REPORT ON THE ASSOCIATION OF SERBIAN BANKS’ OPERATIONS IN 2010
INTRODUCTION

ASSOCIATION OF SERBIAN BANKS AS A WORTHY BUSINESS PARTNER OF THE BANKING INDUSTRY

Since its establishment back in 1921 till the present day, the Association of Serbian Banks has supported the development and needs of the banking industry, in its desire to always serve as:

- The voice of the industry;
- Sound service provider; and
- Worthy business partner of banks.

The main operating principles defined in a document adopted on the occasion of the Association of Banks’ establishment, stating that it is to “submit proposals to the competent authorities concerning the issues of general importance and common interest of monetary institutes; represent all banks before the authorities and in various commissions and delegations, and speak on their behalf; discuss all significant issues in the field of economy and finance by means of its journal”, have remained in the core of the Association of Banks’ strategy and business policy until the present day.

The 90-year long history of development, rich business experience and high reputation that the Association of Serbian Banks enjoys in the financial sector, have confirmed the aptness of such business orientation, as well as the fact that the defined business goals have been achieved in the best possible way.

In addition to increasing the quality of its main consulting services, protecting banks’ interest and launching initiatives towards the institutions of the system, the Association of Serbian Banks has enriched the past decade of its operation by directing its business orientation towards the creation of new products and services, in line with the requirements of a modern banking market, that the domestic market is undoubtedly becoming. Such a vanguard approach was the only way for the Association of Serbian Banks to keep pace with the changes in the domestic banking sector, thus remaining a worthy business partner to the banking industry. The priorities in this new, modern orientation in the past ten years of operation have been implemented by means of:

- The services of the Association of Serbian Banks’ Credit Bureau, which is ranked among the most successful and most efficient in the world, with the tendency of permanent perfection and expansion of its volume of services;
- The services of its Clearing and Settlement Centre, which in 2005 won the first award for its technological solutions at the world competition in London;
- Active assistance to banks in the field of risk management and harmonization with international standards defined by the Basel Bank Supervision Committee;
- Considerable assistance to banks concerning the implementation of international accounting standards, along with the numerous changes that this process entails.

The new role and place of the Association of Serbian Banks in international cooperation and
communication is also the result of its modern business orientation, which has been confirmed by:

- The membership of the Association in the Inter-Balkan Banking Forum, European Banking Federation - EBF, and European Banking Training Network - EBTN, Rome; and
- Intensified cooperation and communication with the regional banking associations and banking associations from other countries, such as: the Banking Association for Central and Eastern Europe - BACEE, Budapest, Hellenic Bank Association - HBA, Athens, Associazione Bancaria Italiana - ABI, Rome, Association of Regional Banks of Russia - “Russia”, International Banking Council (International Coordinating Council of Banking Associations of CIS, Central and Eastern Europe), Moscow, but also with the international financial institutions (International Chamber of Commerce - ICC).

The Association of Banks has also recorded very significant results in the field of professional training of bank employees, and in the field of defining and raising the level of professional behaviour - another priority in its business orientation. In early 2007, the Association of Serbian Banks prepared the latest Professional Code of Ethics for Banks, which has been accepted by most member banks.
REPORTS PER FUNCTIONAL UNITS

BANKING OPERATIONS WITH DOMESTIC LEGAL ENTITIES

Risk Management - Risk management function, as one of the leading functions in the bank management system, has been in the focus of the domestic banking industry in the recent years, not only because of the significance it bears for successful functioning of banks, but also because of the process of implementation of international standards into the field of risk management and the procedure of determining banks’ capital adequacy.

The banks spent the past years preparing for the implementation of international standards prescribed by Basel II Accord, in terms of meeting the qualitative and quantitative qualifications criteria. The very implementation of these standards from the New Capital Adequacy Framework is a very complex and expensive process, which requires the adoption of an appropriate regulatory framework, and, prior to the implementation, a sufficient amount of time for the preparation in banks. Preparatory activities include changes in terms of organization and personnel, considerable investments in IT support and training of employees, but also the time for testing the implementation of the New Capital Adequacy Framework, in order to determine the effects on capital and business results and incorporate them into banks’ annual business and financial plans. Therefore, the implementation process, as such, is not just a formality.

In light of the above-mentioned, 2010 was a very significant year for the banks, given that the term plan of the National Bank of Serbia defined it as the year in which the banks were to conduct the necessary preparations for implementing the regulations harmonized with the Basel II Accord standards. Throughout the year, banks’ expectations regarding this request by the national regulator and supervisor were accompanied by a high level of apprehension concerning their breaking of the deadlines prescribed by the National Bank of Serbia’s term plan for the implementation of the concerned standards.

Already at the beginning of 2010, it was clear that the planned implementation of new regulations (by 2011) was uncertain, given that the harmonization process had not been completed within the projected deadline (by the end of 2009). Thereby the realization of the stage in which the banks were supposed to prepare for implementation of these standards (in 2010) was also brought into question.

A draft of the regulations harmonized with Basel II standards was released for public discussion in mid May 2010, and remained in the draft form till the end of the year. Such a situation caused a feeling of uncertainty with the banks in terms of implementation deadlines, but it also caused difficulties in the process of preparation, since the regulatory solutions were in the form of a draft.

In 2010, just like in the previous years, the Association of Serbian Banks monitored the processes of realization of the National Strategy for Basel II standards implementation in banks, providing its own contribution to addressing this situation to the extent appropriate to its role and mandate. The most important activities of the Association were conducted in several key directions:

- The Association of Serbian Banks’ Risk Management Committee continued its cooperation with the Supervision Department of the National Bank of Serbia;
- Significant initiatives were being launched towards
the National Bank of Serbia;

- Provision of consulting services was intensified concerning the drafts of new regulations, harmonized with the New Capital Adequacy Framework (Basel II Accord), which were released for public discussion in May 2010;

- Continuity was achieved in the field of training of risk managers in banks, by means of specialist seminars, organized within the Association of Serbian Banks, i.e. continuity in raising the level of their awareness and direct communication in the form of mass gatherings (the eighth annual Bank FinIng Symposium).

**Bank FinIng Symposium “Risk Management”**

- At the eighth annual symposium of banking professionals directly or indirectly dealing with risk management in commercial banks, held at the Palic Lake on 11-14 May 2010, and organized by the Association of Serbian Banks, representatives of the National Bank of Serbia from the Banking Supervision Department for the first time publicly presented the draft of new regulations harmonized with Basel II standards. The Symposium was attended by more than 140 participants.

The competent Vice-Governor presented a general appraisal of the position of the banking sector of Serbia, one year after the commencement of the global financial crisis; measures undertaken to protect the domestic banking industry and, indirectly, the economy; and the risks that, according to the assessment of the national supervisor, at the moment pose the biggest challenge for the domestic banking industry.

The thematic section on Basel II was opened by head of risk analysis group and deputy head for Basel II program implementation in the largest financial group in the South-Eastern Europe, i.e. **NBG Greece**, who delivered a presentation about the experiences of this Banking Group concerning the implementation of Basel II Accord.

The main part of the Symposium was devoted to a series of sessions in which the participants had a chance to listen to the first public presentation of the draft of the domestic regulations harmonized with the Basel II standards. The subject-matter was presented by the representatives of the NBS Banking Supervision Department, which was a chance to obtain some answers to the initial questions in direct communication with the national supervisor, but also to hear about the expectations and requests of the national supervisor concerning the implementation of international standards in risk management procedures in banks.

**Initiatives**

- In 2010, the initiative of the ASB Risk Management Committee towards the National Bank of Serbia, Banking Supervision Department, was launched, led and successfully completed, concerning the draft of the new regulations harmonized with Basel II Accord standards. The initiative was supported by 29 banks out of 33 which have the National Bank of Serbia’s operating license.

In this initiative the Committee did not wish to elaborate on individual suggestions concerning the regulations draft that the banks separately sent to the NSB Banking Supervision Department, but instead highlighted certain aspects that make the core of an efficient and successful implementation of new regulations within the risk and bank capital adequacy management function.

The issues underlined by the Committee are the following:

1. **Treatment of banks’ capital adequacy, and level of provisioning for credit losses as stipulated in the new regulations draft**

The Risk Management Committee unanimously concluded that the new regulatory framework, harmonized with Basel II standards cannot be implemented without amending the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items, given that this Decision is very restrictive, resulting in unjustifiably high capital charges for banks. Credit loss provisions at the level of the banking sector of Serbia amount to over 20% of credit portfolio value and is several times higher than the IFRS provisions and the historic (actual) losses, which directly results in the increase of interest rates and reduction of banks’ credit potential along with the credit activity of the banking sector.

In light of the above, the ASB Risk Management Committee launched an initiative with the National Bank of Serbia concerning the amendment of the Decision on Classification in the part regulating the level of provisioning for estimated losses, in terms that the amount of provisioning should not exceed the level determined by International Accounting Standards.

2. **Time required for implementation of the New Capital Adequacy Framework**

Another important conclusion, unanimously supported by the Committee members and the banks is that the banks need to be left a deadline...
of at least one year to implement the new regulatory framework, counting from the day the complete regulations and accompanying by-laws regulating the harmonization with Basel II Accord (decisions, guidelines) come into effect, given that the implementation of the new regulatory framework is a complex process, which requires time and considerable investments. This argument was further supported by the fact that the National Bank of Serbia planned to implement the new regulatory framework by 01.01.2011, and that at the moment the initiative was launched (September 2010), the set of regulations regulating this field was still in its draft form.

3. Communication between the national supervisor and the industry

The Risk Management Committee recommended to the National Bank of Serbia, Banking Supervision Department that several meetings need to be organized between the NBS representatives and the banks’ representatives, before the new regulations come into effect. At these meetings the regulator would have a chance to directly listen to the arguments, objections and proposals by the banks, and the banks would have an opportunity to obtain the answers to the numerous questions and dilemmas concerning the new regulations. The conclusion was that it is necessary to continue with the practice of direct communication in organized gatherings, after the implementation of the new regulatory framework, i.e. Basel II Accord.

Consulting operations - Services in this field are in the function of a uniform implementation of regulations regulating banking operations with domestic legal entities (corporate banking), but also in the function of professional assistance to banks concerning risk management operations and international standards implementation.

In 2010 many conversations with the banks took place regarding the draft of the new regulations package in the field of preventive supervision of banking operations, harmonized with the Basel II Accord, which had been released for public discussion, in a draft form, towards the end of May 2010.

Since the banks were given a rather short deadline to submit opinions on the regulations draft, many consulting services and interpretations were provided, especially in relation to this field, all in the function of an easier understanding of the effects of new regulatory solutions implementation on the banks’ capital position.

Analytical operations - Analysis of banks’ operations in 2009, with the assessment of financial position and business results, but also some other, separate analyses, and video presentations for domestic and foreign conferences, were prepared in 2010, being a significant source of information for commercial banks, and other financial and economic entities.

BILBON database - Like in the previous years, in 2010, the internal database of the Association of Serbian Banks, BILBON, containing the data on the financial position and business results achieved by banks, quality of balance sheet assets and off-balance sheet items, risk position and capital adequacy of banks, was filled in with the data from the Final Account for 2009 and interim accounts for 2010. This database is the main source of data for analytical operations conducted within the Association of Serbian Banks, but also for analytical operations in banks, given that it is frequently updated, and that it provides swiftness and accuracy, along with safety, secrecy and protection of data.

FOREIGN OPERATIONS

Activities of the Association of Serbian Banks in this field were conducted by means of providing professional assistance in monitoring and interpreting the existing laws and regulations, as well as by means of launching initiatives for amendment of certain legal regulations that bear a significant influence on banking operations.

Mentioned activities were primarily conducted through the Foreign Operations Committee, and in this reporting period five meetings were held, the discussion at which covered the issues concerning foreign operations in the banking sector. In addition to member banks, these meetings were attended by experts in certain fields, along with authorized representatives of the competent institutions, all with a view to finding the most suitable solutions for the current issues.

In the past year, these activities focused on the analysis and professional consideration of the present Law on Foreign Operations and its implementation in practice, along with the analysis and implementation of the accompanying by-laws and regulations related to the Law on Foreign Operations, which often resulted in the ASB Foreign Operations Committee launching
initiatives towards the creators of the Law.

In May and December 2010, the Foreign Operations Committee examined, analyzed and commented on the Draft of the Law on Amendments to the Law on Foreign Operations, which had been in the process of amendment for two years before that.

The Association of Serbian Banks was in active coordination with the National Bank of Serbia and Ministry of Finance of the Republic of Serbia, regarding the proposals, objections and suggestions of commercial banks related to the amendment of the proposed legal solutions in the concerned Draft, their processing and compilation into an initiative by the Foreign Operations Committee, which was then sent to the Ministry of Finance of the Republic of Serbia and the National Bank of Serbia, as the proponents of this Draft.

In 2010, the discussion at the meetings of the Foreign Operations Committee covered, among others, the following issues:

- Status of foreign companies’ subsidiaries in our country, from the aspect of their performing of payments in dinars.
- Announcement about the introduction of payment for Chinese exports in Chinese currency.
- Implementation of the provisions of the Decision on Amendments to the Decision on Conditions and Manner of Conducting Foreign Payment Operations, and Guidelines about Amendments to Guidelines for Implementing the Decision on Conditions and Manner of Conducting Foreign Payment Operations, which introduced the possibility of cross-border payments without having to submit the documentation, which is, instead, regulated by means of a separate contract with the client.
- The issue of procuring confirmations by the competent Tax Units, pursuant to Article 29 of the Law on Foreign Operations.
- Possibility of installing POS terminals in embassies in order to enable payments for the purpose of visas for entering the concerned country to be effected by payment cards.
- Possibility of paying for visas for entering a foreign country in foreign currencies at the bank counters in the Republic of Serbia (for now, it is only possible at the counters in the embassy buildings).
- Experiences from practice, all with a view to achieving uniformity in conducting banking operations, whereby unfair competition among banks is avoided.

Banking Operations Compliance Supervision - Compliance Function

Relevant activities were conducted through the ASB Compliance Committee. In the past year the Committee had six meetings, and was actively engaged in respect of proper and uniform implementation of the Law and accompanying by-laws that closely define the function of banking operations compliance supervision - Compliance Function.

- To this end, the Administration for the Prevention of Money Laundering formed a Work Group whose task was to prepare the Guidelines for Suspicious Transactions Reporting in case when there is reasonable doubt that the transactions are related to money laundering or terrorism financing. Preparation of the Guidelines for Suspicious Transactions Reporting in case when there is reasonable doubt that the transactions are related to money laundering or terrorism financing, is particularly significant because of the discrepancies between the criteria for their recognition and reporting among commercial banks as obligors pursuant to the AML Law, the National Bank of Serbia as the national supervisor, and the Administration for the Prevention of Money Laundering as the national institution in charge of undertaking measures and actions in order to prevent the attempts of money laundering and terrorism financing.

- On several occasions, the Administration emphasized the problem of a large number of transactions reported as suspicious, where the quality of suspicious transactions recognition was unsatisfactory, whereas the banks frequently underlined that they are forced to report those transactions that they do not deem suspicious only because they do not share an identical opinion in that respect with the National Bank of Serbia Supervision Department. Another reason for adopting these Guidelines was the fact that many transactions were identified as suspicious due to poor client identification, which is why the NBS representatives recommended that the Guidelines should also include the analysis of such cases. The Guidelines should include the methodology of the analysis of the following:
  - Suspicious transactions;
  - Client identification (e.g. various associations, investment funds, football clubs, etc.);
  - Transactions that require note-taking, i.e. the analysis of the transaction that still was not
Association of Serbian Banks reported as suspicious;
- Transactions that do not require note-taking;
- Cases of rejection of business cooperation;
- Frequent transactions, which, however, should not be reported each time, but continuously monitored and reported occasionally.

After several months of work, and many meetings of the Work Group and The Compliance Committee at the Association of Serbian Banks, the Administration for the Prevention of Money Laundering, in cooperation with the National Bank of Serbia, Association of Serbian Banks and representatives of the banking sector, prepared and distributed to all banks the **Recommendations for Suspicious Transactions Reporting, Customer Due Dilligence and Tipping-off Prohibition**.

The Committee was engaged in exchanging experiences concerning the formation and distribution of records in respect of the Law on Personal Data Protection, and concerning the mandatory cooperation of banks with various organizational units within the Ministry of Interior.

**Activities Concerning the Prevention of Money Laundering and Terrorism Financing**
- In cooperation with the Ministry of Finance of the Republic of Serbia - Administration for the Prevention of Money Laundering, and the National Bank of Serbia, the Association of Serbian Banks organized several meetings with the representatives of all banks in order to continue the analysis of the new Law on Prevention of Money Laundering and Terrorism Financing, and also to provide the answers to the raised questions, dilemmas and problems in interpretation and implementation of this Law.
- The Association of Serbian Banks held a seminar on the prevention of terrorism financing for financial institutions, organized by the Organization for Security and Co-Operation in Europe, Mission to Serbia (OSCE). Presentation and discussion was led by Mr Jeffrey Breinholt, legal advisor and one of the leading experts in the field of counter-terrorism and prevention of terrorism financing, deputy head of the Counter-Terrorism Department within the US Ministry of Justice, and coordinator of the Task Force for the prevention of terrorism financing.
- At the request of the President of the Association of Banks of Russia, the Association of Serbian Banks participated in the preparation of the following study: “Development of Methodology of Control Procedures concerning Politically Exposed Persons”, by providing answers to the relevant questionnaire after consulting the representatives of its Compliance Committee, and bearing in mind the provisions of the Serbian Law on the Prevention of Money Laundering and Terrorism Financing, along with other by-laws and regulations, such as the Recommendation of the Association of Serbian Banks for Conducting the Compliance Function in Banks, and the Guidelines for Suspicious Transactions Reporting prepared by the Administration for the Prevention of Money Laundering.

**Separate Activities**
- In 2010 the Association of Serbian Banks was engaged in providing logistics for the organization of several meetings of SWIFT User and Member Group Serbia.
- Permanent cooperation with the competent institutions and ministries, with a view to obtaining necessary interpretations and opinions clarifying occasional problems; cooperation with the National Bank of Serbia in order to eliminate all dilemmas concerning the implementation of regulations in the field of foreign operations, and operations related to compliance function.

**Consulting services**
Consulting services are a daily activity of the Association and imply providing professional assistance to banks in respect of interpretation and implementation of the following:
- Law on Foreign Operations - definition of joint opinions of banks concerning the operations that are differently implemented in practice;
- Cross-border credit operations, regulated by and being an integral part of the Law on Foreign Operations;
- Law on Foreign Trade Operations;
- Law on Prevention of Money Laundering;
- Timely notifications about all amendments to legal regulations through adoption of separate Decisions on the more detailed conditions of certain provisions of existing laws, interpretations and explanations by the competent ministries and institutions, regular notifications about all necessary announcements addressed to the Association of Serbian Banks by the responsible
In cooperation with the Ministry of Finance - Administration for the Prevention of Money Laundering, the National Bank of Serbia, professionals from commercial banks and universities, the Association of Serbian Banks organized the fifth Symposium ‘Compliance Function in Banks’, which was held in the period 06-09.04.2010.

The topics at the Symposium included two sections:

1. Analysis and interpretation of the relevant laws influencing the proper implementation of the banking operations compliance supervision (Law on Amendments to the Law on Prevention of Money Laundering and Financing of Terrorism, Law on Personal Data Protection, and Law on Seizing Property Acquired from Criminal Activities) presented by the expert representatives of the relevant ministries.

This section also included two presentations - by the Heads of Compliance from Stopanska banka Skopje, and Banca Intesa a.d. Beograd, whose aim was to present two models of compliance risk management in accordance with the existing legal regulations in the countries in which these banks operate respectively, but also in accordance with the standards and principles of bank groups to which their belong, i.e. NBG Group, Greece, which is the majority shareholder of Stopanska banka Skopje, and Intesa Group, Italy, which is the majority shareholder of Banca Intesa a.d. Beograd.

2. Qualitative and quantitative analysis of the reported transactions in 2009 which the commercial banks had reported to the Administration for the Prevention of Money Laundering, along with the analysis of the reports on conducted supervision of the National Bank of Serbia.

This section also included the panel discussion the participants of which were the representatives of the National Bank of Serbia, Administration for the Prevention of Money Laundering, and the representatives of banks - Symposium participants. During the panel discussion, many questions were raised relating to the issue of criteria ‘qualification’, i.e. it was stated that the Administration for the Prevention of Money Laundering and the National Bank of Serbia apply different criteria to assess/judge certain transactions as suspicious.

In the final section of the Symposium it was stated that the consultations among the panel discussion participants need to be continued, through
operational joint meetings, with the Association of Serbian Banks obliging to organize these meeting, with a view to identifying all problems, putting proposals for the efficient harmonization of the criteria for their solving, and achieving consensus on the implementation of indicators for the proper approach to the analysis of risks concerning money laundering and financing of terrorism.

The following conclusions were adopted:

- Establish a Task Force for the preparation of Guidelines for the Implementation of Indicators for Suspicious Transactions Reporting, which will be working on this by-law together with the representatives of the Administration for the Prevention of Money Laundering, as well as on the harmonization of the opinions with the National Bank of Serbia;

- Employ all available capacities, first and foremost the activities of the expert Compliance Committee within the Association of Serbian Banks, but also the sound experiences from both domestic and foreign practice, with a view to enhancing the quality of the reported suspicious transactions in the sense that the reports need to contain better arguments. Moreover, a standardized form model for reporting suspicious transactions needs to be prepared in the forthcoming period, as soon as possible.

- Harmonize opinions with the Administration for the Prevention of Money Laundering and the National Bank of Serbia in respect of the obligation to make official note of the transactions which were examined, contained recurring indicators, but were not qualified as suspicious by the banks.

- Launch the initiative with the relevant institutions with a view to preventing the double penalty of banks concerning the breach of provisions of the Law on the Prevention of Money Laundering and Financing of Terrorism, where it would be extremely important to assess the detrimental effect of the fact that the penalty for this type of economic offence is entered into the criminal court records, and thus may pose an obstacle for the appointment of the penalized person into a certain position (Executive Board, Board of Directors, etc.).

Cooperation with the International Chamber of Commerce in Paris

In this reporting period, cooperation with the International Chamber of Commerce (ICC) was continued through the participation of our representatives in the activities of the Commission on Banking Technique and Practice. Continuous engagement in ICC expert bodies enables our authorized banks to get introduced, in a timely manner, with the latest techniques and technologies, as well as international rules and standards that they are bound to apply in their everyday operations.

BANK TRAINING CENTRE

Bank training activities in 2010, organized by the Association of Serbian Banks, through the Bank Training Centre, reflected the endeavour to meet the needs for current topics and provide high-quality lecturers. Educational activities are organized in several forms, and the breakdown of organizers, topics and number of participants is as follows:

Seminars - Seminars were mostly held by foreign lecturers who were engaged either in cooperation with our long-lasting partner ATTF - Agence de Tranfert de Technologie Financiere, Luxembourg, or in direct negotiation of the ASB with the lecturer (in the process of careful selection of highly reputable, domestic or foreign, experts in the relevant fields).

Topics covered by the seminars include the following:

- UCP 600 and ISBP 681 (two seminars in total in 2010);
- Foreign and Domestic Money Counterfeits (three seminars in total);
- Human Resources Management;
- Cheques in the International Payment System;
- External and Internal Audit in Banks;
- Credit Scoring for SMEs and Basel II Compliance;
- Basel II;
- Assets and Liabilities Management;
- Internal Capital Adequacy Assessment Process in Serbia;
- Compliance in the Context of Anti-Money Laundering;
- Foreign Payment Operations.

In total, there were 14 seminars, one more than in 2009. The seminars were attended by 287 participants overall (329 participants in 2009).

Symposia - According to the already standardized procedure, the symposia were organized by the ASB (special advisors for certain fields and the accompanying ASB departments), with a group of...
lecturers - reputable experts from Serbia and from abroad.

Topics covered by the symposia include the following:

• Compliance Function in Banks, 07-09.04.2010;
• BANKFINING 2010, 12-14.05.2010;
• Retail Banking, 07-08.10.2010;
• BANKINFO 2010, in the field of information technologies, 10-12.11.2010;
• FINANCE & TRADE 2010, 25-26.11.2010;

The 6 held symposia were attended by 451 participants, in comparison with 396 participants that attended the 7 symposia in 2009. When it comes to aggregate profits and expenditures from all the symposia, the ASB managed to end the business year of 2010 with a positive financial result.

International conference - The Association of Serbian Banks organized an international conference on education and human resources (30.09-01.10.2010). The conference was attended by the employees from banks and the NSB holding the positions of training managers, HR department heads, marketing officers. The discussion at the conference covered the topics of European and National Qualification Frameworks, Financial Literacy, Innovation in the Field of Education and Human Resources, etc. In addition to domestic lecturers from the ASB and NBS, the conference also included presentations by the guests from abroad: Prof. Mario Spatafora, EBTN President, Prof. Roger Claessens, Lecturer for ATTF Luxembourg and author of many books in human resources, marketing and banking, Ms Rita Knott, Board Member of the European Council for Mentoring and Cushioning, Luxembourg, and Ms Rosa Chiappe, Chief of Serbian Economic Growth Activity (SEGA) Program, financially supported by USAID.

Roundtables - In 2010 the ASB organized several roundtables which had the nature of public discussions in the field of considering legal proposals, NBS proposals and other initiatives. In cooperation with human resources departments in banks and the Association of Psychologists of Serbia, the ASB organized a promotion of personality test that the banks in Serbia already use for testing new employees.

Apprentice exams - At the request of its member banks, the ASB organized exams for bank apprentices. In total, 66 apprentices passed their exam. A Work Group was formed in order to update the Apprentice Exam Course-book, which serves as a basis for exam preparation.

The overall number of participants in the ASB educational activities (seminars, symposia, apprentice exams) was 804 (as opposed to 755 in 2009). This number does not include the participants in certain user-oriented types of training held at the Association, intended for banks and other users of the ASB services: Bank Clearing Institution, Credit Bureau, IT Department.

Despite the fact that 2010 was an extremely unfavourable year for the education market, due to the significant cuts in the budget allocated for these purposes, the ASB Bank Training Centre achieved a positive financial result, mostly owing to its careful selection of topics and the quality of its lecturers.

INTERNATIONAL COOPERATION

• The year 2010 was the seventh year of the ASB’s cooperation with the Inter-Balkan Forum of Banking Associations. A regular meeting was held in Athens (on June 4th), the discussion at which covered the latest international and European regulatory trends, banking systems and macro-economic situation in the member countries.

• Cooperation was continued with the Association of Regional Banks of Russia ("Russia"), based on the concluded agreement on mutual cooperation. The ASB attended the international conference traditionally held in Sochi (02-04.11.2010).

• Cooperation was also continued with the Banking Association for Central and Eastern Europe - BACEE, Budapest.

• International Banking Council - On October 21-22 the IBC held a meeting on the premises of the Association of Serbian Banks, presided by the representative of the Association of Regional Banks of Russia. The meeting was attended by the representatives of the Banking Association of Kazakhstan, Banking Association for Central and Eastern Europe - BACEE, Association of Belarus Banks, and Association of Serbian Banks. Guests invited to attend the session were the representatives of the Banking Association of Moldova, Banking Association of Poland, Deposit Insurance Agency of Russia, etc.

• European Banking Federation - EBF, Brussels. After it gained the status of an associate EBF member, towards the end of 2007, the ASB in 2010 very actively participated in the EBF activities: exchanged the banking sector data, completed
various questionnaires, and attended the 30th meeting of the EBF associate members which took place on 28.05.2010 in Baku, Azerbaijan. Activities of the banking sector of Serbia were presented at the 31st meeting of the EBF associate members which was held on 09.12.2010 in Brussels, Belgium.

- **European Banking Training Network - EBTN**, Rome. After it gained the status of a full EBTN member, back in 2008, the ASB also had a very active cooperation with EBTN in 2010: attended regular meetings of the Board of Directors - in March in Barcelona, in June in Lisbon, and in September in Bucharest.

- **International Chamber of Commerce - Banking Commission for Technique and Practice - ICC**, Paris. The ASB activities in cooperation with ICC took place in the form of regular exchange of information about the latest trends in this field.

- **Bilateral Cooperation** - In 2010, at its own initiative, the ASB achieved close cooperation with other banking associations from the European Union and Russian Federation. Attendance at the meetings with shared participation was used to exchange information about the trends in the banking sector. Representatives of certain associations subsequently attended the international conference in Belgrade on the topic of education and human resources (M. Spatafora - EBTN), meeting of the International Banking Council in Belgrade (P. Pniewski - Banking Association of Poland), etc.

  With a view to further developing international cooperation, the ASB signed an Agreement on Mutual Cooperation with the Association of Moldovan Banks, whereby the future cooperation of these two associations in the fields of mutual interest is regulated.

- **Cooperation with other institutions** - In 2010, a rather dynamic cooperation took place with other institutions as well, both domestic and foreign. Out of the most important events, we hereby underline the following:
  - Visit of the International Monetary Fund mission (January 27th);
  - Discussion with the International Financial Corporation (March 18th);
  - Presentation at the international conference about public-private partnership in Serbia (June 21st);
  - Presentation on the banking sector of Serbia at the international conference “Financial Innovation Summit 2010”, held on September 29th;
  - Address at the conference on consumer protection, organized by the Ministry of Trade (September 17th);
  - Further development of cooperation with the Standing Conference of Cities and Municipalities (SCCM);
  - Continuous monitoring of and attendance at the presentations of the Law on Capital Market, and other regulations in the field of financial markets.

**FINANCIAL MARKETS**

In 2010 it was estimated that the Association of Serbian Banks possesses the capacity and readiness to contribute proactively, in all forms of its regular activities, to the further development of the financial sector in Serbia. To this end, close cooperation was established with the Ministry of Finance - Financial System Department, with a view to facilitating a more proactive approach of the ASB Committee for Financial Markets Development.

On several occasions, the Association was addressed by a group of authorized custody banks in Serbia. Through a joint initiative, custody banks put forward their comments concerning the Draft of the Law on Capital Market. In addition, these banks expressed an interest in being awarded a place and form in which they could gather and cooperate more frequently. Finally, along with the election of new members of the ASB expert committees, the new composition of the ASB Committee for Financial Markets Development was established as well.

**RETAIL OPERATIONS**

The most important activities of the Association of Serbian Banks in the past year in the field of retail banking are as follows:

1. Implementation of initiatives launched by the banks, concerning the position of retail banking.
2. Several initiatives and suggestions with the National Bank of Serbia concerning the amendment to the regulations in the field of retail banking, in particular, concerning the Decision on Classification of Balance Sheet Assets and Off-
Balance Sheet Items of a Bank, in terms of using Credit Bureau reports when assessing the level of riskiness of banks’ placements.

3. The system of retail operations and utilization of Credit Bureau services fully met the banks’ needs. In this period the banks continued to withdraw Credit Bureau reports on individuals, on the basis of which they assess the concerned individual’s indebtedness when they decide whether to provide certain retail services, mostly credits, along with a considerable number of mass reports with the purpose of client monitoring.

4. Exchange of opinions and agreement of banks concerning the implementation of incentive measures of the Government of the Republic of Serbia in respect of retail lending with subsidized interest.

5. In cooperation with the Association, the banks conducted certain activities regarding the uniform manner of calculation and payment of tax on capital income (tax on interest on FX savings) due to the cessation of implementation of the Law on Temporary Exemption from Taxation of Individual Income for Certain Kinds of Income in 2009 (0% tax), then the implementation of the old Law until March 2010 (20% tax), and finally amendments to the Law on Individual Income Tax (10% tax), which ultimately enabled a proper and timely implementation of the legal solutions.

6. Pursuant to the amendments to the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items of a Bank, whereby the monitoring of retail FX positions was introduced, an initiative was launched with the ASB Credit Bureau as to include the protection clause from credit contracts into the CB reports on individuals.

7. At the joint session of the Retail Operations Committee, Compliance Committee and Marketing and PR Committee, the Draft of the Law on Protection of Financial Services Users was considered, and a uniform position concerning the Draft of the mentioned Law reached, which was subsequently presented at the roundtable held at the National Bank of Serbia, with certain general and concrete comments and suggestions being sent to the National Bank of Serbia. The majority of comments and proposals were accepted.

8. At the beginning of October, a two-day symposium was held for the employees working in retail banking, with the participation of experts from the National Bank of Serbia, Ministry of Economy, National Corporation for Housing Loans Insurance, Commissioner for Information of Public Importance and Personal Data Protection, etc. The Symposium included the presentations on the topics relevant for this field, but also for other segments of banking operations (legal operations, risk monitoring and assessment, operations with legal entities and entrepreneurs).

The participants of the Symposium raised many questions concerning the mentioned segments, in particular, related to the implementation of the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items, and the Decision on the Manner of Implementation of General Operational Conditions that the banks employ in their retail operations. Some of the questions were answered to at the spot, whereas others, in the written form, were sent to the NBS representatives in order to obtain specific replies. The replies of the NBS to the questions asked at the Symposium were subsequently distributed in written form to all Symposium participants.

9. In addition to the mentioned activities regarding the harmonization of regulations with the realistic banks’ requests, the following operational tasks were also conducted:
   - Banks signees of he Agreement on Conducting Mutual Services in Respect of Retail Operations, were being regularly informed about the status-related changes of the banks;
   - In the past year the ASB Retail Operations Committee held 6 sessions, the discussion at which covered the proposals, initiatives, methods and conditions for implementing the adopted regulations in this segment of banking operations;
   - At the banks’ request, oral and written information was provided, along with instructions and opinions concerning the method of work and implementation of regulations in this field of banking operations;
   - Replies were provided to a large number of oral and written inquiries by individuals, concerning this field of banking operations.

**CREDIT BUREAU**

In 2010 ASB Credit Bureau continued with the dynamic development of its activities and further
strengthening of its role in the banking and financial sector of Serbia. Its successful operation has constantly won recognition from domestic and international institutions, thus, after winning the fourth place in the world according to the World Bank Report, competing against 183 countries, the ASB Credit Bureau was also the only organization to be awarded the highest grade (6) in the category of access to financial resources, according to the OECD study “Investment Reforms Index 2010”, measuring the competitiveness in 10 countries in the region.

In 2010 ASB Credit Bureau conducted all the planned activities in a reliable, efficient, and, above all, timely manner; received data on individuals and legal entities and issued reports at the request of its users, with zero downtime, seven days a week.

The tendency to expand the number of Credit Bureau’s members was continued; hence in 2010 several banks in bankruptcy (Beobanka, Investbanka, and Jugobanka) were integrated into the database, along with the Ministry of Agriculture.

In addition, with a view to achieving the most comprehensive coverage of indebtedness of individuals and legal entities, the tendency to expand the type and number of services in the databases available to the Credit Bureau was also continued. Pursuant to the amended CB by-laws, most banks submitted the data on loans extended by foreign creditors, credit cards of legal entities and entrepreneurs, and protection clauses in retail loan contracts.

In 2010, Group Report for Receivables Classification was amended on several occasions, along with the accompanying instructions, with a view to harmonizing them with the amendments to the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items of a Bank, and the NBS interpretations.

In the past year ASB Credit Bureau continued the further upgrading of application for CB users, as well as of its internal application, which enabled swifter and better servicing of CB users’ needs (it enabled direct entry and updating of data about foreign loans in the CB application, monitoring of the stages in the reports’ issuing process, searching through the issued reports, amending identification data of legal entities and entrepreneurs, transferring services from one to another unique personal identification number when the Ministry of Interior introduces a change in UPIN, searching through complaints per sections, etc.).

ASB Credit Bureau conducted the migration of its entire Site A system from Windows 2003 platform to Windows 2008 P2 platform, and established Site B which may, in emergency situations, take over the functions of Site A, thus enabling uninterrupted functioning of the Credit Bureau.

In addition, concerning the status-related changes - merger of banks or IT modifications in banks, technical support was provided for the purpose of mapping and transferring all the relevant data within the database available to the CB, whereby no considerable delays on the part of banks were recorded.

In the last year ASB Credit Bureau launched the activities concerning the connection of databases on individuals and databases on legal entities, so that the reports on individuals could record the data about whether the concerned individual also has liabilities in the database for legal entities and entrepreneurs (if that individual is an entrepreneur, if he/she is a guarantor in respect of a loan, or a guarantee to a legal entity, etc.). The CB also initiated the activities regarding the monitoring system, whereby the banks, leasing companies and other reports’ users may request regular monitoring of a certain group of their clients, along with the automatic and timely notification of reports’ users in case the concerned client becomes over-indebted, goes into default, or gets his account blocked, etc.

Aggregate data on indebtedness of individuals and legal entities held by the Credit Bureau were being submitted to the banks and presented at the regular monthly press conferences.

In October 2010 a symposium was organized at the Palic Lake, which was in part devoted to the CB operations. Also, regular trainings are organized for the employees in banks and other CB members, concerning the operational activities of the CB (withdrawal of reports, entry and processing of complaints, etc.). CB representatives also took part in the workshop “Human Resources and Education”, organized by the Association of Serbian Banks, along with various other symposia and meetings organized by other institutions. Moreover, a CB representative participated in an international conference devoted to the operation of credit bureaus in Europe, held in Skopje, in June 2010.

In 2010 the Business Council of the Credit Bureau held 6 working sessions. Throughout the year the Credit Bureau’s by-laws (instructions, guidelines) underwent constant amendments, and on three occasions Group Report for Receivables Classification was also amended, along with the accompanying forms used by the CB (consent, authorization), with the purpose...
of their harmonization with the legal regulations.

The following two records led by the CB were integrated into the Central Register of the Commissioner for Information of Public Interest and Personal Data Protection: records of bank employees and other reports’ users authorized to work with the CB application; and the records on requested and withdrawn reports for individuals.

Given its membership in the Association of Consumer Credit Information Suppliers (ACCIS), ASB Credit Bureau continued regular communication and constant exchange of information with this institution to the mutual benefit.

LEGAL OPERATIONS

The most important activities in 2010 were the following: providing professional assistance to banks concerning the interpretation and implementation of numerous laws in the field of business, banking and procedural legislature; finding expert solutions in specific cases; participating in the preparation of systemic laws; organizing professional discussions regarding law drafts and proposals, objections and suggestions for the purpose of improving certain provisions of laws drafts and proposals, launching initiatives for amendment or adoption of new regulations, and for amendment of court practices related to certain legal issues of interest for banking operations.

The main priority is set to be the contribution to the creation of a more practical legal framework for the purpose of more efficient and safer banking operations.

Within the overall reform of the economic and legal system, whose aim is to create a more favourable business environment, harmonized with the European Union standards, we hereby list the laws that are significant for banking operations, and in relation to which the Association of Serbian Banks was particularly engaged.

- **Draft of the Law on Enforcement and Security, along with the relevant by-laws**
  
The reform of the system of court decisions enforcement represents the key step of the launched judiciary reform. In 2009 the Task Force of the Ministry of Justice, which involved a representative of the Association, prepared the Draft of the Law on Enforcement and Security, containing considerable changes and innovations, including the introduction of the system of professional enforcement officers.
  
  During the public discussion, professional public expressed its deep interest in the matter by submitting several proposals and suggestions by judges, lawyers, legal advisors from banks, and the renowned professors and doctors of law, the Council of Foreign Investors, etc. Throughout the course of the public discussion, in February 2010, the Ministry of Justice organized a Conference at which the key proposed innovations were presented, and the opportunity provided for the proposed solutions to be improved, which was indeed achieved owing to the participation of the attendees in the discussion.
  
The Task Force carefully examined the comments and proposals, and improved the proposed solutions, put forward during the public discussion.
  
  With a view to preparing for a timely implementation of this Law, on 28.12.2009, the Ministry of Justice formed the Task Force for the preparation of drafts of by-laws, which, among others, involved a representative of the Association. In 2010 the Task Force prepared ten by-laws in total, and submitted them to the Ministry of Justice.

- **Preliminary Draft of the Civil Code**
  
The Commission in charge of the preparation of the Civil Code, formed by the Government of the Republic of Serbia as part of the activities concerning the codification of legal, obligation, family and inheritance-related relations, on the basis of the present knowledge of the legal science, business and court practice, prepared a Preliminary Draft of the Civil Code, with a view to harmonizing the existing legislation in the field of civil and legal relations in the Republic of Serbia.
  
  The section on banking contracts and other banking operations was prepared separately, with a representative of the Association being part of the process.
  
  The presentation of the working Draft of this Code was held on September 13th 2010 at the Ministry of Justice, when the public discussion on this comprehensive legal project was also launched, lasting till 31.12.2010.

- **Draft of the Law on Business Companies**
  
The Ministry of Economy and Regional Development prepared the first draft of the Law on Business Companies, the presentation of which,
as part of the public discussion, was held at the Association of Serbian Banks on October 18th 2010.

Members of the Work Group for drafting the law presented the most significant solutions contained in the draft version of this law, in order to allow improvements to be made through a constructive debate, thus improving the future law and its quality. It was appraised that the talks with the representatives of banks and their comments, suggestions and remarks on the first version of the text of the law are of great importance for preparing the final Draft of the Law.

Comments put forward in writing by the banks during the public discussion were subsequently considered by the ASB Legal Operations Committee.

- **Draft of a set of laws related to the preservation of the banking sector stability**

  Two roundtables were held in cooperation with the Ministry of Finance, with a view to considering the draft of a set of laws related to the preservation of the banking sector stability. Based on the previously submitted draft laws, two additional explanations were provided at the meeting concerning the reason for adoption of these laws, along with the elaboration on the main innovations proposed. Banks’ representatives took an active part in this professional meeting by providing their objections, proposals and suggestions.

  On the basis of objections and proposals put forward by the banks, which expressed deep interest in this subject-matter, the Association of Serbian Banks submitted to the Ministry of Finance comments and proposals concerning the following laws:

  1. Law on Financial Stability;
  2. Law on Amendments to the Law on Banks;
  3. Law on Amendments to the Law on Deposit Insurance;
  4. Law on Amendments to the Law on Bankruptcy and Liquidation of Banks and Insurance Companies.

  The Ministry considered the objections, accepted some of them, and amended the text of the Law accordingly.

- **Draft of the Law on Protection of Financial Services Users** - providing objections, proposals and suggestions to the text, participation in expert discussions.

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**Seminar on Debt Restructuring**

The Seminar on Debt Restructuring was held on March 24th 2010 at the Association of Serbian Banks, with a view to promoting the unique approach to debt restructuring in the Serbian market, and implementing the principles, throughout this process, concerning the debtors who are experiencing financial difficulties, but are otherwise full of potential, in order to prevent their bankruptcy and forced collection from their assets.

The basis for discussion were INSOL Principles, prepared by the International Federation of Insolvency Experts in 2000, and are recommended to the international community as a statement of best practice which can lead to the highest contribution to the financial stability. The Principles are a result of the five-year long efforts of the INSOL group of creditors, with more than 150 diverse institutions participating in the implementation of this project. The project was supported by the World Bank, Bank of England and the British Bankers’ Association.

The idea originated at this seminar - that this process needs to be regulated by law, is now being accomplished, given that a relevant set of laws has been prepared, with the banks’ representatives appointed by the Association taking part in the process.

**The ASB Initiatives:**

1. **Initiative sent to the Supreme Court of Cassation**, whereby it was indicated to the need for harmonization of court practice and for taking the main legal stance on permissibility of leading a court enforcement process on the basis of enforceable documents prescribed by the Mortgage Law, given that the rights of mortgage creditors do not enjoy the same legal protection due to different interpretations of the Law by certain courts.

2. **Initiative for the Adoption of the Authentic Interpretation of the Mortgage Law**, launched by several banks. Based on the experiences in implementation of the Mortgage Law so far, it has been stated that mortgage is no longer a reliable way of protecting creditors, which challenges further usage of this institute as well as mortgage-based crediting in general, with the banks whose placements are mostly secured by this instrument experiencing ever-increasing damage. The principle of legal security has been seriously jeopardized, and the rights of bona fide buyers of mortgaged real estate have been infringed.

The reason behind this Initiative is the increasingly frequent abuse of rights by mortgage borrowers,
along with the improper implementation of the Law by the state bodies - courts and real estate registers, and the insufficiently clear provisions of the Law, which have been in effect since February 25th 2006.

What particularly causes dilemmas in interpretation and implementation are the following provisions: **Article 15, Paragraph 3, Item 2; and Article 49, Paragraph 2, Item 2**, hence the adoption of an authentic interpretation determining the true meaning and implication of these provisions would enable their proper implementation and prevent further negative consequences.

The Association of Serbian Banks sent the Initiative for the Adoption of the Authentic Interpretation of the Mortgage Law to the National Assembly, as the institution which adopted of the Mortgage Law, along with a certain number of ministries.

It is crucial to mention that the Supreme Court of Cassation, in its Conclusion adopted at the session of the Civil Department on 04.10.2010, confirmed the opinions of the Association disclosed in the Initiative for the Authentic Interpretation of the Law.

3. **Address to the Republic Geodetic Authority**, in the form of a letter sent on 29 October 2010, for the purpose of insuring correct implementation of the Mortgage Law - in particular, the provisions dealing with mortgage cancellation by means of foreclosure. Namely, in actual practice at the Republic Geodetic Authority the view prevails that in case of sale of mortgaged real-estate, mortgages of a lower order which are not settled still remain registered, i.e. it is not acceptable to cancel mortgage on the sold real-estate at the request of the buyer. Such implementation of the Law has completely derogated the objective and spirit of the law and opened avenues for many misuses.

In addition, on 3 November 2010, another letter was sent to the Republic Geodetic Authority with enclosed Ruling of the Supreme Court of Cassation, adopted at the session of the Civil Department as of 4 October 2010, confirming the stand of the Association of Serbian Banks regarding mortgage cancellation in cases when mortgages of a lower order are also registered.

4. **Initiative for Reducing Deposit Insurance Premiums**

According to the decision of the Association of Serbian Banks’ Board of Directors from its 18th session held on 17.02.2010, the official letter sent to the Deposit Insurance Agency recommends the reduction of deposit insurance premium, determined by the Agency, by 50%, i.e. from 0.1% to 0.05%.

It was highlighted that the safety in banking operations has been established, the risk of insured event occurrence minimized, and that the rate of FX required reserves with the National Bank of Serbia, for whose payment NBS guarantees, is high. These foreign exchange provisions, representing the significant amount of non-interest bearing assets, along with the extension of the basis in respect of which banks calculate and pay the deposit insurance premium, regarding the extension of the range of depositors bearing the right to get the insured part of their deposit paid out, significantly lower the bank’s profitability and increase the deposit price.

5. **Initiative for Harmonization of By-Laws with the Law on Registered Pledges on Movable Property**

Banks, as pledgees, are facing the problem of pledged motor vehicles buyers not being able to re-register those vehicles in their own name, because of the requirement to submit the proof of settled tax liabilities along with the registration request. Although the pledger is bound to calculate and pay VAT, and to issue the receipt to the buyer, they usually refuse to do that in practice. Due to this problem, potential buyers of pledged motor vehicles give up the purchase, which causes considerable damage to the pledgees, thus seriously jeopardizing full implementation of the Law on Registered Pledges on Movable Property.

On 19.02.2010 the Association of Serbian Banks launched the initiative with the Ministry of Interior, proposing that the Rulebook on Registration of Motor Vehicles and Trailers should include the provisions that would clearly regulate the conditions and procedure of registration of pledged motor vehicles acquired in an out-of-court sale.

6. **Initiative for Amendment to the Decree on Fees for Using the Data from the State Survey and Cadastre, and for Providing Services of the Republic Geodetic Authority**, sent to the Ministry of Environment and Spatial Planning, and to the Republic Geodetic Authority.

According to the amendments to the Decree, which have been in effect since 29.03.2010, there has been a considerable increase in the fees charged on the occasion of: issuing a certificate
from the real estate register, entering a mortgage into the register, as well as of entering various annotations at the real estate cadastre departments. The multiple increase of the amount has caused a huge number of complaints both by the banks and their clients. Such a high fee for entering a mortgage into the register significantly increases the costs of clients’ loans, and is a disincentive for the future loan users and new borrowing; hence it was proposed to adjust the fee to an economically acceptable amount.

7. Initiative for Interpreting Provisions of Article 95, Paragraph 2 of the Law on Obligations, sent to the Ministry of Justice, relating to the authorization of a business proxy for assuming the bill of exchange obligation, also taking into account the provisions of the Law on Payment System.

ASB Legal Operations Committee

Discussion at the sessions of the ASB Legal Operations Committee covered the following issues:

1. Set of draft laws relating to the preservation of stability of the banking sector;
2. Implementation of Mortgage Law - court sales (experiences and proposals);
3. Customs guarantees - validity date pursuant to the Decree on Customs-Allowed Treatment of Customs Goods, Release of Customs Goods and Customs Debt Collection;
4. Proposals of the Task Force for establishing a legal framework for corporate restructuring in the Republic of Serbia;
5. Initiative for adopting an Authentic Interpretation of the Mortgage Law;
6. Remarks concerning the Draft Law on Business Companies;
7. Implementation of mortgage in practice;
8. Persons authorized for assuming bill of exchange obligation;

We hereby highlight the following opinions of the Committee:

- Concerning the problems in implementation of the Mortgage Law, in relation to which the Association launched the Initiative for an Authentic Interpretation of the Law, the Committee concluded that, in the present circumstances, until the existing practice undergoes some changes, out-of-court mortgage should be used only for protecting the first-order creditors. In other cases, when the mortgage has already been established, for the purpose of forced collection of receivables, court enforcement procedure is to be implemented, i.e. the Law on Enforcement Procedure.

Regarding the objections by the National Bank of Serbia, the Committee assessed that an extract from the electronic database of the Cadastre of Immovable Property - Central Register of Mortgages, which can be accessed by a bank based on a specially concluded contract, represents a valid document about the bank’s collateral - mortgage entry, pursuant to the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items. Thus, a bank would be able to collect the data about mortgage entries in a swifter and more efficient way, to its own benefit, to update them and use them for the purpose of risk assessment and debtors’ classification.

- At the initiative of certain banks, the Committee reconsidered the issue of persons authorized for assuming bill of exchange obligation, in respect of the opinion of the High Commercial Court as of November 2009, stating that bill of exchange obligation could only be assumed by a legal representative, and by other persons based on a special authorization for each bill of exchange, pursuant to Article 95 of the Law on Obligations, which posed a dilemma for the banks as to how to act in this respect.

The opinion of the Committee concerning this issue was decided back in April 2007, and was built into the Operational Rules for Banks relating to the collection of bill of exchange receivables in the payment system.

The Committee highlighted that the Law on Obligations underlying the position of the Court was passed at the time when bills of exchange did not have much significance in the legal transactions, when the assumption of bill of exchange obligations was unusual and outside the scope of regular operations.

By passing the Law on the Payment System, according to the position of the Commission for Civil Code Preparation, in the new circumstances, such solutions are inadequate and unsuitable for the requirements of the swift and mass economic and legal turnover, hence the preliminary draft of the Civil Code, Article 99 (instead of the present Article 95 of the Law on Obligations) omits the request for a special business authorization.
for assuming each individual bill of exchange obligation.

It was stated that there had been no abuses concerning this issue in practice, hence the Committee concluded that the banks should assess the risk of potential change in the present stance, taking into account each client individually.

FINANCIAL REPORTING OPERATIONS

Activities of the Association of Serbian Banks in this field were conducted within the projected plan of activities for 2010. These activities have had a long-standing tradition and, as such, represent the uninterrupted continuation of the standardized set of tasks, to the extent appropriate to their role and authorizations, arising from the legal obligation of banks to directly implement international standards in this field.

Implementation of these tasks may be grouped in the following sections:

1. Intermediation in the process of solving issues related to the implementation of regulations regulating the fiscal and accounting reporting system, by means of active participation in the operationalization of legal solutions regulating business operations and reporting, as follows:

   • Law on Amendments to the Accounting and Auditing Law, which only partially improved the existing solutions, relating to the reception, registration, processing and disclosure of financial reports in the Business Registers Agency, instead of the present solution of the Law, prescribing that financial reports are to be submitted to the National Bank of Serbia - Registers Department. This solved the problem of multiple sending of financial reports, hence relieving the economy of doubled procedures and unnecessary costs.

   Resolving the observed shortcomings in the Law’s implementation, both in the section regulating accounting, and in the section regulating audit subjects, auditing procedure, and supervision over auditing companies.

   Harmonization with the provisions of other laws, primarily the laws regulating the securities market and investment funds, by transferring certain competencies to the Securities Commission (prescribing chart of accounts and forms of financial reports for broker-dealer companies and investment funds).

   • New IFRS 9 - (Financial Instruments)

   IFRS 9 refers only to financial assets and their classification and valuation. This standard does not deal with financial liabilities, nor with any issues related to financial assets, such as devaluation of financial funds, hedging accounting and many others, which points to the fact that the standards is not complete, but only a part of IAS 39.

   The IAS 39 replacement will be conducted in several stages, given that this is an extremely comprehensive and complex standard. Due to this, implementation of the new standards, which are to replace IAS 39, will not be mandatory immediately upon publishing, but mostly starting from 2013.

   • Law on Amendments to the Law on Corporate Income Tax (Official Gazette of the RS, No. 18/2010 of 26.03.2010), from the perspective of achieving the following objectives:

   • Additional shaping of the system of income taxation through the investment-development incentives, with the continuous implementation of the stimulative tax rate (10%);

   • Achieving the stability of income taxation system and establishing legal security of (particularly foreign) investors’ roles;

   • Advancement in the field of tax and accounting system compliance;

   • Harmonization with the mentioned regulations of the developed countries.

   • Other regulations relevant for this field and this reporting period.

2. Providing consulting services to the ASB members, which are particularly intensive in the period of annual accounts preparation, and in the period of interim accounts preparation

   • Interpretation and uniform implementation of laws and standards in the field of accounting, in the broadest sense of the terms accounting and fiscal policy, with a view to their operationalization;

   • Harmonization of banking practice by means of rules and codes of business conduct and ethics in the field of accounting;

   • Organization of professional training of personnel in the field of banking and finance:
3. Launching initiatives for the purpose of:
- Normative regulation of deadlines for publishing the translation of IAS/IFRS, which had been sent to the Ministry of Finance. The proposed deadline for the translation publication is the most optimum period of at least six months prior to the enforcement of new or revised IAS/IFRS, which would ensure the full implementation of regulations prescribed in Article 2 of the Law on Accounting and Auditing, as well as the conditions for financial reports auditing;
- Amendments to the Law on Business Companies, referring to the definition of the notion of capital provisions, the manner of their formation and usage as a rule of financing, in the function of ensuring the optimum capital structure.

The initiative was launched based on the project of comprehensive regulations reform, and was forwarded to the legal operations department of the Association of Serbian Banks.

By means of payments of the property of company’s members and shareholders above the amount of nominal value of the core capital, capital provisions enable the disturbances in financial capital structure to be removed, in the purpose of the following:
- Strengthening the core capital;
- Protecting from the risk of its reduction, i.e. loss;
- Improving liquidity and solvency;
- Lowering the need for debt financing; and
- Optimizing the financial capital structure.

4. Organization and Coordination of Activities of the Accounting Committee and Internal Audit Task Force

Program activities in respect of initiatives and amendments to regulations, relevant for accounting reporting and fiscal coverage, were implemented through the Accounting Committee.

Significant efforts of the Accounting Committee were aimed at the implementation of published regulations in the field of Corporate Income Tax.

- Amendments to the Law on Corporate Income Tax intensified the Committee’s meetings, due to certain provisions which were not sufficiently clear and, as such, could cause diverse interpretations, and, consequently, non-uniform implementation with considerable material discrepancies in the process of profit tax calculation.

In order to overcome these problems, the Association of Serbian Banks addressed the Ministry of Finance by sending a request for interpretation of Articles 22a and 16 of the Law on Amendments to the Law on Corporate Income Tax. Also, regarding the implementation of Article 16 of the Law, a meeting was held at the Ministry of Finance, and regarding Article 22a, a meeting at the National Bank of Serbia, given that the concerned provision refers to NBS regulations.

Namely, according to the amendments to the Law on Corporate Income Tax, increase of the correction of value of balance sheet receivables is recognized as expenditure in the tax statement of a bank, along with the provisions for losses in respect of off-balance sheet items determined on the basis of internal by-laws of a bank, expressed in the income statement at the expenditures side, up to the amount defined pursuant to the regulations of the National Bank of Serbia (Art.22a Par.1).

With this amendment, harmonization was achieved with the regulation of the National Bank of Serbia, taking into account the specific segment of banking operations.

However, Article 16 of the Law (referring to all tax-payers) defines the recognition of expenditures in respect of receivables write-off, with a cumulative fulfillment of conditions (whereby banks’ placements do not constitute an income position), and in respect of correction of value of receivables, which is already regulated for banks by Article 22a of the same Law.

Since the correction of value and receivables write-offs are just the stages of the same process, and the principle of recognition of a specific banking segment in Article 16, Paragraphs 1, 2 and 3 is not met, the Association of Serbian Banks sent a request for opinion, whereby the banks’ procedures concerning the preparation of tax statement will be more clearly defined.

In light of these legal solutions, the Accounting Committee provided certain proposals.

- The choice of topics for the regular annual Symposium confirmed the present good practice whose aim is to provide some
answers to the current and operational needs of the participants, hence, in addition to the procedures of preparation of financial reports for 2010 in light of the regulations, the topics also included the following:

- Factoring;
- Corporate Income Tax for 2010;
- By-laws that need to be harmonized with IAS/IFRS;
- IFRS 9: financial instruments;
- Report of the management (regulations and examples);
- New regulatory framework for determining devaluation of banks’ credit portfolios.

Internal Audit Task Force, formed within the Accounting Committee with a view to enabling the members to exchange experiences and achieve better understanding of standards, procedures, principles and techniques of internal audit, required for its conducting (seminars, symposia, and meetings), was not active in this reporting period.

5. Other Activities Involve the Engagement in the Chamber of Authorized Auditors in the capacity of a Chamber’s Council member

The Law on Accounting and Auditing prescribes that the Association of Serbian Banks must have its representative in the Chamber of Authorized Auditors in the capacity of a Chamber’s Council member, whose duties are defined by this Law. The Law regulates the following:

- Internal audit tasks with a view to measuring the efficiency and effectiveness of the internal controls system, by implementing generally accepted principles for conducting internal audit, all with the purpose of providing efficient operation; and
- Audit tasks with a view to protecting the public interest, conducted pursuant to the International Auditing Standards; mandatory character of annual financial reports audit; supervision over auditing companies; establishment, activities and bodies of the Chamber of Authorize Auditors, and education of the National Accounting Commission.

The Law on Banks regulates both external and internal audit in much detail, along with the control system in banks, which at the same time defines the long-term field of activities of the Association of Serbian banks in this segment.

IT, PAYMENT SYSTEM AND BANK CLEARING INSTITUTION

In addition to regular activities - organization of Committee sessions, continuous clearing, and contacts with the National Bank of Serbia and relevant ministries concerning certain issues - the following should be highlighted:

1. The cheque clearing system has been available 24/7 (the system did not have a single minute downtime). All the problems, especially in terms of telecommunications, were successfully solved in cooperation with the banks and Telekom Serbia. Number of processed payments was 8,750,943, which resulted in a turnover of interbank cheque clearing in the amount of RSD 37,894,609,220.52. Cooperation with the banks has remained at an exquisite level.

2. On February 12th 2010 the National Bank of Serbia passed the new Decision on Authorization-Based Direct Debit Clearing and Settlement, to be applied from 01.04.2010. According to this Decision, the Decision on Payment System Operations Based on Direct Debit Transactions, as of 28.03.2007, becomes ineffective. The ASB prepared document packages for all banks, containing the Contract on Conducting Authorization-Based Direct Debit Clearing and Settlement, Operational Rules for Implementation of Direct Debit Clearing and Settlement, Decision on the Uniform Tariff which the Association of Serbian Banks charges for the provided services regarding direct debit clearing and settlement, Instruction on the Purpose and Format of Messages Used in the Interbank Direct Debit Clearing and Settlement System, Term Plan for Direct Debit Clearing and Settlement System, along with the document package for the Security Administrator, list of contact persons, direct debit authorizations, and application request. After the Association of Serbian Banks signed the Contract, the documents were sent to all banks. A joint session of the Payment System Committee and IT Committee was held on 29.03.2010, at which the final proposal for Authorization form was adopted, in accordance with the decisions of the National Bank of Serbia, hence such Authorizations were posted on the web portal of the Association of Serbian Banks. The discussion at this session also covered the versions of the proposed softwares for direct debit system support, received from ASSEC. Text of the protocol for solving inter-
bank complaints was also discussed. **Pursuant to the decision of the National Bank of Serbia, the Association of Serbian Banks received the license for conducting Direct Debit Clearing Processor Operations.**

In September, the Association of Serbian Banks hosted two one-day workshops of ASSECO and S&T companies concerning their Direct Debit platforms. Both workshops had impressive attendance, with high-quality lectures and presentations.

At the banks’ request, the Authorization Register was formed (as an additional service of the direct debit clearing and settlement system); the Instruction was written concerning the format and purpose of messages for additional services of the direct debit clearing and settlement system, along with the Technical Instruction. These Instructions were forwarded to SAGA, which had provided technical support in the form of software, fully implemented at the Association of Serbian Banks. The Instructions were also sent to the software companies ASSECCO and S&T, and to all banks which are developing their softwares independently. The system has been fully tested and is ready to operate.

3. In the period 10-12.11.2010 the traditional, 17th BANKINFO 2010 Symposium was held with a view to gathering IT experts and technicians from banks and other financial organizations, in order for them to get familiar with the state-of-the-art trends in the field of banking technology. The Symposium was attended by a large number of participants from Serbia, Romania, Hungary, other neighbouring countries, along with the representatives of the National Bank of Serbia and the Stock Exchange.

The Symposium presentations pertained to the Credit Bureau, Stock Exchange, safety risks, Disaster Recovery solution, etc. The Symposium was also attended by the eminent foreign lecturers from the companies Smart PayNetwork SA, Bucharest, and Loxon, Budapest.

4. In line with the new Instruction on the Manner of and Deadlines for Submission of Banks’ Data to the National Bank of Serbia Concerning the Conducted Payment Operations, the ASB Bank Clearing Institution did the following: In order for a bank to be able to differentiate between cheques for the purpose of money withdrawal from the concerned checking account, and cheques for the purpose of payment for goods and services (Appendix 4, CHEQUE form), the BCI introduced a change in the tag 70 of the MT 102 message, in terms that, as opposed to SIF-283 that was used so far, it is now acceptable to put either SIF-283 (goods and services) or SIF-183 (withdrawal of money from an account). All banks have been notified about this change and are bound to adjust their applicative softwares by January 1st 2011.

**MARKETING, PR AND PUBLISHING ACTIVITIES**

**Bankarstvo Magazine** - In 2010 the ASB published six regular issues of Bankarstvo Magazine.

In June 2010 a special issue of Bankarstvo Magazine was published, which, for the fifth year in a row, featured articles about the operations of ASB members, National Bank of Serbia, Belgrade Stock Exchange, and Securities Commission in the year before.

At the Grafima Fair in Belgrade, Bankarstvo Magazine, printed by Ćugura Print, won the Golden Seal in the category of magazines and reviews, for the overall impression and quality.

**Publishing Activities** - In 2010, in cooperation with Jugoslovenski pregled, two publications were prepared and published: 1. Basic Principles of Supervision, Basic Principles Methodology, Macro-prudential Instruments; and 2. Ten Propositions Concerning Liquidity Crisis; Principles for Reliable Liquidity Risk Management and Supervision.

In 2010 the ASB started the pre-publishing activities for the book Money and Capital Markets, by Peter S. Rose and Milton H. Marquis.

Invitations, posters and roll-ups for all symposia organized by the Association of Serbian Banks in 2010 were designed and printed. For the purpose of ASB Assembly Session, the Program of Activities for 2010 and Report on Operations in 2009 were proof-read; paper-folders were designed, along with the outlook of the entire Assembly materials.

In addition, the materials were prepared for the meeting of the representatives from the International Coordinating Council of Banking Associations of CIS Countries, Central and Eastern Europe. The Association of Serbian Banks had the honour of hosting this meeting.

**Public Relations** - In 2010 the Association of Serbian Banks maintained permanent contacts with
the media companies interested in various pieces of data and information regarding the ASB operations. In 2010 ten press conferences were held, dedicated to the ASB operations, primarily to the data held by the Credit Bureau. For the purpose of these conferences, the ASB prepared relevant materials, organized adequate communication with the media offices, and following these meetings, posted basic information on the Association’s website.

Marketing and PR Committee - In 2010 the ASB Marketing and PR Committee worked in a reduced composition, given that many members left for the new posts, moved to other companies or were on long sick-leaves. It was only towards the end of 2010 that the activities started regarding the Committee’s formation with the new representatives from banks.

**IT OPERATIONS**

**Back-up Site of the Credit Bureau’s Information System (Site B)**

After several months of preparations and consolidation of the existing IT resources, the ASB successfully, within the projected time frame, implemented the project of developing a back-up site of the Credit Bureau’s information system. When releasing Site B into operation, the following requests were met:

- Site B possesses all functionalities of the Site A, whereby a full redundancy of the system is achieved.
- Site B marked a technological progress in relation to Site A, whereby, keeping the level of functionality and accepting a slight reduction in performance, we achieved multiple savings in hardware, software licenses, electricity consumption and space.

In addition to the project implementation, we hereby wish to underline the enormous significance of application of the state-of-the-art technologies, whose exploitation, even in the global scale, is still only gaining momentum.

**Internal ASB Information System**

Towards the end of 2010, the ASB launched the project of restructuring systemic platform of the internal ASB information system, and introducing new generation of services based on MS Windows 2008 R2 Hyper-V foundation. The project involved the introduction of a uniform PKI platform, as well as the development of Share Point Services for the purpose of document management, business process automation and inter-operability of diverse computer systems. The concerned project is still in its development stage, and the complete system is planned to be released for operation in mid 2011.

**Administration and Computer Resources Management**

Regular operations concerning the maintenance and administration of internal computer resources, along with the accompanying costs in the previous year, were kept within the projected frames.

**REPORT ON ACI OPERATIONS**

In 2010 the main preoccupations of ACI Serbia were the activities concerning the development of the secondary market of securities. The result of these activities was the formation of the Task Force for Development of Debt Securities Market, whose members will be the representatives, i.e. external associates of the Public Debt Administration of the Ministry of Finance, who will, later on, be joined by other professionals whose knowledge and expertise may facilitate a prompter achievement of the common goal.

Another Task Force was formed within ACI - the Task Force for Development of Back Office Operations in the Financial Market.

On several occasions, ACI Management discussed whether ACI Association of reserved only for Front Office functions or also for other professionals in the financial market, working in Middle and Back Office. This topic has also been discussed at the regional and international ACI level, since the opinions on the subject are divided. ACI Serbia supported the stance of ACI International - that ACI is a joint association of everyone working in the financial market.

The sessions of ACI Management were held on a regular basis, on the premises of the Association of Serbian Banks, or - for the sake of promptness and efficiency -electronically. The Management has continued its cooperation with the National Bank of Serbia, Public Debt Administration, Bloomberg and Thomson Reuters, depending on the materials and topics treated.

Just like in the past years, huge attention was paid to one of the main functions of ACI Serbia - educational function. Educational function of
ACI Serbia involves a series of activities which are traditionally organized and conducted in a successful way. In addition to organization of seminars for the purpose of preparation for ACI Dealing Certificate Exam, under the mentorship of Mr Bob Steiner, the possibility of holding a separate ACI Diploma Course - under the mentorship of Mr Bob Steiner, or via Finance Trainer electronic application - has also been considered.

Several meeting were dedicated to the organization of 35th Annual ACI Serbia Assembly, and the election of the new Management and the new President. The Assembly Meeting was held on September 19th 2010, on Zlatibor, in the Conference Room of Hotel Mona. As usual, the Assembly Meeting was attended by a large number of participants engaged in financial market operations, about 160 in total, including 30 participants from abroad. The Meeting was also attended by Dr Veroljub Dugalic, Secretary General of the Association of Serbian Banks, Mr Bojan Markovic, Vice-Governor of the National Bank of Serbia, and Mr Istvan Gondi, President of ACI Hungary, as guests.

At the Assembly Meeting, the new Management and the new President of ACI Serbia were elected.

The newly-elected President is Mr Filip Jelic, CEO of Erste Bank a.d. Novi Sad.

The Association of Serbian Banks is managed by its members, through their authorized representatives delegated to the bodies of the Association, having an equitable voting right. The bodies of the Association are as follows: Assembly, as the body of all members, Board of Directors as the governance body, Supervisory Board as the supervisory body, and Secretary General, as the ASB Manager.

**BOARD OF DIRECTORS**

The Assembly of the Association of Serbian Banks, at its session held on 19.04.2010, in accordance with the amended provisions of the Statute, nominated the Board of Directors composed of 9 members, for a 4-year term of office, starting from 01.10.2010.


Between the two Assembly Sessions (in the period April 2010 - April 2011) five sessions, in total, were held, at which the Board of Directors deliberated and analysed the current issues in the field of banking operations.

The following issues within the Board’s competencies were discussed:

- Continuous follow-up of the current situation in the banking sector (state of affairs, proposals, initiatives);
- Proposals of new measures of credit-monetary policy, as well as the initiatives regarding the harmonization of domestic regulations with Basle II standards in cooperation with the National Bank of Serbia;
- At the initiative of the President and the Prime Minister of the Republic of Serbia, the Board prepared the Proposal of Measures for the Purpose of Financial Support to the Citizens of the Republic of Serbia in the course of the economic crisis;
- Adoption of the Analysis of Financial Position and Financial Result of the banking sector of Serbia in 2010;
- Adoption of the Decision on Allocation of the Association’s Funds to Support the City of Kraljevo and its Surroundings Hit by the Earthquake;
- Adoption of the Decision on the Constitution of the Board of Directors through the Appointment of President and Deputy President;
- Adoption of the Board of Directors’ Book of Procedure;
- Adoption of the Decision on Re-election of Dr Veroljub Dugalic as the Secretary General of the Association of Serbian Banks, with a four-year term of office;
- Adoption of the Decision on Election of Expert Committees’ Members and the Decision on Election of Members of the Credit Bureau’s Business Council;
- Adoption of the Book of Procedure of Expert Committees and Book of Procedure of the Credit Bureau’s Business Council;
- Examination of the Report on the Association
of Serbian Banks’ Operations in 2010, with the Financial Report;
• Examination of the External Auditor’s Report on Auditing Financial Reports of the Association for 2010;
• Passing the Decision on Convening the Annual Assembly Session;
• Determining the by-law drafts to be submitted to the Assembly Session for discussion and adoption;
• Passing the Decision on Capital Investments and Decision on Procurement – Replacement of the Business Vehicle;
• Adoption of the Report on Inventory for 2010.

Board of Directors on a regular basis notified the National Bank of Serbia, Ministry of Finance, and other competent authorities, about the stands taken and conclusions made pertaining to the current issues in the banking sector, implementation of laws and other regulations of interest for the banking operations.

Expert committees

Board of Directors has established expert committees as advisory bodies of the Association, with the task to address the pending matters in the banking sector, as follows: Risk Management Committee, Foreign Operations Committee, Compliance Committee, Financial Markets Development Committee, Retail Operations Committee, Education and Human Resources Committee, Legal Operations Committee, IT and E-Banking Committee, Accounting Committee, Payment Operations Committee and, and Marketing and PR Committee.

The Report on the Association of Serbian Banks’ Operations in 2010 comprises the activities and conclusions of Expert Committees in respect of issues of systemic importance for the banking sector.

SUPERVISORY BOARD

Supervisory Board, composed of 5 members, was nominated at the Annual Assembly Session of the Association held on 19.04.2010, for a 4-year term of office, starting from 01.10.2010.


Supervisory Board submitted a proposal to the Assembly regarding the adoption of the Financial Report, as well as the allocation of financial result achieved in 2010. The data in the Financial Report of the Association were presented truthfully and objectively, in all materially significant aspects, along with the financial position of the Association of Serbian Banks as of 31.12.2010, business results and cash flows, in accordance with the existing regulations, as confirmed by the Independent Auditor’s Opinion.

According to the opinion of the Supervisory Board, the Association of Serbian Banks has successfully accomplished the scheduled Program of Activities, and has been operating in accordance with the existing regulations and its own by-laws. Stable and secure sources of financing of the Association have been provided by further work and development of the Credit Bureau and Bank Clearing Institution (BCI).

General conclusion of the Supervisory Board was that in 2010 the Association of Serbian Banks contributed to the more successful and higher-quality operations of the bodies by its expert and professional preparation of the materials for their sessions. At the initiatives, proposals and suggestions of bodies, organs and expert departments of the Association, the competent institutions were provided with acceptable solutions regarding credit-monetary, foreign exchange, taxation policy, as well as other current banking issues.