

According to the Article 19, item 1 of the Law on the Government of the Federation of Bosnia and Herzegovina ("Official Gazette of the Federation of Bosnia and Herzegovina" nr. 1/94, 8/95, 58/02 and 19/03), in relation to the Article 30, item 2 of the Law on the Development Bank of the Federation of Bosnia and Herzegovina ("Official Gazette of the Federation of Bosnia and Herzegovina", nr. 37/08) as proposed by the Federation of Bosnia and Herzegovina Banking Agency, the Government the Federation of Bosnia and Herzegovina, on its ___ session held on _____ declares:

DECREE
ON THE BANK SUPERVISION CRITERIA AND PROCEDURES OF THE DEVELOPMENT
BANK OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

Article 1

This Decree on the Bank Supervision Criteria and Procedures of the Development Bank of the Federation of Bosnia and Herzegovina (hereinafter: the Decree) closely defines basic criteria and responsibilities of the Federation of Bosnia and Herzegovina Banking Agency (hereinafter: FBA) in the banking supervision of the Development Bank of the Federation of Bosnia and Herzegovina (hereinafter: the Bank), as well as the minimum standard for:

- capital management;
- credit risk management and Bank's assets classification;
- credit risk concentration management;
- operations with entities related to the Bank;
- liquidity risk management;
- foreign exchange risk management;
- operation risk management;
- market risk management;
- internal control system implementation and maintenance;
- internal and external audit implementation;
- scope, form and contents of the anti-money laundry and counter-terrorism financing activities of the Bank;
- payment operations and accounting, and introducing effective interest rate;
- form of reporting towards the FBA.

Article 2

Subject and contents of the supervision implemented by the FBA includes supervising legality of banking business, enactments and regulations regulating Bank's business, policies and procedures.

Article 3

Supervision of legality of operations and enforcement of the defined standards, as the primary obligation of Bank's supervision and management bodies, and taking adequate measures to remove deficiencies and weaknesses identified by the FBA, have the goal to provide steady operations in meeting Bank's mission.

In this context, deficiencies and weaknesses are operations outside the regulations, and states and activities of the Bank that can be considered insubstantial, unreliable and risky regardless of whether they are contrary to any regulations, policies or procedures, or not.

The FBA uses qualitative and quantitative techniques to supervise and identify the following:

1. if the relevant files are in line with the law, if minimum conditions for Bank's operations are established and maintained;
2. capital: strength and adequacy of Bank's capital;
3. supervision and management: methods, quality and adequacy of the supervision and management of the Bank;
4. profitability: stability of operations on the principles of profitability, liquidity and investment security aimed at preserving capital;
5. liquidity: ways to ensure and maintain liquidity level in Bank's activities, and maintaining reserves in function of payment operations;
6. assets quality: asset and off-balance records risk and collectability, risk concentration, overstepping defined limitations, operations with related entites and other specific categories;
7. adequacy of the protection against interest, foreign exchange, off-balance and other risks of the Bank;
8. adequacy of the mechanisms of internal tracing, control, quality check and safety of Bank's operations;
9. adequacy of the payment operations follow-up and control methods;
10. adequacy of the procedures and internal controls aimed at revealing and preventing transactions that imply criminal activities, money laundry or terrorism financing;
11. adequacy of reporting towards the FBA.

Article 4

In line with the Law on the Development Bank of the Federation of Bosnia and Herzegovina (hereinafter: the Law), the Law on Banks of the Federation of Bosnia and Herzegovina (hereinafter: the Law on Banks) and other regulations, supervision and management bodies of the Bank have the obligation to order measures aimed at preventing quality loss and overcoming weaknesses, before they deteriorate any further, and to monitor their implementation.

Article 5

Supervision defined in the Article 3 of this Decree is performed by the FBA in the following way:

1. following up reports, information and data delivered to the FBA by the Bank using the form defined by the Chapter 14 – FBA Report to FBA Form;
2. through immediate inspection of books, accounting and other documentation at the bank.

Supervision defined in the paragraph 1, item 1, of this Article is a regular activity of the FBA, while the activities defined in the paragraph 1, item 2 of this article are performed in accordance with the plan of the FBA.

Compensation to the FBA for the supervision is defined by the FBA Steering Committee by a separate decree, in consultation with the Government of the Federation of Bosnia and Herzegovina.

Article 6

While supervising Bank's activities, the FBA issues recommendations and written warnings, and orders removing identified deficiencies and weakness (hereinafter: the Documents).

For responsible, cautious, rational and successful banking business leading towards secure and efficient operations of the Bank, this Decree gives primary and decisive role to Bank's supervision and management bodies.

Article 7

The FBA makes a report on the findings of the supervision; deficiencies and weaknesses identified, and delivers it to the Bank latest within 20 days upon completion of the supervision activities i.e. upon the presentation of the findings to the Management of the Bank.

FBA Director can issue a decision setting a different time limit for the delivery of the supervision report to the Bank.

The Bank has the right to rise objection to the supervision report defined in the paragraph 1 of this Article within 8 days upon reception.

At the expiration of the time limit for Bank's objections, the FBA makes a decision on the necessary steps to remove deficiencies and weaknesses and sets the time limit for their completion.

Such decision is delivered to Bank's Management and Supervisory Committee.

The Bank has the right to rise objection to the FBA's decision within 8 days upon reception.

Article 8

Once Bank's deficiencies and weaknesses breaching the laws and conditions stipulated by regulations and this Decree are identified, the FBA is authorized to:

1. set limitations and conditions, and order steps to be taken to prevent further deterioration and developments of Bank's procedures to improve operations and risk management;
2. order the Bank and its management to take necessary measures and set time limits therein.

If the Bank fails to comply with the order within the set time frame, identifying the severity of the consequences, the FBA can inform the Supervisory Board or/and Bank Assembly on the failure to comply and its consequences, thus enabling them to take measures within their responsibility.

Article 9

While deciding on measures within its responsibility and their execution, the FBA shall take into account mitigating and aggravating circumstances, and examine the damage done (damage, loss of profit caused intentionally or by neglect), as well as the risks that the error potentially poses, cooperativeness and efficiency of the management prior to the damage, speed and comprehensiveness of the corrective measures in sense of eliminating acquired personal gain or gain of other persons, and compensation of the financial loss that the error caused to the Bank and to other persons.

The FBA has the obligation to take into consideration any financial gain or other benefit to the responsible person, knowledge of the responsible person on the damage done, concealing or intention to conceal actions or lack of actions of the responsible person, events causing deficiencies or similar events, loss or damage to the clients, previous warnings, if any, about the deficiencies or damages, harmful or inappropriate behavior or conditions continuing after the warnings, frequency and duration of the deficiencies, etc.

Article 10

The FBA shall deliver the documents defined in the Article 6 herein to relevant persons.

The FBA documents contain:

1. all included operative limitations;
2. individual orders to the members of relevant bodies and responsible persons at the Bank;
3. time limits for limitations and orders;
4. forms and time limits for special reports that the Bank shall send to the FBA, and

5. others.

The FBA documents, as well as the report defined in the Article 7 herein, are considered business secret.

1. CAPITAL MANAGEMENT

Article 11

The Bank has the obligation to set, maintain and implement the minimum standards for capital and creation and implementation of capital management programs.

Minimum equity capital in cash, amount and rate of net capital out of the total risk-weighted assets and other items, in line with the Law and Law on Banks, are considered minimum standards for the access and mediation on the financial market, i.e. the standards that offer full ability to absorb potential loss that the Bank is exposed to in its regular activities.

Payments to the equity capital must be in line with the Law.

The Bank cannot credit, guarantee or otherwise finance investments in its capital.

Article 12

The Bank Assembly and Supervisory Committee, in line with their responsibilities defined by the Law and the Statutes of the Bank, are responsible for qualitative and quantitative insurance and maintenance of Bank's capital, the least on the level of the minimum standards set by the Law on Banks and this Decree.

In the context of this Article, as a minimum, Bank's Supervisory Committee shall:

1. perform duties and be responsible according to the Law, other regulations and the Statutes, create capital management program (hereinafter: the Program) with the policies related to the quality and quantity of the capital that the Bank is responsible of providing and maintaining, as well as to set the procedures for creating and developing methods to follow-up current and plan Bank's future needs for capital;
2. make sure that Bank's management duly and timely files proposals for decisions related to the item 1 of this Article;
3. set contents and time limits for reporting on the capital adequacy, at least quarterly, and present them to Bank's management, as well as to make sure the reporting policies in this field are in line with this Decree;
4. provide all necessary means to fulfill Bank's Programs and Policies in the field of the capital, in line with its general enactments and this Decree;
5. make decisions on the proposals and analyze reports of the bank's management;
6. follow up and analyze Bank's interim capital plan, at least annually;
7. analyze and make decisions on the reports, proposals and requests, i.e. documents defined by this Decree.

Article 13

Bank's management has the responsibility to maintain adequate capital of the Bank, in line with the Statutes, Program, policies and procedures issued by the Supervisory Committee, as well as this Decree.

As a minimum, Bank's management shall:

1. perform duties stipulated by the Law, other regulations and the Statutes, define and file to the Supervisory Committee draft programs, policies and procedures related to Bank's capital management;
2. implement the program, policies and procedures related to the capital management;
3. continuously monitor whether the state and structure of Bank's capital allows meeting minimum standards stipulated by the Law and herein;
4. report to the Supervisory Committee on the adequacy of the Banks capital comprehensively and duly, at least in accordance with the requirements presented herein;
5. prepare draft interim plan of Bank's capital for evaluation and adoption by the Supervisory Committee.

Article 14

Capital management should be a continuous process determining and maintaining quality and quantity (i.e. structure) of Bank's capital on, at least, regulated or, if possible, adequate level. As capital is a rare economic and strategic resource, capital management must be one of the most important elements of cautious, efficient and strategic planning and management of the Bank. As the elements of cautious capital management program differ depending on the nature and complexity of different activities and risks assumed, the Bank has the obligation to issue its own written Program.

Bank's Program has to contain specifically:

1. cautious policies that would provide maintenance of the capital at least on the level of the minimum standards stipulated herein, and
2. defined clear and efficient procedures for permanent monitoring of the current state and needs of the Bank for the capital on the level of the standards given herein, as well as meeting its future needs, depending on the complexity and riskiness of its current and anticipated activities.

Article 15

Bank's capital should provide necessary resources for regular activities and coverage for current and potential risks cover all activities of the Bank and possible expansions, and finance non-interest assets.

The capital, as a separate financial resource, will be used by Bank's Supervisory Committee and management cautiously providing access to necessary financed capital.

The Supervisory Committee has the obligation to adopt and provide implementation of, the policies on meeting quantitative and qualitative capital needs of the Bank, thus providing conditions for its uninterrupted activities. Written policies must contain comprehensive and detailed descriptions of the capital resource management functions, depending on the complexity of each its operation, including at least:

1. equity capital amount and increase schedule;
2. limitations of the financed capital in line with the Law on Banks and this Decree;
3. nature of anticipated sources of financed capital;
4. possible minimum capital rates in relation to the current risk that could possibly exceed minimum defined herein.

Article 16

Bank management has the obligation to create and develop adequate procedures to manage the state and structure of Bank's capital. These procedures should include at least:

1. procedures that define continuous monitoring of the situation, how harmonized it is with the standards defined herein, and reporting; and

2. capital planning procedures that shall provide forecasting and planning future capital needs of the Bank process and, if necessary, reaching the adequate capital level that FBA may require, as well as communications with, and informing relevant bodies.

Adequate Capital Maintenance Plan of the Bank (hereinafter: the Plan), in light of the current situation and expected influence of anticipated changes in activities and ambience, as well as the financial situation of the Bank, should at least:

1. contain forecast of the capital needs of the Bank and its anticipated situation for at least three years ahead, with detailed forecast of the following year;
2. identify and argument the assumptions that the forecast is based upon;
3. identify the quality and quantity, and analyze potential internal sources for the necessary financed capital;
4. analyze access to, and availability of external sources of financed capital;
5. analyze potential access to different capital sources; and
6. analyze expenditures of financed capital growth.

Factors that may require financed capital and that should be presented and analyzed in detail in the Plan include: current and possible amendments of regulations, possible special requirements of the FBA, growth of assets and liabilities, balance and off-balance records, acquisitions, establishing Bank's affiliates, basic costs of assets and investments, operational and investment loss.

Article 17

As defined by the Law on Banks, in the context of this Decree, Bank's capital is made of: a) capital stock (Tier 1), defined by the Article 18 herein, b) financed capital (Tier 2), defined by the Article 19 herein, and c) additional capital (Tier 3).

Additional capital is used to cover market risks. For additional capital, the Bank may only use the surplus of capital stock and financed capital exceeding the coverage of the credit and operative risk. In this sense, the use of the financed capital may not exceed 250% of the capital stock used.

In the context of these limitations, capital stock and financed capital are used first to cover credit risk, then operative risk, and in the end the unused surpluses covers market risk. While accounting net-capital rate (capital adequacy), the Bank shall add weighted market risk (WMR), accounted as a sum of all capital requirements for market risk multiplied by 8.33 (reciprocal value of minimum net capital rate – 100% : 12% = 8.33), to the weighted operative risk (WOR).

Net capital is capital decreased by the items defined in the Article 20 herein.

Article 18

Capital stock of the Bank is the difference between the total amounts of:

1. equity capital;
2. general reserves of the Bank stipulated by the Law;
3. other reserves unrelated to the estimated quality of assets; and
4. preserved, or unallocated profit of the Bank from the previous years;

decreased by the total amount of:

1. uncovered loss transferred from the previous years;
2. loss from the current year;
3. intangible assets: patents, licenses, concessions, investments into market research trade name, trade mark, goodwill, etc.

Article 19

Financed capital of the Bank is consisted of:

1. general reserves of the Bank used for the coverage of the credit loss for the Bank assets estimated as A Category – good assets, as defined by the Article 57 of this Decree;
2. accounted profit in the current year revised and confirmed by external audit;
3. amount of profit which is subject to the FBA's decision on temporary stoppage of distribution;
4. subordinated liabilities (credits taken, bonds issued), up to 50% of the capital stock of the Bank under the following conditions:
 - a) that the assets are in full use by the Bank,
 - b) that the Bank has not issued payment insurance instrument to the creditor therefore not having the insured debt status,
 - c) that the Bank does not have a reverse operation arrangement with the creditor,
 - d) that the contract defines the credit payment time limit of at least 5 (five) years, and that it cannot even be met when the time limit expires, if Bank's capital would be decreased to under the regulated level by such operation,
 - e) that the Bank duly decreases the amount of the subordinated debt by paying it off in line with the agreed schedule, if such schedule is agreed upon, in order to be able to balance financed capital;
5. hybrid, i.e. convertible items/capital instruments in the amount of up to 50% of the capital stock of the Bank. In the context of this provision, convertible items/capital instruments include all items/liabilities of the Bank with the agreed conversion clause on conversion to (permanent) capital instruments that are to be executed latest by the due date of the convertible item/instrument;
6. permanent items/liabilities of the Bank for which the Bank does not have the obligation to return (permanent earmarked or non-earmarked deposits, etc.) which are subject to policies and procedures of the Bank when engaged in active operations.

In sense of accounting capital adequacy, sum of financed and additional capital cannot exceed capital stock of the Bank.

Article 20

Net capital (reconciliated capital) of the Bank, i.e. the amount used for the accounting of Bank's capital adequacy rate, is presented as the difference between the capitals defined in the Article 17 herein and deduction items that follow:

1. Bank's investments in the capital of other legal persons that exceed 5% of Bank's capital stock;
2. all receivables of Bank's owner approved by the Bank contrary to the laws, regulations and policies of the Bank, and
3. all major exposures of the Bank to credit risk (exceeding 15% of Bank's capital stock) in relation to Bank's owner.

Article 21

Bank's risky assets are balance sheet and off-balance items exposed to the risk that are multiplied by corresponding weight of the standard risk adequate to the exposure of different forms of assets to the natural risk, in line with the Article 24 herein.

Article 22

In the context of this article, Bank's balance sheet and off-balance assets are consisted of the total accounting net value of balance assets and credit equivalent of its off-balance liabilities presenting its potential balance assets.

Net book value of the assets presents book value of the assets decreased by any deductions or deducted assets.

Credit equivalent to off-balance liabilities is the product of book value of off-balance liabilities multiplied by adequate conversion coefficients given in the Article 23 herein.

Article 23

Conversion coefficients for calculation of credit equivalents to Bank's off-balance liabilities as follows:

TYPE OF OFF-BALANCE LIABILITY		Conversion coefficient	Person being evaluated – potential debtor
1.	Irrevocable payable guaranties issued by the Bank	1,0	User
2.	Irrevocable guaranties (other than payable) issued by the Bank	0,5	User
3.	Irrevocable credit liabilities beginning in up to one year	0,5	User
4.	Documentary letters of credit open or confirmed by the Bank	0,5	User
5.	Liabilities that the Bank accepted, based on the sale contract with the right to buy-back	1,0	User, opening bank
6.	Foreign exchange and KM funds purchased by contracts on exchange swaps, futures and currency options and liabilities of clients accepted by the Bank based on the exchange rates on contracts on single currency exchange swaps, exchange term operations ad purchased exchange options.	0,1	Other party in contract

For other cases of off-balance liabilities of the Bank, depending on their specific nature, the FBA may determine conversion coefficient separately.

Article 24

Total risk of Bank's assets is the sum of products (multiplication) of adequate rates (weights) of risk and assets i.e. credit equivalents of off-balance items exposed to risk, as follows:

ASSETS AND OFF-BALANCE CREDIT EQUIVALENT		RISK RATE (WEIGHT)
1.	Cash assets; Receivables from the A zone central governments; Receivables from CB BiH and A zone central banks;	0 %
2.	Receivables from A zone banks, except based on subordinated debts; Receivables from banks with central offices in B zone countries with time limit within one year, except based on subordinate debts; Receivables from international development banks; Receivables from the FBiH government, BiH Government and regional governments on the level lower than the A zone governments; Receivables from institutions financed from the FBiH/BiH budget and A zone central governments; Financial instruments in the collection procedure;	20 %
3.	Receivables from all banks in BiH;	50 %
4.	All remaining assets and credit equivalent of off-liabilities defined in the Article 24 herein.	100 %

A Zone countries are OECD member states. .

Article 25

Bank's capital adequacy (adequacy rate) is ratio of net-capital defined by the Article 17 item 4 herein and sum of the total risk of assets defined by the Article 24 herein, weighted operative risk (WOR) and weighted market risk (WMR).

Article 26

The Bank has the obligation to report to the FBA quarterly on the state and structure of its capital on the form defined in the chapter 14 herein – FBA Reporting Forms.

Besides the provision in the first paragraph of this Article, the Bank has the obligation to report as defined in the previous paragraph in case of any changes in the capital and changes that may have significant negative impact on the capital adequacy calculation, presenting the situation on the last day of the month when the change happened, latest within 15 days upon the last day of that months.

Article 27

Report defined in the Article 26 for the previous year shall be subject to review and evaluation by external auditor of the Bank. Such audit report shall contain the following information:

1. whether Bank's reporting system offers accurate information on Bank's capital adequacy; and
2. whether the information on the capital adequacy contained in Bank's report including the state on December 31 of the respective year accurate and precise, taking into account Bank's credit portfolio and other relevant risk categories.

2. CREDIT RISK MANAGEMENT

Article 28

This sets minimum standards for Bank's credit risk management including:

- documented credit activities;
- credit risk, assets classification and forming reserves for credit loss;
- allocating credits to employees;
- managing special credit risk.

2.1. Documenting credit activities

Article 29

The Bank can issue credit, do another placement or investment and take over potential payables (hereinafter: credit) only based on the adequate written contract.

The Bank has the obligation to request information and documentation in line with the provisions here in from the applicant whose credit application is being considered.

The Bank that approved credit may transfer its claims based on that credit only based on a written contract defining such transfer or in another way provided by the law.

The Bank may change time limits or other conditions of the credit only through adequate written amendments (annexes) of the contract.

Article 30

The Bank has the obligation to open credit files for each approved credit on the day the approval was issued and keep it for as long as the credit is not repaid or liquidated (settled) in another way, except in situations defined herein.

Keeping and maintaining credit files is responsibility of the credit officer in charge of providing completeness and reliability of the documents therein.

Article 31

Credit files shall contain all documents related to the approved credit, at least the following:

1. credit application signed by the applicant stating the purpose of the credit, all correspondence and documentation reflecting contacts between the Bank and the debtor after signing the credit agreement;
2. founding documents of the applicant, if the applicant is a legal person;
3. documentation verifying legal authorization of the agent, if the credit agreement is signed by authorized agent on behalf of the applicant;
4. the original copy of the credit agreement;
5. the most recent financial reports, including the balance sheet, income sheet, cash flow reports, etc. signed by the applicant on the date of the application;
6. confirmation on employment and salary or annual income of the applicant, if the applicant is a physical person;
7. the documentation related to control and evaluation of the debtor's financial state and their ability to repay the credit respecting the agreed conditions, with the analysis performed and/or verified by the responsible officer of the Bank, confirming that the debtor's cash flows are adequate for credit repayment;
8. decision of the responsible body of the Bank on credit approval, containing time limits, interest and other conditions defining such credit;
9. documentation confirming purpose of the credit;
10. if the applicant is a representative of a third party, copy of a document verifying it;
11. for credits secured by collateral or guarantees, the documents defined herein;
12. where applicable, documents that show the amount to which the credited assets are insured at insurance institution;
13. for credits for construction, reconstruction or rehabilitation of immovable assets, cost estimate, documents on actual spending of credit funds, reports on inspections done by the Bank or documents on the acceptance of the facility confirming completion of the works;
14. in case of amendments to the credit agreement, after approval of the credit, documents that confirm and define the amendments;
15. documents that follow up and verify credit repayment, to the full or partially, and present sources (way) of credit repayment (payments by debtor/user and collateral realization);
16. documents reflecting financial state of the backer of the allocated credit;
17. documents showing measures that the Bank took against the debtor that failed to comply with the obligations;
18. documentation defined by the items 5 and 9 herein that gives the financial and economic state of the credit user and/or purposeful use of the credit, quarterly for the whole repayment period;
19. documentation on the completed credit scrutiny on the spot, by responsible officer or other authorized personnel of the Bank, in case of exposure to credit risk defined in the Article 75 herein, etc.

Article 32

In case that the bank acquires right to credit based receivables, to the full or partially, it has the obligation to open credit files for such credit on the date on the contract on claims transfer.

The Bank shall make sure that the credit file defined in the paragraph 1 on this Article contains full documentation (or copies verified by the seller and/or previous owner of the claims, hereinafter: claim seller) that were previously contained in the seller's credit file put in line with the requirements stipulated herein.

The documentation defined in the paragraph 2 and related to the right defined in the paragraph 1 of this Article shall contain at least the following:

1. information – statement of the claim seller on how duly were the obligations met by the debtor;

2. contract on the transfer of rights to claims, that contains, among all, provisions on the conditions of credit servicing (if any) and on the exchange of data and documents related to credit repayments between the seller and buyer of the claims;
3. copies of documents defining criteria of approved credit (right to claims) by the claim seller;
4. all documents related to collateral or guaranty related to the acquired right to claims.

Article 33

In case the Bank sells right to claims (hereinafter: bank claim seller), it shall file the claim transfer contract and documentation on all related obligations in the credit file.

If the claim transfer contract orders the bank claim seller to guarantee full compliance to obligations by the debtor in the context of the sold claim, the bank claim seller cannot close credit file on such claim until the debtor fully complies o all obligations stipulated by the claim transfer contract.

Article 34

Debtor/credit user may be changed only with Bank's consent (creditor bank).

Related to credit that was subject to change of debtor/credit user, the Bank has the obligation to provide basic documentation containing at least the following:

1. documents related to the new debtor in line with all regulations;
2. Bank's consent on the debt transfer to the new debtor/credit user and all other related documentation;
3. amendments to the credit agreement, related to the change of debtor/credit user, in written, signed by the Bank and new debtor;
4. relevant additional documents made for the new debtor/credit user to provide additional or new collateral.

Article 35

Related to the guaranties it issued, the Bank shall keep credit files until the obligations are fully met by the third person that the Bank warrants for.

2.2. Credit risk, assets classification and forming credit loss reserves

Article 36

The Bank shall provide and implement the defined minimum standards and criteria in its evaluation, assuming, supervision, control and management of the credit risk and classification of its assets.

Bank's Supervisory Committee and Audit Board shall, in line with their responsibilities and tasks stipulated by the Law, Law on Banks, Statutes and this Decree, ensure follow up, inspection and classification of assets balance items and some off-balance items (hereinafter: the assets) of the Bank, i.e. exposure of the Bank to the collection risk i.e. potential loss risks based on credits, other placements, investments and potential off-balance commitments (hereinafter: the credit risk) and reporting to the FBA by the Bank in line with this Decree.

Article 37

Bank's assets exposed to credit risk in the context of the provisions given in the Article 36 paragraph 2 herein, are made of the following:

1. in Bank's balance sheet: credits, loans, investments, debtor's securities, claims based on inter-banking balances, and all other items that expose the Bank to the risk of uncollectable payments i.e. business failure; and

2. in Bank's off-balance: issued guaranties unsecured by financial collateral, issued other guaranties, uncovered letters of credit, irrevocably approved yet unused credits, and all other items that are potentially liabilities of the Bank.

Article 38

Bank's Supervisory Committee is responsible of the completeness, continuity and success of Bank's credit risk management function. To meet its responsibility, the Supervisory Committee has the following obligations, as a minimum:

1. to request the senior management in charge of the credit risk and assets classification issues, as provided by the Statutes, to prepare draft credit risk management programs for passage, keeping and development (hereinafter: the program) with corresponding credit risk management policies and procedures (hereinafter: policies and procedures) for the Bank;
2. to adopt or issue the program and discuss it at least semiannually, i.e. to adjust it to economic and market conditions (changes of the ambience) in time;
3. to provide full compliance to the program and manage maintenance of reasonable structure and quality of the assets, i.e. credit portfolio of the Bank from an acceptable standpoint in sense of the credit risk level, and provide implementation of adequate control and audit in this field;
4. to provide periodic, i.e. regular comprehensive and valid reports from the Management, internal control and external audit systems of the Bank, in order to monitor whether the Management abides by the Law, other regulations and policies in the field of credit risk and assets classification;
5. to provide selection and appointment of qualified Management members and senior officials of the Bank and to provide further successful training for them;
6. to provide conditions for the organization and functioning of a specialized unit for credit restructuring and reorganization or liquidation of poor debtors/credit users with the aim to reduce Bank's credit loss to the lowest possible level;
7. to provide establishment, maintenance and development of an efficient internal control system of the Bank, to adopt adequate internal and external audit program and provide conditions for their implementation. The Supervisory Committee shall also establish independent internal audit function in the Bank, with adequate capacities and human resources, to inspect risky activities of the Bank independently, according to the defined procedure and timeline.
8. to provide regular information and evaluation of the credits allocated to entities related t the Bank or guaranteed by them, in line with this Decree;
9. to issue contents and timeline of extraordinary and regular credit risk management reports that the Management has the obligation to submit to the Supervisory Committee.

Article 39

Bank's management, as a minimum, shall:

1. create, develop and duly submit to the Supervisory Boart proposals for Bank's programs and policies, and provide procedures for their implementation;
2. implement Bank's programs and policies, set communication lines that provide timely information to the lower management and executive levels of the Bank on credit risk management policies and procedures, supervise, control and ensure their implementation;
3. ensure development and establishment of reporting systems related to Bank's assets and credit risk that enables efficient analysis, cautious and efficient management, and control of the existing and potential exposures of the Bank to credit risk;
4. monitor and control the structure and quality of the assets and make sure that it is competently, cautiously and severely evaluated, that uncollectable items are (partly or fully) covered by adequate reserves and that such reserves are written off;
5. provide that Bank's internal control system and internal audit duly perform their tasks;
6. report to the Supervisory Committee and the FBA on major credit activities, structure and quality of assets i.e. credit portfolio, as well as the efficiency of Bank's programs quarterly or more often.

Article 40

Adequate and successful credit risk management generally includes planning and maintaining acceptable relations between the assumed risk and general collectability level, as well as the control and reduction of all risks related to quality, concentration, collection insurance i.e. collection insurance instruments (hereinafter: the collateral), payability, currency, etc.

The Bank shall provide adequate written program with minimum formalized standards that, given the fact that certain elements from those standards may differ from the standards applicable in other banks depending on the nature and complexity of concrete risky functions and defined portfolio shall contain at least:

1. defined credit risk identification and management policies;
2. defined credit application evaluation procedures, placement/investment proposal evaluation procedures and requests implying exposing the Bank to potential off-balance commitment (hereinafter: the credit applications);
3. defined approval procedures related to credits, other placements, investments and off-balance commitments (hereinafter: the credit), necessary documentation, monitoring and control procedures, reporting and collection.

Article 41

The program shall be based on defined understanding (philosophy) of credit risk and setting control parameters, identification of current and potential risk related to Bank's assets, and on the development and setting clear and precise policies in written.

Depending on the complexity and scope of its activities, the Bank shall have developed policies in written, as grounds for approval of credits, other placements, investments and off-balance commitments (hereinafter: the credit policies) that shall contain at least:

1. approach to, i.e. philosophy of credit risk that define (manage) volume of the risk that the Bank is ready to assume;
2. general credit issues that the Bank is ready or not ready to commit to;
3. clearly defined level of authorities or credit approval, as well as Bank's bodies in charge of making decisions on reserves and write-offs;
4. adequate (reasonable) and cautious limits for concentration of the total credit portfolio of the Bank, at least as provided by the Law on Banks and limits given herein, at least for: individual client, group of related clients or persons, an industry, a geographical region, a foreign country or group of countries, a type of securities, term of payment and form of instruments, etc.

Article 42

In order to reduce the credit risk to the least possible level, the Bank shall implement comprehensive and detailed evaluation of credit applications, and make reliable decisions and conclusion on each application or proposal prior to approving funds to the applicants. Decisions and conclusions shall include competent scrutiny of the applicant, credit, type of credit and implied credit risk. At the same time, the Bank shall make sure that all approved credits have adequate back up by documentation, at least in line with this Decree.

Procedures for scrutinizing and documenting each credit applications shall be followed by clearly defined procedures for public monitoring of the flow, control and collection.

In meeting its obligation, Bank's management has the obligation to propose, develop and apply healthy credit evaluation criteria, including information on the actual needs of the applicant, necessary minimum of financial analysis, indicators and standards.

Article 43

In the analysis of the credit application and in proposal preparation, Bank's Management shall make sure that the Bank pays attention to:

1. goal or purpose of the credit and sources that the applicant has to pay off the credit, where important factors are the evaluation, i.e. applicant liquidity estimate based on the previous, current and future period, and especially at the time of the requested credit due date, as well as the cash flow creation evaluation, i.e. incomes and expenditures of the applicant in the same period, as well as the prospective pay-off capabilities of the applicant;
2. applicant's character, honesty and reputation, i.e. the correctness of the applicant's intentions and behavior in the business activities and relations to the Bank, with focus on credit history and other obligations towards the bank and other institutions, possible delays or financial transgressions, meeting other obligations, etc.
3. applicant's assets, with focus on their level in the total resources, quality and actual value and structure of the assets, level and payability of applicant's claims, etc.
4. collateral adequacy, with focus on reality and stability of its financial value, possibility to provide full legal security of seizure and the possibility of Bank's full control over the seized collateral;
5. state, trends and prospects of the industrial branch and relative position of the applicant in this branch and on the market, as well as the applicant's survival prospects; and
6. evaluation of business and managerial capabilities of the applicant, i.e. its managerial bodies and leadership.

Article 44

The Bank shall organize its credit activities (approving credits to legal and physical persons) by ensuring: adequate specialized operations level, full risk analysis independence from other segments, and permanent training program for credit officers.

The Management shall make sure that the conditions for each credit are adequately and correctly documented and that the Bank keeps and maintains credit files for each approved credit, following chronologically approval and history until its final repayment i.e. liquidation (settling) in another way.

The credit file shall, at least, contain documents that:

1. identify user, debtor or other subject (hereinafter: the user) and related persons, and their warrantor;
2. serve as evidence of legal capability of the user to take credits or loans;
3. serve as evidence of the financial state and capability of the user to repay such credit, of the timeframe and sources of credit repayment;
4. define conditions of credit obligations, purpose of the allocated credit and use of the spend funds;
5. describe and evaluate value of the collateral, follow changes of its market value, its state and location;
6. describe changes in the quality of the credit;
7. identify credit related authorizations, approvals, evidence and inspections;
8. are based on the provisions given in the item 4 herein and Chapter 2.1 documenting credit activities, herein.

The Bank shall issue and implement adequate internal procedures defining the collection of principal, interest and compensation (hereinafter: the collections), providing that the payments are collected in time and in line with the agreed conditions, and that they are recorded appropriately. The collection procedures should define ways for fast investigations of delays made by the debtor, monitoring duration of delays and qualifying debtors (users) whose repayments are delayed by actual Bank's exposure to credit risk.

Besides early identification of the credit quality deterioration, the Management shall cautiously manage increased risks, propose and develop strategies for their successful solution and organize expert teams and services for credit renegotiation or restructuring, reorganization or liquidation of poor debtors, in order to reduce potential credit loss to the Bank to the least possible measure.

Article 45

Bank's control procedures shall at least include the following:

1. monitoring characteristics of Bank's assets;
2. Bank's assets classification;
3. review of credits and internal credit control (as a special segment of the Banks internal control systems), and internal audit (which is a special type of control provided by the Bank), with a corresponding minimum of comprehensiveness and regularity.

The Bank shall establish a system (process) that provides grouping and following asset entries, i.e. the credit portfolios by users or groups of related entites, by type of credit services, by industry or geographical area, in such way that enables precise evaluation, measuring and control of the risk concentration and identification, monitoring and limitation of credit risk by groups of related entites.

Article 46

The Bank shall define comprehensive procedures for successful monitoring and control of asset entries i.e. credit portfolio, and related reporting procedures, at least in line with the provisions given herein, and define identification, treatment and reporting criteria related to problematic items, including more frequent controls followed by fast and efficient corrective measures, such as: more unfavorable and severe classification, forming provided (adequate) reserves and, where necessary, write-offs, activating available instruments, restructuring entries and documentation, available legal actions, etc.

Article 47

The Bank shall establish its own assets classification system that precisely and clearly defines the criteria under which new credit risk can be assumed and existing one evaluated. Minimum of such criteria are defined herein.

Article 48

The Bank shall perform regular inspection, careful evaluation and classification of each credit.

For the classification of credits given to the owner, the management has the obligation to provide implementation of both objective and subjective criteria from this Decree, as well as the precise quantification and documentation of arguments that offer support to subjective estimates.

Bank's program shall include procedures for regular formal review renewal and classification of assets, but also for repeated or changed classification regardless of the regular classification timeframe. Nature, complexity and scope of analysis of repeated, regular, periodic or extraordinary classification shall be changed depending on the type of asset entries and experiences with certain credits or users.

The Bank shall implement assets classification duly and accurately. Along with the review (list) of the classified assets, the Bank shall compose and manage a separate list of poor quality assets, as defined in the Article 49, paragraph 1, item 5, herein (hereinafter: poor quality assets). The Bank shall regularly amend and update such list, reconciling the asset classification at the same time, i.e. at any one moment when such entries are identified.

As a minimum, the Bank shall perform scrutiny; compose surveys of assets classification and separate list of poor quality assets at least quarterly, on the last day of each quarter of calendar year.

Article 49

To provide uniform approach in line with this Decree, the Bank shall apply the following categories, as defined here:

1. Interest capitalization is a process of attributing accounted uncollected interest to the uncollected principal of a credit, process of refinancing, reprogramming or conversion of the accounted uncollected interest into a new banking credit, on the interest or credit due date.

The Bank may perform credit (claim) interest capitalization only if:

- a) it is previously defined that the user is capable of repaying the debt in a normal process out of their own internally created operative cash flows;
- b) the interest capitalization is stipulated by the initial credit agreement and based on the user's previously planned possible temporary disharmony of cash flows;
- c) Bank's claims are insured by first-class or good-quality collateral as defined herein;
- d) the credit collection, including the capitalized interest, is based on a future, firmly arranged business event of the user;
- e) the user proves that they can provide necessary funds from other sources under similar conditions;
- f) there is relatively little reasonable doubt in the final collection of the whole principal and interest, which is additionally confirmed by Bank's internal control and internal audit in written.

In case the credit is restructured or extended, the capitalized interest cannot be attributed to revenues, until it is actually collected from the debtor's/user's own funds.

2. Collection process is the collection of claims:

- a) in a regular and timely fashion;
- b) when possible, through repeated (second) attempt that is expected to lead to a secure and successful collection of claims and return to the prompt state by collection of due principal and due interest (for which the Bank needs to have documents and sure evidence), but without legal motions;
- c) through legal motions that include court procedures in relation to the debtor/user, inclusive of the filing a petition of bankruptcy of the debtor.

3. Suspended interest is already accounted uncollected interest on the assets classified as poor-quality assets. Such interest shall be neutralized by the Bank in its full uncollected amount by forming "Special Reserve for Credit Loss – Suspended Interest", and charged to "Credit Loss Reserve Expenses – Suspended Interest", i.e. it is neutralized as revenue in Bank's income sheet.

4. Interest accounting discontinuation denotes evaluation and bookkeeping poor-quality assets on the cash principle that implies the obligation of the Bank to discontinue further interest accounting for the poor-quality assets in its official books, i.e. balance sheet and not to enter further interest as income in its income statement until the debtor (user) performs actual cash payment.

The Bank shall suspend already accounted uncollected interest and discontinue further accounting of interest based on poor quality assets. Only exception from this rule may be the case when poor quality assets is covered by first class or high quality collateral and it has already entered the collection procedure, for which the Bank shall provide firm arguments and documentation.

When the bank discontinues accounting interest on poor quality assets in its official books, it has the obligation to keep accounting for due interests in its off-balance records. The Bank shall use all later collections based on the assets for which interest accounting was discontinued earlier, for covering principal and remaining amount, if any, for interests, except in the case of renegotiated credit and obligation of the debtor to settle due interests and compensations out of their own funds, in line with the Article 7 herein.

5. Poor quality assets are assets that, as a rule, do not accrue any revenues. The Bank shall treat any asset entries as poor quality assets if:

- a) the principal and/or interests, due and not collected for more than 90 days after their initially agreed due date, i.e. in line with the provisions given in the Article 50 and 51 herein, are classified as C, D and E category; or
- b) the debtor's interest based liabilities, overdue for more than 90 days after their initially agreed due date, are capitalized.

6. Due assets are assets if:

- a) the principal and/or interest are due, but are not collected on the due date or longer; or
- b) the due interest based liabilities are capitalized as in paragraph 1, item 1 herein, or
- c) the Bank completed the payment on behalf of the client based on the liabilities presented off-balance without financial coverage or uncovered by collateral in form of cash deposit, insured by the client.

7. Re-negotiated credit is the credit that has been refinanced, reprogrammed or otherwise converted, i.e. the credit where earlier agreed payment timeframe (payment plan or time limit) and/or other conditions have been altered due to the users changed conditions and payment abilities, i.e. inability to keep to the earlier agreed payment timeframe, or due to decreased market rate, to facilitate the debt servicing for the debtor (user) and insure collection for the Bank. In such case, the bank shall make sure that the debtor covers all outstanding debts based on interest and compensations solely from their own funds before re-negotiations. as otherwise the FBA has the obligation to consider renegotiated credit a problematic debt restructuring and act in line with the provisions given in the Articles 52 and 58 herein.

8. Credit loss reserves (hereinafter: CLR) are the reserves that the Bank, when evaluating quality and classifying assets, has the obligation to form by charging Credit Loss Reserve Expenses (hereinafter: CLRE), and that are, when conditions are favorable according to the Supervisory Committee's decisions, used to write off poorly classified assets, partially or completely.

In line with this Decree, CLR formed for A category assets/good assets make General Credit Loss Reserves (hereinafter: GCLR), and CRL formed for B category assets/assets with special notice, C category assets/sub-standard assets, D category assets/dubious assets and E category/loss, make Special Credit Loss Reserves (SCLR).

9. First class insured assets are assets insured by high quality marketable (with known market and fixed prices) collateral whose value, defined by reliable and fixed prices, exceeds the value of Bank's claims and which is sufficient to fully protect the Bank from possible loss of principal, interest, compensation and collection costs, in other words, which is undoubtedly legally and physically available in a possible forced bank claims liquidation process or user liquidation (hereinafter: first class collateral).

In the context of this Decree, the first class collateral includes:

- a) cash deposits with the status of collateral, provided that:
 - such cash deposit is deposited at the Bank, another bank in the Federation of Bosnia and Herzegovina (hereinafter: FBiH) or an A Zone state;

- there is a contract on the deposited collateral which stipulates that the Bank is the only privileged entity with collateralized interest, that the collateral is irrevocable, that the only condition for the implementation of the right of the Bank to the collateral is that the user fails to meet their obligations and that the collateral is pledged in a way that does not provide for additional interests to be created;
 - such collateral may be used in such way that neither the debtor/credit user nor any other person can contest the legal rights of the Bank based on the collateral agreement.
- b) securities issued by Bosnia and Herzegovina (hereinafter: BiH), Federation of BiH, central governments of A Zone states or institutions they finance, international development banks, Central bank of Bosnia and Herzegovina and central banks of the A Zone states, first class banks and companies from the A Zone states and F BiH, for which the Bank has documented evidence that all necessary financial or other analyses are completed and for which it is verified that the issuer of securities is financially healthy, well capitalized (where applicable) and capable of meeting their obligations in relation to the respective securities, provided that:
- the securities are deposited at the Bank;
 - there is no doubt that the debtor/user is their legal owner;
 - the collateral agreement referring to the securities showing that the Bank is the only privileged entity with collateralized interest, that the collateral is irrevocable, that the only condition for the implementation of the right of the Bank to the collateral is that the user fails to meet their obligations and that the collateral is pledged in a way that does not provide for additional interests to be created;
 - such collateral may be used in such way that neither the debtor/credit user nor any other person can contest the legal rights of the Bank based on the collateral agreement;
 - the value of the collateral is by at least 20% higher than the amount of the collateralized claim.
- c) central governments of A Zone states or institutions they finance, international development banks, Central bank of Bosnia and Herzegovina and central banks of the A Zone states, first class banks and companies from the A Zone states and F BiH, for which the Bank has documented evidence that all necessary financial or other analyses are completed and for which it is verified that the issuer of securities is financially healthy, well capitalized (where applicable) and capable of meeting their obligations in relation to the guarantees, in case that the user fails to meet their obligation, i.e. repayment.
- d) precious metals, provided that:
- the collateral is deposited at the Bank;
 - there is a contract signed showing that the Bank is the only privileged entity with collateralized interest, that the collateral is irrevocable, that the only condition for the implementation of the right of the Bank to the collateral is that the user fails to meet their obligations and that the collateral is pledged in a way that does not provide for additional interests to be created;
 - there is no doubt that the debtor/user is their legal owner;
 - such collateral may be used in such way that neither the debtor/credit user nor any other person can contest the legal rights of the Bank based on the collateral agreement;
 - the value of the collateral is by at least 20% higher than the amount of the collateralized claim.

10. Good quality collateral, in the context of this Decree, are all other types of good-quality and marketable (with known market and fixed prices) collateral, besides the types defined in the item 9, a), b), c) and d) herein, that meet the following conditions:

- a) the collateral is deposited at the Bank;
- b) there is a contract signed showing that the Bank is the only privileged entity with collateralized interest, that the collateral is irrevocable, that the only condition for the implementation of the right of the Bank to the collateral is that the user fails to meet their

obligations and that the collateral is pledged in a way that does not provide for additional interests to be created;

- c) such collateral may be used in such way that neither the debtor/credit user nor any other person can contest the legal rights of the Bank based on the collateral agreement;
- d) the value of the collateral is by at least 20% higher than the amount of the collateralized claim.

Article 50

The bank shall classify assets exposed to credit risk and defined by the Article 37 herein into the following categories at least quarterly:

1. Category A - Good assets
2. Category B - Assets with special notice
3. Category C - Sub-standard assets
4. Category D - Dubious assets
5. Category E - Loss

The Supervisory Committee shall make sure and monitor Bank's, i.e. the Management's continuous follow-up and periodic review of the credit risk that the Bank has assumed, classify assets and duly form and maintain evaluated GCLR and SCLR, at least in line with this Decree.

Article 51

The Bank shall classify assets according to the rules and criteria given in this Article regardless of whether the items are due or not, with special focus on:

1. objective criteria i.e. meeting due dates and payability of the users due liabilities;
2. subjective criteria i.e. financial and economic states, and observed business and moral features of the user.

The Bank shall classify assets taking into consideration all factors related to the user's characteristics and solvency. The earlier experience of the Bank with the user and the user's credit history are just one of the indicators of the user's current and future solvency, so the Bank, while classifying assets, shall take into consideration the criteria given in the Article 43 herein, as well as the following criteria:

1. **Category A – Good assets:** This category includes all asset entries that are subject to criticisms, as follows:

- a) asset entries or credits that are fully insured by first class collateral, as provided in the Article 49, item 9 herein, regardless of other outstanding debts, parts of debts or other unfavorable credit factors related to the user;
- b) assets with no apparent problems or obstacles that would hinder repayment of the principal and interests on their due date and with no risk of the Bank paying off any potential obligations on the user's behalf, as follows:
 - at the time of their classification there are firm documented arguments for the assumption that they will be repaid in line with the agreed conditions and that the Bank should not expect any loss;
 - they are adequately structured according to the needs and solvency of the user;
 - earlier repayments went as initially agreed and they currently happen according to schedule;
 - they and related collateral are well documented, registered and in line with the law and this Decree;
 - the debtor has not, either officially or unofficially, stopped duly meeting their obligations towards the Bank or other entities;
 - if the user's solvency is supported by good and stable financial situation and sustainability of their business activities.

2. Category B – Assets with special notice: The Bank shall classify in this category all assets whose collection is insured by good quality collateral defined by the Article 49 item 10 herein, that, however, have potential weaknesses that, if left unmonitored and uncorrected, can worsen and weaken solvency of the Bank in the future, as follows:

- a) entries that are not adequately processed, monitored, controlled and corrected by Bank's credit officers i.e. that do not have complete and good quality credit files with necessary justification and evidence of the allocated credit quality;
- b) entries that are not adequately and competently structured by time limits, documentation or other conditions.

Assets classified in this way can appear solid, but unfavorable trends or signs related to the user's obligations or economic and market ambience may become apparent and have negative impact on the user in the future. Hence, their operative cash flows may still seem satisfactory (sufficient) for servicing credit obligations, but there is a risk of deterioration and potential insufficiency for self financing and reinvestments.

The Bank shall classify in his category all assets for which he debtor/user is behind payment schedule or that are delayed either in relation to the Bank or in relation to other entities, officially or unofficially, not longer than 90 days after the day of the initially agreed deadline or deadlines.

3. Category C – Sub-standard assets: The Bank shall classify in his categories all asset entries that are not supported by successful current business or solid solvency of the user, and include the following:

- a) claims from debtors/users whose current cash flows cannot cover due debts (liabilities);
- b) claims from debtors whose cycle of turning assets (properties) into cash exceeds the credit time limit;
- c) claims from insolvent or under-capitalized users.

This category includes claims from the users whose primary sources are not suitable for regular debt servicing and for whom the Bank might be, is or has been in a position to reach for the user's secondary sources to cover its due claims. In the given context, the secondary sources include:

- a) realization of collateral for collecting Bank's claims;
- b) refinancing, reprogramming and any other form of credit conversion;
- c) acquiring fresh additional capital by the user.

This category also includes entries for which the Bank does not have complete current financial reports and user information, adequate and complete documentation on the credit, debtor/user and taken collateral, as well as the entries covered by poor i.e. inadequate financial information on the debtor/user.

Concurrently, the Bank shall include all overdue or delayed entries, either by the user to the Bank or by the user to a third party, officially or unofficially, for more than 90 and less than 180 days after the initially agreed due date.

4. Category D – Dubious assets: The Bank shall classify in this category all assets with weaknesses that C Category – Sub-standard assets have, but uncollateralized. Such weaknesses make full collection of the claims a big issue and highly risky for the Bank but due to special factors that may lead to a rise in the quality of such assets, its classification and E Category – Loss may be postponed until its definite status is defined.

Concurrently, the Bank shall include all overdue or delayed entries, either by the user to the Bank or by the user to a third party, officially or unofficially, for more than 180 and less than 270 days after the initially agreed due date, except if the Bank has already instituted legal motion towards realization of the collateral and has already found firm arguments or documented

evidence supporting the expectation of regular, timely and full realization of the collateral (hereinafter: proved ongoing collateral realization).

5. Category E – Loss: The Bank shall classify in this category all assets that can be considered uncollectable and for which further keeping in the collectable claim categories is not justified. Such classification does not imply that it is not possible that the quality of such assets will improve and that it cannot be saved, at least partially, but that further delay of its full write-off is no longer justified. Such entries are in essence probably worthless (uncollectable) assets, even if their partial recovery is possible in the future. The Bank may not keep such entries in its official books (balance sheet), not even when attempting its later possibly long-term recovery.

Concurrently, the Bank shall include all overdue or delayed entries, either by the user to the Bank or by the user to a third party, officially or unofficially, for more than 270 days after the initially agreed due date, except if the Bank evidence of ongoing collateral realization.

The Bank shall immediately write off and remove from its official business books, completely or in the amount uncovered by proved ongoing collateral realization, all entries identified or classified as E Category – Loss, in the following way:

- a) approving SCLR account and charging it to CLRE account;
- b) approving accounting of entries identified as E Category – Loss and charging them to SCLR account.

Article 52

When Bank's exposure to one concrete credit risk cannot be precisely defined, or when its different classification is possible, the Bank shall select the stricter category except when it has neatly documented and firm evidence of the opposite.

Renegotiated credit which implies that the user repaid accounted due interest from their own funds before credit renegotiations shall be classified as C Category – Sub-standard assets, except if it provided conditions and safe evidence for its classification as B Category – Assets with special notice.

Article 53

Neither one of the criteria defined herein may prevent the FBA controllers (supervisors) to perform and order repeated classification of Bank's assets as a lower category if they deem it justified. In case that the FBA controllers agree that the Bank has completed classification of an asset appropriately, but has not correctly defined the anticipated credit loss percentage within the same category, the sum of the percentage defined by the Bank and 50% of the difference between the percentage defined by the Bank and the percentage identified by the FBA controllers shall be applied the anticipated credit loss percentage. When the FBA controllers find that the Bank, when classifying assets, applied the lowest or the lowest possible anticipated credit loss percentage without foundation, and disagree with such classification, the FBA controllers shall define percentage based on their own evaluation.

Article 54

When the Bank is exposed to credit risk (risks) in relation to a group of related entites, as defined by the Article 74, Chapter 3 – Credit Risk Concentration Management, herein, it shall classify all the claims from that group in the same category, i.e. the category in which it classifies the claims from the lowest classified user. This rule is not applicable if the credit files of one of those users contain documentation and report of the responsible credit officer of the Bank that arguments separate classification and supports reasons by first-class collateral and prepared analysis that clearly backs such conclusion. Such exception shall be included in the report that is submitted to the Supervisory Committee on the monthly basis.

Delay in the collection of Bank's claims, as provided by the Article 51 herein, may not be considered interrupted merely by opening renegotiations, if the users have not fully repaid due interest and due compensations solely from their own funds prior to opening renegotiations, or when neither the conditions defined in the Article 41, paragraph 1 herein nor the exceptions presented in this paragraph are met. In such case, they shall be included in the reports submitted to the Supervisory Committee on the monthly basis.

The Supervisory Committee shall provide the conditions for the Management to define and implement internal control and for Bank's internal auditor to monitor implementation of the policies ensuring implementation of the provisions given in this Article.

Article 55

The Supervisory Committee shall make a special comprehensive decision on defining, evaluation and treatment of the collateral used to insure collection of Bank's claim, containing at least the following elements:

1. identification of types of collateral acceptable or unacceptable for the Bank;
2. identification of persons that can perform evaluation on Bank's behalf, depending on the type, relative importance and complexity of the collateral;
3. evaluation procedure and methodology acceptable and valid for the Bank;
4. conditions for acquiring or insuring repeated collateral evaluation, when necessary;
5. definition of reasonable or acceptable criteria for organization and treatment of different types of valuables, e.g. accounting value, market value, etc.
6. definition of cautious limitations for the evaluation of actual and market value of the collateral, so as to provide the most realistic evaluation of the value realizable for the Bank in the given moment and given situation.

Article 56

The Bank shall classify all off-balance entries exposed to credit risk or potential commitments on Bank's part in the context of this Decree according to the criteria defined in the Article 51 herein.

Article 57

The Supervisory Committee shall make sure that the management forms special reserves, depending on the evaluation of balance and off-balance asset quality i.e. their classification, in line with the provisions given herein.

Concurrently, while identifying or defining possible credit loss (hereinafter: CL) level, i.e. general credit risk (hereinafter: GCR) and potential credit loss (hereinafter: PCL) related to Bank's assets in the context of this Article, the Management shall take all necessary measures to provide for a timely evaluation, quantification and classification of their collectability or the possibility to get payment request based on the current and potential commitments on Bank's part (commitments presented in the off-balance) in line with the provisions given herein.

The Bank shall perform evaluation and forming reserves for the assets and off-balance entries separately per each user or group of related entities, at least as stipulated herein.

The reserves that the Bank shall form to cover GCR are GCLR.

The reserves that the bank shall form to cover PCL are SCLR.

The Bank shall identify CL and both types of reserves listed in this article (GCLR and SCLR) and to account them separately for: each individual client, each individual asset entry and each group of related entities.

The bank shall form GCLR and SCLR timely and duly and continuously maintain them divided by categories of classified assets, at least in the following percentages:

Category	A	-	Good assets:			2%	GCLR for GCL
Category	B	-	Assets with special notice:	5	-	15%	SCLR for PCL
Category	C	-	Sub-standard assets:	16	-	40%	SCLR for PCL
Category	D	-	Dubious assets:	41	-	60%	SCLR for PCL
Category	E	-	Loss:			100%	SCLR for PCL

The obligation of the Bank to form and maintain GCLR for GCR of 2% for the A Category – Good assets do not apply for the following asset and off-balance entries:

1. cash;
2. cash at the reserve account at the BiH Central Bank;
3. cash at the accounts at foreign banks with investment ranking;
4. business facilities and premises for which the Bank has neat and complete ownership documentation and full insurance policy;
5. placements of part of placements and potential commitments on Bank's part, collateralized by cash deposit at the Bank, provided that the agreement binds such cash deposit to the concrete credit guarantee activities until the full collection of Bank's claim or termination of Bank's potential commitment;
6. equipment owned by the Bank for which the Bank has full insurance policy;
7. land plot on which the operational Bank's business facilities are built, owned by the Bank, and for which the Bank has neat land-registry book extracts.

Article 58

In sense of this Decree, the Bank restructured its claims from the users by giving them one or more credit facilities, but only in case of claims for which Bank's debtor has economic or financial difficulties that (may) cause collection problems for the Bank (hereinafter: Restructuring Problematic Claims – acronym: RPC). Facilities at the RPC procedure are:

1. taking other assets or properties of the user as full or partial collection of the bank's claims;
2. extending repayment time limit for the principal and/or interest on the claim;
3. reduction of interest rate on the claim;
4. reduction of the total debt amount, due principal and/or interest;
5. other similar facilities to the user.

Bookkeeping regulations: In cases defined in the first paragraph of this Article, the Bank shall apply cautious bookkeeping regulations and provide adequate information on the RPC results, as follows:

1. define the value that the Bank will use to book tangible and financial assets acquired in the RPC process and define the loss linked to any such transactions, if any, and
2. provide neat bookkeeping entry of all elements of transactions performed in the process of turning the previous form of assets into new one.

Acquired tangible assets: For evaluation of the acquired tangible assets, received as full or partial debt repayment, the Bank shall apply fair value e.g. real value principle (hereinafter: RV). For the tangible assets for which there is active market, RV is equivalent to the market value of such assets. If there is no such market, RV shall be defined by independent, formalized and professional evaluation. The Supervisory Committee shall provide for the application of professional and strict standards for such asset evaluation, specify them in Bank's written credit procedures and make sure the expert evaluators fully abide by them when engaged. For acquired tangible assets for which RV i.e. irrefutable fixed value, cannot be proven, for bookkeeping purposes the Bank shall use only the technical value of 1 KM (hereinafter: TV).

The Bank shall book its acquired tangible assets by their RV or TV in its books. If the value of such tangible assets is below of thus regulated Bank's claim, the Bank shall form SCLR for the difference in values, i.e. loss, charge them to CLRE and write them off at the moment when

such tangible assets are acquired. The value of the acquired tangible assets that is higher than net value of the existing claim for which the tangible assets are taken, or thus created difference, is considered a delay which the FBA can approve of only after the sale. Exception here is acquiring tangible assets that will be in function of Bank's business.

Acquired financial assets: Acquired financial assets, i.e. the assets that the Bank can accept in the process of collecting its claim are owner and debt securities, credit or other similar claims. When evaluating the value of such assets, the Bank shall abide by the following principles:

1. when acquiring capital and company shares (hereinafter: shares) at full regulation of the initial user's debt or as a part of the RPC process, the Bank shall book such shares at their lowest, cautious value;
2. The lowest cautious value cannot be lower than the amount of Bank's claim (principal and interest), fully collected by the means of received share, and if the share is received only as a part in the RPC process, the lowest cautious value cannot be lower than the claimed amount (principal and interest) reduced by the booked value of the new or restructured credit and possibly taken tangible assets;
3. the lowest cautious value can be:
 - a) quoted value for shares actively sold at the organized market, or
 - b) up to 75% of the nominal value of shares that do not meet the conditions given in the item a) herein.
4. in case that the Bank presents material evidence that a third person, not related either with the user or with the Bank, purchased more than 25% of the user's capital at least three months earlier, the Bank may book the lowest cautious value of the acquired shares at the price that such third person bought paying in cash as exemption from the principles given in items 1, 2 and 3 herein.

Change of claim conditions: In the RPC process based on the evaluation of the current value of the future cash flows of the owner and for which the amount of the new or restructured claim is below the value of the initial debt that the RPC is applied on, the Bank shall form SCLR and write off the PCL identified.

Combination of tangible and financial assets: Generally, in all cases in which the Bank acquires tangible or financial assets as partial collection of its initial claim and further restructures remaining problematic claim, the bookkeeping value of the initial problematic claim shall be decreased by RV or TV of the acquired tangible and/or financial assets.

Financial assets – claims from the third person: When the Bank acquires claim that the debtor has in relation to the third party as full or partial collection of its claims, the Bank shall apply principles given herein concurrently evaluating liquidity of such third person based on their current financial and economic information, so as to prevent overestimation of the real value of the user's claims.

Accuracy of repeated evaluations: The Supervisory Committee shall make sure that Bank's Management issues policies and procedures for at least quarterly evaluation or reevaluation and adequate booking of all acquired tangible and financial assets. This obligation primarily relates to the acquired tangible assets that the Bank does not use in its regular banking business.

Classification and reserves for assets restructuring: New claims that are result of the RPC proves shall be subject to the same type of evaluation and classification applicable on all other regular asset entries; such claims cannot be classified in a category higher than C at least for the two following reporting quarters if it is paid in installments, or for six months if it is one-term credit return; the Bank shall form adequate new SCLR's.

If in the two report quarters it becomes apparent that the debtor has problems repaying the credit according to the newly agreed schedule or if in the six months the Bank realizes that the debtor has difficulties in its business that may hinder one-term repayment, the Bank may not improve classification of such credits even after two report quarters, i.e. six months.

Article 59

The Bank shall, in line with the provisions given herein, submit quarterly reports (calendar quarters) on the classification completed to the FBA, as well as a separate list of poor-quality assets on the forms provided in the Chapter 14 – FBA Reporting Forms.

Article 60

The Supervisory Committee shall make sure that the Management sets and maintains the information system adequate for credit risk monitoring and management and Bank's assets classification in line with this Decree, and report to the Supervisory Committee accordingly.

Article 61

The Supervisory Board shall make sure that, from the moment of classification of Bank's assets into the categories: C – substandard assets, D – dubious assets and E – loss, the Management takes the following steps:

1. exclude all previously accounted and uncollected interest and compensation from Bank's income;
2. keep such asset entries in the status for which the interest is not accounted and/or in the status of suspended interest.

If none of the conditions defined in the Article 49, item 1 herein is applicable, the Bank shall form SCLR for the interest capitalized but not collected.

2.3. Allocating credits to employees

Article 62

The Bank shall set and maintain minimum standards for allocating credits to Bank's employees as defined in the Article 46, item 3 of the Law on Banks.

Article 63

The Bank may allocate credits to Bank's employees employed at the Bank under unlimited term employment contracts, only in line with the provisions of the Law on Banks, this Decree and Bank's policies on allocating credits to employees, drafted by the Management and adopted and monitored by Bank's Supervisory Committee.

Article 64

The Policies should contain the following conditions as a minimum:

1. credits may be allocated to Bank's employees only if the purpose is meeting their personal needs (housing, hire purchase, etc.). Such credits shall not be allocated for financing other business activities of Bank's employees;
2. if Bank's employee is the member of Bank's body that proposes or decides upon credit allocation, they cannot vote on the decision made on their credit application;
3. amount of the allocated credit per one employee may not exceed the amount of 0.5% of Bank's capital stock.

Article 65

The Bank shall report to the FBA on the state of allocated credits to employees quarterly, on the report date, latest within 30 days upon the last day of the report quarter.

Reports defined in the first paragraph of this Article shall contain the total amount of credits allocated to Bank's employees and their percent in relation to Bank's capital stock.

The report is written on the Form 3 Table F, Chapter 14 – FBA Reporting Forms herein.

2.4. Managing special credit risk

Article 66

Balance entries and some off-balance entries of the Bank that pose special credit risk are the following:

1. allocated credits, other placements, investment and potential (off-balance) commitments of the Bank which expose the Bank to severe impossibility of collection and evident severe financial problems in the debtor's/user's business classified as E Category – Loss defined in this Decree, Chapter 2.2, Credit Risk, Assets Classification and Forming Special Reserves;
2. issued guaranties or other warranties for which the Bank performed payments and for which the debtors/users have not met their obligations towards the Bank latest within 15 (fifteen) days of the date of Bank's payment;
3. any claim, movable or immovable collateral or other business operation that showed to the Bank that the debtor/client attempted to file, filed or in any other way presented incorrect or false documentation or information.

Article 67

The Supervisory Committee shall define or ensure adequate and successful special credit risk management program or the Bank, which includes planning, issuing and implementation of:

1. special credit risk identification policy;
2. special credit risk management procedures;
3. special credit risk reporting system.

The Supervisory Committee shall provide for the setting up of a constant special credit risk monitoring system that:

1. includes adequacy and program implementation control;
2. ensures independent monitoring of all balance asset entries and appropriate off-balance entries that are considered special credit risk, identifies their level and bearers (debtors/clients);
3. includes proposing corrective activities for elimination of identified problematic entries and taking legal measures.

Article 68

Within its information system, the Bank shall set up a system for special credit risk identification, monitoring and management in line with this Decree.

3. CREDIT RISK CONCENTRATION MANAGEMENT

Article 69

The Bank shall provide for, and implement minimum standards of collection risk exposure i.e. risk of possible loss based on the allocated credits, other placements, investments and potential off-balance commitments (hereinafter: the credit risk) i.e. the minimum standards of the highest allowed exposure of the Bank to credit risk in relation to one user, debtor or other entity (hereinafter: the user) and group of related users, as defined in the Article 74 herein (hereinafter: group of related entites) as well as the highest allowed sum of all major exposures to credit risk (hereinafter: SMECR).

Article 70

Cautious management and structuring adequate appropriate balance asset entries and certain off-balance entries (hereinafter: the credit portfolio) and their control are the main instruments that the Bank has the obligation to use to minimize credit risk concentration in its business through special policies and procedures insuring diversification.

Article 71

The Supervisory Committee shall make sure that the Bank assumes only the risk it can successfully manage and meet conditions defined by the Law, Law on Banks and this Decree.

In order to meet minimum responsibilities defined in the paragraph 1 of this Article, the Supervisory Committee shall:

1. have the Management continuously file drafts and amendments of Bank's enactments in the context of this Chapter herein;
2. based on the drafts and amendments defined in the item 1 of this paragraph, issue risk concentration management programs for the Bank inclusive of the procedures for setting and applying risk concentration management process, and plans for Bank's current and future needs for capital in relation to such concentrations;
3. provide all necessary conditions in line with the Law, Law on Banks, this Decree, program, policies, procedures ad plans;
4. reevaluate the program periodically, at least annually;
5. evaluate credit portfolio items that are considered major exposures to credit risk (hereinafter: MECR) as defined in the Article 75 herein, in relation to debtors/users and groups of related entites, including related policies;
6. evaluate credits allocated to Bank's employees or credits guaranteed by them, including related policies;
7. evaluate credits allocates to companies where Supervisory Committee members own significant ownership shares or where they have significant influence, and credits guaranteed by them, including related policies;
8. evaluate credits allocated to companies where the Bank owns significant ownership share or where it has significant influence, including related policies;
9. evaluate credits allocated to owners of assets or credits guaranteed by them, to companies where they own significant ownership share, including related policies;
10. evaluate deposited assts, allocate credits to, and investment in related banks; and
11. define major elements of the contents and frequency of reporting to the Supervisory Committee on the risk concentration organized by types of debtors/owners and groups of related entites, defined herein.

Article 72

Bank's Management shall provide for implementation of Bank's credit risk concentration limitation in line with the Law, Law on Banks, this Decree, program and policies of the Supervisory Committee.

Bank's Management shall, as a minimum:

1. create and propose program, policies, plans and procedures to the Supervisory Committee;
2. implement the program, policies, procedures and other enactments of the Bank, related to Bank's credit risk concentration, insuring that their implementation is monitored and controlled in line with the Law, Law on Banks, this Decree, programs and policies;
3. provide for the implementation and development of adequate reporting systems on Bank's credit risk concentration within the elements defined by the Supervisory Committee;
4. keeps a successful method that enables reviewing and grouping information on Bank's credit risk exposure for each debtor/user or group of related entites, organized by types of credit instruments, industry, geographical region, type of collateral, financial guaranties, etc. and
5. at least quarterly (calendar quarter) reports in detail to the Supervisory Committee and the FBA on major credit risk exposures (MECR), their forms and contents.

Article 73

Total exposure to credit risk (hereinafter: TECR) of the Bank in relation to one user or one group of related entities is a sum of all accrued (in the balance sheet) and all potential (off-balance) exposures to credit risk in relation to one user or one group of collected persons, and includes the total booked state of:

1. all claims from the user or group of related entities based on the principal of allocated credits and other placements, due or immature;
2. all accounted due interests and compensations of the user or group of related entities;
3. all securities issued by the user or group of related entities;
4. all types of irrevocable payment or execution obligations that the Bank took over on behalf and/or for the account of the user or group of related entities, and for the third person's benefit.

Article 74

Two or more users form a group of related entities when due to their relations, exposure of the Bank in relation to them is unique credit risk exposure, i.e. when one or more of them have direct or indirect possibility to control or influence the other, which, in case of financial difficulties of one or more of them, can cause or has caused financial problems for the others. Relations that are the grounds for identification of the group of related entities in this context are the following:

1. same owner and/or co owner of a legal entity;
2. ownership and/or co ownership of a spouse or persons sharing the same household or have connected or joint investments;
3. joint members of the Supervisory Committee and/or Management;
4. given cross- or mutual guaranties;
5. direct production and/or commercial and/or financial (direct business) connections and interdependence.

Two or more users in which Bank's capital owner has significant ownership share are a group of related entities. The Bank shall consider exposure to credit risk in relation to these persons as unique (TECR) only when it verifies the existence of their mutual relations based on cross- or mutual guaranties and based on direct production and/or financial (direct business) connections and interdependence.

The Bank shall treat the following as TECR in relation to one user:

1. sum of individual credit risk exposures in relation to users, as defined in the paragraphs 1 and 2;
2. sum of credit risk exposures in relation to the entities related to the Bank:
 - entities related to the bank are: the Supervisory Committee chairperson and members, members of the Management, Audit Committee members, and their relations not more than three times removed by blood or marriage, or persons living in the same household or having mutually related or joint investments;
 - legal entities in which the Bank has significant ownership shares;
 - legal entities in which one of the persons defined in the previous two items of this paragraph is on the Supervisory Committee, Management or has significant ownership share.

Article 75

According to the provisions given in the Article 42, paragraph 2, of the Law on Banks and this Decree, MECR of the Bank is each TECR that exceeds 15% of Bank's capital stock as defined in the Article 18 herein.

Article 76

Bank's TECR in relation to an individual user or a group of related entities shall not exceed 40% of Bank's capital stock, which represents the highest allowed total exposure to credit risk (hereinafter: HECR) of the Bank. The Bank can have HICR in relation to an individual user or group of related entities only if it provides its following structure and limitations:

1. that Bank's exposure to credit risk in relation to an individual user or group of related entities, which is not covered by collection insurance instruments (hereinafter: the collateral), may not exceed 5% of Bank's capital stock;
2. that Bank's credit risk exposure in relation to an individual user or group of related entities in the amount of 5% to 25% of Bank's capital stock shall be collateralized;
3. that Bank's credit risk exposure in relation to an individual user or group of related entities in the amount of 25% of Bank's capital stock to HECR shall be covered by good-quality marketable collateral whose value, defined by reliable and fixed prices, exceeds Bank's exposure, i.e. the first-class collateral as defined in the Article 49 herein;
4. that Bank's credit risk exposure in form of issued guaranties in relation to an individual user or group of related entities, besides guaranties for a well completed task, shall not exceed 20% of Bank's capital stock, and exceptionally 40% of Bank's capital stock, if the difference is covered by super-guaranty of the FBiH Government.

Article 77

Bank's TECR does not include letters of credit and guaranties covered by cash deposit in the full amount.

Article 78

Bank's SMECR, inclusive of all HECR's, shall not exceed the amount of 300% of Bank's capital stock.

The sum of all Bank's exposures to credit risk in form of issued guaranties, besides the guaranties for a well completed task, shall not exceed 100% of Bank's capital stock.

Article 79

The Bank shall report to the FBA on its exposure to credit risk concentrations, quarterly (calendar quarter) on the form given in the Chapter 14 – FBA Reporting Forms herein.

Article 80

Bank's Management shall set up and maintain the information system adequate for monitoring and managing categories defined herein and report to the Supervisory Committee on the regular basis.

Article 81

Bank's Supervisory Committee shall make sure that Bank's written program, operative policies and procedures define internal limitations, at least in line with the provisions given herein, and that they are kept up to date in regular intervals.

Article 82

The Bank shall set up and maintain limitations in the context of the credit risk concentration in line with the Law on Banks and this Decree.

4. OPERATIONS WITH ENTITIES RELATED TO THE BANK

Article 83

The entities related to the Bank are the persons defined in the Article 46 of the Law on Banks and in the Article 74 herein.

The Bank shall keep records on the entities related to the Bank defined in the previous paragraph.

Article 84

The Bank may perform business transactions on behalf of, or for the account of the entities related to the Bank only in line with the Law on Banks, this Decree and special policies of the Bank defining operations with entities related to the Bank, adopted by the Supervisory Committee at the proposal of Bank's management.

The Supervisory Committee is responsible of Bank's actions and keeping to he provisions regulating operations with entities related to the Bank.

Article 85

The policies, as a minimum, shall include the following conditions:

1. that the Bank may perform business transactions with entities related to the Bank only if approved by the Supervisory Committee or other body in charge of approving such transactions (hereinafter: other bodies) appointed by the Supervisory Committee;
2. that the entity related to the Bank, who is a member of the Supervisory Committee or any other bodies, cannot participate in decision-making on business operations between the Bank and themselves, or any other persons they are related to as defined in the Article 74 herein;
3. that the approval of the Supervisory Committee or other bodies shall be based on all relevant information, details and conditions of the respective transaction, especially in relation to credit transactions and off-balance commitments, and especially: credit amount and guaranties issues, interest rates, compensations, debtor's financial reports proving their liquidity, collateral issues, etc.;
4. that the transactions related to sale or purchase of assets are documented by information and evidence confirming the value of those assets, their market price, etc.;
5. that the Bank forms and keeps neat records, documentation and files on the approvals issued by the Supervisory Committee or other bodies;
6. that the Bank can only approve transactions within the following limitations to physical entities related to the Bank:
 - a) up to 1% of the Banks capital stock to one physical person, as defined in the Article 19 herein;
 - b) up to 10% of Bank's capital stock to all physical persons.
7. in line with the Articles 73, 73 and 76 herein, Chapter 3 – Managing Credit Risk Concentration, the Bank shall treat the sum of credit risk exposures in relation to all entities related to the Bank as the highest allowed total exposure to credit risk (HECR) in relation to one debtor/user;
8. that the Bank shall maintain business operations with related banks in line with the Article 77 herein.

Article 86

The Banks shall report quarterly to the FBA on all transactions with the entities related to the Bank performed in the report quarter, latest within 15 days after the last day of the report quarter, using the form defined in the Chapter 14 – FBA Reporting Forms.

The reports defined in the first paragraph of this Article for all transactions exceeding 1% of Bank's capital stock shall, as a minimum, contain the following information: total amount of such transactions, name/company name and connection to the Bank for all persons participating the transaction, individual amount of the transaction, transaction type and general conditions – interest rate, timeframe and type of collateral, and for all other transactions: number of performed transactions, total amount of transaction, lowest and highest amount transacted, sum of transactions by types of participants and general conditions.

5. MANAGING LIQUIDITY RISK

Article 87

The Bank shall provide and maintain defined minimum standards in the process of liquidity risk management, i.e. minimum standards for liquidity policy creation and implementation that provides ability of the Bank to fully and immediately meets all its obligations on their due date.

Bank's liquidity risk management shall be composed of reconciliated activities providing reconciliation between the assets and liabilities on the balance and off-balance (hereinafter: assets and liabilities) of the Bank, i.e. its cash flows and concentration, and shall be based on continuous planning of future liquidity needs, taking into account changes in the operative, economic, regulative and other conditions from Bank's business ambience.

Planning Bank's needs for liquid capital shall include the identification of known regular (anticipated) and extraordinary (unanticipated) cash drains and possible assets and liabilities management strategy to ensure Bank's ability to manage cash inflows that are adequate to its current needs at any moment.

Article 88

The Supervisory Committee shall make sure that the Bank has and implements adequate liquidity risk management program (hereinafter: the Program).

The Supervisory Committee has the responsibility to, as a minimum:

1. issue the program that includes liquidity policies (hereinafter: the Policies) based on the Management's proposal;
2. make sure that Bank's activities in the field of liquidity are in line with the law, this Decree, other regulations, program and policies;
3. periodically, at least annually, analyze program and policies and adjust them to the changes of the economic and market conditions;
4. define the reporting contents and timeframe based on the Management's proposal;
5. make sure that the Management, internal control system and internal auditor provide relevant information in the field of liquidity;
6. ensure selection and appointment of qualified and competent Management members to manage Bank's liquidity; and
7. within the Program, define the Management's obligation to implement continuous monitoring, control and adequate management of Bank's assets and liabilities.

Article 89

Bank's Management shall, as a minimum:

1. prepare draft Program and Policies and submit it to the Supervisory Committee for adoption;
2. implement Program and Policies adopted by the Supervisory Committee, monitor, manage and control Bank's liquidity;
3. define accurate evaluation of the current and projection of the future liquidity of the Bank;
4. ensure creation and establishment of adequate reporting systems that include contents, form and timeframe of information related to Bank's liquidity in the way that provides for a comprehensive analysis, successful control and cautious management of the current and potential needs of the Bank for liquid funds;
5. at least quarterly reports to the Supervisory Committee on the state and prospects of Bank's liquidity;
6. follow up economic and other conditions relevant for the prognosis of future (potential) issues and Bank's needs in the field of liquidity;
7. provide conditions for Bank's internal control and internal audit systems to monitor, review and evaluate the Program and Policies and their implementation.

Article 90

Bank's Program shall be made in written and contain at least:

1. Bank's liquidity strategy as the main assumption for its sustainability and success on the financial market based on the contents and objectives of their business policy and economic environment, that includes adequate compositions of strategies for defining and solving liquidity issues, as follows:
 - a) for management of the reconciliation between assets and liabilities;
 - b) for assets liquidity management;
 - c) for liabilities management in the liquidity context.
2. rational and cautions Bank's Policies, i.e. Policies for implementation of the strategies defined in the paragraph 1 of this Article, at least in line with the provisions given herein;
3. efficient procedures and techniques for projection, evaluation, monitoring and control of Bank's liquidity;
4. provisions on measuring and monitoring liquidity positions (liquidity coefficients, surplus or lack of liquid assets in certain intervals, etc. as seen by the Bank);
5. setting adequate limits to the sue of liquidity for basic banking business, especially trade;
6. caution measures for the potential conflicting functions (ratio and monitoring of liquidity positions, setting limits and their control, and reporting to the Management and Supervisory Committee independently from the organizational parts of the Bank that are directly involved with the trade operations).

Article 91

Bank's Policies shall identify sources and volume of liquid assets necessary for the provision of its continuous and stabile business, as well as for meeting requirements in which, when regulating its due commitments, the Bank cannot lean on the special category of liquid assets as its reserve for regular payment operations, kept at the BiH Central Bank (hereinafter: the CB BiH), except only as extraordinary (unanticipated) and temporary short-term measure.

In defining and implementing its Policies, the Bank shall permanently evaluate:

1. term of payment profile of current and future flows of assets and liabilities of the Bank;
2. volume in which the cash drain is, in a definite period of time in the future, covered by cash influx with analysis of the asset entries maturing for payment with evaluation of probability for their collection and available cash reserves and/or other liquid assets for the same period;
3. volume in which potential liquidity disharmony might be covered by Bank's possibility to loan from the financial sources available on the market;
4. anticipated cash flows – net profit.

Article 92

In implementing its liquidity policy, the Bank shall provide full implementation of the principle of rational diversification of origin and term of payment structure of its sources of assets, made by its commitments (equity capital is not considered a commitment) on one, and placements or investments, on the other side.

The Bank shall create, implement and maintain clear and rational policies that provide its assets i.e. placements and investments (hereinafter: the Placements) are not incautiously and excessively concentrated, keeping in mind at least the following elements:

1. structure (types) of instruments of Bank's assets and liabilities;
2. major liability entries;
3. structure of stabile and instable liabilities;
4. Bank's liabilities with renegotiated due dates and entries that are justifiably expected to be renegotiated in the future;
5. structure and stability of the liability instrument prices;
6. currency structure of Bank's asset and liability instruments;
7. available (potential) regional and global market sources of Bank's funds.

Policies defined in the second paragraph of this Article shall include the following requirements:

1. reconciliation of the terms of payment of the remaining timeframes until the due date of the asset and liability instruments, where the Bank shall:
 - a) engage at least 85% of the fund sources with a timeframe of 30 days within placements (asset instruments) with a timeframe 30 days;
 - b) engage at least 80% of the fund sources with a timeframe of 90 days within placements (asset instruments) with a timeframe 90 days;
 - c) engage at least 75% of the fund sources with a timeframe of 180 days within placements (asset instruments) with a timeframe 180 days.
2. maintaining the average ten-day (hereinafter: decade) minimum of liquidity in cash assets in the amount of at least 20% of the short term asset sources according to the bookkeeping state on the last day of the previous calendar month, with the amount of cash not under 10% on any one day, where:
 - a) Bank's cash assets, in the context of this paragraph, are:
 - KM in Bank's vault;
 - state of reserve account at the CB BiH;
 - foreign currencies in Bank's vault;
 - state of KM and foreign exchange demand deposits at correspondent banks.
 - b) Bank's short term asset sources, in the context of this paragraph, are the commitments from Bank's liability balance, as follows:
 - demand deposits;
 - short-term commitments based on fixed-term deposits;
 - short-term commitments based on cash market assets;
 - short-term commitments based on bonds;
 - limited deposits.
 - c) average Bank's decade liquidity minimum in cash is accounted based on the number of cash assets on all workdays in the given decade, divided by the number of workdays (workdays being other than Sundays and official holidays). In context of this item, decades in a month are from the 1st through the 10th day of a month, from 11th through 20th of a month, and from the 21st to the last day of the respective month.

Article 93

The Bank shall book all business transactions on the same day they are performed and to create adequate information that provide implementation of Bank's policies and procedures related to the preparation of the business development strategy together with the asset source development strategy, in order to:

1. avoid growth plans without a known and certain financial grounds; and
2. limit structural disharmony between different profiles of payability of assets and liabilities.

When managing liquidity, Bank's Management shall, besides other conditions given herein, continuously prepare projections of future cash influxes and drains, based on the following assumptions:

1. accurate and timely records of all bookkeeping operations; and
2. adequate information system based primarily on Bank's bookkeeping.

Article 94

The Bank shall define, implement and continuously develop detailed and efficient Bank's liquidity monitoring, control and management procedures in line with adopted policies, as well as the related information system.

Procedures and system defined in the first paragraph of this Article shall be in proportion to the size and complexity of the Bank and attain its Policies and placement policy.

If the Bank has affiliates abroad or controls another bank as a subsidiary, it shall take into consideration liquidity policies and information system of those affiliates and/or banks.

Bank's liquidity management system shall be subject to continuous and periodic scrutiny by the internal control and internal audit systems of the Bank.

The Bank shall appoint the Liquidity Commission in charge of:

1. proposing and implementing Bank's liquidity policy in relation to the current Bank's liquidity position and creating liquidity plans and policies;
2. monitoring developments in the field of Bank's liquidity;
3. control of Bank's liquidity management with special focus on the cash reserves and/or other highly liquid assets increasing Bank's expenditures.

Concurrently, Bank's Management shall appoint executive officer in charge of liquidity, who shall execute liquidity policies and decisions made by the Liquidity Commission, related to the current liquidity, and make relevant day-to-day decisions.

Article 95

In order to provide stability in maintaining liquidity of the Bank, the Management shall take protection measures in line with Bank's policies, starting from the minimum of:

1. the principle of leaning on the stable asset sources i.e. agrees payability profiles;
2. the principle of maximum diversification of the asset sources based on payability, type, number of clients, market and instruments;
3. organizational measures for successful liquidity management related to: appointing competent persons in charge of liquidity issues, establishing efficient liquidity scrutiny by internal control and internal audit, issues of subsidiaries in country and abroad, and affiliates abroad, etc.;
4. degree of Bank's participation in the cash markets and development of short-term securities and their marketing;
5. clear definitions of its business policies together with planning secure or certain sources for the development plans and minimization of any structural disharmony between payability of parts of assets and liabilities;
6. obligatory regular preparation of plans for extraordinary (unanticipated) situations and shocks that may shake Bank's liquidity, including major guidelines for Bank's business, its activities, liquidity reserves and possible procedures for provision of liquid assets according to different alternate scenarios, starting from the most successful through to the liquidity crisis scenario.

Contingency plans for crisis situation defined in the paragraph 1, item 6, of this Article, shall include especially:

1. accuracy and timeliness of the information related to liquidity and liquidity management at the Bank;
2. clear definition and separation of responsibilities and duties related to the bank's liquidity management in crisis situations;
3. possibilities and options for the change in the trends of asset and liability entries;
4. way and types of communication with Bank's owner, the most important share-holders, business partners, other clients and the public in implementation of such strategy;
5. specification of financial sources that may and will be available in crisis situation with defined reliability level;
6. possible crisis scenarios with concrete responses to "what if" questions that will define Bank's actions in such situations (crisis situation simulations);
7. other elements that the Bank deems adequate to its business profile and liquidity risk, regardless whether they are related to placed assets collection regularity problems, or expected major asset drains, or the combination of both.

The Bank shall up-date the contingency plans defined in the previous paragraph regularly, at least annually. Therein, the Bank shall evaluate changeability of the external business environment and internal business conditions.

Article 96

The Bank shall set up and maintain the information system adequate to its liquidity management needs, consistent to the volume and complexity of its activities, which shall include both assets and liabilities of the bank according to the following criteria:

1. payability of assets and liabilities with fixed due date;
2. anticipated behavior of assets and liabilities with fixed due dates, considering the actual expectations of the Bank for the deponents to refinance their deposits on their due date;
3. experiences on the behavior of the groups of deponents under certain circumstances;
4. liquidity level of asset entries, measured by the possibility:
 - a) to be used as ready cash for potential payments;
 - b) to be instantly turned into cash at CB BiH;
 - c) to be instantly sold at the financial market at the prices close to their market value, or the prices equal to, or higher than their bookkeeping value;
 - d) to be sold or depreciated together with the depreciation of related liabilities (necessary reserves);
5. type and level of obligation of assumed off-balance (potential) commitments;
6. currency in which the assets and liabilities are denominated, with a special focus on their structure: domestic currency, convertible or inconvertible foreign currencies;
7. countries to which the assets and liabilities are related to (if the Bank has affiliates abroad);
8. identity of the account owners, their geographical regions, types of instruments that accrued commitments to Bank's part.

The Bank shall provide for a continuous, regular and reliable information flow for which the Supervisory Committee and the management provide accurate and good-quality information on Bank's liquidity position.

Article 97

The Bank shall submit decade reports on its liquidity position to the FBA, latest within 5 (five) days after the last day of the report decade, and quarterly reports on the term of payment reconciliation between assets and liabilities, and structure of the major sources, on the forms given in the Chapter 14 – FBA Reporting Forms.

6. MANAGING FOREIGN EXCHANGE RISK

Article 98

In the process of foreign exchange risk management, the bank shall provide and maintain minimum standards, and issue and implement program, policy and procedure for assuming, monitoring, control and management of the foreign exchange risk.

Article 99

The foreign exchange risk is exposure of the Bank to potential influence of the exchange rate changes and the danger that the unfavorable changes lead to Bank's loss in KM (domestic currency), where the level of the foreign exchange (hereinafter: FX) risk is the function of level and duration of the exposure of the Bank to possible changes of the exchange rates, which depends on the amount of Bank's foreign debt and currency reconciliation of assets and liabilities of the Bank, or reconciliation of its foreign exchange flows.

Article 100

The Supervisory Committee is responsible for issuing, completeness and implementation of foreign exchange activities program (hereinafter: FX transactions) and FX risk management

(hereinafter: the Program) that includes setting cautious limitations for assuming and decreased exposure of the Bank to the FX risk, i.e. possible loss, at least as provided herein.

As a minimum, the Supervisory Committee shall:

1. order drafting FX risk management Program and comprehensive and detailed policies (hereinafter: the Policies), creation and implementation of monitoring, measuring, managing and control procedures;
2. issue and up-date, at least annually, depending on the changes of economic and market conditions, program and policies taking into consideration the Management's proposals;
3. provide that Bank's internal control and internal audit systems continuously monitor and check whether Bank's FX transactions are in line with the Law, this Decree, other regulations, program, policies and procedures;
4. provide the selection and appointment of competent members of Bank's FX transactions Direction; and
5. on the Management's proposal, define the form, contents and timeframe of the reporting on Bank's FX transactions to the Supervisory Committee.

Article 101

As a minimum, the Management shall:

1. prepare and propose program and policies to the Supervisory Committee;
2. create and implement procedures for monitoring, measuring, management and control of Bank's FX risk in line with the program and policies;
3. establish and implement adequate method for precise monitoring and measuring Bank's exposure to FX risk;
4. establish and implement adequate method for precise monitoring and measuring loss and loss related to the FX transactions;
5. monitor economic and other conditions in order to anticipate possible changes of FX transactions, exchange rates and FX risk;
6. provide that the internal control system and internal audit of the bank continuously monitor and evaluate program and policies and their implementation;
7. issue recommendations to the Supervisory Committee related to the limitation of the FX risk in relation to currencies, clients, timeframes, currency disharmonies, etc.; and
8. prepare and propose to the Supervisory Committee form, contents and timeframe for reporting on FX transactions, i.e. the position of the Bank on the FX risk issues that provide efficient monitoring, analysis, cautious management and control of the current and potential exposure of the Bank to the FX risk.

Article 102

Cautious FX risk management is controlled taking over of foreign commitments and keeping positions of fixed currencies by monitoring, controlling and eliminating possible negative influences of exchange rates on the stability of Bank's financial position.

The Program shall contain or include at least:

1. description of the FX transactions that the Bank is performing or planning for the future;
2. policies that should include at least:
 - a. review of objectives and principles that guide Bank's FX transactions and assuming FX risk;
 - b. clear, cautious and precise limitations for exposure of the Bank to FX risk, in line with the financial and operative possibilities of the Bank and with this Decree, however, elaborated in more detail, especially in sense of level to which the Bank is ready to go into foreign debt, in sense of currencies in which the Bank can be exposed to risk, in sense of individual "over-night" and term limits for each currency and total "over-night" and term limits for all foreign currencies, etc.; and
 - c. clearly defined levels of authorities related to the FX transactions and assuming FX risk, with a precise description of possibly unlimited, high and higher levels, sectors and

- departments, individually and possible commissions with such authorities, authorized persons with such authorities to pass them on, and clear and concrete limitations for authorized persons, etc.
3. procedures for FX transactions and FX risk management and control, proportional to the size, complexity and frequency of Bank's FX transactions, that should include at least the following fields:
 - a. bookkeeping systems and informing the Management and Supervisory Committee, linked to monitoring and evaluation of: foreign debt, Bank's foreign exchange positions, assumed FX risk, profit and loss, suitable for measuring, evaluation and reporting on:
 - the level of Bank's foreign debt in relation to Bank's capital stock and in relation to the other elements of Bank's business inclusive of the balance and of-balance positions of the Bank;
 - net "over-night" and term position of every currency (assets/liabilities) which the Bank operates with;
 - net "over-night" and term position of all currencies which the Bank operates with in total;
 - profit and loss related to the FX transactions and exposure of the Bank to the FX risk.
 - b. control of the FX transactions that includes at least:
 - organization control to confirm whether the obligations and responsibilities of the decision-makers are clearly differentiated between the persons in charge of the FX transactions (transactions) and persons who are responsible for their implementation, i.e. negotiations, implementation and bookkeeping;
 - procedural control to confirm whether all transactions are fully recorded on the same day when they are completed, whether they are correctly completed, and whether there were any oversights or unauthorized actions;
 - monitoring and frequent checks of implementation of limitations defined by Bank's bodies and related to assuming the FX risk.

Article 103

"individual foreign currency position" (open position) is the difference between entries related to each foreign currency (hereinafter: the entries) in the assets and liabilities on Bank's balance sheet (gold is treated as foreign currency), denominated in KM, with potential profit or risk (positive or negative exchange rate difference). Potential profit or loss appear in case when the exchange rate that was used to book entries (in Bank's business books) is different from the exchange rate published by the Central Bank of Bosnia and Herzegovina, on the day when their foreign exchange position is defined.

Individual foreign exchange position is accounted as the sum of the positive value of assets and negative value of liabilities, inclusive of Bank's off-balance liabilities.

The Bank has "long position" of a certain currency if the value of assets exceeds the value of liabilities, i.e. if their sum/difference is positive.

The Bank has "short position" of a certain currency if the value of liabilities exceeds the value of assets, i.e. if their sum/difference is negative.

"Foreign exchange position" of the Bank is the sum of all long and all short individual foreign exchange positions of the Bank.

"Foreign exchange position during the day" is Bank's foreign exchange position at a given moment of a workday.

“Foreign exchange position during the night” is Bank’s foreign exchange position after the close of business on one workday that is not transferred to the next workday.

Article 104

The Bank shall perform its FX transactions only within limitations defined by this Article, accounted in relation to the amount of Bank’s capital stock defined by the Article 18 herein.

Limitations for the FX transactions of the Bank in relation to the capital stock, in the context of this Article, amount to:

1. for individual foreign exchange “over-night” position of the Bank, except when in Euros, up to 20%;
2. for individual foreign exchange “over-night” position of the Bank in Euros, up to 30%;
3. for Bank’s foreign exchange position up to 30%.

The Bank shall include all entries and commitments agreed by the currency clause in the FX transaction accounting.

Article 105

The Bank shall report to the FBA in line with the Chapter 14 herein – FBA Reporting Forms, on the first workday of the current month for the last day of the previous month.

7. INTERNAL CONTROL SYSTEM

Article 106

The Bank shall provide, continuously implement and maintain minimum standards of the internal control systems.

Article 107

At the Management’s proposal, the Supervisory Committee shall issue a decision on establishing, maintenance and improvements of the efficient internal control system at the bank and make sure that the Management creates conditions for its implementation, or that the Management and other employees of the Bank establish and implement detailed procedures related to the comprehensive system of monitoring and testing implementation of business activities and operations on all functional and operational levels and fields in which the Bank is active. Concurrently, at the Management’s proposal, the Supervisory Committee shall set the objectives, and issue and monitor implementation of policies related to Bank’s internal control, which, among all, shall make sure that adequate managerial structures are authorized for making business decisions, depending on their nature, and that those authorizations are implemented throughout Bank’s organizational scheme.

Article 108

In order to keep to the minimum requirements of Bank’s internal control system, and in line with this Decree, the Supervisory Committee shall:

1. make the decision on Bank’s efficient organizational structure and ensure it is set up;
2. issue Bank’s business plan, in written, with clear objectives and business policies including defining of acceptable and unacceptable risks with the responsibility of Bank’s Management to provide conditions for identification, monitoring and control of such risks;
3. make sure that Bank’s business plan contains strategic and operative plans;
4. make sure that Bank’s business plan clearly and precisely defines responsibilities, as well as the reporting lines;
5. make sure that Bank’s senior management continuously monitors and controls functioning of Bank’s lower level executives;
6. make sure that the Bank establishes adequate accounting procedures;
7. make sure that the Bank establishes adequate asset protection procedures;

8. make sure that Bank's internal control system is under constant monitoring of the internal audit and periodic monitoring of the external audit; and
9. issue plan for continuous monitoring and periodic control of internal control systems by the Audit Committee, as well as a program for its development and improvement.

Article 109

Internal control system primarily includes accounting and financial operations of the Bank, including special control of the financial plan and planning, standard and nonstandard expenditures, statistical analyses and their publication, periodic operative and business reports and training programs aimed at improving executive functions of all Bank's officials, and has a close link to the internal audit that: a) monitors functioning of Bank's internal control system, and b) gives timely information on its adequacy and efficiency to the Audit Committee and the Management.

Article 110

Bank's internal control system shall as a rule include administrative and accounting control.

Administrative control includes:

1. establishment, monitoring, development and control of Bank's organizational structure, and
2. control of the procedures and records related to the decision-making processes related to approving Bank's business transactions by different levels of management.

Administrative control is the starting point for the establishment of accounting control.

Accounting control includes plan of procedures, procedures and records related to the protection of assets and reliability of Bank's financial records and it shall provide for:

1. Bank's business transactions completed in line with the general or special decisions or approvals of the responsible executive bodies of the Bank;;
2. Bank's business transactions booked instantly and accurately;
3. Bank's business transactions booked in line with the Law and in such way that provides for creation of financial reports in line with the adopted bookkeeping principles, international accounting standards and other criteria applicable on the financial reporting;
4. Bank's business transactions booked so that the responsibility for Bank's assets is traceable and transparent;
5. the access to Bank's assets allowed only in line with the approval by the responsible executive bodies of the Bank;
6. the bookkeeping records of assets checked and compared to the actual state of assets in certain, at least defined by provisions, time intervals and taking adequate measures and actions in case of any discrepancy therein.

Article 111

Internal control system shall make sure that not a single person employed at the Bank is not in a position to make significant error or violation of the Law, other regulations and internal enactments of the Bank, which cannot be discovered in a short time.

Article 112

Bank's internal control system shall provide for the following general procedures for:

1. establishing and maintaining efficient organizational structure of the Bank;
2. establishing and maintaining adequate accounting system of the Bank;
3. efficient protection of Bank's assets;
4. providing for establishment and implementation of efficient program of internal and external audit of the Bank, and
5. efficient protection of the Bank against misuse for criminal purposes (money laundering, terrorism, robberies, etc.).

Article 113

Bank's organizational structure plan, made by the Supervisory Committee, shall clearly define levels and competencies, as well as responsibilities, with clear demarcation between managerial, supervisory and leadership functions.

In sense of Bank's organizational structure, internal control system shall, as a minimum, make sure that:

1. authorizations and limitations of the bank's officers are clearly and precisely defined in the enactment on internal organization and job systematization of the Bank, issued by the Supervisory Committee. As a minimum of the control aspect of this issue, reporting to the Audit Committee shall be reported to on the following issues:
 - a) Bank's liquidity;
 - b) Bank's capital adequacy;
 - c) Bank's assets quality and classification;
 - d) due uncollected credits;
 - e) all new placements and off-balance entries;
 - f) new major exposures to credit risk individually;
 - g) new credit exposures in relation to entities related to the Bank;
 - h) transactions of securities;
 - i) transactions in payment operations;
 - j) Bank's balance sheet;
 - k) incomes and expenditures, i.e. Bank's income statement;
 - l) implementation of Bank's financial plan;
 - m) internal and external audit reports;
 - n) position of the Bank in relation to Bank's strategic plan.
2. the Bank implements human resources policy in such way to hire employees on the positions matching their expertise, abilities and background;
3. the Bank implements comprehensive, continuous and successful staff training;
4. the Bank implements continuous control and evaluation of quality of tasks complete by each employee of the Bank;
5. the Bank ensures division of incompatible jobs, so that one person cannot at the same time be in charge of the protection of assets and of their booking, in other words cannot at the same time perform certain tasks and be in charge of monitoring performance of those tasks, especially in the following cases:
 - a) credit officer cannot be in charge of paying out credits;
 - b) credit officer cannot be in charge of bookkeeping credits;
 - c) persons authorized to sign payment orders and checks on accounts at corresponding banks cannot be in charge of reconciliation accounts at those banks;
 - d) reconciliation of data with the general ledger cannot be performed by the same person who did the original bookings;
 - e) incompatible jobs principle is applied to all other cases.
6. wherever applicable, in set time intervals, the principle of planned and unannounced rotations of daily tasks of Bank's employees is applied, which should be taken into account when planning staff training curricula;
7. Bank's employees shall be given annual leave of at least two weeks every year.

Article 114

In order to provide conditions for efficient and good management of the Bank, the Supervisory Committee shall make sure that Bank's bookkeeping system offers the possibility for the creation of all regular and periodic internal reports and information for their use and needs of other users.

Article 115

Bank's bookkeeping records shall be kept in line with all provided and set accounting and banking principles, as well as the international standards.

Bank's bookkeeping records and accounts shall at any one moment reflect its actual financial situation and precise results of its operations, and especially in the field of:

1. operative responsibilities that shall ensure that the accounting system provides for the preparation of internal reports for the needs of control. Records shall be up-dated daily and have (analytical) auxiliary control accounts in line with the state presented in the general ledger;
2. control tapes (electronic data, CD's and other) created so that each individual entry can be evaluated and traced through Bank's business books;
3. obligatory previous numeration of financial instruments which facilitates documenting, reconciliation and control of used and unused entries;
4. obligatory bookkeeping manual with instructions for processing every-day transactions. Such manual shall, as a minimum, contain standard procedures for:
 - a) bookkeeping records of business operations;
 - b) daily reconciliation of entries, sums and general ledger;
 - c) preparation and control of original documentation;
 - d) tracing documentation from the user to electronic processing (if any) and on its way back;
 - e) changes in the main electronic registry;
 - f) safekeeping i.e. filing original documentation for booking, etc.

Article 116

Basic method for the protection of specific asset entries is presenting special approval for access to such assets.

The Bank, within its internal control system, shall design a plan for the protection of its tangible assets that shall include at least:

1. ready cash control by the means of cashiers being given individual access to cash put at their disposal for business transaction. Shared access to cash is not allowed;
2. setting a system protection where presence of two persons is requested to access cash in the vault, marketable collateral, checks and other securities, spare locks and keys for individual deposit boxes, spare keys of safes, and similar objects, i.e. with two different keys or combinations held by two different persons (one each) disabling access to assets to only one person at the time;
3. setting a double control system in operations where inspection and verification is required, such as reconciliation general ledger and analytic records, transfer of funds, issuing letters of guaranty, etc. Such control is different from joint control as the activities of one are be verified by the other person, so as to make sure that only authorized person performs certain transaction, that the respective transaction is booked in the right way and/or that the reconciliation is adequately performed;
4. contingency plans and safekeeping auxiliary registers and files for key records and data outside Bank's facilities;
5. system of reporting deficiencies, i.e. instantaneous reporting and instigating investigation of the shortage of cash and other deficiencies or flaws at the same moment when they are discovered, Such system shall make sure that the investigation results are submitted to Bank's staff and bodies in charge and, when necessary, insurance houses, control institutions and other relevant state bodies;
6. staff recruitment procedures that, especially for specific positions at the Bank, shall include reliability, education background and recommendation check, which is the responsibility of Bank's leadership;
7. physical and electronic security.

8. INTERNAL AND EXTERNAL AUDIT

Article 117

The Bank shall provide, continuously implement and maintain minimum standards of internal and external audit. The main objective of the internal and external audit is the prevention of loss, higher level of objectiveness and accuracy of financial reports and discovering circumstances inside the Bank that may have negative impact on its business and sustainability, as well as identification of Bank's losses that have already happened, through monitoring the quality of Bank's internal control system, its evaluation and reporting to Bank's Supervisory Committee and Audit Committee on proposals for its improvements.

The Bank shall establish efficient control functions through a combination of elements of internal control system, independent internal audit and independent external audit, where internal and external audit shall provide a higher level of objectiveness and accuracy of the financial reports that the Bank sends to the owners of capital and other clients, as well as discovering circumstances that may have negative impact on its business and stability of the whole banking system.

Article 118

Bank's Supervisory Committee shall adopt an adequate internal and external audit program in written, provide conditions for its implementation, and set up the function of independent internal audit within the Bank.

The Supervisory Committee appoints independent internal auditor of the Bank, decides on their salary and other conditions that are expected to provide the highest standards in their work as internal auditor.

Article 119

The internal auditor independently evaluates adequacy, efficiency and successfulness of the internal control system and informs the Audit Committee on its functioning and proposals for its improvements.

Bank's internal audit program shall at least:

1. include the following elements:
 - a) clearly defined internal audit objective and responsibility of the internal auditor to propose the internal audit program to the Audit Committee, to develop and to implement it;
 - b) definition of all fields of Bank's business that bear risk;
 - c) level of comprehensiveness and meticulousness of internal audit in different fields of Bank's business that bear risk;
 - d) list of priorities for internal audit and risk evaluation with explanation;
 - e) way and timeframe for reporting to the Audit Committee on all elements that the internal audit is responsible of;
 - f) definition of conditions under which the internal auditor may propose convening session of the Audit Committee.
2. give detailed account of the work plan elements and internal audit procedures inclusive of:
 - a) timeframe or frequency of internal audit activities;
 - b) subject of operative internal audit work plans;
 - c) documentation on completed internal audit activities;
 - d) preparing reports on completed internal audit activities, way and timeframe (frequency) for reporting to the Audit Committee;
 - e) filing proposals to the Audit Committee.

Article 120

In order to meet the internal audit objectives, the focus of the internal audit shall be sufficiently comprehensive and detailed. Frequency of the internal audit activities should provide meeting its objectives, provided that the activities focused on the more risky fields that the Bank is active in are more frequent.

Article 121

In implementing internal audit activities, work plans shall give instructions for work for every internal auditor. Each operative work plan shall give clear and concise description of anticipated activities, as well as a logical presentation of different procedures. Included policies may vary depending on the size of the Bank, field that is the focus of the respective internal audit activity and complexity of Bank's business operations. As a minimum, internal audit work plans shall include procedures for:

1. sudden unannounced audit, when and where applicable;
2. taking control of the records and documentation that will be subject to audit;
3. review and evaluation of Bank's policies and procedures, and its internal control system;
4. reconciliation of auxiliary and analytical records with the general ledger;
5. inspection of selected transactions and states.

Article 122

The conclusions made by the internal auditor shall be formalized in written reports that contain proposals for necessary corrective actions. Internal auditor's reports shall be timely, clear and concise, and submitted to the Audit Committee, on which the Management is informed.

In line with its estimate and decision, the Audit Committee, informs the Supervisory Committee on the internal auditor's findings at least quarterly.

In case of disagreement with the Audit Committee's decision, internal auditor informs the Supervisory Committee as well.

If the Management's operations are focus of the audit activities, the internal auditor's report is submitted to the Audit Committee and Supervisory Committee.

Article 123

Final measure of efficiency and success of internal audit program is the speed and efficiency of the steps taken by Bank's Management upon the internal auditor's proposal. Within such proposals, the internal auditor shall define a reasonable timeframe for the proposed steps.

In order to ensure efficient and successful internal audit program, the Supervisory Committee and the Management shall provide full support to the internal audit function and the internal auditor.

Article 124

Bank's internal auditor shall provide efficient implementation of the internal audit programs that, as a minimum, shall include:

1. evaluation of Bank's internal control systems and giving relevant proposals;
2. assistance to the Supervisory Committee and the Management in creating business policies, introduction of the new and reviewing of the existing business policies;
3. monitoring reconciliation of Bank's transactions with the Law, other regulations and general enactments;
4. monitoring and evaluation of Bank's business operations efficiency;
5. monitoring and evaluation of the accuracy and adequacy of Bank's information systems.

Article 125

The internal auditor and internal audit department (staff) are fully independent from the Management and responsible directly to the Audit Committee.

The internal auditor and internal audit department shall be given free and full access to all business books, information, data and documentation of the Bank necessary for full and efficient internal audit of the Bank.

Defined internal audit results shall be recorded in short within the minutes of the Audit Committee's sessions where they are presented.

Responsibilities of the internal auditor shall be clearly defined in Bank's enactment on internal organization and job systematization.

For the needs of internal audit, along with Bank's internal auditor, the Supervisory Committee may outsource an external consultant or expert to assist the internal auditor. Professional qualifications and background of such consultant shall at least be on the level necessary for Bank's internal auditor.

Article 126

Responsibilities and qualifications of Bank's internal auditor may vary depending on the size and complexity of the Bank.

Bank's internal auditor and the staff of the internal audit department engaged in the internal audit tasks, shall have higher education in economy and at least 3 (three) years experience in the most complex banking and control, supervision and audit of banks or other financial organizations, show interest to continue education and professional development, have organization and technical skills in line with the responsibilities of internal auditor and developed communication skills.

Article 127

Bank's Supervisory Committee shall appoint independent external auditor for the Bank and its subsidiaries, in charge of at least the following activities:

1. consults the Bank on application of accounting standards;
2. audits annual financial reports and submits the report to the Audit Committee on whether the financial reports give full, accurate and valid review of Bank's financial state in line with the Law and this Decree;
3. informs the Audit Committee on illegal operations, activities, irregularities and deficiencies in management and transactions of the Bank and/or its subsidiaries that can lead to loss, especially in the fields of:
 - a) quality and efficiency of internal control systems, accounting policies and procedures, and quality of Bank's documentation;
 - b) adequacy of programs and efficiency of Bank's internal audit; and
4. submits annual reports with comments to the Supervisory Committee, Audit Committee and FBA on the efficiency of internal auditor and internal control systems.

Article 128

The Management's primary responsibility is the preparation of Bank's financial reports and their presentation.

Primary responsibility of the independent external auditor is commenting on Bank's financial reports.

Article 129

The report of the independent external auditor shall define whether Bank's financial reports are presented in line with the international accounting standards, international financial reporting standards and whether they contain reliable information on Bank's assets and liabilities.

The independent external auditor shall include the following financial reports in the audit activities: balance sheet, income statement, report on changes in the equity capital and monetary flows report.

Article 130

Independent external audit process includes planning and implementation of auditing procedures that offer reasonable safety that all material deficiencies have been removed from the financial reports.

Process defined in the first paragraph of this article includes personal and independent evaluation of the used accounting principles and evaluation of all major entries and elements of the audited reports, comprehensive and general evaluation of financial reports, material and evidence used for the audit that support quantification and qualification presented in the financial reports.

Article 131

The external auditor's independence means conscientious and objective work and that at the time of the audit he/she cannot have:

1. any direct or indirect financial interest in the Bank or any other entity related to the Bank, or
2. any other relationship that may compromise his/her independent evaluation.

Article 132

Opinion presented in the independent external auditor's report can be only:

1. positive or unconditioned, i.e. the opinion that Bank's financial reports are composed accurately and objectively, in line with the international accounting standards (IAS) and international financial reporting standards (IFRS) and that the audit included all segments without limitations;
2. conditioned, i.e. the opinion that there are certain problems related to Bank's reports, such as insufficient evidence, deviation of reports or their parts from regulations, international accounting standards and international financial reporting standards, limitations of the audit procedure, etc.;
3. negative, i.e. the opinion that Bank's financial reports are not composed accurately and objectively, not in line with regulations, international accounting standards and international financial reporting standards, and
4. withheld, i.e. abstention from giving opinion on Bank's financial report is when the auditor decides there is a reasonable doubt in the capacity of the Bank for further successful operations, noting that the auditor cannot assume any responsibility for the accuracy and objectiveness of the audited reports.

8.1. Economic and financial audit report

Article 133

This closely defines the minimum scope, form and contents of the programs and reports on the economic and financial audit of the bank performed by the external auditor.

Scope, form and contents of the program are all investigations and evaluations of financial reports as of the December 31 of the business year, subjected to economic and financial audit necessary for the real picture on the financial state and success of the Bank' transactions, and especially whether:

1. Bank's commitments and capital are covered by evaluated real value of its assets;
2. the bank's capital is adequate to the level of risk assumed by the Bank in its transactions;

3. the risks assumed by the Bank are managed in the way that provides security and stability of Bank's transactions; and
4. Bank's transactions are in line with the Law, Law on Banks, other applicable legislation and regulations that define Bank's operations.

Article 134

Such audit is performed in line with the Law, accounting standards and other regulations that define Bank's operations.

Article 135

Auditor's report on the completed economic and financial audit of the Bank contains:

1. the auditor's report and opinion;
2. analyses annexed to the financial reports;
3. review and evaluation of Bank's operations quality;
4. review of ownership and organizational structure of the Bank;
5. summary of the economic and financial audit report;
6. annexes to the economic and financial audit report.

Article 136

Report and opinion of the auditor contains:

1. description of the scope of the completed audit with full title of the Bank; audited financial reports with explanation of the principle and standards used for the composition of those reports and audit standards applied in this procedure, with appropriate explanation if certain standards are not applied, and
2. auditor's opinion whether the financial reports give a realistic picture of the financial state and success of Bank's operations, that has to be defined in line with the provisions given in the Article 132 herein.

Article 137

Analyses annexed to financial reports include:

1. Bank's income statement analysis (accounting of profits and losses);
2. Bank's balance sheet analysis; and
3. Bank's monetary flows analysis.

Article 138

Review and evaluation of Bank's operations quality include:

1. Bank's assets quality – evaluation in line with the provisions given herein and evaluation of Bank's credit function quality with a special focus on:
 - a) description and evaluation of the credit function organization, demarcation between the function of processing credit application and of making decisions on credit allocations, application processing procedures and credit risk management;
 - b) application of the provisions given herein related to documenting credit activities and relevant provisions given herein related to Bank's credit function;
 - c) adequacy and application of internal policies related to the collection insurance instruments (collateral);
 - d) adequacy and application of policies limiting exposure of the Bank to credit and similar risks;
 - e) exposure of the Bank to potential (off-balance) commitments;
 - f) auditor's recommendations for improvement of credit risk management policies and procedures.
2. Bank's capital and capital adequacy – evaluation with a focus on the provisions given herein related to Bank's capital management;
3. Bank's liquidity – evaluation with a focus on provisions given herein related to Bank's liquidity risk management, with auditor's recommendations for the improvement of Bank's liquidity risk management policies and procedures;

4. Performing internal payment operations and implementation of the FBiH Law on Money Laundering Prevention (FBiH Official Gazette, 8/00), with the auditor's recommendations for the improvement of policies and procedures;
5. Bank's interest risk – with evaluation of Bank's interest risk management policies, review and evaluation of interest sensitivity of Bank's assets and liabilities and auditor's recommendations;
6. Bank's foreign exchange risk – evaluation with focus on the provisions given herein on Bank's foreign exchange risk management;
7. Bank's off-balance risk;
8. operations for the account and on behalf of other persons;
9. Bank's information system;
10. ongoing legal procedures of the Bank and against the Bank;
11. Bank's internal control system – evaluation with focus on the provisions given herein related to the internal control system;
12. Bank's internal audit – evaluation with focus on the provisions given herein related to internal and external audit of the Bank;
13. Bank's legal framework – with focus on reconciliation of Bank's enactments with legislation;
14. reporting to the FBA and BiH Central Bank.

Article 139

Review of Bank's ownership structure includes:

1. Bank's equity capital structure – with focus on relevant Laws and this Decree;
2. Bank's organizational structure – with focus on Bank's development strategy and role on the market.

Article 140

Contents of the economic and financial audit report shall contain:

1. summary of findings defined in the Articles 137 and 138 herein; and
2. summary of the auditor's report that the Bank shall publish in one of daily newspapers issued on the territory of the Federation of BiH, which is consisted of:
 - a) general information on the Bank, as follows: 1) Ban's name, address, telephone and fax numbers, and SWIFT code; 2) names of the Supervisory Committee members; 3) names of the Audit Committee members; 4) names of the Management members; 5) Bank's internal auditor's name; 6) number of Bank's organizational units; 7) number of employees of the Bank; 8) name of Bank's external auditor; 9) name of Bank's owner;
 - b) auditor's opinion;
 - c) Bank's balance sheet;
 - d) Bank's income statement.

For publishing the data defined in the first paragraph, item 2 of this Article, it is necessary to have the auditor's written consent.

Article 141

Annexes to the economic and financial audit report defined in the Article 135, item 6 herein are done on the forms provided herein, Chapter 14 – FBA Reporting Forms.

Statement given in the summary of the auditor's report, defined in the Article 140, paragraph 1, item 2, under c) and d) herein are made in form of tables defined by this Decree, paragraph 1 of this Article.

9. EFFECTIVE INTEREST RATE

Article 142

This defines unique way of accounting and presenting effective interests receivable on the credits allocated by the Bank, or effective interest payable rates on the accepted deposits at the bank.

Article 143

The effective interest rate in terms of this Decree is an end-of-period interest rate accounted on an annual level, applying the compound interest account, in a way that the discounted cash flows shall be equal to discounted cash outflows of granted credits, i.e. received deposits.

In the accounting of the effective interest rate on credits granted by depositing a pledge, the interest and the monetary amount of that pledge are also included (pledge cash flows).

Article 144

During discounting, i.e. resuming all future inflows and outflows of monetary funds to the actual value based on credit agreement, i.e. deposit agreement, the calendar number of days in a month and 365/366 days of the year shall be applied.

Article 145

The effective interest rate is expressed as percentage with two decimal places, abbreviated to a second decimal place, and shall be applicable as of the accounting day.

When expressing the effective interest rate, the banks and microcredit organizations (hereinafter: MCO) are obliged to use the term "effective interest rate" and the acronym "EIR".

Article 146

The effective interest rate is expressed in a percentage with two decimal places, abbreviated to a second decimal place, and shall be applicable as of the accounting day.

When expressing the effective interest rate, the banks and microcredit organizations (hereinafter: MCO) are obliged to use the term "effective interest rate" and the abbreviation "EIR".

Article 147

The information on credits allocated and deposits received by the Bank are the following:

- a) the information included in the accounting of the effective interest rate, meaning:
- amount of nominal interest rate on credits, i.e. deposits;
 - amount of commissions and fees that the Bank charges to a client in a credit granting procedure, i.e. when placing a deposit with the Bank;
 - amount of commissions and fees known on the accounting day, that the Bank charges to a client during the realization of the credit agreement, i.e. the deposit agreement;
- b) the information excluded from the accounting of the effective interest rate, meaning:
- criteria for revalorization and indexation of credits, i.e. deposits, data on foreign currency used for credit indexation or other criteria for revalorization and indexation of the credit, i.e. deposit;
 - expenditures that are unknown on the accounting day, but might emerge during the realization of the credit agreement, i.e. the deposit agreement.

The Bank submits the information referred to in this Article to clients upon their written request.

Article 147

The Bank shall account the effective interest rate and disclose it to clients and the public.

The Bank is clearly and prominently disclosing the effective interest rate in Bank's premises, in advertisements and media, and in the same way they are disclosing a foreign currency used for credit indexation or other criteria for revalorization and indexation of the credit, i.e. deposit.

The effective interest rate may not be less prominent than other information.

Article 148

The Bank shall inform the client on effective interest rate before client receives the credit application, i.e. places a deposit, as well as before concluding the credit agreement, i.e. deposit agreement.

Article 149

Credit agreement, i.e. deposit agreement must contain the appropriate provision clearly stating that the client is informed on credit terms, i.e. deposit terms and the effective interest rate, and that the client has been provided with the credit repayment schedule, i.e. deposit payment schedule.

Article 150

When concluding a credit agreement, i.e. deposit agreement with a client, the Bank shall deliver a repayment/payment schedule to a client that will include clearly disclosed effective interest rate. The Bank shall file the repayment/payment schedule into a credit file, i.e. deposit file.

Article 151

In case if the effective interest rate changes due to the changes of elements used as a basis for its calculation, the bank and the MCO shall inform the client in writing on such a change before such modified effective interest rate begins to apply.

Article 152

Methodology for accounting of the effective interest rate on credits and deposits, and minimum contents of the repayment/payment schedule are defined by the guidelines for effective interest rate accounting.

Article 153

Provisions of this Decree do not apply on credits that the Bank grants to another bank, i.e. deposits that the Bank places with another bank.

Article 154

For credit agreements, i.e. deposit agreements concluded before the application of this Decree, the Bank shall, upon client' request, prepare the repayment/payment schedule for the remaining period until due date.

Article 155

the Bank shall submit to FBA, monthly reports on weighted nominal and effective interest rates on prescribed forms and within 15 days upon the expiry of the reporting month, on forms defined in the Chapter 14, FBA Reporting Forms, herein.

10. OPERATIVE RISK MANAGEMENT

Article 156

Within its operations, the Bank shall provide and implement minimum standards for operative risk (hereinafter: operative risk) management.

Such OR management includes its identification, measuring, monitoring and forming adequate capital for this type of risk.

Article 157

In terms of this Decree, the OR is the probability of loss for the Bank and negative impact on Bank's capital due to inadequate internal procedures and control systems, weaknesses and deficiencies in executing business activities, illegal actions and external circumstances that can expose the Bank to risk.

Article 158

The Bank shall set up the system for OR management that, as a minimum, includes:

1. OR management procedures that will provide:
 - a) identification of the existing potential OR sources and those sources that can result from introduction of the new business products, systems or activities;
 - b) measuring OR with its accurate and timely evaluation;
 - c) continuous OR control that ensures its maintenance to the level acceptable for Bank's risk profile and its minimization;
 - d) continuous monitoring of the OR by analysis of the situation, changes and trends of exposure of the Bank to such risk; and
 - e) creation of minimum adequate capital for the protection against OR related loss (MACOR).
2. clearly defined authorizations and responsibilities in the process of assuming and managing OR;
3. system that makes sure that all Bank's employees are familiar with their obligations in the OR management process;
4. system for regular reporting to the Supervisory Committee and Bank's Management on OR management system functioning;
5. obligation of periodic evaluation and obligation of the Supervisory Committee to analyze and evaluate adequacy of the established OR management systems of the Bank periodically, at least annually.

Article 159

In the process of identification potential OR sources, the Bank shall identify especially the risks caused by:

1. inadequate information system and other systems at the Bank;
2. deficiencies in activities and malfunctions of the systems, such as malfunctions related to information technologies, telecommunications, interruptions of activities, etc.;
3. problems of adequate integration or maintenance of information and other systems, in case of the development of network or different organizational parts and/or status changes of the Bank;
4. illegalities and inadequate actions of Bank's employees, such as embezzlements and unauthorized access to client accounts, abuse of confidential information, giving false or wrong information on Bank's state, inaccuracy in their daily work, error at entering data, neglecting good business practice, etc.;
5. actions or lack of actions that might have or have lead to court suits or other disputes against the Bank;
6. external illegal actions, such as robberies, unauthorized access to Bank's data base, unauthorized transfer of funds, illegal acquires of Bank's documents, etc.;
7. damage to tangible assets and unforeseeable events, such as accidents due to natural forces, terrorism, etc.

Article 160

Upon identification of a concrete OR source, the bank shall apply adequate measuring methods and adequately evaluate the level of such risk.

Depending on the nature and level of that concrete OR, the Bank shall apply adequate methods for its monitoring, control, reduction and removal.

The Bank shall monitor OR sources in its organizational units, especially in the following

segments:

1. transactions with economic segment;
2. transactions with financial institutions;
3. transactions with physical persons;
4. agent's business;
5. monetary flow operations;
6. assets management operations;
7. trade of financial instruments, etc.

Article 161

Before introducing new products, system and procedures, or before starting new business activities, the Bank shall identify and evaluate (potentially) related OR.

Article 162

The Bank shall provide daily safety copies of electronic data on performed business transactions and bookkeeping changes, as well as their safe keeping on a safe alternate location.

Article 163

The Bank shall design a written contingency plan that shall ensure continuous operations of the Bank in case of severe disturbances in operations caused by situations outside of its control, as well as for the case of unconscientious work of employees, especially the employees that have high amount of funds at their disposal or high managerial responsibilities.

The plan introduced in the first paragraph of this Article shall at least define:

1. key business activities that require continuity even in unexpected situations;
2. anticipated scenarios of possible events that may lead to the interruption of key business processes at the Bank;
3. alternate solutions for preservation of continuity of key business activities in unexpected situations;
4. activities to reestablish regular functions of the bank, especially Bank's information system, etc.

The plan introduced in the first paragraph of this Article shall be tested at least annually, and the results of such testing shall be submitted in written to the Supervisory Committee.

Article 164

the Bank shall define methodology for internal recording of all loss, divided by categories defined according to their sources, and form a special data base on loss resulted from the OR.

When such loss resulted from the OR totals over 2% of Bank's net capital, the Bank shall inform the FBA in written latest within eight days after the respective excess.

The information introduced in the second paragraph of this Article shall contain the structure of sources – causes with related amounts of loss, steps taken by the Bank to cover such loss and steps taken by the Bank or that will be taken within a precise timeframe, to prevent such loss in the future.

Article 165

For potential loss related to OR exposure, the Bank shall set up and maintain MACOR amount.

The Bank shall account MACOR and form it according to the "basic indicator method" that is 15% of the average amount of gross profit made in the last three business years. It is accounted according to the following formula:

$$C_{OR} = [\sum (G_{BD1...n} \times \alpha)] / n$$

where:

C_{OR} = necessary minimum capital for Bank's exposure to OR

A_{GP} = annual gross profit made of net interest income and net non-interest income

n = number of years with positive profit in the past three years

α = 15 % that is the factor determined by the Basel Committee on Banking Supervision

While calculating the average using the formula given in the previous paragraph of this Article, amount for any of the three years in which annual gross profit was negative or zero (no profit for the Bank) shall be omitted from both the nominator and the denominator of the formula.

Article 166

In case that the Bank, in line with the provisions given herein, identifies the need for a higher amount of capital, or the OR based loss in the amount exceeding the result got by the means of the formula given in the previous article, it shall form MACOR in thus defined or higher amount.

Article 167

The FBA may order the Bank to form a higher amount of MACOR for the potential or current loss based on OR, when it decides that the amount of MACOR that the Bank formed was not formed in line with the provisions of the articles 165 and 166 herein.

Article 168

For the purposes of accounting and reporting on, the total amount of entries weighted by risk, the Bank shall perform special additional accounting of its weighted operative risk (WOR) by multiplying MACOR (got in the way defined in the Articles 165 and 166 herein) by 8.33 (reciprocal value of minimum net capital rate got through formula $100\% : 12\% = 8,33$).

Bank's WOR amount calculated in the way defined in the previous paragraph of this Article at accounting net capital rate (capital adequacy) shall be added to the weighted assets risk amount and credit equivalents, and weighted market risk (WMR).

Article 169

The Bank shall coordinate its OR management with the provisions given herein latest by December 31, 2009.

11. MARKET RISK MANAGEMENT

Article 170

The Bank shall keep to the minimum market risk management standards in its transactions.

Market risk management introduced in the previous paragraph of this Article includes identification, measuring, control and monitoring market risk and ensuring capital to cover such risk.

11.1 Trading book

Article 171

Bank's banking book includes the following instruments:

1. financial instruments and other marketable assets (commodities) kept for resale and/or that the Bank purchased/took over to profit from the difference between their purchase price and resale price, or other variations of prices, interest rates or positions set for the protection (hedging) other elements of items defined here booked in the banking book;
2. exposures related to unsettled transactions, deliveries or non-entered derivative instruments booked off-balance (interest rate agreements, currency agreements, agreements similar to

- interest and currency agreements);
3. instruments in nature similar to those listed in the items 1 and 2 of this Article, inclusive of repo and reverse repo agreements, as well as agreements on borrowing securities or commodities (in place of adequate collateral) that are included in the banking book;
 4. exposures in form of paying compensations, provisions, interests, dividends and margins through crossed derivative instruments, directly linked to entries in the banking book;
 5. financial instruments realized based on the agreements on agent's role of the Bank at issuing securities, i.e. agreements binding the Bank to organize and issue securities for the issuer, and enter and pay all or just a part of securities that remained non-entered with the goal to resell them to potential buyers.

Values of all instruments entered in the banking book shall be recorded, i.e. booked under market prices on daily basis.

Value of financial derivatives is booked under lower value of basic financial instruments they are based on, either nominal or market price, and other financial instruments under the lower price, either nominal or market value. Long and short positions are presented as a sum, either positive or negative.

Banking book includes all Bank's assets and transactions not included in the banking book.

The Bank shall calculate capital requests for risks carried by the financial instruments booked in the banking book in line with the provisions given herein, provided that one of the conditions is met:

- if the total market value of entries in the banking book exceeds 5% of the total Bank's risk assets for more than three days in one calendar month;
- if the total nominal value of entries in the banking book exceeds KM 30 million for more than three days in one calendar month;
- if the total market value of entries in the banking book exceeds 6% of the total Bank's risk assets or if the total nominal value of entries in the banking book exceeds KM 40 million on any one day in one calendar month.

If the scope of the bank's activities in the banking book is lower than defined previously, capital requests for risks carried by financial instruments are calculated by credit equivalents of off-balance commitments, in line with the provisions given in the Chapter 1, Capital Management, herein.

The total amounts of all types and types of instruments included in the banking book according to criteria given in the paragraph 1 of this Article and the maximum sum of amounts included in the banking book, shall be in line with the internal strategies, policies and procedures for investing and trading submitted to the FBA and whose implementation can be verified. The FBA shall be informed in written on any change of these documents with reasons for their change. Repeated sorting and transfer of positions between the banking book and banking book shall be documented, provable and supported by the Bank's records.

As a part of annual audit, the Bank requests the internal auditor to examine and confirm if the Bank's business is in line with the Bank's internal enactments on classifying positions in the banking book, or the banking book.

The Bank shall submit to the FBA monthly report – detailed banking book, Form 7, Chapter 14, FBA Reporting Forms herein. This form contains data on the scope of its trade, with the state on the last day of the respective month, as well as the month's averages. The Bank shall monitor daily trade in the banking book and, if there are any changes that may lead to overstepping limits of activities entered into the banking book, it shall inform the FBA in sense of the obligation to account capital requests carried by financial instruments in the banking book in

line with the provisions given here.

Market risk management system

Article 172

The Bank shall set up market risk management systems that will provide:

1. identification of the existing market risks and market risks that may be caused by new business procedures or activities;
2. market risk management through mechanisms and procedures for accurate and timely market risk evaluation;
3. market risk control;
4. market risk monitoring through analysis of the situation, changes and trends;
5. provision of capital to cover market risks.

Market risk management systems shall be adequate to the Bank's risk profile, i.e. the level of assumed risks and complexity of products and services offered by the Bank.

Article 173

The Bank shall manage all market risks it is exposed to in its operations, and especially:

1. interest rate risk;
2. foreign exchange risk;
3. price risk.

In terms of this Decree, market risks include the risks linked to credit risk, such as: other contracting party risk, issuer risk and placement risk.

Article 174

Depending on the volume and complexity of its transactions, the Bank shall establish an organizational unit or appoint a person within its organizational structure directly in charge of the market risk management defined in the first paragraph, Article 172 herein.

Market risks defined in the Article 173 herein are managed by the organizational unit or person directly in charge of managing the Bank's credit risk.

Organizational units, or staff members defined in the first and second paragraph of this Article, shall, a least quarterly, report to the Supervisory Committee on activities related to the market risk management.

Article 175

In its market risk management activities, the Bank shall make sure that:

1. Bank's Supervisory Committee at the Management's proposal, adopts investment and trade strategy that includes at least:
 - a) short description of all products for trade;
 - b) acceptable level of inflow and risks for the complete trade products portfolio, with short explanation for each type of trade products;
 - c) objectives that the Bank wishes to achieve in its transactions with approved products, and
 - d) general criteria for the selection of other contracting party for the trade;
2. Bank's Supervisory Committee, at the Management's proposal, adopts policies and procedures in line with the strategy presented in the item 1 of this Article, as defining at least:
 - a) limitations and control processes;
 - b) risk measuring methods and means;
 - c) authorizations and responsibilities in the process of assuming and managing

- market risks; and
- d) information and reporting system;
3. Bank's Management establishes a system to provide that all processes and transactions are in line with the strategy, policies and procedures defined in the items 1 and 2 of this Article, and system of informing the Supervisory Committee on the deviations from the defined strategy, policies and procedures;
 4. Bank's Management connects the activities related to market risk management with the activities with activities done at the subsidiary and other legal entities that are subject to control on the consolidated basis, and adequately incorporates them into the risk management structures on the consolidated basis;
 5. Bank's Management is regularly tested and evaluated in terms of market risk management results, if the market risk management defined in the Article 173 herein depends on assumptions.

11.2.1. Interest rate risk

Article 176

Bank shall measure risk caused by the changes of the interest rate once a month.

As an exception to the first paragraph of this Article, the Bank shall measure interest rate risk in shorter intervals in case of significant changes of interest rates, volume and/or type of Bank's assets, liabilities or off-balance.

All net positions in the debt securities shall be given in KM daily, denominated by the prompt market exchange rate.

Article 177

The Bank shall set the interest rate risk limit that includes all important risk exposures related to the interest rate change.

The Bank shall measure and limit the interest rate risk, separately for different currencies, and aggregated.

Article 178

The Bank shall evaluate interest rate influence on the Bank's income, interest rate spread, expenditures expressed in interest rates and net interest margin of the Bank.

Article 179

The Bank shall account capital requirements for interest rate risk in line with this Decree only for debt financial instruments booked in the banking book, but it has the obligation to set up the system for monitoring and control of the interest rate risk to which all its transactions are exposed.

The Bank shall classify its net open positions in each debt financial instruments (securities, money market instruments, components of derivative instruments in line with the chapter regulating treatment of derivatives and all other positions sensitive to interest rate change), in line with the currencies in which they are nominated and accounted capital requirements for specific and general interest rate risk in each currency.

11.2.1.1. Specific interest rate risk accounting methodology

Article 180

The Bank shall distribute its net positions in the debt instruments into appropriate categories based on the remaining time until due date, and multiply them by prescribed weights, as shown in the following table. Capital requirements for specific interest rate risk are the sum of all

weighted positions.

Entries that bear no risk	Qualifying entries			Other entries
	Less than 6 months	6-24 months	Over 24 months	
0.00 %	0.25 %	1.00 %	1.60 %	12.00 %

In terms of this Article, entries that bear no risk are debt securities issued or fully insured by entities authorized for capital management in line with this Decree, with credit risk weight of 0%, and qualifying entries are debt securities issued or fully insured by entries with credit risk weight of 20%.

The Bank does not account specific interest risk for its own debt instruments kept in its possession.

The Bank shall account capital requirement for specific interest rate risk and send quarterly reports to the FBA on specific interest risk per currencies, using the form defined in the Chapter 14, FBA Reporting Forms, herein.

11.2.1.2. General interest rate risk accounting methodology

Article 181

For the general interest rate accounting the Bank shall use “Payability based approach” or “Duration based approach”. Both these approaches account capital requirements for general interest rate risk as a sum of the following elements:

- Part expressed as percentage of harmonized weighted positions divided by all payability classes (EXCEPTION: not accounted by the duration based principle);
- Parts expressed as percentage of harmonized weighted positions in all individual payability zones (zone 1, zone 2 and zone 3);
- Parts expressed as percentage of harmonized weighted positions between different payability zones (zone 1, zone 2 and zone 3);
- remaining non-harmonized weighted positions.

11.2.1.2.1. Payability based approach

Article 182

In line with such approach, the Bank shall distribute its net position in debt instruments applying the following table, according to:

1. time remaining until due date (or time remaining until the next interest rate accounting at instruments with variable interest rate); and
2. interest rate.

PAYABILITY ZONE	TIME PAYABILITY CLASS		Weight
	3% or more interest rate	Less than 3% interest rate	
1	0 - 1 month	0 - 1 month	0.00 %
1	1 - 3 months	1 - 3 months	0.20 %
1	3 - 6 months	3 - 6 months	0.40 %
1	6 - 12 months	6 - 12 months	0.70 %
2	1 - 2 years	1 year - 1 year. 9 months	1.25 %
2	2 - 3 years	1 year 9 months - 2 years 8 months	1.75 %
2	3 - 4 years	2 years 8 months - 3 year 6 months	2.25 %
3	4 - 5 years	3 years 6 months - 4 years 3 months	2.75 %

3	5 - 7 years	4 years 3 months - 5 years 7 months	3.25 %
3	7 - 10 years	5 years 7 months - 7 years 3 months	3.75 %
3	10 - 15 years	7 years 3 months - 9 years 3 months	4.50 %
3	15 - 20 years	9 years 3 months - 10 years 6 months	5.25 %
3	Over 20 years	10 years 6 months - 12 years	6.00 %
3		12 years - 20 years	8.00 %
3		Over 20 years	12.50 %

(A) PAYABILITY CLASS POSITIONS: the Bank multiplies every position with weight for a specific payability class given in the last table column. All weighted long positions and weighted short positions are summed separately for each payability class. The lower sum of the two weighted positions, either long or short, for each payability class is considered harmonized weighted position in that payability class. The difference between those two sums is considered non-harmonized (long or short) weighted position for the respective payability class.

The Bank calculates the total harmonized weighted position in all payability classes as a sum of harmonized weighted positions for each payability class.

(B) PAYABILITY ZONE POSITIONS: The sum of non-harmonized (long and short) weighted positions of all payability classes in the same payability zone is the long or the short weighted position of that zone. The Bank shall compare long and short weighted positions of payability for each individual payability zone and identify non-harmonized (long or short) weighted payability positions for all payability zones. The lower of the two amounts, either long or short weighted position of the payability zone is the harmonized position for that respective payability zone. The difference between the long and the short weighted position is the non-harmonized (long or short) weighted position for the respective payability zone.

(C) COMPARING POSITIONS OF DIFFERENT PAYABILITY ZONES: After the procedures defined by the items (A) and (B) above, the Bank shall compare non-harmonized long and short weighted positions between the following payability zones, and identify non-harmonized positions of those comparisons, as follows:

- a) zone 1 and zone 2;
- b) zone 2 and zone 3; and
- c) zone 1 and zone 3.

The Bank shall perform such comparisons according to the given schedule. Always the lower amount of either long or short non-harmonized weighted position, got by comparing different zones according to the items a), b) and c), is considered harmonized weighted position thus compared different payability zones.

In the procedure given here, remaining non-harmonized weighted position is made of the sum of all non-harmonized (long and/or short) positions between thus compared different payability zones.

Capital requirement for the general interest rate risk, in terms of this approach, is calculated as the sum of:

1. 10% of the sum of harmonized weighted positions in all payability classes;
2. 40% harmonized weighted positions of the zone 1;
3. 30% harmonized weighted positions of the zone 2;
4. 30% harmonized weighted positions of the zone 3;
5. 40% harmonized weighted positions between the zones 1 and 2;
6. 40% harmonized weighted positions between the zones 2 and 3;
7. 100% harmonized weighted positions between the zones 1 and 3 and
8. 100% remaining non-harmonized weighted positions.

The Bank may calculate capital requirement for the general interest rate risk through the payability based approach. In that context; the Bank shall deliver quarterly report – general interest rate risk by currency (payability based approach), Form 8, Table B, defined by the Chapter 14, FBA Reporting Forms herein.

11.2.1.2.2. Duration based approach

Article 183

If the Bank chooses to apply the duration based principle to calculate capital requirement for the general interest rate risk, it has the obligation to apply it consistently.

In line with this approach, the Bank shall:

- a) for debt financial instruments with fixed interest rate, calculate yield until their payability based on their market value (made of anticipated or expected interest rate); and
- b) for debt financial instruments with variable interest rate, calculate yield until their payability, based on their market value (adjusted yield based on the variable interest rate).

The Bank shall than calculate modified duration of each debt instrument using the following formula:

$$D_{mod} = \frac{D}{(1+r)}$$

$$D = \frac{\sum_{t=1}^m \frac{tC_t}{(1+r)^t}}{\sum_{t=1}^m \frac{C_t}{(1+r)^t}}$$

where

D_{mod} = modified duration
D = duration
r = yield by payability
C_t = cash payments in time t
m = total payability
t = time

The Bank shall allocate each debt instrument individually in adequate zones given in the following table. Such allocation is done by the Bank based on modified duration of each instrument.

Duration weighted position for each instrument is calculated by multiplying its market value by its modified duration and anticipated change of the instrument’s interest rate by the duration, as given in the following table:

Zone	Modified duration in years	Anticipate interest rate change
One	0.0 to 1.0	1.00 %
Two	1.0 to 3 years and 6 months	0.85 %
Three	Over 3 years and 6 months	0,70 %

- (A) ZONE POSITIONS: For each zone, the Bank shall calculate its short and long positions weighted by modified duration and adequate anticipated interest rate changes separately, and then compares them. The lower amount of the two weighted positions (long and short) is considered the harmonized position of the zone. The difference between the long and the short weighted positions is considered non-harmonized (long or short) weighted position of the respective zone.
- (B) COMPARING POSITIONS OF DIFFERENT ZONES: After the procedures defined by the item (A) above, the Bank shall compare non-harmonized long and short weighted positions between the following zones and identify non-harmonized positions of those comparisons, as follows:
 - a) zone 1 and zone 2;

- b) zone 2 and zone 3; and
- c) zone 1 and zone 3.

Such comparisons shall be performed according to the schedule defined here. Lower amounts, whether long or short non-harmonized weighted positions, got by comparing different zones according to the items a), b) and c) are considered harmonized weighted positions of thus compared different payability zone.

In the procedure given above, remaining non-harmonized weighted position is the sum of all non-harmonized (long and/or short) positions between thus compared different payability zones.

Capital requirement for the general interest rate risk, in terms of this approach, is calculated as the sum of:

1. 2 % harmonized position for each zone;
2. 40 % harmonized weighted position between zone 1 and zone 2;
3. 40 % harmonized weighted position between zone 2 and zone 3;
4. 100 % harmonized weighted position between zone 1 and zone 3; and
5. 100 % remaining non-harmonized weighted positions.

If the Bank calculated capital requirement for the general interest rate risk using the duration based principle, it shall deliver quarterly report – general interest rate risk by currency (duration based approach), Form 8, Table B, defined by the Chapter 14, FBA Reporting Forms herein.

11.2.2. Foreign exchange risk

Article 184

The foreign currency risk appears when the Bank has open foreign currency position that may lead to loss due to change in inter-currency relationships, change of KM value in relation to other currencies and change in the price of gold.

Bank's foreign currency risk management is provided in the Chapter 6 herein – Foreign Currency Risk Management.

Article 185

Besides provisions and regulations listed in the previous article herein, when measuring the foreign currency risk, the Bank shall, as a minimum:

1. measure and limit foreign currency list daily, aggregated and individually per currency;
2. risk measuring is done based on the assumption on anticipated and major changes of the exchange rates, in order to evaluate the influence of those changes on the Bank's income and capital;
3. calculate daily profit or loss accrued from the transactions with foreign currencies individually by currency;
4. individually identify results from impact of conversion on the net open position, spread from business transactions, profit or loss from previously closed positions and all compensations and commissions from conversions with population; and
5. perform daily valorization using market foreign exchange rate at the end of each day, independently from the organizational part, i.e. employees directly responsible of the foreign currency risk management at the Bank.

Article 186

Capital requirement for foreign currency position is calculated by multiplying total open foreign currency position of the Bank (gold included) by 12%.

The Bank shall calculate capital requirement for foreign currency risk and deliver quarterly report to the FBA – Capital requirement for foreign currency risk – defined in the Chapter 14,

FBA Reporting Forms herein.

11.2.3. Price risk

11.2.3.1. Risk of investments into ownership securities

Article 187

Risk of positions in owner securities (owner instruments) is consisted of two components: specific risk and general risk.

Specific risk is the risk of change of price of an owner instrument due to reasons unrelated to their issues, and in case of derivative instrument change of price of the basic owner instrument that such derivative instrument supports.

General risk is the risk of the change of owner instrument, due to major changes on the owner instrument market, unrelated to any specific characteristics of individual owner instruments.

Capital requirement for the risk related to investing into owner instruments is defined only for owner securities entered in the trading book.

In terms of this decree, owner instruments are: shares, deposit institution confirmations, stock market indices, convertible bonds and derivative financial instruments related to bonds or stock market indices.

Article 188

Positions in owner securities are classified into national markets where the owner securities are included in the stock market, and standard accounting procedures defined below, is applied for each national market separately.

The Bank shall calculate its net long and net short position in each owner instrument. net long and net short positions are summed separately.

The Bank shall calculate net values of long and short position in owner instruments only if those instruments are identical. Owner instruments are identical if they are issued by the same issuer, if they have the same treatment in case of liquidation or bankruptcy, and if they are expressed in the same currency.

Total gross position of the Bank in owner instruments equals the sum of absolute amounts of net long and net short positions.

Bank's total net position in owner instruments equals the absolute amount of difference between net long and net short positions.

Article 189

Capital requirement for the owner instrument position risk is calculated as: a) sum of capital requirement for specific risk, b) capital requirement for general risk, and c) capital requirement included in the owner derivatives.

Capital requirement for specific risk of investing in owner instruments is 6% of the Bank's total gross position in owner instruments.

Capital requirement for the general risk of investing in owner instruments is 12% of the Bank's total net position in owner instruments.

Capital requirement for interest rate risk included in owner derivatives is accounted in the following way:

- first step: the Bank calculates capital requirement for each assumed position before calculating net amount, as market value of the respective position, multiplied by percentages given in the following table:

Period until expiration	Percentage of assumed position
0 to/including 3 months	0.2
3 to/including 6 months	0.4
6 to/including 12 months	0.7
1 to/including 2 years	1.25
2 to/including 3 years	1.75
3 to/including 4 years	2.25
4 to/including 5 years	2.75
over 5 years	3.75

- second step: the Bank calculates capital requirement for all assumed interest rate positions as a sum of absolute amounts of individual capital requirements accounted in line with the previous item.

The Bank shall calculate capital requirement for the risk of position in owner instruments and submit quarterly reports to the FBA on Capital requirement for risk of investing into owner securities, as defined in the Chapter 14, FBA Reporting Forms, herein.

11.2.4. Delivery risk and other contracting party risk

Article 190

This defines the method of calculating capital requirements for the delivery risk and other contracting party risk, that appear in the trading book entries.

The delivery risk and other contracting party risk are risks appearing due to reasons related to the other contracting party, not to the issuer of instruments.

11.2.4.1. Delivery risk

Article 191

The Bank shall account its exposure to delivery risk if transactions in the trading book related to debt, owner and commodity instruments between the Bank and other party in contract, have not been performed within five or more workdays after the delivery date.

Exposure to delivery risk is made of the difference between the contracted and current market price for certain debt, owner or commodity instrument, but only in case when such difference is loss to the Bank.

Capital requirement for the delivery risk is calculated by multiplying the Bank's exposure, defined in line with the previous paragraph, with appropriate factor from column A in the following table:

Number of workdays after the delivery date or day anticipated for meeting obligations	Column A	Column B
5 – 15	10 %	0.5 %
16 – 30	50 %	4 %
31 – 45	75 %	9 %
46 or more	100 %	100%

The Bank does not account delivery risk exposure in case of repo and reverse repo contracts.

The Bank may calculate capital requirement for this risk by multiplying the contracted amount of delivery for the periods after the delivery date from 5 to 45 days, by adequate factor from column B.

The Bank shall calculate capital requirement for delivery risk and submit quarterly report, Capital requirement for delivery risk to the FBA on the form defined in the Chapter 14, FBA Reporting Forms, herein.

11.2.4.2. Other contracting party risk

11.2.4.2.1. Free deliveries

Article 192

The Bank calculates capital requirement for other contracting party risk appearing in free deliveries, i.e. following deliveries:

- if it paid for securities or commodities before receiving them or if it delivered securities or commodities before being paid for them; and
- in case of across-the-border transactions, if one or more days passed after the payment/delivery (see above) date.

Capital requirement is 12% of the amount of securities, commodities or money owed to the Bank multiplied by appropriate credit risk weight (0%, 20%, 50% or 100%) defined in the Chapter 1, Capital Management, applicable or applied to respective other contracting party.

11.2.4.2.2. Repo and reverse repo contracts for securities or commodities

Article 193

In case of repo contract, based on securities or commodities entered in the trading book, the Bank accounts the difference between the market price of securities or commodities it transferred to the other contracting party, and amount owned to that other contracting party or market value of the collateral received from the other contracting party, only in case that such difference is positive.

In case of reverse repo contract, the Bank accounts the difference between the amount owed by the other contracting party or market value of the collateral transferred to the other contracting party, and market price of securities or commodities received from the other contracting party, only in case that such difference is positive.

Accounted interest is included in the calculation of the market value of the amount borrowed and in calculation of the market value of collateral.

Capital requirement for the other contracting party risk related to repo and reverse repo contracts on securities or commodities is 12% of the amount calculated in the previous paragraphs of this Article, multiplied by appropriate credit risk weight (0%, 20%, 50% or 100%) as defined in the Chapter 1, Capital Management, applicable or applied to respective other contracting party.

11.2.4.2.3. Other risks of other contracting party

Article 194

The Bank calculates capital requirement for other contracting party risk and exposures in form of compensations, commissions, interests, dividends and margins for futures contracts and options traded on stock markets, directly related to entries in the trading book that were not taken into consideration for accounting capital requirements for position risks or other contracting party risk.

Capital requirement for other risks of other contracting party is 12% of the sum of exposures defined in the previous paragraph, multiplied by appropriate credit risk weight (0%, 20%, 50% or 100%) defined by Chapter 1, Capital Management, applicable or applied to respective other contracting party.

The Bank shall account capital requirement for other contracting party risk and submit quarterly report, Capital requirement for other contracting party risk to the FBA using the form defined in the Chapter 14, FBA Reporting Forms, herein.

Treatment of derivatives and other financial instruments

Article 195

Derivatives are financial instruments whose price varies depending on the changes of the defined interest rate, security price, commodity price, exchange rates, stock market indices and similar variables.

For accounting the capital requirement for position risks, the derivatives are treated as a combination of assumed long and short positions that are then used for accounting capital requirement for specific and general risk.

Article 196

(1) Interest rate futures and forward contract and (2) term obligation for purchase or sale of debt instrument in the future, are treated as combinations of the long position (position in which the Bank defined the amount of interest it will receive at a certain moment in the future) and the short position (position in which the Bank defined the amount of interest it will pay at a certain moment in the future). Interest rate futures and forward contracts are treated as combinations of long and short positions in zero coupon state bonds with adequate payability. Term obligation is treated as a combination of long/short position in zero coupon state bonds and long/short position in debt instrument that is the subject of the contract (basic instrument). These instruments are expressed in market value of the amount of the basic instrument principal and assumed amount of the basic instrument.

Article 197

Owner futures and forward contract related to individual owner securities or stock market indices, are treated as combinations of long or short position in the respective owner security and long or short position in zero coupon state bonds. Position in certain owner security is expressed in its market price. Position in zero coupon state bonds as a result of classification of owner derivatives is included in interest rate risk accounting defined under "Risk of investments in securities".

Article 198

Commodity futures and forward contracts and term obligations for purchase or sale of commodities are treated as combinations of long and short position in certain commodities and long and short positions in zero coupon state bonds. They are expressed according to assumed amount in standard measurement units, with payability in line with due date.

Article 199

Currency futures and forward contracts are treated as long positions in the zero coupon state bonds for purchased currency and short positions in zero coupon state bonds for sold currency. Positions in zero coupon state bonds that are result of classification of owner derivatives are included in the accounting of interest rate risk in line with appropriate payability.

Article 200

Swap contracts are treated as two positions of assumed amount in state securities with relevant

payability:

- swap contracts on interest rate are treated as two positions of assumed amount in zero coupon state bonds with variable or fixed interest rate and relevant payability;
- inter-currency swap contracts on interest rate are treated as combinations of long position in zero coupon state bonds in certain currency with fixed or variable interest rate (depending on the related currency) and short position in zero coupon state bonds in certain currency with fixed or variable interest rate;
- swap contracts on owner securities are treated as combinations of long position in owner securities (owner securities portfolios or stock market indices) based on which the Bank pays amount based on the change of value of respective security (portfolio or index);
- commodities swap contracts are treated as a combination of long positions in commodities based on which the Bank pays fixed price and receives variable price, and short positions in commodities based on which the Bank receives fixed price and pays variable price.

Article 201

Positions in stock market indices are subject to calculating specific and general risk in line with the provisions given in the item on risk of investing in owner securities. Positions in stock market indices are broken down into shares that are the basis of the respective index. After division of each index to individual shares, those shares can be offset with positions in the same shares with different sign. Forward contracts on stock market indices are broken down for the needs of accounting capital requirement for the position risk on long and short positions (depending on whether the Bank sold or purchased) in that stock market index or shares that form the base of the given index and short or long positions in zero coupon state bonds.

Positions in stock market indexes traded on stock markets that are broadly diversified, can be treated as positions in that index (not broken down to shares), and as such, they are subject to accounting capital requirement for general, but not for specific risk.

Article 202

Positions in convertible securities are treated as positions in related interest rates or owner securities. Convertible debt securities shall be treated as positions in owner securities:

- if there is less than three months until the first date when conversion is possible or there is less than one year until the next date, if the first date has already passed;
- if the market value of debt security is by less than 10% higher of the market value of owner security that forms the basic instrument; and
- if the Bank used net capital to cover any loss that may happen due to conversion.

Other convertible securities that do not meet the conditions defined in the previous paragraph may be treated as positions in debt or respective owner securities.

Article 203

Securities treated by repo contracts that meet all the conditions defined by the paragraph defining the trading book, are treated by assignor as long positions for that particular security and short positions in the state bond with contract payability and interest rate equal to repurchase rate.

Article 204

The Bank calculates capital requirement for options it trades with on stock markets, undistributed options and products close to options – warrants, upper limit options – caps, simultaneous purchase of put options and sale of call options, collar and similar instruments, in line with one of the two basic methods: (a) simplified method or (2) delta-plus method, as follows:

- (a) **Simplified method:** a bank that has a small position only in purchased options can use this method. If it uses this method for the positions in options, those positions are not included

in the calculation of capital requirements for other position risks.

For the purchased call and put options, the capital requirement is amount lower than:

- market value of the respective security multiplied by the sum of factors for the specific and general risk for the related variable (basic instrument) or
- market value of the option.

For positions that are combinations of purchased put options and long positions in related (basic) security or currency or for positions that are combination of purchased call options and short positions in related (basic) security or currency, capital requirement is calculated by multiplying sum of factors for specific and general risk for the respective variable (basic instrument) and then decreased by the amount in which of income for the purchaser of the option.

(b) **Delta-plus method:** In line with this method, options and products similar to options (warrants, upper limit option – cap, lower limit option – floor, and other similar instruments) are treated as positions equal in value to the respective (basic instrument) multiplied by its delta coefficient. Delta coefficient must be calculated by a recognized stock market.

While calculating general position risk and currency risk, net value of delta equivalents of positions in options can be calculated together with all positions in options of opposite sign, with identical related (basic) securities or derivatives, as follows:

- purchased call options as long positions;
- sold call options as short positions;
- purchased put options as short positions; and
- sold put options as long positions.

As delta does not cover the total risk related to options, the Bank shall calculate additional capital requirement for gamma risk and vega risk. The Bank shall use gamma and vega coefficients calculated by a recognized stock market.

The Banks shall calculate capital requirement for position risk in options and submit quarterly report, Capital requirement for position risk in options, to the FBA using the form defined by the Chapter 14, FBA Reporting Forms, herein.

Calculating net value

Article 205

Amount of long (short) positions of the Bank that surpasses the amount of its short (long) positions in the same owner or debt securities is considered its net position in each of those instruments.

When calculating net position, derivative instruments, in line of this chapter, are treated as positions in related (basic) securities.

Calculating net value of positions in the purpose defined here is allowed only if the securities issuer is the same, if they bear the same interest rate, have the same due date, are nominated in the same currency and have the same treatment in case of liquidation or bankruptcy.

Article 206

The Bank may calculate net values mutually for any position in the derivative instruments (defined in the previous chapter herein) that meet at least the following conditions:

1. if the positions are of the same value and nominated in the same currency;
2. if their reference rate (for variable interest rate positions) or coupon rate (for fixed interest

- rate positions) are not significantly different;
3. if the following dates for interest rate accounting (for positions with variable interest rates) or remaining time until payability (for fixed interest rate positions) are in line with the following limitations:
 - if the above given due dates happen to be on the same day for positions for which the payability period is shorter than one month;
 - if the above given due dates are by not more than seven days different for positions with payability periods between one month and one year; and
 - if the above given due dates are by not more than thirty days different for positions with payability periods longer than one year.

Article 207

The Bank shall reconcile its market risk management operations with the provisions given herein latest by December 31, 2009.

12. PAYMENT OPERATIONS

Article 208

This chapter defines obligations of the Bank that performs intra-banking and inter-banking payment transactions (hereinafter: internal and external payment operations) and minimum conditions that the Bank shall meet in order to perform external payment operations.

Article 209

The Bank performs internal payment operations, i.e. transactions between debtors and creditors Banka, when they have their accounts open in the Bank.

External payment operations are transactions between debtors and creditors when they have their accounts open in different banks.

Article 210

The Bank performs external payment operations provided that:

1. it meets technical conditions for external payment operations, and has adequately trained human resources, which is confirmed by control;
2. all organizational parts of the Bank operate through a single account;
3. has external payment transactions policies and procedures adopted by the Supervisory Committee.

Article 211

Policies and procedures mentioned in the Article 210, paragraph 3, herein, shall contain:

- concrete transactions that the Bank shall perform;
- precise instructions on banking relations for bilateral clearing;
- adequate information technologies for external payment operations;
- precise instructions for monitoring of its own liquidity in order to be able to duly and accurately meet its obligations based on external payment transactions.

Article 212

The Bank shall keep records on transactions in internal and external payment operations (hereinafter: the records) to provide adequate documenting of all payment orders of its clients.

The records defined in the first paragraph of this Article shall include all requirements from the instructions issued by the Agency, Central Bank of Bosnia and Herzegovina, Ministry of Finances and other relevant institutions.

Such records shall be kept at the Bank and be at the disposal of the institutions given in the second paragraph of this Article that have the right to demand the Bank to report on payment operations to them.

Article 213

The Supervisory Committee and Management of the Bank are responsible to make sure that the Bank performs payment operations in line with the conditions defined by the regulations relevant for this field.

13. MONEY LAUNDRY PREVENTION

Article 214

This chapter defines the minimum of scope, form and contents of the Bank's anti-money laundry and counter-terrorism financing activities.

Article 215

The Bank shall have a written program for managing money laundry and terrorism financing risk and implementation of adequate control procedures (hereinafter: the Program).

The provisions given in the Program, as well as all policies and procedures shall be implemented fully in the central office and all organizational units in country and abroad, if any. Special attention shall be paid to activities of all organizational parts.

The Bank shall ensure high ethical and professional standard by the enactments defined in the previous paragraph in their implementation by responsible personnel, and efficient prevention of any possibility for criminal elements to misuse the Bank, whether or not it is aware of it, which includes prevention of criminal activities or frauds, suspicious information or activities, their discovery and reporting to relevant institution on them.

Article 216

The Program shall also contain the following policies:

1. client acceptability policy,
2. client identification policy,
3. permanent monitoring of accounts and transactions policy, and
4. money laundry and terrorism financing risk management policy.

Article 217

The Bank shall not only reveal its clients' identity, but also continuously monitor activities that happen on the accounts and check and determine whether the activities happening are normal and expected in line with the nature of the respective account.

"Meet your client" shall be the central element of the risk management procedures and controls, but it should be completed with regular internal inspections and internal audit of coordination of the Bank's operations with the requirements set by the anti-money laundry and counter-terrorism financing legislation (Law and other regulations).

The Bank shall use money laundry and terrorism financing risk management program and policies to plan, among other elements, drafting and implementation of clear and precise procedures for reporting to adequate internal bodies of the Bank and relevant institutions in line with the law and regulations on all regulated and suspicious transactions of its clients.

13.1. Client acceptability policy

Article 218

The Bank shall use the client acceptability policy to clearly define the clients that the Bank finds acceptable, as well as comprehensive procedures for the implementation of that policy. This policy should include especially description of types of clients that bear higher than average and the highest risk for the Bank. Moreover, such policy must include elements such as clients' background and reputation, country of origin, public or some other high position if it is a physical person, connected accounts, types and nature of business activities, and other possible risk factors.

Policies and procedures for their implementation should be adjusted so that the client investigation requirements are graded depending on the client risk level, i.e. to have the most detailed investigation for clients with the highest risk level.

13.2. Client identification policy

Article 219

Client identification policy should be the main element of the "meet your client" standard. In terms of this Decree, Bank's clients are:

1. physical and legal persons establishing business relations with the Bank or that have open accounts in the Bank;
2. physical and legal persons on whose behalf or for whose benefit business relations with the Bank are being established, i.e. end owner – user;
3. physical and legal persons that wish to, or complete financial transactions through the Bank;
4. physical and legal persons that complete transactions via different intermediaries; and
5. any physical or legal persons linked to a financial transaction that may affect Bank's reputation or expose the Bank to any other risk.

13.2.1. Client identification

Article 220

The Bank shall set up detailed and comprehensive client identification procedures and cannot enter a business relation before completing full client identification in a satisfactory way.

The Bank shall document and apply policies of identification of clients and persons acting on its behalf or for its benefit. Documents that the Bank uses to identify clients in general shall be the most difficult to acquire illegally or to forge, as well as the documents defined by related regulations. The Bank shall pay special attention to nonresident clients and shall not simplify the client identification procedures or do them incompletely in situations when a client is not in a position to be fully presented on an interview.

With nonresident clients, the Bank should always bring up the question why such client has chosen a foreign bank to open an account.

The identification process is completed at the beginning of establishing business relations. However, to make sure that the documents are valid and relevant, the Bank shall inspect documents acquired earlier on a regular basis. Moreover, such inspections shall be done in all cases of important transactions or when there are significant changes in the way in which the respective account is used for transaction or when the Bank significantly changes the client identity and transaction documentation. In cases when the Bank learns that information on a client it already has is insufficient, it shall take urgent measures to acquire them promptly, not performing any related transactions in the meantime.

When establishing business relations with new clients and in cases defined in the previous paragraph, the Bank shall undertake inspections and request client information from specialized

service (credit) offices, if there are any and if such services are available to the Bank, and use all other possible sources, e.g. third party references, investigation services, phone books, address books and business listings, websites, etc.

Article 221

The Bank shall define standards on documentation necessary for client documentation and each transaction, and how long such documentation shall be kept, at least in line with relevant documentation keeping regulations.

13.2.2. General client identification requirements

Article 222

The Bank shall require all information necessary for the full and safe identification of each new client, as well as for the definition of purpose and intended business relation with the Bank.

The Bank shall request following information and documents from all physical persons that wish to be Bank's clients:

1. full name;
2. permanent home address;
3. date and place of birth;
4. unique citizen registry number for BiH citizens (JMBG) or passport number and country of issuance for nonresidents;
5. name of employer;
6. financial sources – description;
7. signature specimen;
8. ID card, driver's license, passport or another official picture identification document that can prove the persons identity;
9. for authorized representatives, the same data and documents as for clients; and
10. other, in line with relevant regulations.

The Bank shall check all information and data by inspecting original documents issued by authorized institutions, inclusive of ID card and passport. In face-to-face contacts, the client's photo on the documents will be inspected. Any additional change in the above listed information and documents shall be verified and documented.

The Bank shall request certified copies of all those documents that cannot be left at the Bank.

The Bank shall request following information and documents from all legal persons that wish to be Bank's clients:

1. proof of their legal status – extract from the registry book or registration at the relevant institution;
2. identification number awarded by the Tax Administration and Indirect Taxation Authority;
3. contract – founding document;
4. license for work, if such is required;
5. financial reports on business operations;
6. document that defines client's basic business operations;
7. authorized signatories signature specimen;
8. data and picture identification document for authorized representatives and their signature specimen;
9. other, in line with relevant regulations.

In all cases, the Bank shall inspect the documentation, as well as verify if the legal person really exists, if it is on the registered address, if it really does business activities it is registered for. The Bank shall keep original documentation or certified copies for its needs and safe-keep it according to relevant regulations.

The Bank shall not open an account or do any transactions with a client who insists on anonymity or uses false identity.

The Bank may refuse to open accounts for clients without giving explanations.

13.2.3. Special identification issues

Article 223

In all client identification cases, the Bank shall act in line with its policies and procedures and all applicable regulations. Besides other elements, the Bank shall pay special attention to the following cases:

Guardian and representative accounts

As guardian and representative accounts can be used to avoid Bank's client identification procedures, the Bank shall set up such procedures to be able to efficiently disclose true identity of each client or account owner. The Bank shall request and obtain satisfactory evidence on each intermediary's, guardian's and representative's identity, as well as the identity of persons they represent, i.e. the actual account user/owner.

Special purpose intermediaries

The Bank shall be exceptionally cautious in preventing business companies (with special purpose), especially international business companies, that physical persons use as a method for opening anonymous accounts. As efficient identification of such clients is exceptionally difficult, the Bank shall be especially cautious when finding out about the structure of such company, to identify its actual financial sources and identify end users or owners or persons with actual control of its funds.

Special client due diligence companies

When the Bank outsources companies active in control and evaluation (due diligence) of clients, it shall pay special attention to see whether such company is solid and whether it implements due diligence activities in line with relevant standards. Regardless of its outsourced partners, the final responsibility for knowing the client is on the Bank, therefore, the Bank shall use the following criteria to decide whether the specialized due diligence company is acceptable:

1. specialized company abides at least by the minimum practices related to client due diligence defined in this Chapter of this Decree;
2. client due diligence procedures used by the specialized company are at least as detailed as they would be if they were implemented by the Bank itself;
3. the Bank's requirements in sense of reliability of the system the specialized firm uses for client identity examinations are met;
4. the Bank and the specialized company have an agreement which allows the Bank to check the client due diligence activities performed by the specialized company at any moment;
5. all relevant identification data and documentation related to client's identity must be immediately delivered to the Bank. The Bank then carefully inspects them. Such information must be available for control by banking supervisors and other authorized persons and bodies in line with the law.

Client accounts open by professional intermediaries

When the Bank discovers, or has reason to believe that an account open by a professional intermediary on behalf of a physical person, it shall perform client identification. In case when such professional intermediary opens a collective account for a number of clients, and in case when there are subaccount of the collective account, the Bank shall perform client identification of all individual clients.

In the following cases, the Bank shall turn down the account application:

1. when the intermediary is not authorized to disclose necessary information on the actual owners of funds to the Bank, e.g. lawyers limited by professional secrecy code; and
2. when the intermediary was not subjected to due diligence standards equivalent to the standards defined herein.

Correspondent banking

In order to avoid being exposed to risk or drawn into keeping and/or transferring money linked to illegal or criminal activities, when entering correspondent relations with other banks, especially banks abroad, or when opening correspondent accounts, the Bank shall perform due diligence for such accounts.

The Bank shall collect necessary information on its correspondent banks in order to learn all about the nature of operations of its correspondent bank. The following factors and information shall be included:

1. location (country) of the correspondent bank;
2. correspondent bank's management;
3. main business activities of the correspondent bank;
4. efforts that the correspondent bank is taking in sense of preventing money laundry and terrorism financing, as well as adequate client acceptance and "know your client" policies;
5. purpose i.e. goal to which the account is opened;
6. identity of third persons that will use correspondent banking services;
7. situation of banking regulations and supervisions in the correspondent bank's country, etc.

The Bank may enter correspondent relations only with banks from countries where there are adequate efficient banking supervision institutions.

The Bank shall prevent the risk of the correspondent accounts being used directly by third parties for performing activities for their own benefit.

Courier transactions and/or similar "pouch transactions"

The Bank shall establish special procedures of investigation and monitoring in case of cash transactions called "pouch transactions" that clients do personally, via couriers or other physical persons. As this type of transaction, whether incoming or outgoing, is highly risk, the Bank shall pay special attention in case of such activities.

Inactive accounts

In case of inactive accounts, the Bank shall be especially cautious in case they get suddenly activated, especially if they are used for transactions of larger amounts or there are some indicators of suspicious activities. In such cases, the Bank shall reexamine the client's identity.

Safe deposit boxes

In activities related to safe deposit boxes, i.e. keeping objects, safes, sealed envelopes or parcels in safe deposit boxes, the Bank shall set up special procedures for adequate identification of physical persons and/or companies that are not its clients and do not have open accounts. An important element of these procedures is the possibility to identify the real owner of objects kept in safe deposit boxes.

13.2.4. "Meet your client" and client profile formation

Article 224

In its everyday activities and relations with clients, the Bank must learn about clients' activities, systematically understand their operations, learn about their financial and payment habits, important information and documentation on the clients' business relations and monetary flows, types of business relations the clients have and meet their business contacts, their domestic

and international market practice, usual sources of debt and approvals of their accounts, used currencies, frequency and volume of transactions, etc. The Bank shall:

1. in case of business companies, get to know ownership structure of the company, authorized executive decision-makers and persons legally authorized to act on their behalf;
2. bind its clients to deliver information and documentation on anticipated and intended changes of form and contents of their business activities in due time; and
3. pay special attention to well-known clients and public persons and make sure that their possible illegal or suspicious transactions do not endanger the Bank's reputation.

Based on the elements listed in the previous paragraph, the Bank shall form its clients' profiles. These profiles shall be kept in a special client profile folder. Thus created client profiles shall be used by the Bank as the general additional indicator in the client operation monitoring to define:

1. neatness, continuity and straightforwardness of transactions and relations between the Bank and clients for easy and fast evaluation at any time; and
2. any unusual behavior or deviations from the client's profiled behavior or transactions for easy and fast recognition and instigating adequate procedures.

13.2.5. Unusual and strange behavior as grounds for suspicion

Article 225

The Bank shall request from its clients explanation of every inspected change of behavior. In case the clients cannot give explanation or the explanation they give is unconvincing and without arguments, the Bank shall consider such change of behavior suspicious and activate its procedures for more detailed investigation, including contacting relevant institutions.

Unusual and strange behavior that give grounds for suspicion, among others, are:

1. unexpected change in the client's financial behavior that cannot be explained by business and financial motives;
2. unexpected appearance of a new persons, business and/or geographical region amidst known ways and types of operations, business and financial network of clients;
3. special characteristic of a transaction that does not fit into the usual client's practices;
4. use of funds from the client's account for a purpose not usual and not included in the arrangement between the bank and the client;
5. client's explanation of the transaction is unconvincing and seems false;
6. when transactions in small amounts below the level for which reporting to institutions in charge is obligatory are frequent;
7. when the client closes the account by taking the whole amount in ready money or by dividing the amount to smaller amounts on different new accounts;
8. when the Bank's staff does not have clear evidence of criminal activities, but suspects the possibility.

This Decree contains the annex on suspicious financial transaction indicators.

13.3. Continuous account and transaction monitoring policy

13.3.1. Anti-money laundry monitoring

Article 226

The Bank shall continuously monitor accounts and transactions, which is a basic element of efficient "know your client" procedures. Therefore, the Bank shall first get and define answers to one of the most important questions: what is the nature of normal and reasonable or normal and usual activities of its clients. When this question is answered, it shall provide means or instruments, ways or procedures to discover which of the transactions do not fit such behavior and use those instruments to efficiently control and minimize its client operations risk.

Scope to which the Bank develops its client account behavior monitoring must be in line with the needs of adequate risk-sensitivity. The Bank shall set up such system that enables revealing all unusual, strange and suspicious types of activities for all its accounts.

Article 227

In order to make sure the goals given in the previous Article are fulfilled, the Bank shall:

1. set up transaction limits for different account types and categories;
2. pay attention and check all transactions on accounts that exceed set limits;
3. define types of transaction that must warn the Bank of a possibility that clients are taking some unusual, strange or suspicious transactions;
4. define types of transactions that do not make economic or commercial sense;
5. define the threshold and /or nature of large money deposits inconsistent with normal or expected transaction for such type of clients;
6. define procedures of the Bank for cases of high turnover on accounts whose balances are usually not on such high level;
7. compose official comprehensive list of examples of suspicious transaction and examples and ways of possible forms of money laundry and terrorism financing.

Article 228

For the accounts with a higher risk, the Bank shall set up a more intensive monitoring system. In order to identify the category of the high risk account, the Bank shall compose a set of key indicators for categorization of this group, taking into account data on background and information on clients, such as financial resources, type and nature of transactions, country of origin, and others. For the accounts of a higher risk level, the Bank shall:

1. create adequate information management system that would make sure that the management and officials responsible of legality of Bank's operations have all necessary information for identification, efficient monitoring and analysis of high risk client accounts. This system shall include at least:
 - a) reporting on documentation missing for a sure client identification,
 - b) reporting on unusual, strange or suspicious transactions done through client accounts, and
 - c) reporting on Bank's general relations with clients.
2. make sure that the management, responsible for the Bank's operations in the field of private banking is fully aware of situations of clients that may present a higher risk level, is awake and appreciative of information that may be received fro a third party. Larger transactions of these clients shall be approved by the management.
3. adopt a clear policy, issue internal guidelines and procedures and set up control enabling especially cautious operations in relations with politically exposed persons, other persons and companies that are clearly linked to them.

13.3.2. Counter-terrorism financing monitoring

Article 229

Informing relevant institutions and blocking financial resources which the Bank suspects or knows are being used for terrorism financing is the main condition for fight against terrorism. The Bank should pay special attention to:

1. checking, as detailed as possible, whether the funds from legal sources or operations are used to support terrorist activities;
2. based on information of relevant institutions, monitoring and updating lists of organizations and persons linked to terrorism and terrorists;
3. applying procedures to prevent financing terrorists and terrorist organizations, including urgent informing institutions in charge on observed suspicious transactions;

4. attempts to reveal actual identity and/or purpose of, especially small, transfers, when the transfer purpose and/or recipient are not clearly stated;
5. cases when a client's account is unexpectedly emptied by client's order;
6. same as in money laundry cases, in cases in which the money is received or sent electronically, with some unusual or strange aspects such as amount, country to which the money is sent, country of origin, currency, etc.;
7. non-profit or charity organizations, especially if their actual activities are not identical as their registered activity, if source of funds is unclear, if the organization receives money from strange and suspicious sources.

13.4. Money-laundry and terrorism financing risk management policy

13.4.1. Responsibility of Bank's bodies and reporting

Article 230

Bank's Supervisory Committee is responsible of creating an efficient Program and to make sure that the adequate control procedures are implemented in the Bank , so as to have the Program, policies and procedures, as its inseparable part, implemented in practice.

"Meet your client" policies and practices of the Bank should be efficient and include regular procedures for adequate and successful monitoring by the Management, internal control systems, internal audit, job systematization, adequate staff training and other segments closely linked to this field.

In order to have the policies and procedures of the Bank implemented, the Program shall clearly define responsibilities and delegate them to adequate organizational segments or functions, Management, leadership and staff of the Bank.

Article 231

Procedures for reporting on legal, unusual, strange and suspicious client transactions shall be clearly defined and in written form. Such reporting in practice shall be regular, efficient and available to all parts of the Bank and all persons, and fully in line with internal reporting policies and procedures.

Article 232

Along with the obligation stipulated by the Article 231 herein, the Bank shall issue internal reporting procedures defining reporting all defined information and data to relevant institutions outside the Bank, in line with relevant laws and regulations.

The Bank shall fully meet its obligations of reporting to institutions defined by the law.

Article 233

The Bank shall safe-keep documentation on all transactions performed by the client and in relations with clients, filed according to type, in the way and within the deadline defined by relevant laws.

13.4.2. Appointing activity coordinators

Article 234

Bank's Supervisory Committee shall make sure that persons appointed Bank's executives are responsible of coordinating all Bank's activities, their legality and harmonization with all provisions given herein, as well as efficient implementation of the Program.

The Coordinator in charge of bringing the Bank's activities in line with the anti-money laundry

and counter-terrorism financing legal framework (KUPIT) has the following:

1. duty to ensure efficient functioning of the reporting to relevant institutions, define by the Law and other regulations, on all transactions exceeding the defined level, all linked and suspicious transactions;
2. duty to ensure efficient functioning of the reporting lines as defined by the Program;
3. adequate qualifications, knowledge, experience and good professional and moral reputation;
4. adequate necessary means to perform the given function, inclusive of at least staff members, one responsible of suspicious clients monitoring and revelation, and the other of monitoring reporting to relevant institutions and internal reporting lines, authorized for independent decision-making and seeking legal support. The Bank shall decide whether more staff members are required for this function;
5. daily full access to client monitoring systems;
6. daily reports on suspicious client activities;
7. authority to order enforcement of procedures defined by the Law, relevant regulations and the Program, and inform the Management and the Supervisory Committee on them;
8. possibility to monitor domestic and foreign relation procedures in order to confirm certain suspicions;
9. obligation to improve his/her own knowledge and skills and knowledge and skills of staff he/she oversees, as well as other relevant Bank's staff;
10. obligation to send at least quarterly reports to the Supervisory Committee and the Management on Bank's activities and if they are in line with anti-money laundry and counter-terrorism financing requirements, as well as actions taken against suspicious clients;
11. obligation to at least annually evaluate adequacy of the Program, policies and procedures and propose their updating to the Supervisory Committee;
12. obligation to give full support to activities taken by the internal audit of the Bank;
13. obligation to include in his/her procedures internal investigation of the responsibility of the Bank's staff who neglected their duties in this segment.

13.4.3. Internal and external audit of the Bank

Article 235

The Bank's internal audit shall implement regular evaluation and make sure that the anti-money-laundry and counter-terrorism financing program, its policies and procedures, i.e. "meet your client" procedures are fully implemented and in line with all requirements of the Law and other regulations.

How much the Bank's activities are in line with the requirements of the Law and relevant regulations should be subject to independent evaluation by internal audit in the Bank, which includes Bank's policy and procedures adequacy evaluation in terms of legal requirements and other regulations.

Obligatory function of internal audit at the Bank includes permanent monitoring of whether the Bank's staff implements the program, policies and procedures by checking adequately selected samples of clients, accounts and transactions, and of correct reporting on unusual, strange, suspicious transactions or transactions defined by the law and other regulations.

Article 236

Internal audit function at the Bank shall represent a fully independent evaluation of risk management and internal control system functioning. The internal audit has the obligation to regularly, i.e. periodically report on its duties to the Audit Committee and/or the Supervisory Committee of the Bank, in line with the Law. These reports shall include findings and efficiency evaluations in all fields defined by the Law and regulations, program, policies and procedures of the Bank, which regulate Bank's obligations in the field of anti-money laundry and counter-

terrorism activities. These reports should also include evaluation of the Bank's staff training in this field.

Article 237

The Bank's Supervisory Committee shall make sure that the internal audit unit of the Bank has the expertise and equipment necessary for the task, especially in terms of human resources familiar with the program, policies and procedures, and that they have high moral and professional ethics, especially in the "meet your client" field.

Bank's internal audit staff shall be very pro-active in terms of monitoring the activities that the Bank shall take over based on the findings of internal audit, external audit and law enforcement agencies.

Article 238

During the independent external audit of its financial reports, the Bank and independent external audit agencies shall contract the audit of legal obligations of the Bank in terms of the implementation of programs, policies, procedures, internal control systems and internal audit, and whether the Bank has brought its activities in line with anti-money laundry and counter-terrorism financing requirements, using testing technique.

13.4.4. Bank's staff training

Article 239

The Bank shall ensure continuous training of its staff included in the Banks anti-money laundry and counter-terrorism financing programs. The contents of such training should include at least the following topics in the field defined herein:

1. Bank's legal obligations and obligations related to other obligations;
2. Banks program, policies and procedures;
3. detailed elements of "meet your client" policy;
4. money-laundry risks and personal liability of staff;
5. potentials and weaknesses of financial institutions in preventing money-laundry and terrorism financing;
6. responsibilities and duties of the KUPIT;
7. internal control systems;
8. internal audit system;
9. recommendations of Basel Committee on Banking Supervision, especially client due diligence;
10. recommendations of the international institution FATF on prevention of money-laundry and terrorism financing.

Frequency and topics for training defined in the previous paragraph shall be adjusted to the real needs of the Bank's organizational units, functions and/or staff, for the purpose of timely harmonization with new requests and introduction of new developments, as well as maintain current knowledge and experience of its staff, the bank shall set up regular training programs.

In making decisions on the needs, type and scope of training define in the previous article, the Bank shall adjust the focus of the training program depending on whether the staff is newly recruited, or they has direct contacts with clients, or they works with new clients, or they control whether the Banks operations are inline with the law and other regulations, other executive staff, Management and/or Supervisory Committee, etc.

Trough its training programs, the Bank shall make sure that all relevant staff fully understands the importance and need for successful implementation of the "meet your client" policy and that such understanding is the key to success of its implementation.

Article 240

In order to develop professional skills and efficiency of its staff, the Bank shall create a comprehensive manual that will include: Law on prevention of money laundry and terrorism financing in the FBiH, Book of regulations on ways and timeframe of reporting to financial police in the field of the prevention of money laundry and terrorism financing, including the way of recording collected data, Law on Banks, other regulations pertaining to the prevention of money laundry and terrorism financing, Bank's program with all policies and procedures, staff conduct regulations, methods for disclosing illegal and suspicious activities, duties and responsibilities of the KUPIT, descriptions of some examples of abuse, translation of the Basel Committee publication Customer Due Diligence, translation of recommendations for prevention of money laundry and terrorism financing issued by the international institution FATF, staff training program.

14. FBA REPORTING FORM

Article 241

This Chapter defines forms for reporting on activities that the Bank is obliged to send to the FBA, as follows:

1. In line with the Article 26 herein, Chapter 1, Capital management, the Bank submits quarterly Report on the state of the bank's capital - Form nr. 1 (tables A, B and C). Report on operative risk capital – Form nr. 1 – Table E and Report on market risk capital– Form nr. 1 – Table F;
2. In line with the Article 59 and 65 herein, Chapter 2, Credit risk management, the Bank submits quarterly Report on asset classification and list of poor quality assets of the Bank - Form nr. 2 (tables A and B);
3. In line with the Article 79 herein, Chapter 3, Risk concentration management, the Bank submits quarterly Report on the bank's risk concentration - Form nr. 3 (tables A, B, C, D, E, F, G and H);
4. In line with the Article 97 herein, Chapter 5, Liquidity risk management, the Bank submits decade Report on the Bank's liquidity position - Form nr. 4 (Table A) and quarterly Report on payability harmonization of assets and liabilities in the structure of major Bank's sources - Form nr. 4 (tables B, C and D);
5. In line with the Article 105 herein, Chapter 6, Foreign currency risk management, the Bank submits Report on Bank's foreign currency position - Form nr. 5 and Form nr. 5 – Table A.
6. Bank balance sheet form, is submitted by the Bank according to the FBA instructions, with time limit for delivery to the FBA within 15 calendar days upon expiration of reporting month, and quarterly with adequate forms: Form BS-NS, Form BS-K, Form BS-D. Form BS-ST and Form BS-VB within 30 calendar days upon the last day of the reporting quarter.
7. Bank income statement form, is submitted by the Bank according to the FBA instructions, with time limit for delivery to the FBA within 30 calendar days upon expiration of reporting quarter.
8. Report on monetary flows, is submitted by the Bank according to the NT form, with time limit for delivery to the FBA within 30 calendar days upon expiration of reporting quarter.
9. In line with the Article 155 herein, Chapter 9, Effective interest rate, and in line with the valid Instructions for calculation of weighted nominal and effective interest rate, the Bank submits monthly reports on weighted nominal and effective interest rates based on credits (Credits: interest rates – Table A), deposits (Deposits: interest rates – Table B) and report Credits, Deposits: interest rate – Table C, with time limit of 15 days upon expiration of the reporting month, and quarterly within 30 days upon the expiration of the reporting quarter.
10. In line with the Article 171 herein, Chapter 11, Market risk management, the Bank submits monthly report – Detailed trading book– Form nr. 7.
11. In line with the Article 180, herein, the Bank submits quarterly report – Specific interest rate risk per currency– Form nr. 8 - Table A.
12. In line with the Article 182 and 183 herein, Chapter 11, Market risk management, the Bank submits quarterly report – General interest rate risk per currency (payability based

- approach) - Form nr. 8 - Table B or if it applies duration based approach – General interest rate risk per currency (duration based approach) - Form nr. 8 - Table C.
13. In line with the Article 186 herein, Chapter 11, Market risk management, the Bank submits quarterly report – Capital requirement for interest rate risk - Form nr. 5 -Table B.
 14. In line with the Article 189 herein, Chapter 11, Market risk management, the Bank submits quarterly report - Capital requirement for risk of investing in owner securities – Form nr. 9 - Table A.
 15. In line with the Article 191 herein, Chapter 11, Market risk management, the Bank submits quarterly report - Capital requirement for delivery risk – Form nr. 10 - Table A.
 16. In line with the Article 194 herein, Chapter 11, Market risk management, the Bank submits quarterly report - Capital requirement for other contracting party risk – Form nr. 10 - Table B.
 17. In line with the Article 204 herein, Chapter 11, Market risk management, the Bank submits quarterly report - Capital requirement for position in options risk – Form nr. 11.
 18. In line with the Article 47 of the Law on Banks and article 232 herein, Chapter 13. Money Laundry Prevention, the Bank shall immediately report transactions defined in the article 47, paragraph 3, of the Law on banks (financing terrorist activities and financing activities obstructing peace keeping agreements) to the FBA using Form nr. 6 – Table E, and submit monthly Report on transactions of 30.000,00 KM or more and transactions contrary to the provisions given in the paragraphs 1, 2 or 3 of Article 47 of the Law on Banks using form nr. 6 – Table A, B, C and D within 10 days upon the end of the month.

The reports defined in the first paragraph of this Article, except items 5, 10 and 19, shall be enclosed to Form BFBIH - FBA, proving that the reports are:

- a) accepted by the Supervisory Committee, and
- b) verified by the internal auditor, which confirms their completeness and accuracy.

Reports defined in the paragraph 1 of this Article shall be submitted in electronic form and in written, within timeframes stipulated herein.

Forms for reports defined in the Article 1 and 2 herein are a part of this Decree.

Article 242

In line with this Decree, the Bank shall submit decade reports on the liquidity position latest within 5 (five) calendar days after the last day of the reporting decade.

Article 243

In line with this Decree, the Bank shall submit monthly reports on the foreign currency position on the first workday of the current month for the last day of the previous month, balance sheet 15 calendar days after the reporting month, report on weighted nominal and effective interest rates whose delivery timeframe is 15 days after the reporting month and detailed trading book.

Article 244

In line with this Decree, the Bank shall report quarterly (calendar quarters) to the FBA on: state and structure of its capital, completed assets classification and separate list of poor-quality assets, on state of allocated credits to employees, exposure to credit risk concentration, reports on all transactions with entities related to the Bank done within the reporting quarter, report on payability harmonization of assets and liabilities in the structure of major sources, balance sheet with accompanying forms defined in the item 6, Article 241 herein, income statement and monetary flows, general interest rate risk per currency, specific interest rate risk per currency, report on the capital requirement for foreign exchange risk, capital requirement for risk of investing in owner securities, capital requirement for delivery risk, capital requirement for other contracting party risk, capital requirement for risk of position in options. All monthly reports include quarterly reporting.

Those reports that are submitted on monthly basis, are also submitted on quarterly basis.

For the purposes of reporting to the FBA, equity capital is on prescribed forms is defined as "share capital".

Quarterly reports are submitted latest within one (calendar) month after the last day of the reporting quarter.

The Bank shall submit reports for the last quarter of the previous year, prepared based on preliminary data to the FBA latest within one month after the last day of the reporting quarter.

The Bank shall submit reports defined in the paragraph 5 of this Article prepared based on the final data to the FBA latest by March 5th of the current year.

Article 245

This Decree shall come into force on the day following the date of its publishing in the FBiH Official Gazette.

Number:
Sarajevo,

PRIME MINISTER

Dr Nedžad Branković