from 20% to 33%,
- from 33% to 50% and
- over 50%.

Obtaining of the consent depends on the extent to which various requirements have been satisfied, depending on the percentage threshold of voting rights that you intend to acquire. For example, if you intend to acquire 20% to 33% of voting rights in a bank, in addition to general documentation to be provided for percentage thresholds, NBS shall also assess your plan of activities for the following year, and if you wish to acquire over 33% of voting rights, NBS shall assess your plan of activities for the following two years, and if you wish to acquire over 50% of the voting rights, NBS shall assess your plan of activities for the following 3 years.

These plans shall in particular contain the clearly defined strategy of operations, goals and guidelines relating to a bank, the shares of which you intend to acquire.

If the application is made in the capacity of a foreign bank or a foreign legal entity operating in finance sector, NBS shall grant its consent under the following conditions:

- that the applicant is controlled by a regulatory body of its country of origin in a manner that satisfies the NBS requirements;
- that there is appropriate cooperation between NBS and the regulatory body of applicant's country of origin;
- that other conditions specified by NBS are satisfied.

NBS shall specify the term within which the applicant, having been granted the consent, may acquire ownership in a bank, as follows:

- natural persons – no later than within one year following delivery of the resolution;
- legal entities – no later than the date of adoption of the first next annual financial reports or revised financial reports of those legal entities.

Should the applicant fail to acquire ownership within the given term, the granted consent shall no longer be valid. The applicant shall notify NBS on acquisition of ownership, for which the consent has been granted within 15 days following such acquisition.

A person/legal entity may acquire the share without the NBS's consent in the following cases:

- through inheritance (natural persons),
- legal succession (legal entities) or
- other kind of acquisition, independent from the will of an acquirer.

However, the natural or legal person who acquired the shares without the NBS's consent can neither exercise any influence on the management of the bank in which he acquired the shares or on the business policy of that bank, nor can he exercise voting rights, until he obtains the approval of the NBS on the acquisition of shares.

Legal consequences of an unauthorized acquisition of shares in a bank

Should a person/legal entity, without NBS's prior consent acquire direct or indirect share in a bank, securing from 5% to 20%, over 20% to 33%, over 33% to 50% and over 50% of voting rights, NBS shall:

- order the person/legal entity to relinquish the ownership, or
- prohibit the person/legal entity to indirectly or directly exercise voting rights in the bank, and to influence management or business policy of the bank.

Should a person/legal entity having acquired the ownership without the NBS consent, fail to relinquish the ownership in the manner and within the term specified by NBS, the legal transaction on the basis of which such ownership has been acquired shall be deemed null and void.

Exceptionally, there is a possibility that a person/legal entity acquires a share in a bank without the NBS's prior consent, but the so acquired ownership shall have certain limits with respect to exercising the voting rights, should the acquirer not be subsequently granted the NBS consent/ratification for such acquisition.

III. PAYMENT INSTITUTIONS/ELECTRONIC MONEY INSTITUTIONS

As of 1 October 2015 the Law on payment services introduced the possibility for payment services to be offered by other entities, apart from the banks, i.e. payment services may be offered by payment institutions and electronic money institutions.

This novelty directly influenced the exclusivity of banks in offering payment services which ceased to exist and consequently initiated liberalization of payment transactions and increased the competitiveness on the market of payment services.

The said law also provides detailed regulation of the payment services, functioning of payment systems and protection of users of payment services.

Besides the banks, payment institutions and electronic money institutions, payment services can also be provided by:

- National Bank of Serbia;
- Public postal operator;
- The Treasury Administration or other public authority body in the Republic of Serbia if stipulated by the law.

Payment Institutions

A payment institution is a company licensed by NBS to provide payment services.

Apart from the provision of payment services, a payment institution may also engage in:

1. operational and ancillary activities directly related to the provision of payment services (i.e. ensuring the execution of payment transactions, data storage and processing, currency conversion and granting of loans , whereas when providing certain kinds of payment services only short term loans can be granted etc.);
2. operation of the payment system;
3. other business activities that are not related to the provision of payment services.

In case a payment institution performs activity of operation of the payment system and/or any other business activity that is not related to the provision of payment services, it will be a so-called hybrid payment institution. The hybrid payment institution is obliged to perform these activities in the manner which does not jeopardise the safety and soundness of the part of its operations neither related to the provision of payment services nor hinders the supervision of a payment institution by NBS.

There are two means of engaging in providing of payment services in the Republic of Serbia :

- incorporating a payment institution by obtaining the payment services license and
- acquiring the qualifying holding in already established payment institution.

Payment services license

A company intending to provide payment services as a payment institution shall submit to the NBS an application for obtaining the payment services license with supporting documentation further specified by the Law on payment services. NBS shall decide on the application by no later than three (3) months following the day of receipt of a duly completed application.

A company applying for the license shall, during the process of granting the license and on the day of obtaining the license, provide the pecuniary portion of the initial capital in one of the following minimum amounts depending on the type of payment service provided:

1. For money remittance services where a payment service provider receives funds from a payer, without any payment accounts being opened in the name of the payer or the payee, for the sole purpose of making these funds available to a payee or transferring these funds to the payee's payment service provider, which makes such funds available to the payee, the initial capital shall amount at least EUR 20,000 in RSD equivalent at the official middle exchange rate;
2. For execution of payment transactions where the consent of the payer to execute a payment transaction is given by means of any telecommunication, digital or IT device and the payment is made to the telecommunication, digital or IT network operator, acting only as an intermediary between the payment service user and the seller of products or provider of services, the initial capital shall amount to at least EUR 50,000 in RSD equivalent at the official middle exchange rate;
3. For the remaining five types of payment services, initial capital shall amount to at least EUR 125,000 in RSD equivalent at the official middle exchange rate.

In case the company is planning to provide various payment services for which the law stipulates different minimum amount of pecuniary portion of initial capital, the company shall provide the amount for the payment service for which is required the highest amount of initial capital.

The NBS shall refuse, in whole or in part, an application for the license if it assesses the following:

1. the applicant does not meet the requirements related to the stipulated documentation enclosed with the application, or
2. the supervision of a payment institution performed by NBS would be prevented or significantly hindered due to close links between the applicant and other persons, or
3. taking into account the third country's regulations that apply to persons with whom the applicant is closely connected and the manner in which those regulations are applied, the supervision of payment institutions would be prevented or significantly hindered, or
4. due to business operations of the applicant other than those related to the provision of payment services, the safety and soundness of a payment institution's operations would be jeopardised or that, because of these activities the supervision of a payment institution would be significantly hindered.

Acquiring of qualifying holding in an established payment institution

As opposed to acquiring qualifying holding in a bank, in case of a payment institution there is no requirement for obtaining prior consent of NBS for that undertaking.

A payment institution or qualified holder shall notify the NBS of the acquisition of a qualifying holding in a payment institution and submit evidence to demonstrate fulfilment of requirements stipulated by the law and bylaws no later than one (1) day following the day of acquisition of qualifying holding.

The type of documentation that needs to be enclosed with the notification to NBS differs depending on whether the qualified holder is:

1. natural person;
2. domestic or a foreign legal entity;
3. member of a holding;
4. foreign legal entity whose securities are listed on stock exchanges in OECD countries;
5. government of the Republic of Serbia; or
6. local government or a legal entity established by the Republic of Serbia.

Payment institution operations

The relationship between payment institutions and users of payment services is governed by the Agreement on Payment Services concluded either as a Framework Agreement on Payment Services or as Agreement on single payment transaction.

A payment institution may receive funds from users of payment service solely for the purpose of executing payment transactions in accordance with the mentioned agreement.

The received funds shall neither constitute a deposit within the meaning of the law governing banks nor constitute electronic money, considering that the payment institution cannot engage in deposit-taking activities or issue electronic money.

A payment institution shall safeguard the funds received from payment service users or other payment service providers in relation to the execution of payment transactions by keeping it separate from its own funds and the funds it has received on other grounds from natural persons and legal entities. If the payment institution concludes an insurance agreement or obtains an appropriate bank guarantee, the safeguarding of the separate funds shall not apply.

A payment institution may also provide payment services through a branch, agent and/or by entrusting some operational activities to a third person, for which lawful operation it shall be fully liable.

In the Republic of Serbia the following twelve (12) payment institutions are currently operating:

1. TENFORE D.O.O. BEOGRAD,
2. EKI TRANSFERS D.O.O. BEOGRAD,
3. PREDUZEĆE ZA TRGOVINU NA VELIKO I MALO VIP SISTEM DOO BEOGRAD,
4. PAYSPOT D.O.O. NOVI SAD,
5. MIĆO COMMERCE DOO BEOGRAD,
6. TRANSAKS Д.О.О. ШАБАЦ,
7. MENJAČNICA ALTA D.O.O. BEOGRAD,
8. WEST TRANSFER DOO BEOGRAD-VRAČAR,
9. MONETA FINANCIAL SERVICES DOO BEOGRAD-VOŽDOVAC,
10. CHIP CARD AD BEOGRAD,
11. TRANSFERNOVA DOO BEOGRAD-SAVSKI VENAC,
12. MONDOCARD DOO BEOGRAD-SAVSKI VENAC.

Electronic Money Institutions

Apart from providing payment services, electronic money institution also issues electronic money.

The Law on payment services defines electronic money as electronically (including magnetically) stored monetary value, representing a claim towards the issuer, which is issued upon receipt of funds for the purpose of execution of payment transactions and which is accepted by a natural and/or legal person who is not the issuer of electronic money. In other words, electronic money represents a completely equal digital substitute for bank notes and coins commonly used to make payments via the Internet, applications on mobile phones etc.

An electronic money institution shall be exclusively a company, established in accordance with the law governing companies, licensed by NBS to issue electronic money.

In Republic of Serbia, electronic money may also be issued by:

1. a bank;
2. a Public postal operator;
3. the National Bank of Serbia;
4. the Treasury Administration or other public authority body in the Republic of Serbia, in line with its competences stipulated in the law;



In addition to issuing electronic money, electronic money institution may also perform the following activities:

1. provision of all payment services;
2. granting credit relating to payment services;
3. operational and ancillary activities directly related to the issuance of electronic money or to the provision of payment services;
4. operation of a payment system;
5. other business activities not related to the issuance of electronic money or provision of payment services.

If the electronic money institution provides payment services not directly related to electronic money issuance and/or performs activities described in points 4 and 5 above, it shall provide these services and/or perform these activities in a manner that does not jeopardise the safety and soundness of the part of the institution's operations related to the issuance of electronic money or hinder the supervision of the institution by NBS.

There are two means of engaging in issuing electronic money - incorporating a electronic money institution by obtaining the issuing electronic money licence and acquiring the qualifying holding in a electronic money institution.

Issuing an electronic money license

A company intending to issue electronic money shall submit to the NBS an application for obtaining the issuing electronic money license with supporting documents specified by the Law on payment services.

The NBS shall decide on the application by no later than three (3) months following the day of receipt of a duly completed application.

If a company intends to provide payment services in addition to issuing electronic money, decision of NBS shall stipulate them exhaustively.

NBS shall refuse the application for obtaining the license to issue electronic money for the same reasons that apply for the payment institutions.

A company applying for the license for issuing electronic money shall, during the process of granting the license and on the day of obtaining the license, provide the pecuniary portion of initial capital in the amount not less than EUR 350.000.

Electronic money institution is required to maintain the adequacy of initial capital as stipulated by the law.

Acquiring of qualifying holding in electronic money institution

If you intend to engage in the activity of issuing electronic money by acquiring a qualifying holding or to further establish your position within the electronic money institution by gaining from 20% to 30%, more than 30% to 50% or over 50% of voting rights or capital in that institution, and/or to become its parent company, you shall need prior approval of NBS.

NBS shall decide on the application for approval within two (2) months of the receipt of a duly completed application. The decision on granting approval shall stipulate that the acquisition of qualifying holding or gaining significant percentage of voting rights/capital shall be implemented within one (1) year from the date of receipt of the decision.

The granted approval shall be deemed invalid if the qualifying holding in the electronic money institution within the period specified term is not acquired and/or increased. If, however, the holding is acquired and/or increased within specified term, but not at the level for which the approval has been granted, the approval will remain valid only for the share of acquired and/or increased qualifying holding.

After obtaining of the approval, the qualifying holder shall notify the NBS of acquisition and/or increase in a qualifying holding in the electronic money institution, by no later than eight (8) days from the date of such acquisition and/or increase.

Legal consequences of an unauthorized acquisition/increase of qualifying holding

In the event of an unauthorized acquisition or increase of qualifying holding in the abovementioned percentages the NBS shall:

- order the person/legal entity to relinquish the acquired/increased holding within specified term; or
- prohibit the person/legal entity to directly or indirectly exercise its voting rights, the right to dividend and other rights arising from the acquired or increased qualifying holding, the influence on the management of the electronic money institution or its business policy.

In addition, failure to obtain prior consent of the NBS may lead to initiation of misdemeanour procedure for which fines are determined in amount ranging from RSD 50,000 (circa EUR 400) to RSD 800,000 (circa EUR 6,000) for the electronic money institution and a fine ranging from RSD 30,000 (circa EUR 250) to RSD 150,000 (circa EUR 1,300) for the responsible person in the electronic money institution.

However, pursuant to the Law on payment services prior NBS' consent shall not be required and subsequent consent is required in case of person/legal entity acquiring/increasing qualifying holding through:

- inheritance (natural persons),
- legal succession (legal entities) or
- other kind of acquisition, independent from the will of an acquirer.

In this case and in order to avoid the possible initiation of the misdemeanour procedure as stated above, the qualifying holder shall inform the NBS at the latest 1 (one) month from acquiring/increasing the holding, in regards to obtain the subsequent consent.

Electronic money institutions operations

The relationship between electronic money institution and holder of electronic money is regulated by an agreement.

Once the license for issuing electronic money is granted and electronic money institution is engaged in issuing electronic money, any funds received from an electronic money holder shall be exchanged for electronic money without delay. The electronic money institution shall safeguard the received funds in the same manner that applies to the payment institutions.

The electronic money institution may also:

1. provide payment services through its branch, agent or by entrusting some related operational activities to a third person;
2. issue electronic money through its branch, distribute electronic money through authorized distributors with whom it has executed an agreement, or entrust some operational activities to a third person.

For their lawful operation the electronic money institution shall be fully liable.

Electronic money institutions may not issue electronic money through agents.

The first and so far the only electronic money institution operating in Serbia as of 13 October 2016 is the company IPAY SEE d.o.o. In this initial phase the electronic money institution enables the purchase of goods and services in online shops of those recipients of electronic money with whom it has executed an agreement as well as the transfer of electronic money between two holders.

In the next phase, as intended, an innovative mechanism called digital wallet will enable creation of electronic money in a completely virtual environment by introducing the possibility to increase the amount of electronic money using payment cards on the internet or via mobile applications. It is expected that this mechanism will facilitate direct electronic money payment at physical points of sale.

Electronic money institutions from third countries

Operations of electronic money institutions from third countries, through which residents perform activities of foreign payment transactions, are governed by the Law on foreign exchange transactions.

In the event that the foreign electronic money institution intends to start the business activities in Serbia, it shall timely inform NBS of its business name and registered seat and the relevant number under which it has been registered in the home country's register, as well as of the name and address of the head office of the supervisory authority.

In the Republic of Serbia the following six (6) electronic institutions from third countries are currently operating:

1. Payoneer (EU) Limited;
2. PayPal Pte. Ltd;
3. Skrill Limited;
4. Paysafe Financial Services Limited;
5. Google Payment Corporation;
6. Payeer Ltd.

Provisions applicable after acquiring full membership in the European Union

The Law on payment services stipulates certain number of provisions whose implementation shall be postponed until accession of the Republic of Serbia to the European Union. These provision, inter alia, regulated issues concerning the business activities of payment service providers in EU member states and third countries, cross-border payment transactions and payment transactions in euros or other currency of a member state, the provision of payment services by a payment institution in the territory of another member state directly, through a branch or representative, the issuance, distribution and repurchase of electronic money and provision of payment services by electronic money institutions etc.

IV. INSURANCE

The insurance field is in its principal and major part governed by the Law on Insurance and the appropriate bylaws.

A) Insurance activities and types of insurance

Nowadays, when potential risks are widespread, more and more people decide on some kind of insurance: life insurance, car insurance, loan insurance, etc.

The purpose of insurance is transfer of risk from the insured to the insurance company, in return for payment of the insurance premium. Through collection of premiums paid by insured to insurance company, a monetary fund is created from which each individual insured event is paid out, if it occurs. In this way, the insured is relieved since the risk of occurrence of an insured event passes onto the insurance company, while the insurance company acquires profit if the insured event does not occur.

Insurance activities include:

- insurance;
- co-insurance;
- reinsurance;
- other activities directly related to insurance.

Insurance includes activities of execution and implementation of life and non-life insurance agreements, except for the mandatory social insurance.

Co-insurance includes the activities of execution and implementation of insurance agreements with several insurance companies which have agreed on joint bearing and distribution of risk.

Reinsurance is a repeated insurance – insurance of the insurance. Namely, each insurance company has a certain amount of risk it can bear, i.e. cover by its own funds – maximum self-support of the risk. The excess of the undertaken risk and the proportionate part of insurance premium, the insurance company shall transfer, under an agreement, to a re-insurance company.

The direct insurer is liable to the initial insured, and not the re-insurer. The insurance company shall be obliged to reinsure its portion of the risk above its self-support threshold.

Other activities directly related to insurance include insurance brokers and agents, identification and assessment of risks and damages, mediation in the sale and sold the remains of insured damaged property and rendering other intellectual and technical services related to insurance activities.

The re-insurance company is a legal entity having its headquarters in the Republic of Serbia, registered with the authority in charge, subject to the NBS license for engaging in reinsurance activities.

Insurance broker is a legal entity which, upon the insurance company's request establishes link between the insured and the insurance, in order to negotiate execution of the insurance agreement.

Insurance agent may be a commercial company/ an entrepreneur engaging in representation in insurance activities on behalf and for the account of the insurance company pursuant to the agreement on representation in insurance.

The Law on Insurance lists specific features related to insurance brokers and insurance agents as follows:

- they shall have headquarters in the Republic of Serbia;
- exceptionally, they shall be entitled to engage in activities directly or indirectly connected with insurance activities, with NBS precisely defining these activities and engagement conditions;
- the insurance broker shall not engage in business dealings of the insurance agent, and vice versa;
- insurance agent activities, in addition to insurance agents, may also be performed by legal entities having headquarters in the Republic of Serbia, provided they have previously obtained the NBS consent, such as banks, financing leasing providers and public postal companies.

Types of insurance

Insurance is divided into life insurance and non-life insurance.

The life insurance includes:

1. life insurance;
2. wedding and childbirth insurance;
3. rent insurance;
4. additional insurance with life insurance;
5. tontine – the insurance in which insured agree to jointly capitalize their contributions, and the so capitalized assets are divided among those insured who have lived to a certain age, or between heirs of an insured deceased person;
6. insurance with capitalization of payment – the insurance based on actuarial calculations whereby the insured instead of a single or periodical payment of the premium receives payments in certain amount within a certain period.

The non-life insurance includes:

1. insurance against consequences of an accident, inclusive of work injuries and professional diseases;
2. voluntary health insurance;
3. insurance of motor vehicles, track vehicles, aircrafts, vessels, and product liability insurance;
4. insurance of transported goods and road assistance insurance;
5. insurance of property against fire and other risks, and other types of property insurance;
6. insurance against general liability damages;
7. insurance of loans, guarantees, financial losses;
8. insurance of legal protection costs.

A single joint stock insurance company shall not be entitled to engage in both life insurance and non-life insurance activities.

The exception is an insurance company which, as of the commencement date of the Law on Insurance, is in possession of the license for engagement against certain or all kinds of life insurance activities and against certain or all kinds of non-life insurance activities.

B) Engaging in insurance activities

As in the case of banks, there are two types of engagement in the insurance activities:

1. incorporating an insurance company;
2. purchasing shares of an existing insurance company

C) Incorporation of insurance companies

Pecuniary portion of the initial capital shall not be below the RSD equivalent of amounts specified below, at the NBS medium exchange rate as of the date of payment:

1. Life insurances:

Subject to the Law on Insurance, the initial capital for all types of life insurances shall be EUR 3,200,000.

2. Non-life insurances:

The Law on Insurance provides for various amounts of the initial capital for different kinds of non-life insurances, as follows:

EUR 2,200,000 for:

- a) insurance against consequences of an accident, inclusive of an injury at work and professional diseases;
- b) voluntary health insurance;
- c) insurance of motor vehicles, track vehicles, aircrafts, vessels;
- d) insurance of transported goods;
- e) insurance of property against fire and other risks;
- f) other property insurance

EUR 3,200,000 for:

- a) product liability insurance on due to use of motor vehicles, aircrafts and vessels;
- b) insurance against general damage liability;
- c) insurance of loans, guarantees, financial losses;
- d) legal protection costs insurance;
- e) road assistance insurance.

3. Reinsurance - EUR 3,200,000.

An insurance company may be incorporated only in the form of a joint stock company. The founders of an insurance company shall file with NBS the application for obtaining the license to operate, together with appropriate accompanying documentation relating to company incorporation, its Articles of Association, shareholders, staff and technical equipment, etc.

The license shall be granted for one or more types of insurance in which the company will engage in. The NBS resolution shall specifically list types of insurance for which the license is granted. Should a company subsequently decide to engage in an insurance activity which is not listed in the license, or should it decide to terminate its engagement in certain activity, a company shall be obliged to file with NBS the application for amendment of the license to operate. In that case a new license shall be granted, while the former one shall no longer be valid.

To eliminate the risk of not being granted the license to operate, one shall satisfy all specified requirements relating to organization and internal acts, as well as requirements relating to staff, equipment, etc.

The license to operate shall no longer be valid in the following cases:

1. if the incorporation General Meeting session is not held within the specified term;
2. if a founder fails, within 30 days after having been granted the license to operate, to file the application for registration with the authority in charge;
3. if a company fails to commence operating within one year from the date of registration with the authority in charge;

V NBS CONTROL

NBS shall control both the legality and regularity of financial institutions operations.

NBS CONTROL			
	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
GOALS	<ul style="list-style-type: none"> Assessment of safety and stability of bank's operations as compared to risks to which a bank is exposed or might be exposed in its operations; Checking financial standing and capital adequacy of a bank and adequacy of bank management; Legality of business operations of a bank. 	<p>The priority is protection of interests of the insured and other beneficiaries of insurance.</p>	<ul style="list-style-type: none"> Protection of users of payment services/holders of electronic money Maintaining stability of the payment system;
SUBJECT	Control of financial standing and legality of operations of the banks.	<ul style="list-style-type: none"> Legality of performance in insurance activities; Application of management system within a company and risk management rules; Application of rules of insurance and actuarial profession, good business practice and ethics. 	Supervision of the compliance with provisions of the Law on payment services and bylaws.
METHOD	<ol style="list-style-type: none"> Directly – by verifying reports and notifications delivered by a bank/insurance company to NBS and Indirectly – by exercising control over business operations of a bank / insurance company. 		
CONTROLLER	Authorized person in NBS.		

NBS CONTROL			
	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
MEASURES	<p>When supervising the operations of banks, NBS may undertake one of the following measures:</p> <ol style="list-style-type: none"> 1. send a written warning; 2. send a letter of order; 3. order measures for elimination of established irregularities; 4. introduce a receiver; 5. deprive a bank of the license to operate. <p>Should NBS during the process of exercising control estimate that a bank has committed severe irregularities and that its financial standing has significantly deteriorated, or that there is a possibility that its financial standing may be significantly deteriorated, it shall, under the resolution on temporary measures, order a bank to undertake one or more of the following activities:</p> <ol style="list-style-type: none"> 1. adjust its business activities with the regulations; 2. increase the amount of capital; 3. increase the adequacy of capital; 4. Undertake or cease undertaking other activities. 	<p>When supervising the operations of insurance companies, NBS may:</p> <ol style="list-style-type: none"> 1. order the measures for elimination of illegalities and irregularities; 2. order assignment of insurance portfolio to another insurance company; 3. deprive an insurance company of the license for engagement in some or all insurance activities for which the license has been granted; 4. order introduction of temporary measures; 5. order other measures specified by law. 	<p>When supervising the operations of payment institutions/electronic money institutions, NBS may:</p> <ol style="list-style-type: none"> 1. send a recommendation; 2. send a written warning; 3. order measures for elimination of established irregularities; 4. Imposing a fine; 5. Deprive payment institution/electronic money institution of the granted license. <p>Should NBS during the process of exercising control estimate that a payment/electronic money institution has committed severe irregularities and failed to comply with a written warning it shall, under the resolution on temporary measures, order a the payment institution/ electronic money institution to undertake one or more of the following activities:</p> <ol style="list-style-type: none"> 1. adjust its operations with the regulations; 2. increase the amount of the capital; 3. temporarily cease to provide certain payment services or issue electronic money; 4. take appropriate measures to protect payment service users and electronic money holders; 5. remove from duty members of the managing body and/or directors of a payment institution/electronic money institution if they no longer meet the conditions prescribed under this Law and/or if they contravene the provisions of this Law, 6. temporarily suspend or restrict granting of credits related to provision of 7. payment services; 8. terminate the agreement with an entity to whom it has entrusted some operational activities, if requirements for the performance of those activities have not been met; 9. undertake or cease undertaking other activities.

NBS CONTROL			
	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
REPORTING TO NBS	<p>In order that its financial standing and financial standing of its subsidiaries be assessed, a bank shall be obliged to, within certain terms, submit reports to NBS, regarding the following:</p> <ol style="list-style-type: none"> 1. bank management, 2. organizational structure operations, 3. projected business activities, 4. liquidity, solvency and profitability of the bank and its subsidiaries. 	<p>An insurance company shall submit to NBS the following documents in accordance with specified terms:</p> <ol style="list-style-type: none"> 1. financial report and the annual statement of account; 2. report on implementation of co-insurance and reinsurance policies; 3. annual business plan of the company; 4. By-laws and other general acts, as well as associated amendments and supplements; 5. Other documents specified by law. <p>The insurance company shall provide NBS with quarterly reports on the following:</p> <ol style="list-style-type: none"> 1. Structure and change of shareholders; 2. Number and amount of reported and resolved litigation claims for damages; 3. Financial standing and changes in remaining assets; 4. Liquidity of the company; 5. Other specified data. <p>The insurance company shall be obliged, upon the NBS request, to also submit other reports, information and data of significance for the NBS supervision.</p>	<p>Payment institution/ electronic money institution shall submit to NBS the following documents by no later than 30 days following the day the statements were submitted in accordance with the law governing accounting:</p> <ol style="list-style-type: none"> 1. individual financial report for the previous year (or consolidated financial report if required); 2. external auditor's report; <p>In addition to abovementioned documents electronic money institution shall submit to NBS:</p> <ol style="list-style-type: none"> 1. separate accounting records relating to the issuance of electronic money; and 2. separate accounting records relating to payment services not directly linked to the issuance of electronic money, together with the external auditor's report regarding those records.

NBS CONTROL			
	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
DEPRIVING OF THE LICENSE TO OPERATE	<p>NBS may deprive a bank of its license to operate, provided it has established that:</p> <ol style="list-style-type: none"> 1. the bank has a critically low level of liquidity; 2. the bank has been granted the license to operate on the basis of false data; 3. the activities of the bank are connected with money laundering, financing of terrorism or engagement in other illegal activities; 4. the bank failed to enable NBS to exercise control of the bank's financial standing and legality of its business operations; 5. in other cases specified by law. <p>NBS shall deprive a bank from its license to operate in the following cases:</p> <ol style="list-style-type: none"> 1. if the bank is under receivership, and if until expiry of the receivership term the bank fails to eliminate the reasons which have lead to the receivership, and NBS estimates that the requirements for initiation of the restructuring procedure have not been satisfied; 2. if after initiation of the restructuring procedure NBS estimates that the goals of restructuring cannot be achieved; 3. if the bank, for six months without interruption, ceases to accept the deposits or grant the loans, except in case it has been ordered so by the NBS' corrective measure; 4. in other cases specified by the laws. 	<p>NBS may deprive an insurance company of its license to engage in some or all insurance activities in the following cases:</p> <ol style="list-style-type: none"> 1. if the license has been granted on the basis of false and inaccurate data; 2. the company engages in activities in a manner infringing the rights of insured, insurance beneficiaries and third parties, and the company is neither paying for damages nor settling its other commitments; 3. the company engages in insurance activities for which it does not have the license to operate; 4. in other cases specified by law. <p>NBS shall deprive the insurance company of the license to operate in the following cases:</p> <ol style="list-style-type: none"> 1. when the receivership has not lead to business stabilisation and liquidity of the company; 2. when the company has failed to settle commitments relating to the capital adequacy ; 3. in other cases specified by law <p>Surrender of the license to operate shall not relieve the insurance company of fulfilment of its obligations owing under the executed insurance agreements.</p>	<p>NBS may deprive the payment institution/electronic money institution of its license to provide payment services/ issue electronic money, provided it has established that:</p> <ol style="list-style-type: none"> 1. a payment institution/ electronic money institution no longer meets the requirements required for granting the license; 2. the license was granted on the basis of false data; 3. continuation of providing payment services/issuing electronic money would jeopardise the stability of the payment system; 4. activities of a payment institution/ electronic money institution are connected with money laundering or financing of terrorism; 5. a payment institution/electronic money institution failed to implement orders and undertake measures imposed during supervision in a timely manner; 6. the payment institution/electronic money institution does not maintain minimum initial capital; 7. the payment institution/electronic money institution has committed a major violation of provisions of the law and/or bylaws; 8. a payment institution/electronic money institution fails to allow the NBS to perform supervision of its operations. <p>NBS shall deprive the payment institution/electronic money institution of its license to provide payment services/ issue electronic money, provided it has established that:</p> <ol style="list-style-type: none"> 1. the payment institution/ electronic money institutions did not begin to provide payment services/ issue electronic money within 12 months from the date of granting the license or if it has not been providing/issuing these services for more than six months; 2. a payment institution/electronic money institution informs NBS in writing of its intention to terminate the provision of payment services/issuance of electronic money.

VI ADEQUACY OF CAPITAL, RISKS AND RESERVES

ADEQUACY OF CAPITAL, RISKS AND RESERVES			
	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
ADEQUACY OF CAPITAL	<p>The capital adequacy indicator is the relationship between the capital and risky assets of the bank. It shall not be below 12%.</p> <p>The bank shall be obliged to maintain the capital in the amount of at least EUR 10,000,000 in RSD equivalent, subject to the official minimum exchange rate.</p>	<p>The capital adequacy of an insurance company indicates the insurance company's exposure to various risks which might occur during the course of various insurance activities.</p> <p>The insurance company shall be obliged to maintain its capital in the amount specified subject to the insurance activities it performs.</p>	<p>Payment institution/electronic money institution shall be obliged to maintain the capital in one of two following amounts, whichever is higher:</p> <p>1. Amount of initial capital:</p> <p>For payment institutions (depending on type of payment service provided):</p> <p>EUR 20,000 in RSD equivalent subject to the official middle exchange rate for money remittance services where a payment service provider receives funds from a payer, without any payment accounts being opened in the name of the payer or the payee, for the sole purpose of making these funds available to a payee or of transferring these funds to the payee's payment service provider, which makes such funds available to the payee,</p> <p>EUR 50,000 in RSD equivalent subject to the official middle exchange rate for execution of payment transactions where the consent of the payer to execute a payment transaction is given by means of any telecommunication, digital or IT device and the payment is made to the telecommunication, digital or IT network operator, acting only as an intermediary between the payment service user and the seller of products or provider of services</p> <p>EUR 125,000 in RSD equivalent subject to the official middle exchange rate for remaining five types of payment services;</p> <p>For electronic money institution:</p> <p>EUR 350.000 in RSD equivalent subject to the official middle exchange rate;</p> <p>2. Amount of capital requirement;</p>

ADEQUACY OF CAPITAL, RISKS AND RESERVES

	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
RISKS	<p>The bank identifies measures and assesses risks it is exposed to in the course of its operations and manages the risks.</p> <p>Types of the risk</p> <ol style="list-style-type: none"> 1. Liquidity risk – may occur due to the bank’s inability to settle its overdue commitments; 2. Loan risk – may occur due to the failure of debtors to settle their commitments towards the bank; 3. Interest and foreign currency risk and other market risks – may occur due to fluctuations of interest rates/exchange rates; 4. Investment risks in other legal entities and fixed assets – the bank’s investment in a legal entity outside of finance sector shall not exceed 10% of the bank’s capital. Total investment of the bank in legal entities outside of finance sector and in fixed assets shall not exceed 60% of the bank’s capital; 5. Other risks specified by the law. <p>Bank’s exposure to one legal entity or a group of affiliated legal entities shall not exceed 25% of the bank’s capital</p>	<p>The insurance company identifies measures and assesses risks it is exposed to within its operations and manages such risks accordingly.</p> <p>Types of the risk</p> <ol style="list-style-type: none"> 1. Risk of insurance – inability of the company to manage risks connected with insurance activities; 2. Market risk – arises from unfavourable fluctuations on markets, primarily the market for insurance and finance; 3. Risk of other contractual parties failing to settle its obligations – arises from the company’s inability to fully or partially collect its claims on various grounds; 4. Legal risk – arises from non-compliance of business operations and acts of the company with regulations; from agreements which cannot be fully or partially fulfilled (e.g. invalid agreements); and from possible litigation losses. 5. Other risks depending from nature, amount and complexity of business operations of the company. 	<p>The payment institution/electronic money institution identifies, measures and assesses risks it is exposed to within its operations and manages such risks accordingly.</p> <p>Types of risks are not specifically defined by the Law on payment services or corresponding bylaws. However, the payment institution/electronic money institution shall adopt the risk management strategy which shall include in particular:</p> <ol style="list-style-type: none"> 1. summary and definitions of all risks the institution is or may be exposed to; 2. long-term business objectives determined by the institution’s business strategy, as well as risk propensity consistent with these objectives; 3. main principles of risk taking and management; 4. basic principles for the management of the institution’s capital.

ADEQUACY OF CAPITAL, RISKS AND RESERVES

	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
RESERVES	<p>Banks are obliged to deposit a certain amount as the mandatory reserve to the NBS accounts designated for this purpose.</p> <p>The mandatory reserve is applicable to total deposits, a portion of deposits, or other categories may be included on the basis of other commitments, such as loan obligations and funds acquired through issue of securities.</p>	<p>Insurance companies shall have the reserves specified by the law, securing liquidity of the company and settlement of the company's obligations arising from insurance activities.</p> <p>The insurance company's reserves may be divided in two groups:</p> <ol style="list-style-type: none"> 1. Technical reserves 2. Guarantee reserve <p>Technical reserves are funds from which the insurance company settles its obligations arising from insurance activities. The insurance company shall, at the end of calculation period, establish the technical reserves for covering obligations arising from its insurance operations.</p> <p>Technical reserves include reserves for the following:</p> <ul style="list-style-type: none"> • Transferable premiums, • Reserved damages, • Reserves for share in the profit, • Mathematical reserve, and • Reserves for risks settlement. • Reserves for bonuses and discounts and • Reserves of unexpired risks. <p>Technical reserves are presented subject to the type of insurance, separately for life insurances and non-life insurances.</p> <p>Transferable premium is the portion of a premium used for covering insurance obligations arising in the next calculation period.</p>	<p>The payment institution/ electronic money institution shall safeguard funds received from payment service users/electronic money holders in one of two following manners:</p> <p>Deposit them in a separate bank account; Invest them in liquid and low-risk types of assets.</p> <p>Assets shall include:</p> <ol style="list-style-type: none"> 1. debt financial instruments issued by the Republic of Serbia or by the NBS, and/or guaranteed by the Republic of Serbia; 2. debt financial instruments issued or guaranteed by the European Central Bank, a Member State of the European union (or its central bank) which has been assigned credit rating corresponding to at least credit quality level 3 (investment rank) within the meaning of the decision of the NBS governing capital adequacy of banks, and which are denominated and settled in the currency of any Member State; 3. debt financial instruments issued and/or guaranteed by an international development bank and/ or an international organization within the meaning of the decision of NBS governing capital adequacy of banks; 4. debt financial instruments issued or guaranteed by a state, central bank, territorial autonomy or local self-government, public administrative body, financial sector entity or a company which in accordance with the decision of the NBS governing capital adequacy of banks would be assigned credit risk ponder of no more than 50%; 5. investment funds units which invest only in financial instruments referred to in previous points from 1) to 4).

ADEQUACY OF CAPITAL, RISKS AND RESERVES CONTINUED

	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
RESERVES		<p>Reserved damages are formed in the amount of estimated commitments for damages which have occurred, have been reported, but have remained unsettled, and for damages which have occurred but have not been reported in the current period.</p> <p>Reserves for participation in profits are formed in the amount the insured are entitled to on the basis of specified share in the life insurance agreement, if the insured have accepted to participate in the risk of depositing and investing technical reserves funds.</p> <p>Mathematical reserve is intended for settlement of future obligations deriving from life insurance.</p> <p>Reserves for risks settlement are formed at the expense of the insurance company's expenditures, separately for each type of non-life insurance and are used for time settlement of the course damage in certain types of insurance.</p> <p>Reserves for unexpired risks are calculated for coverage of expected amounts of damages and costs in the following period, if such expected amount exceeds the amount of transferable reserves and claims for premium under the insurance agreement.</p> <p>Reserves for bonuses and discounts are formed in the amount the insured are entitled to on the following basis:</p> <ul style="list-style-type: none"> • Participation in profits, and other rights under the insurance agreement, unless a mathematical reserve is formed for such insurances; 	<p>All aforementioned regarding obligation of safeguarding of funds shall not apply if a payment institution/electronic money institution ensures the fulfilment of its financial obligations to payment service users/electronic money holders by concluding an insurance agreement or obtaining appropriate bank guarantee.</p>

ADEQUACY OF CAPITAL, RISKS AND RESERVES CONTINUED

	BANKS	INSURANCE COMPANIES	PAYMENT INSTITUTIONS/ ELECTRONIC MONEY INSTITUTIONS
RESERVES		<ul style="list-style-type: none"> • Future partially reduced premiums; • Refunding of the premium portion for an unconsumed term of insurance on the basis of termination of the insurance before its expiry term. <p>2. Guarantee reserve is formed for the purpose of securing permanent settlement of present and future obligations of the insurance company. This is a mandatory reserve for all insurers</p> <p>The laws specify conditions and usage methods for utilization of the reserve funds by insurance companies.</p>	

VII INVESTMENT FUNDS AND INVESTMENT FUNDS MANAGEMENT COMPANY

If you have decided to invest money, and you are not sure in what you can invest and which investment would be the most profitable for you, perhaps you should engage professionals to make that decision for you. With that purpose in mind, various investment funds are in existence.

Investment funds are collective investment institutions through which monetary funds are collected. The collected funds are invested in various kinds of assets, for the purpose of generating profit and reducing the investment risk. The investment funds are managed by an Investment Funds Management Company. An investment fund's assets are owned by members of an investment fund, in proportion with their participation in such fund, being separate from a company which manages a fund. Incorporation of an investment fund requires consent of the Securities Commission, which simultaneously supervises operations of investment funds and investment funds management companies. Operations of investment funds are governed by the Law on Investment Funds.

Types of the investment funds

The investment funds are classified as: open, closed and private investment funds. Below is the table setting out principal characteristics of each fund type.

Type	Legal form	Method of collection of monetary funds	Minimum amount of monetary funds in EUR	Withdrawal of invested funds
OPEN	Do not have the capacity of a legal entity	Issuance of investment units	200.000	Redemption of investment units upon request by a fund member
CLOSED	Legal entity organized as a public joint stock company	Sale of shares by public tender	200.000	The closed fund shares are issued by a public tender along with the approval to publish a prospectus; prior consent of the Securities Commission
PRIVATE	Legal entity organized in the form of a limited liability company	Contributions of private investment fund members	50.000 per an investment fund member	Application of the Companies Act provisions governing assignment of shares

Managing company is a legal entity organizing, incorporating and managing an investment fund. It shall be incorporated exclusively in the form of a joint stock company, which is not a public company with respect to the laws governing capital markets. It is entitled to organize, incorporate and manage several investment funds.

Activities of a managing company:

1. open funds incorporation, organization and management;
2. closed funds incorporation and management;
3. private funds management;
4. other activities in compliance with the laws governing capital markets.

If you wish to engage in one of the listed activities, there are 2 alternatives to do so:

1. Incorporate the managing company;
2. Acquire qualifying holding in the managing company.

Incorporation of the managing company

A person who intends to establish the managing company shall submit to the Securities Commission the application for obtaining licence to operate supported with corresponding documentation prescribed by the law.

The Commission shall issue the license to operate by no later than 30 days from the date of application when it determines the validity of the abovementioned corresponding documentation and when assesses that:

1. the origin of the initial capital is clear and certain based on evidence;
2. the evidence related to organizational and technical competence is convincing;
3. the structure of related parties is such that it does not prevent efficient supervision of
4. activities;
5. on the basis of the information obtained it can be concluded that persons who possess
6. qualifying holding are reliable.

The pecuniary portion of initial capital of the managing company during incorporation shall be at least EUR 200.000 in RSD equivalent calculated at the official medium exchange rate on the payment date. The managing company shall maintain said amount of pecuniary portion of initial capital during the entire course of business.

Acquiring of qualifying holding in the managing company.

If you opt for the second alternative to acquire qualifying holding in the managing company instead of incorporating a new one, you shall previously inform the Securities Commission which will assess the above-mentioned requirements described in points 1 to 4 and subsequently give or deny the approval.

The qualifying holder loses the voting rights arising from the shares acquired contrary to the provisions of the law, i.e. without approval of the Commission.

VIII CONSUMER PROTECTION IN FINANCIAL SERVICES

Banks, leasing providers and traders (jointly here referred to as: Providers), are in a superior position compared to individuals – beneficiaries of financial services (jointly here referred to as: Beneficiaries), since Providers are setting conditions under which they will render financial services, while Beneficiaries may either fully agree to conditions and enter into a financial relationship, or give up. In such unequal relationship, Provider is often in the position to demonstrate its financial superiority, at the expense of Beneficiary.

In order to avoid detrimental consequences, various measures and avenues have been introduced with the aim of protecting Beneficiary's rights in the financial relationship with Provider. Apart from that, NBS exercises supervision over Providers and their legality of operations. The protection of consumers of financial services is governed by the Law on protection of consumers of financial services.

Some of Beneficiary's rights include the following:

1. right to equality with financial services Provider;
2. right to protection from discrimination;
3. right to information;
4. right to precision or definability of a contractual obligation;
5. right to protection of rights and interests.

The Beneficiaries' rights are protected by law prescribing the following:

1. obligation to make Beneficiary aware of general operating conditions of a specific financial institution;
2. mandatory elements for each type of an agreement executed for providing financial services;
3. Provider's obligation to inform Beneficiary in detail about conditions for rendering financial services, prior to execution of an agreement;
4. Provider's obligation to request Beneficiary's prior consent for amendment of material elements of an agreement and to timely inform Beneficiary of non-material amendments;
5. Beneficiary's 'cooling-off' period for an executed financial agreement within 14 days from the date of execution, without the need to specify reasons for cancellation of such agreement;
6. minimum professional ability of employees engaged in financial services sale or providing financial services advice;
7. other rights of Beneficiary and obligations of Provider, in particular for all contracts governing provision of financial services

Procedure for exercising protection of Beneficiary's rights:

There are two types of procedures in which Beneficiary may secure protection of his/her rights in a financial relationship:

i) **Within extrajudicial procedure**

The right to raise objections and complaints

The Beneficiary shall be entitled to object to Provider if he/she deems that Provider does not observe legal provisions, general operating conditions, good business practice and obligations contained in a contract executed with Beneficiary. Beneficiary may file an objection to Provider actions in writing – addressed to business premises of Provider; by mail, through the Internet presentation of Provider, and by e-mail, within three years from the date on which his/her right or legal interest was infringed.

Should Beneficiary file an objection following expiry of this term, Provider shall be obliged to immediately notify him/her that the objection has been filed after expiry of the specified term, on the basis of which Provider is not under obligation to consider it.

Provider shall be obliged to reply to Beneficiary's objection within 15 days from its receipt. This term might be extended for additional 15 days, in case Provider is not in position to respond for reasons beyond its control, about which Provider is obliged to inform Beneficiary. Should Provider estimate that the objection is justifiable, it will inform Beneficiary whether the reasons on account of which the objection has been filed are addressed or on term and measures to be undertaken for the purpose of addressing the reasons for objection.

Should the Beneficiary not be satisfied with Provider's response, or should he/she not receive the response within 15 days (maximum 30), he/she shall be entitled to lodge a complaint with NBS within 6 months from the expiry of the said term, or from the date on which he/she has received Provider's reply. NBS shall, no later than 8 days from the date of receiving the complaint, request Provider to provide a statement on the complaint, and provide evidence within 8 days (3 months for more complex complaints). Should Provider fail to provide the statement within the specified term (which shall not be more than 8 days), NBS shall be entitled, regardless of subsequent consideration of the claim, to impose a fine under a resolution on Provider in the amount of RSD 100.000.

The right to mediation

Should Beneficiary not receive Provider's response to an objection within 15 days (maximum 30) or not receive it at all, the dispute may be settled by a mediation procedure.

The mediation procedure shall be initiated by acceptance of the initiation proposal, and may be finalized by an agreement between parties, suspension or withdrawal. An agreement reached during the mediation procedure shall not have the effect a binding document. The NBS mediation does not either exclude nor have an impact on exercising the right to judicial protection, however it is generally recommended to attempt this manner of dispute resolution, primarily due to substantial costs associated with judicial proceedings.

However, after the mediation procedure has been initiated, Beneficiary shall no longer be entitled to lodge a complaint, unless the mediation procedure has been finalized by either a suspension or a withdrawal. Should the complaint already been lodged, NBS shall either suspend acting upon the complaint, or withdraw it, in cases where the mediation has been finalized by an agreement.

The mediation procedure may be carried out before NBS or other authority or a person authorized for mediation, at the discretion of parties.

The mediation procedure might be finalized by an agreement of parties, suspension or withdrawal. The agreement between parties reached within the mediation procedure carried out before NBS shall have the effect of a binding document if it contains required elements specified by law.

Should NBS establish irregularities in Provider's operations, at the detriment of Beneficiary, it will render a resolution under which it may declare some of the following measures:

- order Provider to eliminate proven irregularities;
- impose a fine;
- public announcement of information regarding Provider in cases where Provider's irregularities have been established.

The NBS resolution shall be subject to administrative proceedings; however, the claim against the resolution shall not prevent nor postpone its execution.

i) Within judicial proceedings

If the Beneficiary has not managed, within an amicable procedure, to exercise his/her rights within financial relationship with Provider or has not attempted to find a solution by this way, he/she may attempt to have it resolved in the Court. A party may initiate Court proceedings by a claim, and particulars of a claim may seek:

- Termination of the agreement;
- Amendment of the agreement;
- Compensation for damages.

IX LEASING

The leasing may be financial or operative. In case of the operative leasing, a leasing provider is an owner of subject of leasing, and following expiry of lease term, a lessee shall always return a leased object. The operative leasing is not specially governed by regulations and parties mutually agree by applying rules of governing lease agreement and associated obligations.

The incorporation, operation and supervision of financial lease providers is governed by the Law on financial leasing and bylaws. The financial leasing is a deal in which one, as a recipient of financial leasing, executes an agreement (financial leasing agreement) with a provider of financial leasing, under which a provider of financial leasing undertakes an obligation, from a supplier of your choice, to procure a subject of leasing, also at your choice (e.g. a car of certain characteristics), and to provide you such product for utilization.

In order to engage in financial leasing activities, a financial leasing provider shall be granted the license for engaging in financial leasing activities by NBS.

NBS shall exercise supervision over leasing provider operations and might render a resolution depriving a provider of the financial leasing license, should provider no longer satisfy the requirements for obtaining the license and the capital requirements, and also where provider makes exercise of the NBS's supervision impossible.

An owner of a financial leasing subject is a financial leasing provider with which you have executed the leasing agreement, and you are a beneficiary of a subject of leasing until you have purchased it. Although the right to purchase a subject of the financial leasing is frequent in financial leasing agreements, should the agreement not provide for purchase of a subject of leasing upon expiry of the agreement, you shall be obliged to return a product to provider. If the agreement provides for the possibility of purchase, you will become an owner of a subject of leasing following expiry of the agreement term, however only after you have paid an agreed upon leasing consideration.

By executing the financial leasing agreement, you, as a recipient of a leasing object undertake the obligation to pay to financial leasing provider an agreed upon consideration (leasing consideration) in an agreed amounts and within an agreed term, and to bear all costs and risks in connection with a subject of leasing, such as costs of maintenance, insurance and registration, in the amount legal entities pay for registration of vehicles, since an owner of product, a financial leasing provider, is a legal entity. Should a subject of leasing be destroyed or damaged, compensation for the damage shall be paid to financial leasing provider, since it is the owner of the product, and not to yourself, although you have been paying the insurance premium.

During the term of the agreement, the subject of the leasing shall not be sold, leased, mortgaged, nor shall you dispose of the product in any other way whatsoever. The financial leasing subject shall serve to the financial leasing provider as the collateral, in case of your failure to pay the leasing consideration in compliance with the agreement.

If, for example, for the car you use, on the basis of financial leasing, you fail to make payment of the leasing consideration within the agreed term, you shall be obliged to return the subject of financial leasing to the financial leasing provider and pay all unpaid instalments of the leasing consideration, default interest and the consideration specified in the agreement.

The subject of the financial leasing may be a movable inconsumable thing (equipment, plants, vehicles, etc.) and an immovable thing.

Termination of the leasing agreement

The leasing agreement shall terminate in the following cases:

1. by expiry of the agreement validity term;
2. destruction of leasing subject by force majeure occurrence;
3. termination of the agreement (due to failure to deliver, failure to pay the consideration).



Vladimira Popovića 6 | NBGP Apartments
11070 Belgrade | Serbia | tel: +381 11 207 6850
fax: +381/11/207-6899

www.jpm.rs

JPM

JANKOVIĆ POPOVIĆ MITIĆ