



ASSOCIATION OF SERBIAN BANKS

**CODE  
OF PROFESSIONAL BANKING  
CONDUCT**

Belgrade, February 2007

## I GENERAL PRINCIPLES

1. **Scope of Code.** Code of Professional Banking Conduct (hereinafter referred to as: the Code) determines general ethical principles and norms of professional banking conduct for the professionals employed in banks and their professional relationships with clients.
2. **Code Objectives** are to inform the clients of the minimum standards of good banking practices that the banks will uphold in their work, as a prerequisite for good relations between banks and their clients and their appropriate mutual communication.
3. **Transparency.** Banks shall undertake to make this Code accessible to all of their clients. The Code shall be permanently presented on the website of the Association of Serbian Banks, together with the list of the banks that are implementing the Code.
4. **Responsibilities of the staff employed.** Professional attitude towards work will assist the staff employed in banks to maintain and build confidence in the safety and integrity of the banking system. In this context, staff employed in banks shall:
  - uphold laws in force and supporting regulations, consistently implementing business policies of the bank and internal work procedures adopted by the bank (*legality*);
  - refrain from overstepping authority vested upon them, and in all circumstances shall act in the best interests of the banks, restraining from being influenced by their personal gains, i.e. shall avoid all the situations that may give cause to the conflict of interest (*accountability*);
  - keep *banking* and business confidentiality and care for protection of data in accordance with law (*business confidentiality*);
  - conduct themselves and act in a conscientious, correct and courteous manner with clients, amongst themselves as colleagues, and in the relations with their superiors (*courtesy*);
  - conduct themselves with clients in a consistent and ethical manner, meaning that the staff employed shall respect the principle of equitable treatment of clients, i.e. they shall refrain from all forms of harassment that is strictly prohibited, as well as from any form of discrimination, especially in respect to race, nationality, religion, political views, or philosophical stands (*consistency*);
  - provide their clients with clear information that have been requested from them and respond to the applications submitted or complains

lodged in a timely and appropriate fashion (*accessibility to information*);

- respect property of the bank and, in general, in an appropriate manner use the facilities placed at their disposal in the execution of their duties (*correctness*);
5. **Voluntary accession.** Banks shall accede to and uphold general ethical principles and norms of professional banking conduct defined in this Code on voluntary basis.
  6. **Competitiveness.** The provisions set in this Code shall not endanger free competition and normal functioning of the banking and other financial markets, and shall only contribute to their better functioning.
  7. **Other financial markets.** Ethical principles defined in this Code shall serve as basis for professional conduct on the other financial markets.

## II DEFINITION OF TERMS

This part of the Code defines basic terms used in this Code. They shall serve the function of providing explanations for the key words and terms in accordance with the essence and application of this Code.

- **The Bank** – Shareholding Company with the seat in the Republic of Serbia licensed for work by the National Bank of Serbia, performing deposit and crediting operations, but also allowed to conduct other business in accordance with the Banking Law.
- **Client** – a natural person or legal entity intending to enter, or having entered a business relationship with the Bank – contacting the Bank for purpose of using its services, using or that had already used Bank services, identified by the Bank as a client.
- **Business relationship** – any legal or factual relationship between a Bank and a client.
- **Banking services** – financial services offered by the banks to the clients in accordance with the Banking Law that satisfy certain financial needs of the bank clients.
- **Bank account** – any account of the client kept with the Bank presenting records on the state of claim to money receivables due from the Bank, or a claim of the Bank from the client.
- **Deposits** – dinar or foreign exchange claim to money receivables from the Bank that derives from the funds deposited, savings deposits, current account kept with the Bank, or some other money account on the basis of which a legal or contractual liability arises for the bank to reimburse funds.

- ***Insured deposit*** – a deposit of a natural person secured by the Deposit Insurance Agency up to the legally prescribed amount.
- ***Loan (credit)*** – a certain money amount (loan) that the Bank (creditor) is extending for a limited period of time to its client, the loan beneficiary (borrower) under certain terms and conditions.
- ***Interest*** – the price that the loan beneficiary (the borrower) is paying to the lender (creditor) for a temporary use of the loaned money or capital.
- ***EIR (effective interest rate)*** – effective interest rate is in percentages expressed single price covering the costs, interest and other charges for the banking service rendered. A uniform manner for calculating the EIR is based on the method of net present value and the application of a complex interest computation – calculated by the compound method.
- ***Card*** – general term to describe every payment card that is used for payment of goods and services, or for drawing cash.
- ***PIN*** – confidential code (number) that the payment card holder receives together with the payment card, which is used for identifying the card holder at the POS terminals and ATM machines, and is generated in accordance with the standards prescribed by the NBC – National Payment Card Centre.
- ***POS terminal*** – a device used for payment of goods and services by reading the data from magnetic inscription or chip with the electronic authorisation, transaction processing and receipt printing, in accordance with the standards prescribed by the NBS – National Credit Card Centre. POS terminals may be used for drawing cash.
- ***ATM (Automatic Teller Machine terminal)*** – automatic terminal for electronic cash money payment and other banking transactions at the initiative and choice of the credit card holder – beneficiary who identifies himself by the PIN number, when every transaction is authorised.
- ***Insider information*** – information not disclosed to the public, containing specific details pertaining to the clients and their operations (for example, one or more issuers, or one or more transferable securities). Disclosure of insider information may cause damages for the client, i.e. may provide gains for third persons (for example, an impact on the price of transferable securities).
- ***Complaint*** – a personal, telephone, written or in some other manner safely communicated statement of the client disagreeing with the actions of the Bank.
- ***Ombudsman (Banking)*** – an independent and neutral body for the receipt of clients' complains – both from natural persons and legal entities, pertaining to the bank operations. Banking Ombudsman is nominated by the banks, and in accordance with his duties, whenever he should deem justified, either at his

own initiative or on the grounds of the complaint submitted to him, shall provide resolution of the disputes that arise between the Bank and the client, by amicable settlement.

### **III CODE OF CONDUCT FOR THE STAFF EMPLOYED IN THE BANK**

#### **1. CLIENT, NATURAL PERSON – BANK RELATIONSHIP**

1.1. Bearing in mind that clients are a large and heterogeneous group, and the risk that the level of information they receive and the understanding of the same is often insufficient for establishing a contractual debenture relationship with the bank, thus the banks must devote special attention to extending information to physical persons. Information offered must be clear and understandable, easily accessible (either in direct contact with the bank employees or through brochures) and clearly visible (panel displayed messages), both at the bank headquarters and in its branches.

#### ***DEPOSITS AND LOANS OPERATIONS***

1.2. In the field of deposits and loans operations, the Bank shall offer its client a minimum of the following information:

- the amount of the interest rate in force which shall serve for receiving deposit funds/approving loans, depending on the type of deposit/loan, i.e. the Bank shall inform the client of the annuity plan of repayment;
- The Bank shall explain to its client the difference between a fixed and the variable interest rate and warn the client of the risks of the variable interest rate, especially in case of long-term credit facilities;
- The Bank shall caution the client well in advance, and in case of a realised deal, in the deposit or loan agreement, of concrete reasons that may, to a certain extent, cause unilateral change of the contracted terms for depositing of funds/use of credit facility (most of all in respect to the change in the interest rate by the Bank, i.e. its increase, but also changes of the other significant elements of the agreement);
- The Bank shall inform the client of its obligation to calculate in a uniform manner interest rates and other costs of banking services, primarily for the deposits and loan jobs, and express them in an aggregate amount in the form of effective interest rate (EIR);
- The Bank shall inform the client *in writing* of the elements that are contained in the EIR (effective interest rate): the amount of the nominal interest rate on the deposit/loan, amount of charges and other costs that the bank is calculating

and collecting for these banking services – during the placement of the deposit/granting of loan, and about the period of duration of the deposit/loan facility;

- The Bank shall also caution the client that the EIR (effective interest rate) does not cover the criteria for revaluation and indexation (if they are prescribed in the deposit/loan agreement), and the costs not known at the time of calculation but that may accrue during the time period of the deposit/loan facility deployment, and that such accrued costs may represent an additional financial burden for the client.
- The Bank shall compile a comprehensive overview of the loan agreement costs including potential costs, and shall make the overview accessible to the client.
- If the EIR should change due to the change in the elements on the basis of which it is being calculated, the Bank shall inform the client in writing about the change, prior to the commencement of application of the changed EIR;
- In view of the high frequency in contracting the currency clause or the index clause (by applying retail price growth rate or other parameters), the Bank shall caution its client, prior to contracting the agreement, of the types of client's risk exposure regarding the bank's choice of currency for pegging the currency clause, its trends (the Bank may offer its client the report on long-term trends of the currency that serves for pegging the currency clause), or the risks exposure to the trends in the retail prices in the index clause;
- The Bank shall keep its client informed of the exchange rate that it applies for computation of its claims with the currency clause;
- The Bank shall inform its client, prior to contracting the agreement, of other significant terms under which it is offering its banking services, but shall especially caution the client of the following:
  - additional terms in case of deposits, such as the minimum initial deposit, minimum balance that is interest free, terms for payment of yield prior to the date of maturity on time deposits, etc.,
  - options for early loan repayment, prepayment, deadlines, costs and manner of their calculation,
  - special terms for loan deployment (deposit, participation),
  - the amount and manner of calculation of interest on arrears,
  - terms for negotiation of amendments to the contracted terms under which the bank is offering banking services.
- Prior to signing of the deposit/loan agreement, the Bank shall caution the client inviting him/her to read carefully the terms prescribed in the agreement

or appendices to the agreement, and at the client's request, shall provide all the relevant information and clarification pertaining to the provisions contained in the agreement to be signed.

### **PAYMENT SERVICES IN THE COUNTRY AND FOREIGN EXCHANGE PAYMENT SERVICES**

1.3. The banks shall keep their clients informed of the following:

- the grounds and techniques for transfer of funds in the country and abroad
- costs and times of transfer in each individual case
- any deductions from the amount of transferred funds charged as payment of commission, fees or other costs by the recipient bank
- that services of international payment transfers imply an obligation for the banks to inform the client of the law provisions, and offer detailed information about the foreign exchange rate.
- terms when payment may be refused or suspended.

### **SECURED DEPOSITS**

1.4. The Bank shall inform its client of the security enjoyed on the basis of the deposited funds, in accordance with Law, and especially:

- what is a secured (insured) deposit,
- what is the amount of secured funds,
- the role of the Deposits Insurance Agency,
- liability of the bank regarding insurance
- what is the procedure when client may request payment of the secured amount, and within what time period.

### **DUTY OF THE CLIENT TO CO-OPERATE**

1.5. The Bank must remind the client of his duty to co-operate as follows:

- to submit to the Bank a clear, complete and unambiguous order regarding the banking services that he is requesting, and the amendments and supplements to the basic request with a clear indication and a reference to the basic request which is the subject of amendments and supplements;

- without undue delay, to inform the Bank of the change in elements significant for servicing of his liabilities to the bank (change of address, change of employment, loss of job and income, etc.);
- that the damages caused and consequences suffered by the Bank due to the client's disregard for the obligation to inform the Bank, shall be charged on the client;
- that the client must verify, at all times and promptly, accuracy and completeness of all the information received from the Bank (bank statements, regular calculation of interest and other costs, information on the Bank's default to execute client's orders, of default of the client in respect of his liabilities) and to inform the Bank (lodge a complaint) in writing and within the contracted terms. In the case of contrary, the Bank shall deem the client in agreement with the information submitted.

## **CLIENT INFORMATION CONFIDENTIALITY**

1.6. The banks shall respect strict obligation to keep client data confidential – and shall not disclose details about client's *turnover, transactions and account balance, liabilities to and receivables due from bank, and other data prescribed by law to be regarded as confidential*, except in the following cases:

- when the bank shall have a legal obligation of disclosure,
- when disclosure of information is done at the request, or with the consent of the client in question,
- when it is determined that the client is associated with a risk factor, i.e. when it is estimated that a suspicious transaction is involved. The bank shall, in such cases, proceed in accordance with the internal procedure for disclosure, i.e. in accordance with the law regulating prevention of money laundering.

## **CLIENT CREDIT RATING INQUIRY**

1.7. The banks, prior to offering corresponding banking services, shall:

- request client's consent (approval) to verify credit rating of the client with the Credit Bureau of the Association of Serbian banks, client's total indebtedness and to inform the client that this is a condition for granting credit services of the Bank;
- the Bank shall inform its client of the way the system of inquiry into client's credit rating is functioning and for what purpose;

- the Bank shall inform its client that the final decision to grant the service shall be made by the Bank, and not by the Credit Bureau;
- if the client shall be refused the service requested, the Bank shall inform the client of its decision.

## **CLIENTS AND THEIR CREDIT CARDS**

1.8. Written terms for services of opening accounts, issuing and use of credit cards, the Bank shall express in simple and easily understandable terms and shall make them accessible to the public (through brochures, information boards, and media). The Bank shall apply the same level of transparency and public disclosure of data in case of any changes in the terms and conditions for the use of the credit cards (interest rates).

1.9. Minimum of information that the Bank must offer to the client prior to issuing of a card, shall be as follows:

- clear designation of the purpose for which the card may be used and whether it shall have more functions than one (payment),
- type and amount of costs that the client shall incur when using a credit (payment) card,
- data on the exchange rate applied for foreign exchange transactions,
- procedures applied in case of client's complaint.

1.10. The Bank shall also, prior to concluding the account opening agreement and issuing of the card, inform its client in detail of his obligations as follows:

- regarding the safety of the card (and the use of the PIN number),
- in case of the loss of card (the procedure when the client has lost the card, or when it has been stolen, or when a third person should learn the PIN number of the client's card), and also
- liability of the client for the loss of card (the amount of sum that was erroneously charged on the client's account, and a liability for all the interest accrued on that amount),
- liability of the client for all losses arising from the client's use of the card in an illicit manner.

1.11. The Bank shall allow the clients to keep record of the transactions on the account and account balance by submitting written bank statements through protected computer communication channels between the client and the Bank, as prescribed by Law.

## **OTHER OPERATIONS**

- 1.12. In all other bank operations with clients – physical persons, the Bank shall uphold ethical principles and general principles of this Code of Professional Conduct.

## **MARKETING ACTIVITIES OF BANKS**

- 1.13. Marketing activities of banks should be aimed at timely and truthful information disclosure to the public about their financial position and strength, types and quality of services offered, human and capital resources, as a guarantee for their capability for continuously improving their market position, regardless of the competition.

If the advertising message is to contain terms and conditions for offering banking services (EIR effective interest rate and other important terms), they must be presented in an accurate and easily understandable manner.

- 1.14. In addressing the public the Bank shall avoid methods of unfair competition and shall uphold the basic principles of this Code. Thus the intention will be avoided to create an image in the mind of the public that does not correspond to its real position on the market in respect to the competition.

## **DELICATE AND OTHER SPECIAL CIRCUMSTANCES**

- 1.15. Mindful of the principle that staff employed in the Bank must conduct itself courteously and with dignity in all business contacts with clients and third persons, thus in case of some delicate circumstances they should judge the effects that the disclosure of the said situation to the media, or the exposure to eventual misuse of the situation by third persons, would cause – and should promptly seek the opinion of their superior officer or human resources manager.

- Situations in the group of delicate circumstances are:
  - *Conflict of interest between the bank employee and the interests of the bank* (for example, negotiations or work with the consultant who is a relative – next of kin, or who is employing or may employ a relative – next of kin; evaluation of the loan application submitted by the company in which the bank employee enjoys or may enjoy significant personal connections or benefits).

Bank employees shall avoid such situations, and when they should unwillingly find themselves in such situations, or when they should deem that such situations may arise, they shall promptly give a

statement to that effect to their immediate superior and/or to the human resources department manager.

- *Gifts and various other benefits.* No one of the staff employed in the bank shall seek, receive or accept, from any source outside of the bank, any benefits, direct or indirect, that would be in any way connected with his employment at the bank.

Bank employees, a priori, shall discourage any gifts that may have more than a symbolic value (agendas, calendars, etc.).

- Staff employed in the bank who have, within the context of their duties or in the execution of their duties, a direct or indirect access to the insider information, or who are in possession of the same in respect to the companies or bodies with whom they are keeping direct or indirect contacts, must not avail themselves of such insider information in the sense of their disclosure or giving advice to third persons, who may acquire gains from such information.

## **2. CLIENT LEGAL ENTITY – BANK RELATIONSHIP**

In the spirit of the fundamental principles of this Code, the Bank shall foster and promote business relationship with its clients – legal entities. To that end, the basic manner of procedure will be proper information offered to the client and a permanent dialogue, but also an advisory character in the communication between the Bank and its client, with the minimum of information required as follows:

- The Bank shall remind the client of his obligation to co-operate, i.e. to submit to the Bank all the necessary documentation proving his legal identity, business plans and financial position, but also a call to respond to a dialogue whenever the Bank should find it necessary, and thus offer relevant information, necessary for proper identification of the client and defining of the business arrangement with the Bank, that shall be concordant with the business policies of the Bank and business objectives of the client;
- In the field of operations of gathering financial potential, the Bank shall have an active attitude towards the market and clients, in the sense of offering modern forms of gathering funds, informing the client of the advantages that these instruments have on the financial effects of his business operations, but also on his liquidity and efficiency of funds deployment;
- Prior to the opening of any account, the Bank shall make identification of the client and determine the purpose for opening of the account, acquire and keep information that will allow it to determine whether the client is associated with any risk factors, including permanent monitoring of transactions that the risk associated clients are carrying out;
- In the field of active jobs (crediting and other type of placements, guarantee jobs), the Bank shall not only assess the reality of the application submitted by

the client in respect to the type of work that he is conducting and his business and financial capabilities, but also, whenever justified, the Bank shall suggest to the client those financial constructions that are safer and that shall yield better financial effects;

- The Bank shall inform the client of all the significant terms for offering of its services, prior to contracting business relation with the client, and also of his obligation to respond to the permanent dialogue with the Bank in the period of monitoring of the banking service contracted;
- With respect to the Bank's obligation to provide information to the client regarding the price of capital, other costs of banking services, and any other significant elements involved in the offered bank services, the provisions of this Code in Part III, point 1.2 shall apply;
- The Bank shall explain to the client its obligation to uphold the adopted procedure for various risk exposures of the Bank in the deal that the client wishes to contract with the Bank, and shall state that the risk is a significant element in the price of capital;
- The Bank shall inform the client of the instruments available for mitigating risks that are recognized by the national controller and on what terms, and how the presentation of these instruments to the Bank by the client is reflected on his overall financial construction, as well as on the Bank's risk exposure in that concrete deal;
- With regard to the obligation of the Bank to keep client data confidential, provisions of this Code in Part III, point 1.6 shall apply, i.e. the inquiry into credit worthiness of the client stipulated in Part III, point 1.7 of this Code.

### **3. OTHER FINANCIAL INSTITUTIONS – BANK RELATIONSHIP**

3.1. The banks shall work on strengthening of their financial position and credibility that will secure for them, through a sound competition, a lasting market position and a continuous growth. In this manner they shall give their contribution to the development of the banking system in general. In this context, taking over of the staff employed in other banks should always be done honestly and in accordance with the good business practices.

3.2. In their efforts to attract business, banks shall emphasize advantages of the services that they offer, and refrain from mentioning shortcomings of other banks, and shall avoid the use of publicity or use of unfortunate incidents that certain banks may have suffered, for purpose of attracting clients or fomenting distrust among the general public.

- 3.3. When establishing correspondent relations with other banks, especially the banks abroad, i.e. when opening running accounts, the banks shall cooperate only with those correspondent banks that are applying the same scope of regulations prescribing prevention of money laundering and prevention of financing terrorism, as well as the know-your-client procedure, as the bank itself.
- 3.4. Banks may exchange data (publications, reports, etc.) that are serving to assess conditions prevailing on the market.
- 3.5. Banks shall exchange information and other useful data pertaining to the cases of refused cooperation or inconsistent business conduct of certain banks or clients, whenever there is a belief that it is justified and in the best interest of certain banks, of the banking system and business in general.
- 3.6. Banks shall use data on the status of overall credit rating (indebtedness) of citizens and legal entities from the Credit Bureau of the Association of Serbian Banks in the function of a safer operation, more efficient decision-making in engaging of the crediting guarantee potential and for purpose of strengthening of the financial discipline of the professionals engaged in the turnover of money and capital.
- 3.7. In the execution of banking operations, in the Interbank relations, in dealing with third persons and ventures towards the institutions in the system, the banks shall harmonize their activities regarding the issues significant for banking industry in general, and shall proceed in accordance with the co-ordinated stands of the banks within the Association of Serbian Banks.

#### **IV INFRINGEMENT OF THE CODE**

1. The rules for implementation of this Code shall primarily depend on the awareness of the need and importance for the respect of its provisions, by those for whom it is designed.
2. Senior staff in the Bank shall also be called upon to undertake an advisory role in case of delicate circumstances, or those not foreseen in this Code.
3. The Bank shall have its own internal procedures for resolving clients' complaints, in a just and expedient manner.
  - 3.1. Banks shall inform their clients of the procedure for resolving clients' complaints. Clients wishing to lodge a complain will be informed of the way to proceed, and of the further steps that are available for them, if they should deem that their complaint had not been dealt with in a

satisfactory manner by the Bank (the institute of the Banking Ombudsman).

- 3.2. Banks shall also ensure that all of their staff employed, dealing directly with the clients, shall be informed of the internal procedure for complaints resolution, in order to be able to assist the client by offering him accurate information about the said procedure.
4. Higher levels of assessment and ruling on the clients' complaints shall take place within the institution of the Banking Ombudsman.
  - 4.1. Composition of the Ombudsman shall be nominated by the Board of Directors of the Association of Serbian Banks, and this body shall operate as independent and neutral within the Association of Serbian Banks. It shall proceed on the basis of complaints lodged both by physical persons and legal entities – clients of the banks, pertaining to the work of the Bank, whenever deemed justified.
  - 4.2. Work of this institute shall be regulated in a separate act, and the objective of its engagement shall be to determine the state of facts in connection with the client's complaint, in a mediation procedure between the clients and banks in the resolution of disputable situations, as a form of a pre-emptive action regarding the possible filing of judicial procedures before a court of law.

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