

BANKING LAW OF REPUBLIKA SRPSKA

CHAPTER I GENERAL PROVISIONS

Subject of the Law Article 1

This Law shall regulate the establishment, operation, management, supervision, restructuring and closing of banks in Republika Srpska, as well as protection of users of banking services.

Meaning of Individual Terms Article 2

The terms used in this Law shall have the following meaning:

- 1) A bank is a joint-stock company with a head office in Republika Srpska, which has an operating license, issued by the Banking Agency of Republika Srpska (hereinafter: Agency), whose activity is to receive deposits or other repayable funds and to provide loans for its own account, but may also conduct other operations in accordance with this Law,
- 2) A foreign bank is a legal person with a head office abroad which has an operating license issued by the regulatory authority of the country of origin and which has been established as a bank and is entered into the register of the competent authority of that country,
- 3) Organizational parts of a bank and banks with a head office in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina are affiliates operating as basic business units, and lower organizational parts dependent on the affiliates, such as branches, counters/desks, agencies and similar, which are not in the capacity of a legal person, but conduct all operations or a portion of operations that can be conducted by a bank in accordance with this Law,
- 4) A representative office is an organizational part of a bank established abroad or a bank outside of Republika Srpska established in Republika Srpska, without the capacity of a legal person, which cannot conduct the bank operations, and which conducts only operations related to market research and provision of information, as well as representation and promotion of the bank that has established it,
- 5) A regulatory authority is an authority, authorized by special regulation to grant and revoke licenses of banks and other persons/entities in the financial sector, conduct supervision over such persons and regulate their operations, as well as an appropriate body of the European Union with these responsibilities in accordance with the regulations of the European Union,
- 6) A country of origin is the country, in which a foreign bank or another person in the financial sector has been established and has obtained an operating license,

7) A person in the financial sector is a bank, microcredit organization, saving-credit organization, leasing provider, insurance company, authorized participants in the securities market, investment and voluntary pension fund management company, as well as another legal person involved primarily in financial activities,

8) Indirect ownership means the ability of a person which does not have direct ownership in a legal person to effectively exercise ownership rights in that person, using the ownership that another person has directly in that legal person,

9) A share/holding is any shareholder stake registered with a competent institution defining a contribution in cash or other assets, which represents a proportional interest in the right to manage a bank,

10) A qualifying holding is when a person has:

1. Alone or with one or more other persons related therewith or acting jointly, directly or indirectly, 10 percent or more of the capital ownership or share in the voting rights of that legal person or

2. The ability to effectively influence the management of a legal person or the business policy of that person,

11) A significant holding is when a person has:

1. Alone or with one or more other persons related therewith or acting jointly, directly or indirectly, 20 percent or more of the capital ownership or share in the voting rights of that legal person or

2. The ability to effectively influence the management of a legal person or the business policy of that person,

12) A controlling holding is when a person has:

1. Alone or with one or more other persons related therewith or acting jointly, directly or indirectly, 50 percent or more of the capital ownership or share in the voting rights of that legal person or

2. The ability to select at least half of the members of the Management Board or another governing and managing body of that legal person or

3. Otherwise exercise a dominant influence over the management of a legal person, based on its capacity as a member or shareholder, or based on a contract concluded in accordance with the law regulating Companies,

13) A parent company of a legal person is the company which has the controlling holding in that person,

14) A subsidiary of a legal person is the company in which that person has the controlling holding,

15) An associate company of a legal person is the company in which that person has a significant holding,

16) A subordinate company of a legal person is a subsidiary or associate company of that person,

17) A group of companies is a group comprising of the ultimate parent company of a legal person, its subordinate and associate companies of associations of legal persons,

18) The ultimate parent company of a group of companies is a legal person in which no other legal person has a controlling holding,

19) A banking group is a group of companies comprising of, exclusively or predominantly, persons in the financial sector and in which at least one bank has the capacity of an ultimate parent company or a subsidiary,

20) A parent bank in a banking group is a bank which:

1. controls other members of the banking group and/or
2. has a share in capital or voting rights of at least 20 percent in each other member the banking group,

21) A holding company is a joint-stock company or a limited liability company which has a share in capital or voting rights in banks or other persons that provide financial services, as long as it controls at least one bank,

22) A parent/controlling holding company in a banking group is a holding company which:

1. controls at least one bank,
2. controls or has a share in capital or voting rights of at least 20 percent in each other member of the banking group,
3. is not simultaneously controlled by a bank or a holding company with a head office in Republika Srpska,
4. is not simultaneously controlled by a bank which has a license to conduct banking operations in another country,

23) Related persons are natural and legal persons which are interconnected by capital ownership or capital management with 20 percent or more of the voting rights or capital or are connected in another manner for the purpose of achieving common business objectives, so that the business activities and business results of one person can significantly affect the business activities, that is business results of the other person; the following are also considered related persons:

1. persons which are interconnected:

- so that one person, i.e. persons which are considered related persons in accordance with this item, jointly, directly or indirectly, have an interest in another person,
- so that the same person, i.e. persons which are considered related persons in accordance with this item, have an interest in two persons,
- in a manner prescribed by the law governing the company operations,
- as members of the Management Board, management, supervisory board and other bodies in a legal person in which they perform this function, that is in which they are employed, and the family members of such persons,

2. family members which have the meaning established in the law governing companies,

24) A group of related persons (customers) is:

1. two or more natural or legal persons which, unless proven otherwise, present a single risk for a bank, as one of them directly or indirectly has control over the other person or other persons,

2. two or more natural or legal persons between which there is no control relationship as described in sub-item 1 of this Item, but which are deemed to present a single risk for a bank, because they are interconnected in a way that if one of these persons experiences financial problems, especially difficulties associated with debt financing or payoff, another person or all other persons are also likely to face difficulties associated with debt financing or payoff.

25) A person in a special relationship with the bank is:

1. a member of the banking group to which the bank belongs,

2. a person with at least 5 percent of share in the bank or in persons which are members of the banking group to which the bank belongs and immediate family members of such persons,

3. a legal person in which the bank has a qualified holding,

4. a legal person in which a member of the management board, supervisory board or an authorized signatory of the bank and immediate family members of such persons has/have a qualified holding,

5. a member of the supervisory board, a member of the board of directors of the bank, a holder of key functions of the bank, an authorized signatory of the bank and immediate family members of such persons,

6. a member of the board of directors, a member of the supervisory board, a member of the management board or an authorized signatory of the legal person under sub-item 2 and 4 of this Item,

7. a member of a governing and managing body and an authorized signatory of a member of the banking group to which the bank belongs and immediate family members of such persons,

8. a person which has with the bank a work contract, which allows these persons significant influence on the bank operations, that is the contract which contains provisions which designate a compensation for that person based on special criteria that differ from the criteria under standard work contracts, provided that these are not persons referred to in sub-item 2 and 5 of this Item, or another person which, because of the nature of this person's relationship with the bank, is a person with a conflict of interests with regards to the bank operations, or which exercises significant influence on the bank operations,

9. a legal person whose member of the governing and managing body or an authorized signatory is at the same time a member of the board of directors or the supervisory board or an authorized signatory of the bank,

10. a legal person whose member of the board of directors has 10 percent or more of the bank shares with voting rights,

26) an immediate family member of a person is:

1. a marital or extramarital partner, child or adopted child of that person,

2. a person supported by an individual or his/her marital or extramarital partner,

3. another person who does not have full business capacity and who has been placed under the guardianship of that person.

27) A customer is any person which uses or has used the bank services or a person which has approached the bank for the purpose of using its services and which the bank has identified as such,

28) a deposit is a cash deposit which has the meaning established by the law governing contractual relations and is subject to the provisions of that law,

29) credit has the meaning established by the law governing contractual relations,

30) senior management are natural persons who perform executive functions in the bank and are responsible for its day-to-day operations and report to the board of directors,

31) systemic risk is a risk of disruption in the financial sector that could have serious negative consequences for the financial sector and the economy as a whole,

32) a systemically important bank is a bank whose worsening financial condition or cessation of operations would have serious negative consequences for the financial sector stability,

33) founding capital is the minimum amount of capital prescribed by this Law that is to be fully paid in, in cash, before the registration of the bank and represents a portion of the core capital in the meaning of the law governing companies,

34) critical functions are activities, services or operations whose interruption in performance would likely lead to jeopardizing the financial sector stability or disruption in the provision of essential services to the real sector as a result of the size and market share of the entity that performs them and its relation to the rest of the participants in the financial sector, especially taking into account the possibility of someone else freely takes over the performance of these activities, services or operations,

35) key business activities are business activities and services related to these activities through the performance of which a significant part of income or profit for the bank or the banking group to which that bank belongs is realized,

36) a restructuring body is an authority, authorized by special regulation to restructure persons in the financial sector and take restructuring measures, as well as the appropriate body of the European Union with these responsibilities in accordance with the regulations of the European Union,

37) a trading book represents all positions in financial instruments and commodities that the bank has with the intent to trade or in order to protect such positions for the intention of trade,

38) a banking book means all items of the assets and off-balance sheet of the bank that are not identified as positions of the trading book,

39) a conflict of interest is the existence of a personal interest of a person in accordance with the law governing companies,

40) extraordinary public financial support is permitted government assistance in accordance with the law governing the system of government assistance in Bosnia and Herzegovina, which the donor may provide in emergency situations as a support in order to save or restructure business entities in accordance with this law,

41) a secured creditor is every bank creditor which has a pledge on movable or immovable property or rights, registered in the appropriate public registers.

42) Investment Development Bank of Republika Srpska is an entity in the financial sector whose establishment and operations are governed by a special law.

(2) Certain terms used in this Law to indicate male or female gender include both sexes.

Bank operations

Article 3

A bank may conduct the following operations:

- 1) receiving and placing deposits or other repayable funds,
- 2) lending,
- 3) issuance of guarantees and all forms of assurance,
- 4) services of domestic and international payment transactions and money transfer, in accordance with special regulations,
- 5) purchase and sale of foreign currency and precious metals,
- 6) issuance and management of means of payment (including payment cards, travel and bank checks),
- 7) financial leasing,
- 8) purchase, sale and collection of receivables (factoring, forfeiting, etc.),
- 9) purchase and sale of money market instruments for own account or on behalf of others,
- 10) purchase and sale of securities (broker-dealer operations),
- 11) management of securities portfolios or other valuables,

12) securities market support operations, agency and underwriting operations, in accordance with the regulations governing the securities market,

13) investment consulting and custody operations,

14) services of data collection, analysis and providing information on the creditworthiness of legal and natural persons performing registered business activity independently,

15) safe deposit box rental services,

16) representation, i.e. mediation in insurance, in accordance with the regulations governing representation and mediation in insurance,

17) other operations for which it has been authorized by law, and

18) ancillary operations related to the aforementioned operations.

Operations that can be performed only by a bank Article 4

(1) No one other than a bank can be involved in receiving deposits or other repayable funds, granting loans and issuing payment cards on the territory of Republika Srpska, unless they have a license for the above mentioned operations issued by the Agency in accordance with this Law.

(2) When negotiating and approving loans, the provisions of regulations governing contractual relations shall be applied.

Use of the term "Bank" Article 5

(1) A bank must contain the word "bank" in its business name or an appropriate word which means the "Bank" in a foreign language.

(2) In its business name, a bank may not use words which may lead the bank's customers and other persons to wrong conclusions about the status or the competitive position of that bank or which infringe on the rights of other persons, especially words that can be misleading with regard to the bank operations, the bank's identity, i.e. its founders, the relation of the bank with other legal persons and the competitive advantage of that bank in its relations with customers.

(3) No one may use the word "bank" or derivatives of that word in terms of designating activities, products or services, without the permission or authorization of the Agency in accordance with this Law, unless such usage is established and approved by a special law or

international agreement, or if from the context in which the word "bank" is used, it is clear that it does not pertain to banking activities.

Prohibition of competition infringement Article 6

(1) A bank shall be prohibited to, expressly or tacitly, conclude agreements, adopt decisions and other regulation and enter into transactions aimed at substantial prevention, restriction or distortion of market competition, as well as to abuse a dominant position or carry out concentration which substantially prevents, restricts or distorts competition by establishing or strengthening a dominant position on the financial market.

(2) The provisions of law governing the protection of market competition shall be applied to bank competition.

(3) The Agency has the right to regulate fees that banks charge in case of an agreement between banks on the amount of fees or other unfair business contrary to the Agency's regulation.

Cooperation on bank supervision and restructuring Article 7

(1) The Agency, for the purpose of exercising and improving its supervisory function, as well as performing tasks of bank restructuring and other tasks established by this Law, shall cooperate with the Banking Agency of the Federation of Bosnia and Herzegovina, the Central Bank of Bosnia and Herzegovina, the Deposit Insurance Agency of Bosnia and Herzegovina, as well as with other competent regulatory authorities, bodies responsible for the bank restructuring, authorities, institutions and bodies.

(2) With the authorities specified in paragraph 1 of this Article, the Agency may conclude agreements on cooperation and exchange of data and information necessary for the performance of supervisory function, bank restructuring and preservation of financial stability.

(3) With the authorities specified in paragraph 1 of this Article, the Agency may exchange data and information obtained in the process of bank supervision and restructuring tasks, with the obligation to keep the aforementioned as a business secret, in accordance with this Law and the law governing the status, competence and powers of the Agency.

(4) The Agency may exchange data and information, obtained from the authorities specified in paragraph 1 of this Article, with other supervisory authorities, i.e. authorities responsible for restructuring, at their request and with a prior consent of the authorities from which it had obtained such data and information, provided that such data and information can be exchanged only for the purposes defined in the said consent.

(5) Through the competent authority responsible for restructuring, the Agency may implement measures from the restructuring procedure established by this Law, and may also

undertake measures for the implementation of a restructuring procedure initiated by the competent restructuring authority in accordance with a concluded agreement or international agreement concluded with the country of origin of that authority.

Administrative procedure Article 8

(1) The Agency, on the basis of competences established by a law, shall decide in administrative matters, by applying the provisions of regulations governing general administrative procedure, the operations of banks and other financial organizations, and the rules of supervision and profession, unless otherwise specified by a law.

(2) In the procedure specified in paragraph 1 of this Article, the Agency shall rule with a final decision.

(3) The decision specified in paragraph 2 of this Article shall be subjected to administrative dispute, but an appeal against this decision shall not prevent nor delay its enforcement, and an unsatisfied party may file a property claim in civil proceedings.

(4) In the administrative dispute against the decision specified in paragraph 2 of this Article, the court may not decide, in full jurisdiction proceedings, on an administrative matter for which the competence of the Agency has been established by this Law.

(5) If the court annuls the Agency's decision, the claimant rights shall be limited to compensation for damages that the claimant has sustained due to the enforcement of the decision.

Liability for damage caused in the performance of duties

Article 9

(1) The Agency, the Director, the Deputy Director and authorized persons in the Agency, as well as persons which the Agency appointed as advisors, provisional administrators, special administrators, liquidation administrators, as well as other persons who under the authorization of the Agency or pursuant to this Law perform duties and carry out tasks of bank supervision or restructuring, and members of governing bodies and senior management of a bank who have not been discharged from their duties during the bank restructuring procedure, shall not be liable for damage incurred during the performance of their duties and tasks while implementing this Law and other regulations governing the competences of the Agency, unless, in appropriate proceedings before a competent authority, it is proven, with a valid decision, that they have performed a specific activity which lead to detrimental consequences or have failed to do so intentionally or by gross negligence.

(2) The persons specified in paragraph 1 of this Article cannot be liable for damage caused in performing their duties and tasks while implementing this Law and other regulations

that govern the competences of the Agency, even after the termination of employment in the Agency, i.e. termination of performing duties and tasks.

Application of other laws
Article 10

Regarding the issues not regulated by this Law, the provisions of Company Law governing joint-stock companies, as well as the laws regulating internal payments, foreign currency operations, anti-money laundering and financing of terrorist activities, the securities market, mediation in insurance, accounting and audit, liquidation proceedings, bankruptcy proceedings and other laws that banks are obliged to implement, shall be applied.

CHAPTER II
ESTABLISHMENT AND CLOSING OF A BANK

1. Establishment of a Bank

Founders and legal form
Article 11

- (1) A bank is a company that is established in the legal form of a joint-stock company.
- (2) A bank may be established by domestic and/or foreign legal and/or natural persons.
- (3) A bank is considered as an open joint-stock company regardless of the number of shareholders.

Founding Act
Article 12

- (1) The bank founding act shall contain:
 - 1) Business name and head office of a bank founder which is a legal person, i.e. name, surname and permanent residence of a bank founder who is a natural person,
 - 2) Business name and head office of a bank,
 - 3) Objectives of establishing a bank,
 - 4) Activities, i.e. operations that a bank will perform,
 - 5) Total amount of a founding capital invested by the founders of a bank with a description and assessment of the value of contribution in kind and rights, and terms and conditions and manner of its increase and decrease,

6) Deadline by which the founders of a bank are obliged to pay in the total amount of founding capital, as well as to transfer the contribution in kind,

7) Rights, obligations and responsibilities of the bank founders,

8) Consequences of the founders' failure to meet their obligations,

9) Number of bank shares and their nominal value, types and classes of shares that the bank is authorized to issue, as well as rights attached to the shares of each class,

10) Bank governance and management, the composition and competences of bank bodies,

11) Method of distribution of the realized profit,

12) Bearing of risks and coverage of possible losses,

13) Means for settling disputes among the bank founders,

14) Rights of the bank founders in case of the bank status change,

15) Amount and method of compensation of the costs related to the bank establishment,

16) Name and surname of the person representing a bank in the establishment process, and

17) Other elements, i.e. data significant for bank operations.

(2) The Agency may adopt an act that prescribes that the bank founding act must also contain other mandatory elements, i.e. data.

Statute Article 13

(1) A bank shall have a Statute.

(2) The Statute of a bank shall specify the business and management of a bank and must contain:

1) Business name and head office of a bank,

2) Activities, i.e. operations that a bank will perform,

3) Total amount of a founding capital invested by the bank founders with a description and assessment of the value of contribution in kind and rights, and terms and conditions and manner of its increase and decrease,

4) Number of bank shares and their nominal value, types and classes of shares that a bank is authorized to issue, as well as rights attached to the shares of each class,

5) Manner of convening the Bank Shareholders Meeting and issues on which the Bank Shareholders Meeting shall decide,

6) Composition, manner of appointment and dismissal of the bank supervisory board and bank board of directors,

7) Rights, obligations and responsibilities of the members of the board of directors and supervisory board of a bank and other persons with special powers and responsibilities set forth by the bank Statute,

8) Obligations and rights of employees who perform key functions,

9) Authorization to sign documents on behalf of a bank and to represent a bank,

10) Establishment and implementation of an internal controls system,

11) Performance of the bank external audit,

12) Method of formation and use of reserves,

13) Method of distribution of the realized profit and payout of dividends,

14) Method of coverage of possible losses,

15) Data, facts or knowledge that are considered confidential information, obligation to keep and method of handling confidential information,

16) Implementation of the bank status changes,

17) Closing of a bank,

18) Method of passing and amending general acts, and

19) Other issues related to the bank operations.

(3) The Agency shall give prior approval of the bank Statute, i.e. for the amendments of the bank Statute, which cannot come into force before the Agency's approval is received.

(4) A bank shall submit to the Agency a certified copy of the Statute, internal acts on internal organization and systematization, an excerpt from the court register, a certified list of the signatures of authorized signatories and other documents at the Agency's request.

(5) The Agency may adopt an act prescribing that the bank Statute shall also contain other mandatory elements, i.e. data.

Conditions for issuing an operating license
Article 14

The Agency shall issue an operating license for a bank if the following conditions are met:

- 1) transparent ownership structure of a bank and financial capability of the bank founders which is evidenced by appropriate documentation is ensured,
- 2) if the bank founders or persons who will have a qualified holding/share in a bank have a good business reputation and prestige, adequate financial, i.e. property status and meet the criteria prescribed by this Law to acquire a qualified holding/share in a bank, if such holding/share exists,
- 3) the minimum amount of founding capital provided for in this Law is ensured, whose origin is clear and unsuspecting,
- 4) if persons nominated as members of the supervisory board, board of directors and senior management of a bank have a good business reputation and prestige, appropriate qualifications and meet other conditions provided for in this Law and the Agency's regulations,
- 5) the proposed ownership and management structure of a bank and the structure of a banking group whose member a bank would become enables effective control of the solvency and legality of the bank operations, and that a banking group has transparent structure that facilitates supervision on a consolidated basis and appropriate external, i.e. internal audit,
- 6) the proposed business policy and strategy of a bank, the bank business plan for the first four years, and the proposed capital and risk management strategy and policy are based on the provisions of this Law and the Agency's regulations, and prudential assumptions and realistic estimates,
- 7) there is adequate personnel, organizational and technical capacity of a bank, with clearly defined and coordinated responsibilities in a bank,
- 8) an adequate system of management of risks to which a bank might be exposed in its operation is envisaged,
- 9) an adequate system of internal controls, which includes clear administrative and accounting procedures is envisaged,
- 10) adequate internal and external audit is ensured,

11) an adequate policy on salaries, benefits and other earnings, which should reflect and encourage adequate and effective risk management is ensured,

12) investment in the bank capital made by the founders is allowed by the regulations of the country of origin of the founders,

13) conditions are provided so that the performance of the supervisory function of the Agency will not be in any way hindered or prevented, and

14) the regulatory authority of the country of origin exercises control, i.e. supervision of that founder on a consolidated basis.

Operating license application Article 15

(1) The bank founders shall submit to the Agency an application to issue an operating license for a bank.

(2) Along with the application, the bank founders shall also submit:

1) a list of the bank founders, their identification data and information about their business reputation, financial and property status, audited financial reports for the last three years, and the nominal amount and percentage of shares that belong to shareholders,

2) documentation establishing a direct or indirect ownership of natural or legal persons acquirers of a qualified holding/share, including their amounts, and, if there are no acquirers of a qualified holding/share, data about the 20 largest bank shareholders,

3) documentation on compliance with the requirements regarding the eligibility of founders with a qualified holding/share in a bank prescribed by this Law, if such holding/share exists,

4) the bank founding act signed by all founders and the bank Statute, containing the elements prescribed by this Law, in the form of a notarized document,

5) clear and unambiguous proof of the founding capital origin,

6) data and evidence on condition compliance of persons nominated as members of the supervisory board, board of directors and senior management of a bank in accordance with this Law and the Agency's regulations,

7) information on completed initial assessment of persons nominated as members of the supervisory board, board of directors conducted by the founders, with an assessment explanation and results,

8) a bank business plan for the first four years, which must include the planned scope of operations that a bank intends to develop during this period, and the overall bank strategy, expected target market, balance sheet and income statement projections, and cash flow projection,

9) proposed capital and risk management strategy and policy,

10) proposed organization and systematization act of a bank, along with documentation on technical and personnel capacity,

11) detailed description of the organization of accounting, information system and internal control system in a bank,

12) proposed policy on salaries, benefits and other earnings, which is in accordance with the operations carried out and which guarantees adequate and effective risk management,

13) approval by the competent regulatory authority that a bank or another person in the financial sector outside of the Republika Srpska shall be a bank founder,

14) approval by the competent authority of the country of origin in which the founders have a head office, i.e. permanent residence, granting approval to invest capital into a bank, if such approval is envisaged by the regulations of that country,

15) information about the regulatory authority of the founders, and

16) other documentation prescribed by the Agency.

(3) Before making a decision on the application for an operating license for a bank, the Agency may request any necessary information for the application evaluation.

(4) The Agency shall adopt an act prescribing documentation to be submitted with the application for an operating license for a bank.

Deciding on the operating license application

Article 16

(1) The Agency shall render a decision on the issuance of an operating license for a bank based on the application of the bank founder within 60 days from the date of receipt of a proper application.

(2) If the application contains deficiencies as to form that prevent the proceedings, or if the application is incomprehensible or incomplete, the Agency shall request from the bank founder to rectify such deficiencies no later than six months from the date of application submission.

(3) If the bank founder rectifies such deficiencies within the given deadline, the application shall be deemed to be in order.

(4) If the bank founder fails to rectify such deficiencies within the given deadline, the Agency shall deny the application as not being in order.

(5) The Agency must conclude the decision process on the application for issuing an operating license within one year from the date of application receipt.

Issuing an operating license Article 17

(1) An operating license is a prerequisite for entering the bank into the Register of Business Entities.

(2) The operating license of the bank shall be issued for an indefinite period of time and shall not be transferrable to other persons.

(3) The operating license of the bank shall define the operations that the bank may carry out.

(4) A bank that has been granted an operating license by the Agency may not receive deposits unless it is a member of the program of deposit insurance in accordance with the law governing the deposit insurance in banks of Bosnia and Herzegovina and the regulations passed pursuant to that law.

(5) During its operation, the bank shall ensure compliance with all conditions under which the operating license was issued.

Denying an operating license application Article 18

(1) The Agency shall deny the application for an operating license of a bank if:

1) the conditions have not been met and the documentation has not been submitted for issuing an operating license as prescribed by this Law,

2) the founders have submitted incorrect and untrue information or have failed to provide information requested by the Agency during the decision-making process,

3) it is evident from the documentation and other data that the organization of the bank is not provided in accordance with this Law, i.e. that the conditions for the operation of the bank provided for in this Law or the regulations passed pursuant to this Law have not been met,

4) the amount of the paid in founding capital prescribed by this Law has not been previously paid on the account of the Agency with the Central Bank of Bosnia and Herzegovina under the terms and conditions prescribed by the Agency,

5) the performance of supervisory function of the Agency can be hindered or prevented due to the relation of the bank with other legal or natural persons with a head office or a permanent or temporary residence in another country or if there are other reasons because of which the supervisory function of the Agency cannot be exercised in accordance with the law,

6) the laws or other regulations of the country of the bank founder hinder or prevent in any way the exercise of the supervisory function of the Agency, and

7) in other cases where, according to the Agency's assessment, the conditions for issuing an operating license of a bank have not been met.

(2) The Agency shall adopt an act to elaborate the conditions for denying the application for issuing an operating license of a bank.

Bank organizational units Article 19

(1) A bank may establish an organizational unit in Republika Srpska, the Federation of Bosnia and Herzegovina, the Brčko District of Bosnia and Herzegovina or outside of the territory of Bosnia and Herzegovina, with the approval of the Agency.

(2) A bank with a head office in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina may establish an organizational unit in Republika Srpska, with the approval of the Agency.

(3) The organizational units specified in paragraph 1 and 2 of this Article may accept cash deposits and extend loans, and perform other banking operations, provided that these operations are covered by the founding act of the organizational unit and the operating license of the bank which is establishing such units.

(4) The organizational units specified in paragraph 1 and 2 of this Article shall not have the capacity of a legal person and the bank which has established such units shall be liable for any obligations that arise through their operations.

Establishing a bank organizational unit Article 20

(1) Before filing an application to establish an organizational unit on the territory of Republika Srpska, the bank shall submit to the Agency for an opinion a study on the economic viability of organizational unit establishment.

(2) The bank shall submit to the Agency the application to establish an organizational unit specified in paragraph 1 of this Article after obtaining a favorable opinion on the study, along which it shall enclose documentation as prescribed by the Agency.

(3) The bank shall be obligated to submit to the Agency the exact date of commencement of operation of the organizational unit, a certified photocopy of the court registration and the decision of the competent authority on compliance with the technical requirements and other conditions prescribed for banking operations, within 15 days from the date of receipt of the approval, i.e. registration.

(4) The bank shall be obligated to request a prior approval of the Agency for all changes pertaining to the organizational units specified in paragraph 1 of this Article, along with submission of documentation as prescribed by the Agency, except for documentation that is not being modified and which the Agency already has in possession.

(5) The bank shall submit to the Agency an application to establish an organizational unit in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina and shall enclose the documentation prescribed by the Agency.

(6) After obtaining an approval of the Agency, based on the application specified in paragraph 5 of this Article, the bank shall be obligated to approach the regulatory authority of the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina for the purpose of obtaining the approval of that authority.

(7) The bank shall be obligated to submit to the Agency the approval specified in paragraph 6 of this Article, as well as a certified photocopy of the court registration of the established organizational unit, within 15 days from the date of receipt of the approval, i.e. registration.

(8) Along with the application to establish an organizational unit outside of the territory of Bosnia and Herzegovina, in addition to the documentation prescribed by the Agency, the bank shall also submit a permission issued by the competent authority of Republika Srpska to take out funds abroad, for the purpose of establishing the organizational unit.

(9) The decision on application specified in paragraphs 2, 4, 5, and 8 of this Article shall be issued by the Agency within 30 days from the date of receipt of full and compliant application.

(10) After the issuance of decision specified in paragraph 9 of this Article, the bank shall be obligated to approach the competent institution of the country in which it is establishing an organizational unit.

(11) The bank shall be obligated to submit to the Agency a decision for approval of the establishment of the organizational unit issued by the institution specified in paragraph 10 of this Article and a certified photocopy of the document of the competent institution about the

registration of the organizational unit in the country in which the organizational unit is established, within 15 days from the date of registration.

(12) The Agency shall adopt an act to prescribe documentation to be enclosed with the application for approval of the establishment of bank organizational units.

Bank organizational unit with a head office in the Federation of Bosnia and Herzegovina or the
Brčko District of Bosnia and Herzegovina
Article 21

(1) A bank with a head office in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina, for which an operating license has been issued and which is supervised by the competent regulatory authority, may operate in Republika Srpska through an affiliate, with the approval of the Agency, provided that these operations are covered by the operating license of the bank which is establishing it.

(2) The bank specified in paragraph 1 of this Article may establish lower organizational units within the affiliate established in Republika Srpska, with a prior approval of the Agency.

(3) All organizational units specified in paragraph 1 of this Article that the bank established in Republika Srpska shall be considered as a single organizational unit in terms of reporting and monitoring by the Agency and other competent authorities.

Issuing an operating license of the bank organizational unit with a head Office in the
Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina
Article 22

(1) Along with the application for approval of the operation of an affiliate in Republika Srpska, a bank with a head office in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina shall submit to the Agency:

1) the decision of the bank competent authority on the establishment of the affiliate, along with the name, address, and operations to be performed in that affiliate,

2) the operating license of the bank which is establishing the affiliate, issued by the competent regulatory authority,

3) a document of the competent regulatory authority approving the establishment of the affiliate in Republika Srpska,

4) a certified statement of the bank on the assumption of liability for all obligations that arise during the operations of the affiliate,

5) a study on the economic viability of establishing the affiliate,

6) a business plan of the affiliate, along with an indication of the types of operations and organizational structure,

7) a statement that the bank will provide the affiliate with effective asset protection in accordance with the regulations of the Agency,

8) A decision of the bank competent authority on the appointment of a person in charge of operations and authorized to represent the affiliate, with an indication of his/her powers and evidence of compliance with the prescribed conditions,

9) proof of secured office space, and

10) other documentation as prescribed by the Agency.

(2) A person in charge of operations and authorized to represent the affiliate must have a permanent residence on the territory of Republika Srpska or Bosnia and Herzegovina and permanent employment in accordance with the law governing labor relations in Republika Srpska.

(3) The bank specified in paragraph 1 of this Article shall also be obligated to request a prior approval of the Agency for all changes pertaining to the affiliate and lower organizational units established in Republika Srpska, along with submission of documentation as prescribed by the Agency, except for documentation that is not being modified and which the Agency already has in possession.

(4) The decision on application specified in paragraphs 1 and 3 of this Article shall be issued by the Agency within 30 days from the date of receipt of complete and compliant application.

(5) The Agency shall also adopt an act prescribing documentation to be enclosed with the bank application specified in paragraph 1 of this Article for establishment of an affiliate and lower organizational units in Republika Srpska, as well as the type of data, deadlines, and manner of reporting to the Agency on the operations that they conduct in Republika Srpska.

Denial of the application to establish an organizational unit Article 23

The Agency shall deny the application for approval of the establishment of an organizational unit of the bank specified in Article 19 of this Law if:

1) the conditions for approval of the establishment of an organizational unit provided for in this Law and the regulations of the Agency have not been met,

2) incorrect and untrue information has been submitted or the information requested by the Agency during the decision-making process has not been provided,

3) the performance of the supervisory function of the Agency in relation to the operations conducted by the organizational unit could be hindered or prevented, and

4) in other cases where, according to the Agency's assessment, the conditions for issuing an approval for the establishment of an organizational unit have not been met.

Bank representative office
Article 24

(1) A bank and a bank with a head office outside of Republika Srpska may, with the approval of the Agency, open a representative office, as an organizational unit through which information about the operations of that bank is presented, collected and provided.

(2) The representative office shall not have the capacity of a legal person.

(3) The representative office may not perform banking operations.

Opening of a representative office
Article 25

(1) A bank shall submit to the Agency an application for approval of the opening of a representative office outside of Republika Srpska, enclosing the following therewith:

1) a document of the bank competent authority on the establishment of a representative office,

2) name and head office of the representative office,

3) a work program of the representative office for at least two years,

4) proof of securing office space,

5) data about employees,

6) a list of persons responsible for the work and representation of the representative office,

7) powers of the persons responsible for the work and representation of the representative office,

8) a certified statement of assumption of liability for all obligations that arise during the operations of the representative office.

(2) A bank headquartered outside Republika Srpska shall submit to the Agency an application for approval of the opening of a representative office in Republika Srpska, enclosing the following therewith:

- 1) data about the name, legal status and head office of the bank establishing the representative office,
- 2) Statute or another appropriate document,
- 3) audited annual financial statements for the last three years,
- 4) an operating license of the bank which is establishing the representative office, issued by the regulatory authority,
- 5) an excerpt from a court or other register,
- 6) a document of the bank competent authority on the approval of the establishment of the representative office, and
- 7) documentation provided for in paragraph 1 of this Article.

(3) The decision on the application specified in paragraphs 1 and 2 of this Article shall be rendered by the Agency within 30 days from the date of receipt of a proper application.

(4) A bank shall be obligated to submit to the Agency a document about the registration of the representative office with the competent authority if such registration is provided for by the regulations of that country, within 15 days from the date of registration.

(5) The representative office of a bank specified in paragraph 2 of this Article shall be obligated to submit to the Agency a certified photocopy of the document of registration with the competent authority in Republika Srpska, within 15 days from the date of registration.

(6) The Agency shall revoke the representative office's approval if it operates contrary to the provisions of Article 24 of this Law.

Entry into the register of business entities Article 26

(1) A bank shall acquire the capacity of a legal person by entry into the register of business entities with the competent registration court.

(2) A bank shall submit an application for entry into the register of business entities no later than within 30 days from the date of obtaining an operating license.

(3) All organizational units of a bank shall also be entered into the register of business entities in accordance with the regulations governing the registration of business entities.

Registry of banks and organizational units Article 27

(1) The Agency shall keep a registry of banks, organizational units of banks with a head office in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina, and representative offices opened in Republika Srpska.

(2) The registry shall include at least information about the name, address, and head office of the bank and authorized representative, as well as other information prescribed by the Agency.

(3) The registry of banks with a revoked operating license shall be kept in the registry's archive.

(4) Data from the registry shall be posted on the Agency's web site.

(5) The Agency shall adopt an act prescribing the content of registry, data to be entered into the registry and the manner of keeping and publishing the registry specified in paragraph 1 of this Article.

Association of Banks Article 28

(1) Banks may establish an independent professional banking association for the purpose of improving their own operation and harmonizing their activity with the market requirements, regulations, rules of the profession and international standards.

(2) The association of banks shall be entered into the register, in accordance with the regulations.

(3) By the Agreement on the establishment of bank association, the name, activity and head office of the association, the representation of the association and the responsibility in legal transactions, the termination of the association and the manner of managing the association, as well as other issues of importance for the establishment of the association of banks shall be set.

(4) The Statute of the association of banks must include provisions that obligate member banks to comply with the principle of free market competition provided for in this law and other laws.

(5) The association of banks shall be obligated, at the request of the Agency, to submit its Statute, as well as all other documents.

2. Closing of a bank

Invalidation of an operating license Article 29

(1) The operating license of a bank shall no longer be valid:

- 1) by revocation of the operating license,
- 2) by voluntary closing of a bank,
- 3) as of the date of deletion of a bank from the Register of business entities in case of status changes, and
- 4) if a bank failed to file an application for entry into the Register of business entities within 30 days from the date of obtaining an operating license, or failed to begin operations within one year from the date of entry into the Register of business entities.

(2) All approvals granted to a bank shall become invalid with the invalidation of the operating license of that bank.

Revocation of an operating license Article 30

- (1) The Agency shall revoke the operating license of a bank in the following cases:
 - 1) if the license has been issued based on inaccurate or untrue documentation or data important for bank operations,
 - 2) based on the accepted written report and proposal of a bank provisional administrator,
 - 3) if reasons have arisen for the initiation of liquidation or bankruptcy proceedings against a bank,
 - 4) if the assets and liabilities of a bank in restructuring have been transferred by using restructuring instruments, and if it has been assessed that the objectives of restructuring have been achieved through the transfer,
 - 5) if, after the initiation of restructuring proceedings, it is assessed that the objectives of restructuring cannot be achieved,
 - 6) if a bank ceases to perform banking operations for more than six months, unless imposed by measures of the Agency, and
 - 7) if a bank is insolvent, except in case of a decision to restructure a bank.
- (2) The Agency may revoke the operating license of a bank in cases where:
 - 1) a bank does not implement measures which the Agency has imposed with its decision,

2) the amount of bank capital and reserves becomes lower than the required amount set in accordance with this Law and the regulations of the Agency,

3) the bank fails to pay the Agency the calculated fee,

4) the bank fails to pay the insurance premium and fails to fulfill other financial obligations based on deposit insurance, in accordance with the law governing deposit insurance in banks of Bosnia and Herzegovina, at the proposal of the Deposit Insurance Agency of Bosnia and Herzegovina

5) the bank has not provided the Agency or another authorized body with an opportunity for supervision, control or audit of the bank,

6) the bank cannot be expected to continue to meet its commitments to creditors, especially if it no longer provides security for the assets entrusted to it, particularly concerning the payout of deposits,

7) the bank does not have an established governance system as provided for in this Law and the regulations of the Agency,

8) the bank does not meet conditions related to the process of internal assessment of capital adequacy and liquidity in accordance with the regulations of the Agency,

9) over a period of three years, the bank repeatedly fails to meet its obligation for timely and accurate reporting to the Agency,

10) the bank does not meet the technical, organizational, personnel and other conditions for conducting banking operations,

11) the bank fails to provide the Agency with data on meeting its commitments pertaining to capital ratios, large exposure, liquidity, financial leverage ratio, or the data provided is incorrect or incomplete,

12) the bank repeatedly or continuously fails to meet the requirements related to liquidity,

13) the bank acts contrary to the provisions of this Law on the limitation of risk exposure of the bank,

14) the bank fails to openly publish information and data on bank operations prescribed by this law or the published information is incorrect or incomplete,

15) the bank has been found guilty of a criminal offence of money laundering and financing terrorist activities or serious violation of the provisions of the anti-money laundering and financing of terrorist activities law, with a legally binding judgment,

16) the bank allows one or more persons who do not meet the pertinent conditions, to be members of the supervisory board or board of directors of the bank, and

17) the bank no longer meets other conditions under which the operating license of the bank was issued.

Decision to revoke an operating license
Article 31

(1) With the decision to revoke an operating license, the Agency shall set the date of revocation of the operating license of the bank.

(2) The Agency shall publish the decision to revoke the operating license of the bank in the "Official Gazette of Republika Srpska" and in one or more dailies available throughout Bosnia and Herzegovina.

(3) The Agency shall immediately deliver the decision to revoke the operating license to the bank, the competent registration court, the Central Bank of Bosnia and Herzegovina, the Deposit Insurance Agency of Bosnia and Herzegovina, the regulatory authority of the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina, the regulatory authority for the securities market, to the legal person authorized to perform tasks pertaining to the Unified Securities Registry and to other authorities in accordance with the regulations.

(4) As of the date of revocation of the operating license, the bank shall be prohibited from performing the operations set out in this Law, except for operations performed during the bank's liquidation or bankruptcy proceedings by the liquidation or bankruptcy administrator in accordance with this Law and other laws governing bankruptcy and liquidation proceedings.

Status changes
Article 32

(1) A bank may make the following status changes:

- 1) merger (merger by acquisition or merger by establishment),
- 2) division of all assets and liabilities of the bank, and
- 3) severance of a portion of the assets and associated liabilities of the bank to a person that has a license issued by the Agency in accordance with the law.

(2) A bank which intends to undergo a status change shall be obligated to obtain the Agency's approval for the status change.

(3) Along with the application for approval of a status change, the bank shall submit the following:

- 1) a draft of the status change agreement,
 - 2) a study on the economic viability of the status change along with decisions of the Shareholder's Meeting to adopt the draft status change agreement,
 - 3) Written reports of the board of directors and supervisory board of the bank on the status change of the bank and of the competent authorities of all companies involved in the status change,
 - 4) company audit report on the audit of the status change,
 - 5) consolidated balance sheet and income statement of the merging banks, i.e. balance sheet and income statement of the bank severing a portion of its assets and liabilities, according to data from the month preceding the filing of the application,
 - 6) a business plan of the bank or banks resulting from the status change,
 - 7) other required documentation as prescribed by the Agency.
- (4) a bank shall be obligated to submit the application and documentation specified in paragraph 3 of this Article to the Agency no later than 60 days prior to scheduling the Shareholder's Meeting of the bank which is to consider them.
- (5) a status change of the bank may not be entered into the Register of business entities without the Agency's approval of the status change.
- (6) if the status change results in the formation of a new legal person, which intends to conduct banking operations, that person must obtain from the Agency a bank operating license, before the status change can be entered into the Register of business entities.
- (7) banks making status changes shall prepare their financial statements and open their business books based on the initial balance which constitutes a ground for the status change to be entered into the Register of business entities, in accordance with the regulations governing accounting and audit.
- (8) the provisions of this Law on the issuance of an operating license of a bank shall also apply to the issuance of an operating license to a bank formed as a result of status changes as specified in paragraph 1 of this Article.
- (9) the Agency shall adopt an act prescribing the procedure of implementation of the bank status changes, as well as other documentation to be enclosed with the application for approval of the status change.

Denial of a status change application
Article 33

(1) The Agency may deny the application for approval of the status change of the bank if:

1) status changes are not justified and may lead to a breach of security and stability of operations of one of the banks and do not ensure a healthy and safe management of the bank after the status change,

2) status changes may have negative consequences for the financial sector as a whole,

3) status changes may lead to a breach of market competition,

4) status changes lead to an increase in qualified holding/share in the bank and bank's share in other legal persons contrary to the provisions of this Law,

5) the applicant submitted information that is incorrect or is inconsistent with the requirements prescribed by the Agency or refused to provide requested information,

6) status changes hinder or prevent in any way the successful exercise of the supervisory function of the Agency, and

7) other conditions in accordance with the regulations of the Agency have not been met.

(2) The Agency shall adopt an act to elaborate the specific reasons for denying the application for approval of the status change.

CHAPTER III CAPITAL AND ACQUISITION OF OWNERSHIP

1. Bank Capital

Founding Capital Article 34

(1) The minimum amount of the paid in founding capital shall be at least KM 15,000,000 (fifteen million convertible marks).

(2) The bank shares that comprise the minimum founding capital may be paid in only in cash.

(3) The bank shares must be fully paid in before the registration of the bank or the registration of an increase in the total value of bank shares into the register kept by the competent authority.

(4) The founding capital specified in paragraph 1 of this Article shall be the minimum core capital in accordance with the law governing companies.

Bank Shares
Article 35

(1) The bank shares do not have to be paid in cash if the total value of bank shares increases:

1) as a result of the implementation of a bank status change, if the prior approval of the Agency has been obtained,

2) through the conversion of capital instruments, i.e. other bank monetary liabilities into core capital in accordance with this Law,

3) through a contribution in kind for which the prior approval of the Agency has been obtained,

4) through a contribution in kind for the purpose of carrying out an order of the Agency for capital increase, provided that the prior approval of the Agency has been obtained, and

5) through distribution of bank profits or reserves, provided that the prior approval of the Agency has been obtained.

(2) If the bank shares are kept on a custody account, the custodian shall be obligated to report to the Agency the identity of the customers on whose behalf the custodian manages the bank shares.

(3) The bank may convert individual capital items and increase its capital from external sources with the prior approval of the Agency.

Regulatory capital
Article 36

(1) The bank regulatory capital is a sum of core and supplementary capital, after regulatory adjustments.

(2) The bank core capital, in the meaning of this Law, is a sum of the items of regular core capital after regulatory adjustments and the items of additional core capital after regulatory adjustments.

(3) The supplementary capital is a sum of capital instruments, subordinated debt, general reserves for credit losses and other items of supplementary capital after regulatory adjustments, which may not be larger than one third of the core capital.

(4) The bank regulatory capital may not be lower than KM 15,000,000.

Capital Adequacy

Article 37

(1) During its operation, a bank shall be obligated to maintain the prescribed amount and structure of capital which may not be lower than the amount set out in Article 34, paragraph 1 and article 36, paragraph 4 of this Law.

(2) Depending on the risk profile and systemic importance of the bank, the bank shall be obligated to ensure at any time the amount of capital adequate for the types, volume, and complexity of the operations that it performs and for the risks to which it is or could be exposed in its operations.

(3) The adequacy ratio of bank regulatory capital equals the ratio between the regulatory capital and the total amount of the bank's risk exposure.

(4) The bank shall be obligated to maintain the adequacy ratio of regulatory capital at a level of at least 12 percent.

(5) Notwithstanding paragraph 4 of this Article, the Agency may set for an individual bank an adequacy ratio of the regulatory capital greater than the one prescribed if, based on the type and degree of risk, systemic importance and business activities of the bank, this is determined as necessary for the purpose of stable and secure operations of the bank or for the purpose of meeting its obligations to creditors.

(6) The bank shall maintain capital buffers in the manner prescribed by the Agency's by-laws.

(7) The financial leverage ratio is calculated by dividing the rate of bank capital by the rate of the bank's total exposure and is expressed as a percentage.

(8) If the bank does not meet the conditions of capital adequacy prescribed in this Article, the Agency shall obligate the bank to undertake measures for the purpose of capital increase or other activities for the purpose of meeting these conditions, within a given deadline, which may not be longer than 60 days.

(9) The Agency shall adopt an act to prescribe:

1) the manner of acquiring bank shares in nonmonetary contributions, the characteristics, types, manner of calculation and amount of individual items which are included in regular core capital, additional core capital, and supplementary capital.

2) the method of calculating regulatory capital adequacy ratio, as well as the method of calculating minimum ratio of regular core capital, core capital, financial leverage ratio, as well as other capital ratios specified in this Article,

3) the requirements and level of rates for maintaining capital buffers,

4) the capital requirements for certain types of risk,

5) the procedures for assessing capital adequacy in the process of internal estimation of capital adequacy, and

6) the manner and timeframes for reporting to the Agency regarding capital adequacy specified in this Article.

Prohibition of profit distribution Article 38

(1) It is prohibited for the bank to pay out dividends from ordinary shares or to make other payments from bank profit to the members of governing bodies and bank employees if:

1) the bank capital is lower or, because of the profit distribution, would become lower than the prescribed regulatory capital,

2) the bank does not meet prescribed capital adequacy ratio and the conditions for maintaining capital buffers in accordance with the law and the Agency's regulations,

3) the bank has unauthorized credit risk and other risk exposures with respect to eligible capital, as well as other unauthorized exposures in accordance with the Agency's regulations,

4) the bank does not maintain liquidity in accordance with the Agency's regulations or, because of such profit distribution, would not be able to maintain its liquidity in accordance with the Agency's regulations,

5) the bank has not rectified any weaknesses and deficiencies which was ordered by the Agency in relation to incorrect presentation of balance sheet and off-balance sheet positions, affecting the business result in the bank income statement, and

6) the Agency has imposed a prohibition on the payout of dividends and other benefits from profit.

(2) the prohibition specified in paragraph 1 of this Article shall last until the bank eliminates reasons for the prohibition on profit distribution stated in that paragraph.

(3) it is prohibited for the bank to make advance payments to the persons specified in paragraph 1 of this Article that pertain to profit distribution specified in that paragraph.

(4) the bank shall pay out variable employee compensations as prescribed by the Agency's regulations.

(5) The Agency may adopt an act to elaborate additional conditions of the prohibition on bank profit distribution.

2. Acquisition of ownership

Acquisition of the bank's own shares
Article 39

- (1) It is prohibited for the bank to acquire its own shares without a prior approval of the Agency.
- (2) The acquisition of own shares without the consent of the Agency shall be a null and void legal transaction.
- (3) The acquisition of own shares shall be carried out by the bank with funds originating from the bank profit.
- (4) The bank shall be obligated to dispose of its acquired own shares within one year from the date of their acquisition.
- (5) If the bank does not dispose of its own shares within one year from the date of their acquisition, the bank shall be obligated to withdraw and cancel these shares against its shareholder's capital.

Prohibition on financing the acquisition of shares, i.e. stakes
Article 40

- (1) It is prohibited for the bank to, directly or indirectly, finance the acquisition of or issue guarantees or other sureties for the acquisition of shares it issues or shares, i.e. stakes in a legal person in whose capital the bank has at least 20 percent of holding, unless, by way of such acquisition of shares, i.e. stakes, any connection of the bank with that company shall cease to exist in terms of capital.
- (2) It is prohibited for the bank to, directly or indirectly, finance the acquisition of or issue guarantees or other sureties for the acquisition of other financial instruments, which are issued by the bank itself or by a legal person in whose capital the bank has at least 20 percent of holding, and which given their characteristics are included in the calculation of the regulatory capital of that bank.
- (3) The conclusion of any other legal transaction which, by its economic purpose, is equal to a loan shall also be considered as financing as specified in paragraphs 1 and 2 of this Article.
- (4) The Agency may conduct an audit of the cash flow of the bank, borrower and its related person and, in case of violation of this Article, shall be obligated to refuse to recognize the so paid in shares and other financial instruments and to exclude them from the calculation of the bank capital.
- (5) The acquisition of shares and other financial instruments contrary to paragraph 1 and paragraph 2 of this Article shall be a null and void legal transaction.

Approval for the acquisition of qualifying holding in a bank
Article 41

(1) A legal or natural person or persons acting jointly, which intend to acquire shares, shall be obligated to submit to the Agency a written application for a prior approval of the acquisition of bank shares, based on which individually or jointly, directly or indirectly, they acquire a qualifying holding in the bank.

(2) A person acquiring a qualifying holding in the bank shall be obligated to obtain a prior approval of the Agency for every subsequent direct or indirect increase in the capital interest or voting rights, resulting in acquiring or exceeding 20 percent, 30 percent and 50 percent of the capital interest or voting rights in the bank.

(3) A person who has obtained a prior approval of the Agency specified in paragraph 1 and 2 of this Article shall be obligated, within one year of the date of the decision to grant prior approval, to acquire a qualifying holding in the bank and notify the Agency about it within 15 days from the date of acquisition.

(4) The approval for acquisition of a qualifying holding shall cease to be valid with the expiration of the deadline for acquisition specified in paragraph 3 of this Article, and the person who has obtained approval, but has not commenced or has not completed the acquisition up to the level of interest for which the approval was granted, shall be obligated to obtain a new approval if intending to continue with the acquisition.

(5) A person with a qualifying holding in the bank which intends, by means of sale or in another manner, to reduce its capital interest or voting rights in the bank, below the level of interest specified in paragraph 1 and 2 of this Article for which the Agency's approval has been granted, shall be obligated to notify the Agency immediately about its intention.

(6) The Agency shall adopt an act to elaborate on the conditions and prescribe documentation and data to be enclosed with the application for a prior approval for the acquisition of a qualifying holding under this Article.

Acting of several persons as a single acquirer
Article 42

(1) For the purpose of acquiring the holding specified in Article 41, paragraph 1 and 2 of this Law, the following persons shall be deemed to appear as a single acquirer:

1) one person controls or has a direct or indirect capital interest or a voting rights in another person of at least 20 percent,

2) two or more persons are controlled by a third person,

3) the majority of members of the management and governing bodies in two or more legal persons are the same persons,

4) two or more persons are family members, and

5) two or more persons, pursuant to a contract, agreement, or informally, jointly perform business activities in substantial volume.

(2) For the purpose of acquiring the holding specified in Article 41, paragraph 1 and 2 of this Law, a person acts as a single acquirer with another person also when the relation specified in paragraph 1 of this Article does not exist between them, but each person acts as a single acquirer with the same third person, namely in any of the ways set out in paragraph 1, Item 1 to 5 of this Article.

Limitations of mutual holding Article 43

(1) If a bank has a qualifying holding in another legal person, that legal person may not acquire a qualifying holding in that bank.

(2) If a legal person has a paragraph in the bank, that the bank may not acquire a qualifying holding in that legal person.

(3) The exceptions to the limitations on total investments of a bank in fixed assets prescribed by this Law shall also be taken into consideration with regard to the limitations specified in paragraph 2 of this Article.

Criteria for acquisition of a qualifying holding Article 44

(1) In the decision-making process regarding the issuance of a prior approval for the acquisition of a qualifying holding, the Agency shall give particular weight to the eligibility and financial status of the applicant, the latter's management capacity and influence on the bank on the basis of the following criteria:

1) business reputation and prestige which shall be assessed with respect to its financial and business activities, the fact whether the assets of the applicant have been subject to bankruptcy proceedings or an applicant which is a natural person has occupied managerial positions in a bank or another legal person at a time when the latter was subject to bankruptcy proceedings,

2) whether the acquirer has any final convictions for criminal offenses with unconditional prison sentence or any final convictions for criminal offenses and economic crimes in the area of economic and financial crime or is subject to proceedings for such offenses, which renders such person ineligible for the acquisition of a qualifying holding,

3) assessment of managerial skills, knowledge and skills of the acquirer of a qualifying holding, as well as prestige, relevant professional skills and experiences of the persons whom, after acquiring a qualifying holding, the applicant will propose to conduct bank operations,

4) financial status of the applicant and its influence on bank operations in case of the approval issuance,

5) indicators that may be of importance for the assessment of the influence that the applicant has on risk management in the bank,

6) the existence of legitimate reasons to suspect that, in accordance with the anti-money laundering and financing of terrorist activities regulations, money laundering or financing of terrorist activities is carried out or is intended to be carried out in relation to the acquisition of a qualifying holding or that this acquisition may affect an increase of the risk of money laundering or financing of terrorist activities,

7) the bank ability to meet the conditions set out by this Law and by-laws, and especially whether the group whose member the bank is to become has an ownership structure that facilitates effective supervision and exchange of information between the competent authorities and determination of the division of responsibilities between the competent authorities.

(2) Before making a decision on whether to issue a prior approval for the acquisition of a qualifying holding, the Agency shall consult the competent regulatory and other authorities if the applicant is:

1) a bank or another person in the financial sector, and

2) a person which is a controlling company of that bank or another person in the financial sector.

(3) the Agency shall deny the application for approval of the acquisition of a qualifying holding if:

1) the applicant does not meet the criteria for assessment of legibility and financial status prescribed in paragraph 1 of this Article and the Agency's regulations,

2) the acquisition of a qualifying holding results in exceeding the limitation specified in Article 43 of this Law,

3) it is not possible to determine the origin of funds with which the applicant intends to acquire a qualifying holding, and

4) the acquisition leads to concentration of financial market participants which significantly prevents, limits or violates market competition, primarily by means of establishing or strengthening a dominant position on the financial market.

(4) The Agency shall adopt an act prescribing specific conditions and method of assessment of compliance with the criteria for acquisition of a qualifying holding in the bank.

Decision making process on the acquisition of a qualifying holding
Article 45

(1) Concerning the application for a prior approval of the acquisition of a qualifying holding, the Agency shall, at latest within two business days from the date of receipt of the application, issue to the applicant a written acknowledgment of receipt of the application.

(2) The Agency shall render a decision on the application specified in paragraph 1 of this Article within 60 days from the date of receipt of a complete and proper application.

(3) If, during the decision-making process, the Agency determines that the application for the acquisition of a qualifying holding is not in order, it shall request from the applicant, in writing, additional documentation necessary in order to make a decision on the application and shall set a deadline for supplementation of the application within up to 20 days from the date of receipt of the Agency's letter.

(4) The Agency may extend the deadline for supplementation of the application specified in paragraph 3 of this Article to 30 days if the applicant has a permanent residence or head office in another country or is not subject to the Agency's supervision.

(5) If the applicant submitting the application for the acquisition of a qualifying holding fails to rectify deficiencies within the time frame set by the Agency, the Agency shall reject such application as not being in order.

(6) If the Agency does not reject the application for the acquisition of a qualifying holding in writing within the time frame defined in paragraph 2 of this Article, the acquisition shall be deemed as approved.

Acquisition of a qualifying holding without approval
Article 46

(1) A person may also acquire a qualifying holding as specified in Article 41, paragraph 1 and 2 of this Law without a prior approval of the Agency, if the bank shares have been acquired by way of inheritance, legal succession or other acquisition independent of the will of the acquirer.

(2) A person which has acquired a qualifying holding in the manner specified in paragraph 1 of this Article may not have any influence on the bank management in which the person has acquired holding or on the business policy of that bank, nor may that person exercise

voting rights above the level of voting rights held thereby prior to the acquisition or increase of qualified holding, nor may such person exercise the right to a payout of dividends for shares acquired in this manner until the person obtained additional approval from the Agency for this acquisition.

(3) The person specified in paragraph 1 of this Article shall be obligated to, within 30 days from the date of acquisition of a qualifying holding, submit to the Agency an application to issue an approval for the acquisition or to notify the Agency that it has reduced its holding in the bank.

(4) The Agency shall decide on the application specified in paragraph 3 of this Article in the manner and within the time frame set out in Article 44 and 45 of this Law.

Request to provide information Article 47

(1) If there are grounds for suspicion that a person has acquired a qualifying holding as specified in Article 41, paragraph 1 and 2 of this Law without a prior approval of the Agency, the Agency may request from that person or from the parent company of that person, as well as from the members of the bodies of these persons, to provide information and appropriate documentation pertaining to the compliance with the criteria for issuing an approval.

(2) The Agency may request from persons which have been given approval as specified in Article 41, paragraph 1 and 2 or Article 46, paragraph 2 of this Law to submit the information and documentation specified in paragraph 1 of this Article within the period of validity of that approval, as well as after the acquisition of a qualifying holding, and at least once a year.

(3) The persons specified in paragraph 2 of this Article shall be obligated to submit to the Agency data and information about newly appointed members of the governing bodies, a person which acquires holding in these persons, a new partner (partner company) and a general partner (limited partnership), no later than within 15 days from the date appointment, acquisition of holding, or from the date of that qualification.

Reporting on a qualifying holding Article 48

(1) The bank shall be obligated to notify the Agency, at least once a year, as well as upon the Agency's request, about the identify of all persons which have a qualifying holding in the bank.

(2) The bank shall be obligated to notify the Agency on:

1) any increase or decrease in a qualifying holding in the bank, within 15 days from the date it becomes aware of the increase or decrease,

2) a change in the status of a person in a special relationship with the bank, within 15 days from the date it becomes aware of the change,

(3) The Agency shall adopt an act to prescribe the procedure and manner of submission of data and information specified in Article 47 of this Law and in this Article.

Legal consequences of acquisition without prior approval Article 49

(1) If a person acquires a qualifying holding as specified in Article 41, paragraph 1 and 2 of this Law without a prior approval of the Agency, or if such person fails to submit the application to issue an additional approval specified in Article 46, paragraph 2 of this Law or the application to issue an additional approval is rejected, the Agency shall order this person, by a decision, to sell the shares acquired without approval and to provide evidence about the sale and about the buyer, if known.

(2) With the decision specified in paragraph 1 of this Article, the Agency shall determine the time frame for the sale, which may not be shorter than three months, or longer than nine months.

(3) The decision specified in paragraph 1 of this Article shall be provided to the person which is ordered to sell shares, to the bank in which the person has acquired shares, to the regulatory authority for the securities market and to the legal person authorized to perform tasks pertaining to the Unified Securities Registry.

(4) From the time of receipt of the decision specified in paragraph 1 of this Article, the acquirer of a qualifying holding specified in paragraph 1 of this Article may not exercise rights from shares ordered to be sold, and the quorum for voting and the necessary majority for passing decisions of the General Meeting of Shareholders shall be calculated with respect to the total number of voting shares, minus the amount of shares whose voting rights have been withdrawn.

(5) The bank shall be obligated to:

1) ensure that the acquirer specified in paragraph 1 of this Article does not exercise rights from shares for which an order to sell has been given, and

2) report to the Agency on a monthly basis any changes in shareholders during the period from the receipt of the decision specified in paragraph 1 of this Article until the expiration of the set deadline for the sale of shares.

(6) Notwithstanding paragraph 4 of this Article, if, after the reduction of the quorum necessary for the passing of valid decisions, the acquirer which does not have approval has the majority of votes to pass decisions at the General Meeting of Shareholders, the Agency may appoint a voting delegate.

(7) With a decision, the Agency shall appoint a voting delegate, which shall be obligated to vote in accordance with the Agency's orders.

(8) The decision on the nomination of voting delegate must be delivered to a bank.

(9) The voting delegate shall exercise all management rights from the shares for which the Agency has given an order to sell, while the property rights from the shares shall be exercised by a bank.

(10) The term of the voting delegate shall last until the date of share sales.

Revocation of an approval for the acquisition of a qualifying holding Article 50

(1) The Agency may revoke an approval for the acquisition of a qualifying holding if:

1) the acquirer of a qualifying holding has obtained the approval by providing untrue or incorrect data,

2) the acquirer of a qualifying holding uses its rights in a manner that threatens the stability of bank operations,

3) deems that the acquirer of a qualifying holding no longer meets the criteria prescribed in Article 44 of this Law.

(2) the acquirer of a qualifying holding, whose approval has been revoked in accordance with this Article, shall be subject to the provisions of Article 49 of this Law.

Invalidation of an approval for the acquisition of a qualifying holding Article 51

(1) If a person who has been granted an approval for the acquisition of a qualifying holding does not acquire holding of at least 10 percent of the capital interest, i.e. voting rights in the bank, within the time frame specified in Article 41, paragraph 3 of this Law, the approval shall be invalidated completely.

(2) If a person who has a qualifying holding of at least 10 percent of the capital interest, i.e. voting rights in the bank, does not acquire completely holding for which the approval was issued, within the time frame specified in Article 41, paragraph 3 of this Law, the approval shall be valid only to the extent realized by the acquirer, and shall no longer be valid for the remainder for which the approval was obtained.

(3) If a person who has a qualifying holding reduces its holding below the level for which a prior approval had been obtained, by way of share sales or in any other manner, and the level

of holding is not reduced to below 10 percent, the approval shall remain in force for the portion of the holding that the person holds as of the date of expiration of the deadline for acquisition specified in Article 41, paragraph 3 of this Law.

CHAPTER IV BANK MANAGEMENT

Bank Bodies Article 52

(1) The bodies of a bank are:

- 1) General Meeting,
- 2) Supervisory Board, and
- 3) the Board of Directors.

(2) The General Meeting is comprised of the bank shareholders.

(3) The bank management shall be organized in the form of a bicameral system whose governing bodies shall be the supervisory board and the bank board of directors

1. Bank General Meeting

Bank General Meeting Sessions Article 53

(1) As a rule, the bank general meeting sessions shall be held at the location of the bank's head office.

(2) The members of the supervisory board and bank board of directors shall be obligated to attend the bank general meeting sessions.

(3) A representative of the Agency may attend the bank general meeting sessions and address the shareholders at that session.

(4) The bank shall notify the Agency of the date of holding and agenda of the bank general meeting sessions within the time frame determined for notifying the members of the bank general meeting.

(5) The bank shall be obligated to keep in perpetuity the minutes of the bank general meeting sessions, the records of shareholder presence and voting, as well as the notices and calls for the convening of the general meeting sessions.

(6) In case of bank liquidation, a liquidation administrator shall be obligated to ensure the retention of the documentation specified in paragraph 5 of this Article for at least ten years after the bank closing.

Convening of the bank general meeting sessions
Article 54

(1) The bank general meeting shall be convened by the supervisory board which shall also approve the proposed agenda, except in the instances otherwise regulated by this Law.

(2) An extraordinary bank general meeting may be convened at the request of:

1) the supervisory board or any other authority or body of the bank authorized by the bank Statute to convene an extraordinary general meeting session,

2) bank shareholders with at least 10 percent of the voting shares, on issues proposed for the extraordinary general meeting session,

3) a provisional administrator of the bank,

4) a liquidation administrator if the bank is in voluntary liquidation, and

5) the Agency.

(3) The persons specified in paragraph 2 of this Article shall submit a request to convene an extraordinary general meeting of the bank to the supervisory board in writing, with proposed agenda.

(4) The supervisory board of the bank shall be obligated to convene an extraordinary general meeting of the bank:

1) when the bank capital adequacy indicators are lower than those prescribed, i.e. when the bank capital is lower than that required in accordance with this Law and the Agency's regulations,

2) at the request of the company conducting external audit of the bank or the Audit Committee,

3) at the request of the Agency, and

4) when deems as necessary.

(5) The Agency may request that certain issues of importance for the compliance of bank operations with the regulations and its requirements be put on the agenda of the general meeting of the bank.

(6) The bank shall be obligated to notify the Agency without delay of a shareholder request to convene the general meeting of the bank per court order.

(7) The costs of holding the general meeting shall be borne by the bank.

(8) The exercise of shareholder rights, the procedure for convening, notification and work of the annual and extraordinary general meeting of the bank, as well as the holding of a general meeting under a court order, shall be subject to the provisions of the law governing companies, unless otherwise prescribed in this Law.

Competence of the bank general meeting Article 55

(1) The bank general meeting shall:

1) pass the Statute and adopt amendments to the founding act and the bank Statute,

2) adopt business policy and strategy, and the bank business plan,

3) adopt annual report on bank operations and bank financial statements along with the report of audit company, opinion of the supervisory board and the audit committee in relation to financial statements,

4) adopt the report of the supervisory board on the supervision over the bank operations and work of the board of directors,

5) decide on proposal of the supervisory board concerning profit distribution, i.e. loss coverage in accordance with the founding act or Statute,

6) decide on the increase and decrease of bank capital, i.e. capital investments in another bank or other legal persons,

7) decide on the issue, withdrawal and cancellation of shares and other securities operations, in accordance with the law and the bank Statute,

8) adopt a policy for the selection and assessment of the fulfillment of conditions for membership in the bank supervisory board of the bank and the self-assessment of work of the supervisory board,

9) appoint and dismiss members of the supervisory board,

10) decide on the compensation for members of the supervisory board and audit committee,

11) decide on the expenses for the purpose of rewarding members of the board of directors and supervisory board,

12) decide on the purchase, sale, replacement, leasing and other property transactions, directly or via subsidiaries of the bank, in an amount in excess of 33 percent of the book value of bank assets,

13) decide on the sale and purchase of assets whose value is between 15 percent and 33 percent of the book value of bank assets, if such a transaction has not been previously approved by the unanimous decision of the supervisory board,

14) decide on status changes and bank closing,

15) decide on the selection and dismissal of an audit company,

16) decide on the establishment, reorganization and liquidation of subsidiaries of the bank and the approval of their statutes,

17) adopt rules of procedure, and

18) decide on other issues important for bank operations, in accordance with the law, the Agency's regulations, the bank statute and the rules of procedure of the general meeting of the bank.

(2) The general meeting of the bank may not transfer the competences specified in paragraph 1 of this Article to another bank authority.

Obligation to inform the bank general meeting about earnings Article 56

At least once a year, the bank general meeting shall consider a written information with data on all salaries, compensations and other earnings of the members of the governing bodies and senior management, as well as on all contracts concluded between the bank and members of the governing bodies and senior management and other persons related to these persons, resulting in material gain for these persons, and the proposal of the supervisory board on salaries, compensations and other material gain of these persons for the following year. The aforementioned data shall be published in aggregate form.

Shareholders' right to information Article 57

(1) The shareholders shall have the right, as of the date of the notification of convening the annual general meeting session, in bank premises, to examine the list of shareholders, the report on bank operations and bank financial statement, along with the report of the audit company, the opinion of the supervisory board and audit committee in relation to the financial

statement, as well as other documents pertaining to the proposed decisions on the agenda of the general meeting.

(2) The shareholders shall be obligated to treat the data specified in paragraph 1 of this Article with due diligence.

(3) The shareholders may request to be provided with a copy of the minutes or an excerpt from the minutes from all held sessions of the bank general meeting.

2. Supervisory Board

Supervisory board composition Article 58

(1) The bank supervisory board shall be comprised of at least five members appointed and dismissed by the bank general meeting.

(2) The Chairman of the supervisory board shall be elected by the supervisory board from among its members by majority of the total number of votes.

(3) The founding act and the bank Statute may also set a greater number of members of the supervisory board than the number stated in paragraph 1 of this Article, where the total number of members must be odd.

(4) To the supervisory board may be nominated persons that together have professional knowledge, ability and relevant experience necessary for the supervision of bank operations and the work of board of directors.

(5) At least one member of the supervisory board has active knowledge of one of the languages in official use in Republika Srpska and has a permanent residence on the territory of Republika Srpska or Bosnia and Herzegovina.

(6) At least one third of the members of the bank supervisory board must be persons who are independent of the bank.

(7) The members of the supervisory board shall be appointed at the same time for a term of four years, with the possibility of re-election.

(8) The members of the supervisory board may not have deputies.

(9) The Chairman and members of the supervisory board shall be entered into the registry of banks kept by the Agency, as well as in other registries in accordance with the regulations.

(10) An independent member of the supervisory board shall be subject to the provisions of the law on companies which govern the independence of a management board member.

Conditions for being a member of the supervisory board
Article 59

(1) A person who meets the following conditions may be nominated as a member of the supervisory board:

- 1) has good business reputation and prestige,
- 2) has the appropriate qualifications, professional knowledge, skills and experience necessary for the performance of his/her duties,
- 3) has no conflict of interest with respect to the bank, shareholders, members of the supervisory board, board of directors and senior management,
- 4) can devote sufficient time to the performance of his/her duties,
- 5) meets the criteria set out by this Law and the agency's regulations.

(2) The following persons may not be members of the bank supervisory board:

- 1) a person who has any final convictions for criminal offenses with unconditional prison sentence or any final convictions for criminal offenses and economic crimes in the area of economic and financial crime or a person subject to proceedings for such offenses, which renders such person as ineligible to hold that office,
- 2) a person who has been debarred from carrying out an occupation, activity or position fully or partially covered by banking or another financial activity for the duration of that debarment,
- 3) a person employed in this or in another bank in BiH, or an authorized signatory of this or another bank in Bosnia and Herzegovina,
- 4) a person who, as of the date of revocation of the bank's operating license or six months prior to that date or as of the date of introduction of a provisional or special administration in the bank had been authorized to act for and on behalf of the bank or had been a member of a governing body of that bank, unless that person, with his/her official records and actions had not and could not have influenced the fulfillment of the conditions for the revocation of the bank's operating license or the introduction of a provisional or special administration, as deemed by the Agency,
- 5) a person who is a member of the board of directors or an executive director or a member of the management or supervisory board of a subsidiary,

6) a person who is a member of the board of directors or an executive director of another for-profit company on whose supervisory or management board the member of the board of directors or executive director of the company sits,

7) a person who is a member of the supervisory or management board in more than five for-profit companies or institutions, and

8) a person who under other laws may not be a member of the bank supervisory board.

(3) A natural person or an authorized representative of the legal person may not be Chairman or member of the supervisory board in one or more banks at the same time, except if that natural or legal person holds more than 50 percent of the shares in each of these banks.

(4) One person may be a member of the supervisory board in no more than two banks in Bosnia and Herzegovina.

(5) A bank must notify the Agency about the termination of office of a member of the supervisory board immediately, but no later than within three days from the date of the termination of office of a member of the supervisory board, and state the reasons for the termination of office.

Nomination of candidates for members of the supervisory board Article 60

(1) Candidates for members of the supervisory board shall be nominated by shareholders or groups of shareholders with at least 5 percent of the voting rights, the existing supervisory board or the nomination committee if one has been established.

(2) Before the submitting the request for issuing the Agency's approval, the candidates for a Chairman and members of the supervisory board must provide a written statement of accepting their nomination.

(3) The election of the members of the supervisory board shall be subject to the provisions of the law on companies governing the election and cumulative voting when electing members of the management board.

Appointment of a member of the supervisory board Article 61

(1) A member of the bank supervisory board may be exclusively a person who has obtained a prior approval of the Agency to hold the office of a member of the supervisory board in that bank.

(2) The application for a prior approval specified in paragraph 1 of this Article shall be submitted to the Agency by the founders or bank, and at latest three months before the end of term of a member of the supervisory board.

(3) The application for a prior approval shall be accompanied by documentation and evidence that the conditions prescribed for members of the supervisory board have been met and a decision of the general meeting on the appointment of the candidate for a member of the supervisory board.

(4) The data specified in paragraph 3 of this Article the Agency may also be obtained from the competent authorities.

(5) The Agency shall deny the application for a prior approval to hold the office of a member of the supervisory board if it deems that:

1) the candidate does not meet the conditions for being a member of the supervisory board, prescribed by this Law and the Agency's regulations, and

2) data and information enclosed with the application or otherwise collected during the decision-making process for a prior approval to hold the office of a member of the supervisory board indicate that the candidate is not acceptable.

(6) If the Agency denies the application for a prior approval to hold the office of a member of the supervisory board, the bank may not resubmit the application for a prior approval for the same person until the reasons stated in the Agency's decision for denial of the application have been remedied.

(7) In case of changes of the members of the supervisory board during their term, the bank shall submit to the Agency the application for a prior approval for the selection of a new candidate for a member of the supervisory board and shall enclose with the same documentation necessary for the issuance of that approval, as well as a decision on the dismissal of the current member of the supervisory board, with a statement of reasons for the dismissal.

(8) The new member of the supervisory board specified in paragraph 7 of this Article shall be elected for a period until the end of term of the member of the supervisory board whose term had ended or who had been dismissed.

(9) When dismissing a member of the supervisory board, the bank shall be obligated, at the same time, but no later than 30 days from the date of dismissal of the member of the supervisory board, to submit to the Agency the application for a prior approval for the new candidate along with complete documentation.

(10) The Agency shall adopt an act to:

1) elaborate the conditions for being a member of the supervisory board specified in Article 58 and 59 of this Law,

2) prescribe the procedure for issuing a prior approval and the documentation to be enclosed with the application for a prior approval to hold the office of a member of the supervisory board,

3) prescribe the content of policy specified in Article 55, paragraph 1, item 8 of this Law and the dynamics of assessment of compliance with the conditions for being a member of the supervisory board.

Revocation of an approval for the member of supervisory board Article 62

(1) The Agency shall revoke the approval to hold the office of a member of the supervisory board if:

1) the member of the supervisory board has obtained the approval on the basis of untrue or incorrect documentation or falsely given data which are relevant for the performance of the function of a member of the supervisory board,

2) the member of the supervisory board no longer meets the conditions for being a member of the bank supervisory board in accordance with Article 58 and 59 of this Law and the Agency's regulations,

3) the member of the supervisory board violates the provisions of this Law that regulate powers and responsibilities, authorities, and duties of the members of the supervisory board,

4) the Agency appoints a provisional or special administrator, and

5) within six months from the date of issuance of the Agency's approval, the person does not take the office of a member of the supervisory board.

(2) For the implementation of the procedure specified in paragraph 1 of this Article, the Agency controls the members of the supervisory board to an extent and in a manner that enables to check for the existence of facts and circumstances specified in paragraph 1 of this Article.

(3) If the Agency revokes the approval to hold the office of a member of the supervisory board, the bank general meeting shall be obligated without delay to pass a decision for dismissal of the member of the supervisory board and to submit the application for a prior approval of a new candidate.

Compensation of a member of the supervisory board Article 63

(1) A member of the supervisory board may be paid compensation for their work.

(2) The compensation amount must be commensurate to the tasks performed by the member of the supervisory board and bank condition.

(3) The determination of the compensation of a member of the supervisory board shall be subject to the provisions of the law on companies governing earnings of the members of the management board.

(4) The rights and obligations of the Chairman and members of the supervisory board shall be regulated by a contract with the bank to be approved by the bank general meeting in accordance with this Law and other laws and the bank Statute.

(5) The contracts specified in paragraph 4 of this Article shall be signed by the Chairman of the board of directors in accordance with the approval of the general meeting.

Holding meetings of the supervisory board Article 64

(1) Meetings of the bank supervisory board shall be held at least once every three months, and in the bank head office at least once a year.

(2) The bank supervisory board shall hold an extraordinary meeting if required by the Agency for the purpose of considering specific issues.

(3) If the Agency deems it necessary, representatives of the Agency may be present at the meeting and participate in the work of the supervisory board.

(4) The bank supervisory board shall notify the Agency of the date and agenda of an extraordinary meeting of the bank supervisory board within the time frame provided for notification of the members of the bank supervisory board.

(5) Persons who are not members of the supervisory board may be present at the meeting only based on a written invitation by the Chairman of the supervisory board.

(6) The work and holding of meetings of the bank supervisory board and the exclusion of the right to vote of a member of the supervisory board in the decision-making process of the supervisory board shall be subject to the provisions of the law on companies governing the work and decision-making of the management board and the exclusion of a member of the management board from the decision-making process of the management board.

Powers and responsibilities of the supervisory board Article 65

(1) The supervisory board shall supervise the bank operations and the work of the board of directors.

(2) The supervisory board may review and examine bank business books and documentation, cash office, securities and other things for the purpose of which it may use its individual members or hire experts or assign an audit company with the task of examining the bank annual financial statements.

(3) Every member of the bank supervisory board shall also have the right to review and examine bank books and documentation specified in paragraph 2 of this Article.

(4) The supervisory board shall submit to the general meeting a written report on the supervision over the bank operations and the work of the board of directors, in which it shall specifically state whether the bank operates in accordance with the law and the internal documents of the bank, the decisions of the general meeting, as well as whether the annual financial statements have been prepared in accordance with the accounting records and whether they represent correctly the property and business status of the bank, and shall also give an opinion on the annual financial statements and on the proposal of the board of directors concerning profit distribution and loss coverage in the bank.

(5) Along with the annual report which it submits to the Agency in accordance with this Law, the bank shall also be obligated to submit the report of the supervisory board specified in paragraph 4 of this Article on the supervision over the bank operations and the work of the board of directors, including the total number of meetings held and their venues.

(6) The bank shall be obligated to submit to the Agency information on the results of self-assessment of the work of the supervisory board, along with measures for improving the effectiveness of its work, by the end of March of the current year for the previous year.

(7) The supervisory board shall be responsible for the accuracy of all reports on bank operations and financial statements submitted to the bank general meeting, the Agency and the public.

(8) A member of the supervisory board who does not agree with part of the statement or with the entire statement specified in paragraph 4 of this Article shall be obligated to submit his/her objections in writing to the general meeting.

(9) The bank supervisory board shall be responsible for the establishment of an efficient governance system in the bank and for supervising that system, and shall be obligated to ensure that the bank board of directors identifies the risks to which the bank is exposed, as well as to inspect these risks in accordance with the adopted policies and procedures.

(10) The members of the bank supervisory board shall be jointly liable to the bank for damages occurring as a result of their action, inaction or failure to carry out their duties, unless they prove that they have acted with due diligence in the performance of their duties of exercising supervision over the bank governance.

(11) The supervisory board shall act on behalf of the bank towards members of the board of directors.

Competences of the supervisory board
Article 66

The bank supervisory board shall:

- 1) convene sessions of the bank general meeting and determine the agenda,
- 2) determine decision proposals for the bank general meeting and control their implementation,
- 3) determine the proposed bank business policy and strategy, business plan and submit them to the bank general meeting for final adoption,
- 4) adopt risk management strategy and policy, as well as strategy for bank capital management,
- 5) adopt quarterly, semiannual and annual statements of the bank board of directors on the implementation of business policy, profitability of bank operations, business activities and other issues within its competence and explain its opinion on these reports to the general meeting of shareholders,
- 6) consider annual statement on operations and financial statements along with the statement of the audit company, give an opinion on these statements in accordance with Article 65, paragraph 4 of this Law and submit them to the bank general meeting for adoption,
- 7) submit to the bank general meeting a report on the supervision carried out as specified in Article 65 of this Law,
- 8) pass a decision on the establishment of system of internal controls and supervise that system,
- 9) adopt quarterly, semiannual and annual reports of the control functions, and give an opinion to the general meeting of shareholders on these reports,
- 10) adopt reports of the audit committee,
- 11) adopt a proposal of bank financial plan,
- 12) adopt a bank recovery plan, as well as any amendments thereto,
- 13) adopt an internal audit program and plan,
- 14) adopt general terms and conditions of bank operations, as well as any amendments thereto,

- 15) decide on bank internal organization, i.e. organizational structure which ensures the distribution of duties, competences and responsibilities of employees in a manner preventing conflicts of interest and ensuring a transparent and documented process of making and implementing decisions,
- 16) appoint and dismiss the Chairman and members of the bank board of directors, and set the compensations for their work,
- 17) appoint and dismiss members of the audit committee, risk committee, compensation committee, nomination committee and other committees of the bank supervisory board,
- 18) appoint and dismiss heads of the control functions, and set compensations for their work,
- 19) as necessary, take a stance and decide on proposals of the audit committee to remedy determined irregularities,
- 20) adopt policy on salaries, compensations and other earnings of bank employees,
- 21) adopt policy on the assessment of compliance with the conditions for membership in the bank board of directors, and decide on the amendments thereof,
- 22) set the amounts up to which the bank board of directors may decide with respect to placements, borrowing and other property transactions of the bank,
- 23) decide on purchase, sale, replacement and other property transactions, directly or via subsidiaries, whose value is between 15 percent and 33 percent of the book value of bank assets,
- 24) propose to the general meeting to adopt decisions on purchase and sale, replacement and other property transactions, directly or via subsidiaries, of over 33 percent of the book value of bank assets,
- 25) give a prior approval for the conclusion of a legal transaction leading to a total exposure of the bank to 10 percent of recognized capital toward a single person or a group of related persons or up to each subsequent increase of this exposure,
- 26) propose to the general meeting the selection and dismissal of an audit company,
- 27) adopt the rules of procedure for its own work and its committees,
- 28) notify the Agency and other competent authorities of illegalities and irregularities identified in bank operations, and
- 29) perform other tasks in accordance with this Law, the Statute and the decisions of the bank general meeting.

Duties of the members of the supervisory board
Article 67

(1) In addition to the competences and responsibilities specified in Article 65 and 66 of this Law, the members of the bank supervisory board shall be obligated to:

1) take a stance and undertake activities under the Agency's orders and other competent authorities within 30 days from the date of submission of the Agency's minutes or minutes of other competent authorities on supervision and control carried out,

2) supervise the implementation of the bank business policy, strategic objectives and the risk taking and risk management strategy and policy,

3) supervise the adequacy of procedures and the effectiveness of internal audit, and take a stance regarding their reports,

4) notify the Agency immediately of:

1. their appointment to office or termination of office in management and supervisory bodies of other legal persons,

2. legal transactions based on which a member of the supervisory board personally or any of his/her family members, directly or indirectly, has acquired shares or stakes in a legal person based on which that member of the supervisory board together with his/her family members has acquired a qualifying holding in that legal person or based on which their holding has dropped below the qualifying holding limit, and

3. all material information which may negatively affect the suitability of the persons who have qualifying, significant or controlling holding in the bank or the suitability of the members of the supervisory board or the board of directors,

4. all significant changes in the activities, organization and overall condition of the bank or of any material deterioration after their findings, including violations in terms of regulations, as well as the Agency's acts and

5) supervise the procedure for publishing and reporting information on the bank financial condition and operations.

(2) the members of the supervisory board shall be obligated to discharge their obligations and responsibilities provided for in this Law in accordance with the bank interests, standards of corporate governance and prescribed requirements regarding the prevention of conflict of interest.

(3) the members of the supervisory board shall be subject to the provisions of the law on companies regulating persons who have a duty toward a company, the rules of conflict of interest and prohibition of competition, and duties of these persons toward the company.

3. Bank board of directors

Composition of the bank board of directors

Article 68

(1) The bank board of directors shall organize the work, conduct operations and represent the bank.

(2) The bank board of directors shall have at least three members, of which one shall be appointed as the Chairman of the board of directors.

(3) Unless the Statute regulates this differently, the members of the board of directors shall jointly act for and on behalf of the bank in legal transactions in the manner determined by the bank Statute, so that no member of the board of directors, nor an authorized signatory, may be authorized to represent the bank individually in the entire scope of its activities.

(4) The bank board of directors shall be obligated to organize work and conduct operations in the bank head office.

(5) The members of the bank board of directors shall be employed in the bank full time.

(6) At least one member of the board of directors must have an active knowledge of one of the languages in official use in Republika Srpska and have a permanent residence on the territory of Republika Srpska or of Bosnia and Herzegovina.

(7) The bank must notify the Agency about it immediately, but no later than within three days from the date of the termination of office, dismissal, or resignation of a member of the board of directors, and state the reasons for the termination of office.

(8) The board of directors may not transfer conduct of bank operations to the supervisory board except in case the Statute or a decision of the supervisory board envisages that certain types of tasks may be performed, only with the prior consent of the supervisory board.

(9) If the supervisory board refuses to give consent, the board of directors may request from the general meeting to give necessary consents, in which case the general meeting shall pass a decision with at least two thirds of the votes of shareholders with voting rights.

(10) By the bank Statute it cannot be determined that a greater majority is necessary for the decision-making specified in paragraph 9 of this Article, nor may it require the fulfillment of additional prerequisites.

Conditions for being a member of the bank board of directors

Article 69

(1) A person who meets the following conditions may be a member of the board of directors:

- 1) has good business reputation and prestige,
- 2) has the appropriate qualifications, professional knowledge, skills and experience in the area of finance necessary for the conduct of the bank operations,
- 3) has no conflict of interest with respect to the bank, shareholders, members of the supervisory board, and senior management of the bank, and
- 4) meets the conditions set out by this Law and the Agency's regulations.

(2) The following persons may not be members of the bank board of directors:

1) a person who, as of the date of revocation of the bank operating license or six months prior to that date or as of the date of introduction of a provisional administration in the bank had been authorized to act for and on behalf of the bank or had been a member of a governing body of that bank or an internal auditor, unless that person, with his/her official records and actions had not and could not have influenced the fulfillment of the conditions for the revocation of the bank operating license or the introduction of a provisional or special administration, as deemed by the Agency,

2) a person who is a member of the supervisory board of another bank in Bosnia and Herzegovina, unless that bank is a related person with the bank in which he/she is member of the board of directors,

3) a person who has any final convictions for criminal offenses with unconditional prison sentence or any final convictions for criminal offenses in the area of economic and financial crime or a person subject to proceedings for such offenses or to whom a measure has been imposed four or more times in the last four years for the same offense stipulated in this law, which renders such person as ineligible to hold that office,

4) a person who holds or within the last two years has held the office of director or deputy director of the Agency, unless he/she has obtained a prior consent of the Agency management board,

5) a person who has been debarred from carrying out an occupation, activities or position fully or partially covered by a banking or another financial activity for the duration of that debarment, and to whom as a member of the bank board of directors a written warning has been issued three times in the past four years and

6) a person who under the provisions of another law may not be a member of the board of directors.

Appointment of members of the board of directors
Article 70

(1) The Chairman and members of the board of directors shall be appointed by the bank supervisory board.

(2) The Chairman and members of the board of directors shall be appointed for a term of four years, with the possibility of re-election.

(3) Only a person who has obtained a prior approval of the Agency to hold the office of a member of the board of directors in that bank may be appointed as a member of the bank board of directors.

(4) the bank shall submit the application for approval specified in paragraph 3 of this Article at least three months before the end of term of a member of the board of directors.

(5) The application for a prior approval to hold the office of a member of the board of directors shall be accompanied by documentation and evidence that the conditions prescribed for members of the board of directors have been met, as well as by a work program of the board of directors including a projection of financial statements for the term for which the board of directors is being appointed.

(6) During the decision-making process for a prior approval, the Agency may request from the candidate for a member of the board of directors a presentation on conducting bank operations, pertaining to operations within his/her competence.

(7) The data specified in paragraph 5 of this Article the Agency may also obtain from other competent authorities.

(8) If a member of the board of directors is dismissed or for any other reason is unable to perform the functions of a member of the board of directors for more than one month, the bank supervisory board may, without a prior approval of the Agency, appoint a new member of the board of directors as an acting member until the appointment of a new member of the board of directors in accordance with this Law, for no longer than a period of three months from the date of the appointment, where the conditions for appointment of a member of the board of directors prescribed in this Law must be met.

(9) The new member of the board of directors shall be elected for a period until the end of term of the member of the board of directors whose term has ended in accordance with paragraph 8 of this Article.

(10) The Agency shall deny the application for a prior approval to hold the office of a member of the board of directors if it deems that:

1) the candidate does not meet the conditions for being a member of the board of directors, prescribed by this Law and the Agency's regulations,

2) data and information enclosed with the application and otherwise collected during the decision-making process indicate that the candidate is not suitable.

(11) In the event that the Agency denies the application for a prior approval to hold the office of a member of the board of directors, the bank may not resubmit the application for a prior approval for the appointment of the same person to the same office until the reasons stated in the Agency's decision for denial of the application have been remedied.

(12) Powers, responsibilities and rights of the Chairman and members of the board of directors shall be governed by a contract, which shall be signed by the Chairman of the supervisory board, and which has been previously approved by the bank supervisory board.

(13) The Agency shall adopt an act to:

1) elaborate the conditions for being a member of the bank board of directors specified in Article 68 and 69 of this Law,

2) prescribe the procedure for issuing a prior approval and documentation to be enclosed with the application for a prior approval to hold the office of a member of the bank board of directors, and

3) prescribe the content of the policy specified in Article 66, paragraph 1 item 21 of this Law and the dynamics of the assessment of compliance with the conditions for being a member of the bank board of directors.

Competences of the bank board of directors Article 71

(1) The bank board of directors shall:

1) ensure the legality of bank operations and compliance with this Law and other laws, regulations passed on the basis of laws, standards the rules of the banking profession, and the highest ethical standards of governance,

2) ensure the implementation of adopted strategies and policies and the implementation of measures imposed by the Agency,

3) propose to the supervisory board business policy, strategy and financial plan of the bank, including a risk management strategy and policy and a capital management strategy,

4) propose to the supervisory board bank recovery plan, as well as any amendments thereto,

5) prepare and submit, via the supervisory board, to the general meeting of shareholders, the annual financial statements and statements on bank operations, along with the report of the audit company and the opinion of the audit committee, where the content of the statement on bank operations shall be subject to the provisions of the laws governing companies and accounting and audit,

6) submit to the bank supervisory board the report on:

1. the implementation of business policy and any deviations from earlier predictions while providing the reasons for the deviations, as well as other issues concerning bank future operations, at least once every three months,

2. the profitability of bank operations, including the profitability of the use of bank capital, when the annual financial statements are considered by the supervisory board,

3. business activities, revenues and expenditures of the bank, at least once in three months,

4. other issues, at the request of the Supervisory Board, and that are of importance for the bank operations and condition or can reasonably be expected to have an influence on bank position,

7) execute decisions and implement documents of the general meeting and supervisory board of the bank,

8) ensure that the bank operates in accordance with the risk management rules, especially that it:

1. implements and regularly reexamines the risk management strategy and policies, adopts procedures for risk identification, measurement and assessment, as well as risk management, including risks arising from the macroeconomic environment in which the bank operates,

2. applies procedures for control and supervision over the bank activities, including efficiency of control functions, regularly, but no less than once a year, assesses their quality and, if necessary, improves them, in accordance with bank business policy and informs the supervisory board thereof,

3. sets precise, clear and consistent internal relations regarding responsibility, which provide a clear distinction between powers and responsibilities and prevent the occurrence of conflict of interest,

9) decides on placements and borrowing of the bank up to a level set by the bank supervisory board,

10) concludes, with the prior consent of the supervisory board, a legal transaction leading to total exposure of the bank toward a single person or a group of related persons up to 10 percent of recognized capital or up to each subsequent increase of that exposure, and informs the bank supervisory board thereof,

11) concludes, with the prior consent of the supervisory board, a legal transaction with a person in a special relationship with the bank and informs the bank supervisory board thereof,

12) appoints and dismisses the senior management and sets the compensation for their work,

13) regularly reexamines the adequacy and manner of publication and reporting of information on the bank financial condition and operations,

14) decides on the rights and obligations of employees, and ensures that all employees are familiar with the regulations and other bank internal documents governing labor relations,

15) ensures safe, quality and effective functioning and regular monitoring of bank information system and treasury operation system,

16) without delay informs the Agency on any significant deterioration of bank financial condition or the possibility of such deterioration, as well as on other factors that may significantly affect bank financial condition,

17) adopts its rules of procedure, and

18) decides on other issues related to the organization of work and bank operations, that are not in the purview of the general meeting or supervisory board of the bank.

(2) members of the supervisory board may attend meetings of the board of directors of the bank.

Responsibilities of the members of bank board of directors Article 72

(1) The members of bank board of directors shall be jointly liable to the bank for damages occurring as a result of their actions, inaction or failure to carry out their duties, unless they prove that they have acted with due diligence in the performance of their duties.

(2) The members of bank board of directors shall be subject to the provisions of the law on companies regulating persons who have a duty toward a company, the rules of conflict of interest and prohibition of competition, and duties of these persons toward the company.

Reporting to the supervisory board Article 73

(1) Bank board of directors shall be obligated to notify the bank supervisory board, without delay, in writing, on the following:

1) any deterioration of the bank financial condition or an existing danger of such deterioration as well as on other facts that may significantly affect the bank financial condition,

especially if the bank capital falls below the amount set out in Article 37, paragraph 1 and 2 of this Law or the adequacy ratio of regulatory capital falls below the ratio set out by this Law or a greater decrease in the capital adequacy ratio,

- 2) a threat to the bank liquidity or solvency,
- 3) exceeding permissible exposure toward a single person or a group of related persons,
- 4) the occurrence of reasons and circumstances for invalidation of the operating license or reasons for revocation of the license to perform certain banking operations,
- 5) operations that could be of importance for the bank profitability and liquidity,
- 6) any actions that are inconsistent with the regulations and other internal documents of the bank, and
- 7) measures of the Agency, tax and other competent authorities pertaining to the bank supervision and control.

(2) A member of the bank board of directors shall be obligated to notify the bank supervisory board, without delay, in writing, on the following:

- 1) a legal person in which he/she or members of his/her family have been appointed or dismissed as members of the board of directors or executive board or management or supervisory board, and
- 2) legal transactions based on which a member of the board of directors or any of his/her family members, directly or indirectly, has acquired shares or stakes in a legal person based on which that member of the board of directors together with his/her family members has acquired a qualifying holding in that legal person or based on which their holding has dropped below the qualified holding limit.

Revocation and invalidation of the approval of a member of the board of directors Article 74

(1) The Agency shall revoke the approval to hold the office of a member of the board of directors if:

- 1) the approval has been obtained on the basis of inaccurate or untrue documentation or falsely given data important for holding the office of a member of the board of directors,
- 2) the member of the board of directors no longer meets the conditions for being a member of the board of directors prescribed by this Law and the Agency's regulations,
- 3) the Agency has issued to the member of the board of directors a third written warning in the last four years, and

4) the Agency appoints a provisional or special administrator, or initiates liquidation proceedings against the bank.

(2) The Agency may revoke the approval to hold the office of a member of the board of directors if:

1) the member of the board of directors has violated severely duties specified in Article 71 of this Law thereby threatening the bank liquidity or solvency,

2) he/she has failed to ensure the implementation or has failed to implement supervisory measures imposed by the Agency,

3) he/she has violated the duties of a member of the board of directors in relation to notifying the supervisory board provided for in Article 73 of this Law, and

4) a bank does not comply with the Agency's regulations pertaining to the internal assessment of capital adequacy.

(3) If the Agency revokes the approval to hold the office of a member of the board of directors, the supervisory board shall be obligated immediately, and within at least five days from the day of revocation of approval, to pass a decision for dismissal of the member of the board of directors and shall appoint a new member of the board of directors as an acting member in accordance with Article 70, paragraph 8 of this Law.

(4) The approval to hold the office of a member of the board of directors shall be invalidated if:

1) a person is not appointed or does not take the office of a member of the board of directors within six months from the date of approval issuance, and

2) person's work contract with the bank expires, i.e., on the day of contract expiration.

(5) To implement procedures specified in this Article, the Agency shall control the work of the members of the board of directors to an extent and in a manner enabling the verification of facts and circumstances specified in paragraph 1 and 2 of this Article.

Data on the property status of the governing body members Article 75

(1) Members of the board of directors and supervisory board of a bank shall be obligated, within one month from the date of taking office, to submit to the bank supervisory board and the Agency written statement containing information about:

1) their overall property status and the property status of their immediate family members with data on each individual type of property right with a market value in excess of KM 20,000 and

2) a legal person in which they or their family members participate in governing or managing bodies or have a qualifying holding in that legal person.

(2) If data in the property status statement change, persons who have given the statement shall be obligated to notify the supervisory board and the Agency of that change, within one month from the date of becoming aware of the change.

(3) The supervisory board shall submit the data specified in paragraph 1 of this Article to the bank general meeting at least once a year.

(4) In addition to data specified in paragraph 1 of this Article, the members of the board of directors and supervisory board shall also be obligated to disclose to the bank any other direct or indirect interest in a legal person with which the bank has established or intends to establish a business relationship.

(5) The Agency may adopt an act to prescribe that the statement specified in paragraph 1 of this Article includes other data as well.

Key functions in a bank Article 76

(1) Key functions are control functions and other functions in a bank that have a significant influence on the bank governance and operations.

(2) With its internal documents, the bank shall be obligated to set the key functions in the bank.

(3) The bank shall be obligated to organize the performance of key functions in the bank head office and in other organizational units in proportion to its size, internal organization, type, volume and complexity of operations carried out by the specific key function.

(4) The bank shall be obligated to pass and implement appropriate policies for selection and assessment of the suitability of members of governing bodies and senior management.

(5) If the bank deems that a member of governing body and senior management is not suitable, it shall be obligated to take appropriate measures to ensure that these functions are performed by a suitable person.

(6) The Agency may adopt an act to prescribe key functions that have a significant influence on bank governance and operations and elaborate conditions for selection and assessment of the suitability of members of governing bodies and senior management in the bank.

4. Other bank board/committee

Committee formation Article 77

- (1) The supervisory board shall be obligated to form an audit committee.
- (2) The supervisory board of a bank which is considered important given its size, internal organization and type, volume and complexity of operations it carries out shall be obligated to establish a risk committee, nomination committee and compensation committee.
- (3) If it is not an important bank in question and if the committees specified in paragraph 2 of this Article have not been appointed, the supervisory board shall be obligated to perform tasks of these committees.
- (4) The supervisory board shall form a risk committee, nomination committee and compensation committee, which shall have at least three members out of which one shall be a Chairman, and shall be appointed from among the members of the supervisory board, or members of the supervisory board and up to one person employed in the bank.
- (5) The supervisory board may also form other committees.
- (6) The Agency shall adopt an act to prescribe the criteria for identification of an important bank, tasks and method of organization and work of the committees specified in this Article, and method and extent of application of the requirements for the formation of committees.

Audit committee Article 78

- (1) The audit committee shall have at least three members, where the total number of members is an odd number, and shall be appointed by the supervisory board for a term of four years from among independent persons who are not persons related to the bank in the meaning of this Law.
- (2) At least one member of the audit committee has active knowledge of one of the languages in official use in Republika Srpska.
- (3) A member of the audit committee may not be a member of the supervisory board, the board of directors of the bank or a person employed in the bank, nor may he/she have a direct or indirect financial interest in the bank, except for the compensation for performing that function.
- (4) Members of the audit committee must have adequate knowledge and work experience in the area of finance, audit and accounting, out of which at least one person must have the

professional title of a certified auditor in accordance with the law governing accounting and audit.

(5) Members of the audit committee may be persons who are members of governing bodies within a banking group to which the bank belongs, if they meet the conditions specified in this Article.

Audit committee competences Article 79

(1) The audit committee shall:

- 1) propose to the supervisory board an internal audit plan,
- 2) review the reports of internal audit and other control functions, and give an opinion on these reports,
- 3) review the annual financial statement and reports on bank operations, along with the report of the audit company, submitted to the supervisory board and bank general meeting and other financial reports, and give an opinion on these reports,
- 4) examine the application of accounting standards in the preparation of financial statements,
- 5) analyze and supervise the application and adequate implementation of the adopted risk management strategies and policies and the implementation of the system of internal controls,
- 6) report to the supervisory board on undertaken activities, as well as on identified irregularities immediately after becoming aware of them, and propose the manner of their rectification,
- 7) report to the supervisory board on the implementation of recommendations based on internal and external audit reports,
- 8) submit to the supervisory board and general meeting a special report on contracts concluded between the bank and persons in a special relationship with the bank,
- 9) report to the supervisory board on the compliance of bank operations with the law, other regulations and business standards,
- 10) conduct the proceedings and propose to the supervisory board an audit company of the bank, and, if necessary, gives a reasoned proposal for dismissal of the audit company,
- 11) monitor and review, with the bank audit company, the annual audit of bank financial statements,

12) propose to the bank supervisory board that certain issues pertaining to internal and external audit be put on the agenda of the bank general meeting,

13) submit to the supervisory board quarterly, semiannual and annual report on its work, and

14) convene a meeting of the supervisory board if it deems that the interests of shareholders have been threatened or identifies illegalities and irregularities of the governing bodies.

(2) The audit committee shall be obligated, when it deems that the bank operates contrary to the law and any other regulation, statute or another bank internal document, to give recommendations to the bank supervisory board for rectification of identified illegalities and irregularities, and to demand the convening of an extraordinary session of the bank general meeting in case that identified illegalities and irregularities may have serious consequences for bank operations.

(3) Members of the audit committee shall hold meetings in the bank head office at least once every three months, and more often if necessary.

Risk committee Article 80

(1) Persons that jointly have appropriate knowledge, skills and professionalism in order to fully understand and monitor the implementation of risk management strategy and policies, as well as the bank risk appetite may be appointed to the risk committee.

(2) The risk committee shall be obligated to report to the supervisory board on the implementation of the risk taking and risk management strategy, adequacy and method of implementation of the adopted risk management policies and procedures, as well as on the adequacy and reliability of the overall risk management system, assist in and supervise the implementation of the adopted strategies, and advise the supervisory board on the overall current and future risk propensity without prejudice to the responsibility of governing bodies in the overall risk management and supervision of the bank.

Nomination committee Article 81

The Nomination committee shall:

1) propose members of the supervisory board and board of directors,

2) regularly, but no less than once a year, assess the structure, size, composition and operations of the supervisory board and board of directors and propose changes as necessary,

3) regularly, but no less than once a year, assess knowledge, skills and experience of the individual members of the supervisory board and board of directors, and those of the supervisory board and board of directors as a whole and shall notify these authorities of the assessment,

4) regularly reexamine policies for selecting members of the supervisory board and board of directors and for appointing senior management, give recommendations to the supervisory board and board of directors and propose amendments thereto if necessary, taking into consideration gender representation,

5) continuously, to the extent possible, ensure the absence of dominant influence of individuals or a small group of individuals in the decision-making process of the supervisory board and board of directors for the purpose of protecting bank interests as a whole, and

6) perform other tasks in accordance with the Agency's regulations.

Compensation Committee Article 82

(1) The compensation committee shall be formed in a manner facilitating the passing of expert and independent decisions on compensation policies and practices, as well as on the influence of compensations on risk, capital and liquidity management of the bank.

(2) The compensation committee shall prepare a proposal of policies and decisions in relation to salaries, benefits, bonuses and other earnings of employees, members of the supervisory board and other boards/committees, while taking into account all prescribed requirements in terms of respect for the long-term interests of shareholders, investors and other interested parties of the bank, as well as the public interest, and making sure that the compensations are commensurate with the tasks performed, bank financial condition and operating results.

(3) The Agency shall adopt an act to prescribe rules and criteria in relation to the compensation policy of the bank.

Bank credit committee Article 83

(1) The bank board of directors shall appoint one or more credit committees.

(2) The bank credit committee shall decide on credit applications and perform other tasks in accordance with bank internal documents.

5. Bank secretary

Secretary Article 84

- (1) The bank shall have a secretary.
- (2) Responsibility, qualifications, procedure, and competences for appointment and dismissal of the secretary are determined in the bank Statute.
- (3) The rights and obligations of the secretary, the amount of compensation, as well as other matters shall be regulated by a contract concluded between the secretary and the bank.

Power of attorney
Article 85

A bank may grant a power of attorney and other authorizations in accordance with a special document of the Agency.

CHAPTER V
BANK OPERATIONS

Application of regulations
Article 86

(1) A bank and an organizational unit of a bank with a registered office in the Federation of Bosnia and Herzegovina and the Brčko District of Bosnia and Herzegovina which operates in Republika Srpska shall be obligated to conduct its operation in accordance with the law, the Agency's regulations, terms and conditions and restrictions set out by the operating license, i.e. the establishment approval, and standards and rules of the profession.

(2) During its operation, the bank shall be obligated to continuously maintain capital adequacy, solvency, the required level of liquid assets, i.e. payment capacity and creditworthiness, and to ensure the diversification of its assets and liabilities.

(3) Diversification, in the meaning of this Law, shall constitute the investment of funds in a number of different legal and natural persons or collecting and borrowing funds from a number of different legal and natural persons.

1. Governing System

Scope of the governing system
Article 87

(1) A bank shall be obligated to establish and implement a comprehensive, reliable and effective governance system, which is proportionate to the bank size, type and complexity of bank operations, i.e. the bank risk profile.

(2) The governing system shall include:

1) a transparent organizational structure with clearly defined and consistent levels of responsibilities,

- 2) an effective and reliable system of risk management, which includes effective and reliable processes for identifying, managing, monitoring, mitigating and reporting of risk exposures,
- 3) an adequate system of internal controls, which includes clear administrative and accounting procedures,
- 4) compensation policies and practices, consistent with the scope of assumed risk and effective and reliable risk management,
- 5) adequate procedures for internal assessment of bank capital adequacy and liquidity, and
- 6) adequate recovery plans.

Organizational structure Article 88

(1) A bank shall be obligated to establish a clear and transparent organizational structure with well defined and consistent lines of powers and responsibilities in a manner which:

- 1) facilitates effective communication and cooperation of all organizational levels, including an adequate flow of information in the bank,
- 2) limits and prevents conflict of interest, and
- 3) sets clear and documented decision-making process.

(2) The bank shall be obligated to timely identify business areas with a potential conflict of interest, and ensure that a conflict of interest in any form is prevented accordingly.

Risk management Article 89

(1) A bank shall be obligated to set up a comprehensive and effective system of risk management in such manner that:

- 1) pass the appropriate risk management strategies, policies and procedures,
- 2) set out risk management processes and procedures based on the documents specified in Item 1 of this Paragraph, which shall cover the following:

1. identification and assessment of major risks to which the bank is or could be exposed in its operations,

2. risk measurement through established processes and procedures for accurate and timely risk measurement or assessment,

3. measures to limit and mitigate risks in a manner which shall reduce such risks to a minimum negative effects on bank operations and solvency,

4. risk monitoring, analysis and control,

5. appropriate lines for timely and ongoing reporting to governing bodies on risks.

3) set out a proper organization of tasks for effective implementation of risk management processes and procedures, with clearly defined, transparent and consistent powers and responsibilities within the bank, for the purpose of unambiguous distinction of risk management tasks from risk exposure tasks and for prevention of conflict of interest,

4) provide an information system that ensures comprehensive and reliable collection of data necessary for monitoring and analysis of all risks to which the bank is exposed,

5) conduct testing of bank's resilience to stress by using multiple scenarios, taking into account the assumptions about changes of external and internal factors which can have a significant influence on risks in bank operations, and

6) prepare action plans for unforeseeable or emergency situations during bank operations.

(2) The bank shall be obligated to ensure independent assessment of the functioning of established system of risk management which shall be assessed by the audit committee and audit company.

(3) The Agency shall adopt an act to prescribe the specific manner for establishing and implementing a risk management system which covers all risks to which the bank is or could be exposed in its operations.

Types of risks in bank operations

Article 90

(1) Risk management must be established in such ways as to cover all risks to which the bank is or could be exposed in its operations, but in particular with regard to the following risks:

1) Credit risk,

2) Market risk,

3) Operational risk,

- 4) Liquidity risk,
- 5) Concentration risk,
- 6) Interest rate risk in the banking book,
- 7) Country risk,
- 8) Compliance risk,
- 9) Strategic risk,
- 10) Reputational risk,
- 11) Settlement risk, and
- 12) Other risks to which the bank is exposed.

(2) Credit risk is the risk of potential occurrence of negative effects on the bank financial result and capital as a result of non-fulfillment of obligations of a debtor towards the bank.

(3) Market risk is the risk of potential occurrence of negative effects on the bank financial result and capital due to changes in market prices, and it includes:

1) foreign exchange risk, which is a risk of changes in the exchange rates and changes in the price of gold,

2) position risk, which is a risk of changes in securities prices or, in case of derivative financial instrument, of changes in the price of the underlying (primary) instrument, and

3) commodity risk, which is a risk of changes in commodity prices.

(4) Operational risk is the risk of potential occurrence of negative effects on the bank financial result and capital as a result of employee omissions, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as resulting from the occurrence of unforeseen external events, including legal risk.

(5) Liquidity risk is the risk of potential occurrence of negative effects on the bank financial result and capital as a result of bank's inability to meet its outstanding liabilities, due to:

1) withdrawal of existing sources of funding or inability to obtain new sources of funding, or

2) difficulties in converting assets into liquid funds due to market disturbances.

(6) Concentration risk is the risk originating directly or indirectly from bank's exposure toward the same or similar source of risk or the same or similar type of risk, and pertains to exposure toward a single person or a group of related persons, a group of exposures with the same or similar risk factors, such as economic sectors, geographical areas, product types and credit protection instruments, including indirect exposure toward the provider of credit protection.

(7) Interest rate risk in the banking book is the risk of potential occurrence of negative effects on the bank financial result and capital based on positions in the banking book as a result of changes in interest rates.

(8) Country risk the risk pertaining to the country of origin of a person toward which the bank is exposed and represents potential occurrence of negative effects on the bank financial result and capital due to bank's inability to collect receivables from debtors for reasons resulting from political, economic or social conditions in the country of origin of the debtor, and which includes political and economic risk and transfer risk.

(9) Compliance risk is the risk of potential occurrence of negative effects on the bank financial result and capital as a result of failures of compliance with the law and other regulations governing the bank operations, and the bank internal documents, and includes particularly the risk of sanctions imposed by the Agency.

(10) Strategic risk is the risk of potential occurrence of negative effects on the bank financial result and capital as a result of the lack of appropriate policies and strategies, and their inadequate implementation, as well as resulting from changes in the environment in which the bank operates or the absence of an appropriate response to these changes on the part of the bank.

(11) Reputational risk is the risk of potential occurrence of negative effects on the bank financial result and capital as a result of a loss of confidence in the integrity of the bank occurring due to unfavorable public opinion of bank business practices or activities of the members of bank bodies, regardless whether or not there is a basis for such public opinion.

(12) Settlement risk is the risk of potential occurrence of negative effects on the bank financial result and capital due to difference in agreed settlement price for a certain debt, equity, foreign exchange or commodity instrument and its current market value.

Scope of the system of internal controls

Article 91

(1) A bank shall be obligated, for the purpose of ensuring lawful, safe and stable operation of the bank, to establish an effective system of internal controls to monitor risks, efficiency and effectiveness of bank operations, reliability of its financial statements and other information, and compliance of bank operations with the regulations, internal documents, principles and standards of profession,.

(2) The bank shall be obligated to establish and implement an effective system of internal controls in all business areas, which shall include at least the following:

- 1) establishment and maintenance of an adequate organizational structure,
- 2) establishment of bank control functions,
- 3) adequate control activities and division of duties,
- 4) appropriate internal controls integrated into bank business processes and activities, and
- 5) establishment and maintenance of appropriate administrative and accounting procedures.

Bank control functions
Article 92

(1) A bank shall be obligated to establish the following control functions:

- 1) Risk management function,
- 2) Compliance monitoring function, and
- 3) Internal audit function.

(2) At the proposal of the board of directors, the supervisory board adopts a decision on the establishment of each of the control functions specified in paragraph 1 of this Article and shall be obligated to establish them as organizational units, regardless of the business processes and activities in which the risk occurs or which these functions monitor, control and evaluate.

(3) A specific control function may not be organized within another bank control function.

(4) Notwithstanding paragraph 3 of this Article, the bank may organize the compliance monitoring function within the risk management function or another function if it is appropriate given the bank size, and types, volume and complexity of its operations, provided that the tasks of this function may not be organized within the internal audit function.

(5) When establishing control functions, the bank shall be obligated to:

- 1) apply the principle of proportionality to the size, type and complexity of the bank operations and the bank risk profile,
- 2) cover all major risks to which it is or could be exposed in its operations,

- 3) prevent any conflict of interest,
- 4) establish direct reporting to the bank supervisory board,
- 5) provide a sufficient number of employees with appropriate professional knowledge and experience, as well as adequate information and technical support, and
- 6) appoint persons responsible for the work of the control functions and notify the Agency of their appointment.

(6) The Agency shall adopt an act to prescribe the scope and method of performing the bank control functions, conditions that must be met by persons performing control function tasks, as well as the manner in which the bank management examines the efficiency of bank control functions in accordance with Article 71 paragraph 8, item 2 of this law.

Persons performing control function tasks Article 93

(1) In proportion to its size, internal organization, type, volume and complexity of the operations carried out, the bank shall be obligated to ensure for each control function a sufficient number of persons who must have appropriate professional knowledge and experience.

(2) Persons who perform control function tasks may not be persons related to the bank, nor may they be persons having a conflict of interest, in order to ensure independence and objectivity in the performance of their tasks.

(3) If the performance of the tasks of a specific control function is entrusted to a larger number of persons, the bank must have heads of organizational units of the control functions, to be appointed and dismissed by the bank supervisory board, which shall also set the compensation for their work.

(4) The heads of organizational units of the control functions and employees in these units shall be independent in their work and shall perform exclusively the tasks for which they are responsible.

(5) The bank employees shall be obligated to provide persons performing control function tasks access to all documentation in their possession and all necessary information.

(6) The bank shall be obligated, without delay, but no later than within three business days from the appointment of a head of each control function, to notify the Agency of the appointment, as well as of the reasons for the replacement of these persons.

(7) The bank shall be obligated to ensure regular professional education and training of persons performing control function tasks.

Risk management function

Article 94

Within the risk management function, a bank shall be obligated to ensure the performance of the following tasks as a minimum:

- 1) risk analysis, which includes identification, measurement or assessment of risks to which the bank is or could be exposed in its operations,
- 2) continuous monitoring of all major risks to which the bank is or could be exposed in its operations, including risks from the macroeconomic environment,
- 3) implementation of stress testing,
- 4) risk control in a manner so that the negative effects on the bank operations and solvency are reduced to a minimum,
- 5) review of the implementation and effectiveness of methods and procedures for management of risks to which the bank is or could be exposed in its operations, including risks from the macroeconomic environment,
- 6) testing and evaluation of the adequacy and efficacy of internal controls in the process of risk management, and evaluation of the adequacy of risk management methodology,
- 7) participation in the development and review of risk management strategies and policies, risk management methods and procedures, and shall give proposals and recommendations for effective risk management,
- 8) analysis, monitoring, and reporting on the bank capital adequacy, and verification of strategies and procedures for internal assessment of capital adequacy,
- 9) analysis, monitoring, and reporting on the adequacy of bank liquidity, and verification of strategies and procedures for internal assessment of bank liquidity,
- 10) analysis of risks inherent to new products or new markets, and
- 11) implementation of other verifications necessary for adequate risk control.

Compliance monitoring function

Article 95

(1) A bank shall be obligated to establish and develop a compliance monitoring function in a manner that ensures:

- 1) monitoring of compliance of bank operations with this Law, the Agency' regulations and other regulations and prudential banking standards, anti-money laundering and financing of terrorist activities procedures, as well as other documents governing the bank operations,

2) identification of omissions and assessment of risks as consequences of non-compliance of bank operations with the law and other regulations, in particular the risk of implementation of supervisory measures and sanctions imposed by the Agency and other competent authorities, financial losses, as well as reputational risk,

3) consulting the board of directors and other responsible persons on the manner of application of relevant laws, standards and rules, including information on current developments in these areas, and

4) assessment of the effects that the amendment of relevant regulations will have on bank operations.

(2) The organizational unit in charge of compliance monitoring of bank operations shall be obligated to draw up a program of compliance monitoring of bank operations, including in particular the work methodology of that organizational unit, planned activities, method and deadlines for preparing reports, method for checking the compliance, as well as the employee training plan.

Internal audit function Article 96

(1) A bank shall be obligated to organize an internal audit function as a separate organizational unit, functionally and organizationally independent of the activities that it audits and from other bank organizational units.

(2) The bank shall be obligated to carry out the internal audit function in accordance with regulations, standards of professional practice of internal auditing and basic principles of organization and work of the internal audit.

(3) The internal audit organizational unit shall evaluate:

1) the adequacy of risk management function and compliance monitoring function, for the purpose of identifying, monitoring and control of key risks, and undertaking appropriate measures for their limitation and mitigation,

2) the accuracy, correctness and reliability of the system of accounting records and financial statements of the bank,

3) the adequacy of the information system in the bank,

4) strategies and procedures for internal assessment of capital adequacy and internal assessment of liquidity adequacy,

5) the reliability of the reporting system, as well as timeliness and accuracy of the reports prescribed with this Law and other laws, as well as regulations passed on the basis of these laws,

- 6) the system of collection and correctness of information which are made public in accordance with this Law,
- 7) management and protection of bank assets,
- 8) the implementation of the policy on salaries, benefits and other earnings in the bank,
- 9) any weaknesses in bank operations and its employees, as well as cases of a failure to meet one's obligations and overstepping one's authority,
- 10) bank actions under the orders and recommendations of the Agency and audit company,
- 11) other bank operations prescribed by this Law and other regulations, and
- 12) shall perform other tasks necessary for the achievement of the objectives of internal audit.

(4) The internal audit organizational unit shall be obligated to give to the bank supervisory board and audit committee an independent and objective opinion on the issues subject to the audit, provide advice and recommendations for improvement of the existing system of internal controls and bank operations, as well as to provide assistance to the supervisory board and audit committee in the achievement of their objectives, while applying a systematic, disciplined and documented approach to the evaluation and improvement of the existing method of control, risk management and process management.

(5) The bank must have at least one employee in the internal audit organizational unit who has the title of certified and internal auditor in accordance with the regulations governing the area of accounting and auditing.

(6) Employees of the internal audit organizational unit may not perform management tasks or other tasks within the scope of bank activities, except for tasks pertaining to the performance of internal audit, nor may they participate in the preparation and development of internal documents and other documentation that may be subject to internal audit.

Internal audit powers Article 97

(1) Employees of the internal audit organizational unit shall have the right to access business books, financial statements and entire documentation of the bank and its subordinate companies, as well as of the members of the same banking group, and to supervise, without limitation, the bank operations and attend meetings of the supervisory board and its committees.

(2) The board of directors, supervisory board and audit committee of the bank shall be obligated to ensure timely and effective undertaking of measures based on recommendations of

the internal audit, for the purpose of rectifying any observed irregularities and weaknesses identified in the internal audit reports.

Reporting on the implementation of control functions Article 98

(1) The head of specific organizational unit of a control function shall report directly to the supervisory board, and shall inform the board of directors, audit committee and other appropriate committee of the bank and shall attend the meetings of these authorities at least once a year.

(2) The heads of organizational units of the control functions shall prepare quarterly, semiannual and annual reports on risk management, compliance monitoring and internal audit, and submit them to the board of directors, supervisory board and audit committee.

(3) The reports specified in paragraph 2 of this Article, along with a statement of the board of directors and audit committee, shall be adopted by the bank supervisory board.

(4) If, in the course of performing his/her duties, the head of a specific control function determines business illegality or violation of risk management rules and procedures that jeopardize the liquidity, solvency or security of bank operations, he/she shall be obligated to notify immediately the board of directors, supervisory board, audit committee and the Agency about it.

(5) The heads of organizational units of the control functions shall submit annual reports on their work to the bank supervisory board and audit committee.

(6) The bank shall be obligated to submit to the Agency the reports of the control functions specified in paragraph 2 of this Article, which have been adopted by the bank supervisory board.

(7) The Agency shall adopt an act to prescribe the content and time frame for submission of the reports specified in paragraph 6 of this Article.

Compensations in a bank Article 99

(1) A bank shall be obligated to establish and implement adequate policies and practices regarding compensations and other earnings of bank employees, aligned with bank business strategy, bank objectives and long-term interests, and the risk-taking strategy in a manner that does not encourage risk taking above the acceptable level of risk for the bank.

(2) The Agency shall adopt an act to prescribe the minimum requirements for the establishment and implementation of compensation policies and practices in the bank.

Procedure of internal assessment of the bank
capital adequacy and liquidity
Article 100

(1) A bank shall be obligated to set up an adequate, effective and comprehensive strategy of capital planning and procedures for ongoing assessment of the level and structure of capital required for coverage of all risks to which the bank is or could be exposed in its operations.

(2) The bank shall be obligated to set up adequate, effective and comprehensive strategies, policies, processes and systems for identification, measurement and monitoring of liquidity risks and procedures for ongoing assessment of the level and structure of liquid funds and sources of funding necessary for bank operations.

(3) The Agency shall adopt an act to prescribe the minimum requirements for implementation of the procedure of internal assessment of capital adequacy and liquidity in the bank, as well as the manner and timelines for reporting to the Agency.

Development of a recovery plan
Article 101

(1) A bank shall be obligated to develop a recovery plan containing measures and strategies to be undertaken by the bank in case of significant deterioration of its financial condition, for the purpose of reestablishing sustainable operation and an adequate financial position.

(2) The Agency may prescribe a lower scope of the recovery plan and a lower frequency of its updates for banks whose size, business model and relation to other institutions or the financial sector as a whole ensures that their failure will not have a negative impact on the financial markets, other institutions or financing conditions.

(3) The recovery plan and any amendments to the plan adopted by the bank supervisory board shall be submitted to the Agency for assessment, and their content shall be considered as a business secret.

(4) The bank shall be obligated to audit the recovery plan:

1) at least once a year or

2) after changes in legal or organizational structure of the bank, its business model or financial condition, which could significantly affect the implementation of the recovery plan or require its amendment, or

3) in case of changes in the assumptions used during the development of the recovery plan which may have a significant impact on its implementation, or

4) when requested by the Agency pursuant to item 2 and 3 of this paragraph.

(5) The recovery plan shall not bind the Agency and shall not give the right or bind the bank and third parties to implement measures and strategies contained in the plan, if it is not deemed as necessary due to altered circumstances.

(6) Regardless of paragraph 5 of this Article, the Agency shall have the power, within its supervisory function, to impose on the bank one or more measures of early intervention pertaining to the implementation of recovery plan.

(7) The submission of recovery plan shall not prevent the Agency from undertaking measures against that bank in accordance with its statutory powers.

Content of the recovery plan Article 102

(1) With the recovery plan, a bank shall be obligated to set out different recovery options and measures that would be applied within each of these options, as well as to ensure appropriate conditions and procedures for taking timely action for its recovery.

(2) The bank shall be obligated to set out recovery activities and measures also based on the forecasts of different situations in which serious macroeconomic and financial distress relevant for the operation of that bank could occur, including systemically important events and disturbances pertaining to the operation of specific persons or a group of companies.

(3) The recovery plan shall contain a description of the various recovery activities and measures to be undertaken by the bank in relation to capital and liquidity, deadlines for the implementation of specific elements of the plan and identification of critical functions, as well as other elements and data prescribed by the Agency.

(4) The recovery plan shall also include measures to be undertaken by the bank when the conditions for early intervention have been met and may not assume the use of emergency public financial support from budgetary and other public funds.

(5) The measures set out with the recovery plan shall include in particular changes of members of the governing bodies and other persons in executive positions in the bank, changes in the division of duties and responsibilities of employees, closing of one or more organizational units, modification of the bank business activities, ensuring additional capital, conversion of appropriate capital elements into shares or other equity instruments, etc.

(6) The Agency shall adopt an act to prescribe the specific content of the recovery plan, as well as method and deadline for its submission.

Assessment of the recovery plan Article 103

(1) The bank shall be obligated to submit the recovery plan to the Agency for assessment of adequacy and feasibility of proposed measures to maintain or resume regular operation and financial position of the bank, and evaluation of possibilities for rapid and effective implementation of measures in situations of financial distress.

(2) During the assessment of adequacy of the recovery plan, the Agency shall take into account the adequacy of capital structure and bank funding depending on the complexity of the bank organizational structure and risk profile.

(3) The Agency shall be obligated, within six months from the date of submission of the recovery plan, to carry out its review and assess the extent to which the plan meets the requirements in terms of content as specified in Article 102 of this Law.

(4) If the provided recovery plan contains major deficiencies or impediments for the implementation of the plan, the Agency may order the bank to:

- 1) submit additional information for the assessment of the recovery plan,
- 2) amend the recovery plan within a given deadline, for the purpose of addressing any deficiencies or resolving any impediments, and
- 3) update the recovery plan with a plan for renegotiation of some or all of the bank debts.

(5) If the bank does not submit the plan or does not act, within the given deadline, in accordance with the Agency's order specified in paragraph 4 of this Article, the Agency may undertake appropriate supervisory measures against the bank and, if necessary, require from the bank to:

- 1) reduce the risk profile, including liquidity risk,
- 2) ensure timely capital increase,
- 3) review business policy and strategy,
- 4) make changes in parts of business policy and strategy pertaining to financing, in order to provide additional protection for key business activities and critical functions,
- 5) make changes in governance, and
- 6) review the organizational structure.

(6) In determining the measures specified in paragraph 5 of this Article, the Agency shall assess severity of identified deficiencies of the recovery plan, as well as limitations and consequences of the implementation of measures and plan for recovery of bank operations.

(7) In addition to the obligation of drawing up and submitting the bank recovery plan, the Agency may order another company, i.e. financial organization of the banking system, given its importance in the domestic banking or financial system, to submit the recovery plan, which shall be subject to the provisions of this Law on the development, content, assessment and implementation of the bank recovery plan.

(8) If the bank, which is required to submit the recovery plan, is engaged in financial intermediation in accordance with this Law, the Agency shall notify the competent regulatory authority of the recovery plan.

Implementation of the recovery plan Article 104

(1) The recovery plan shall contain quantitative and qualitative indicators of the bank financial condition, based on which it is determined when a certain measure from the plan may be undertaken, while the bank still may, if this is justified by the circumstances of a particular situation and pursuant to a decision of the bank supervisory board, undertake recovery measures even when not indicated by specific indicators of this plan, or may not apply the measures even if so indicated by these indicators.

(2) The bank shall be obligated to ensure in the appropriate manner regular monitoring of the indicators specified in paragraph 1 of this Article.

(3) The bank shall be obligated to notify the Agency in writing, without delay, on passed decision to undertake measures from the recovery plan or passed decision not to undertake measures from the recovery plan even if the conditions for its undertaking have been met, and to provide the appropriate reasons along with the notification.

(4) The Agency shall adopt an act to prescribe the minimum quantitative and qualitative indicators specified in paragraph 1 of this Article.

Recovery plan of a banking group Article 105

(1) The recovery plan of a banking group shall contain measures and activities whose implementation is required at the level of the banking group as a whole, especially the parent company and each individual subsidiary, as well as the manner in which the coordination and consistency of implementation of these measures and activities is to be ensured.

(2) The controlling bank of a banking group, which is subject to control by the Agency on a consolidated basis, shall be obligated to draw up and submit to the Agency for approval a recovery plan of the banking group, which sets out measures to achieve stability and reestablish an appropriate financial condition at the level of the banking group as a whole and each individual member of that group.

(3) The recovery plan of a banking group with a controlling holding company, i.e. a controlling parent company shall be submitted to the Agency by the bank which is under the control of that holding company or parent company and which has a head office in Republika Srpska.

(4) The provisions on development and content, assessment and implementation of the recovery plan specified in this Law shall also apply to the recovery plan of a banking group.

(5) The Agency shall adopt an act to prescribe the content, manner and timeframe for delivery of the recovery plan of a banking group.

2. Limitations in bank operations

Large Exposure Article 106

(1) The bank exposure toward a single person is the total amount of balance sheet and off-balance sheet items which represent receivables from a single person or a group of related persons, after the appropriate reductions of these items, in accordance with the Agency's regulations.

(2) Large exposure of a bank is the exposure of the bank toward a single person or a group of related persons totaling or exceeding 10 percent of the bank eligible capital.

(3) The bank shall be obligated to adopt policies and procedures for identification and monitoring of individual and total exposure, keep records, monitor and report on exposure, in accordance with the Agency's regulations.

Maximum permissible exposure Article 107

(1) It is forbidden for a bank exposure toward a single person or group of related persons after applying the credit risk reduction technique to exceed 25 percent of its eligible capital.

(2) The maximum permissible amount of credit receivables that is not secured by collateral in accordance with the Agency's regulations toward a single person or group of related persons may be up to 5 percent of the bank eligible capital.

(3) The total exposure of the bank toward its controlling and subordinate company and persons related thereto shall be subject to the limitations prescribed in this Article.

Prior approval for exposure by the supervisory board Article 108

The conclusion of an individual legal transaction based on which the total exposure of the bank would lead to a large exposure of the bank toward a single person or group of related

persons and to each subsequent increase of that exposure, shall require the prior approval of the bank supervisory board.

Exceeding the maximum permissible exposure Article 109

(1) In the trading book, the bank may, as an exception, exceed the exposure specified in Article 107 of this Law if the following conditions have been met:

1) the exceeding of the exposure specified in Article 107, paragraph 1 of this Article originates entirely from the trading book,

2) the bank is obligated to meet the additional capital requirement in relation to the exceeding of exposure specified in Article 107, paragraph 1 of this Article,

3) if up to 10 days have passed since the exceeding in the trading book, it is forbidden for the exposure in the trading book toward that person or that group of related persons to exceed 500 percent of the bank eligible capital, and

4) if all instances of exceeding the limit of 25 percent of eligible capital from the trading book last longer than ten days, it is forbidden for the exposure to exceed 600 percent of the bank eligible capital all together.

(2) In every instance of exceeding the limitation, the bank shall notify the Agency without delay, of the amount by which exposure has been exceeded and the name of the person or group of related persons to which the exceeding of limitation pertains.

(3) The bank shall attach to the notification a description of measures that it will be undertaken for the purpose of harmonizing with the requirements of this Article and provide a deadline for the implementation of these measures.

(4) The eligible capital, in the meaning of this Law, shall be equal to the bank regulatory capital.

(5) The Agency shall adopt an act to prescribe the procedure and method of calculation of large exposures, and the maximum allowable sum of all large exposures.

Business operations with a person in a special relationship with the bank Article 110

(1) Legal transactions of the bank with a person in a special relationship with the bank shall include operations that the bank performs with this person and with a person related to the person in a special relationship with that bank.

(2) During its operation, the bank may not approve conditions to a person from paragraph 1 of this article that are more favorable than the conditions approved to other persons which are not in a special relationship with that bank.

(3) The Agency shall prescribe the amount above which it is necessary to obtain a prior approval of the bank supervisory board to conclude a legal transaction between the bank and a person from paragraph 1 of this article.

(4) The bank may conclude a legal transaction and take steps pertaining to the legal transaction specified in paragraph 3 of this Article after obtaining the written approval of the bank supervisory board.

(5) It is not allowed for a member of the supervisory board and board of directors of the bank to participate in the consideration or approval of any legal transaction between him/herself and the bank, between the bank and any member of his/her family, and between the bank and a legal person in which he/she or any member of his/her family takes part in governance or management, or in which they have a significant or controlling interest.

(6) A legal person that the bank concludes contrary to the conditions prescribed in paragraph 2, 3, 4, and 5 of this Article shall be a null and void legal transaction.

(7) The approval specified in paragraph 3 of this Article shall not be mandatory in case of:

- 1) making deposits of persons in a special relationship with the bank,
- 2) granting a loan secured by a linked deposit of a person in a special relationship with the bank,
- 3) granting a loan secured by debt securities of Republika Srpska or debt securities of persons whose rating, according to the assessment of recognized international rating agencies, is not below A.

(8) It is forbidden for the bank to approve loans to shareholders before the expiration of one year from the date when the bank started operating.

(9) The Agency shall adopt an act to prescribe the manner of performing bank operations with persons from paragraph 1 of this article.

Interest of a bank in other legal persons Article 111

(1) It is forbidden for a bank, directly or indirectly, without the prior approval of the Agency, to have:

- 1) an interest in a legal person or in a subsidiary of that legal person which exceeds 5 percent of the bank eligible capital, or

2) a total net value of all bank interest in other legal persons and subsidiaries of these legal persons over 20 percent of the bank eligible capital.

(2) The bank interest in a single legal person from the financial sector, directly or indirectly, may be up to 15 percent of its eligible capital.

(3) The bank interest in a person which is not a person in the financial sector may not exceed 10 percent of its eligible capital, or 49 percent of the capital of that person.

(4) The total interest of the bank in persons which are not persons in the financial sector may be up to 25 percent of the bank eligible capital, and the total interest of the bank in persons in the financial sector may be up to 50 percent of its eligible capital.

(5) Bank loans extended to legal entities in which the bank has investments shall be deemed as an interest subject to the limitations specified in this Article.

(6) The Agency shall issue the approval specified in paragraph 1 of this Article if the following criteria have been met:

- 1) the acquisition of interest does not lead to arbitrary risk exposure,
- 2) the acquisition of interest does not prevent the effective supervision conducted by the Agency, implementation of supervisory measures or unimpeded bank restructuring,
- 3) the bank has adequate funding, and management and organizational capacities for such transaction, and
- 4) the bank has the ability to manage risks arising from non-banking operations.

(7) The Agency shall issue the approval specified in paragraph 1 of this Article for the bank investment abroad if, in addition to the criteria specified in paragraph 6 of this Article, the following conditions have also been met:

- 1) a provided adequate flow of information necessary for consolidated supervision,
- 2) existence of an effective supervision in the host country, and
- 3) ability to exercise supervision on a consolidated basis.

(8) The exceptions to the limitations on total investments of the bank in fixed assets shall also be taken into consideration with regard to the limitations specified in this Article.

Investment in fixed assets
Article 112

(1) The total investment of a bank in its fixed assets may not be greater than 40 percent of the amount of bank eligible capital.

(2) The investments specified in paragraph 1 of this Article shall not be deemed investments acquired by the bank within a period of three years after acquisition in exchange for its receivables in financial restructuring proceedings, in bankruptcy and enforcement proceedings, and through the use of collateral instruments, in accordance with the law governing enforcement proceedings.

3. Outsourcing

Outsourcing of bank business activities Article 113

(1) Outsourcing is contractual entrusting of the performance of bank activities to authorized service providers, which the bank would otherwise perform itself.

(2) In the meaning of paragraph 1 of this Article, the following shall not be deemed to be outsourcing:

- 1) procurement of goods and services,
- 2) rental or lease,
- 3) utilities, and
- 4) other standardized services prescribed by the Agency.

Conditions for outsourcing Article 114

(1) A bank shall be obligated to set up an adequate system for managing risks related to outsourcing.

(2) The bank may outsource activities that facilitate the performance of bank operations, including activities that support the performance of these activities, if the outsourcing does not interfere with:

- 1) the performance of regular bank operations,
- 2) the effective risk management of the bank,
- 3) the system of internal controls of the bank, and

4) the Agency's ability to exercise supervision of outsourced materially significant activities.

(3) If the bank intends to outsource materially significant activities, it shall be obligated to notify the Agency about it and submit the prescribed documentation.

(4) Within 90 days from the date of receipt of notification and prescribed documentation, the Agency shall determine whether the conditions for outsourcing in accordance with the law and by-laws have been met and shall notify the bank of the assessment results.

(5) If the Agency assesses that, in intended or existing outsourcing, the bank cannot adequately manage the risks related to the outsourcing, it may require the fulfillment of additional conditions or prohibit the outsourcing.

(6) The Agency shall adopt an act to prescribe the concept of materially significant activities, elaborate the conditions for the outsourcing, and prescribe the content of documentation and deadline for submission of the notification and documentation specified in paragraph 3 of this Article.

Prohibition of outsourcing Article 115

(1) It is forbidden for a bank to outsource the performance of operations for which it has obtained an operating license from the Agency in accordance with this Law.

(2) The bank responsibility to third parties may in no event be transferred to service providers.

(3) It is forbidden for the bank to outsource the rights and obligations of the governing bodies, as well as the performance of bank control functions as defined by this Law.

(4) Notwithstanding the paragraph 3 of this Article, the bank may outsource certain segments of the internal audit function on conditions and in a manner prescribed by the Agency.

4. Purchase and sale of bank placements

Contract on the purchase and sale of bank placements Article 116

(1) A bank may conclude a contract on the purchase and sale of placements.

(2) By means of the contract on the purchase and sale of placements, the selling bank shall transfer to the placement buyer, which is authorized by law, a placement (receivables from credits, interest, loans, held-to-maturity investments, except for investments in debt securities and similar) or risks and benefits from placements, resulting in the de-recognition of the

placements from the bank balance sheet in accordance with the International Financial Reporting Standards.

(3) The bank may conclude a contract on the purchase and sale of placements after obtaining the consent of the Agency that the general terms for the purchase and sale of placements, as well as special conditions for purchase and sale of a materially significant amount of placements, prescribed by this Law and Agency's regulations, have been met.

(4) The bank may assign placements from credits and other services granted to a user of banking services only to other banks or financial organizations licensed by the Agency.

(5) The Agency shall adopt an act to prescribe:

- 1) the scope of placements for purchase and sale,
- 2) the funding of the purchase and sale of placements,
- 3) the general and special conditions for purchase and sale of placements,
- 4) materially significant amount of placements,
- 5) documentation to be submitted by the bank to the Agency for the purposes of meeting prescribed conditions, and
- 6) other issues in relation to the purchase and sale of placements.

General conditions for the purchase and sale of placements Article 117

(1) The selling bank may carry out purchase and sale of placements if the following conditions have been met:

- 1) the contract for the purchase and sale of placements is economically justified,
- 2) the selling bank has prepared an assessment of the effects of placements sale,
- 3) the financing of sale, management and collection of placements is conducted in accordance with the provisions of this Law and the Agency's regulations,
- 4) the purpose of sale is not to generate income that would otherwise not be possible for the selling bank, and
- 5) requests, in writing, the consent of the Agency no later than within 30 days before concluding a contract for the purchase and sale of placements.

(2) When the selling bank concludes the contract for the purchase and sale of placements with a buyer from a banking group, the following conditions must also be met in addition to the conditions specified in paragraph 1 of this Article:

1) the purpose of sale of placements is not to avoid fulfillment of the capital requirements, other credit-rating, as well as other requirements prescribed by this Law and the Agency's regulations,

2) the purpose of sale is not to generate income that would otherwise not be possible for the selling bank individually or on a consolidated basis for the banking group.

(3) The selling bank does not assume, directly or indirectly, responsibility for the quality of sold placements, including their collectability and credit rating of a debtor, on the basis of which the agreed sale price was determined.

Obligation of the selling bank Article 118

(1) The selling bank, before passing a decision on the conclusion of a contract for the purchase and sale of placements, shall be obligated to ensure that an independent appraiser assesses the value of receivables, as well as assesses the value of the effects of sale of placements on the bank financial result, business continuity, reputation, risk exposure, solvency, liquidity, and on the protection of users of banking services, if subject to the sale are placements approved to users of banking services.

(2) If the selling bank assumes the responsibilities for management and collection of sold placements, it shall be obligated to negotiate a fee for the performance of these tasks at least in the amount of actual costs and, in the collection of sold placements, apply the same business policies and procedures that it applies in the collection of its own placements.

(3) Before passing a decision on the conclusion of a contract for the purchase and sale of placements, the selling bank shall be obligated to assess the buyer with respect to its financial, personnel and technical capacity for taking over the subject of purchase and sale.

(4) The Agency shall adopt an act to prescribe the criteria for assessment of the buyer as specified in paragraph 3 of this Article.

Debtor protection in purchase and sale of placements Article 119

(1) When concluding a contract for the purchase and sale of placements, the selling bank and the placement buyer which manages and collects the purchased placements shall be obligated to make sure that the debtor is not placed into a less favorable position than the position that the debtor would have had if the placement had not been transferred, and the debtor may not be subjected to additional costs as a result of the aforementioned.

(2) The selling bank and the buyer of placements based on loans approved to a user of banking services shall be obligated to apply the provisions of this Law governing the protection of rights and interests of users of banking services and other regulations governing consumer protection.

Special conditions for purchase and sale of materially significant amount of placements
Article 120

(1) The selling bank may conclude a contract for the purchase and sale of materially significant amount of placements if, in addition to the general conditions for the purchase and sale of placements, the following special conditions have also been met:

- 1) ensured permanent transfer of placements or risks and benefits from the placements,
- 2) the selling bank does not assume, directly or indirectly, responsibility for the quality of sold placements, including their collectability and credit rating of a debtor, on the basis of which the agreed sale price was determined, and
- 3) the management and collection of sold placements is carried out in accordance with the Agency's regulations.

(2) No later than within 60 days before concluding a contract for the purchase and sale of materially significant amount of placements, the selling bank shall be obligated to request in writing the Agency's consent regarding the fulfillment of general and special conditions for purchase and sale and submit prescribed documentation.

Funding of the purchase and sale of placements
Article 121

(1) The selling bank shall be obligated to arrange that the buyer discharges its obligation to pay the agreed price onto the seller's account immediately, but no later than within 60 days from the date of conclusion of the contract for the purchase and sale of placements.

(2) Notwithstanding the paragraph 1 of this Article, in special cases, at the request of the selling bank, the Agency may also allow other methods and time frames for settlement of the agreed price.

(3) The selling bank may not, directly or indirectly, finance the sale of its placements or risks and benefits from the sale of placements.

Permanency of transfers under the purchase and sale of placements
Article 122

(1) The selling bank must ensure that the placements or risks and benefits from of the sale of placements are permanently transferred to the buyer.

(2) Should reasons occur for the termination of the contract for the purchase and sale of placements, the selling bank and the placement buyer may not agree upon a return of the placements, but shall have the right to a compensation for damages due to the termination of the contract.

5. Bank relations with clients

Publication of general terms and conditions of operations Article 123

(1) In the meaning of this Law, general terms and conditions of operations mean every document which contains the standard terms and conditions of operations applicable to all bank clients, the general terms and conditions for setting out the relations between clients and bank, the communication procedure between clients and bank and the general terms and conditions for performing transactions between clients and bank.

(2) The general terms and conditions of operations shall also include documents which set fees and other charges which the bank charges to clients.

(3) The bank shall be obligated to publish and make the general terms and conditions of operations, as well as any amendments thereto, available to clients in one of the languages in official use in Republika Srpska, no later than 15 days before they become applicable.

(4) The publications of the general terms and conditions of operations shall be done by way of posting on the bank web site or in a convenient location in the bank business premises where services are provided to the client (brochures, fliers, bulletin boards with exchange rate lists, etc.), and may also be done through the public media.

(5) The general terms and conditions of operations shall constitute an integral part of the contract concluded between the bank and client and must be permanently available to the clients for the duration of their validity.

(6) The client may seek from the bank appropriate clarifications and instructions pertaining to the application of the general terms and conditions of operations.

(7) The obligation to publish the general terms and conditions of operations specified in this Article shall also apply to the bank affiliates with a head office in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina established in Republika Srpska.

(8) The Agency may adopt an act to prescribe the content of the general terms and conditions of operations, and method of their publication and application.

Client notification Article 124

(1) The bank shall be obligated to provide the client, at the latter's request, with information about the client's credit balance or deposit account balance, as well as other information within the business relation between the client and bank.

(2) The Agency may adopt an act to prescribe a uniform method of calculation and publication of charges, interest and banking service fees, especially for deposit, credit, and payment transactions, as well as the method for notification of bank clients.

Client Complaint Article 125

(1) If a client is of the opinion that the bank does not comply with its contractual obligations, the client may send a complaint to the bank in the manner set out in the bank general terms and conditions of operations.

(2) The bank shall be obligated to respond to the complaint submitter specified in paragraph 1 of this Article within 30 days from the date of complaint submission.

(3) The Agency shall have the power to check whether the bank adheres to the good business practices, published general terms and conditions of operations and provisions of the contracts with the clients.

(4) The Agency shall adopt an act to elaborate the conditions and method for protection of client rights, and conditions and manner of handling client complaints by the bank.

6. Banking secrecy

Concept of banking secrecy Article 126

(1) A banking secret is data, fact or finding which has become known to members of the bank bodies and committees, shareholders, and bank employees in the performance of operations and discharge of the duties within their competence, as well as persons of the company conducting an external audit of the bank and other persons which, due to the nature of their work, have access to this data, and whose disclosure to an unauthorized person would or could cause harmful consequences for the bank and its clients (hereinafter: confidential information).

(2) The term banking secrecy as specified in paragraph 1 of this Article shall apply especially to the following:

1) data known to the bank and pertaining to personal data, financial status and transactions as well as to the property or business relations of natural and legal persons which are clients of that or another bank,

2) data about the balance and activity on individual accounts of natural and legal persons opened in the bank.

(3) The term banking secrecy shall not apply to:

1) public information and information available to interested parties with legitimate interest from other sources,

2) aggregate data based on which it is not possible to identify personal or business data about individual persons to which this data pertains,

3) information about bank shareholders, the level of their interest in the shareholders capital of the bank, as well as information about other persons, regardless whether they are clients of the bank, and

4) public information from the unified register of accounts.

(4) A banking secrecy is a business secret.

(5) All organizational units of banks with a head office in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina established in Republika Srpska shall be subject to the provisions of this Law governing banking secrecy.

Obligation to keep bank secrecy

Article 127

(1) Persons specified in Article 126, paragraph 1 of this Article who have confidential information available obtained in the performance of tasks and duties within their competences must be kept by these persons, in accordance with this Law, regulations passed on the basis thereof and other regulations governing the keeping of confidential information and may not be used by these persons for their personal needs nor may they be exchanged by these persons with third parties.

(2) Persons specified in paragraph 1 of this Article shall be obligated to keep confidential information even after the end of their employment in the bank, the end of their involvement with the bank or the end of the status on the basis of which they have had access to this information.

(3) The bank shall be obligated to adopt an internal document which identifies data considered to be confidential information, the way to access, use, exchange, keep and protect such information, as well as the procedure for terminating the secrecy of information.

Exceptions to bank secrecy

Article 128

(1) Persons from Article 126 paragraph 1 of this Law are not obliged to keep the bank secrecy if the information is disclosed:

1) to a third party with written consent of the client to which the information pertains,

2) for the purpose of exercising the interests of bank in the sale of placements of clients,

3) to a competent court, prosecutor's office or persons acting under their orders, pursuant to a decision or request of the competent court or prosecutor's office, if such information is necessary for proceedings conducted by them within their competences, and in accordance with regulations governing their work,

4) to the competent court or administrative authority in relation to the enforcement or court or bankruptcy administrator related to bankruptcy against the assets of bank client,

5) to the Agency and other competent regulatory authorities for the purpose of performing tasks within their competence,

6) to the Ombudsman for the banking system, if the interests or obligations of the bank or banking service users require disclosure of confidential information in proceedings for the resolution of disputed issues between the bank and banking service users or other arbitration or mediation proceedings,

7) upon written request of tax authorities, inspection and other control authorities in accordance with regulations governing their work,

8) to the Deposit Insurance Agency of Bosnia and Herzegovina, in accordance with the regulations on the insurance of bank deposits,

9) to insurance companies in the process of insurance of bank receivables, which are related to those receivables,

10) in the conclusion of legal transactions which result in securing bank receivables, such as credit derivatives, bank guaranty and other similar operations,

11) in the event where a bank which provides services of keeping and administration of financial instruments on behalf of clients delivers to a bank which is an issuer of dematerialized securities, at the latter's request, information about the holders of such securities,

12) upon written request of a social work center for the purpose of taking measures within their jurisdiction,

13) upon written request of a person which has unduly paid funds onto the account of a bank client, i.e. only information that is necessary in order to initiate court proceedings for the return of unduly paid funds,

14) to the competent authority for restructuring, liquidation or bankruptcy of the bank, if confidential information is necessary for the settlement of creditor claims, and other applications pertaining to proceedings of restructuring, liquidation or bankruptcy of the bank, except information pertaining to other entities which are involved and have a legal interest in these proceedings,

15) to the Central Bank of Bosnia and Herzegovina or another competent authority in accordance with regulations governing supervision of payment systems or payments, within their jurisdiction,

16) to a foreign competent regulatory authority which is authorized to give and revoke operating licenses to persons in the financial sector or exercises control and supervision of these persons, only for the purposes of control and supervision within their jurisdiction, which shall also apply to emergency situations, under the conditions provided for in the cooperation agreement signed between that authority and the Agency,

17) to the Ministry of internal affairs and anti-organized crime and anti-corruption authority in accordance with regulations,

18) to the competent authorities in accordance with regulations governing the area of prevention of money laundering and financing of terrorist activities,

19) to the person established for the purpose of collecting data on the amount, type and timeliness of fulfillment of obligations of natural and legal persons using banking services and exchange of this information between banks and between banks and persons in the financial sector (credit bureau), in accordance with a special law or under the conditions provided for in the cooperation agreement signed between the banks and that person,

20) within a banking group for the purposes of risk management,

21) to a co-borrower, pledgor, guarantor or other participant in a credit relationship, but only information about that credit relationship,

22) to an outsourcing service provider, when disclosure of information is necessary for the implementation of bank activities subject to outsourcing,

23) to foreign authorities and other bodies, if provided for in international treaties,

24) to other authorities exercising equal powers, in accordance with a special law,

25) to the audit company for the purpose of conducting an external audit of bank reports,
and

26) pursuant to other laws.

(2) The bank shall be obligated to ensure that each individual contract on the provision of banking services contains a provision that the client gives the consent specified in paragraph 1, Item 1) of this Article in a separate document.

(3) The bank may request written consent in a separate document specified in paragraph 2 of this Article only for an individually identified third party.

(4) When the exchange of confidential information is done on the basis of client's written consent specified in paragraph 1, Item 1) of this Article or the information is provided in accordance with paragraph 1, Item 19) of this Article, the bank shall be obligated to meet the following conditions:

1) ensure that the information provided is accurate, complete and up-to-date,

2) ensure that the client, at the latter's request, has access to client information to be provided by the bank,

3) ensure that the information exchanged in this manner is not on a greater scale than necessary for the purposes of the exchange, and

4) keep the received information until the deadline necessary for the purpose for which the information is provided.

(5) The Agency may adopt an act to elaborate the conditions of exchange of confidential information from paragraph 4 of this Article.

Handling of confidential information Article 129

Persons specified in Article 128, paragraph 1 of this Law may use confidential information which has become known to them in accordance with this Law solely for the purpose of which it has been obtained and may not disclose it to third parties, nor may they facilitate such parties in finding out and using this information, except in cases prescribed by this Law.

7. Other bank obligations

Prevention of money laundering and financing of terrorist activities Article 130

(1) It is forbidden for a bank to acquire, carry out conversions or transfers, or act as an agent in the acquisition, conversion or transfer of money or other assets which the bank knows or can reasonably expect to be the proceeds of a criminal offense.

(2) It is forbidden for the bank to perform a transaction which, according to regulations governing the area of prevention of money laundering and financing of terrorist activities, the

bank knows or can reasonably expect to be intended for money laundering and financing of terrorist activities.

(3) It is forbidden for the bank to carry out conversions or transfers, or act as an agent in the acquisition, conversion or transfer of money or other assets which the bank knows or can reasonably expect that could be used for terrorist activities, in accordance with regulations governing the prevention of money laundering and financing of terrorist activities, regulations governing the introduction and implementation of certain interim measures for the purpose of effective implementation of international restrictive measures and resolutions of the United Nations Security Council.

(4) It is forbidden for the bank to carry out conversions or transfers, or act as an agent in the acquisition, conversion or transfer of money or other assets, which the bank knows or can reasonably expect that could be used by individuals or legal persons or authorities which obstruct or threaten obstruction or pose a significant risk of actively obstructing the implementation of peace process, in accordance with regulations governing the introduction and implementation of certain interim measures for the purpose of effective implementation of international restrictive measures.

(5) The bank shall be obligated to ensure a system of internal controls, as well as to adopt policies and procedures to detect and prevent transactions involving criminal activities, money laundering, financing of terrorist activities and activities that obstruct the introduction and implementation of international restrictive measures.

(6) The bank shall be obligated to develop a risk assessment, which determines the degree of risk of groups of clients or an individual client, business relationship, transaction or product in connection with the possibility of abuse for the purpose of money laundering or financing of terrorist activities, in accordance with the regulations in this area.

(7) In its operation, the bank shall be obligated to perform obligations and tasks, and to take measures and actions defined by regulations governing the prevention of money laundering and financing of terrorist activities.

(8) The bank shall be obligated to submit the Agency, in the form prescribed by the Agency, a monthly statistical report on transactions specified in paragraph 2 to 4 of this Article, of which it has notified the competent authority for the receipt and analysis of the reports.

Bank reserve requirements Article 131

The bank shall be obligated to keep and maintain required reserve funds in accordance with regulations passed by the Central Bank of Bosnia and Herzegovina, as well as to implement other provisions of the law that regulates the Central Bank of Bosnia and Herzegovina.

Retention of documentation Article 132

(1) A bank and the organizational units of banks with a head office in the Federation of Bosnia and Herzegovina and the Brčko District of Bosnia and Herzegovina established in Republika Srpska shall be obligated to retain documentation, data and records of their operations in physical or electronic form, in accordance with regulations governing archival activity, prevention of money laundering and financing of terrorist activities, accounting and auditing, other laws, as well as the Agency's regulations.

(2) Banks are required to keep payment orders and other documents on opened accounts and executed payment transactions at least 10 years from the date of opening the account and the date of execution of the payment transaction.

CHAPTER VI PROTECTION OF RIGHTS AND INTERESTS OF BANKING SERVICE USERS

1. Basic provisions on user protection

User protection Article 133

(1) When carrying out activities and providing services in accordance with this Law and other laws, a bank shall be obligated to ensure protection of rights and interests of the users of banking and other services arising from them.

(2) A user, in the meaning of this Law, is a natural person which enters into a relationship with the bank in order to use services for purposes other than its intended business or other commercial activity (hereinafter: user).

(3) Banking services are services provided by the bank to users in operations of loan approval, receiving deposits and savings deposits, account opening and management, approval of account overdraft, issuance and use of payment cards, as well as other operations arising from them and which the bank performs in accordance with the law (hereinafter: services).

(4) With respect to user protection under a loan contract, the user shall have equal rights under loans granted by banks, microcredits granted by microcredit organizations and financial leasing granted by banks and leasing providers, unless otherwise regulated by a special law.

(5) When providing services, the organizational units of a bank with a head office in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina operating in Republika Srpska shall be obligated to apply the provisions of this Law governing the protection of rights and interests of banking service users.

Basic principles of user protection Article 134

(1) The bank shall ensure protection of user rights and interests through the adoption and consistent application of general terms and conditions of operations and other internal documents, which must be harmonized with the regulations and based on good business practices and fair treatment of the user.

(2) The basic principles of user protection, in the meaning of this Law, shall include:

- 1) the principle of conscientiousness and honesty,
- 2) the principle of acting with due professional care in the performance of one's obligations,
- 3) the principle of equal relationship of the user with the bank,
- 4) the principle of protection against discrimination,
- 5) the principle of transparent operation and disclosure,
- 6) the principle of negotiating determined or determinable obligations, and
- 7) the user's right to complaint and redress.

(3) The bank shall be obligated to adhere to the principles specified in paragraph 2 of this Article in all phases of the establishment and duration of a relationship with the client (advertising, negotiation phase and handover of a draft agreement, signing of an agreement, use of the service and duration of the contractual relationship).

2. General terms and conditions of operations of a bank

Application of the general terms and conditions of operations of a bank

Article 135

(1) During the performance of tasks and obligations within its activity, the bank shall be obligated to apply the general terms and conditions of operations and to act with professional care in relation to the user.

(2) Professional care is increased attention and skill reasonably expected from the bank in legal transactions in its dealings with the user, in accordance with rules of profession, good business practices and the principle of conscientiousness and honesty.

(3) The general terms and conditions of operations prescribe the standard conditions of the bank operations applicable to users, the conditions for establishing a relationship and the communication procedure between the user and the bank, as well as the conditions for performing transactions in the operations of loan approval, receiving deposits, opening,

maintaining and closing an account, issuance and use of payment cards, as well as other operations which the bank performs in accordance with the law.

Announcement of the general terms and conditions of operations of a bank
Article 136

The bank shall be obligated to make the general terms and conditions of operations in accordance with Article 123 of this Law in a clear and understandable manner, providing accurate, complete, unambiguous and standard information presented with a representative example, which are necessary for the average user in order to make an appropriate decision on the use of service and on the establishment of a relationship with the bank.

Prohibitions in advertising
Article 137

(1) It is forbidden for a bank to use inaccurate and untrue information in advertising, as well as data and information which may mislead the average user or can create a misleading picture of the terms of service and lead the user to making a decision which the user would not make under different circumstances, and to use data that cause damage or is likely to cause damage to a competitor financial organization of the banking system.

(2) In advertising, the bank shall be prohibited to use expressions describing the service as free or similar expressions, if the approval for use of that service is contingent on the conclusion of another contract or is contingent on anything that constitutes an expense or creates another obligation for the user.

3. Disclosure of information to a user during the negotiation phase

Standard information sheet
Article 138

(1) During the negotiation phase, the bank shall be obligated to inform the user about the terms and conditions and all essential characteristics of the service offered in the form of a standard information sheet which shall be presented to the user as a representative example of the service, in written or electronic form, which must contain:

- 1) type of service,
- 2) name and address of bank head office,
- 3) the amount of service, currency designation and terms of use,
- 4) contract duration,

5) the amount and variability of nominal interest rate and elements based on which the contractual variable nominal interest rate is determined, their amount at the time of contract

conclusion, periods in which they will vary and how they will vary, as well as the fixed element if agreed,

6) the effective interest rate and the total amount which the user must pay or which must be paid to the user, shown through a representative example indicating all of the elements used in the calculation of these rates,

7) the amount and number of loan annuities and the periods in which they mature (monthly, quarterly, etc.),

8) the costs of managing one or more accounts to be used to record transactions, except if that opening of an account is not only an offered option, along with the cost of using a specific means of repayment, both for payment transactions, and for withdrawal of funds, and any other fees and costs arising from the contract, specifying whether they are fixed or variable and the conditions under which they may vary,

9) information on the obligation to use notary services when signing a contract,

10) information on the obligation to sign an ancillary service contract related to the primary contract, especially when the signing of such contract is mandatory in order to obtain service according to the terms of advertisement,

11) the interest rate applicable in case of delays in the settlement of obligations and the rules for its adjustment, as well as other fees paid in the event of default,

12) a warning in relation to the consequences of a failure to meet one's obligations,

13) as necessary, instruments for securing the fulfillment of obligations with information about the order and manner of settling obligations from the security instruments,

14) the user's right to withdraw from the contract, the terms and conditions and manner of withdrawal, as well as the costs associated with that,

15) the user's right for early repayment of loans and bank's right to a fee, as well as the amount of that fee,

16) the user's right during the assessment of user's creditworthiness, to receive, free of charge, a notice on the results of the database examination,

17) the user's right to receive a free copy of the contract draft, except if, at the time of filing of the user's application, the bank assesses that it does not want to establish a relationship with the user in the specific legal transaction,

18) the period which binds the bank according to information provided in the information sheet, and

19) the terms and conditions for making a cash deposit with the bank, if it is a prerequisite for granting a loan, as well as the possibility and terms and conditions for offsetting loans and deposits.

(2) All data and information pertaining to a service offered by the bank must be written in the same font size and equally visible in the standard information sheet.

(3) The Agency may adopt an act to also prescribe additional elements of the standard information sheet, depending on the type of service offered to the clients.

Disclosure of information to the user and contract draft Article 139

(1) At the user's request, the bank shall be obligated to clarify data, provide information and give adequate explanations in relation to the service offered, in a way that enables the user to compare offers from different service providers, to identify advantages, disadvantages and specific risks that the service may cause to the user's economic position and to assess whether the service suits the user's needs and financial situation, the purpose of making an informed decision about the service use.

(2) Before the signing of a contract, the bank shall be obligated to provide the user with all information about the service or make available all essential terms and conditions and elements of the contract from which the rights and obligations of the contracting parties are clearly evident, and at the user's request, free of charge, hand over the contract draft for consideration outside bank premises, within a period defined in the standard information sheet.

(3) If the service is being negotiated in foreign currency equivalent or in foreign currency according to the regulations on foreign exchange operations, the bank shall be obligated to bring to the user's attention the foreign exchange and other risks undertaken by the user in this case.

Professional competence of bank employees Article 140

(1) The bank shall be obligated to ensure that employees engaged in the sale of services or in providing advice to users have appropriate qualifications, knowledge and experience, professional and personal qualities, are familiar with the rules of profession and act in accordance with good business practices and business ethics, respect the personality and personal integrity of the user, and to inform the user, at the latter's request, fully and accurately about the terms of service use.

(2) The bank shall be obligated to conduct ongoing training and improvement of employees in sales of services or provision of advice to users, in accordance with the market needs and requirements.

4. General provisions on service provision contracts

Rules of negotiation Article 141

(1) The bank shall be obligated to prepare the service contracts concluded with a user in writing and provide a copy of the contract to each contracting party.

(2) The monetary contractual obligation must be determined or determinable.

(3) The monetary contractual obligation is determinable in amount if the contract contains data through which its level can be determined or if it depends on negotiated variable elements or variable and fixed elements, where the variable elements are those which are officially published (reference interest rate, consumer price index, etc.).

(4) The monetary obligation is determinable in time if its maturity can be determined based on the negotiated elements.

(5) The elements specified in paragraph 3 and 4 of this Article must be of such nature that they are not affected by unilateral will of either of the contracting parties.

(6) The bank contracts may not contain general guiding standards on business policy when it comes to mandatory elements of the contract provided for in this Law.

(7) The bank shall be obligated to set the monetary contractual obligation in the manner defined in the provisions of this Article.

(8) When the monetary contractual obligation is undetermined or undeterminable with respect to the terms of conditions for providing and using the service, the contract shall be deemed null and void.

(9) If the contracting parties have regulated their relations in the presence of a defect of consent or under threat, gross misrepresentation or fraud, the other party, which is aware of the defect, may seek annulment of the contract and compensation for damages, in accordance with the law governing contractual relations.

Mandatory contract elements Article 142

The mandatory contract elements of loan, time deposit, savings deposit, account opening and management, and authorized account overdraft are as follows:

- 1) type of service,
- 2) name and address of the contracting parties,
- 3) amount, currency designation and terms of service use,
- 4) period for which the service is negotiated,
- 5) amount of nominal interest rate, specifying whether it is fixed or variable, and, if variable, the elements based on which it is determined (reference interest rate, consumer price index, etc.), their level at the time of contract conclusion, periods in which it will vary, as well as fixed element if agreed,
- 6) effective interest rate and total amount which the user must pay or which must be paid to the user, calculated as of the date of contract conclusion,
- 7) method to be applied when calculating interest rate (conformal, proportional, etc.),
- 8) costs of managing one or more accounts to be used to record deposit and withdrawal transactions, except if opening of an account is not only an offered option, along with the cost of using a specific means of repayment, both for payment transactions, and for withdrawals of funds, and any other fees and costs arising from the contract, specifying whether they are fixed or variable and conditions under which they may vary,
- 9) penalty interest rate applicable in case of delays in the settlement of obligations and rules for its adjustment, as well as other fees paid in the event of default,
- 10) warning in relation to the consequences of a failure to meet one's obligations, and
- 11) procedure for the protection of user rights, use of extrajudicial complaint and address of institution to which it is filed.

Amendments of contract elements
Article 143

(1) If a bank intends to amend any of the mandatory elements of a contract concluded with a user, it shall be obligated to provide user's written consent before the application of that amendment, except for changes of a variable interest rate, agreed upon in accordance with the provisions of this Law and, in the case an automatic extension of the contract has been agreed upon, provided that the bank has notified the user in accordance with this Law.

(2) If the user does not agree with the changes of mandatory elements of the contract, the bank may not unilaterally change the terms and conditions set out in the contract, or terminate or cancel the contract unilaterally, except under the reasons provided for in the regulations governing contractual relations.

(3) Notwithstanding paragraph 1 and 2 of this Article, if the bank proposes amendments to the contract provisions of an account opening and management, it shall be obligated to provide the user with a written proposal of these amendments, no later than two months before the proposed date of commencement of their application, during which time frame the user may agree to the proposed amendments.

(4) If, within the time frame specified in paragraph 3 of this Article, the user does not notify the bank that the user does not agree with the proposed contract amendments of the account opening and management, it shall be deemed that the user has agreed to the proposed amendments, only if such an assumption has been agreed upon.

(5) The proposal for amendments of contract provisions on the account opening and management must also include a notification of the bank of the existence of contractual assumption specified in paragraph 4 of this Article and a notification about the user's right to terminate the contract within the time frame specified in paragraph 3 of this Article, if the user does not agree with that proposal.

(6) The user may terminate contract on account opening and management at any time, without paying compensation and without notice, unless a notice period, which may not be longer than 30 days has been agreed upon.

(7) The bank may terminate contract on account opening and management concluded for an indefinite period of time, if so agreed, and with a notice period which may not be shorter than two months, and for reasons provided for in the regulations governing contractual relations or another law.

(8) The bank shall be obligated to have a statement of termination delivered to the user in writing.

(9) If the user or the bank terminates contract on account opening and management, the user shall be obligated to pay a fee only for the services rendered up to the date of termination, and if such fee has been paid in advance, the bank shall be obligated to return the proportional part of the fee paid.

(10) The bank shall be obligated to notify the user, within time frame and in the manner determined by the contract, of changes in data which are not mandatory elements of the contract.

(11) The user shall be obligated to notify the bank immediately of changes in all data essential for the exercise of rights and obligations from a legal transaction with the bank; otherwise the bank shall not be responsible for inability to notify the user.

Interest rate
Article 144

(1) Interest rate is fixed if the bank and the user have agreed to a uniformed interest rate for the entire duration of the contract or several interest rates for certain periods using only a certain fixed percentage.

(2) If the contract does not set out all interest rates, the interest rate shall be considered fixed only for those periods for which, at the time of contract signing, the rate was set only by a certain fixed percentage agreed upon at the time of contract signing.

(3) The interest rate is variable if its level depends on negotiated variable elements or variable and fixed elements, where the variable elements are those which are officially published (reference interest rate, consumer price index, etc.), which elements may not be affected by the unilateral will of either of the contracting parties.

(4) The bank shall be obligated to determine the variable interest rate in the manner defined by this Law.

(5) If the variable interest rate has been negotiated, the bank shall be obligated to make public and available to the user, in an appropriate location in its business premises, data on the trend of the value of agreed variable elements specified in paragraph 3 of this Article.

(6) The effective interest rate indicates total costs of service paid for or received by the user of that service, where these costs are expressed as a percentage of the total amount of the service on an annual level, determined according to the methodology prescribed by the Agency.

(7) The bank shall be obligated to calculate and present the effective interest rate in a uniform, prescribed manner and make it available to the public and users for the purpose of comparing contemporaneous offers of different banking service providers, in accordance with the provisions of this Law and the Agency's regulations.

Ancillary service contract Article 145

(1) The bank may not restrict the user by the selection of a provider of an ancillary service necessary for the conclusion and implementation of a contract with the user.

(2) If the conclusion and implementation of a contract with the user contingent on the signing of an ancillary service contract, where the price of the ancillary service may not be set in advance, the conditions for signing such contract must be given in a clear, concise and evident manner, along with the effective interest rate.

(3) The ancillary services shall not include services for opening and managing of one or more accounts to be used solely for the purpose of recording deposit, payment and withdrawal transactions, as well as other transactions arising from the use of agreed service.

(4) The costs of opening, managing and recording transactions on accounts as specified in paragraph 3 of this Article shall be presented to the user during the negotiation phase and shall

be included in the calculation of the total costs of the service expressed through the effective interest rate.

4.1. Loan contract

Assessment of creditworthiness Article 146

(1) Before signing of a loan contract, a bank shall be obligated to assess the creditworthiness of a user, guarantor or any other person who personally guarantees the fulfillment of the user's obligations, based on appropriate documentation and information obtained from the user, by examination of credit registers, with written consent of the person to which the data from the register pertain, as well as public registers and databases.

(2) Before signing of a loan contract, the bank shall be obligated, with a prior written consent of the user, guarantor or any other person who personally guarantees the fulfillment of the user's obligations, to inform them mutually and present them with documentation and information obtained in the process of assessing creditworthiness.

(3) If a person does not agree to have obtained information and documentation for assessment of that person's creditworthiness disclosed to other persons, the bank shall be obligated to make this fact known to other persons.

(4) The provisions of this Article shall not apply in cases where such disclosure of information is expressly prohibited by separate compulsory regulations.

(5) If contracting parties agree to an increase of the credit liability of the user as a debtor, the bank shall be obligated to reassess the creditworthiness of the user, guarantor or any other person who personally guarantees the fulfillment of the user's obligations, before any significant increase in the total credit amount.

Provision of collateral Article 147

(1) If a bank secures the fulfillment of the user's obligations under loan approval by means of collateral provision, it shall be obligated during the negotiation phase to acquaint the guarantor with the subject of the collateral, the form of collateral required by the contract, the scope of the guarantor's responsibility which the guarantor undertakes giving a surety statement, and to present to the guarantor all information or make available all essential elements of the contract clearly showing the rights and obligations of the contracting parties, and at the guarantor's request, free of charge, hand over the contract draft for consideration outside of bank premises.

(2) The bank shall be obligated, before the signing of a surety contract, to provide a copy of the surety contract, concluded in writing between the user and the guarantors, for the content of which the bank shall not be responsible.

(3) The bank and the user may not alter the mandatory elements of the contract increasing the scope of the guarantor's liability, without the guarantor's prior written consent.

Mandatory elements of a loan contract
Article 148

(1) In addition to the mandatory elements specified in Article 142 of this Law, a loan contract shall also include the following mandatory elements:

1) for loans indexed in foreign currency – the currency in which the bank indexes the loan, the type of exchange rate applied in approval and repayment of loan (buying or selling exchange rate of the Central bank of Bosnia and Herzegovina, or the official average exchange rate, or buying or selling exchange rate of the bank), as well as the accounting date,

2) user's right to receive from the bank in agreed manner, at least once a year, free of charge, a written statement on the balance of the user's loan indebtedness, including data about the amount of repaid principle and interest, as well as the amount of remaining debt,

3) total loan costs,

4) total amount which the user must pay,

5) if necessary, a provision on the obligation to use and pay for the costs of notary services,

6) instruments for securing the fulfillment of obligations with information about the order and manner of settling obligations from the security instruments,

7) user's right to withdraw from the contract, the conditions and manner of exercising that right, and

8) terms and manner for early loan repayment and the amount of bank charges on this basis.

(2) Total loan costs for the user include interest, fees, taxes and all other fees and expenses that are directly related to the approval and use of loan and are included in the calculation and presentation of the effective interest rate.

(3) The total amount which the user must pay represents the sum of loan amount and the total loan costs borne by the user.

(4) When signing a loan contract, along with the contract, the bank shall provide the user with a copy of the loan repayment plan which is considered an integral part of the contract, and the bank shall retain the second copy for its records.

Changes of loan contract elements
Article 149

(1) If interest, fees and other costs of loan contract are variable, the bank must base changes in their value on the elements agreed upon in accordance with the provisions of this Law, which are made public.

(2) The bank may not change a variable interest rate in time frames other than those agreed upon, and shall be obligated to adjust the amount of variable interest rate according to the set variable element to which the interest is adjusted according to the contract, and which is made public and is valid as of the deadline for adjustment of the interest rate.

(3) If the bank approves a loan which is indexed in foreign currency, the user shall have the right to repay the loan according to the same type of exchange rate as the one used in the loan disbursement (buying or selling exchange rate of the Central bank of Bosnia and Herzegovina, or the official average exchange rate, or buying or selling exchange rate of the bank), and the bank shall be obligated to allow the user to exercise such right.

(4) If, in order to obtain loan, the user has the obligation to make a special purpose deposit with an agreed interest rate with the bank, the bank shall be obligated to apply the same method of calculating interest on deposit as the one applied to the calculation of interest on the approved loan.

Right of withdrawal
Article 150

(1) A bank may not make loan funds available to the user before the expiration of 14 days from the date of contract signing, except at the user's explicit request.

(2) The user shall have the right to withdraw from a concluded loan contract, without providing any reasons for the withdrawal, within 14 days from the date of contract signing, i.e. within the shorter time frame agreed for making loan funds available at the user's explicit request, provided that the user has not started using loan funds.

(3) The user shall be obligated to notify the bank in writing about the user's intent to withdraw from the contract, whereby the date of receipt of the notice shall be considered as the date of withdrawal from the contract.

(4) In case of the user's withdrawal from a concluded loan contract, the bank shall have the right to charge accrued fee for the processing of loan application which may not be greater than the fee if the user had not withdrawn from the loan.

(5) The bank shall be prohibited from negotiating and charging the user a fee as penalty in case of the user's withdrawal of loan contract.

(6) In case of the user's withdrawal of loan contract secured by mortgage, as well as a contract the subject of which is the purchase or financing the purchase of real estate, the bank shall have the right to reimbursement only of the actual costs incurred by the conclusion of the contract, which the bank shall be obligated to bring to the user's attention before the contract signing.

(7) If the bank or a third party pursuant to the loan contract provides ancillary services related to that contract, the user shall no longer be bound by ancillary service contract if the user exercises the right to withdraw from the contract, in accordance with this Article.

(8) The provisions of this Article shall also apply to an authorized account overdraft contract and a credit card contract.

Early loan repayment Article 151

(1) The user may repay a loan, in full or partially, prior to the set repayment term, whereby the user shall have the right to a reduction of total costs of the loan by the amount of interest and costs for the remaining period of the contract (early repayment), but shall be obligated to notify the bank in advance about the intent of early loan repayment, in writing, within the agreed time frame.

(2) In case of early loan repayment, the bank shall have the right on objectively justified and agreed compensation of costs directly related to the early loan repayment, provided that the early repayment is done during a period when a fixed interest rate applies and if the amount of early loan repayment in a period of one year is greater than the limit values set by the Agency.

(3) The bank may not request compensation for early repayment:

1) if the repayment was done pursuant to a concluded insurance contract whose purpose was to secure repayment,

2) if the repayment is done during a period for which a variable nominal interest rate had been agreed, and

3) in case of an authorized overdraft.

(4) The fee for early loan repayment may never be greater than the amount of interest which the user would have paid during the time from the date of loan repayment to the date when the loan should have been repaid under the contract.

(5) The Agency shall prescribe additional terms and conditions for early loan repayment.

User delays in the settlement of obligations

Article 152

(1) In case the user is late in the settlement of obligations, the bank shall apply to the outstanding obligation the rules regarding interest applicable in case of a delay on the part of a debtor to settle obligations, in accordance with the regulations governing contractual relations.

(2) If, within the duration of contractual relationship, circumstances should occur leaving the user in a difficult financial situation or other relevant circumstances that are out of the user's control, at the user's request, the bank may declare a hold on repayment (moratorium) for a certain period of time, and during that period the bank shall not calculate default interest on outstanding receivables.

(3) In its general documents on operations, the bank may prescribe criteria for declaring a hold on repayment.

Written warning to a user Article 153

A bank may calculate and charge the user an agreed compensation for the costs of a written warning in case of non-fulfillment of obligations only if it is able to prove that the warning was delivered to the user being warned, i.e. that the written warning was returned to the bank due to the impossibility to deliver.

Notification right Article 154

(1) A bank shall be obligated to provide the user, in an agreed manner, and at least once a year, free of charge, with a written statement on the balance of the user's credit indebtedness, including data on the amount of paid off principle and interest, as well as the amount of remaining debt.

(2) In case of agreed variable interest rate, the bank shall be obligated to notify the user of any change in that rate, in writing or in any other agreed manner, before the changed interest rate begins to apply and to indicate in the notice the date as of which the changed rate is to apply.

(3) Along with the notice specified in paragraph 2 of this Article, the bank shall be obligated to provide the user, free of charge, with the modified loan repayment plan after applying the new interest rate.

Assignment of receivables under a loan contract Article 155

(1) If a bank assigns a receivable under a loan contract to another bank or financial organization licensed by the Agency – a successor, the user shall have the same rights toward the successor as the rights that the user had toward the bank, and the user may also lodge to the

second successor, apart from the complaints that the user has against the successor, those complaints that the user had against the bank under the loan contract, and the successor may not put the user into a less favorable position than the position which the user would have had if the receivable had not been transferred and, for this reason, the user may not be subjected to additional expenses.

(2) The bank shall be obligated to notify the user of the transfer of the right specified in paragraph 1 of this Article.

(3) The bank shall be prohibited from limiting, by negotiating and making its prior consent contingent, the transfer of rights under the loan contract with all related rights and guarantees to the guarantor or any other person who personally guarantees the fulfillment of the user's obligations and which has satisfied the bank's claim in full or partially.

Area of application Article 156

The provisions of this Law pertaining to user protection in loan approval operations shall not apply to:

- 1) loan contracts less than KM 400 and more than KM 150,000,
- 2) leasing contracts not stipulating the possibility for the lessee to acquire an ownership right over the subject of the lease,
- 3) loan contracts through a current account (authorized overdraft) with the obligation of repayment within 30 days,
- 4) loan contracts concluded in settlement proceedings before a court or before any other authority defined by law,
- 5) contracts to postpone the payment of existing debt under a loan, without paying a fee,
- 6) loan contracts where there is no obligation to pay any costs and contracts under which the loan must be paid off within three months, with payment of only negligible loan costs, and
- 7) loan contracts secured by a lien on movables, if the user's liability is strictly limited to the value of the pledged thing.

4.2. Other contracts

Time deposit and savings contracts Article 157

(1) In addition to the elements specified in Article 142 of this Law, time deposit and savings contracts also contain the following mandatory elements:

- 1) unconditional benefits which the bank offers in relation to the funds on the account,
- 2) plan for payment of funds from the account,
- 3) manner and terms of disbursement from the account within the limits of available funds,
- 4) terms and manner for automatic extension of time deposits, and
- 5) amount of insured deposit.

(2) In a time deposit contract, fees and other costs, if variable, must depend on the agreed elements which are officially published (reference interest rate, consumer price index, etc.) and whose nature is such that their value cannot be affected by the unilateral will of either of the contracting parties.

(3) When signing a time deposit contract, the bank shall be obligated to provide the user with one copy of the deposit payment schedule which is considered an integral part of the contract, and the bank shall retain the second copy for its records.

(4) In case of agreeing to automatic extension of time deposits, the bank shall be obligated to notify the user, no later than seven days before maturity, about the term for which the time deposit contract is extended and the new interest rate, and the user may terminate the contract no later than within 15 days from the date of receipt of that notice, free of charge and with the interest agreed to the expired time period.

Revolving loan contract Article 158

(1) A revolving loan contract is a loan contract which allows the user to draw the once approved loan amount several times and under the same conditions, over a certain period of time, provided that the unused part of the loan increases by the amount of repayment of the loan.

(2) The user shall have the right to terminate a revolving loan contract in the usual manner, at any time and free of charge, except if a notice period which may not be longer than one month has been agreed upon.

(3) The bank may cancel the revolving loan contract, if so agreed, with the obligation to notify the user in writing at least 30 days in advance.

(4) The bank may, for valid reasons (unauthorized loan use specified in paragraph 1 of this Article, significant deterioration of the user's creditworthiness, etc.) and, if so agreed, temporarily or permanently deny the user the right to withdraw funds, whereby the bank shall be

obligated to notify the user in writing or by electronic means of the reasons for the denial, if possible, immediately or within the next three days, except when such notification is prohibited by other regulations.

Authorized account overdraft contract
Article 159

(1) If a current account contract stipulates loan through an account (authorized account overdraft), the bank shall be obligated, in an agreed manner, at least at the end of each month, to notify the user with a separate statement of the opening balance, changes in the balance of the account per loans, debits, charges and payments, and the commissions and fees charged by the bank for services provided, as well as on the closing balance of the account for the reporting period.

(2) In addition to providing account balance statements, the bank shall be obligated to notify the user about the interest rates applied during the reporting period, as well as about any intended changes in interest rates, fees and costs before they are applied, within the time frame and in the manner set out by this Law.

(3) The account user may, without being charged a special fee, to withdraw funds from the user's account opened with the bank, to the level of the funds available on the account.

(4) The account user shall have the right to close the account free of charge.

Payment card contract
Article 160

(1) If a time deposit contract or a current account contract stipulates the issue and use of a payment card, the contract shall also include the following mandatory elements:

1) currency in which the card debt is calculated,

2) notification that there is a fee for withdrawing cash from an ATM of another bank, as well as the amount of the fee in case of withdrawing cash from an ATM of the issuing bank,

3) notification of the amount of fee for using payment card abroad, notification of the currency in which a transaction performed abroad is recorded, as well as notification of the exchange rate applicable in the conversion of the amounts of transactions occurring abroad in the currency of the user's liability, including any commission charged for the conversion,

4) rights and obligations, and steps to be taken by the user in case of identified unauthorized use of data from the card or if the card is damaged, stolen or lost,

5) rights and obligations, and steps to be taken by the user and the bank in case the card is frozen, and

6) responsibility of the user and of the card issuing bank in case the card is stolen or lost or in case of unauthorized use of data from the card.

(2) The bank shall be obligated to ensure that only the user has access to the personal identification number prior to the card delivery.

(3) The bank issuing the payment card shall bear the risk pertaining to the delivery of the payment card and personal identification number to the user.

(4) The user shall be obligated to notify the bank, without delay, if the payment card is lost or stolen and to request from the bank to block card's further use and the bank shall be obligated to enable this at any time.

(5) If the bank issuing the payment card fails to allow the user to report, at any time, the loss or theft of the payment card or a transaction performed through the unauthorized use of the payment card or data from the payment card or if the user is not allowed to request blockage of its further use, the user shall not bear the consequences of the unauthorized use, except if he/she personally have perpetrated the abuse.

(6) The user shall have the right to close the payment card free of charge.

Contracts for other services

Article 161

(1) Guaranty, surety, letters of credit, and safe deposit box contracts, as well as other contracts for operations performed by the bank in accordance with the law must include the type and amount of all fees and other costs to be borne by the user.

(2) The Agency may adopt an act to prescribe the mandatory elements of contract for other services.

5. User complaint

Right to a complaint

Article 162

(1) A user, guarantor or any other person who personally guarantees the fulfillment of the user's obligations shall have the right to a complaint, if such person believes that the bank does not adhere to the provisions of the law, general terms and conditions of operations, good business practice and obligations under a contract.

(2) The bank shall be obligated to organize tasks for the resolution of complaint, to adopt processes and procedures in written form, respond to the submitter of the complaint no later than within 30 days from the date of submission of the complaint, and to keep regular registry of received and resolved complaints, and to report that to the Agency.

(3) The bank may not charge the user a fee, or any other expenses for the complaint submission and proceedings regarding the complaint.

(4) If the bank does not respond within the time frame specified in paragraph 2 of this Article or the submitter of the complaint is not satisfied with the response, the submitter of the complaint shall have the right to notify in writing and submit a complaint to the Ombudsman for the banking system (hereinafter: Ombudsman), which has been established within the Agency, within six months from the date of receipt of bank response or the expiration of the time frame specified in paragraph 2 of this Article, whichever occurs first.

(5) Upon receipt of the user's written notification or complaint, if he/she deems that the complaint is admissible and justified, the Ombudsman shall require from the bank to make a statement on the allegations stated in the notification or complaint, within 15 days.

(6) If the bank fails to make a statement within the specified time frame or if it does make a statement and the Ombudsman assesses that the provisions of this Law governing user protection, for which certain penalties have been set out, have not been violated, the Ombudsman, the user or the bank may propose the initiation of proceedings for amicable settlement of dispute.

(7) If, based on the facts from written notification or user's complaint, and after the bank's statement on these facts, the Ombudsman finds that the provisions of this Law governing user protection, for which certain penalties have been set out, have been violated, the Ombudsman shall refer the matter to the competent organizational unit of the Agency for further action.

(8) The bank shall be obligated to cooperate with the Ombudsman, for the purpose of fair and prompt resolution and overcoming of any disagreements and disputes regarding complaints.

(9) The Agency shall adopt an act to prescribe the manner for filing complaints specified in paragraph 1 of this Article, the actions of the bank concerning the complaint and reporting to the Agency, as well as the actions to be taken by the Agency in relation to the receipt of notifications and complaints specified in paragraph 4 of this Article.

Relation with other regulations Article 163

(1) Issues within the area of protection of user rights and interests not regulated by this Law shall be subject to the provisions of regulations governing consumer protection, contractual relations and payment transactions.

(2) Issues of protection of a user who is a natural person lessee not regulated by the Law on Leasing shall be subject to the provisions of this Law on the protection of the rights and interests of users of banking services.

CHAPTER VII
ACCOUNTING, AUDIT AND REPORTING

1. Accounting

Keeping business books and financial statements
Article 164

(1) A bank shall be obligated to keep business books in an orderly, updated and continuous manner and prepare accounting documents, assess the value of assets and liabilities, prepare and present its financial statements and other reports in line with the law governing accounting and audit, this Law and regulations adopted in pursuance thereof.

(2) The business books and financial statements of the bank must be kept in a way that truthfully and objectively reflect its business and financial standing, and make it possible, at all times, to verify whether the bank operates in line with the applicable laws and professional standards.

Consolidated financial statements
Article 165

(1) Annual financial statements of a banking group shall be prepared on consolidated basis.

(2) Consolidated financial statements for a banking group having a superior bank shall be prepared by the superior bank.

(3) Consolidated financial statements for banking group having a superior holding, i.e., ultimate parent company, shall be submitted by the bank which is controlled by such holding or company with a head office in Republika Srpska.

(4) Members of the banking groups shall timely provide the entities producing the consolidated reports referred to in paragraphs 2 and 3 with all data necessary for the consolidation.

(5) The Agency shall adopt an act to define the scope and frequency of reporting referred to in paragraph 1 of this Article, including the content of such statements.

Exclusion from consolidation
Article 166

(1) Consolidated financial statements of a banking group shall not include the subordinate members whose balance sheet equals less than 1 percent of the balance sheet of the superior member of the group.

(2) Notwithstanding, in case several subordinate members of a banking group meet the requirement from paragraph 1 of this Article, the Agency may order for such members of the

banking group to be included in the consolidated financial statements if it assesses that the aggregation of their balance sheets is significant for determining the financial condition of the banking group.

(3) The entities responsible for reporting on a consolidated basis, with a prior approval of the Agency, may exclude from consolidated financial statements the data on a subordinate member of the banking group:

1) that is headquartered in a country that has legal impediments with regard to the exchange of data and information necessary for preparation of consolidated financial statements,

2) whose inclusion in consolidated financial statements is not relevant for determining the financial condition of the banking group,

3) whose inclusion in consolidated financial statements would be misleading as to the financial condition of the banking group, and

4) in other cases if specified in accounting and audit regulations.

(4) The application for approval referred to in paragraph 3 of this Article, with a rationale, shall be submitted to the Agency by the entities responsible for reporting on a consolidated basis no later than 30 days prior to the expiration of the period for which the statements are prepared.

Consolidation in other cases Article 167

(1) The Agency may order a bank which, in a group of entities, is superior to the entities that do not perform financial operations, to include in their consolidated financial statements certain activities and group of activities, or carry out full consolidation of the financial condition and business operations of such entities, irrespective of their business activity, if it is necessary in order to have a full and objective presentation of the financial condition and operations of the bank.

(2) The entities referred to in paragraph 1 of this Article shall timely report to the bank all data required for the preparation of consolidated financial statements.

2. External audit

External audit activities Article 168

(1) The annual financial statements of banks and consolidated financial statements of banking groups, i.e. groups of entities whose statements are consolidated in line with Article 167 of this Law shall be subject to a compulsory external audit.

(2) For the purpose of annual audit of the financial statements referred to in paragraph 1 herein, the bank and the entities responsible for reporting on a consolidated basis under Article 165, paragraphs 2 and 3 of this Law shall hire an audit firm.

(3) The Agency shall give prior consent for appointing an audit firm to carry out audit of the financial statements.

(4) The audit referred to in paragraph 1 of this Article shall be carried out in accordance with the accounting and auditing regulations, this Law and regulations of the Agency.

Appointment of an audit firm Article 169

(1) The bank's general assembly, with the Agency's prior consent, shall appoint an audit firm, no later than September 30 of the current year, to audit the financial statements for that year.

(2) The bank shall submit the decision for appointment of the audit firm to the Agency within eight days as of the date of the decision issuance.

(3) If the bank fails to act in line with paragraphs 1 and 2 of this Article, the Agency shall appoint an audit firm within a period of 30 days from the expiration of the deadline from paragraph 1 of this Article.

(4) The contract on auditing financial statements shall be concluded between the bank and the audit firm in writing and the bank shall submit it to the Agency within eight days from the day of its conclusion.

(5) For each bank with which it concluded an audit contract, the audit firm shall furnish the Agency with the audit plan for the business year within 30 days from the day of contract signing, which shall show the business areas that are subject to audit, a description of the content of the planned audit by area, as well as the duration of the audit activities.

(6) In case of termination of the contract on auditing financial statements, the bank, i.e. the audit firm shall submit an explanation of the reasons for termination, in writing, to the Agency.

Restrictions in external audit performance Article 170

(1) A bank may not appoint an audit firm if the same audit firm earned more than half of its income in the past year by auditing that bank or the banking group the bank belongs to.

(2) The audit firm and the certified auditor auditing the bank may not be an entity who is:

1) in the situation of conflict of interest and performs conflicting activities as provided for by the legislation governing accounting and audit, as well as a related entity that performs such activities,

2) related to the bank or a member of the banking group,

3) a representative or agent of the bank and has a financial interest in the bank or a member of the banking group, which arises from the business relationship with the bank or the member of the banking group, so that there is an objective doubt in their independence and objectivity,

4) an audit firm whose audit report on the financial statements for the previous business year was not accepted by the Agency.

(3) The bank must be audited by the same audit firm for a period of at least 3 consecutive years, and no longer than the period specified in the legislation governing accounting and audit.

(4) Notwithstanding paragraph 3 of this Article, a bank does not have to be audited by the same audit firm for 3 consecutive years when the Agency, in line with this Law, rejects the annual audit report for the previous year or when the bank explains to the Agency, in writing, that there are justified reasons to change the audit firm.

(5) The Agency shall adopt an act to prescribe criteria that an audit firm must meet in order to obtain prior consent for audit of financial statements of banks and banking groups.

Obligations of audit firms

Article 171

(1) An audit firm shall:

1) prepare reports and give an opinion on whether annual financial statements have been prepared in line with the international financial reporting standards and international accounting standards, laws governing accounting and audit and the Agency's regulations, and whether they reflect, truthfully and objectively, regarding all materially significant issues, the financial condition, business results and cash flows of the bank,

2) prepare a letter of recommendations and submit it to the Agency,

3) inform, in writing, the supervisory board, board of directors, audit committee and the Agency about any violation of regulations and other circumstances stipulated in this Law,

4) prepare extended audit report for the needs of the Agency.

(2) The audit firm shall furnish the Agency, as requested and in writing, necessary explanations concerning the audit reports and other data the Agency needs for performing bank supervision in line with this Law.

Compulsory notification by the audit firm
Article 172

(1) An audit firm shall notify the supervisory board, board of directors, audit committee and the Agency, in writing, and immediately on learning of any fact that constitutes:

1) violation of laws or other regulations that may in any way undermine the bank's further operations and result in the revocation of the bank's operating license,

2) circumstances that may be conducive to material losses for the bank or a member of a banking group or undermine their business continuity,

3) materially significant difference in the assessment of risks observed in the bank's operations and the valuation of items in the financial statements of the bank,

4) significant weaknesses in the setting up of the internal control system or deficiencies in the implementation of internal control system,

5) serious violation of internal procedures and documents of the bank or banking group that may, in any way, undermine the bank's further operations, and

6) the likelihood of having a reserved opinion, negative opinion or disclaimer with regard to the financial statements.

(2) The Agency may adopt an act to prescribe the method of audit firm notifying referred to in this Article.

Rejection of reports prepared by the audit firm
Article 173

If the Agency finds that the audit firm has failed to audit the financial statements of the bank and banking group in line with the provisions of this Law and other laws, bylaws adopted based on such laws, auditing regulations and regulations on the professional practice of auditing or if based on bank supervision or otherwise the Agency determines that the opinion on the financial statements of the bank is not based on truthful and objective facts, it may reject such audit report and demand from the bank that a different audit firm repeat the audit at the cost of the bank, or, where it finds it necessary, it shall directly appoint an audit firm at the cost of the bank.

Obligations of banks based on the audit report
Article 174

(1) If the audit report states irregularities in the operations of the bank, the bank shall eliminate such irregularities and inform the Agency thereof.

(2) If the bank fails to eliminate these irregularities from paragraph 1 of this Article, the Agency may undertake measures against that bank, which are stipulated in this Law and in other laws.

Audit content for the purposes of the Agency
Article 175

(1) For the Agency to carry out its supervisory function, the audit firm, at the Agency's request, shall also submit other data and information and give assessment about the following:

- 1) compliance with the risk management rules,
- 2) the performance of the risk control function, compliance function and internal audit function,
- 3) the condition of the IT system and adequacy of the IT system management, and
- 4) accuracy, regularity and completeness of the statements submitted to the Agency.

(2) The Agency may request from the audit firm to submit additional information with regard to the audit completed.

(3) Where the Agency finds that the audit firm did not furnish data and information and did not give assessment in line with paragraph 1 of this Article, the legislation governing accounting and audit, regulations adopted in pursuance of such legislation and professional rules, or where the Agency finds, through supervision of the bank or otherwise, that the information is not based on true and objective facts, it may request from:

- 1) the audit firm to update or amend information, or
- 2) the bank that another audit firm submits the information or to directly appoint another audit firm, at the cost of the bank.

(4) The rejection of the information in the meaning of paragraph 3 herein shall not result in the rejection of the audit report on the bank's financial statements for the given year if the report is accepted by the Agency.

(5) Submission of data and information to the Agency in line with this Article and reporting by the audit firm in line with Article 172, paragraph 1 of this Law shall not constitute breach of bank secret in terms of this Law and breach of keeping confidential information in terms of the legislation governing accounting and auditing, and the audit firm shall not bear responsibility for this type of reporting.

(6) The Agency shall adopt an act to prescribe the audit content for the purposes of the Agency, as well as the reasons for rejecting the data and information in terms of paragraph 3 of this Article.

Special audit Article 176

(1) If the Agency finds that for the purpose of carrying out the supervision under this Law it is necessary to gather, analyze and process certain data related to bank operations that are not covered with the report on audit of annual financial statements of banks, it may order a bank to hire an audit firm to perform special audit of financial statements of the bank and of the member of a banking group, or of certain portions thereof, and to perform other types of audit, i.e. examinations of separate business processes and data related to the business operations of these entities (hereinafter: special audit).

(2) The bank or the member of banking group shall furnish the audit firm, without any undue delay or restrictions, with all data and documents necessary for the special audit and provide all necessary assistance in line with this Law.

(3) The costs of special audit shall be covered by the bank.

(4) The Agency may adopt an act to prescribe the requirements and method of special audit.

Audit in the event of the bank's status change Article 177

(1) In the event of the bank's status change, the bank founded by merger or the bank that acquired another bank, i.e. banks that are created by way of splitting or spinning-off, shall be required to hire an audit firm to audit their financial statements with the data as of the day of the status change.

(2) The bank referred to in paragraph 1 herein shall submit to the Agency, within 60 days of the day on which the status change has been entered in the registry of business entities, the audit firm's report on the truthfulness and objectivity of the opening balance sheet as of the day of status change.

(3) The Agency may adopt an act to prescribe the procedure and method of audit in the event of the bank's status change.

3. Reporting on financial statements

Submission and publication of financial statements Article 178

(1) A bank and the entities responsible for reporting on a consolidated basis from Article 165, paragraphs 2 and 3 of this Law shall provide to the Agency annual financial

statements and consolidated financial statements no later than the last day of February of the current year for the previous year, and the audit report shall be submitted within four months from the end of the year to which the report pertains.

(2) The bank and the entities responsible for reporting on a consolidated basis from Article 165, paragraphs 2 and 3 of this Law shall publish a summary of the audit report within 15 days of its receipt in one or several daily newspapers circulated in the entire territory of Bosnia and Herzegovina and post it on their website, and immediately inform the Agency thereof along with sending copies of the publication.

(3) Along with its annual performance report and the audit report, the bank shall publish audited annual financial statements on its website and make them available to the public no later than six months from the end of the business year to which the statements pertain.

(4) Entities responsible for reporting on a consolidated basis from Article 165, paragraphs 2 and 3 of this Law shall publish the audit report on consolidated basis, audited consolidated annual financial statements and consolidated annual performance report for the banking group in the manner and within the deadline referred to in paragraph 3 of this Article.

(5) In addition to publishing the annual audit report, the bank shall publish on its website, within 30 days from the end of the first half of the year, a semi-annual statement, as well as the names of the members of the bank governing bodies and all shareholders having 5 percent or more shares with voting rights.

(6) The bank shall publish a summary of the semi-annual statement referred to in paragraph 5 of this Article in one or several daily newspapers circulated in the entire territory of Bosnia and Herzegovina.

(7) The Agency shall adopt an act to stipulate the elements and content of summary reports prepared by the audit firm that are publicly disclosed.

Additional reporting to the Agency Article 179

(1) A bank shall prepare and timely submit to the Agency reports and data on its financial condition and operations, including risk exposure, large exposures, assets quality, loan loss provisioning, business operations with persons related to the bank, liquidity, solvency and profitability, as well as projected business activities of the bank and its subsidiaries in line with this Law and the Agency's regulations.

(2) In addition to the reports from paragraph 1 of this Article, the bank shall also submit the following, at request of the Agency:

1) information about its financial condition, operations and risk exposure on consolidated basis, and

2) information about a member of the banking group, which are necessary for assessment of the financial condition and risk exposure of the bank or the banking group.

(3) Organizational units of a bank headquartered in the FBiH or Brcko District of BiH, which operate in RS shall prepare and timely submit to the Agency reports and data on its operations, in the manner prescribed in Article 21, paragraph 3 of this Law and the Agency's regulations.

(4) The Agency shall adopt an act to prescribe the content and form of the reports referred to in this Article, including the method and deadlines for their submission, and may also request that such reports be certified.

Disclosure of data on bank operations Article 180

(1) A bank shall publicly disclose quantitative and qualitative data on bank operations that are relevant for informing the public about its financial condition and operations and, as a minimum, the information on the following:

- 1) the bank's risk management strategies and policies,
- 2) the bank's capital and capital adequacy ratio,
- 3) the bank's ownership structure and the members of the bank's governing bodies, and
- 4) other facts, in line with the Agency's regulations.

(2) The bank shall not be required to disclose data and information that are not materially significant or data or information the disclosure of which might be detrimental to the bank's competitive position at the market, as well as data and information which represent a bank secret in accordance with this law.

(3) The Agency shall adopt an act to prescribe the content of the data and information referred to in this Article, as well as the conditions, manner and deadlines for their disclosure.

CHAPTER VIII SUPERVISION OF BANKS

1. The Agency's supervisory function

The Agency's powers Article 181

(1) The Agency shall supervise all operations that banks perform within and outside of the RS territory, in line with this Law, the legislation governing the status, competence and authority of the Agency, other laws and regulations adopted in pursuance of this Law and other laws, risk management rules and professional standards and rules.

(2) In line with this Law and with other laws and regulations adopted in pursuance of this Law, the Agency shall supervise the operations of the organizational units of the banks headquartered in the FBiH and Brcko District of BiH and of the representative offices of banks headquartered outside Republika Srpska, opened in the RS.

(3) In line with this Law and with other laws and regulations adopted in pursuance of this Law, the Agency shall supervise banking groups on consolidated basis and it may inspect any member of a banking group under this Law.

(4) In its supervisory function over banks, the Agency shall be entitled to review business books and other documentation, and request other information from persons that are related to the bank in property and managerial terms, persons to whom the bank has transferred a significant portion of its business processes, and the owners of qualifying holding in the bank.

(5) Where the supervision of the persons referred to in paragraph 4 herein fall within the purview of another authority, the Agency shall cooperate with that authority and directly supervise such entities, in line with this Law.

(6) The Agency shall cooperate with the Banking Agency of the FBiH in its supervisory activities over operations that banks perform through their organizational units opened in the FBiH and Brcko District of BiH and supervisory activities over operations of organizational units of banks headquartered in the FBiH and Brcko District of BiH, established in the RS.

Goals of supervision Article 182

(1) The main goal of the supervision carried out by the Agency shall be to preserve the confidence in the RS banking system and to ensure its stability, security and depositor protection.

(2) The Agency shall supervise persons referred to in Article 181, paragraphs 1 and 2 for the purpose of verifying that they act in line with this Law, other laws and regulations issued in pursuance thereof, risk management rules, and professional standards and rules.

Conducting supervision Article 183

(1) The Agency shall perform its supervisory function through:

- 1) on-site inspection,
- 2) off-site inspection,
- 3) issuing adequate acts in line with its authority, and
- 4) imposing supervisory measures.

(2) The Agency shall adopt an act to prescribe the procedure and methods of supervision, imposition of supervisory measures and obligations of banks and persons referred to in Article 181 of this Law during and after the Agency's supervision process, as well as the method and procedure for consolidated supervision of banking groups.

Supervision scope and frequency Article 184

(1) The supervision carried out by the Agency shall include examination of legality of the bank's operations, including its organization, strategies, policies, processes and procedures the bank implements for the purpose of complying with regulations while performing its operations, and the Agency assesses the bank's financial standing and risks as follows:

- 1) risks to which the bank is or might be exposed,
- 2) the influence of bank's risk on the banking system, and
- 3) risks identified through stress testing of the bank, having regard to the nature, volume and complexity of the bank's operations.

(2) Based on the findings of the supervision referred to in paragraph 1 of this Article, the Agency shall determine whether the organization, strategies, policies, processes and procedures the bank has established, including the bank's capital and liquidity, ensure proper governance and coverage of all risks to which the bank is exposed or might be exposed to in its operations.

(3) Where the Agency finds that the bank requires enhanced supervision, it shall conduct it as follows:

- 1) increases the frequency of on-site inspections of the bank,
- 2) appoints a consultant in line with the provisions of this Law,
- 3) requests additional or more frequent reporting to the Agency,
- 4) performs targeted inspection of certain segments of bank operations which it assessed to be or might be exposed to significant risks, and

5) performs additional reviews of the bank's operational, strategic and business plans.

(4) The Agency shall decide on the frequency and volume of the inspection having regard to the bank's size, financial condition, bank systemic importance for the financial sector, volume and complexity of the bank's operations, risk profile, and persons with significant holdings in the bank, applying the principle of proportionality.

Supervisory tasks Article 185

In the course of supervision, the Agency shall monitor and assess the following:

- 1) the bank's financial condition, including solvency, asset quality, liquidity and financial result,
- 2) the quality of the bank's management systems, in particular risk management and internal control systems,
- 3) loans granted, advance payments, letters of credit, guarantees and securities issued by the bank, with regard to compliance with applicable regulations,
- 4) collaterals and sureties received for the loans extended and timeliness of payments made by the debtors,
- 5) compliance with the exposure limits and the process of identifying, monitoring and control of exposure limits, including large exposure,
- 6) implementation of standards for permissible risks as specified by the Agency, risk management in bank operations, including the tailoring of processes for risk identification and monitoring, and risk reporting,
- 7) assessment, maintenance and analysis of the bank's capital, and
- 8) other important indicators affecting the bank's operations, and application of the laws and the Agency's regulations.

Supervision plan Article 186

(1) The Agency shall design a plan for inspection of banks, at least once a year, which shall include the following:

- 1) the manner in which the Agency performs its tasks and uses its resources,
- 2) identification of banks to be subject to enhanced supervision, and

3) determining the locations where inspection will take place.

(2) The supervision plan must include:

1) banks whose stress test results or inspection findings and evaluation under Article 184 indicate significant risks in respect of maintaining their financial position and stability, or indicate breaches of the legislation in their operations,

2) systemically important banks, and

3) all other banks that the Agency finds necessary to include in on-site inspection.

Systemically important bank and stress testing Article 187

(1) The Agency shall establish a list of systemically important banks in the RS, in accordance with the methodology which has been previously harmonized jointly with the Banking Agency of FBiH, the Central Bank of Bosnia and Herzegovina and with the Deposit Insurance Agency of Bosnia and Herzegovina, and the Agency shall publish the Methodology.

(2) The methodology shall particularly take into account the bank's size, its interconnectedness with other participants in the financial sector and its replaceability in that sector, as well as the complexity of bank operations.

(3) The Agency shall update the list of systemically important banks in the RS annually and shall deliver it to the Banking Agency of FBiH, the Central Bank of Bosnia and Herzegovina, and the Deposit Insurance Agency of Bosnia and Herzegovina.

(4) The Agency may establish special regulatory requirements for the systemically important banks in terms of capital, risk exposure, liquidity and other business performance indicators in line with this Law, as well as special reporting requirements.

(5) The Agency shall for supervision purposes, perform stress testing of banks in order to monitor their performance, assess risks and timely undertake relevant supervisory measures.

(6) In addition to the stress testing referred to in paragraph 5 of this Article, the Agency shall cooperate with the Central Bank of Bosnia and Herzegovina in performing macro-financial stress testing of the banking sector in Bosnia and Herzegovina for the purpose of assessing its stability.

(7) The Agency shall adopt an act to prescribe the methodology for stress testing of banks from paragraph 5 of this article.

Persons authorized to perform supervision

Article 188

(1) On-site and off-site inspection of bank operations shall be carried out by the employees of the Agency, which are authorized by the Agency to perform on-site inspection.

(2) Notwithstanding paragraph 1 herein, for certain on-site inspection tasks, the Agency may hire a certified auditor, audit firm or any other authorized professional to perform an on-site inspection of the bank.

(3) The persons referred to in paragraph 2 herein shall be vested with equal authorization and responsibility as the Agency's authorized persons while performing the tasks related to the on-site inspection of banks, for which they are authorized by the Agency.

(4) In the procedure of on-site inspection of a bank, the authorized persons of a foreign competent regulatory authority may be involved, which are authorized to inspect, i.e. supervise the operations of the members of the banking group the bank belongs to, in line with the cooperation memorandum signed between the Agency and such regulatory authority.

Off-site inspection of operations Article 189

The Agency shall perform off-site inspection of operations by gathering and analysis of reports and other documentation, as well as by continuous monitoring and review of other information on operations of the banks and other entities which, pursuant to the provisions of this Law, other laws and regulations adopted in pursuance of this Law and other laws, are obligated to report to the Agency.

On-site inspection of operations Article 190

(1) The Agency shall carry out on-site inspection by reviewing the bank's operations in or outside of the bank's headquarters where the bank, or any other person authorized by the bank, performs operations that are subject to supervision, as well as in other locations in the cases specified in this Law.

(2) The bank shall enable authorized staff of the Agency to carry out the supervision of its operations at its headquarters and all of its organizational units.

(3) The bank shall enable authorized staff to carry out compliance inspection of its business books and other documentation, as well as to carry out information technology inspection.

(4) The bank shall make all business books and documentation available to the authorized staff, at their request, in writing or in electronic format and, for the purpose of inspecting the software, ensure them access to the database system it uses.

(5) On-site inspection shall be carried out by the authorized staff on working days and during business hours and, when required due to the volume and nature of the inspection, outside the business hours as well.

(6) During the inspection procedure, when so requested by the authorized staff of the Agency, the bank shall ensure the following:

- 1) access to all organizational units and premises of the bank, provided its security procedures are observed,
- 2) a separate office for the performance of inspection tasks,
- 3) copies of documents related to the scope of the inspection, and
- 4) direct communication with the bank's managers and staff for the purpose of acquiring necessary clarifications.

(7) The bank that processes data or keeps its business books and other documentation in an electronic format shall offer the necessary technical support to the authorized staff inspecting such books and documentation at their request.

(8) The bank shall appoint its representative who shall offer all necessary support to the authorized staff and ensure unimpeded performance of the on-site inspection.

(9) The provisions of this Article shall apply also in the event of supervision of the entities from Article 181, paragraphs 2 and 3 of this Law, as well as to persons who are authorized outsourcers.

Notification about on-site inspection Article 191

(1) The Agency shall send a notification about on-site inspection no later than 15 days prior to the inspection.

(2) Notwithstanding paragraph 1 herein, the Agency may serve the notification about on-site inspection immediately prior to the beginning of the on-site inspection if the supervisory purpose would not be attained otherwise.

Suspension of inspection Article 192

(1) If irregularities are not identified in a certain procedure for on-site inspection, the Agency shall adopt a conclusion to suspend such procedure.

(2) The conclusion referred to in paragraph 1 herein shall be provided to the bank and to other entities subject to supervision and inspection.

Inspection report
Article 193

- (1) The authorized staff of the Agency shall prepare a report on the completed inspection.
- (2) Report on completed inspection shall also be prepared in the cases when irregularities and weaknesses in the bank's operations are identified during off-site inspection, except in the cases when the bank has informed the Agency about such irregularities.
- (3) The Agency shall send the inspection report to the bank.
- (4) The bank may file a complaint against the report within 15 days from the date of receipt.
- (5) Notwithstanding paragraph 4 of this Article, the Agency may, at the bank's request, extend the deadline for submitting objections to the report, but only when findings from the report are related to the competence of the bank supervisory board.
- (6) Where the bank fails to file a complaint against the report or fails to challenge, through a well-founded complaint, the findings from the report, which refer to the irregularities or weaknesses in its business operations, the Agency shall impose on the bank a relevant measure prescribed by this Law.

Amendments to the inspection report
Article 194

- (1) Where it is established that the complaint is justified by considering the bank's complaint against the report, the Agency shall amend the inspection report.
- (2) The amendments to the report shall be submitted to the bank within 15 days from the day it filed the complaint.

Supervision fee
Article 195

The banks and persons referred to in Article 181, paragraph 2 of this Law shall pay a fee to the Agency for performing supervision, in line with this Law, the law that regulates the establishment and operations of the Agency and the regulations of the Agency.

1. Imposition of supervision measures

Supervision measures
Article 196

- (1) If the Agency determines that the bank acted contrary to the provisions of this Law, the regulations of the Agency, other regulations or standards of prudent banking operations, or it

acted in a manner that undermines the bank's operations, it shall impose one or several supervision measures against that bank, as follows:

- 1) issue a letter of warning,
- 2) order that deficiencies and irregularities in the bank's operations be eliminated,
- 3) limit the rights of shareholders with qualifying holding,
- 4) undertake early intervention measures,
- 5) revoke the operational license, initiate the procedure of enforced liquidation or issue a decision to petition bankruptcy proceedings, and
- 6) initiate the procedure of assessment of fulfillment of conditions for the initiation of the resolution procedure, when it asserts that the condition of the bank is such that it cannot or it is likely that it cannot continue operations.

(2) During its inspection, the Agency may order the bank to implement one or more measures to eliminate irregularities and illegalities where it observes a serious breach of the rules or business principles that undermine or may undermine the bank's financial standing or liquidity or its depositors' interests, which requires undertaking urgent measures.

(3) The obligation for disclosing an acquisition offer, which is stipulated in the law governing acquisition of shareholding companies, shall not apply if the acquirer acquires shares of the bank through increase of core capital:

1) by implementation of measures for elimination of irregularities and illegalities in operations and early intervention measures by the Agency, or

2) by conversion of capital instruments of the bank, which the bank may take into account in calculation of capital and which are converted also in shares when the requirements are met in line with this Law.

(4) The right of exemption from paragraph 3 may be used by the acquirer of bank shares only with a prior approval of the Agency, only if it assesses that the exercise of exemption right would be used for the objective of safeguarding financial stability, of which the Agency shall notify the Securities Commission of Republika Srpska.

(5) If an organizational unit of a bank headquartered in the FBiH and Brčko District of BiH acts contrary to the provisions of this Law and the Agency's regulation during carrying out its operations at the territory of the Republika Srpska, the Agency shall impose adequate supervision measures to such organizational unit.

Discretionary right of the Agency
Article 197

(1) The Agency shall base its decision on measures to be imposed on a bank on the following discretionary assessments:

- 1) gravity of identified irregularities and illegalities,
- 2) the willingness and capability of the bank's bodies to eliminate identified irregularities and illegalities and
- 3) the level to which the bank undermines the financial discipline and the smooth functioning of the banking system.

(2) The following are particularly taken into account when evaluating the gravity of irregularities and illegalities identified in bank's operations:

- 1) financial standing of the bank,
- 2) capital adequacy ratio in relation to assumed risks,
- 3) the impact of identified irregularities and illegalities on the bank's future financial standing,
- 4) the number of such irregularities and illegalities and their interrelation,
- 5) the duration and frequency of identified irregularities and illegalities and
- 6) the legality of bank's operations.

(3) The following are particularly taken into account when evaluating the willingness and capability of the bank's bodies to eliminate identified irregularities and illegalities:

- 1) the capability of the executive management and senior management to identify, evaluate and monitor operational risks and to manage such risks,
- 2) the effectiveness of the internal control system in the bank, particularly the internal audit function,
- 3) the efficiency of eliminating earlier identified irregularities and illegalities, particularly the implementation of measures imposed earlier,
- 4) the level of cooperation of governing bodies, senior management, and other employees of the bank with the authorized staff during the course of inspection.

(4) The assessment of the level to which the bank undermines the financial discipline and smooth functioning of the banking system shall take into consideration the importance of the bank in the financial sector.

Letter of warning to the bank
Article 198

(1) Where, during an inspection, the Agency observes weaknesses or deficiencies in the bank's operations that do not constitute a breach of regulations nor have any significant impact on the bank's financial standing, but they might have such impact if not eliminated, the Agency may send a letter of warning to the bank demanding that it should take action and procedures to improve its operations.

(2) To the bank, the letter of warning:

- 1) points to the observed weaknesses, deficiencies or inconsistencies in its operations,
- 2) sets the deadline and actions the bank should take to eliminate the weaknesses or deficiencies in its operation, and
- 3) sets the deadline and the dynamics according to which the bank shall report to the Agency on the implementation of the obligations from the letter of warning.

(3) Where the bank fails to fulfill the obligations from the letter of warning within the deadline and in the manner specified therein, the Agency may impose a new measure.

Letter of warning to a member of the board of directors
Article 199

(1) The Agency shall issue a letter of warning to the responsible member of the board of directors:

- 1) if the bank fails to implement imposed measures in the manner and within the deadlines set by the Agency's decision, and
- 2) in other cases when the requirements for revocation of consent for performing the function of a member of the board of directors are not fulfilled.

(2) The written warning referred to in paragraph 1 of this Article shall be issued to the responsible member of the board of directors regardless whether that person is still a member of the bank's board of directors at the moment of issuing the warning, at latest within two years from the day of the emergence of circumstances for which the written warning is issued.

Measures to eliminate irregularities and illegalities
Article 200

(1) Where the Agency observes any irregularities or illegalities in the bank's operations, or where the bank will breach regulations within the following 12 months, it shall undertake one or several of the following measures:

- 1) order the bank to ensure a higher capital adequacy ratio than required, i.e., higher capital than required under this Law and the Agency's regulations, if the bank's capital is insufficient to cover all risks the bank is or might be exposed to,
- 2) order adoption and implementation of a plan of measures for fulfilling capital requirements prescribed by the law and the Agency's regulations,
- 3) request the bank to improve its risk management system and process, internal control system and, in particular, the internal audit function, accounting and IT system and compensation policies,
- 4) order the bank to develop and implement an action plan for bringing its operations in line with the regulations and set the deadline for the implementation thereof,
- 5) request the bank to increase the amount of special reserves for coverage of potential losses, i.e. to adopt and implement a special policy of assessment of assets, off-balance sheet items and special loss provisioning policy,
- 6) order the bank to adopt and implement measures for:
 - 1) reducing or limiting its exposures,
 - 2) improving the procedure for collection of due receivables,
 - 3) adequate valuation of balance and off-balance sheet items,
- 7) restrict one or more activities that the Agency finds to have caused losses or are contrary to good banking practices and standards of banking due diligence,
- 8) order the bank to discontinue, on a temporary basis, some or all banking operations,
- 9) order the bank to close one or more organizational units, i.e. discontinue expanding its organizational network or introducing new products,
- 10) request the bank to mitigate the risks arising from the bank's business activities, services and system,
- 11) reduce its operating costs,
- 12) reduce or limit the compensation amounts that depend on the achievement level of business goals, which are payable to the governing bodies or the staff,
- 13) order the bank to use net profit to increase the bank's capital,

14) ban or restrict, on a temporary basis, the payout of dividend or any other form of profit payout,

15) ban or restrict, on a temporary basis, the payout of dividend, interest or other distribution to the holders of the bank's additional capital elements,

16) order the bank to report, either more frequently or additionally, on individual indicators of its operations;

17) order the bank to meet the special requirements pertaining to liquidity, including the restrictions of maturity mismatch between the assets and liabilities;

18) request the bank to publish additional data and information and

19) order the bank to implement other measures necessary for the improvement of its operations.

(2) In its measures referred to in paragraph 1 herein, the Agency shall specify the deadline and manner in which the bank is to act to eliminate identified irregularities and illegalities, as well as the deadline for submitting a report to the Agency on the activities implemented, along with relevant proof that the irregularities and illegalities have been eliminated.

(3) In addition to the report on implemented measures referred to in paragraph 2 herein, the Agency may order the bank to provide an opinion of the audit firm on the elimination of irregularities and illegalities.

(4) If the bank fails to act in line with the measures imposed for elimination of irregularities and illegalities or if the imposed measures were not efficient for elimination of the existing irregularities and illegalities, the Agency may impose a new measure on the bank.

Prohibition to enter into a contract with client Article 201

The Agency may prohibit the bank to enter into service contract with a client until the deficiencies are eliminated, if it determines that:

1) the contract has not been concluded in line with the contracting rules stipulated in this Law,

2) the contract does not contain all elements stipulated in this Law and the Agency's regulations,

3) the bank calculates the effective interest rate or the total process for services contrary to the provisions of this Law and the Agency's regulations,

4) the contract contains provisions which are contrary to the provisions of this Law and detrimental for the client,

5) publication of services does not contain all data and information stipulated in Article 123, 136, and 138 of this Law, and

6) the bank approves loans, receives deposits, opens and maintains accounts or issues payment cards contrary to the provisions of this Law.

2.1. Early intervention measures

Types of early intervention measures Article 202

(1) Where the Agency finds, during an inspection, that the bank acts contrary to this Law, the Agency's regulations or other regulations, or that, due to the deterioration of the bank's financial standing and liquidity, increase in indebtedness level, NPLs or concentrated exposure, the bank is likely to breach the provisions of this Law, the Agency's regulations or other regulations in the near future, the Agency may, irrespective of the measures imposed for the purpose of eliminating the irregularities and illegalities referred to in Article 200 of this Law, impose one or several of the following measures:

1) order the bank's governing bodies to implement one or several measures specified in its recovery plan, or, where the circumstances leading to early intervention are different from the assumption from the original plan, to update the plan and within the specified deadline implement one or several measures from the updated plan,

2) request the bank's governing bodies to analyze the situation in the bank, design measures to eliminate the observed issues, develop an action plan for dealing with such issues and specify the implementation deadlines,

3) order the bank's supervisory board to convene, or convene itself, the bank's general meeting where the supervisory board fails to act per the order, and, in both cases, specify the agenda of the general meeting and demand that the shareholders discuss and issue relevant decisions,

4) order the bank's relevant body to dismiss one or more members of the bank governing bodies or senior management, if it finds that these persons are unable to perform their duties, and appoint new persons in line with the law,

5) appoint a consultant or introduce provisional administration in the bank,

6) demand from the bank's governing bodies to develop a plan for negotiating the restructuring of debt with individual or all creditors in line with the recovery plan,

7) demand from the bank to change its business strategy,

8) demand from the bank to change its organizational structure and

9) obtain, through off-site or on-site inspection, information necessary for the updating of the resolution plan, assessment of the level of assets and liabilities, and prepare for a potential resolution procedure.

(2) By virtue of its procedural decision imposing the measures, the Agency shall specify the deadline for each of the imposed measures referred to in paragraph 1 of this Article, including the deadline for submitting a report and documentary evidence on the implementation of the imposed measures.

(3) The Agency shall adopt an act to elaborate the conditions for implementation of the early intervention measures referred to in paragraph 1 of this Article.

Convening the bank general assembly Article 203

(1) If the bank failed to implement the measure imposed by the Agency referred to in Article 202, paragraph 1, item 3 of this Law in the manner and within the deadline set by the Agency's decision, the Agency may convene the general assembly of the bank and set its agenda for the purpose of passing the required decisions.

(2) For the purpose of the general assembly, and based on the inspection carried out, the Agency shall produce a report on the bank's performance and make it available to the shareholders.

(3) The general assembly shall be convened by the Agency at least 30 days prior to its session, exclusive of the day on which the invitation for general assembly is publicized.

(4) The shareholders may not offer a counter-proposal nor amend the agenda proposed by the Agency.

Dismissal of a governing body Article 204

(1) Where the bank's financial standing deteriorates to a significant extent, or in case of a grave breach of the law, the Agency's regulations or the bank's internal documents, and where other early intervention measures undertaken under Article 202 are not sufficient to improve the situation, the Agency may revoke the approval granted to all or individual members of the bank's governing bodies and demand that they be dismissed.

(2) In addition to the measures referred to in paragraph 1 herein, the Agency may for all or individual members of bank governing body:

- 1) ban or restrict performing of that function or any of the bank's activity,
- 2) ban or restrict the direct or indirect exercise of their voting rights in the bank,
- 3) demand that they sell the direct or indirect ownership in the bank, within the deadline the Agency specifies and
- 4) ban performing any function in any bank or a member of a banking group, or participating in any activity in a bank or banking group without the Agency's approval.

(3) New members of the governing bodies shall be appointed in line with the provisions of this Law governing appointment of members of supervisory board and board of directors.

2.1.1. Consultant

Appointment of a consultant Article 205

(1) The Agency may appoint one or several consultants to work temporarily with the bank's governing bodies, when it determines that the bank significantly violates the provisions of the law and other regulations, or if there are significant deficiencies in the bank's operations and when it determines that more detailed assessment and monitoring of the financial standing of the bank are necessary.

(2) A bank consultant may exclusively be a person who is independent from the bank and who meets the nomination requirements applying to members of the bank board of directors.

(3) The Agency shall specify the term, powers and responsibilities of the consultant, and define the issues about which the governing bodies of the bank should consult with the consultant, as well as the documents and legal actions for which a consultant's opinion or consent is needed.

(4) The Agency shall appoint the consultant for a term up to one year with a possibility for extension for another year if the Agency finds it is necessary for the purpose of finalizing the initiated activities.

(5) The term of office of the bank consultant may be concluded before the expiry of the term as referred to in paragraph 4 herein, if the Agency or the consultant determine that the appointment of a consultant did not improve or will not improve the bank's financial standing or if the bank's financial standing has improved to an extent that the consultant is no longer necessary.

(6) The Agency may decide that the consultant is required to obtain the Agency's consent prior to undertaking certain legal actions.

(7) During the term of office, the Agency may dismiss the consultant when he/she fails to perform his/her duties in a satisfactory manner, as well as for other justifiable reasons, and appoint a new consultant whose term shall expire when the term of the previous consultant expires.

(8) The Agency shall adopt an act to elaborate the conditions for appointing a consultant in a bank and the manner of performing his/her duties.

Powers and responsibilities of a consultant Article 206

(1) Within 60 days from the day of appointment, the consultant shall prepare a report on the financial standing and status of operations of the bank, along with an assessment of its financial stability and possibilities for its further operations (hereinafter: report on financial standing) and submit it to the Agency.

(2) The Agency shall furnish the report on financial standing referred to in paragraph 1 herein to the bank.

(3) The consultant shall have the powers to review the bank's business books and documentation, and to request data, information and explanations from the members of the governing bodies, as well as the bank's staff in order to determine and monitor the status of operations in the bank and its financial standing, and to give consent to the governing bodies to pass decisions on issues that may not be passed without his/her prior consent, as specified in the decision appointing such consultant.

(4) The consultant shall be authorized to attend the sessions of the governing bodies and their boards and take part in their work, without voting rights.

(5) The consultant shall regularly report to the Agency and, as a minimum, on a monthly basis or more frequently if requested by the Agency, on the bank's performance and its financial standing, including the actions s/he has undertaken while carrying out his/her duties.

(6) The consultant shall without delay inform the Agency about any circumstances which, in his/her opinion, may result into non-implementation of the measures imposed for elimination of irregularities and illegalities referred to in Article 200 of this Law, as well as about any circumstances which, in his/her opinion, may deteriorate the financial standing of the bank or may have effect on the fulfillment of requirements for undertaking early intervention measures by the Agency.

(7) The consultant shall answer for his/her work to the Agency and may not transfer his/her authority to any other persons.

(8) The consultant shall be entitled to compensation for his/her work, which shall be paid by the Agency.

Obligations of the bank's governing bodies in respect of the consultant
Article 207

(1) The bank's governing bodies shall furnish the consultant, without any delay, with all required information, as well as consult with him/her and obtain his/her consent for passing specific decisions related to the issues that may not be passed without the consultant's prior consent, which is specified in the decision on the appointment of the consultant.

(2) The bank's governing bodies shall invite the consultant to attend their sessions and the sessions of their boards, and timely furnish him/her with the documentation required for such sessions.

Actions following the consultant's report
Article 208

Based on the reports submitted by the consultant, the Agency may impose on the bank one or several supervision measures as stipulated in this Law.

Termination of the consultant's term
Article 209

The consultant's authority shall expire on the day of:

- 1) expiration of the term for which he/she was appointed,
- 2) dismissal from duty,
- 3) appointment of provisional administrator,
- 4) appointment of special administrator,
- 5) appointment of liquidation administrator, and
- 6) initiation of bankruptcy proceedings.

2.1.2. Provisional administration

Introduction of provisional administration
Article 210

(1) The Agency may introduce provisional administration by nominating one or several provisional administrators who will replace the governing bodies, when it finds that the banks is in serious breach of the provisions of laws and other regulations or if there are significant

deficiencies in the bank's operations and when the appointment of new members of the governing bodies is not sufficient for improving the bank's operations and management.

(2) Through the introduction of provisional administration, the Agency shall specify the objectives and tasks of the provisional administration, which include understanding of the actual financial standing of the bank, management of the overall or certain operations of the bank, in order to preserve or ensure the requisite financial standing of the bank and its stable and safe operations.

(3) The provisional administration procedure may not exceed a period of one year with a possibility of extension for another year where the Agency finds it is necessary for the purpose of finalizing the activities initiated or attaining the goals of the provisional administration procedure.

(4) The provisional administration procedure may be concluded before the expiry of the deadline as referred to in paragraph 3 herein, if the Agency or the provisional administrator determines that the provisional administration procedure failed to improve or will not improve the bank's financial standing or that the bank's financial standing has improved to an extent that the provisional administration procedure is no longer necessary.

(5) The Agency may decide that the provisional administrator is required to obtain the Agency's consent prior to undertaking certain legal actions.

(6) The Agency shall specify the term, powers and responsibilities of the provisional administrator.

(7) During the provisional administration procedure, the Agency may dismiss the provisional administrators if they fail to perform their duties in a satisfactory manner, as well as for other justifiable reasons, and appoint a new provisional administrator, whose term shall expire when the term of the previous provisional administrator expires.

(8) A provisional administrator may exclusively be a person who is independent from the bank and meets the nomination requirements applying to members of the bank board of directors.

(9) The Agency shall adopt an act to elaborate the conditions of introducing and implementing the provisional administration.

Powers and responsibilities of a provisional administrator Article 211

(1) The provisional administrator shall be authorized to have unlimited access to all bank business premises, control financial assets, accounting and other records, as well as other assets of the bank and its subsidiaries.

(2) Any decision on the appointment, dismissal from duty or term extension of the provisional administrator of the bank shall, without delay, be submitted to the provisional

administrator and to the bank where he/she was appointed, as well as to the competent registration court, the Central Bank of Bosnia and Herzegovina, the Deposit Insurance Agency of Bosnia and Herzegovina, the regulatory authority of FBiH and Brčko District of Bosnia and Herzegovina, the regulatory authority for securities market, the legal entity authorized for maintaining the single registry of securities and to other authorities in line with the legislation.

(3) The Decision referred to in paragraph 2 of this Article shall be published in the “Official Gazette of Republika Srpska,” and on the Agency’s and bank’s website, and it shall be recorded in the registry of banks referred to in Article 27 of this Law.

(4) Immediately upon receiving the letter of appointment, the provisional administrator shall undertake actions so as to protect and prevent any misappropriation or misuse of the assets and documents of the bank and its subsidiaries, and shall undertake all necessary measures and activities for the continuation of bank’s operations and protection of its assets, including the following:

- 1) elimination of identified irregularities in the bank’s operations,
- 2) collection of bank’s receivables, in particular NPLs,
- 3) restricting the growth of the bank’s assets and off-balance-sheet liabilities, and
- 4) reducing the bank’s operating costs.

(5) The provisional administrator shall carry out bank’s operations, represent the bank; he/she shall be authorized to protect the bank’s assets and to prevent any misappropriation or misuse of the documents and assets of the bank and its subsidiaries.

(6) The Agency may order the provisional administrator to convene the bank’s shareholders’ meeting, set its agenda and propose draft decisions.

(7) The provisional administrator shall convene the shareholders’ meeting no later than eight days from the day he/she received the order by the Agency referred to in paragraph 6 of this Article.

(8) The former members of the board of directors and persons with special powers and responsibilities in the bank shall ensure that the provisional administrator has access to all documents of the bank, and shall provide all clarifications or additional information on bank’s operations.

(9) All employees of the bank shall cooperate with the provisional administrator.

(10) In the course of taking measures under their powers, the Agency and the provisional administration shall have the right to ask for assistance from the authorities for internal affairs and other competent bodies.

(11) The provisional administrator shall be compensated for his/her work by the bank, and the amount of compensation shall be specified by the Agency.

Termination of the provisional administrator's powers
Article 212

(1) As of the date of the procedural decision appointing the provisional administrator, all powers of the governing bodies shall be terminated, save for the powers to file a complaint against the Agency's decision in line with Article 8 of this Law, and the powers of the board of directors and the supervisory board shall be taken over by the provisional administrator.

(2) As of the date of the procedural decision appointing the provisional administrator, all contracts based on which the former members of the governing bodies were employed in that bank shall be terminated.

(3) In the case referred to in paragraph 2 herein, the former members of the governing bodies shall not be entitled to severance pay or variable allowances, regardless of whether such entitlements were agreed with the bank under their contracts or derived from other documents of the bank.

Report of a provisional administrator
Article 213

(1) Within the deadline set in the Agency's procedural decision and no later than 60 days after the date of appointment, the provisional administrator shall draft and submit to the Agency a report containing the following:

- 1) data on the bank's assets as per the inventory,
- 2) the bank's balance sheet and income statement as of the day of the provisional administrator's appointment,
- 3) an overview of all receivables and liabilities of the bank by debtor and by creditor,
- 4) the prospects of the continuation of bank's operations, including documented assumptions based on which the projection was developed, including the assessment of the bank's capacities and willingness of its shareholders to recapitalize the bank; and
- 5) the action plan of the provisional administration procedure including proposed actions to resolve the bank's situation.

(2) In the report referred to in paragraph 1 herein, the provisional administrator shall recommend one or more of the following measures:

- 1) recapitalization to the level specified in this Law and the Agency's regulations,

- 2) sale of a portion or all of the bank's assets,
- 3) concurrent sale of a portion or all of the bank's assets and liabilities to a bank or any other legal entity authorized to perform these activities,
- 4) sale or merger with another bank,
- 5) initiating the bank's resolution procedure,
- 6) revocation of the bank's operating license and liquidation, including the valuation of the bank's assets to be generated in the bank's liquidation,
- 7) revocation of the operating license and petitioning bankruptcy proceedings, if the requirements for initiating and administering liquidation procedure have not been met, and
- 8) other measures.

(3) In addition to the report referred to in paragraph 1 herein, the provisional administrator shall submit to the Agency an action plan, which the bank's shareholders are required to draft and submit to the provisional administrator within a deadline set by the provisional administrator.

(4) The action plan referred to in paragraph 3 herein shall contain proposed actions required for the bank to eliminate the irregularities and illegalities in the bank's operations, and to improve its financial standing, including the implementation deadlines.

(5) While deciding on the plan of actions proposed in the provisional administrator's report, the Agency shall assess the need to protect the interests of the depositors and other creditors of the bank, and establish realistic assumptions for the successful implementation of the proposed plan under the provisional administration procedure.

(6) The Agency may while deciding on the plan or in the course of its implementation amend or change the plan proposed by the provisional administrator.

(7) The provisional administrator shall report to the Agency, on a regular basis, at least once a month, and at the Agency's request even more often, on the bank's operations under the provisional administration procedure, its financial standing and the implementation of the provisional administrator's plan, i.e., he/she shall inform the Agency, without delay, of any circumstances that may contribute to deterioration of the bank's financial standing.

(8) Upon expiry of his/her term, the provisional administrator shall draft and submit to the Agency the final report on the progress of the provisional administration procedure and its completion, including a description of the measures undertaken under the provisional administration procedure.

Expiration of the provisional administrator powers

Article 214

The powers of the provisional administrator shall expire on the day of:

- 1) expiration of the term for which he/she was appointed,
- 2) dismissal from duty and appointment of a new provisional administrator,
- 3) appointment of special administration in the course of bank's resolution procedure,
- 4) adoption of Agency's decision for appointing a liquidator,
- 5) adoption of a decision by the competent court for appointing a bankruptcy administrator.

3. Consolidated supervision of a banking group

Consolidated supervision Article 215

(1) The Agency shall supervise banking group in which a bank headquartered in Republika Srpska has the capacity of an ultimate parent company or capacity of a daughter company on a consolidated basis:

(2) The supervision referred to in paragraph 1 of this Article shall be performed by the Agency as follows:

- 1) by analyzing consolidated financial statements of the banking group,
- 2) by direct, that is on-site inspection of the banking group, i.e. its members, for the purpose of verifying the accuracy of data contained in consolidated financial statements, as well as the risks to which the bank is exposed as a member of the banking group and the risks to which the banking group as a whole is exposed, and
- 3) by assessing the condition of the banking group.

(3) The Agency shall be authorized to perform direct, that is onsite inspection of the member of the banking group or its organizational unit abroad, which is subject to consolidated supervision, and to cooperate with foreign competent regulatory authorities.

(4) In the course of supervision referred to in paragraph 1 of this Article, the Agency shall have the power to oversee:

- 1) the adequacy of oversight of the bank's foreign operations by the management of the parent bank or holding company;
- 2) the possibility for parent bank to access information on its branches and subsidiaries in the host country;
- 3) the expertise of the local management; and

4) the effectiveness of supervision in the host country.

Transparency of a banking group structure
Article 216

(1) The structure of a banking group must be transparent to the extent that it enables the Agency to establish the following:

1) the ultimate parent entity of the banking group and persons having control or significant holdings in such entity;

2) the location and types of business operations performed within the banking group;

3) the financial condition and business results of the banking group and its members;

4) types and levels of risks to which the banking group and its members are exposed to;

5) the manner in which risk management is organized and implemented at the banking group level, and

6) business, financial and other relations among the members of the banking group.

(2) The structure of the banking group must be organized in a way that allows for adequate internal and external audit and unimpeded performance of the Agency's supervision function.

Subordinated company of a bank
Article 217

(1) A bank may acquire ownership in a subordinated company only with the Agency's approval.

(2) The Agency shall adopt an act prescribing the manner and procedure of issuing the approval referred to in paragraph 1 of this Article.

Subordinated company of a holding
Article 218

(1) A holding may not set up or acquire, directly or indirectly, any ownership in a subordinated company, where such acquisition may have detrimental effects on the operations of the bank in which such holding has control share.

(2) The holding shall notify the Agency of the acquisition of either direct or indirect ownership in a subordinated company within 15 days as of the date of the acquisition.

(3) In case the Agency establishes that the acquisition of direct or indirect ownership in a subordinated company may have detrimental effects on the bank referred to in paragraph 1 of this Article, it shall undertake measures in line with this Law.

Risk management at the banking group level Article 219

(1) The following indicators shall be established for a banking group on a consolidated basis:

- 1) capital adequacy ratio,
- 2) large exposures,
- 3) exposures to related persons,
- 4) investments in other legal entities and fixed assets,
- 5) lending activity limits within the group,
- 6) net open foreign exchange position,
- 7) banking group liquidity, and
- 8) banking group structure.

(2) In case the Agency, based on the indicators referred to in paragraph 1 of this Article, i.e. consolidated financial statements of the banking group, assesses that the level of the banking group capital jeopardizes the stable bank operations, it may request from the bank to secure additional capital and determine a higher capital adequacy ratio for that bank from the one specified in this Law, as well as impose other supervisory measures related to group-level risks.

(3) The banking group shall develop and adopt procedures for the implementation of internal controls, audit and risk management, which shall be appropriate to the activities of the group, as well as monitor and update such procedures on a regular basis.

(4) The bank and its ultimate parent entity shall be responsible for determining and reporting the indicators referred to in paragraph 1 of this Article to the Agency.

(5) The Agency shall adopt an act stipulating a method for determining and reporting the indicators referred to in paragraph 1 of this Article, as well as the manner of risk management at the banking group level.

Measures against the banking group members
Article 220

(1) In case the Agency determines that any member of the banking group, except the bank itself, has violated the provisions of this Law or the Agency's by-laws, or that the activities or financial condition of any member is detrimental to the bank's financial stability, or may undermine the interests of the bank's depositors, it shall order to such member to eliminate the observed irregularities within the timeframe specified by the Agency.

(2) If the irregularities referred to in paragraph 1 of this Article are not eliminated within the specified timeframe, the Agency may impose the following measures:

- 1) order the bank to temporarily suspend investments in its subordinated company,
- 2) order the holding to temporarily suspend exercising its rights and benefits arising from the control holdings it has in the bank, including direct or indirect exercise of its voting rights,
- 3) order the holding to recapitalize the bank,
- 4) order the banking group member to temporarily suspend all direct or indirect business activities between the bank and such member, and
- 5) order the legal entity in which another legal entity has control holdings and which has holdings in the bank to temporarily suspend exercising its rights and benefits arising from the holdings of that entity in the bank, including direct or indirect exercise of its voting rights, i.e. order to temporarily suspend all direct or indirect business activities between the bank and such entity.

(3) If the irregularities referred to in paragraph 1 of this Article are not eliminated once the measures referred to in paragraph 2 of this Article have been undertaken, the Agency may also impose the following measures:

- 1) request from the bank to reduce investments in the subordinated company to such an extent that it no longer has the capacity of a subordinated company of the bank,
- 2) revoke the approval to the holding for acquiring control holdings in the bank,
- 3) request from the holding to sell its significant or control holdings in its subordinated company, and
- 4) revoke the approval for acquisition of holdings in the bank granted to the person having holdings in the bank, in which another person has control holdings.

(4) Where circumstances command urgent action, the Agency may undertake the measures referred to in this Article before the deadline specified in paragraph 1 of this Article.

(5) The Agency may limit the activities of a consolidated banking group and the location for carrying out the activities, if:

- 1) the bank or banking group is exposed to excessive risk or it is not managed adequately,
- 2) the supervision in the host country is inadequate, or
- 3) certain obstacles arise during the consolidated supervision process.

(6) In case a member of the banking group referred to in paragraph 1 of this Article is a person supervised by another regulatory authority in RS and FBiH, the Agency shall notify such regulatory authority of the measures taken.

CHAPTER IX BANK RESOLUTION

1. Basic provisions

Resolution Unit Article 221

(1) The tasks and responsibilities of bank resolution shall be vested with the Agency, for which purpose it shall establish a special internal organizational unit – Resolution Unit.

(2) The Agency shall set up a relevant internal organization and ensure its operational and functional autonomy, and prevent any conflict of interests while carrying out the Agency's tasks and powers related to the resolution of banks, on the one hand, and performing the supervision tasks and responsibilities in line with the provisions of this Law governing the banking supervision, on the other.

(3) The autonomy referred to in paragraph 2 of this Article is ensured by establishment of special lines of reporting and proposing decision to the Agency.

(4) The persons responsible for bank resolution must have relevant qualifications, professional knowledge, skills and experience required for the performance of resolution tasks and attainment of the bank resolution goals.

Resolution objectives Article 222

(1) Bank resolution shall be implemented to achieve the following objectives:

- 1) to ensure continuity of the bank's critical functions,

2) to avoid bigger adverse effect on the financial system, in particular by preventing contagion, including to market infrastructures, and by maintaining market discipline,

3) to protect budgetary and other public funds, by minimizing reliance on extraordinary public financial support

4) to protect insured depositors and,

5) to protect client funds and client assets.

(2) The resolution objectives referred to in paragraph 1 herein are of equal significance, and the Agency, in the resolution process, shall balance them as appropriate to the circumstances of each individual case.

(3) When pursuing the above resolution objectives, the Agency shall seek to reduce the costs of resolution to a minimum extent possible and avoid reduction of bank assets value unless such is necessary to achieve the resolution objectives.

General principles governing resolution Article 223

(1) The resolution process shall be implemented in accordance with the following principles:

1) the bank's shareholders are first to bear losses,

2) creditors of the bank bear losses after the shareholders by ensuring equal treatment of the creditors whose claims are in the same order of priority under normal liquidation and bankruptcy proceedings, in line with this Law,

3) the governing bodies and, as needed, the senior management of the bank are dismissed, except when, as appropriate to the circumstances, the retention of the governing bodies and senior management, in whole or in part, is considered to be necessary for achievement of the resolution objectives,

4) the governing bodies and senior management of the bank shall provide all necessary assistance for the achievement of the resolution objectives,

5) no creditor shall incur greater losses than losses that would have been incurred in case of bank bankruptcy proceedings in line with the safeguards envisaged in this law,

6) insured deposits are fully protected to the level specified in the legislation governing the insurance of deposits in banks,

7) members of the governing bodies, shareholders and other persons who have contributed to the situation in which the bank is unable or is unlikely to continue its operations, are made liable, under law, for the negligence in their work and damage they caused, and

8) safeguards shall apply in line with this Law.

(2) If the bank is a group member, the Agency shall apply resolution tools and exercise resolution powers to minimize the negative impact on other group members and on the group as a whole, and on the financial sector stability.

(3) When applying the resolution tools and exercising the resolution powers, the Agency shall, as needed, inform employees of the bank under resolution and their representatives.

(4) In the bank resolution process, the provisions of this Law regulating the sale and purchase of placements shall not be applied, except for Article 119 of this Law which governs the protection of debtors and users of banking services.

2. Resolution planning

Bank resolution plan Article 224

(1) The Agency shall draw up a resolution plan for each bank which is not a member of a group subject to consolidated supervision, which shall envisage the application of relevant resolution tools and measures, as well as the powers once a decision for initiation of resolution process has been made, provided that the conditions for bank resolution have been met in line with this Law.

(2) When deciding on the bank's resolution, i.e. the application of relevant resolution tools, where the circumstances require so, the Agency may apply resolution tools that are not specified in the resolution plan for that bank.

(3) The resolution plan shall include, at least, the following:

1) a summary of the core elements of the resolution plan,

2) a summary of the material changes to the bank that have occurred after the latest change to the resolution plan,

3) a demonstration of how critical functions and core business lines could be separated, to the extent necessary, from other functions so as to ensure business continuity in the event of fulfillment of the resolution requirements,

4) the timeframe for executing each significant portion of the resolution plan,

5) a detailed description of the assessment of resolvability and a description of any measures required to remove impediments to resolvability,

6) a description of the processes for determining the value and marketability of the critical functions, core business lines and assets of the bank,

7) a detailed description of the procedures for ensuring uninterrupted supply of updated information and data from the bank,

8) an explanation how the resolution options and tools stipulated in the resolution plan could be financed without the assumption of any extraordinary public financial support,

9) a detailed description of the different options for the use of resolution tools and the applicable timeframes for their implementation, based on different possible scenarios with serious macro-economic and financial volatilities affecting the bank's operations,

10) a description of a potential systemic impact of the bank's resolution,

11) a description of options for preserving access to payments and clearing services and an assessment of the portability of client positions,

12) an analysis of the impact of the resolution plan on the employees, including an analysis of any associated costs that might occur,

13) a plan for communicating with the media and the public with regard to the bank's resolution,

14) the minimum requirements for capital and eligible liabilities and a deadline for the bank to reach that level,

15) a description of activities and systems in the bank essential for maintaining the continuous functioning of the bank's operational processes, and

16) where necessary, any opinion expressed by the bank in relation to the resolution plan.

(4) Upon drafting of the resolution plan, the Agency shall furnish the bank with a summary of the key aspects of the resolution plan.

(5) The Agency shall update the resolution plan:

1) at least once a year,

2) upon a change in the bank's legal or organizational structure, business model or financial standing, when these changes may significantly affect the implementation of the resolution plan, and

3) following other changes that affect the content of the resolution plan and its feasibility.

Information for the purpose of resolution plans
Article 225

(1) At the request of the Agency, the bank shall provide it with any required assistance and all information necessary to draw up and update the resolution plan, and it shall, without delay, inform the Agency about any change in the information.

(2) The Agency shall, for the purpose of drafting the resolution plan, request from the Deposit Insurance Agency of Bosnia and Herzegovina an opinion on the assessment of the costs and possibility of payout of insured deposits for the purpose of assessing the possibility of the implementation of liquidation or bankruptcy of the bank, and the assessment of the potential scope of resolution financing from the Deposit Insurance Fund.

(3) The Agency shall adopt an act to specify data and information to be submitted for the purpose of drawing up and updating of the resolution plan of the bank and banking group, as well as the method of their provision and deadlines.

Banking group resolution plan
Article 226

(1) The Agency shall draw up a resolution plan for a banking group, which is subject to the Agency's consolidated supervision, which shall include resolution of the group as a whole or any member within the group, in line with the provisions of this Law.

(2) Drawing up and updating of the banking group resolution plan shall be subject to Article 224 paragraphs 1, 2, 4 and 5 item 1 of this Law.

(3) The banking group resolution plan must include:

1) a description of resolution actions and measures to be taken in relation to the banking group members,

2) a detailed description of the different options for the use of resolution tools for the banking group based on the review of different possible scenarios with serious macro-economic and financial volatilities affecting the banking group's operations,

3) an explanation how the resolution options and tools for the banking group, stipulated in this plan, could be financed without the assumption of any extraordinary public financial support,

4) assessment of the extent to which the resolution tools and powers could be applied and exercised in a coordinated way to the group members, where the Agency is not the sole authority responsible for their supervision, including measures to facilitate the purchase by a third party of the group as a whole, or separate pivotal business lines or activities that are delivered by particular group members, and identification of any potential impediments to a coordinated resolution by different authorities,

5) when the members of the banking group are headquartered outside of the RS, identification of appropriate arrangements for cooperation and coordination with the relevant regulatory and resolution authorities,

6) a description of measures for separation of particular functions or business lines, that are necessary to eliminate the impediments to smooth resolution of the banking group, and

7) a description of any other measures and activities to be undertaken to resolve the banking group, which are not expressly stipulated in this Law.

(4) Provisions of Article 225 of this Law shall apply to the group parent company and members of the banking group when the Agency draws up a group resolution plan.

Bank resolvability Article 227

(1) While drawing up and updating the resolution plan, the Agency, after receiving the opinion of the Deposit Insurance Agency of Bosnia and Herzegovina from Article 225 paragraph 2 of this law, shall assess the resolvability of the bank which is not a member of a banking group, identify and analyze any impediments to resolution and identify measures for overcoming such impediments, without assuming extraordinary public financial support.

(2) A bank shall be deemed to be resolvable if the following conditions are cumulatively met:

1) It is feasible to implement liquidation proceedings, or bankruptcy proceedings or resolution procedure,

2) implementation of any of these procedures, to the extent possible, would not lead to significant negative effects on the financial sector stability,

3) implementation of any of these procedures is likely to ensure continuity of the critical functions carried out by the bank, and

4) implementation of resolution procedure is possible without using extraordinary public financial support, but resolution financing may be used for this purpose in accordance with this law and regulation which governs the purpose and manner of use of resolution financing.

(3) While assessing the resolvability of a bank, the Agency shall examine, in particular, the following:

1) the attainability of resolution objectives by applying the available resolution tools,

2) the effects of the bank's resolution on the stability of the financial sector, economy and confidence of the public in the banking system, as well as whether the use of the resolution tools

will prevent any contagion of the consequences from bank's failure to perform its operations throughout the banking system,

3) the effects of the bank's resolution on its creditors, depositors, contractual parties and employees,

4) the effects of the bank's resolution on the unimpeded functioning of the payment system and securities settlements systems,

5) the ability of the bank to ensure continuity of its critical functions and core business lines,

6) the level to which legal and organizational structures are aligned with core business lines and critical functions that are performed in the bank,

7) the ability of the bank to provide for essential staff and infrastructure capacity, as well as funding, liquidity and capital to support and maintain critical functions and core business lines, in line with the existing contracted arrangements,

8) segregation of core business lines from other activities in the banks,

9) applicability of risk management procedures and measures,

10) the amount and type of eligible liabilities which can be written down or converted when applying the bail-in tool,

11) the adequacy of managing IT risks with regard to securing access to the information and data necessary for the implementation of the resolution process,

(4) While drawing up and updating a resolution plan for a banking group, the Agency shall assess the resolvability of the group in accordance with paragraph 1 to 3 of this Article.

(5) The Agency shall adopt an act to stipulate the elements to be considered during the assessment of resolvability of a bank or a banking group.

Removing impediments to resolvability Article 228

(1) If the Agency finds that there are substantive impediments to the bank's resolution, it shall order the bank to propose measures for elimination of such impediments within a period of up to four months from the date of receipt of the request.

(2) Within the given time frame, the bank shall furnish the Agency with the proposal of possible measures for elimination of the significant resolution impediments.

(3) Where the Agency finds that the measures proposed by the bank cannot effectively reduce or remove the resolution impediments, it shall order the bank to undertake other measures for elimination of resolution impediments and it shall specify the time frame for the implementation of such measures.

(4) In the event referred to in paragraph 3 herein, the Agency may order the bank to do the following:

1) to revise any intra-group financing agreements or reexamine the need for concluding such agreements, or draw up service agreements, whether intra-group or with third parties,

2) to limit its maximum individual and aggregate exposures referred to in Article 106 and 107 of this Law,

3) to regularly submit additional information and data relevant for bank resolution purposes or to provide specific information and data relevant for resolution in individual cases,

4) to divest specific assets,

5) to introduce or to ensure adequate changes to legal and organizational structures of the bank or any member of the banking group where the bank belongs, so as to reduce the complexity of that bank and banking group and to facilitate separation of the critical functions from other functions performed by the bank during the resolution procedure,

6) to ensure that financial functions may be legally separated from non-financial functions at the level of the banking group where it belongs,

7) to limit, terminate or stop developing specific existing or proposed activities or to refrain from beginning new activities or further developing of activities,

8) to issue eligible liabilities to cover the losses and meet the requirements prescribed by the provisions of this Law which regulate the scope of bail-in, minimum capital requirements, and eligible liabilities and assessment of the amount of bail-in,

9) take measures to meet the minimum capital requirements and eligible liabilities referred to in item 8 of this paragraph and

10) take any other measures determined by the Agency.

(5) When imposing the measures referred to in paragraph 4 herein, the Agency shall assess the potential effects of those measures on the operations and stability of the bank and on the financial sector stability and the bank shall furnish, within one month, a plan for harmonization with the imposed measures.

(6) Elimination of impediments to banking group resolution shall be subject to paragraphs 1 to 5 of this Article.

(7) Where the bank under resolution performs operations requiring the approval of a different competent regulatory authority, the Agency shall notify that authority of the measures imposed that may affect the performance of such operations.

3. Write-down or conversion of capital instruments

Requirements for write-down or conversion of capital instruments Article 229

(1) Write-down or conversion of relevant capital instruments into shares or into other instruments of ownership of the bank may be carried out:

- 1) independently of the resolution measures, or
- 2) in combination with the resolution measures, if the requirements for bank resolution are met.

(2) The Agency may write down or convert relevant capital instruments into shares or into other instruments of ownership prior to the initiation of resolution procedure, and if the resolution procedure is initiated, the write-down or conversion of capital shall be done prior to the implementation of the adequate resolution tool.

(3) Without delay, the Agency shall write down or convert capital instruments of the bank when at least one of the following conditions is fulfilled:

- 1) conditions for resolution procedure initiation are met, as stipulated in this Law, prior to implementing any resolution measure,
- 2) The Agency determines that the bank is unlikely to continue its operations within the meaning of this Law unless write-down or conversion is exercised, and it is unlikely that any other measure of the bank or private sector party, nor any measure taken under the supervisory regime in line with this Law, except for write-down or conversion, would timely remove the impediments for continuity of the bank's operations, considering all circumstances in each individual case,
- 3) the bank has requested extraordinary public financial support, unless the bank is liquid and the financial support is requested for addressing the capital shortfall determined through stress testing and assessment of bank assets quality.

(4) The write-down and conversion shall be exercised without an approval of the bank's shareholders, depositors and other bank creditors or any third party.

(5) Before performing write-down or conversion of capital instruments, the Agency shall ensure that an independent valuation of assets and liabilities of the bank has been conducted in accordance with this Law, which shall form the basis of the calculation of the level of write-down or conversion to be applied to the relevant capital instruments in order to absorb losses and/or recapitalize the bank.

Implementation of write-down or conversion of capital instruments Article 230

(1) Write-down or conversion of capital instruments shall be conducted according to the following priority:

1) Common Equity Tier 1 items are reduced in proportion to the losses and to the extent of the capacity of such capital instruments, and the Agency shall take one or both of the measures stipulated in this Law for use of bail-in tool,

2) Additional Tier 1 capital instruments are written down or converted into Common Equity instruments to the extent required to achieve the resolution objectives or to the extent of the capacity of the relevant capital instruments, whichever is lower and

3) instruments of additional capital are written down or converted into Common Equity instruments to the extent required to achieve the resolution objectives or to the extent of the capacity of the relevant capital instruments, whichever is lower.

(2) When the relevant capital elements are written down, the holder of the relevant capital element shall no longer be liable for the written-down amount of the element, except for any liability already accrued, and no compensation based on this write-down shall be paid to the holder.

(3) In order to effect the conversion referred to in paragraph 1 Item 2 herein, the Agency may order the bank to issue shares to the holders of the relevant capital elements, which may be included in the common equity of the bank.

(4) Where a conversion of the bank's capital instruments may result in acquisition or increase of the holdings exceeding the percentage referred to in Article 41 of this Law, the Agency shall timely assess whether the requirements for issuing approval for acquisition of such qualifying holdings have been met, so that the assessment does not delay this conversion.

(5) It shall be deemed that a banking group is unlikely to continue its operations within the meaning of Article 229 paragraph 3 item 2 of this Law when it does not comply or it is unlikely to comply with the provisions of this Law stipulating the indicators pertaining to group risk management, due to which the Agency may impose a measure specified in this Law, in

particular when it has suffered or it is likely to suffer losses to the extent equaling its entire capital or a significant portion thereof.

(6) The write-down and conversion of capital instruments of a non-banking member of a banking group, which is under the supervision of the Agency, shall be subject to Article 229 of this Law and paragraph 1 to 5 of this Article.

(7) With regard to a member of a banking group headquartered in RS that is not subject to the supervision of the Agency, the Agency shall perform the write-down and conversion of capital after obtaining an opinion of the relevant regulatory authority responsible for supervising the operations of that member.

(8) The Agency shall adopt an act to regulate the manner and procedure of conversion of capital elements referred to in paragraph 3 of this Article.

4. Resolution procedure

Conditions for initiating resolution procedure

Article 231

(1) The Agency shall adopt decision for initiating a resolution procedure of a bank when it finds that the following conditions are met:

1) that the bank is failing or is likely to fail,

2) there is no reasonable prospect that any other measure, including private sector measures, supervisory measures, including early intervention measures or the write-down or conversion of relevant capital instruments would prevent the failure of the bank within a reasonable timeframe, taking into account all circumstances of each individual case, and

3) that resolution of the bank is in the public interest.

(2) Previous implementation of the early intervention measures or other supervision measures of the Agency is not a condition for undertaking resolution procedure.

(3) For the purpose of this Law, a bank shall be deemed to be failing or likely to fail if one or more of the following circumstances have arisen:

1) reasons for revoking the operating license referred to in Article 30 of this Law have occurred or are likely to occur, in particular where the bank has incurred or is likely to incur losses that will deplete the entire or a significant amount of its capital,

2) bank's assets are or are likely to be lower than its liabilities in the near future,

3) the bank is or is likely to be non-liquid in the near future, unless short-term public financial support has already been granted for that purpose,

4) the bank requested extraordinary public financial support, except in exceptional cases when such support is provided to a solvent bank to remedy a serious disturbance in the economy and preserve financial sector stability, as a temporary and proportionate measure which takes any of the following forms:

1. the state guarantee by Republika Srpska and loans and guarantees by its public institutions for new bank liabilities, or

2. recapitalization or purchase of ownership instruments under terms that do not confer an advantage upon the bank on the market, to the extent needed to address a capital shortfall, under terms specified by the Agency, only if at the moment of providing this support the conditions from item 1) to 3) of this paragraph are not met, nor the conditions for write-down and conversion of capital referred to in Articles 229 and 230 of this Law.

(4) It shall be deemed that a resolution procedure is of public interest if it is necessary for preserving financial stability, as well as in cases when a resolution procedure can in an adequate manner attain one or more resolution objectives that could not be attained to the same extent by liquidation or bankruptcy proceedings.

(5) The initiation of resolution procedure for a banking group and holding company shall be subject to the provisions of this Article as appropriate.

Independent valuation of bank's assets and liabilities

Article 232

(1) Before initiating a resolution procedure, the Agency shall ensure fair, prudent, and realistic valuation of the bank's assets and liabilities.

(2) The valuation must contain information and data necessary for the Agency to determine whether the conditions for bank resolution have been met, i.e. to select the adequate resolution tools or measures where the conditions have been met, as well as to ensure that all losses are fully recognized in the bank's business books and financial statements on the day of the resolution implementation.

(3) The valuation shall be carried out by an audit firm or another entity in line with the regulations of the Agency, which shall be independent from the Agency and from any public body or institution vested with public authority, and independent from the bank under the valuation or the banking group to which the bank belongs (hereinafter: independent appraiser).

(4) The Agency shall select an independent appraiser who shall carry out the valuation and shall be compensated by the bank.

(5) The valuation shall be based on prudent assumptions, including severity of losses caused by default by debtors, and it shall not assume any potential future provision of

extraordinary public financial support, loans to maintain liquidity levels or any liquidity loans provided under non-standard collateralization, tenor and interest rate.

(6) The valuation shall take into account any potential claims of the Agency and parties that would participate in the financing of the bank resolution to cover the costs incurred during the resolution procedure, as well as the costs of interest and fees arising from the potential utilization of loans, guarantees and other acceptable forms of bank support and other third parties provided to the bank for resolution financing.

(7) The valuation shall be accompanied with updated bank's financial statements, an analysis and an estimate of the accounting value of assets, as well as the list of outstanding balance sheet and off balance sheet liabilities shown in the books and records of the bank, with an indication of the respective priority payout levels of liabilities for liquidation and bankruptcy proceedings, in line with the provisions of this Law.

(8) For the purpose of passing the decision on resolution tools as provided in this Law, the Agency may request from the independent appraiser to supplement the analysis and estimate of the accounting value of the assets with an analysis and estimate of the market value of the assets and liabilities of the bank subject to resolution.

(9) The valuation shall indicate an estimation of the total amount that would go to each priority payout level of the creditors in the event of bankruptcy procedure, but it shall not exclude the obligation of independent and special valuation in relation to protection of shareholders and creditors stipulated in this Law.

(10) If due to the urgency it is not possible to carry out the valuation in line with paragraphs 7, 8 and 9 of this Article, the independent appraiser shall carry out a provisional valuation, which shall be used in the resolution procedure until the final valuation of the bank's assets and liabilities is carried out.

(11) In exceptional cases, where it is not possible to ensure the independent valuation referred to in paragraph 1 herein before the resolution procedure, the Agency may carry out a provisional valuation of the bank's assets and liabilities on its own, which shall be used in the resolution procedure until the independent appraiser carries out the final valuation.

(12) The provisional valuation referred to in paragraphs 10 and 11 herein shall include reserves for additional losses, which shall be separately explained.

(13) The resolution procedure referred to in Article 231 of this Law may be initiated and resolution tools and measures may be applied on the basis of the provisional valuation referred to in paragraph 10 and 11 of this Article.

(14) In the events specified in paragraph 10 and 11 herein, as well as in other events where the valuation has not been carried out before the resolution action in line with the requirements of this Article, the independent appraiser shall carry out the final valuation as soon as the relevant conditions are fulfilled.

(15) If the value of the bank's assets and liabilities as established in the final valuation exceeds the value established in the provisional valuation, the Agency may increase the claims of the creditors or shareholders that were or will be written off through the bail-in tool, or order the bridge bank or the asset management company to make additional payments to the bank or to shareholders on account of the transfer of the shares, assets or liabilities.

(16) The Agency shall deliver the independent valuation from paragraph 1 of this Article to the Deposit Insurance Agency of Bosnia and Herzegovina for the purpose of assessing the hypothetical loss in liquidation and obtaining information necessary for the calculation of the estimated hypothetical loss absorption amount, which the Deposit Insurance Agency of Bosnia and Herzegovina shall deliver within 24 hours.

(17) The Agency adopt an act to prescribe method of independent valuation of the bank's assets and liabilities, as well as the conditions and criteria an independent appraiser should fulfill to carry out the valuation.

Notification on a resolution procedure initiation Article 233

The Agency shall submit the decision for initiating a resolution procedure in a bank to the following:

- 1) the bank to which the decision pertains,
- 2) the competent regulatory body and the resolution authority,
- 3) as needed, to the competent regulatory body and the authority for resolution of the banking group where the bank belongs,
- 4) the Central Bank of Bosnia and Herzegovina,
- 5) the Deposit Insurance Agency of Bosnia and Herzegovina,
- 6) the Ministry of Finance of RS,
- 7) the RS Committee for Coordinated Supervision of the Financial Sector, and
- 8) the competent registration court.

Publication of a resolution procedure initiation Article 234

(1) The Agency shall publish the decision on resolution procedure initiation in the "Official Gazette of Republika Srpska", in one or more daily newspapers circulating across the BiH and on its website, along with a summary of all subsequent decisions for implementation of

the resolution procedure and explanation of consequences of the actions, and, as necessary, the conditions and timeframe of any temporary suspension of certain liabilities of the bank.

(2) The bank shall post on its website the decision on resolution procedure initiation and a summary of all subsequent decisions for implementation of the resolution procedure.

5. Powers in the resolution procedure

General powers Article 235

(1) For the purpose of taking resolution actions, the Agency shall have the following powers:

1) to require from any person to provide any information necessary for deciding and preparing bank resolution measures, including updates and supplements of information contained in the resolution plan, as well as to request for information to be obtained through on-site inspections,

2) to dismiss the governing bodies and, as necessary, senior management of the bank under resolution,

3) to overtake all powers of shareholders and governing bodies of the bank under resolution and transfer such powers to the special management,

4) to transfer the shares and other ownership instruments issued by the bank under resolution,

5) to transfer to another entity, with the consent of that entity, rights, assets or liabilities of the bank under resolution,

6) to reduce, fully or partially, the principal amount of debt or outstanding debt of eligible liabilities of the bank under resolution,

7) to convert eligible liabilities of the bank under resolution into ordinary shares or other instruments of ownership of that bank, its parent company or bridge bank to which the assets and liabilities are transferred,

8) to cancel debt instruments issued by the bank under resolution, except for the eligible liabilities referred,

9) to reduce, including to reduce to zero, the nominal value of shares or other instruments of ownership of the bank under resolution and to cancel such shares or other instruments of ownership,

10) to require the bank under resolution or its parent company to issue new shares, other instruments of ownership or other capital instruments, including preference shares and contingent convertible instruments,

11) to close out and terminate financial contracts or financial derivatives contracts for the purposes of actions regarding financial derivatives in line with this Law,

12) to amend the maturity date of debt instruments or other eligible liabilities, the amount of interest payable under such instruments and liabilities or the dates on which interest becomes payable, including temporary suspension of payments, except for the liabilities whose fulfillment is secured by lien, financial collateral or other related rights, including repurchase agreements, covered bonds or liabilities in the form of financial instruments used for hedging purposes and which form an integral part of the cover pool and which are secured in a way similar to covered bonds

13) to assess the buyer of a qualifying holding without the obligation to apply the deadlines set for such assessment, and

14) to seek other sources of funding the resolution procedure, including extraordinary public financial support in line with this Law and other laws.

(2) While discharging its powers, the Agency shall not be required to obtain approvals or consent of any public authority or organization, the shareholders or creditors of the bank under resolution, which should be ensured in the bank's normal operations.

(3) During the resolution action, the Agency may request the competent court to impose an injunction in relation to the assets of the bank under resolution or to cancel all court or administrative procedures against the bank.

Ancillary powers Article 236

(1) For the purpose of efficient implementation of resolution measures, in addition to the general powers referred to in Article 235 of this Law, the Agency shall have the following powers:

1) to provide for a transfer to take effect free from any additional rights or liability affecting the transferred financial instruments, assets or liabilities, for which purpose, any right of compensation or settlement in accordance with this Law shall not be considered to be an additional right or liability,

2) to remove rights to acquire further shares or other instruments of ownership,

3) to require from the relevant authority to suspend trading on and exclusion from the stock exchange or other regulated market or the official listing of financial instruments, in line with the regulations governing trading in securities,

4) to provide for the recipient to be treated, in terms of any rights, obligations or actions taken by the bank under resolution, as if it were the bank under resolution, including pursuant to the articles of this Law that regulate the conditions for sale and transfer to the bridge bank, any rights and obligations relating to participation in the market,

5) to require from the bank under resolution or the recipient to provide the other with information and assistance, and

6) to cancel or modify the terms of contracts in which the bank under resolution is a party and to ensure that the recipient substitutes the bank under resolution as a party.

(2) During the resolution action, the Agency shall have the power to provide to the recipient any continuity arrangements necessary to ensure that the resolution action is effective, in particular:

1) continuity of contracts concluded by the bank under resolution, so that the recipient assumes the rights and liabilities of the bank under resolution relating to any financial instruments, assets or liabilities that have been transferred and substitutes the bank under resolution as a party in all relevant contractual documents,

2) the recipient substitutes the bank under resolution as a party in any legal proceedings relating to any transferred financial instruments, assets or liabilities, irrespective of the consent of the other party.

(3) The powers of the Agency referred to in paragraph 1 item 4 and paragraph 2 item 2 herein shall not affect the following:

1) the rights of the employees of the bank under resolution to terminate a contract of employment, and

2) any right of a contractual party, including the right to terminate the contract in accordance with the article of this Law that prescribes powers for temporary suspension of relevant liabilities, where entitled to do so in accordance with the terms of the contract by virtue of an act or omission by the bank under resolution prior to the relevant transfer, or by virtue of an act or omission of the recipient after the relevant transfer.

Power to ensure the provision of services and facilities
Article 237

(1) The Agency shall have the power to require a bank under resolution, or any of its subsidiaries, to provide any services or facilities, which shall not include any form of financial

support, that are necessary to enable the recipient to operate effectively the business transferred to it.

(2) The services and facilities referred to in paragraph 1 herein shall be provided on the following terms:

1) under the terms of an agreement for providing services or for use of facilities which was applicable immediately before the resolution action was taken and for the duration of that agreement, or

2) where there is no agreement for providing services or for use of facilities or where the agreement expired before or during the resolution action, under reasonable terms.

Power to suspend certain obligations Article 238

(1) The Agency shall have the power to temporarily suspend any payment or fulfillment of obligations pursuant to any contract in which the bank under resolution is a party for a period of 48 hours from the publication of the notice on the temporary suspension.

(2) When a payment or delivery obligation falls due during the suspension period, the payment or delivery obligation shall be due on the following business day upon expiry of the suspension period.

(3) If the payment or delivery obligations of the bank under resolution are temporarily suspended under paragraph 1 herein, the payment or delivery obligations of the bank under resolution's counterparties under that contract shall be suspended for the same period of time.

(4) Notwithstanding paragraph 1 of this Article, the suspension shall not apply to:

1) insured deposits, in line with the legislation governing deposit insurance in banks of Bosnia and Herzegovina,

2) obligations owed to payment systems and securities settlement systems, which under the law are specified as important systems, i.e., towards system operators and participants, which have occurred based on participation in such systems, and

3) public revenue accounts to which public revenue payments are made to the benefit of Republika Srpska, the Federation of Bosnia and Herzegovina, Brcko District of Bosnia and Herzegovina, cities, municipalities, and funds and accounts from which distribution of funds are made to the accounts of beneficiaries of public revenues, up to the completion of the distribution transaction in accordance with regulation governing treasury operations and other regulations.

(5) The Agency may temporarily suspend any enforced collection of lien by secured creditors of the bank under resolution for a period of 48 hours from the publication of the notice on the temporary suspension.

(6) The Agency may temporarily suspend the right to terminate contract of all parties in contractual relation with the bank under resolution for a period of 48 hours from the publication of the notice on the temporary suspension, provided that the payment and delivery obligations and the provision of collateral continue to be performed.

(7) Upon expiry of the temporary suspension period referred to in paragraph 6 herein and where the rights and obligations under the contract have been transferred to the recipient, the other contracting party may terminate a contract only if the conditions for contract termination relating to the recipient have been met after the moment of transfer.

(8) When exercising a power under this Article, the Agency shall consider the impact that the exercise of that power might have on the orderly functioning of the financial market.

Introducing special administration Article 239

(1) The Agency shall introduce the special administration by appointing one or several special administrators where it deems that a change in the method of bank governance and management would contribute to the attainment of resolution objectives.

(2) The Agency may issue a decision introducing a special administration at any time of the resolution procedure.

(3) The appointment of a special administrator shall not last more than one year, and the appointment may be renewed for another year where the Agency deems it necessary for the purpose of finalizing the initiated activities and attaining the resolution objectives, i.e., provided that the conditions of paragraph 1 herein have been met.

(4) As of the date of the decision for introducing special administration, all powers conferred upon the board of directors, supervisory board and the general meeting of the bank shall be assumed by the special administrator;

(5) The former members of the board of directors and other persons with special powers and responsibilities in the bank, as well as employees, shall cooperate with the special administrator and ensure access to all documents of the bank, and shall provide all clarifications or additional information on bank's operations.

(6) With the decision referred to in paragraph 2 herein, the Agency shall specify the level of compensation payable to the special administrator, which shall be borne by the bank.

(7) During the special administrator's appointment, the Agency may issue a decision dismissing the special administrator and appointing a new one.

(8) The special administrator must be a person who is independent from the bank and meets the requirements for appointing members of the board of directors.

(9) The special administrator shall undertake all measures necessary for attainment of the resolution objectives and apply all resolution tools and measures in line with the Agency's decision to initiate a bank resolution procedure.

(10) Carrying out special administrator's responsibilities referred to in paragraph 9 herein, shall have priority over all other responsibilities of the governing bodies arising from the bank's internal documents or other regulations.

(11) The special administrator may hire, at the cost of the bank, independent experts from the banking and financial sector, accounting or any other relevant profession, under the conditions approved by the Agency.

(12) The special administrator shall submit to the Agency a report on the bank's performance and its financial standing, including the actions taken to carry out his or her duties, at least once in three months or more often if requested by the Agency.

(13) The special administrator shall submit his or her report to the Agency at the beginning and at the end of his/her mandate.

(14) The Agency shall control the special administrator's performance of his/her functions and powers.

(15) The decision on introducing special administration may set out certain restrictions of the special administrator's functions and powers, as well as a requirement that certain actions of the special administrator should be subject to a prior consent of the Agency.

(16) The Agency shall immediately deliver the decision appointing, dismissing or renewing the special administrator's mandate to the special administrator and the bank under resolution, and publish it in the "Official Gazette of Republika Srpska" and in one or more daily newspapers circulated on the entire territory of BiH, as well as on the web site of the Agency.

(17) The introduction of special administration, appointment and dismissal of the special administrator, as well as termination of the special administrator shall be entered into the registry of business entities at the competent court register and registry of banks in accordance with Article 27 of this Law.

(18) Where a different competent resolution authority intends to appoint a special administrator for another member of the banking group, the Agency shall consider, conjointly with the other competent resolution authority, the option of having the same special administrator for those members of the banking group for the purpose of facilitating the resolution measures.

6. Resolution tools

Types of resolution tools

Article 240

(1) The Agency may apply the following bank resolution tools:

- 1) the sale of shares, i.e., assets, rights and liabilities;
- 2) the transfer to a bridge bank;
- 3) the asset separation; and
- 4) the bail-in tool.

(2) The Agency may apply individually or in any combination one or several of the resolution tools referred to in paragraph 1 herein, depending on the case in question, save for the asset separation tool that may be applied only in combination with another resolution tool.

(3) In deciding on which resolution tool to apply, the Agency shall assess the costs involved in each option and shall weigh such costs against the effectiveness of each tool in achieving the objectives of resolution.

(4) Where the resolution tools referred to in paragraph 1 items 1 and 2 herein are used for resolution of a bank, the residual assets, rights or liabilities of a bank under resolution shall be wound up under bankruptcy proceedings petitioned by the Agency.

(5) The sale and transfer of shares, i.e., assets, rights and liabilities of the bank under resolution by way of using the tools referred to in paragraph 1 Items 1) to 3) herein, and the issuance of decisions and the implementation of bail-in activities shall take place without obtaining the consent of the shareholders, depositors or any other creditor of the bank under resolution, or any third party other than the acquirer.

(6) The Agency and other entities participating in the financing of the bank resolution are entitled to recover any reasonable and actual expenses incurred in relation to the use of resolution tools, resolution powers or extraordinary public financial support in one or more of the following ways:

- 1) as a deduction from any consideration paid by a recipient to the bank under resolution or to the shareholders of the bank under resolution;
- 2) from the bank under resolution, as preferred creditors; and
- 3) from any proceeds generated as a result of the liquidation or bankruptcy of the bridge bank or the asset management company, as preferred creditors.

(7) The proceeds generated through the transfer of shares referred to in paragraph 4 herein from the shareholders to acquirer, netted by the amount used to finance the resolution procedure and the costs thereof, in accordance with paragraph 6 herein, shall belong to the shareholders, whereas the proceeds generated through the transfer of the entire assets or

liabilities or any portions thereof from the bank under resolution or the bridge bank to the acquirer, netted by the amount used to finance the resolution procedure and the costs thereof, in accordance with paragraph 6 herein, shall belong to the transferring bank.

(8) Where the resolution tools referred to in paragraph 1 items 1) to 3) have been applied, the shareholders or creditors of the bank under resolution and other third parties whose shares or assets, rights or liabilities have not been sold or transferred to a bridge bank or asset management company shall have no rights with regard to the shares, assets, rights and liabilities as sold or transferred, nor with regard to the acquirer or its governing bodies save for the right to safeguards as stipulated by this Law.

(9) The Agency shall immediately inform the bank's depositors, creditors and debtors through one or more daily newspapers circulated in the entire territory of BiH, as well as through its web site.

6.1. Sale of shares, i.e. assets, rights and liabilities

Conditions of sale Article 241

(1) The Agency shall have the power to sell the following to one or several acquirers that are not a bridge bank:

- 1) shares or other ownership instruments issued by the bank under resolution;
- 2) all or part of the assets, rights or liabilities of the bank under resolution.

(2) When applying this tool, the Agency may exercise the transfer power more than once in order to carry out sale and transfer of shares or other ownership instruments issued by the bank under resolution or, as the case may be, assets, rights or liabilities of the bank under resolution.

(3) Following the sale, the Agency may pass a decision and enter into an agreement with the acquirer, under which the acquirer returns the transferred assets, rights or liabilities to the bank under resolution, or returns the shares or other ownership instruments back to their original owners, and the bank under resolution or the original owners shall be obliged to take back any such assets, rights and liabilities, shares or other ownership instruments.

(4) The acquirer must obtain the appropriate authorizations to carry out the business activities that fall into the scope of sale.

(5) At the time of the acquisition, the acquirer of qualifying holdings in the bank under resolution shall have a prior consent of the Agency with regard to the acquisition of qualifying holdings in the bank under resolution in accordance with Article 41 of this Law.

(6) The Agency shall decide on the acquirer's request to acquire qualifying holdings in the bank under resolution within the deadline such that the implementation of the sale of business tool is not delayed, and enables the accomplishment of resolution objectives.

(7) Notwithstanding paragraph 6 herein, the Agency may apply the sale tool before deciding on the request for acquisition of qualifying holding, upon which it will decide at a later time.

(8) Where the acquirer has acquired qualifying holdings before the Agency decided on the request for acquisition of qualifying holdings, the sale contract shall have legal effect and the acquirer shall enjoy all property rights stemming out of the shares and other ownership instruments he/she acquired by purchase, and the Agency shall have all voting and other rights arising from the shares or other instruments of ownership the acquirer has acquired.

(9) Where the Agency rejects the request for acquisition of qualifying holdings in the bank, it may order the acquirer to sell the shares or other ownership instruments for which he/she has not been granted consent or sell such ownership instruments.

(10) Where the acquirer, within the time frame specified by the Agency, fails to sell the shares or other ownership instruments, the Agency shall impose measures pertaining to acquisition of qualifying holding without the consent required by Article 46 of this Law.

(11) The acquirer shall be considered to be a legal successor of the bank under resolution in respect of the transferred assets, rights or liabilities, and shall take place of the bank under resolution in all actions the bank participated in respect of the transferred assets, rights or liabilities, irrespective of the counterparty's consent.

(12) The acquirer may continue to exercise the rights of membership and access to payment, clearing and settlement systems, stock exchanges and deposit guarantee schemes of the bank under resolution, if it meets the membership and participation criteria for participation in such systems.

(13) The Agency shall adopt an act to prescribe the procedure of sale of shares, i.e. assets, rights and liabilities of the bank under resolution.

Application of the sale tool Article 242

(1) Having regard to the circumstances of the case, the Agency shall undertake all reasonable measures to effectuate the sale on commercial conditions, starting from an independent valuation of the assets, rights or liabilities of the bank pursuant to Article 232 of this Law.

(2) The sale tool shall be applied in accordance with the following principles:

1) it shall be transparent and correctly present the assets, rights, liabilities, shares or other ownership instruments of the bank under resolution, having regard to the need to maintain financial stability;

2) it shall not unduly favor or discriminate between potential acquirers;

3) it shall be free from any conflict of interest;

4) it shall take account of the need to effectuate a rapid resolution procedure; and

5) it shall reflect the due diligence requirements.

(3) Observing the principles referred to in paragraph 2 herein, the Agency shall publish a notice inviting the potential acquirers to submit their bids.

(4) The Agency shall immediately ensure to potential acquirers immediate access to relevant information on the bank's financial standing for the purpose of the valuation of the assets, rights or liabilities subject to the sale.

(5) Notwithstanding paragraph 3 herein, the Agency may apply the sale tool without the public notice where it determines that such notice would likely undermine or complicate one or more of the resolution objectives and in particular if the following conditions are met:

1) it considers that there is a material threat to financial stability arising from likely failure of the bank under resolution; and

2) if it deems that the public notice would likely undermine the effectiveness of the sale of business tool or achieving the resolution objective.

(6) For the purpose of achieving the objectives of resolution, the Agency may favor the sale to a certain category of acquirers or negotiate a direct sale to an acquirer, which shall not undermine the principle of equality of potential acquirers.

(7) Where it finds that the acceptance of any of the bids submitted would not attain the resolution objectives, the Agency may determine not to apply the sale of business tool and apply a different resolution tool.

6.2. Bridge bank

Establishing a bridge bank Article 243

(1) The bridge bank shall be a legal entity established by Republika Srpska or one or more entities or institutions in full or partial ownership of Republika Srpska, for the purpose of receiving shares, some or all of the assets, rights and liabilities of one or more banks under

resolution with the aim of maintaining the critical functions and further sale of the transferred shares, assets, rights and liabilities.

(2) The operational license for the bridge bank shall be issued by the Agency upon the founder's application accompanied by the following:

- 1) the bank's founding act and statute, as approved by the Agency;
- 2) proof of payment of the minimum founding capital; and
- 3) the names of the proposed members of the bank's supervisory board and board of directors, including their qualifications, expertise, business reputation and image.

(3) The Agency shall decide on the application referred to in paragraph 2 herein within two business days as of receipt of the orderly application, and shall publish the decision granting the operational license in the "Official Gazette of Republika Srpska" and in one or more daily newspapers circulated in the entire territory of BiH, as well as on its web site.

(4) The operational license for the bridge bank shall be issued for a period of up to two years as of the date of the last transfer of shares, assets, rights or liabilities, with a possibility to renew it for one or several one-year periods where such renewal is deemed necessary to maintain the key functions of the bridge bank and ensure the conditions for termination of its operations.

(5) The bridge bank's founder shall file an application for entry in the register of business entities no later than the following business day as of the date of issuance of the operational license.

(6) The establishment, operations and supervision of the bridge bank shall be subject to this Law.

(7) Notwithstanding paragraph 6 herein, the bridge bank can be established even if the establishment conditions stipulated in this Law have not been met, where it is due to urgency necessary for achieving the resolution objectives.

(8) In case the operational license referred to in paragraph 7 herein has been issued, the Agency shall specify the time frame in which the bridge bank shall harmonize its operations with the provisions of this Law pertaining to its capital and performance indicators, which may not be longer than six months from the day of issuance of the license, and which may be extended at the request of the bridge bank to the Agency.

(9) The members of the bank's governing bodies shall be appointed by the founder referred to in paragraph 1 herein with a prior consent of the Agency.

(10) The bridge bank, its governing bodies or senior management shall have no liability for damages to the shareholders or creditors of the bank under resolution for acts and omissions

in the discharge of their duties unless the act or omission implies gross negligence or serious misconduct.

(11) The Agency shall give its consent as to the compensation payable to the members of the governing bodies and a document specifying their duties; it shall approve the strategy and other documents, including the risk profile of the bridge bank.

(12) The establishment of the bridge bank is exempted from the application of provisions of the legislation on the market of securities, which would negatively impact the achievement of the objectives of bank establishment, and the competent authorities shall issue the documents for establishment of such bank and implement urgent actions set out in the law.

(13) The Agency shall adopt an act to stipulate the content of the documentation and documentary evidence to be submitted at the time of the bridge bank's establishment.

Transfer to a bridge bank Article 244

(1) The Agency shall have the power to decide to transfer the following to a bridge bank:

1) shares or other ownership instruments issued by one or more banks under resolution;
and

2) all or part of the assets, rights or liabilities of one or more banks under resolution.

(2) The Agency may carry out the transfer referred to in paragraph 1 herein, to the bridge bank multiple times.

(3) The total value of liabilities transferred to the bridge bank cannot exceed the total value of the rights and assets transferred from the bank under resolution to the bridge bank or that are provided by other sources.

(4) The members of the governing body shall govern the bridge bank in order to ensure continuity of access to critical functions and sale of shares, assets, rights or liabilities of the bridge bank to one or more acquirers, whereby they are obliged to respect all guidelines and recommendations of the Agency and make decisions that provide a low level of risk.

(5) For the purposes of exercising its rights of membership and access to payment, clearing and settlement systems, stock exchanges and deposit guarantee schemes of the bank under resolution, the bridge bank shall be considered to be a legal successor of the bank under resolution, if the criteria for the membership in such systems are met within six months, with the possibility of extension after obtaining the approval of the Agency.

Additional powers regarding transfer Article 245

(1) Once the bridge bank has been established, the Agency may:

1) transfer rights, assets or liabilities back from the bridge bank to the bank under resolution, or the shares or other ownership instruments back to their original owners (shareholders), and the bank under resolution or original owners shall be obliged to take back any such assets, rights or liabilities, or shares or other ownership instruments, provided that such transfer was expressly stated in the tool used for the transfer or the transferred assets, rights, liabilities, shares or other ownership instruments no longer meet the transfer conditions.

2) transfer shares or other ownership instruments, assets, rights or liabilities from the bridge bank to a third party;

(2) The transfer referred to in paragraph 1 herein may be performed within any time frame as specified in the decision of the Agency concerning the transfer to a bridge bank, provided that the condition stipulated in the decision have been met.

(3) The Agency shall adopt an act to prescribe the manner and procedure of the transfer of shares, assets, rights or liabilities of the bank under resolution to the bridge bank, as well as the options of transferring the bridge bank's shares, assets, rights or liabilities to the bank under resolution; it may also specify the terms and method of selling the bridge bank's shares, assets, rights and liabilities, including the announcement thereof.

Termination of a bridge bank Article 246

(1) When selling a bridge bank or its assets or liabilities, the Agency shall ensure that the bank or its respective assets or liabilities are marketed under the same conditions, and that the sale does not lead to misrepresentation or favoring certain potential acquirers, or to their discrimination.

(2) Each sale referred to in paragraph 1 of this Article shall be carried out under market conditions.

(3) The Agency shall revoke the operational license issued to the bridge bank where:

1) the bridge bank merges or affiliates with another bank, in line with this Law;

2) the bridge bank no longer meets the criteria specified in Article 243 paragraph 1 of this Law;

3) all or substantial part of the bridge bank's assets, rights or liabilities have been sold to a third party;

4) the period referred to in Article 243 paragraph 4 of this Law expires, and

5) the bridge bank's assets are completely wound down and its liabilities are completely discharged.

(4) In the events referred to in paragraph 3 items 3 and 4 herein, the Agency shall initiate the liquidation procedure or file a proposal for bankruptcy proceedings to the competent court for the bridge bank.

(5) The proceeds from the bridge bank's liquidation or bankruptcy, netted by the amount pursuant to Article 240 Paragraph 6 of this Law, shall be paid to:

1) the shareholders of the bank under resolution, where the bridge bank has been established by transferring their shares; and

2) the bank under resolution, where the bridge bank has been established by transferring some or all of the assets, rights or liabilities of the bank under resolution.

(6) Where the bridge bank is established for the purpose of transferring the assets and liabilities of more than one bank under resolution, the payment requirement referred to in paragraph 5 herein shall pertain to the assets and liabilities transferred from each of the banks under resolution.

6.3. The asset separation tool

Asset separation and transfer conditions Article 247

(1) The Agency shall have the power to make a single or several separations and transfers of part or all of the assets, rights or liabilities of one or more banks under resolution or a bridge bank to one or more asset management companies, where the following conditions are met:

1) the situation in the particular market is of such a nature that the sale of such assets under liquidation or bankruptcy could have an adverse effect on the financial market;

2) such a transfer is necessary to ensure the proper functioning of the bank under resolution whose assets or liabilities have been transferred; and

3) such a transfer is necessary to maximize sale proceeds and minimize the sale costs.

(2) The separation and transfer referred to in paragraph 1 herein shall be exercised without an approval of the bank under resolution's shareholders, depositors or other creditors or any third party, save the bridge bank.

(3) An asset management company shall be a legal entity established by Republika Srpska or one or more entities or institutions in full or partial ownership of Republika Srpska that has been created for the purpose of receiving some or all of the assets, rights and liabilities of

one or more banks under resolution or a bridge bank, and shall operate under the control of the Agency.

(4) The asset management company shall manage the assets transferred to it for the purpose of maximizing the value of the assets through a sale or cashing it in any other way.

(5) To the asset management company, the Agency shall:

1) approve the founding acts;

2) provide a prior approval for the appointment of the members of the company's governing bodies;

3) approve the remuneration payable to the members of the company's governing bodies, including a document specifying their duties, rights and obligations; and

4) approve the company's strategy and risk profile.

(6) When applying the asset separation tool, the Agency shall determine the consideration for which assets, rights and liabilities are transferred to the asset management company, which can also have a negative value.

(7) The consideration referred to in paragraph 6 may be paid in the form of debt securities issued by the asset management company with a prior consent of the relevant authority, in accordance with regulations.

(8) Any consideration paid by the asset management company to the Agency in respect of the assets and liabilities acquired directly from the bank under resolution, following the reduction of costs arisen from the usage of this tool in accordance with Article 240 paragraph 6 of this Law, shall benefit the bank under resolution.

(9) The Agency may transfer assets and liabilities transferred to the asset management company back to the bank under resolution, where such possibility is expressly stipulated in the decision concerning the application of the asset separation tool, i.e. where certain assets or liabilities, given their nature, do not belong to the category of the assets or liabilities stipulated for the application of this tool, or do not meet the transfer requirements of that decision.

(10) In the events referred to in paragraph 9 herein, the back transfer of the assets and liabilities may be performed within any time frame as specified in the decision concerning the application of the asset separation tool, in accordance with the conditions specified in the decision.

(11) The asset management company shall effect the operations pertaining to the transferred assets and liabilities referred to in paragraph 1 herein with due diligence and inform the Agency thereof.

(12) The asset management company, its governing bodies or senior management shall have no liability for damage to shareholders or creditors of the bank under resolution due to their action or omission in the course of discharging their duties unless that act or omission implies gross negligence or serious misconduct.

(13) The Agency, shall adopt an act to prescribe the manner and procedure of giving the consent and approval referred to in paragraph 5 herein.

6.4. The bail-in tool

Objectives of the bail-in tool Article 248

(1) The Agency may apply the bail-in tool for the following purposes:

1) to recapitalize the bank under resolution to the extent necessary to continue to carry out its business activities in accordance with this Law and to sustain sufficient financial market confidence in the bank, and

2) to convert to equity or write-down (reduce) the principal amount of claims or debt instruments that are transferred to a bridge bank with a view to provide capital for that bridge bank, or are transferred within the framework of the tool of share sale, i.e. assets, rights and liabilities or separation tool of the bank under resolution.

(2) The Agency may apply the bail-in tool for the purpose of re-capitalization of the bank under resolution only if there is a reasonable prospect that the application of that tool, together with other relevant measures including measures implemented in accordance with the business reorganization plan of the bank under resolution, in addition to achieving relevant resolution objectives, will restore the bank in question to financial soundness and long-term viability.

Application scope of the bail-in tool Article 249

(1) The liabilities of a bank under resolution to which a conversion or write down of capital referred to in Article 248 paragraph 1 item 2 of this Law may be applied (hereinafter: eligible liabilities) include all liabilities of the bank, except for:

1) covered deposits, up to the amount in accordance with the legislation governing deposit insurance in banks of Bosnia and Herzegovina;

2) liabilities secured by lien, financial collateral or other related rights, including repurchase agreements, covered bonds or liabilities in the form of financial instruments used for hedging purposes and which form an integral part of the cover pool and which are secured in a way similar to covered bonds;

3) any liability that arises by virtue of the holding by the bank under resolution of clients' assets or clients' money including clients' assets or clients' money held on behalf of investment and pension insurance funds, segregated by virtue of special laws from the liquidation or bankruptcy estate;

4) liabilities to banks in Bosnia and Herzegovina and foreign banks and investment institutions, excluding entities that are part of the same group, with an original maturity of less than seven days;

5) liabilities with a remaining maturity of less than seven days, owed to payment and clearing systems or operators of those systems and participants in the systems, and arising from the participation in such systems;

6) a liability to the employees, in relation to accrued unpaid salary, contributions for obligatory pension and health insurance or other fixed remuneration, except for the variable component of remuneration that is not regulated by law or a collective bargaining agreement;

7) a liability to a commercial or trade creditor arising from the provision to the bank under resolution of goods or services that are critical to the daily functioning of its operations, including IT services, utilities and the rental, servicing and maintenance of premises;

8) liabilities to tax and social security authorities, provided that those liabilities have priority in payment under this and other laws; and

9) a liability to the BiH Deposit Insurance Agency arising from deposit insurance premiums.

(2) The initiation of resolution procedure and performance of bail-in tool shall not affect the assets secured by covered bonds, which shall remain secured, separated and with a specified level.

(3) The Agency may, in addition to provisions of paragraph 1 item 2 and paragraph 2 herein, exercise the bail-in powers in relation to any amount of the liabilities exceeding the value of the assets, pledge, lien or any other collateral securing the liabilities.

(4) Notwithstanding paragraph 1 herein, the Agency may fully or partially exclude certain eligible liabilities from the application of the write-down or conversion referred to in Article 248 paragraph 1 of this Law, where at least one of the following conditions is met:

1) it is not possible to write-off or convert that liability within a reasonable time notwithstanding the necessary activities undertaken by the Agency in order to apply the tool in a timely and efficient manner;

2) the exclusion is necessary and proportionate to achieve the continuity of critical functions and core business lines of the bank under resolution;

3) the exclusion is necessary and proportionate to avoid giving rise to widespread contagion of financial disturbances in the market, in particular as regards the deposits held by natural persons, entrepreneurs and micro, small and medium sized enterprises, which would disrupt the stability of the financial sector in a way that it could cause severe disruptions in the economy;

4) the application of write down or conversion to those liabilities would cause a destruction in value such that the losses borne by other creditors would be higher than if those liabilities were excluded from write down or conversion.

(5) Where an eligible liability or class of eligible liabilities is excluded or partially excluded, the level of write down or conversion applied to other eligible liabilities may be increased to take account of such exclusions, provided that the level of write down and conversion applied to other eligible liabilities complies with the principle “no creditor worse off”.

(6) While applying this tool, the Agency may use other sources of resolution financing if a contribution to loss absorption and recapitalization has been made by the shareholders and other creditors through write down, conversion or otherwise equal to no less than:

- 1) 4 percent starting from January 1 2017,
- 2) 5 percent starting from January 1 2018,
- 3) 6 percent starting from January 1 2019,
- 4) 7 percent starting from January 1 2020
- 5) 8 percent starting from January 1 2021,

of the total liabilities including regulatory capital of the bank under resolution, measured at the time of resolution action in accordance with the independent valuation provided for in Article 232 of this Law ,

(7) When deciding as referred to in paragraph 4 herein, the Agency shall give due consideration to:

1) the principle that losses should be borne first by shareholders and next by creditors of the bank under resolution in order of preference in bankruptcy proceedings under this Law;

2) the level of loss absorbing capacity that would remain in the bank under resolution if the liabilities were excluded; and

3) the need to maintain adequate resources for resolution financing.

(8) Exclusions of eligible liabilities under paragraph 4 herein may be applied either to complete exclusion of liabilities from write down or limitation of the extent of the write down applied to that liability.

(9) The Agency shall adopt an act to prescribe the procedure and manner of write down and conversion of the liabilities of the bank under resolution, including the conditions to use the funds intended for bank resolution financing for the purposes referred to in paragraph 6 herein.

Minimum requirements for capital and eligible liabilities

Article 250

(1) The bank shall meet, at all times, minimum requirements for capital and eligible liabilities.

(2) The minimum requirements referred to in paragraph 1 herein shall be calculated as a percentage expressed as ratio of the sum of capital and eligible liabilities to the sum of capital and total liabilities of the bank.

(3) The Agency shall set, for each individual bank, the minimum requirements referred to in paragraph 1 herein in accordance with the following criteria:

1) the need to ensure that the bank can be resolved by the application of the resolution tools including the bail-in tool, in a way that meets the resolution objectives;

2) the need to ensure that the bank has sufficient eligible liabilities to ensure that, if the bail-in tool were to be applied, losses could be absorbed and the capital adequacy ratio of the institution could be restored to a level necessary to enable it to continue its business activities and maintain the financial market confidence in the bank.

3) the need to ensure that, if the resolution plan anticipates that certain classes of eligible liabilities might be excluded from the bail-in under Article 249 paragraph 4 of this Law or that certain classes of eligible liabilities might be transferred to a recipient in full under a partial transfer, the bank has sufficient other eligible liabilities to ensure that losses could be absorbed and the capital adequacy ratio of the bank could be restored to a level necessary to enable it to continue to carry out its business activities;

4) the size, the business model, the funding model and the risk profile of the bank;

5) the assessment of the extent to which the Deposit Insurance Fund managed by the Deposit Insurance Agency of Bosnia and Herzegovina could contribute to the financing of resolution in accordance with the legislation governing deposit insurance in banks of Bosnia and Herzegovina; and

6) the assessment of the extent to which the failure of the bank would have adverse effects on financial system stability, including spreading of financial difficulties to other banks due to its interconnectedness with other banks or with the rest of the financial sector.

(4) Parent undertakings or banking groups shall also comply with the minimum requirements laid down in this Article on a consolidated basis.

(5) The Agency, shall adopt an act to specify a timeframe in which banks are required to meet the requirements of paragraph 1 herein, elaborate the conditions under which eligible liabilities are included in the amount of capital and eligible liabilities, as well as to prescribe additional criteria by which minimum requirements referred to in paragraph 1 herein shall be determined.

Assessment of the bail-in amount Article 251

(1) When applying the bail-in tool, the Agency shall assess, on the basis of the independent valuation referred to in Article 232, the aggregate of:

1) the amount by which eligible liabilities must be written down in order to ensure that the asset value of the bank under resolution is equal to the value of its liabilities; and

2) the amount by which eligible liabilities must be converted into capital in order to restore the regulatory capital adequacy ratio of the bank under resolution or the bridge bank.

(2) While determining the amount referred to in paragraph 1 herein, the Agency shall take into account the need to sustain the financial market confidence in the bank under resolution or the bridge bank, and enable it to continue, for at least one year, to carry out its business activities.

(3) Where the Agency intends to use the asset separation tool, in addition to the bail-in tool, a prudent estimate of the capital needs of the asset management company should be taken into account when determining the amount by which eligible liabilities need to be written down.

Treatment of shareholders Article 252

(1) When applying the bail-in tool or the write down or conversion of capital instruments, the Agency shall take the following actions in respect of shareholders:

1) cancel shares or transfer them to bailed-in creditors; and

2) severely dilute the nominal value of shares and other relevant rights of shareholders of the bank, as a result of the conversion into shares of capital instruments and eligible liabilities issued by the bank under resolution, provided that the independent valuation referred to in Article 232 of this Law shows that the assets of the bank under resolution is higher than its liabilities.

(2) The conversion referred to in paragraph 1 item 2 herein shall be conducted at a rate of conversion that severely dilutes nominal value of existing shares or other instruments of ownership.

(3) The measures referred to in paragraph 1 herein shall also pertain to shareholders and holders of other instruments of ownership where the shares or other instruments of ownership in question were issued or conferred based on conversion of:

1) debt instruments to shares or other instruments of ownership in accordance with contractual terms of the original debt instruments on the occurrence of an event that preceded or occurred at the same time as the decision to initiate a resolution procedure; and

2) relevant capital instruments to the Common Equity Tier 1 elements pursuant to Article 230 of this Law.

(4) When deciding on measures under paragraph 1 herein, the Agency shall give due consideration to:

1) the results of independent valuation of assets and liabilities of the bank carried out in accordance with Article 232 of this Law;

2) the amount by which according to the assessment Common Equity Tier 1 items must be reduced and relevant capital instruments must be written down or converted pursuant to Article 230 paragraph 1 of this Law; and

3) the aggregate bail-in amount assessed by the Agency pursuant to Article 251 of this Law.

Sequence of write-down and conversion in the bail-in tool Article 253

(1) When applying the bail-in tool, the Agency shall exercise the write down and conversion powers, in accordance with Article 249 paragraphs 1 and 4 of this Law, according to the following sequence of action:

1) Common Equity Tier 1 items are reduced in accordance with Article 230 paragraph 1 item 1 of this Law, to the extent possible and necessary;

2) if the total reduction pursuant to item 1 herein is less than the sum of the amounts referred to in Article 252 paragraph 4 items 2 and 3 of this Law, the principal amount of

Additional Tier 1 instruments shall be reduced to the extent required and to the extent of their capacity;

3) if the total reduction pursuant to items 1 and 2 herein is less than the sum of the amounts referred to in Article 252 paragraph 4 items 2 and 3 of this Law, the principal amount of Tier 2 instruments shall be reduced to the extent required and to the extent of their capacity;

4) if the total reduction pursuant to items 1, 2 and 3 herein is less than the sum of the amounts referred to in Article 252 paragraph 4 items 2 and 3 of this Law, the principal amount of subordinated debt which is not included in Additional Tier 1 or Tier 2 capital shall be reduced to the extent possible and required in accordance with the hierarchy of claims in bankruptcy proceedings, and in conjunction with the write down pursuant to items 1, 2 and 3 herein to produce the sum of the amounts referred to in Article 252 paragraph 4 items 2 and 3 of this Law, and

5) if the total reduction pursuant to items 1, 2, 3 and 4 herein is less than the sum of the amounts referred to in Article 252 paragraph 4 items 2 and 3 of this Law, the principal or the remaining amount of eligible liabilities shall be reduced to the extent possible and required in accordance with the hierarchy of claims in bankruptcy proceedings in accordance with this Law, and in conjunction with the write down pursuant to items 1, 2, 3 and 4 herein to produce the sum of the amounts referred to in Article 252 paragraph 4 items 2 and 3 of this Law.

(2) The Agency shall allocate the losses equally between shareholders and creditors pursuant to paragraph 1 herein by reducing the amount of Common Equity Tier 1, Additional Tier 1, Tier 2, subordinated debt and other eligible liabilities to the same extent pro rata to their value except where the Agency has excluded, in full or partially, certain liabilities from the write down or conversion under Article 249 paragraph 4 of this Law.

(3) While exercising its conversion powers as referred to in paragraph 1 herein, the Agency may apply different conversion rates for different categories of the shareholders and creditors referred to in that paragraph, taking into consideration that the same rate is applied to all creditors from the same rank, in accordance with the provisions of this Law governing bankruptcy, and that a more favorable conversion rate is applied to higher priority ranks.

Plan for operation reorganization in the bail-in Article 254

(1) When the Agency applies the bail-in tool to recapitalize the bank under resolution, which is necessary for the bank to continue to carry out its business activities, the bank under resolution's governing bodies or the special administration, shall ensure that an operation reorganization plan is drawn up and submitted to the Agency within a period of one month as of the date of the application of that tool.

(2) In exceptional circumstances, the Agency may extend the period referred to in paragraph 1 herein up to a maximum of one month if necessary for achieving the resolution objectives.

(3) When the bail-in tool is applied to two or more group members subject to the consolidated supervision conducted by the Agency, the operation reorganization plan, which covers all members of the banking group, shall be prepared by the parent institution and submitted to the Agency.

(4) The operation reorganization plan shall contain measures aiming to restore the long-term viability of the bank or parts of its business within a reasonable timescale, which shall be based on realistic assumptions as to the relevant market conditions.

(5) The operational reorganization plan shall take account, inter alia, the current state and future prospects of the financial markets, reflecting best-case and worst-case assumptions, including a combination of events allowing the identification of the main vulnerabilities of the bank under resolution, and the assumptions shall be compared with appropriate sector-wide benchmarks.

(6) The operational reorganization plan must include the following elements:

1) a detailed diagnosis of the circumstances, factors and problems that caused the bank to fail or to be likely to fail; and

2) a description of the measures aiming to restore the long-term viability of the bank and the deadlines for their implementation.

(7) Measures aiming to restore the long-term viability of the bank may include:

1) reorganization of the activities of the bank under resolution to restore its competitiveness;

2) changes to the bank's governing system, risk management system, internal control system, IT system and other systems, as well as to its infrastructure;

3) withdrawal from loss-making activities; and

4) sale of the bank's assets or of certain business lines.

(8) Within one month of the date of submission of the operational reorganization plan, the Agency shall assess the likelihood that the plan, if implemented, will restore the long-term viability of the bank.

(9) If the Agency assesses that the reorganization plan would achieve long term viability of the bank, the Agency shall approve the operational reorganization plan.

(10) If the Agency is not satisfied that the plan would achieve the long-term viability of the bank, the Agency shall notify the governing bodies of the bank under resolution, i.e. the

special administration of the bank of its concerns and shall require for the plan to be amended in a way that addresses those concerns and submitted within 14 days.

(11) The bank's governing bodies, i.e. the special administration shall submit an amended plan to the Agency for approval within the time frame specified in paragraph 10 herein, and then the Agency shall assess, within seven days as of the date of receipt of that plan, whether the raised concerns are eliminated or whether further amendment to the plan is required, and shall notify the governing body, i.e. the special administration thereof.

(12) The governing bodies of the bank, i.e. the special administration shall implement the reorganization plan as approved by the Agency, and shall submit a report to the Agency at least every six months on progress in the implementation of the plan.

(13) The governing bodies of the bank, i.e. the special administration shall revise the plan if, in the opinion of the Agency, it is necessary to achieve the aim of long-term viability, and shall submit any such revision to the Agency for approval.

(14) The Agency, shall adopt an act to prescribe the content and criteria for approving the operation reorganization plan.

Effects of the bail-in tool Article 255

(1) Where the Agency exercises the write-down or capital conversion powers or the bail-in powers, the measure i.e., the tool shall immediately have a legal effect on the bank under resolution, shareholders and creditors of that bank to which such tool, i.e. measure pertains.

(2) The Agency shall have the power to implement necessary activities or require the implementation of relevant documents and enforcement of all necessary tasks conducted by other competent authorities and persons required for the measure to be exercised, i.e., the tool referred to in paragraph 1 herein, and in particular:

1) entry or amendment of relevant data in the registers and records kept by competent authorities and organizations;

2) delisting or removal from trading of shares or other instruments of ownership or debt instruments;

3) listing or admission to trading of new shares or other instruments of ownership;

4) relisting or readmission of any debt instruments which have been written down, without the requirement for issuing of a prospectus.

(3) Where the Agency in fully writes-down certain liabilities, such liabilities and any obligations and claims arising in relation to them that are not accrued at the time when the power

is exercised shall be treated as discharged for all purposes, and shall not be provable in any subsequent proceedings in relation to the bank under resolution or its legal successor.

(4) Where the Agency partially writes-down (reduces) the principal or an outstanding amount of a liability:

1) the liability shall be discharged to the extent of the amount reduced;

2) the relevant instrument or agreement that created the original liability shall continue to apply in relation to the residual principal amount or outstanding amount of liability after the reduction of the same, in accordance with any modifications of the amount of interests payable that reflect the reduction of the principal amount, and any further modification of the terms and deadlines that the Agency might make unilaterally.

(5) While exercising its resolution powers, where necessary for the purpose of achieving the resolution objectives, the Agency may unilaterally modify the maturity terms in relation to debt instruments or other eligible liabilities, the amount of the interest chargeable on account of these instruments and liabilities, or the maturity date for the interest, including the suspension of any payments within a certain period of time, save in relation to the liabilities referred to in Article 249 paragraph 1 item 2 of this Law.

(6) The Agency may request from the bank to maintain the approved level of shares necessary to efficiently convert the eligible liabilities into such shares, while having regard to the possibility of applying this tool in line with the resolution plan.

Contractual recognition of the bail-in tool Article 256

(1) The bank shall ensure that the contracts, based on which liabilities are created, contain a provision that the liability arising from that contractual relationship may be subject to write-down or conversion, and that the creditor or the counterparty agree to all reductions, conversion or write down of the principal or the outstanding amount, in the case the Agency undertakes measures in accordance with this Law, provided that the law of another state applies to those liabilities, and that these liabilities are not excluded on the basis of Article 249 paragraph 1 of this Law nor that those liabilities are based on covered deposits.

(2) Irrespective of whether the provision of paragraph 1 herein is contained in the terms and conditions of issuing or acquiring the eligible liabilities for the purposes of resolution, the Agency shall be authorized to exercise the write down or conversion powers in relation to those liabilities.

7. Safeguards

Safeguard for shareholders and creditors Article 257

(1) Where any shareholder or creditor of a bank, i.e. the BiH Deposit Insurance Agency has incurred greater losses in the bank resolution procedure than it would have incurred in bankruptcy proceedings, the above mentioned may request the compensation payment of the difference from the resolution financing arrangements up to the level of what they would have received if the institution under resolution had been under bankruptcy.

(2) For the purposes of determining the compensation amount referred to in paragraph 1 herein, the Agency shall ensure, immediately upon initiating the resolution procedure or after the resolution tools have been applied, that an independent valuation is conducted to establish whether the persons referred to in paragraph 1 herein would have been in a more favorable situation had bankruptcy proceedings been petitioned instead of the resolution procedure.

(3) The valuation referred to in paragraph 2 herein shall establish:

1) the losses absorbed by the persons referred to in paragraph 1 during the resolution procedure;

2) the losses that the persons referred to in paragraph 1 would have absorbed if on the date of initiating the resolution procedure, bankruptcy proceedings over the bank were initiated instead; and

3) any difference between the levels of these losses and the amount thereof.

(4) The valuation referred to in paragraph 2 herein may be carried out only by an independent appraiser who meets the requirements of Article 232 paragraph 3 of this Law, and the costs thereof shall be borne by the bank under resolution.

(5) Where the valuation referred to in paragraph 2 is carried out by the same person who carried out the independent valuation of the bank's assets and liabilities referred to in Article 232 of this Law, these valuations must be separate.

(6) The independent appraiser shall conduct the valuation using the following assumptions:

1) that bankruptcy proceedings were petitioned at the time of the decision on initiation of resolution procedure;

2) that resolution measures were not implemented; and

3) no extraordinary public financial support was provided to the bank under resolution.

(7) The Agency shall adopt an act to prescribe the methodology for the valuation referred to in this Article, and a methodology for analyzing the way in which the shareholders and creditors would be treated had a bankruptcy proceeding been initiated for the bank under resolution at the time when the decision was made.

Safeguard for counterparties
Article 258

(1) Under the resolution procedure, part of rights and liabilities subject to set-off or netting through title transfer financial collateral arrangements and set-off and netting arrangements cannot be transferred to the acquirer, nor the exercise of the ancillary rights resulting from such action can be contingent on any modification or termination of contract provisions governing these rights and liabilities due to the resolution procedure or the transfer made in the course thereof.

(2) Under the resolution procedure, neither part of rights or liabilities subject to a structured financial agreement or covered bonds can be transferred to the acquirer, nor the exercise of the ancillary rights resulting from such action can be contingent on any modification or termination of these rights and liabilities due to the resolution action or the transfer made in the course thereof.

(3) Under the resolution procedure:

1) No transfer to the acquirer shall be made including the property securing a liability where the acquirer has not undertaken the liability under the transfer and if the creditor has not retained all rights in respect of the acquirer he/she had in respect of the former debtor on the grounds of secured claims;

2) No transfer to the acquirer shall be made including the liability referred to in Article 249 paragraph 1 item 2 of this Law if the creditor has not retained all rights in respect of the acquirer that it had in respect of the former debtor and the entity providing a collateral on the grounds of secured claims;

3) No transfer to the entity providing a collateral referred to in Article 249 paragraph 1 item 2 of this Law shall be made without the transfer of the claims secured by the collateral; and

4) No modification or termination may be requested, on the grounds of the exercise, of the right arising from the transaction referred to herein if the claims arising from such transaction would no longer be secured.

(4) Notwithstanding paragraphs 1 to 3 herein, the Agency may transfer insured deposits subject to the contract referred to in these paragraphs without a concurrent transfer of other assets and liabilities subject to the same contract, and may transfer, modify or write down these assets and liabilities without a concurrent transfer of insured deposits provided that it is deemed to be necessary to ensure the full safeguard of these deposits.

(5) The application of the resolution tools and measures in the bank under resolution shall not affect the rights and liabilities of third parties as specified in regulations providing for the settlement finality in payment and securities settlement systems.

(6) A non-banking member of a banking group under resolution procedure shall also be subject to the provisions of paragraphs 1 to 5 herein.

(7) The Agency shall adopt an act to prescribe the type of contracts and financial instruments to which safeguarding measures of other counterparties herein apply.

8. Bank resolution financing

Resolution financing funds Article 259

(1) Funds for bank resolution financing may be provided by the Deposit Insurance Fund in accordance with the safeguards determined in the law governing bank deposit insurance in Bosnia and Herzegovina.

(2) Where the funds referred to in paragraph 1 and 2 herein are not sufficient, the Agency may also ensure resolution financing from other sources, such as loans, credits and other acceptable forms of support from banks and other third parties..

(3) Funds from paragraphs 1 and 2 of this Article may be used for resolution financing only in the event that shareholders and other creditors contributed to loss absorption and recapitalization through write down, conversion or otherwise equal to an amount not less than:

- 1) 4 percent starting from January 1 2017,
- 2) 5 percent starting from January 1 2018,
- 3) 6 percent starting from January 1 2019,
- 4) 7 percent starting from January 1 2020, and
- 5) 8 percent starting from January 1 2021,

of total liabilities, including regulatory capital of the bank under resolution, measured at the time of resolution procedure in accordance with the independent valuation provided for in Article 232 of this Law,

4) Where the funds referred to in paragraph 1 and 2 herein are not sufficient or are not able to be provided in a timely manner to finance resolution, extraordinary public financial support provided by Republika Srpska may be used under the condition that the Government has approved the use of extraordinary public financial support funds and that conditions set out in Article 249 paragraph 6 of this law have been met.

(5) If extraordinary public financial support from paragraph 4 of this article is used, the Agency shall submit to the Ministry of Finance of Republika Srpska a request for no-objection to providing extraordinary financial support, with an overview of anticipated resolution tools and measures, including the explanation as well as the amounts, manner and deadline in which the financial support needs to be provided, bearing in mind the resolution procedure principles.

(6) Enclosed to the request referred to in paragraph 5 herein, the Agency shall submit the cost estimate of the payment of insured deposits of the BiH Deposit Insurance Agency referred to in Article 225 paragraph 2 of this law, as well as the independent valuation of bank's assets and liabilities referred to in Article 232 of this Law.

(7) Based on the no-objection of the Ministry of Finance of Republika Srpska and the Committee for Coordination of Financial Sector Supervision of Republika Srpska, the Agency shall submit to the Government a proposal on providing extraordinary public financial support, outlining the overview of planned bank resolution tools and measures, including the explanation as well as the amounts, manner and deadline in which the financial support needs to be provided, by enclosing documents referred to in paragraph 6 herein.

(8) Based on the proposal referred to in paragraph 7 of this Article, the Government shall enact a decision on providing extraordinary public financial support and submit it without delay to the Agency and BiH Deposit Insurance Agency.

(9) The conditions and manner of providing extraordinary public financial support referred to in this Article shall be laid down in the memorandum of cooperation signed between the Agency and the Ministry of Finance of Republika Srpska.

CHAPTER X BANK LIQUIDATION

1. Voluntary liquidation

Initiating voluntary liquidation procedure Article 260

(1) At their general meeting, the shareholders of the bank may vote to dissolve the bank (voluntary liquidation).

(2) Shareholders may decide to go into voluntary liquidation of the bank exclusively if the bank has sufficient funds to settle all its liabilities.

(3) A bank in voluntary liquidation may not alter its affairs in such a way that it discontinues banking services and continues operation, but it is obligated to complete the liquidation process and deletion from the register in line with the law that governs registration of business entities.

(4) The bank governing bodies shall seek opinion of the Agency before the decision on bank dissolution is made by the general meeting.

(5) Implementation of the voluntary liquidation may start only after obtaining approval by the Agency.

(6) The bank shall submit to the Agency a request for preliminary approval of voluntary liquidation, containing:

- 1) a proposed liquidation plan, deadlines and stages for preparation of bank dissolution,
- 2) evidence that the assets of the bank are sufficient for the bank to settle all its liabilities,
- 3) a proposal of persons for liquidators, and
- 4) other necessary information and data in accordance with regulations of the Agency.

(7) The issuance of Agency's approval for voluntary liquidation shall revoke the bank's operating license.

Appointment of a liquidator Article 261

(1) The bank shall have one or more liquidators who are proposed in the request for granting a prior approval for implementation of voluntary liquidation, and approved by the Agency.

(2) Only persons independent from the bank and who meet requirements to be appointed as members of bank board of directors may be appointed as liquidators.

Announcement of decision on voluntary liquidation Article 262

(1) Liquidators shall communicate to the Agency the decision on voluntary liquidation on the first working day after the day it is made.

(2) The bank shall publish the decision on voluntary liquidation in the "Official Gazette of Republika Srpska", in one or more daily newspapers available in the entire territory of Bosnia and Herzegovina and on its webpage.

Responsibilities of a liquidator in voluntary liquidation Article 263

(1) Liquidators shall finalize the ongoing operations, redeem outstanding claims, cash in the assets of the bank and settle liabilities to creditors.

(2) Liquidators may undertake new operations only to the extent required by the voluntary liquidation procedure.

(3) Notwithstanding paragraph 2 of this Article, liquidators may not accept new cash deposits or other repayable funds.

(4) Should liquidators establish that reasons exist for bankruptcy proceedings to be initiated in the bank under liquidation, they shall suspend the liquidation immediately and file a motion for bankruptcy proceedings to the Agency.

(5) The liquidator is obliged to report to the Agency on the implementation of the voluntary liquidation procedure in the manner and within the time limits established by the Agency.

Application of other regulations in voluntary liquidation Article 264

(1) Voluntary liquidation procedure shall be governed by provisions of the laws that govern liquidation procedure, and provisions of the law that governs operations of business entities regarding the voluntary liquidation, provided that they are not inconsistent with this Law.

(2) Operations of the bank undergoing voluntary liquidation procedure shall be appropriately governed by provisions of this Law.

2. Involuntary liquidation

Initiating involuntary liquidation procedure Article 265

(1) The Agency shall initiate involuntary liquidation of a bank in the following cases:

- 1) if it endorses the report of the provisional administrator proposing that the bank's operating license be revoked and involuntary liquidation procedure be initiated,
- 2) if the bank cannot or probably is not able to continue operations, and conditions are not met to institute bankruptcy proceedings, and
- 3) if the conditions for implementation of voluntary liquidation are not met.

(2) The Agency may also institute involuntary liquidation procedure in the following cases:

- 1) if it establishes that the shareholders of the bank which operates under provisional administration, have not developed an activity plan as referred to in Article 213 of this Law within the set deadline,
- 2) if the general meeting of shareholders convened upon the request of the provisional administrator refuses to enact a decision for the increase of bank capital, i.e. fails to vote for a merger or other similar decision,

3) if it has been established on the basis of the report of the provisional administrator that the provisional administration is unable to rectify irregularities and illegalities of bank's operations or to improve financial standing of the bank so as to enable that the bank can achieve and maintain the statutory amount of capital and capital adequacy rate stipulated by this Law and that conditions for initiating bankruptcy proceedings are not met,

4) if it has been established on the basis of the report of the provisional administrator that the financial standing has not improved in the course of the provisional administration, hence the bank does not meet the statutory amount of capital and capital adequacy rate stipulated by this Law and that there are no reasons for bankruptcy proceedings to be instituted.

(3) By instituting the procedure of involuntary liquidation, the Agency shall appoint a liquidator of the bank and shall determine remuneration for his work, which shall be on the expense of the bank.

(4) When instituting the involuntary liquidation and appointing a liquidator, the Agency simultaneously issues a decision to revoke the operating license of the bank.

(5) On the day of appointment of a liquidator, all powers, responsibilities and rights of the members of governing bodies and shareholders of the bank shall cease.

(6) In the course of liquidation procedure, powers of the bank's board of directors, supervisory board and shareholders' meeting shall pass on to the liquidator.

(7) The person that acted as a provisional administrator in the bank may act as the liquidator in that bank, provided that he/she has passed the bankruptcy trustee exam.

Notifications on involuntary liquidation procedure Article 266

(1) The decision on involuntary liquidation procedure and appointment, discharge or extension of mandate of a bank's liquidator shall be submitted without delay to the liquidator and the bank under liquidation, the regulatory body of the Federation of Bosnia and Herzegovina i.e., Brčko District of Bosnia and Herzegovina, the Central Bank of Bosnia and Herzegovina, Deposit Insurance Agency of Bosnia and Herzegovina, the securities market regulatory body, the legal entity authorized for conducting activities of unique recording of securities and other bodies in accordance with the regulations.

(2) The decision referred to in paragraph 1 herein shall be published in the "Official Gazette of Republika Srpska", in one or more daily newspapers available in the entire territory of Bosnia and Herzegovina, as well as on the web site of the Agency, and shall be entered in the record of banks referred to in Article 27 of this Law and the register of business entities.

(3) No later than seven days after the day of receiving the decision on appointment, the liquidator shall publish a notice in one or more daily newspapers accessible in the entire territory of Bosnia and Herzegovina, thereby notifying that all creditors should declare to the liquidator

their claims against the bank no later than 60 days after the date of the publication of the first notice.

(4) No later than 30 days after the date of the first notice, the liquidator shall publish a second notice to the creditors in one or more daily newspapers accessible in the entire territory of Bosnia and Herzegovina.

(5) All creditors shall declare to the liquidator their claims against the bank no later than 60 days after the date of the first notice.

Obligations and responsibilities of a liquidator Article 267

(1) A liquidator shall:

1) abide by the law, regulations and instruction of the Agency and shall be accountable for the performance of his/her duties and powers to the Agency,

2) stand for and represent the bank,

3) report regularly, at least once in three months, and more frequently upon request of the Agency, on the liquidation progress, that is without delay inform the Agency about meeting the conditions for the instigation of bank bankruptcy proceedings,

4) upon expiry of his/her term, draft and submit to the Agency a final liquidation report and completion thereof, including an explanation of conducted liquidation measures.

(2) Apart from the powers of a provisional administrator referred to in Article 211 of this Law, the liquidator of the bank shall be authorized to:

1) sell part or the entire bank assets,

2) sell part or the entire assets and liabilities to a bank or another entity authorized to perform the relevant activities,

3) sell or have the bank merged under this Law,

4) liquidate the bank and in that process decide on justification and settlement of the creditors' claims towards the bank.

5) cancel or unilaterally amend the agreements the bank has signed, including the suspension of the calculation of interest and change in interest rates, fees and terms of maturity, and

6) perform payment of liabilities within the resources that are available and on a pro rata basis if applicable.

(3) Prior to selling a part or the entire assets and liabilities of the bank and prior to any sale or merger with another bank, the liquidator shall obtain the approval of the Agency.

(4) The sale and taking over of parts or the entire assets and liabilities of the bank shall be implemented without approval of bank's depositors, other creditors and debtors of the bank.

(5) Offsetting accounts receivable and accounts payable of the bank may be performed only by complying with the order of priority in the process of liquidation as laid down in this Law.

(6) In the course of implementation of the planned sale or merger with another bank, the liquidator shall submit to the Agency a report on the plan implementation at least once in three months.

(7) In the course of implementation of the planned sale or merger with another bank, the Agency may suspend the process based on the opinion of the liquidator and make a decision on continuation of the bank liquidation procedure and other relevant procedures in accordance with the provisions of this Law.

(8) Upon making a decision on bank liquidation, all administrative and court proceedings to which the bank is requested to respond shall be discontinued until the liquidator makes a decision on offsetting, accepting or rejecting the claims of plaintiffs, whereas any execution proceedings against the bank shall be suspended.

(9) The Agency shall adopt an act to stipulate the procedure for determining claims and asset allocation, as well as establishing and executing the bank's liabilities during the liquidation procedure.

Enforced collection in the liquidation procedure Article 268

(1) A liquidator shall have powers to issue decisions ordering enforced collection from all accounts of delinquent debtors of the bank under liquidation and/or guarantors of such debtors, which are open in other banks located in Bosnia and Herzegovina, as well as blocking of all their accounts until matured liabilities are fully settled, in accordance with the law governing domestic payment system, the law governing the execution procedure and other laws.

(2) The decision referred to in paragraph 1 herein has the power of executive document and enforced collection according to it is executed in the order of priority under the provisions of law on internal payment system that governs enforcement of payments and enforced collection from accounts, as well as provisions of the law on execution procedure which regulate the scope and sequence of collection of monetary claims.

Priority of payments in the liquidation procedure
Article 269

(1) In the liquidation procedure, the payment of liabilities shall be made in the following order of priorities:

- 1) Claims of insured creditors up to the amount of their insurance,
- 2) Debts of the bank incurred by loans to the bank or other liabilities of the bank created in the process of provisional administration, resolution procedure, liquidation or bankruptcy proceedings of the bank in accordance with this Law,
- 3) Claims of employees arising from employment relationship for the last 12 months to the date of initiating the liquidation procedure, but only up to the amount of the minimum monthly salary and accrued contributions stipulated by law as well as claims of employees arising from the employees' rights to damage compensation for injury at work, and of family members of an employee who lost his/her life at work, which is paid in full amount,
- 4) Claims of the Deposit Insurance Agency of Bosnia and Herzegovina relating to the compensation of paid deposits together with the costs incurred in the process of payout of such deposits, and claims of depositors for insured deposits which were not paid out by this Agency, not exceeding the amounts specified by regulations that govern bank deposit insurance of Bosnia and Herzegovina,
- 5) Other deposits and excluded deposits in accordance with regulation that governs deposit insurance in banks of Bosnia and Herzegovina,
- 6) Claims of creditors who are not shareholders of the bank,
- 7) Claims of owners of subordinated debt,
- 8) Claims of owners of priority shares and
- 9) Claims of owners of common shares.

(2) In the event of liquidation of a bank, the funds on the public revenue accounts where public revenues on behalf of Republika Srpska, the Federation of Bosnia and Herzegovina, Brcko District of Bosnia and Herzegovina, Bosnia and Herzegovina, municipalities, cities and funds are paid to, and from which allocation of funds to the accounts of public revenues users is made, are exempt from the liquidation estate and upon order by the Ministry of Finance of Republika Srpska transferred to another bank.

(3) In the procedure referred to in paragraph 1 herein, the payment of any liabilities of the bank to members of the bank governing bodies, audit committee, shareholders of the bank with at least 5 percent of voting rights or capital ownership, related persons and related banks shall be suspended until liabilities are fully paid to other creditors of the bank.

(4) The payment of bank's liabilities in the liquidation procedure shall be made in accordance with the liquidation plan that constitutes an integral part of the liquidation balance sheet and financial statement compiled by the liquidator and approved by the Agency.

(5) Third parties that act on behalf of natural and legal persons indicated in the paragraph 3 herein, as well as members of immediate family, relatives of persons referred to in the concerned paragraph by blood and law up to the third degree of relationship, shall also not be entitled to payment until all other creditors of the bank are paid out in full.

Application of other regulations in involuntary liquidation procedure Article 270

(1) Provisions of regulations governing liquidation and bankruptcy proceedings shall be applied to a bank undergoing liquidation, unless specified otherwise by this Law.

(2) The Agency may adopt an act to regulate the involuntary liquidation procedure.

Obligations of a liquidator Article 271

The sale of part or entire assets, sale of part or entire assets and liabilities to a bank or another person authorized to perform the relevant activities, i.e., bank sale or merger in accordance with this Law, shall be performed by the liquidator in such a way so as to:

- 1) Ensure the maximum price by such sale or allocation, for the safeguard of depositors and other creditors of the bank,
- 2) Ensure equality for potential buyers or merger partners, and
- 3) Prevent any kind of discrimination during competition and evaluation of bids.

CHAPTER XI BANKRUPTCY OF A BANK

Filing a bankruptcy petition Article 272

(1) Only the Agency may file a bankruptcy petition over a bank.

(2) Simultaneously with filing a petition for instituting bankruptcy proceedings over a bank, the Agency shall revoke the operating license of a bank, provided that conditions for bank resolution are not met and any of the following reasons exist:

1) if the bank account has been blocked for more than two working days following creditor's order pursuant to the law governing the process of enforcement of monetary claims,

2) if the bank is insolvent or if there are objective circumstances based on which it can be established that it will become insolvent in the short term, or

3) if the Agency finds that the bank fails to meet requirements related to the capital pursuant to this Law notwithstanding supervisory measures imposed under this Law or measures enforced by the provisional administrator, and if it assesses that it will not be able to meet the liabilities due, whereby conditions for liquidation have not been met.

(3) Exceptionally from paragraph 2 of this article, if a bank has been put under resolution, the Agency shall file a bankruptcy petition in the following cases:

1) when the transfer of bank assets and liabilities was performed by applying the resolution tools and the Agency establishes that resolution objectives have been achieved through such transfer,

2) after establishing in the course of resolution that additional funds are needed to finance the resolution and such funds are not provided, and

3) when the Agency assesses that resolution objectives can no longer be achieved.

(4) A bank shall be considered insolvent once it has been established by the Agency, in line with the regulations it enacts, that the value of bank liabilities exceeds the value of assets.

(5) Within the framework of solvency assessment, the value of assets and liabilities of the bank shall be assessed in accordance with the standards and procedures laid down by Agency's regulations, where the future value of assets and liabilities of the bank shall include realistic projections of bank's revenues and expenditures for the given period.

Application of other regulations in bankruptcy proceedings Article 273

Provisions of legislation governing bankruptcy proceedings shall be applied to a bank undergoing bankruptcy, unless specified otherwise by this Law.

Consequences of the decision to file for bankruptcy proceedings Article 274

(1) The Decision of the Agency to file for bankruptcy proceedings against the bank shall bear as a consequence the following provisional bans:

1) provisional ban on enforcement of payment basis at the expense of the bank accounts and at the expense of client accounts under the law governing the process of enforcement of monetary claims,

2) provisional ban on the bank to make any payments from any of its accounts for its own needs,

3) provisional ban on the bank to make any payments and transfers from its clients' accounts,

4) provisional ban on the bank to render transaction services for its clients, and

5) provisional ban on all payments into the accounts of the bank and the accounts of its clients.

(2) Notwithstanding paragraph 1 of this Article:

1) with the Agency's consent, cash payments may be performed from cash funds of the bank only if such payments are necessary to preserve bank assets,

2) for the purpose of fulfillment of their obligations towards the bank, both the liquidator and provisional administrator, if appointed, may make the following payments:

1. cash payments to the bank,

2. payments to a special bank account opened for that purpose with another bank,

3) eligible payments include payments arising from liabilities of the bank as a party in the offsetting system in accordance with regulations governing the securities market, which shall be made by the bank under conditions set out by the law governing the securities market.

(3) The bankruptcy trustee of the bank on behalf of the bank and bankruptcy creditors shall be authorized to challenge all payments, transfers and payment transaction carried out contrary to the provisional bans as referred to in this Article, following the publishing of the decision on filing for bankruptcy proceedings against the bank.

Notification on filing a proposal for bankruptcy proceedings Article 275

(1) The Agency shall without delay communicate, in writing or electronically, the Decision to file for bankruptcy proceedings against a bank, to the bank, the regulatory body of the Federation of Bosnia and Herzegovina i.e. Brčko District of Bosnia and Herzegovina, the Central Bank of Bosnia and Herzegovina, Deposit Insurance Agency of Bosnia and Herzegovina, the securities market regulatory body, the legal entity authorized for conducting activities of unique recording of securities and other bodies in accordance with the regulations, by stating the date, and hour of the decision issuance.

(2) The Agency shall publish the decision to file for bankruptcy proceedings on a bank in one or more daily newspapers accessible at the entire territory of Bosnia and Herzegovina and on its webpage, by stating consequences referred to in Article 274 paragraph 1 of this Law.

Continuation of work of the provisional administrator or liquidator
Article 276

(1) If the Agency made a decision to file for bankruptcy on a bank in which a provisional administrator or a liquidator has been appointed, after receiving notification he/she shall proceed with discharging his/her duties and responsibilities until appointment of a bankruptcy trustee.

(2) If a provisional administrator has not been appointed at the moment of making a decision to file for bankruptcy on a bank, the Agency shall simultaneously appoint a provisional administrator.

(3) After receiving the notification, persons referred to in paragraphs 1 and 2 herein shall:

1) protect and preserve the assets of the bank and

2) upon request of the bankruptcy judge examine whether the costs of the bankruptcy proceedings can be covered by the assets of the bank.

Filing petition for instituting bankruptcy proceedings
Article 277

(1) The Agency shall file for bankruptcy proceedings with the competent court no later than the following working day after the issuance of Agency's decision to file for bankruptcy proceedings against the bank.

(2) The Agency shall specify in the petition for bankruptcy proceedings any facts and circumstances which give rise to one of the reasons for petition for bankruptcy proceedings as referred to in Article 272 of this Law.

(3) When the Agency files for bankruptcy proceedings there shall be no preliminary proceedings.

(4) The bankruptcy judge shall schedule a hearing within eight days of the receipt of the petition for bankruptcy proceedings for discussion of conditions for commencement of the bankruptcy proceedings.

(5) The bankruptcy judge shall issue a decision to open the bankruptcy proceedings within thirty days of the day when the petition for opening of bankruptcy proceedings has been filed, or to dismiss the petition for opening of bankruptcy proceedings.

Appointment of a bankruptcy trustee
Article 278

In addition to requirements set out by the law governing bankruptcy proceedings, a person appointed as bankruptcy trustee shall also have knowledge and experience in the field of banking operations.

Payment priorities in bankruptcy proceedings
Article 279

(1) In a bankruptcy procedure of a bank, the payment of bank's liabilities shall be carried out in order of priority and terms of payments in the liquidation process of the bank specified in Article 269 of this Law.

(2) At the hearing, the competent court shall establish a list of accepted claims, order of priorities and terms of payment, and shall enter them in a table of declared claims in accordance with this Article and Article 269 of this Law.

(3) The amount and rank of accepted claims, added to the table of declared claims, shall have the effect of a final and effective judgment.

Petition for using reserve requirement funds
Article 280

Upon opening of bankruptcy proceedings against a bank and after taking office, and no later than three days after opening of bankruptcy proceedings, the bankruptcy trustee shall submit to the Central Bank of BiH a petition for using the reserve requirement in accordance with regulations governing the reserve requirement of banks.

Suspension and completion of bankruptcy proceedings
Article 281

A bankruptcy judge shall submit to the Agency the decision on suspension and completion of the bankruptcy proceedings against the bank.

CHAPTER XII
OBLIGATIONS AND RESPONSIBLE PARTIES

Responsibilities of a bank
Article 282

(1) In legal proceedings before the court, the bank may be declared accountable, jointly and severally with other banks or legal entities for the liabilities of the bank or a legal entity that

is insolvent or undergoing bankruptcy proceedings, provided there is evidence that such bank and legal entity are in the circumstances of conjoint management.

(2) Conjoint management may arise from an agreement signed by the bank and legal entities or their documents that imply the existence of circumstances of conjoint management, or where the supervisory boards comprise mainly of the same persons or persons in special relationship with the bank in accordance with Article 2 item 25 of this Law, or where the majority of the shares are owned by such persons.

Accountability for liabilities Article 283

(1) A bank's shareholder shall be held accountable for the bank's liabilities up to the amount equal to his/her share.

(2) Notwithstanding paragraph 1 herein, where a bank is under resolution, liquidation or bankruptcy proceedings, the bank's shareholders, members of the bank governing bodies and other persons, if actually having either direct or indirect impact on the bank's operations or control over the bank, shall be held liable, jointly and severally, for the bank's liabilities with their entire property in the following cases:

1) where the bank has been used to attain objectives that are incompatible with the objectives of the bank, or

2) where the bank's property and personal property of shareholders, members of governing bodies of the bank and other persons is not clearly articulated, or

3) where the bank has operated with the aim of deceiving its creditors or contrary to such creditors' interests, or

4) where the bank's resolution, liquidation or bankruptcy is intentionally caused by poor governance and management, or gross negligence.

CHAPTER XIII PENALTY PROVISIONS

Misdemeanors committed by banks Article 284

(1) A bank shall be fined from KM 40,000 to KM 200,000 for a misdemeanor if:

1) it carries out activities not covered by the operating license (Article 17, paragraph 43),

2) after revoking the operating license, it continues to conduct activities contrary to the prohibition under Article 31, paragraph 4 herein,

- 3) it carries out status change without approval of the Agency (Article 32, paragraph 2),
- 4) it fails to maintain the capital in accordance with Article 37 paragraphs 1 and 2 of this Law,
- 5) it fails to maintain the regulatory capital adequacy rate in accordance with Article 37 paragraphs 4 and 5 of this Law,
- 6) it fails to maintain the capital buffers in a manner prescribed by Article 37, paragraph 6 of this Law,
- 7) if distributes the bank profit contrary to the provisions of Article 38 of this Law,
- 8) it acquires own shares contrary to the provisions of Article 39 of this Law,
- 9) it credits an acquisition of shares or holdings contrary to Article 40 of this Law,
- 10) it appoints members of the supervisory board without a prior approval of the Agency (Article 61, Paragraph 1),
- 11) it fails to comply with the provisions on large exposures, does not act and does not inform the Agency about exceeding restrictions (Articles 106, 107 and 109);
- 12) it concludes a legal transaction without a prior consent of the supervisory board (Article 108),
- 13) it conducts business with a person in a special relationship with the bank contrary to Article 110 of this Law,
- 14) it acquires holding in other legal entities without a prior approval of the Agency (Article 111, Paragraph 1),
- 15) it acquires holding in other legal entities contrary to Article 111 paragraphs 2, 3 and 4 of this Law,
- 16) it fails to comply with restrictions on investment in fixed assets referred to in Article 112 of this Law,
- 17) it concludes a contract on purchase and sale of placements contrary to the provisions on the purchase and sale of placements (Articles 116, 117, 118, 119, 120 and 122),
- 18) it performs financing of purchase and sale of placements contrary to Article 121 of this Law,

19) it does not disclose general operation conditions, and in the relationship with clients does not act in accordance with Articles 123, 124 and 125 of this Law,

20) it fails to comply with the bank secrecy in accordance with the legal provisions (Articles 126, 127, 128 and 129),

21) it fails to ensure application of regulations, good business practices, and does not apply on users the principles laid down in the legal provisions of Article 134 of this law,

22) in a clear and understandable way and using representative sample, it does not provide the user with the standard data in the manner and within the period prescribed by the legal provisions of Article 136 of this law,

23) when advertising, it provides incorrect or false information that could mislead an average user and create a false picture as to the terms of the use of the services and lead the user to make a decision he/she would not have made under different circumstances (Article 137, paragraph 1),

24) when advertising, it uses terms referring to a service as free of charge or similar expressions, if the use of such service is conditioned by signing other agreements or conditioned by anything that may cause costs or create other obligations for the user (Article 137, paragraph 2),

25) in the negotiating stage, it fails to inform the clients of the conditions and all key features of the services it offers, through a standard information sheet in a hard or electronic copy, containing the elements stipulated in the legal provisions from Article 138, paragraph 1 of this law,

26) in the standard information sheet, it fails to display all data and information using the same font size and in equally visible manner (Article 138, paragraph 2),

27) prior to signing an agreement, it fails to provide all information pertaining to the service to the user, i.e., fails to make all relevant terms and elements of the agreement available and, as requested by the user, furnish him/her with a copy of the draft agreement to be considered outside the bank's offices in the period specified (Article 139, paragraph 2),

28) it fails to provide training to employees who are engaged in providing services or providing advice to users (Article 140),

29) it fails to prepare a contract in a written form, and does not deliver a copy of the contract to each contracting party (Article 141, paragraph 1),

30) it fails to put a public notice in an appropriate place on its premises and does not make available information on the changes in the value of contracted variable elements that affect the amount of variable interest rate (Article 144, paragraph 5),

31) it fails to calculate the effective interest rate and express it in a uniform prescribed manner, and make it available to the public and users (Article 144, paragraph 7),

32) it fails to present the existence of obligations and conditions for signing of an agreement on ancillary services in a clear, concise and visible manner, together with the presentation of the effective interest rate, and sets as a condition that the user uses a selected provider for such ancillary services (Article 145, paragraph 2),

33) it fails to inform the user in the negotiating stage about the cost of opening, maintaining and recording transactions on accounts arising from the use of contracted services, and fails to include it in the calculation of the total cost of service through the effective interest rate (Article 145, paragraph 3),

34) prior to concluding a loan agreement, it fails to inform and acquaint the user, guarantor or any other person securing the user's liabilities with the documentation and information acquired in the procedure of creditworthiness assessment (Article 146, paragraph 2),

35) it fails to notify other persons about the fact that a person does not consent that the acquired information and documentation for the assessment of his/her creditworthiness be disclosed to another person (Article 146, paragraph 3),

36) in the negotiation stage, it fails to inform the guarantor about the subject of the surety, form of the surety required by the agreement, level of responsibility which he/she undertakes, and fails to acquaint him/her with all information and relevant agreement elements and, as requested and free of charge, hand over a copy of the draft agreement for consideration outside of the bank's offices (Article 147, paragraph 1),

37) it amends the compulsory elements of the agreement increasing the volume of the surety's responsibility without a prior consent of the guarantor given in writing (Article 147, paragraph 3),

38) at the time of concluding a loan agreement, i.e. a cash deposit agreement, it fails to hand over to the user one copy of the loan repayment schedule, i.e. deposit repayment schedule, which is considered an integral part of the agreement (Article 148, paragraph 4 and Article 157, paragraph 3),

39) it enters into contracts and collects from the user a withdrawal fee where the user withdraws from the loan agreement (Article 150, paragraph 5),

40) with loan agreements secured by a mortgage or a loan intended for the acquisition or financing of real estate, it includes a contractual term and collects fees from the users much higher than the actual costs incurred by its having concluded the agreement (Article 150, paragraph 6),

41) for due and unpaid liabilities, it fails to apply the interest rules that apply where a debtor defaults, in accordance with the legislation governing contractual relations (Article 152, paragraph 1),

42) fails to deliver to the user, in the manner specified in contract and at least once a year, free of charge, a written statement on the balance of his/her loan debt and data prescribed by the legal provisions of Article 154, paragraph 1 of this law,

43) in case of automatic extension of the cash deposit term, it fails to inform the user about new the conditions within prescribed deadline and it does not act in accordance with Article 157, paragraph 4 of this law,

44) in case of a revolving loan, it fails to comply with Article 158 of this law,

45) it fails to enable the user to report, at all times, the loss, theft or transaction made by way of an unauthorized use of the payment card, or payment card data, or fails to make it possible for the user to request that any further use of the payment card be blocked (Article 160, paragraph 5),

46) does not perform external audit in accordance with Article 168 of this Law,

47) it fails to enable the performance of on-site inspection and does not cooperate with the authorized persons of the Agency in accordance with Article 190 of this Law,

48) it fails to implement the measures ordered by the Agency under Article 200, 201 and 202 of this Law,

49) it does not define and does not submit data for the banking group on a consolidated basis in accordance with Article 219, paragraph 4 of this Law, and

50) as member of the banking group, it does not comply with the measures of the Agency under Article 220 of this Law.

(2) For the misdemeanors referred to in paragraph 1 herein, the responsible person of the bank shall be also fined with KM 4,000 to KM 20,000.

(3) If the control procedures find that a misdemeanor is recommitted within two years, for such repeated misdemeanor the Agency may impose twice higher monetary fine referred to in paragraphs 1 and 2 herein.

Misdemeanors committed by banks Article 285

(1) A bank shall be fined from KM 10,000 to KM 50,000 for a misdemeanor if:

1) in its business name it uses words contrary to Article 5, paragraph 2 of this Law,

2) it enters into explicit or tacit agreements, issues decisions or other documents and effects transactions the purpose of which is to significantly prevent, restrict or distort market competition (Article 6, paragraph 1),

3) it adopts a statute, i.e., changes and amends the statute contrary to Article 13 of this Law and fails to submit to the Agency the documentation provided for in this Article,

4) it establishes an organizational unit without the approval of the Agency (Article 19, paragraph 1),

5) it opens a representative office contrary to Article 24 and 25 of this law),

6) it converts individual capital items and increases capital from external sources without a prior approval of the Agency (Article 35, paragraph 3),

7) it acquires qualifying holdings in another legal entity contrary to the provisions of Article 43, paragraph 2 of this Law,

8) it fails to report to the Agency about the persons who have qualifying holdings in accordance with Article 48 of this Law,

9) when acquiring qualifying holdings without prior approval from the Agency, it fails to act in accordance with Article 49, paragraph 5 of this Law,

10) it fails to inform the Agency about the bank's general meeting (Article 53, paragraph 4) and about the request for convening the general meeting of the bank submitted to the competent court (Article 54, paragraph 6),

11) the bank's general meeting transfers its responsibilities provided for by this Law to another body of the bank (Article 55, paragraph 2),

12) it fails to notify the Agency of the expiration of a supervisory board member's term in accordance with Article 59, paragraph 5 and Article 68, paragraph 7 of this Law,

13) it fails to submit a request to the Agency for a prior approval of supervisory board member within the period prescribed by Article 61, paragraph 9 of this Law,

14) it fails to submit a request to the Agency for a prior approval of board of directors board member within the period prescribed by Article 70, paragraph 4 of this Law

15) it fails to establish and organize the key functions of the bank in the manner prescribed in Article 76 of this Law,

16) it gives a proxy contrary to Article 85 of this Law,

17) it conducts its business activities contrary to the provisions of Article 86 of this Law,

- 18) it fails to establish an organizational structure and risk management system in accordance with Articles 88 and 89 of this Law,
- 19) it fails to organize control functions of risk management, operations compliance monitoring and internal audit in accordance with the provisions of Articles 92, 93, 94, 95 and 96 of this Law,
- 20) it fails to report on the implementation of the control functions in accordance with Article 98 of this Law,
- 21) it fails to establish and implement remuneration policies and practices in accordance with Article 99 of this Law,
- 22) it fails to establish internal assessment of capital adequacy and liquidity of the bank in accordance with Article 100 of this Law,
- 23) it fails to prepare, review and submit to the Agency a recovery plan of the bank in accordance with Article 101 of this Law,
- 24) the recovery plan does not contain the elements required by Article 102 of this Law,
- 25) when assessing and applying the recovery plan, it does not comply with Article 103 and 104 of this Law,
- 26) it fails to make and submit a recovery plan of the banking group in accordance with Article 105 of this Law,
- 27) when outsourcing its business activities, it acts contrary to Articles 114 and 115 of this Law,
- 28) it fails to submit monthly statistical reports to the Agency in accordance with Article 130, paragraph 8 of this Law,
- 29) it fails to keep documentation, data and records of performed transactions in accordance with Article 132 of this Law,
- 30) the contracts include general norms referring to the business policy instead of the elements of an agreement stipulated by this Law as compulsory elements of an agreement (Article 141, paragraph 6),
- 31) it acts contrary to the obligation established by Article 141, paragraph 7 of this Law,
- 32) agreements on loan, cash deposits, savings, opening and maintaining accounts, allowed overdrafts and use of payment cards do not contain mandatory elements prescribed in the legal provisions (Articles 142, 148, paragraph 1, Article 157 paragraph 1 and Article 160, paragraph 1),

- 33) it fails to perform the obligations stipulated in the legal provisions (Article 143),\
- 34) it enters into contracts with variable interest rate contrary to the legal provisions (Article 144, paragraphs 3 and 4),
- 35) prior to signing a surety agreement, it fails to acquire a copy of the surety agreement signed in writing between the user and the guarantor (Article 147, paragraph 2),
- 36) where the loan agreement specifies variable interest, consideration and other costs, it fails to base such variability on the elements contracted in line with the provisions of this Law, which are publicized (Article 149, paragraph 1),
- 37) it makes changes to the variable interest rate in periods other than the contracted and in a manner contrary to the legal provisions (Article 149, paragraph 2),
- 38) it fails to allow the user to repay the loan according to the same exchange rate that was in effect at the time of loan disbursement (Article 149, paragraph 3),
- 39) it fails to apply the same method of interest calculation to the deposits that was used for interest calculation on the approved loan (Article 149, paragraph 4),
- 40) it makes the credit resources available to the user before the deadline defined in Article 150, paragraph 1 of this Law,
- 41) in the event of early repayment of the loan by the user, who informed the bank in advance, it fails to deduct the total cost of loan by an amount prescribed by Article 151, paragraph 1 of this law,
- 42) it requests from the user a compensation for an early repayment in case of specified in Article 151, paragraph 3 of this Law,
- 43) it requests from the user a fee for early repayment of the loan higher than the fee prescribed in Article 151, paragraph 4 of this Law,
- 44) accrues and receives payment from the user as fee for written warning against Article 153 of this law,
- 45) it fails to inform the user about the changes in the contractual variable interest rate before the start of its application and fails to specify the date from which it applies (Article 154, paragraph 2),
- 46) it fails to deliver, along with the notification of the changes in the variable interest rate, a free of charge amended loan repayment schedule (Article 154, paragraph 3),

- 47) it transfers the receivables from a loan contract to another bank or financial institution licensed by the Agency – transferee, and puts the user in a less favorable position and exposes him/her to additional costs, and does not inform the user thereof (Article 155, paragraphs 1 and 2),
- 48) it restricts, by making it a condition or contracting its prior consent, the transfer of the rights referred to in the loan agreement to the surety or any other person (Article 155, paragraph 3),
- 49) by issuance and delivery of a statement to the user, it fails to inform him/her about the data and the current account balance used when contracting the loan, the applied interest rates and interest rate changes prior to their implementation, in accordance with the legal provisions (Article 159, paragraphs 1 and 2),
- 50) it fails to ensure that the user can withdraw the funds available in his/her account opened with the bank without a special fee (Article 159, paragraph 3),
- 51) it charges a fee from the user for closing an account (Article 159, paragraph 4),
- 52) it charges a fee from the user for closing a payment card (Article 160, paragraph 6),
- 53) the contracts for other services are not prepared in accordance with Article 161 of this Law,
- 54) it fails to act in accordance with Article 162 paragraphs 2 and 3, and charges from the user a fee or other costs for filing and handling of complaints,
- 55) it fails to keep books and prepare financial statements in accordance with Articles 164 and 165 of this Law,
- 56) it engages and appoints an audit firm contrary to Articles 169 and 170 of this Law,
- 57) it fails to comply with the report of the audit firm in accordance with Article 174 of this Law,
- 58) it fails to engage an audit firm to perform a special audit and an audit in case of status changes, and fails to act in accordance with Articles 176 and 177 of this Law,
- 59) it fails to disclose and submit financial statements, and fails to report additionally to the Agency in accordance with Articles 178 and 179 of this Law,
- 60) it fails to disclose data on the operations of the bank in accordance with Article 180 of this Law,
- 61) it acquires ownership in a subsidiary company without the approval of the Agency (Article 217),

- 62) it fails to render aid, fails to submit information and to notify about changes in data in connection with the bank resolution plan and the banking group resolution plan if it is the ultimate parent entity of the group (Article 225, paragraph 1 and Article 226, paragraph 4),
- 63) it fails to submit proposed actions and remove the obstacles to the resolution of the bank in accordance with Article 228 of this Law,
- 64) it fails to comply with the request of the Agency regarding the provision of services and facilities (Article 237, paragraph 1),
- 65) it fails to meet the minimum requirements for capital and eligible liabilities on an individual, sub-consolidated or consolidated basis (Article 250),
- 66) it fails to provide for contractual recognition of bail-in in accordance with Article 256, paragraph 1 of this Law.

(2) For the misdemeanors referred to in paragraph 1 herein, the responsible person of the bank shall also be fined with KM 2,000 to KM 10,000.

(3) If the control procedures find that a misdemeanor is recommitted within two years, for such repeated misdemeanor the Agency may impose monetary fine twice higher than referred to in paragraphs 1 and 2 herein.

Misdemeanors committed by a bank located in
the Federation of Bosnia and Herzegovina and the Brčko District of Bosnia and Herzegovina
Article 286

(1) A fine of KM 10,000 to KM 50,000 shall be imposed on a bank located in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina if:

1) it establishes an organizational unit in the Republika Srpska without the approval of the Agency (Article 19, paragraph 2),

2) without a prior approval of the Agency, it makes changes relating to branches and lower organizational units established in Republika Srpska (Article 22, paragraph 3),

3) it opens a representative office without the consent of the Agency in accordance with Article 24, paragraph 1 of this law and does not act in accordance with Article 25 paragraph 5 of this law,

4) the organizational units fail to notify the Agency in accordance with Article 179, paragraph 3 of this Law,

5) the organizational unit fails to enable on-site inspection and fails to cooperate with the authorized persons of the Agency in accordance with Article 190 of this Law.

(2) For the misdemeanors referred to in paragraph 1 herein, the responsible person shall also be fined with KM 2,000 to KM 10,000.

(3) A bank located in the Federation of Bosnia and Herzegovina or the Brčko District of Bosnia and Herzegovina and the responsible person of that bank shall be fined if its branch or lower organizational unit commits the misdemeanors referred to in Article 284, paragraph 1, items 19 to 45 and Article 285, paragraph 1, items 29 to 54 of this Law, according to the provisions of these articles.

Other misdemeanors committed by the supervisory board, board of directors and audit committee
Article 287

(1) A fine from KM 4,000 to KM 20,000 shall be imposed on a responsible member of the supervisory board if:

1) he/she fails to convene an extraordinary general meeting in the cases referred to in Article 54, paragraph 4 of this Law,

2) he/she gives false and misleading documents or presents false data which are essential for the performance of the duties of a member of the supervisory board, in accordance with Article 62, paragraph 1, Item 1 of this Law,

3) he/she fails to hold an extraordinary meeting of the supervisory board, and fails to inform the Agency of the date of the meeting and the agenda of the extraordinary meeting (Article 64, paragraphs 2 and 4),

4) he/she does not immediately inform the Agency of the occurrence of circumstances referred to in Article 66, paragraph 1, item 28 and Article 67, paragraph 1, item 4 of this Law,

5) he/she fails to perform his/her duties in accordance with Article 67, paragraph 1, items 1, 2, 3, and 5 and paragraph 2 of this Law,

6) he/she appoints members of the board of directors without a prior approval of the Agency (Article 70, paragraph 3),

7) he/she fails to make decision on the dismissal of a member of the board of directors within the deadline set in Article 74, paragraph 3 of this Law,

8) he/she fails to submit a written statement of the financial situation and information in accordance with Article 75 of this Law,

9) he/she fails to form committees in accordance with Article 77 and 78n of this Law and if the committees do not act in accordance with Articles 80, 81 and 82 of this Law,

10) he/she fails to take measures following the recommendations of the internal audit in accordance with Article 97, paragraph 2 of this Law,

11) he/she participates in the consideration or approval of a legal transaction between him/her and the bank, or the bank and a person associated with him/her (Article 110, paragraph 5),

12) he/she fails to comply with the bank secrecy in accordance with the provisions of Articles 126, 127, 128 and 129 of this Law,

13) he/she fails to fulfill the obligations towards the consultant in accordance with Article 207 of this Law,

14) in connection with the business reorganization plan in the course of the resolution, he/she fails to act in accordance with Article 254 of this Law.

(2) A fine ranging from KM 4,000 to KM 20,000 shall also be imposed on a responsible member of the board of directors if:

1) he/she fails to exercise the powers in accordance with Article 71 of this Law,

2) he/she fails to inform the supervisory board without delay about the circumstances referred to in Article 73 of this Law,

3) he/she fails to submit a written statement of the financial situation and information in accordance with Article 75 of this Law,

4) he/she fails to ensure that measures are taken with respect to recommendations of internal audit in accordance with article 97, paragraph 2 of this law,

5) he/she participates in the consideration or approval of a legal transaction between him/her and the bank or the bank and persons associated with him/her (Article 110, paragraph 5),

6) he/she fails to fulfill the obligations towards the consultant in accordance with Article 207 of this Law,

7) as a previous member of the board of directors, he/she fails to cooperate with the provisional administrator in accordance with Article 211, paragraph 8 or the special administrator in accordance with Article 239, paragraph 5,

8) in connection with the business reorganization plan in the course of the resolution, he/she fails to act in accordance with Article 254 of this Law.

(3) A fine from KM 4,000 to KM 20,000 shall also be imposed on a responsible member of the audit committee, if he/she fails to act in accordance with Article 79 and 97, paragraph 2 of this Law.

Misdemeanors committed by other legal entities
Article 288

(1) A fine of KM 10,000 to KM 50,000 shall be imposed on any other legal entity if:

- 1) it carries out tasks that can be performed only by a bank (Article 4),
- 2) its business name includes the word bank, contrary to Article 5, paragraph 3 of this Law,
- 3) as custodian, it fails to disclose to the Agency identity of the clients for whose account the bank's shares are managed, in accordance with Article 35, paragraph 2 of this Law,
- 4) it acquires qualifying holdings in the bank contrary to Article 41 of this Law and fails to act in accordance with this Article,
- 5) it fails to comply with the restrictions on acquiring ownership by several persons in accordance with Article 43, paragraph 1 herein,
- 6) as acquirer of qualifying holdings in the bank by inheritance, legal succession or other forms of acquisition independent of the will of the acquirer, it acts contrary to Article 46 paragraphs 2 and 3 of this Law,
- 7) it fails to sell shares upon order of the Agency under Article 49, paragraph 1 and Article 50, paragraph 2 of this Law,
- 8) the Agency revokes from that person the consent for acquiring qualifying holding due to reasons prescribed in Article 50, paragraph 1, items 1 and 2 of this Law,
- 9) as the acquirer of placements, it acts towards the debtor and the user of banking services contrary to Article 119 of this Law,
- 10) it fails to handle confidential information in accordance with the legal provisions (Articles 126, 127, 128 and 129),
- 11) as an audit firm, fails to act in accordance with Articles 169, 170, 171 and 172 of this Law,
- 12) as an audit firm, fails to perform the audit for the Agency's needs in accordance with Article 175 of this Law,

13) as a holding in acquiring ownership in a subordinated entity, it acts contrary to Article 218 of this Law,

14) as an ultimate parent company of a banking group, it fails to determine and to provide to the Agency the indicators stipulated in Article 219 of this Law,

15) as a member of a banking group, it fails to comply with the measures of the Agency specified in Article 220 of this Law,

16) as ultimate parent company and a member of a banking group, it fails to render aid, fails to submit information and notify about the change of data related to the resolution plan of the banking group (Article 226, paragraph 4), and

17) as an independent appraiser, it fails to assess the value of assets and liabilities in accordance with Article 232 of this Law, as well as the assessment in accordance with Article 257 of this Law.

(2) For the misdemeanors referred to in paragraph 1 herein, the responsible person from another legal entity shall be fined KM 2,000 to KM 10,000.

Misdemeanors committed by natural persons
Article 289

A fine in the amount of KM 1,000 to KM 5,000 shall be imposed on a natural person if:

1) he/she acquires qualifying holdings in the bank contrary to Article 41 of this Law, and fails to act in accordance with this Article,

2) as the acquirer of qualifying holdings in the bank by inheritance, legal succession or other forms of acquisition independent of the will of the acquirer, he/she acts contrary to Article 46, paragraphs 2 and 3 of this Law,

3) he/she fails to sell shares upon order of the Agency under Article 49, paragraph 1 and Article 50, paragraph 2 of this Law,

4) the Agency revokes from that person the consent for acquiring qualifying holdings due to reasons prescribed in Article 50, paragraph 1, items 1 and 2 of this Law,

5) he/she fails to comply with the bank secrecy in accordance with the legal provisions (Articles 126, 127, 128 and 129),

6) as a consultant, he/she fails to prepare a report and fails to inform the Agency in accordance with Article 206 of this Law,

7) as a provisional administrator, he/she fails to fulfill his/her obligations, fails to prepare a report and fails to inform the Agency in accordance with Articles 211 and 213 of this Law,

8) as a special administrator, he/she fails to undertake measures and fails to report to the Agency in accordance with Article 239, paragraphs 9 and 13 of this Law,

9) as a liquidation administrator, he/she fails to perform the duties and obligations in accordance with Articles 267 and 271 of this Law,

10) as a liquidation administrator, he/she disburses obligations contrary to the order of priority in accordance with Article 269 of this Law.

Misdemeanor proceedings

Article 290

(1) Misdemeanor procedure shall be initiated and conducted in accordance with the regulations governing the misdemeanor proceedings.

(1) Determining the responsibility and pronouncing actions in accordance with this Law, does not exclude determining the responsibility and pronouncing actions specified by other laws.

(3) If the bank in its operations does not fulfill its obligations and duties, as well as undertake measures and actions defined by the regulations governing the prevention of money laundering and financing of terrorist activities, the Agency shall take measures, issue misdemeanor orders or initiate legal proceedings in accordance with that law.

TITLE XIV

TRANSITIONAL AND FINAL PROVISIONS

Adoption of by-laws

Article 291

(1) The Agency shall adopt by-laws provided for by this Law within six months from the day this Law enters into force, except for by-laws for articles 221 to 259 of this law, which shall be adopted within nine months from the day this Law enters into force.

(2) Until the adoption of regulations referred to in paragraph 1 herein, the by-laws that were in force on the date of entry into force of this Law, and which are not contrary to this Law, shall apply.

Harmonization of bank operations

Article 292

(1) The bank shall harmonize its operations, organization and general acts with the provisions of this Law and the regulations of the Agency within nine months from the day this Law enters into force, except the provisions of Article 36, paragraph 3 which regulates the ratio of supplementary and core capital, with which the banks shall comply within 18 months from the day this Law enters into force.

(2) The Bank shall submit to the Agency the recovery plans referred to in Articles 101 and 105 of this Law within six months from the date the by-laws of the Agency specified in Article 102, 104 and 105 of this Law enter into force, where such by-laws regulate the content of the recovery plan.

(3) A bank that failed to harmonize the contractual obligations from Article 129a of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, number 44/03, 74/04, 116/11, 5/12, 59/13), shall be obliged to harmonize the contracts with the provisions of that article within two months from the day this Law enters into force.

Preparation of resolution plans Article 293

(1) The Agency shall prepare, within no later than one year, the resolution plans referred to in Article 224 of this Law for the banks which on the day this Law enters into force have an operating license granted by the Agency, and the resolution plans for the banking groups referred to in Article 226 of this Law no later than 18 months from the day the Agency’s by-law referred to in Article 225 of this Law enters into force, which prescribes the data and information delivered by the banks for the purpose of drafting a resolution plan.

(2) The Agency may initiate the resolution procedure and implement resolution tools in accordance with this law regardless of whether resolution plans referred to in paragraph 1 of this Article and recovery plans under Article 292 of this law were drafted.

Initiated procedures Article 294

The procedures for issuing operating licenses to banks and other approvals of the Agency that have been initiated by the date this Law enters into force, shall be finalized in accordance with the provisions of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, number 44/03, 74/04, 116/11, 5/12 and 59/13).

End of Law validity Article 295

With the entry into force of this Law, the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, number 44/03, 74/04, 116/11, 5/12 and 59/13) shall cease to be valid.

Entry into force Article 296

This Law shall enter into force eight days after its publication in the Official Gazette of Republika Srpska.

Number: 02/01-021-1571/16
Date: 28 December, 2016

PRESIDENT OF THE
NATIONAL ASSEMBLY
Nedeljko Čubrilović

After matching with the original text, it has been established that in the Banking Law („Official Gazette of Republika Srpska“, No.: 4/17) a technical error has been occurred, hence in accordance with the Article 189, paragraph 3 of the Rules of Procedure of the National Assembly of Republika Srpska („Official Gazette of Republika Srpska“, No.: 31/11 and 34/17), the general secretary issues the

CORRECTION

of the Banking Law

In the Article 96, paragraph 5 the wording: “authorized and internal auditor“ shall be replaced with the wording: „authorized internal auditor“.

No. 02/4.01-4-011-376-1/18

General Secretary

March 2, 2018

dr. **Marko Aćić**, s.r.

Banja Luka

This is an English courtesy translation of the original documentation prepared in Serbian language. Please consider that only the original version in Serbian language has legal value

Official Gazette of RS, No.: 54/19 as of 27/06/2019

**LAW
ON AMENDMENTS
TO THE
BANKING LAW OF REPUBLIKA SRPSKA**

Article 1

In the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 4/17 and 19/18) in Article 107, Paragraph 2, the number: “5” shall be replaced with the number: “15”.

Article 2

This Law shall come into force on the 8th day of its issuance in the (“Official Gazette of Republika Srpska”.

Number: 02/1-021-584/19
Date: 13 June 2019
Banja Luka

PRESIDENT OF THE
NATIONAL ASSEMBLY
Nedeljko Čubrilović, (personally)