

Pursuant to Article 122, paragraph 4, Article 126, paragraph 5 and Article 127, paragraph 5 of the Law on Banks (RS Official Gazette, Nos 107/2005 and 91/2010), and Article 15, paragraph 1 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004 and 44/2010), the Executive Board of the National Bank of Serbia hereby adopts the following

D E C I S I O N

ON CONSOLIDATED SUPERVISION OF A BANKING GROUP

1. This Decision sets forth detailed conditions and manner of conducting consolidated supervision of a banking group, the scope and contents of consolidated financial statements of the group, detailed conditions and manner of risk management within that group, as well as manner of reporting to the National Bank of Serbia, including frequency of submission of consolidated financial statements and manner of determining and submitting data referred to in Article 127, paragraph 1 of the Law on Banks (hereinafter: Law).

Consolidated supervision of a banking group

2. The National Bank of Serbia shall conduct consolidated supervision of:

1) a banking group whose ultimate parent company is headquartered in the Republic of Serbia;

2) a banking group whose ultimate parent company is headquartered outside the Republic of Serbia and which is subject to consolidated supervision by the regulatory authority of such company's country of origin but not in a manner which meets the requirements of the National Bank of Serbia, and/or if there is no adequate cooperation between the National Bank of Serbia and such regulatory authority;

3) a bank headquartered in the Republic of Serbia – member of a banking group which is subject to consolidated supervision by a regulatory authority of the country of origin of the ultimate parent company of such group, subordinated companies of such bank and associated companies of the subsidiary companies of such bank (sub-consolidation).

Consolidated supervision conducted in a manner which meets the requirements of the National Bank of Serbia, within the meaning of paragraph 1, provision under 2) hereof, shall mean such supervision conducted by the regulatory authority referred to in that provision in accordance with international standards and principles of the Basel Committee on Banking Supervision, while adequate cooperation, within the meaning thereof, shall

mean a concluded memorandum of understanding and/or established exchange of information with such authority.

3. If several banks headquartered in the Republic of Serbia belong to the banking group referred to in Section 2, paragraph 1, provision under 3) hereof – the ultimate parent company in the Republic of Serbia shall be the bank with the highest balance sheet total.

Scope and contents of consolidated financial statements of the banking group

4. The ultimate parent company of a banking group which is subject to supervision on a consolidated basis by the National Bank of Serbia (hereinafter: ultimate parent company) shall compile and submit to the National Bank of Serbia consolidated financial statements of the banking group (hereinafter: consolidated financial statements), the items of which shall be assessed in compliance with International Financial Reporting Standards.

Within the meaning hereof, consolidated financial statements shall mean consolidated balance sheet statement, income statement and statement of other comprehensive income.

5. When compiling consolidated financial statements, the ultimate parent company shall apply the full consolidation method – on the basis of its financial statements and financial statements of its subsidiary companies that are not insurance companies, and/or investment fund management companies and/or voluntary pension fund management companies. It shall also ensure that all members of the banking group subject to full consolidation method apply the same accounting policies and/or uniform principles of valuation of accounting items and of their disclosure in individual financial statements.

By way of derogation from paragraph 1 hereof, the ultimate parent company may, when compiling consolidated financial statements, apply the proportionate consolidation method if its liability for the operation of the subordinated company is limited to its stake in the capital of the company concerned, taking into consideration the liability of other shareholders or members of the company who are solvent within the meaning of regulations governing their operation.

The assessment of liability referred to in paragraph 2 hereof shall be performed by the National Bank of Serbia, based on:

- documentation by which the ultimate parent company evidences the amount of its stake in the capital of the subordinated company;
- other documentation it deems necessary (e.g. agreement of mutual rights and obligations of other shareholders or members of the subordinated company).

6. Participation held by the ultimate parent company in associated and subsidiary companies that are insurance companies, investment fund management companies and/or voluntary pension fund management companies shall be disclosed in consolidated financial statements by applying the method of participation.

7. If the National Bank of Serbia assesses that in addition to relationship set out in Sections 5 and 6 hereof there exist other relationships between the bank and financial-sector persons, it may order consolidation between this bank and the persons concerned, including the scope and manner of that consolidation.

8. The ultimate parent company shall not be required to include in the consolidated financial statement a subordinated company that is a financial sector person and/or the subordinated company referred to in Article 124, paragraph 3 of the Law in the following cases:

- when the overall balance sheet total of the subordinated company concerned is less than 1% of the balance sheet total of the ultimate parent company or bank;
- when the subordinated company concerned does not have an impact on unimpeded consolidated supervision;
- when inclusion of the subordinated company concerned in consolidated financial statement could be misleading in respect of conclusions of the consolidated supervision;
- when the subordinated company concerned is headquartered in a third country and there are legal obstacles for the provision of necessary information.

If several subordinated companies meet the requirement referred to in paragraph 1, indent 2 hereof, the ultimate parent company shall include them in the consolidated financial statement if, when their total activities are taken into account, these companies still have an impact on unimpeded consolidated supervision.

Assessment that the ultimate parent company shall not be required to include a subordinated company/companies in consolidated financial

statement as set out in paragraphs 1 and 2 hereof shall be performed by the National Bank of Serbia based on:

- annual financial statement of the ultimate parent company in the Republic of Serbia and/or the company with the significant participation in the ultimate parent company and of the subordinated company/companies;
- other documentation it deems necessary.

Participation of the ultimate parent company in the capital of a legal person not included in the consolidated financial statement shall represent a deductible from the capital of the banking group.

The ultimate parent company shall ensure that all data relating to exclusion of individual legal persons from the consolidated financial statement that are necessary for conducting consolidated supervision and/or for reporting purposes are duly provided to the National Bank of Serbia.

Risk management within the banking group

9. The ultimate parent company shall be responsible for putting in place a comprehensive and reliable system for the management of all risks that the banking group is or may be exposed to in its operation, in conformity with the Law and regulations on risk management by banks.

The ultimate parent company shall regulate the manner of risk management in its internal regulations and ensure that every member of the banking group aligns its internal regulations with the internal regulations of the ultimate parent company, as well as with the nature, scope and complexity of activities of the banking group.

10. The ultimate parent company shall ensure that:

- the internal capital adequacy assessment, internal liquidity assessment and calculation of large exposures of the banking group are carried out in accordance with the Law and regulations on risk management by banks;
- investments of the banking group in non-financial sector persons, as well as investments in fixed assets and investment property are made in conformity with the Law and regulations of the National Bank of Serbia.

11. The ultimate parent company shall adopt and implement internal regulations that regulate:

- disclosure of data and/or information for the banking group on a consolidated basis, in accordance with the decision on disclosure of data and information by banks;
- compilation and submission of financial and other reports for the banking group on a consolidated basis, in conformity with this decision, decision on reporting requirements for banks, and decision on capital adequacy reporting for banks.

*Liquidity risk management
at the level of the banking group*

11a. The ultimate parent company shall establish a system for liquidity risk management at the level of the banking group, calculate the liquidity coverage ratio, the net stable funding ratio and accordingly apply the appropriate restrictions relating to the bank's exposure to liquidity risk, as well as special requirements relating to the bank's liquidity in accordance with the provisions of the decision on liquidity risk management by banks.

*Management of interest rate risk in the banking book
(IRRBB) and credit spread risk in the banking book
(CSRBB) at the banking group level*

11b. A bank, and/or a bank holding company shall establish the system and processes for IRRBB and CSRBB management at the banking group level by accordingly applying the provisions of the decision on IRRBB management.

A bank, and/or a bank holding company shall measure the banking group's IRRBB exposure by accordingly applying the provisions of the decision referred to in paragraph 1 hereof. When measuring the banking group's IRRBB exposure, standardised approach shall be applied, unless the banking group obtained the National Bank of Serbia's approval to apply the simplified standardised approach.

*Management of the risk of excessive leverage
at the banking group level*

11c. The ultimate parent company shall manage the risk of excessive leverage at the banking group level by accordingly applying the provisions of the decision on risk management by banks.

***Capital, capital ratios and capital requirements
for a banking group***

Capital of a banking group

12. The ultimate parent company shall calculate the capital of the banking group in conformity with this decision and the decision on capital adequacy of banks.

The capital of the banking group shall be the sum of its Tier 1 capital and Tier 2 capital; Tier 1 capital of the banking group is the sum of Common Equity Tier 1 capital and Additional Tier 1 capital. Regulatory adjustments applicable to Common Equity Tier 1 capital, elements of and deductibles from Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital of the banking group shall be established in accordance with the decision on capital adequacy of banks.

The ultimate parent company shall meet the requirements relating to the capital of the banking group on a consolidated basis, in the scope and manner prescribed in Sections 5 through 8 hereof, by accordingly applying the provisions of the decision on capital adequacy of banks.

*Minority interests, Additional Tier 1 capital instruments
and Tier 2 capital instruments issued by subsidiary companies*

12a. Common Equity Tier 1 capital of a banking group shall include non-controlling interests (hereinafter: minority interests).

Minority interests shall be the sum of Common Equity Tier 1 capital instruments, premium on issue of shares related to those instruments, profit, reserves from profit and other reserves, except for reserves for general banking risks, of a subsidiary company of the ultimate parent company if the following requirements are met:

1) the subsidiary company is a bank or investment company from the Republic of Serbia, or credit institution or investment company from a member state of the European Union or a non-member state of the European Union, if the regulations of that country governing their operations and their supervision are aligned with the appropriate regulations of the European Union;

2) the subsidiary company is included in consolidation for the purposes of consolidated supervision of a banking group performed by the National Bank of Serbia;

3) the Common Equity Tier 1 capital instruments referred to herein are owned by persons not included in the consolidation referred to in provision under 2) hereof.

Minority interests that are financed by a parent legal entity of the ultimate parent company or its subsidiary company, directly or indirectly, through a special purpose vehicle or otherwise – shall not meet the conditions to be recognised as Common Equity Tier 1 capital of a banking group.

12b. Additional Tier 1 capital of a banking group shall include the qualified Additional Tier 1 capital of a subsidiary company of the ultimate parent company.

The qualified Additional Tier 1 capital referred to in paragraph 1 hereof shall include Additional Tier 1 capital instruments issued by a subsidiary company of the ultimate parent company, and the related premium on issue of shares, if the following requirements are met:

- 1) the subsidiary company is a bank or investment company from the Republic of Serbia, or credit institution or investment company from a member state of the European Union or a non-member state of the European Union, if the regulations of that country governing their operations and their supervision are aligned with the appropriate regulations of the European Union;
- 2) the subsidiary company is included in consolidation for the purposes of consolidated supervision of a banking group performed by the National Bank of Serbia;
- 3) these instruments are owned by persons not included in the consolidation referred to in provision under 2) hereof.

Qualified Tier 1 capital shall be the sum of the minority interests and the qualified Additional Tier 1 capital referred to herein.

Tier 2 capital of a banking group shall include the qualified Tier 2 capital of a subsidiary company of the ultimate parent company.

Qualified Tier 2 capital shall include Tier 2 capital instruments and subordinated liabilities of a subsidiary company of the ultimate parent company, and the related premium on issue of shares, if the requirements referred to in paragraph 2 hereof are met.

Qualified capital shall be the sum of the qualified Tier 1 capital and qualified Tier 2 capital referred to herein.

12c. Additional Tier 1 capital of a banking group shall include the qualified Additional Tier 1 capital of a special purpose vehicle.

The qualified Additional Tier 1 capital referred to in paragraph 1 hereof shall include Additional Tier 1 capital instruments issued by a special purpose vehicle, and the related premium on issue of shares, if the following requirements are met:

1) the special purpose vehicle issuing those instruments is included in consolidation for the purposes of consolidated supervision of a banking group performed by the National Bank of Serbia;

2) the requirements for including Additional Tier 1 capital instruments in the calculation of Additional Tier 1 capital prescribed by the decision on capital adequacy of banks are met;

3) the only assets of the special purpose vehicle are its investments in the capital of the parent company or its subsidiary company included in consolidation for the purposes of consolidated supervision of a banking group performed by the National Bank of Serbia, where those assets meet the requirements referred to in provision under 2) hereof.

Tier 2 capital of a banking group may include the qualified Tier 2 capital of a special purpose vehicle.

Qualified Tier 2 capital shall include Tier 2 capital instruments and subordinated liabilities of a special purpose vehicle, and the related premium on issue of shares, if the following requirements are met:

1) the special purpose vehicle issuing those instruments is included in consolidation for the purposes of consolidated supervision of a banking group performed by the National Bank of Serbia;

2) the requirements for including Tier 2 capital instruments of the bank and subordinated liabilities in the calculation of Tier 2 capital of the bank prescribed by the decision on capital adequacy of banks are met;

3) the only assets of the special purpose vehicle are its investments in the capital of the parent company or its subsidiary company included in consolidation for the purposes of consolidated supervision of a banking group performed by the National Bank of Serbia, where those assets meet the requirements referred to in provision under 2) hereof.

If it assesses that the assets of a special purpose vehicle – other than its investments in the capital of the parent company or its subsidiary company included in consolidation for the purposes of consolidated supervision of a banking group performed by the National Bank of Serbia – are minimal and insignificant for that special purpose vehicle, the National Bank of Serbia may grant consent to include the qualified Additional Tier 1 capital and/or qualified Tier 2 capital of the special purpose vehicle in the

Additional Tier 1 capital and/or Tier 2 capital of the banking group, even if the requirements referred to in paragraph 2, provision under 3) and paragraph 4, provision under 3) hereof are not met.

The assets of the special purpose vehicle shall be considered minimal and insignificant if the following requirements are met:

1) the assets of the special purpose vehicle, other than investments in the capital of the parent company or its subsidiary company, are limited to cash intended for coupon payments and repurchase of matured capital instruments;

2) the assets of the special purpose vehicle, other than the assets referred to in provision under 1) hereof, do not exceed 0.5% of the value of average total assets of the special purpose vehicle over the past three years, unless a higher percentage is needed exclusively to cover the current expenses of the special purpose vehicle, where the appertaining nominal amount of assets of the special purpose vehicle does not exceed 60,000,000 dinars.

12d. The ultimate parent company shall establish the amount of minority interests in the subsidiary company that are included in the Common Equity Tier 1 capital of the banking group by subtracting the amount calculated by multiplying the amount referred to in provision under 1) and the percentage referred to in provision under 2) hereof from the minority interests in that subsidiary company:

1) Common Equity Tier 1 capital of a subsidiary company minus the lower of the following two amounts:

– the amount of Common Equity Tier 1 capital of that subsidiary company needed to meet all requirements prescribed by the decision on capital adequacy of banks (requirement for maintaining the minimum level of the Common Equity Tier 1 capital adequacy ratio and/or elevated Common Equity Tier 1 capital adequacy ratios and the combined capital buffer requirement) and regulations of the European Union, and any other additional requirements concerning Common Equity Tier 1 capital prescribed by the regulations of non-member states of the European Union,

– the amount of Common Equity Tier 1 capital of the banking group relating to that subsidiary company needed to meet, on a consolidated basis, all requirements prescribed by the decision on capital adequacy of banks (requirement for maintaining the minimum level of the Common Equity Tier 1 capital adequacy ratio and/or elevated Common Equity Tier 1 capital adequacy ratios and the combined capital buffer requirement) and regulations of the European Union, and any other additional requirements concerning

Common Equity Tier 1 capital prescribed by the regulations of non-member states of the European Union;

2) minority interests in the subsidiary company expressed as a percentage of all Common Equity Tier 1 capital instruments of that company and the related premium on issue of shares, profit, reserves from profit and other reserves, except for reserves for general banking risks.

The calculation referred to in paragraph 1 hereof shall be carried out on a sub-consolidated basis for each subsidiary company referred to in Section 12a, paragraph 2 hereof.

The ultimate parent company may choose not to carry out the calculation referred to in paragraph 1 hereof for the subsidiary company referred to in Section 12a, paragraph 2 hereof, in which case the minority interest in that subsidiary company may not be included in the Common Equity Tier 1 capital of the banking group.

12e. For the purposes of calculation on a sub-consolidated basis in accordance with Section 12d, paragraph 2, Section 12f, paragraph 2, and Section 12h, paragraph 2 hereof, qualified minority interests in the subsidiary company referred to in Section 12a hereof, which is, in fact, the parent company of the person referred to in paragraph 2 of that Section, shall be calculated in the manner set out in the provisions of this Section.

If the subsidiary company calculates capital requirements at the level of its consolidated position (on a sub-consolidated basis), according to the decision on capital adequacy of banks, the following shall apply:

1) the Common Equity Tier 1 capital of that subsidiary company on a consolidated basis referred to in Section 12d, paragraph 1, provision under 1) hereof shall include the recognised minority interests in its subsidiary companies calculated in accordance with Section 12d hereof and the provisions of this Section;

2) for the purposes of the calculation referred to in this paragraph, the amount of Common Equity Tier 1 capital in accordance with the requirements referred to in Section 12d, paragraph 1, provision under 1), indent one hereof shall be the amount required to meet the requirement for Common Equity Tier 1 capital of that subsidiary company at the level of its consolidated position, calculated in accordance with Section 12d, paragraph 1, provision under 1) hereof; elevated Common Equity Tier 1 capital adequacy ratios shall be those indicators specified by the body responsible for the supervision of the subsidiary company;

3) for the purposes of the calculation referred to in this paragraph, the amount of Common Equity Tier 1 capital in accordance with

the requirements referred to in Section 12d, paragraph 1, provision under 1), indent two hereof shall be the contribution of the subsidiary company at the level of its consolidated position to capital requirements for Common Equity Tier 1 capital of the bank for which the recognised minority interests are calculated on a consolidated basis; the calculation of contributions shall not include transactions between persons included in consolidation for the purposes of consolidated supervision of a banking group.

During the consolidation referred to in paragraph 2, provision under 3) hereof, the subsidiary company shall not include the capital requirements of its subsidiary companies that are not included in consolidation for the purposes of consolidated supervision of a banking group.

The manner of calculation referred to in paragraphs 2 and 3 hereof shall apply accordingly to the calculation of the amount of qualified Tier 1 capital in accordance with Section 12f hereof and the amount of qualified capital in accordance with Section 12h hereof, whereby a reference to Common Equity Tier 1 capital shall be considered a reference to Tier 1 capital or capital, as applicable.

If the ultimate parent company has a brokerage subsidiary company, which is not the person referred to in Section 12a, paragraph 2 hereof, and if that brokerage company has the subsidiary companies referred to in that paragraph – the ultimate parent company may include in its Common Equity Tier 1 capital the amount of minority interest in those subsidiary companies calculated in accordance with Section 12d, paragraph 1 hereof. The ultimate parent company of the banking group may not include in its Common Equity Tier 1 capital minority interests in a subsidiary company of the brokerage company that is not covered by Section 12a, paragraph 2 hereof.

12f. The ultimate parent company shall establish the amount of qualified Tier 1 capital of the subsidiary company that is included in the capital of the banking group by subtracting the amount calculated by multiplying the amount referred to in provision under 1) and the percentage referred to in provision under 2) hereof from the qualified Tier 1 capital of that subsidiary company:

1) Tier 1 capital of a subsidiary company minus the lower of the following two amounts:

– the amount of Tier 1 capital of the subsidiary company needed to meet all requirements prescribed by the decision on capital

adequacy of banks (requirement for maintaining the minimum level of the Tier 1 capital adequacy ratio and/or elevated Tier 1 capital adequacy ratios and the combined capital buffer requirement) and regulations of the European Union, and any other additional requirements concerning Tier 1 capital prescribed by the regulations of non-member states of the European Union,

– the amount of Tier 1 capital of the banking group relating to that subsidiary company needed to meet, on a consolidated basis, all requirements prescribed by the decision on capital adequacy of banks (requirement for maintaining the minimum level of the Tier 1 capital adequacy ratio and/or elevated Tier 1 capital adequacy ratios and the combined capital buffer requirement) and regulations of the European Union, and any other additional requirements concerning Tier 1 capital prescribed by the regulations of non-member states of the European Union;

2) qualified Tier 1 capital of the subsidiary company expressed as a percentage of all Tier 1 capital instruments of that company and the related premium on issue of shares, profit, reserves from profit and other reserves, except for reserves for general banking risks.

The calculation referred to in paragraph 1 hereof shall be carried out on a sub-consolidated basis for each subsidiary company referred to in Section 12a, paragraph 2 hereof.

The ultimate parent company may choose not to carry out the calculation referred to in paragraph 1 hereof for the subsidiary company referred to in Section 12a, paragraph 2 hereof, in which case the qualified Tier 1 capital of that subsidiary company may not be included in the Tier 1 capital of the banking group.

12g. The ultimate parent company shall establish the amount of qualified Tier 1 capital of the subsidiary company that is included in the Additional Tier 1 capital of the banking group by subtracting the amount of minority interests of that company that are recognised in the Common Equity Tier 1 capital of the banking group from the qualified Tier 1 capital of that subsidiary company that is included in Tier 1 capital of the banking group.

12h. The ultimate parent company shall establish the amount of qualified capital of the subsidiary company that is included in the capital of the banking group by subtracting the amount calculated by multiplying the amount referred to in provision under 1) and the percentage referred to in provision under 2) hereof from the qualified capital of that subsidiary company:

1) capital of a subsidiary company minus the lower of the following two amounts:

– the amount of capital of the subsidiary company needed to meet all requirements prescribed by the decision on capital adequacy of banks (requirement for maintaining the minimum level of the capital adequacy ratio and/or elevated capital adequacy ratios and the combined capital buffer requirement) and regulations of the European Union, and any other additional requirements concerning capital prescribed by the regulations of non-member states of the European Union,

– the amount of capital of the banking group relating to the subsidiary company needed to meet, on a consolidated basis, all requirements prescribed by the decision on capital adequacy of banks (requirement for maintaining the minimum level of the capital adequacy ratio and/or elevated capital adequacy ratios and the combined capital buffer requirement) and regulations of the European Union, and any other additional requirements concerning capital prescribed by the regulations of non-member states of the European Union;

2) qualified capital of the subsidiary company expressed as a percentage of all capital instruments of that company included in Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and premium on issue of shares related to those instruments, profit, reserves from profit and other reserves, except for reserves for general banking risks.

The calculation referred to in paragraph 1 hereof shall be carried out on a sub-consolidated basis for each subsidiary company referred to in Section 12a, paragraph 2 hereof.

The ultimate parent company may choose not to carry out the calculation referred to in paragraph 1 hereof for the subsidiary company referred to in Section 12a, paragraph 2 hereof, in which case the qualified capital of that subsidiary company may not be included in the capital of the banking group.

12i. The ultimate parent company shall establish the amount of qualified capital of the subsidiary company that is recognised in the Tier 2 capital of the banking group by subtracting the amount of qualified Tier 1 capital of that company that is included in the Tier 1 capital of the banking group from the qualified capital of that subsidiary company that is included in the capital of the banking group.

Capital ratios for a banking group

13. With a view to ensuring safe and sound operations, and/or fulfilment of obligations to creditors, a banking group shall maintain the capital adequacy ratio of the banking group, core capital adequacy ratio of the

banking group, Common Equity Tier 1 capital ratio of the banking group and leverage ratio of the banking group at prescribed levels.

Capital adequacy ratio of a banking group is the ratio between the capital of the banking group and risk-weighted assets of the banking group calculated in accordance with this decision and decision on capital adequacy of banks.

The core capital adequacy ratio of the banking group is the ratio between the core capital of the banking group and risk-weighted assets calculated for the banking group in accordance with the decisions referred to in paragraph 2 hereof.

The Common Equity Tier 1 capital adequacy ratio of the banking group is the ratio between the Common Equity Tier 1 capital of the banking group and risk-weighted assets calculated in accordance with the decisions referred to in paragraph 2 hereof.

The leverage ratio of the banking group is the percentage ratio between the core capital of the banking group and total exposure amount of the banking group included in this calculation by applying accordingly the provisions of the decision governing capital adequacy of banks.

14. A banking group shall maintain the ratios referred to in Section 13 hereof at the levels above the following:

- 1) 4.5%, for Common Equity Tier 1 capital adequacy ratio of the banking group;
- 2) 6%, for core capital adequacy ratio of the banking group;
- 3) 8%, for capital adequacy ratio of the banking group;
- 4) 3%, for leverage ratio of the banking group.

Unless otherwise provided by this decision, provisions of the decision on capital adequacy of banks shall apply accordingly to the calculation of capital adequacy ratio of a banking group.

Provisions of the decision referred to in paragraph 2 hereof, as well as the provisions of other regulation that the National Bank of Serbia may adopt pursuant to Article 23, paragraph 10 of the Law shall apply accordingly to the determination of capital adequacy ratios of the banking group referred to in Section 13, paragraph 1 hereof at levels higher than the prescribed.

15. The ultimate parent company shall apply the standardised approach or internal ratings-based (IRB) approach to calculate the risk-weighted exposure amounts for credit risk, counterparty risk, dilution risk, and the settlement/delivery risk in respect of free deliveries of the banking group, in accordance with the decision on capital adequacy of banks.

16. The ultimate parent company shall calculate the total amount of exposures referred to in Section 15 and exposures to settlement/delivery risk (except in respect of free deliveries) for each member of the banking group individually, in accordance with the decision on capital adequacy of banks, and collectively for the banking group, in accordance with this decision.

Capital requirement for market risks

17. The ultimate parent company shall calculate the capital requirement for market risks in conformity with this decision and decision on capital adequacy of banks.

18. The ultimate parent company shall calculate capital requirement for position risk as a sum of individual capital requirements for this risk of all members of the banking group calculated in conformity with the provisions of the decision on capital adequacy of banks relating to calculation of capital requirements for market risks.

By way of derogation from paragraph 1 hereof, for members of the banking group which meet the conditions for the calculation of capital requirement for position risk in accordance with the provisions of the decision referred to in that paragraph concerning the calculation of risk-weighted exposures for credit risk – the ultimate parent company may calculate capital requirements for position risk in accordance with these provisions.

19. The ultimate parent company shall calculate capital requirement for foreign exchange risk as a sum of individual capital requirements for this risk of all members of the banking group whose sum of total net open foreign currency position and absolute value of that position in gold exceeds 2% of their capital. Capital requirement for foreign exchange risk of every member of the banking group shall be calculated in conformity with the decision on capital adequacy of banks.

Total open foreign currency position of the banking group shall be calculated based on data from individual financial statements of banking group members by applying the aggregation method, without the possibility of mutual netting of such members' positions of opposite signs.

Total open foreign currency position of a banking group may also be calculated by applying the full consolidation method, under conditions and in the manner envisaged for the application of this method for determining that position by the decision on capital adequacy of banks.

Total open foreign currency position of a banking group, as the sum of total net open foreign currency position and absolute value of net open position in gold, may not exceed 20% of the capital of such banking group. The provisions of this decision, provisions of the decision on risk management by banks and provisions of the decision on capital adequacy of banks shall apply accordingly to the calculation of such position.

20. The ultimate parent company shall calculate the capital requirement for commodity risk as a sum of individual capital requirements for this risk of all members of the banking group calculated in accordance with the decision on capital adequacy of banks.

20a. For the purpose of calculating net positions and the capital requirement for market risks on a consolidated basis, a bank may offset positions in one bank or member of a banking group against positions in another bank or another member of a banking group.

The National Bank of Serbia may grant to a bank consent for offsetting in accordance with paragraph 1 hereof if it establishes, based on the submitted documents, that the following requirements are met:

1) capital allocation within the group was assessed as appropriate, taking into account the characteristics of the banking group or bank, as applicable, and risks to which it is exposed or may be exposed, and is in accordance with the needs of the banking group and all its members individually;

2) the regulations of the country of origin of the member of the banking group enable the provision of mutual financial support within the group or there is a concluded agreement on financial support within the banking group.

For the members of the banking group located in non-member states of the European Union, in addition to the requirements referred to in paragraph 2 hereof, the following requirements must also be met:

1) those members of the banking group are considered a foreign bank or are recognised as investment companies in those countries;

2) those members of the banking group individually meet capital requirements equivalent to the requirements specified by the decision on capital adequacy of banks;

3) there are no regulations in those countries that could significantly affect the transfer of funds within the banking group.

Capital requirement for operational risk

21. The ultimate parent company shall calculate the capital requirement for operational risk by applying the basic indicator approach, standardised approach and/or alternative standardised approach, advanced approach or combination thereof in accordance with the decision on capital adequacy of banks – on a consolidated basis.

If the ultimate parent company applies the basic indicator approach, it shall calculate the rate of exposure at the level of the banking group based on data from consolidated income statement, in conformity with the decision on capital adequacy of banks.

If the ultimate parent company applies standardised approach and/or alternative standardised approach, it shall:

- calculate capital requirement at the level of the banking group based on the data from consolidated income statement;
- ensure, at the level of the banking group, uniform policies, procedures and criteria for classification of business activities into business lines;
- ensure that conditions for the application of this approach, as set out in the decision on capital adequacy of banks, are fulfilled at the level of the banking group.

If the ultimate parent company uses advanced approach for the calculation of capital requirement, it shall ensure that conditions for the application of this approach, as set out in the decision on capital adequacy of banks, are fulfilled at the level of the banking group.

If the ultimate parent company or a subordinated company from the banking group uses a combination of approaches within the meaning of paragraph 1 hereof for the calculation of capital requirement, it shall ensure that conditions for the application of this combination, as set out in the decision on capital adequacy of banks, are fulfilled at the level of the banking group.

Capital requirement for other risks

21a. The ultimate parent company shall calculate the capital requirement for other risks of the banking group as a sum of individual capital requirements for risks referred to in paragraphs 2 and 3 hereof with respect to all members of the banking group.

The ultimate parent company shall calculate capital requirement for credit valuation adjustment risk (CVA risk) for each member of the banking group in accordance with the decision on capital adequacy of banks.

The ultimate parent company shall calculate the capital requirement for large exposures for each member of the banking group in accordance with the decision on risk management by banks.

*Conditions and manner of granting consent
by the National Bank of Serbia*

22. The National Bank of Serbia shall grant consent to a banking group for the implementation of:

- IRB Approach for the calculation of credit risk-weighted exposures (including own estimates of LGD parameters and conversion factors and the application of internal models approaches for equity exposures);
- own assessment of volatility factors for the Financial Collateral Comprehensive Method;
- internal models method for standardised netting agreements;
- advanced approach for the calculation of capital requirement for operational risk;
- internal model method for the calculation of capital requirement for counterparty risk;
- internal models approach for the calculation of capital requirement for position, foreign exchange or commodity risks;
- internal models for valuation of options (internal model for the calculation of delta, gamma and vega coefficients);
- sensitivity models for the calculation of positions in financial instruments;
- Internal Assessment Approach for the calculation of the amount of risk-weighted exposures for securitised exposures using the IRB Approach.

In order to obtain the consent referred to in paragraph 1 hereof, a joint application along with the required documentation shall be submitted to the National Bank of Serbia, under the conditions and in the manner set out by the decision on capital adequacy of banks.

When authorised for consolidated supervision of a bank subordinated to a bank holding company headquartered in the European Union, the National Bank of Serbia in the procedure of deciding on the application referred to in paragraph 2 hereof shall cooperate with competent regulatory bodies of the states in which a member of the banking group is headquartered.

Other requirements for a banking group

Exposure of a banking group

23. Exposure of a banking group to a single person or a group of persons considered related persons within the meaning of the Law shall be calculated based on the consolidated balance sheet of the banking group that refer to such person or such group of persons.

Provisions of the decision on risk management by banks shall apply accordingly to the calculation of overall exposure of a banking group to a single person or a group of persons considered related persons within the meaning of the Law. The ultimate parent company shall apply for the banking group the limits of exposure in accordance with the decision on risk management by banks.

Investments in non-financial sector persons and in fixed assets and investment property

24. Limits on investments of a banking group in non-financial sector persons and in fixed assets and investment property shall be subject to the provisions of Article 34 of the Law.

Calculation of the limits on investments referred to in paragraph 1 hereof shall be based on the consolidated capital of the banking group, while the amount of this investment shall be calculated based on consolidated financial statements.

Internal capital

25. The ultimate parent company shall establish a continuous internal capital adequacy assessment process at the level of the banking group and shall allocate internal capital.

In the process of internal capital adequacy assessment, the ultimate parent company shall accordingly apply to the banking group the provisions of the Law, regulations on risk management by banks and/or other regulation

which the National Bank of Serbia may adopt based on Article 35c, paragraph 5 of the Law.

Disclosure of data and information on a consolidated basis

26. The ultimate parent company shall accordingly apply to the banking group the provisions of the decision on disclosure of data and information by banks.

Manner of reporting to the National Bank of Serbia

27. The ultimate parent company shall establish a reliable reporting system that would ensure collection from the members of the banking group of information necessary for efficient implementation of the provisions of this decision, decision on capital adequacy of banks and regulations on risk management by banks.

28. The ultimate parent company shall submit to the National Bank of Serbia data on the structure of the banking group and/or data on the composition of the group of companies within which it operates, and on the composition and members of the banking group.

Data on the composition of the banking group and of the group of companies within which the bank operates shall contain the list of members of both group(s) and a schematic illustration of their mutual relations in terms of ownership (direct and indirect) and management (direct and indirect).

Data on the member of a banking group shall include: business name, head office location, registration number, core activity, balance sheet total, amount of capital, participation of other banking group members in capital and/or management rights of such member, details of individuals appointed in managing bodies of the banking group member (name and surname, personal identification number) and other data.

The data referred to in this Section shall be provided on SBG – 1, SBG – 2 and SBG – 3 forms enclosed herewith and integral hereto.

29. The ultimate parent company shall submit to the National Bank of Serbia, for the banking group:

- statements prepared on a consolidated basis in accordance with the decision on reporting requirements for banks;
- statements prepared on a consolidated basis as set out by the decision on capital adequacy reporting for banks;

- adopted consolidated annual financial statements;
- consolidated audited annual financial statements;
- adopted external auditor's report on consolidated annual financial statements, including notes to the financial statements;
- other data as requested by the National Bank of Serbia.

30. The ultimate parent company shall submit the data referred to in Section 28 hereof as at 31 December of the current year to the National Bank of Serbia by 31 January of the following year at the latest.

The ultimate parent company shall notify the National Bank of Serbia of any change of data on the structure of the banking group within 30 days from the day such change occurred.

31. The ultimate parent company shall submit consolidated annual financial statements referred to in Section 29 hereof to the National Bank of Serbia by the due dates and in the manner set out by the Law.

The ultimate parent company shall submit the statements referred to in Section 29, indent 1 hereof in the manner and deadlines set out by the decision referred to in that indent.

The ultimate parent company shall submit the statements referred to in Section 29, indent 2 hereof in the manner and by due dates set out by the decision referred to in that indent.

32. This Decision shall supersede the Decision on Implementing Provisions of the Law on Banks Relating to the Consolidated Supervision of a Banking Group (RS Official Gazette, Nos 86/2007, 63/2008 and 112/2008) as of the date of its implementation.

33. This decision shall enter into force eight days from its publication in the RS Official Gazette and shall be applied as of 31 December 2011.

NBS Executive Board No 44

16 June 2011
Belgrade

Chairman
of the Executive Board of the
Governor
of the National Bank of Serbia

Dr Dejan Šoškić

(bank business name and head office)

(bank registration number)

INFORMATION ON THE COMPOSITION OF THE GROUP OF COMPANIES

No	Member's registration number	Member's business name and head office

SCHEME OF THE GROUP OF COMPANIES

(Place) _____, (date) _____

(contact telephone)

Information prepared by

(signature)

(bank business name and head office)

(bank registration number)

INFORMATION ON THE COMPOSITION OF THE BANKING GROUP

No	Member's registration number	Member's business name and head office

SCHEME OF THE BANKING GROUP

(Place) _____, (date) _____

(contact telephone)

Information prepared by

(signature)

(bank business name and head office)

(bank registration number)

Member number: _____

As at ____ 20__

DATA ON BANKING GROUP MEMBER

No	Description	Code	Contents
1	Member's business name	–	
2	Member's registration number	–	
3	Member's head office and address	–	
4	Contact details	–	Telephone, fax, e-mail
5	Legal form	01	joint-stock company
		02	limited liability company
		03	limited partnership
		04	partnership
6	Type of legal person	01	bank
		02	insurance undertaking
		03	payment institution and/or electronic money institution
		04	open investment fund management company, alternative investment fund management company, and/or voluntary pension fund management company
		05	investment firm
		06	financial leasing company
		07	financial holding company and/or mixed financial holding company
		08	other
7	Relation of ultimate parent company with member	01	controlling participation
		02	significant participation
		03	other
8	Member's activity	–	Core activity as specified in the

			decision of the Business Registers Agency
9	Assets (balance sheet and off-balance sheet)	–	Amount in thousand dinars, as at 31 December of the previous year or 30 June of the current year
10	Capital of the member	–	Amount in thousand dinars, as at 31 December of the previous year or 30 June of the current year
11	Percentage of participation of banking group in member's capital	–	
12	Percentage of participation of banking group in member's voting rights	–	
13	Banking group exposure to the member	–	amount of credits and claims in other respects, as well as potential claims of the banking group on the member
14	Composition of member's managing board	–	
15	Composition of member's executive board	–	
16	Number of employees	–	
17	Last year for which audit was conducted	–	
18	Certified auditor's business name and head office	–	

(Place) _____ (Date) _____ Information prepared by _____

(Contact telephone) _____

(Signature) _____