

Pursuant to Article 21, paragraph 1 of the Law on the National Bank of Serbia ("RS Official Gazette", Nos.72/2003 and 55/2004) and Article 83, paragraph 6 of the Law on Banks ("RS Official Gazette", No.107/2005), the Governor of the National Bank of Serbia hereby issues the following

DECISION
ON TERMS AND CONDITIONS OF IDENTIFICATION, MONITORING AND
MANAGEMENT OF BANK COMPLIANCE RISK

1. This decision prescribes the manner and conditions of identification, monitoring and management of bank compliance risk.

2. Compliance risk arises from the bank's non-conformance with the relevant law, secondary legislation, internal policy acts, anti-money laundering and terrorism financing procedures, professional rules, good business practices and the bank's ethical code. Compliance risk encompasses the risk of regulatory sanctions, risk of financial loss and reputation risk.

Under the terms hereof, the risk of regulatory sanctions arises if conduct specified in paragraph 1 hereof causes an irregularity in the bank's operations which may result in taking of measures against such bank as envisaged by the law.

Under the terms hereof, the risk of financial loss arises as a consequence of the bank's overall exposure to operational risks, and in particular, as a consequence of conduct specified in paragraph 1 hereof, as well as inadequate application of strategies and policies, and/or management of the bank which results in financial loss on whatever grounds.

Under the terms hereof, reputation risk arises if the bank's conduct specified in paragraph 1 hereof results in a loss to reputation and client trust.

3. In order to create conditions for identification, monitoring and management of the compliance risk, banks shall set up an organizational unit in charge of the compliance risk control (hereinafter: Organizational Unit).

4. The bank shall address the following issues in its internal acts:

- function and scope of responsibilities of the Organizational Unit and measures ensuring its independence;
- Organizational Unit's relationship with organizational units in charge of risk management and internal audit;

- right of access to information necessary for the exercise of the compliance function and the corresponding duty of bank staff to cooperate in providing this information;
- right of the head of the Organizational Unit to present the compliance control findings to the bank's executive board and monitoring committee, and if necessary, to the bank's board of directors;
- right of the head of the Organizational Unit to propose engagement of experts to investigate possible breaches of compliance.

By its internal acts, the bank shall prescribe the obligation for its branches and other organizational entities abroad to comply with regulations and standards of the host country, as well as to notify the bank and the National Bank of Serbia of any potential discrepancy between such regulations and standards and those applicable in the home country.

5. In setting up the Organizational Unit, the bank shall take care that its size, organizational and qualifications structure are commensurate with the bank's size, and/or scope and type of the bank's activities, and that the number and profile of employees in the Organizational Unit enable effective compliance risk management.

Members of staff of the Organizational Unit shall have appropriate qualifications, expertise and experience, as well as professional and personal qualities. They shall keep abreast of any changes to the law, secondary legislation and the bank's internal acts; they shall be familiar with the professional rules, good business practices and the bank's ethical code and shall have the skills and expertise to assess their compliance and impact on the bank's overall performance.

The head of the Organizational Unit shall give recommendations in terms of bank compliance to the members of senior management and inform them of any changes in that field.

The head of the Organizational Unit and members of staff shall attend regular training and development programs in order to be able to perform all obligations stipulated hereunder.

6. The head of the Organizational Unit and members of staff shall be independent in their work and shall only perform activities under their remit, bearing in mind potential conflict of interest with other members of the bank staff and their activities.

With a view to performing their activities, the Organizational Unit's staff shall have the right of access to all bank premises, as well as the right to

obtain all required documents and/or information. They shall also have the right to demand that appropriate explanation and information are provided by all members of bank staff within a reasonable period of time.

7. The Organizational Unit shall prepare a compliance monitoring programme, specifying in particular the Unit's methodology of work, planned activities, manner and deadlines for preparing reports, compliance verification method and training plan for bank staff.

The programme referred to in paragraph 1 hereof shall also stipulate the obligation to establish adequate and up-to-date procedures at the level of all organizational units of the bank, in compliance with the law, secondary legislation and the bank's internal acts, as well as with professional rules, good business practices and the bank's ethical code, enabling ongoing monitoring and measuring of the bank compliance risk.

The Organizational Unit's methodology of work refers to the formulation and conduct of adequate ongoing and effective compliance control to enable identification and management of current and potential compliance risks, and thereby ensure achievement of the highest standards of bank performance.

The head of the Organizational Unit shall submit the programme from this Section to the bank's executive board and committee for monitoring bank business activities. The programme, as well as any subsequent amendments and supplements thereto, shall be adopted by the bank's board of directors, which is responsible for the effectiveness of the bank's compliance function.

8. In accordance with the compliance monitoring programme referred to in Section 7 hereof, the Organizational Unit shall identify and assess bank compliance risks, and the bank's key operational risks at least once a year.

The Organizational Unit shall put forward plans regarding management of key risks from paragraph 1 hereof, and shall report thereon to the executive board and monitoring committee (audit committee) at least once a year.

The bank's executive board shall adopt the report from paragraph 2 hereof within 15 days from its receipt, and shall submit it to the bank's board of directors within 5 days from such adoption.

9. The head of the Organizational Unit shall promptly notify the bank's executive and monitoring boards of any failures or omissions established in the course of compliance control.

10. The bank shall carry out and develop its compliance control function in a way which ensures timely assessment of compliance risk at all organizational levels of the bank, including assessment of potential risks associated with new banking products, and/or new business practices, and shall try to ensure that the negative impact of the above risks on business activities is as low as possible.

11. For the purposes of conducting compliance control function, timely provision of accurate and complete data, and their subsequent electronic processing, the bank shall ensure that the Organizational Unit maintains access to the information system of data on all bank operations.

12. Banks shall be required to bring their internal acts based on the Decision on the Manner and Conditions of Identification, Monitoring and Management of Bank Compliance Risk ("RS Official Gazette", No.57/2006) in compliance with the provisions hereof by 31 December 2007 at the latest.

13. This decision shall supersede Decision on the Manner and Conditions of Identification, Monitoring and Management of Bank Compliance Risk ("RS Official Gazette", No.57/2006).

14. This decision shall come into effect one day after its publication in the "RS Official Gazette", and shall be applied as of 1 October 2007.

D.No.76
18 September 2007
B e l g r a d e

G o v e r n o r
National Bank of Serbia

Radovan Jelasic, sign.