

BANKING LAW

CHAPTER I – BASIC PROVISIONS

Article 1

(Scope of the Law)

This Law governs the establishment, operation, management, supervision of the business operations, resolution and termination, of banks.

Article 2

(Definitions of terms)

Terms used in this Law shall have the following meanings:

a) A **bank** shall be understood to mean a joint stock company headquartered in the Federation of Bosnia and Herzegovina (hereinafter: the Federation), which is licensed by the Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter: the Agency), performing the activity of taking deposits and other repayable funds and lending for its own account, and which may carry out other transactions in conformity with this Law.

b) A **foreign bank** is a legal entity headquartered abroad which has an operating licence of the regulatory body of the home country, established as a bank, and registered with the competent authority of that country.

c) **Organisational units** of banks and banks seated in Republika Srpska (hereinafter: RS) or the Brčko District of Bosnia and Herzegovina (hereinafter: the Brčko District) shall constitute branches, as basic business units, and lower-level organisational units subordinated to the branch, such as sub-branches, outposts, agencies and the like, which do not have legal personality and carry out all or part of the operations that may be performed by a bank in accordance with this Law.

d) A **representative office** in terms of this Law shall be understood to mean an organisational unit of a bank opened abroad or of a bank outside the Federation, opened in the Federation, without legal personality, which may not perform banking activities, and which only performs activities of market research and providing information, as well as presenting and promoting the bank that established it.

e) The **competent regulatory authority** shall be understood to mean a authority vested with powers by special regulation of granting and revoking operating licences to/from financial sector persons, and/or of supervising and controlling such persons, or regulating their operation, as well as the relevant authority of the European Union carrying out these responsibilities in accordance with the EU legislation.

f) A **home country** shall be understood to mean the country in which a foreign bank or another financial sector person was established and licensed.

g) A **client** shall be understood to mean any person who uses or has used the services of a bank, or a person who has approached a bank in order to use its services, and who has been identified by the bank as such.

h) An **equity holding** shall be understood to mean any equity holding registered with the competent institution, which defines a contribution in cash or other assets constituting a proportional interest in management rights in a legal person.

i) **Qualifying participation** shall be understood to mean direct or indirect investment into a legal person accounting for 10 percent or more of capital or voting rights, or enabling the exercise of significant influence over the management of that legal person.

j) **Significant participation** exists when one person has:

- 1) direct or indirect right or ability to exercise 20 percent or more of voting rights in another legal person, and/or direct or indirect ownership of 20 percent or more of capital of that legal person, or
- 2) the ability to effectively exercise significant influence over the management of a legal person, or over the business policy of that legal person.

k) **Controlling participation** exists when one person:

1) alone or with one or more other persons, which are related to it or which act jointly, has directly or indirectly 50 percent or more of voting rights in a legal person, and/or direct or indirect ownership of 50 percent or more of capital of that legal person, or

2) the ability to elect at least half of the members of the supervisory board, or

3) in any other way exercises dominant influence over the management of a legal person based on its role as member or shareholder or based on a concluded contract, in accordance with a provision which regulates companies.

l) The **parent company of a legal person** shall be understood to mean a company that holds controlling participation in such legal person.

m) A **subsidiary of a legal person** shall be understood to mean a company in which such legal person holds controlling participation.

n) An **associated company of a legal person** shall be understood to mean a company in which such legal person holds significant participation.

o) A **subordinated company of a legal person** shall be understood to mean a subsidiary or an associated company of such legal person.

p) A **group of companies** shall be understood to mean a group consisting of the parent company of a legal person, its subordinated companies and associated companies of the companies of that legal person.

r) A **banking group** shall be understood to mean a group of companies which consists exclusively or mostly of financial sector persons, and which includes at least one bank being the ultimate parent company, or a subsidiary.

s) An **ultimate parent company** of a group of companies shall be understood to mean a legal person in which no legal person holds controlling participation.

t) A **parent bank in a banking group** shall be understood to mean a bank which:

1) controls other members of the banking group and/or

2) holds a share in capital or voting rights of at least 20 percent in each member of the banking group,

u) **Related persons** shall be understood to mean natural and legal persons that are mutually related through the ownership of capital, or management of capital, holding 20 percent or more of voting rights or capital, or related in any other manner for the purpose of attaining common business goals so that the business operations and results of one person may significantly affect the business operations and results of another person.

Related persons shall be understood to also mean:

1) family members, in the meaning determined in the legislation on companies,

2) persons that are mutually related:

- in such a manner that one person, or persons who are considered related persons under this item, collectively, directly or indirectly, have shares in another person,

- in such a manner that the same person or persons who are considered related persons under this item has shares in two persons as members of the management, supervisory board and other bodies in a legal entity in which they exercise this function, or in which they are employed, and family members of those persons, in the manner prescribed with respect to related persons by the law governing the operations of business companies.

Related persons shall be required to report activities and transactions in which there is personal interest and avoid conflict of interest.

A group of related persons shall be understood to mean one of the following:

1) two or more natural or legal persons that, unless proven otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other person or other persons;

2) two or more natural or legal persons between whom there is no relationship of control as described in sub-paragraph (1) of this item, and that are considered to constitute a single risk because they are so interrelated that, if one of these persons encountered financial problems, especially difficulties associated with the financing or repayment, other persons or all other persons would probably face difficulties themselves, associated with the financing or repayment.

v) **Persons with a special relationship with a bank** shall include:

- 1) members of the banking group to which the bank belongs,
- 2) a person holding at least a 5 percent share in the bank or in persons which are members of the banking group to which the bank belongs, and nuclear family members of those persons,
- 3) a legal person in which a bank holds qualifying participation,
- 4) a legal person in which a member of the management, a member of the supervisory board or a procurator of the bank, and nuclear family members of those persons, hold qualifying participation,
- 5) a member of the supervisory board, a member of the management of the bank, a holder of a key function in the bank, a procurator of the bank, and nuclear family members of those persons,
- 6) a member of the management, a member of the supervisory board, or a procurator of the legal person referred to in sub-items 2) and 4) of this item,
- 7) a member of a governing and management body, and a procurator of a member of the banking group to which the bank belongs, and nuclear family members of those persons,
- 8) a person who has entered into an employment contract with a bank, which enables such persons to exert significant influence on the operations of the bank, and/or which contains provisions determining the remuneration for that person under special criteria that are different from the criteria under standard employment contracts, provided that these are not persons referred to in sub-items 2) and 5) of this item, another person who, because of the nature of that person's relationship with the bank, is a person in a conflict of interest when dealing with the bank, or a person that has a significant influence on the execution of activities in the bank,
- 9) a legal person whose member of the governing and management body or procurator is at the same time a member of the management or a member of the supervisory board or a procurator of the bank,
- 10) a legal person whose member of the management holds 10 percent or more of the bank's voting shares.

z) **Immediate family members** of persons referred to in item u) of this Article shall include:

- 1) a partner in marriage or common-law marriage, a child or adopted child of such person,
 - 2) a person supported by the individual or their partner in marriage or common-law marriage,
 - 3) person who does not have full legal capacity and who has been placed in custody of such person.
- aa) **Holders of critical functions** shall include persons performing those functions in the bank that enable them to exert significant influence on the operations of the bank, and who are members of neither the management nor the supervisory board.
- bb) **Senior management** are natural persons that perform management functions in the bank and are responsible for managing its daily operations, and are responsible to the management for their work.
- cc) **Supervision** shall be understood to mean a process to verify bank safety and soundness/creditworthiness by assessing their financial condition, risk management systems, and compliance with all applicable laws and regulations.
- dd) A **person in the financial sector** shall be understood to mean a bank, development bank, insurance company, micro-credit organisation, authorised parties to the securities market, investment and voluntary pension fund management companies, financial leasing entities, asset management companies, companies engaged in the purchase and sale of investments, factoring companies, companies for insurance intermediation, companies that perform card operations, as well as any other legal person engaged predominantly in financial activities in the country and abroad.
- ee) A **deposit** shall be understood to mean cash deposited pursuant to a contract concluded with a bank by virtue of which the bank has undertaken to take, and a depositor to deposit with the bank, a certain amount of cash. Under such contract, the bank acquires the right to manage the deposited money and undertakes to release the amount on the terms set out in the contract.
- ff) A **loan** shall be understood to mean a contract by which a bank undertakes to put at a loan beneficiary's disposal a certain amount of funds for a specified or unspecified period of time, for a specified purpose or without a specified purpose, and the loan beneficiary undertakes to pay to the bank the contracted interest and repay the money received within the period and in the manner specified in the contract.

- gg) A **bank's core capital** shall be understood to mean the sum of common equity Tier 1 capital after regulatory adjustments and additional Tier 1 capital after regulatory adjustments.
- hh) **Supplementary capital** shall be understood to mean the sum of capital instruments, subordinated debt, general loan loss provisions and other supplementary capital items after reduction for regulatory adjustments, which may not be higher than one third of core capital. Capital instruments and subordinated debt should meet the conditions for inclusion in supplementary capital of the bank in the manner prescribed by the Agency.
- ii) **Indirect investment** shall be understood to mean a possibility of a person without direct ownership in the bank to effectively exercise ownership rights in the bank by using another person's direct ownership in the bank.
- jj) A **dormant account** shall be understood to mean an account with no activity on the part of its holder, including depositing or withdrawing funds in the account by its holder in a period of one year from the date of the last activity performed by the account holder or, in the case of term deposits, in a period of one year following their maturity date.
- kk) **Regulatory capital (eligible capital)** shall be understood to mean the sum of core capital and supplementary capital, after regulatory deductions.
- ll) **An internal control system** shall be understood to mean a set of processes and procedures established for the purposes of adequate risk control, monitoring the efficiency and effectiveness of the bank's operations, the reliability of its financial and other information and compliance with regulations, internal regulations, standards and codes in order to ensure the stability of a bank's operations.
- mm) A **secured creditor** shall be understood to mean every creditor of the bank that has a lien on movable or immovable property or rights registered in the appropriate public registers.
- nn) **Exposure of the bank** shall be understood to mean the sum of all on- balance sheet and all off- balance sheet exposures to credit and other types of risk to one person or a group of related persons.
- oo) A **trading book** shall be understood to mean all positions in financial instruments and commodities that the bank holds for trading or to hedge the positions which it holds for trading.
- pp) A **banking book** shall be understood to mean all asset items and off- balance sheet items of the bank, which are not identified as trading book positions.
- rr) **Systemic risk** shall be understood to mean a risk of disruption in the financial system that could have serious adverse consequences for the financial system and the economy as a whole.
- ss) A **systemically important bank** shall be understood to mean a bank whose deterioration in the financial condition or failure could have serious adverse consequences for the stability of the financial system.
- tt) **Critical functions** shall be understood to mean the activities, services or tasks whose interruption would probably lead to the threat to financial system stability or disturbances in the provision of necessary services to the real economy, due to the size, market share and the linkages of the entity that provides them with other participants in the financial system, particularly taking into account the possibility of someone else seamlessly taking over the pursuance of these activities, services or tasks.
- uu) A **resolution unit** shall be understood to mean a unit, which has been authorised by special regulation to resolve persons in the financial sector and to undertake resolution measures, as well as an appropriate body of the European Union with these competences in accordance with EU regulations.
- vv) Extraordinary public financial support shall be understood to mean the allowed state aid in accordance with the law which regulates the system of state aid in Bosnia and Herzegovina, and which the giver may provide in extraordinary situations as assistance in salvaging or resolution of banks in accordance with this Law.

Article 3

(Applicability of other laws)

The provisions of the legislation on Business Companies governing joint-stock companies, as well as the provisions of the legislation on accounting and auditing, internal payment system, foreign exchange operations, the Central Bank of Bosnia and Herzegovina (hereinafter: Central Bank), insurance

mediation, prevention of money laundering and terrorist financing, the securities market, liquidation proceedings, bankruptcy proceedings and other laws that banks are obliged to implement, shall apply to the issues which are not regulated by this Law.

Article 4

(Use of the word “bank” and a ban on banking)

- (1) A bank shall have the word “bank” in its business name or a word that means “bank” in a foreign language.
- (2) No person may use the word "bank" or any derivative of the word to refer to a business activity, product or service without a prior approval or authorisation of the Agency in keeping with this Law, except where such use has been established and approved by virtue of a special law or an international agreement, or where the context in which the word "bank" is used makes it clear that the word does not pertain to banking activities.
- (3) A bank may not use in its business name those words that can mislead bank clients and others about the status and/or competitive position of that bank, or that violate the rights of others, and in particular misleading words referring to the scope of the bank's business operations, the identity of the bank and/or its founders, the bank's connections with other legal persons and competitive advantage of the bank in its relationships with clients.
- (4) No one, except a bank, may engage in taking deposits or other repayables. No one, except a bank, may extend loans in the territory of the Federation, unless it is authorised by law to do so.

Article 5

(No unfair competition)

- (1) A bank shall not enter into explicit or tacit agreements, pass decisions or other enactments and embark upon transactions which are aimed at significantly preventing, restricting or distorting competition on the market, nor shall it abuse the dominant position or achieve concentration significantly preventing, restricting or distorting competition through the creation or reinforcement of a dominant position in the financial market.
- (2) In determining the distortion of competition referred to in paragraph (1) of this Article, the provisions of regulations governing the protection of market competition shall apply.
- (3) The Agency has the right to regulate fees that banks charge in the case of agreements among banks on the amounts of fees or other unfair business practices contravening the regulations passed by the Agency.

Article 6

(Enactments of the Agency)

- (1) A complaint may be lodged against the enactments of the Agency with the competent second-instance body.
- (2) The complaint procedure shall be conducted in accordance with the legislation governing the work of the Agency and the implementing regulations of the Agency.

CHAPTER II – ESTABLISHING AND TERMINATING BANKS

SECTION A. INCORPORATION ACT AND STATE

Article 7

(Legal form and founders)

- (1) Banks are business companies established in the legal form of joint stock companies.
- (2) Banks may be established by national and/or foreign legal or natural persons.
- (3) Banks shall be considered to be open joint stock companies, regardless of the number of shareholders.

Article 8

(Articles of association or Decision on incorporation of a bank)

Articles of association or a decision on incorporation of a bank shall comprise, as a minimum, the following elements:

- a) the name and the seat of the legal person founding a bank, or the full name and permanent residence of the natural person founding a bank;
- b) the bank's name and registered address;
- c) purposes of the bank's founding;
- d) business activity (banking operations the bank intends to perform);
- e) a total amount of the initial (share) capital contributed by the bank's founders with a description and evaluation of contributions made in kind or rights, as well as terms and methods of its increase and decrease;
- f) the total number and face value of the shares, their types and classes;
- g) a description of the rights carried by a share;
- h) the number of shares subscribed by each bank founder;
- i) the time limit by which the bank's founders are required to pay in the total amount of capital and transfer non-pecuniary contributions;
- j) rights and obligations of the founders;
- k) the method of covering the costs of incorporation;
- l) consequences of the founders' failure to fulfil their obligations;
- m) the method of settling disputes among the bank's founders;
- n) management and governance of the bank, composition and competences of the bank's bodies;
- o) criteria for distribution of profit;
- p) assumption of risks and coverage of potential losses;
- r) the full name of the person representing the bank in the procedure of incorporation.

Article 9

(Statute)

(1) A bank shall have a statute.

(2) A bank's statute shall include, as a minimum, the following elements:

- a) a bank's name and registered address;
- b) business activity, i.e., banking operations to be performed by the bank (which must be compatible with the articles of association or decision on incorporation);
- c) the total amount of the initial (share) capital contributed by the bank's founders with a description and evaluation of contributions made in kind or rights, as well as terms and methods of its increase and decrease;
- d) provisions on the bank's shares (their classes, number and face value);
- e) method for forming and using the reserve funds;
- f) method of profit distribution and dividend payout;
- g) method of covering losses;
- h) the number of votes per share class;
- i) method for convening the general meeting and decision-making, the composition and competences of the boards appointed by the general meeting;
- j) the composition and method of appointing and dismissing the bank's supervisory board and management, and their powers;
- k) obligations and rights of the staff performing critical functions;
- l) representation and acting on behalf of the bank;
- m) provisions governing controlling functions in the bank (internal audit function, risk management function and control function);
- n) provisions governing the internal control system in the bank;

- o) provisions governing the external audit of the bank;
 - p) procedures for merger by acquisition, merger or division of the bank;
 - r) termination of bank operations;
 - s) measures and responsibilities of the bank's bodies for securing the liquidity and solvency of the bank
 - t) the issue of obligation safekeeping and handling confidential information;
 - u) other issues related to the bank's operations;
 - v) method of adopting general enactments;
 - z) procedure for amendment of the statute.
- (3) A bank shall submit to the Agency a certified copy of the statute as adopted, the internal acts on organisation and job classification, an excerpt from the court register, and other documents as requested by the Agency.
- (4) A bank's statute or any amendments to it shall be subject to prior approval by the Agency

SECTION B. ISSUANCE OF OPERATING LICENCES

Article 10

(Licensing criteria)

- (1) The founder of a bank shall submit to the Agency an application for an operating licence.
- (2) The licensing criteria shall include:
 - a) transparent ownership structure of the bank evidenced by the following:
 - 1) a list of the bank's shareholders and information on the shareholders and their creditworthiness;
 - 2) documentation showing direct or indirect ownership by natural or legal persons that are to hold qualifying participations, including their amounts; where there are no qualifying participations, the information on 20 largest shareholders;
 - 3) documentation about financial capacity of persons holding qualifying participations;
 - b) provided and set aside earmarked funds for initial capital of the bank that is founded in conformity with Article 24, paragraph (2) of this Law, upon presentation of proof;
 - c) good reputation and experience for members of the supervisory board, management and senior management, as prescribed by this Law and the regulation of the Agency, evidenced by documentation on relevant qualifications and experience, management and executive skills, non-existence of judicial proceedings against these persons and no criminal records on them;
 - d) suitability of major shareholders, in accordance with the documentation prescribed by the Agency's regulation;
 - e) an adequate management structure in line with the planned size of the bank, suitability of shareholders with qualified participations, upon presentation of relevant proof;
 - f) an adequate business plan for the initial four year-period of the bank's operations, including the planned volume of banking operations which the bank intends to perform in that period, as well as the bank's overall strategy, expected target markets, projections of the balance sheet and the income statement and a projection of cash flows;
 - g) an adequate organisational structure with clearly defined, easy to understand and consistent responsibilities within the bank;
 - h) a proper system for managing risks the bank might be exposed to in its operations;
 - i) an adequate system of internal controls, which includes clear administrative and accounting procedures;
 - j) appropriate systems of internal and external audit;
 - k) an appropriate wage policy, which should reflect and promote adequate and efficient risk management;
 - l) an opinion/approval of the competent institution of the home country of the founder with regard to investment of capital in the bank that is to operate in the territory of Bosnia and Herzegovina (hereinafter: BiH).

m) the regulatory body of the home country performs control or supervision on a consolidated basis of that founder

(3) The Agency shall prescribe the documents to be enclosed with an application for a operating licence as proof that the criteria referred to in paragraph (2) of this Article have been met.

(4) The Agency may request, before deciding on an application, any information it considers necessary to assess the application.

Article 11

(Time limits for deciding on applications for operating licences)

(1) The Agency shall issue a decision on the issuance of the operating licence to a bank, based on the application submitted by the bank founder, within 60 days from the date on which a valid application was received.

(2) In case an application has formal shortcomings preventing its processing, or if an application is incomprehensible or incomplete, the Agency shall request the founder of the bank to eliminate the shortcomings not later than within six months from the date on which the application was submitted.

(3) If the bank's founder eliminates the shortcomings in the set time limit, the application shall be considered valid.

(4) If the founder of the bank fails to eliminate the shortcomings within the set time limit, the Agency shall dismiss the application as deficient.

(5) In any event, the Agency shall pass a decision to issue, or to refuse to issue, an operating licence within 12 months from the date of receipt of the application.

Article 12

(Operating licence)

(1) An operating licence shall be a prerequisite for entering a bank in the register of business entities.

(2) An operating licence shall be issued to a bank for an indefinite period and it shall not be transferable to other persons.

(3) An operating licence of a bank shall specify the operations which the bank may perform.

(4) A bank that has been issued with an operating licence by the Agency shall become a member bank of the Deposit Insurance Agency of Bosnia and Herzegovina (hereinafter: Deposit Insurance Agency) in accordance with the legislation governing deposit insurance in BiH banks,

(5) During its operations, a bank shall meet all the terms and conditions on which the operating licence was granted.

Article 13

(Reasons for rejecting an application for the operating licence)

(1) The Agency shall reject an application for an operating licence to a bank if:

a) the requirements have not been met and documents necessary for the issuance of an operating licence as prescribed by this Law have not been submitted,

b) the founders provided inaccurate and false information, or have not provided the information requested by the Agency in the course of the decision-making process,

c) based on the documents and other data, it turns out that the envisaged organisation of the bank is not in accordance with this Law, i.e., that conditions have not been created for the operation of a bank as defined by this Law or regulations issued pursuant to this Law,

d) the amount of paid-in initial capital prescribed by this Law has not previously been paid into the account of the Agency with the Central Bank on the terms prescribed by the Agency,

e) the performance of the supervisory function of the Agency could be rendered difficult or impossible because of the connections of the bank with other legal or natural persons having their seat, i.e., permanent or habitual residence, in another country, or due to other reasons for which it is not possible to perform the supervisory function of the Agency in accordance with the law,

f) laws or other regulations of the country of the bank's founders prevent or hinder in any way the performance of the supervisory function of the Agency, and
g) in other cases where the Agency has assessed that the requirements for the issuance of an operating licence to a bank have not been met.

(2) The Agency shall prescribe detailed conditions for rejection of a bank's application for an operating licence.

Article 14

(Registration of business entities with courts)

(1) A bank shall acquire the status of a legal person upon its entry in the court register of business entities (hereinafter: register of companies).

(2) An application for registration of the establishment of a bank in the register of companies shall be filed within 30 days from the date on which the operating licence was granted by the Agency.

(3) All organisational units of a bank shall also be entered in the register of companies, in line with the legislation governing the registration in the register of companies and business subjects and business units of those legal persons

SECTION C. ORGANISATIONAL UNITS OF BANKS

Article 15

(Organisational units of banks)

(1) A bank headquartered in the Federation may set up an organisational unit in the Federation, RS, the Brčko District or outside the BiH territory, with the approval of the Agency.

(2) A bank headquartered in RS or the Brčko District may set up an organisational unit in the Federation, with the approval of the Agency.

(3) Organisational units referred to in paragraphs (1) and (2) of this Article may take cash deposits, extend loans and perform other banking operations, provided that such operations are covered by the decision on establishing the organisational unit of the bank and operating licence of the bank which is setting them up.

(4) Organisational units of a bank referred to in paragraphs (1) and (2) of this Article shall not have the status of a legal person and the bank that has set them up shall be liable for any obligations that arise from their operations.

Article 16

(Establishment of an organisational unit of a bank headquartered in the Federation)

(1) A bank headquartered in the Federation, prior to applying for the setting up of an organisational unit in the territory of the Federation, shall submit to the Agency a study of economic viability of the organisational unit for opinion, which shall contain:

- a) a business plan for a period of at least three years from the commencement date of the organisational unit's operations, with financial indicators and their impact on the results of the bank;
- b) an amount of possible investment in the organisational unit;
- c) a list of IT equipment and connections with the bank;
- d) a plan of staff to be employed in the organisational unit (their number and qualification structure);
- e) other documents provided for by the Agency's regulation.

(2) A bank shall submit to the Agency a request to set up an organisational unit referred to in paragraph (1) of this Article after obtaining a positive opinion on the study, with the following documentation:

- a) a decision of the relevant body on the establishment of the organisational unit including the name, headquarters and activities to be performed in that organisational unit;
- b) a statement that the bank shall ensure in the new organisational unit the effective protection of assets in accordance with the provisions of the Decision on Minimum Standards of Internal Control Systems in Banks;

- c) a statement that the bank shall ensure in the new organisational unit the application of the programs, policies and procedures that have been drafted pursuant to the provisions of the Decision on Minimum Standards for Activities of Banks to Prevent Money Laundering and Terrorist Financing;
- d) a decision of the relevant body on the appointment of the head of the bank's organisational unit with a short description of their powers, and proof of their qualifications, citizenship and work experience;
- e) proof that business premises have been ensured;
- f) other documents provided for by the Agency's regulation.

(3) A bank shall also seek prior approval of the Agency for any changes related to the organisational units referred to in paragraph (1) of this Article (its registered address, organisational form, organisational affiliation, etc.), while enclosing the documents referred to in paragraph (2) of this Article, except for documents that are not undergoing any change and that the Agency already has.

(4) A bank shall submit to the Agency the exact date of the commencement of operations of the organisational unit, a certified photocopy of its registration in the court register and a decision of the relevant body on the fulfilment of the technical requirements and other requirements prescribed for the performance of banking activities, within 15 days from the registration, and/or from receipt of the decision.

(5) A bank headquartered in the Federation shall submit to the Agency, together with the request for the establishment of an organisational unit in the territory of RS or the Brčko District, the documents referred to in paragraphs (1) and (2) of this Article.

(6) After the issuance of the decision referred to in paragraph (11) of this Article, a bank shall approach the regulatory institution in RS, i.e., the Brčko District, in order to obtain their approval.

(7) A bank shall submit to the Agency a decision approving the establishment of the organisational unit issued by the institution referred to in paragraph (6) of this Article, as well as a certified photocopy of the registration in the court register of the established organisational unit within 15 days from the date of the approval, and/or registration.

(8) Together with a request for the establishment of an organisational unit abroad, a bank shall submit to the Agency the documents referred to in paragraphs (2) and (3) of this Article and the permission of an authorised body of the Federation to take funds abroad, for the purpose of establishing the organisational unit.

(9) After the issuance of the decision referred to in paragraph (11) of this Article, a bank shall approach the competent institution of the country where it is to set up the organisational unit.

(10) A bank shall submit to the Agency a decision approving the establishment of the organisational unit issued by the institution referred to in paragraph (9) of this Article, and a certified photocopy of the document about the registration of the organisational unit onto the records of the country where the activities are to be performed, issued by the competent institution of that country, within 15 days from the registration date.

(11) A decision on the request referred to in paragraphs (2), (5) and (8) of this Article, shall be passed by the Agency within 30 days from receipt of the request with complete documentation.

Article 17

(Establishment of an organisational unit of a bank headquartered in RS or the Brčko District)

(1) Together with the request for opening an organisational unit in the Federation, a bank headquartered in RS or the Brčko District shall furnish the Agency with the following:

- a) the operating licence of the bank setting up the organisational unit, issued by the competent authority of RS or the Brčko District;
- b) an act of the competent authority of RS or the Brčko District on the setting up of an organisational unit in the Federation;
- c) a certified affidavit made by the bank that it is willing to assume liability for all obligations arising from the operations of the organisational unit;
- d) a study on economic viability of the organisational unit to be established;
- e) documentation referred to in Article 16, paragraph (2) of this Law;

f) other documents provided for by the Agency's regulation.

(2) The person responsible for the operation and acting on behalf of the organisational unit referred to in paragraph (1) of this Article shall have residence on the territory of the Federation or BiH and be employed in conformity with the Labor legislation in the Federation.

(3) A bank headquartered in RS or the Brčko District shall also seek prior approval of the Agency for any changes related to the organisational units referred to in paragraph (1) of this Article (their registered address, organisational form, organisational affiliation, etc.), while enclosing the documentation referred to in paragraph (1) of this Article, except for documents that are not undergoing any change and that the Agency already has.

(4) A decision on the request referred to in paragraphs (1) and (3) of this Article shall be issued by the Agency within 30 days from receipt of the request with complete documentation.

(5) All organisational units of a bank headquartered in RS or the Brčko District, established in the Federation, shall be considered one organisational unit for the purposes of reporting to, and monitoring by, the Agency and other competent authorities.

(6) The Agency shall prescribe the type of information, time limits and methods of reporting to the Agency on operations performed by organisational units of banks headquartered in RS or the Brčko District in the Federation.

Article 18

(Rejecting the request to set up an organisational unit)

The Agency shall reject a request for approval of the establishment of banks' organisational units referred to in Article 15, paragraphs (1) and (2) of this Law if:

- a) requirements have not been fulfilled to grant approval for the establishment of an organisational unit laid down in this Law and regulations of the Agency,
- b) inaccurate and false information has been provided, or no information has been given to the Agency, which it requested in the course of the decision-making process,
- c) the performance of the supervisory function of the Agency in connection with the operations performed by the organisational unit could be rendered difficult or impossible, and
- d) in other cases where the Agency considers that the requirements for granting approval to establish an organisational unit have not been met.

Article 19

(Setting up a representative office of a bank)

(1) A bank and a bank headquartered outside of the Federation may open, with the approval of the Agency, a representative office, as an organisational unit presenting the bank, as well as collecting and providing information about the business of the bank.

(2) A representative office shall not have legal personality.

(3) A representative office may not carry out banking activities.

(4) A bank shall submit to the Agency an application for approval to open a representative office outside of the Federation, with the following supporting documents:

- a) an enactment of the competent body of the bank on the establishment of a representative office,
- b) the business name and seat of the representative office,
- c) a work program of the representative office for at least two years,
- d) proof that business premises have been secured,
- e) information on employees,
- f) a list of persons responsible for the operation of the representative office and acting on its behalf,
- g) powers of persons responsible for the operation of the representative office and acting on its behalf, and
- h) a certified affidavit made by the bank that it is willing to assume liability for all obligations arising from the operations of the representative office.

(5) A bank headquartered outside of the Federation shall submit to the Agency an application for approval to open a representative office in the Federation, with the following supporting documents:

- a) information on the business name, legal status and seat of the bank,
- b) the statute or another appropriate enactment,
- c) audited annual financial statements for the last three years,
- d) the operating licence of the bank establishing a representative office, issued by the regulatory authority,
- e) an excerpt from the court or other register,
- f) an enactment of the competent body of the bank approving the establishment of the representative office, and
- g) documentation laid down in paragraph (4) of this Article.

(6) A decision on the application referred to in paragraphs (4) and (5) of this Article shall be passed by the Agency within 30 days from receipt of a valid application.

(7) A bank shall submit to the Agency an enactment on the registration of the representative office onto the records of the competent authority, if this is provided for by the regulations of that country, within 15 days from the registration date.

(8) A representative office of a foreign bank referred to in paragraph (5) of this Article shall submit to the Agency a certified photocopy of the document of registration with the competent authority in the Federation, within 15 days from the registration date.

(9) The Agency shall withdraw the approval issued to a representative office if it operates in contravention of the provisions of paragraphs (1) to (3) of this Article

Article 20

(Bank records)

(1) The Agency shall keep records on banks and organisational units of banks headquartered in RS or the Brčko District and representative offices of banks opened in the Federation.

(2) The records shall include, as a minimum, the information on the business name, address and seat of the bank and the person authorised to act on its behalf, as well as other information prescribed by the Agency.

(3) Records on banks whose operating licence has been revoked shall be kept in the archive records.

(4) The data from the records shall be posted on the Agency's web site.

(5) The Agency shall prescribe the contents of the records on banks and organisational units of banks referred to in paragraph (1) of this Article.

SECTION D. CESSATION OF VALIDITY OF OPERATING LICENCE AND REVOCATION OF OPERATING LICENCE

Article 21

(Cessation of validity of operating licence)

(1) A bank's operating licence shall cease to be valid:

- a) due to the revocation of the operating licence;
- b) due to the voluntary termination of the bank's operations;
- c) as of the date on which a bank has been deregistered from the register of business entities in the case of status-related changes;
- d) a bank has not filed an application for registration in the register of business entities within 30 days from the date of issuance of the operating licence, or has not started to perform banking operations within 12 months from the date of its entry into the register of business entities.

(2) As of the cessation of validity of a bank's operating licence, all approvals granted to the bank shall cease to be effective.

Article 22

(Reasons for revocation of operating licence)

(1) The Agency shall set aside the decision granting an operating licence where a bank has obtained the operating licence on the basis of fraudulent or false documentation or untruthfully presented information that is essential to the bank's operations.

(2) The Agency shall set aside the decision granting an operating licence if:

- a) the bank has notified the Agency, in writing, that it no longer intends to offer banking and/or financial services for which the operating licence was issued;
- b) the bank has ceased to provide banking services, on its own, for a period longer than six months;
- c) based on the proposed and adopted written report of the external administrator of the bank;
- d) the bank no longer meets the conditions for obtaining a permit in accordance with this law
- e) the bank is insolvent, except in case of the enactment of a decision of bank resolution,
- f) the assets and liabilities of the bank in resolution were transferred by application of a resolution tool, and if the assessment was made that the transfer achieve the objectives of resolution.
- g) after initiating resolution procedure, the assessment is made that the objectives of resolution cannot be achieved.
- h) the reasons for a decision to initiate liquidation or bankruptcy proceedings against the bank have arisen;

(3) The Agency may also set aside the decision granting an operating licence if:

- a) the bank has failed to secure the minimum amount of capital referred to in Article 24 of this Law within the prescribed time limit;
- b) the bank fails to meet the requirements related to the capital amounts as ordered by the Agency in its decision, in keeping with Article 153 of this Law, or special requirements related to liquidity in keeping with Article 81, paragraph (3) of this Law;
- c) the bank cannot be expected to continue meeting its obligations to creditors, and in particular where the bank fails to guarantee for the assets entrusted to it, or if jeopardises the interests of the depositors, especially with regard to deposit payments;
- d) the bank fails to meet the requirements related to the internal process of capital adequacy assessment and other business-related requirements in accordance with the legislation governing risk management;
- e) the bank, within a period of three years, has repeatedly violated the duty of timely and accurate reporting to the Agency with the intention of concealing the actual situation in the bank, and provided materially inaccurate information on the regulatory capital adequacy ratio, the level of exposure, the financial leverage ratio, liquid assets, etc.;
- f) the bank prevents supervision of its operations in any way whatsoever;
- g) the bank fails to implement supervisory measures ordered by the Agency in its decision;
- h) the bank fails to meet technical, organisational, staffing or other requirements for the provision of banking services;
- i) the bank has failed to act in compliance with Article 129, paragraph (2), item d) and paragraph (3), item a) of this Law;
- j) the bank fails to set up management systems as required by Articles 79 and 80 of this Law, and regulations adopted pursuant to this Law;
- k) the bank acts contrary to the provision on exposure limits referred to in Article 89 of this Law;
- l) the bank has been found guilty of a criminal offence of money laundering and terrorism financing or been found guilty of a serious breach of the provisions of the regulation governing the prevention of money laundering and financing of terrorist activities; or
- m) the bank enables one or more persons who fail to meet the requirements laid down in Article 64 of this Law to serve as a member of the management or enables one or more persons who fail to meet the requirements laid down in Article 48 of this Law to serve as a member of the bank's supervisory board,
- n) the bank does not pay the insurance premium and does not execute other financial obligations based on deposit insurance, in accordance with the regulation governing deposit insurance in banks of BiH, based on the proposal of the Deposit Insurance Agency;
- o) the bank fails to pay the prescribed fee to the Agency.

p) the bank does not publicly disclose information and data on bank operations as prescribed by this Law or if the published data are incorrect or incomplete.

Article 23

(Serving and publishing a decision on the revocation of operating licence)

- (1) The Agency shall serve the decision on the revocation of the operating licence onto a bank.
- (2) The Agency shall publish the decision on the revocation of an operating licence in the Official Gazette of the Federation of BiH and in at least two daily newspapers circulated in the entire territory of BiH and on the Agency's web site, it shall send it to the competent court, the Central Bank, the Deposit Insurance Agency, the Banking Agency of Republika Srpska (hereinafter: the RS Banking Agency), the regulatory authority of the Brčko District, the Securities Commission of the Federation of Bosnia and Herzegovina (hereinafter: the Securities Commission), and to the Central Securities Register in the Federation of Bosnia and Herzegovina (hereinafter: the Securities Register).
- (3) As of the date on which the operating licence has ceased to be valid, the bank shall be prohibited from performing the operations set forth in this Law, with the exception of tasks performed by the liquidation or bankruptcy administrator in the course of liquidation and/or bankruptcy proceedings in conformity with the provisions of this Law and other laws governing bankruptcy or liquidation proceedings.

CHAPTER III – CAPITAL

Article 24

(Initial capital of a bank)

- (1) A bank shall maintain the prescribed capital amount and structure.
- (2) The minimum amount of the paid-in initial capital of a bank and the minimum amount of capital that a bank shall maintain, may not be lower than KM 15 000 000.00 (minimum core capital).
- (3) The shares of a bank shall be fully paid in cash before the registration of the bank as well along every subsequent increase in the total value of the bank's shares.

Article 25

(Bank shares)

- (1) The shares of a bank do not have to be paid up in cash if the total value of the bank's capital is increased:
 - a) due to the implementation of a change in the status of the bank, if the Agency's prior approval for such change has been obtained,
 - b) through the conversion of a capital instrument, or another cash liability of the bank into its core capital in accordance with this Law,
 - c) due to a contribution in kind/non-pecuniary contribution for which prior approval of the Agency has been obtained,
 - d) due to a non-pecuniary contribution in order to implement the Agency's order to increase capital, subject to prior approval of the Agency,
 - e) out of its own funds or out of a portion of the profit or out of its own funds from the reserve fund with the approval of the Agency.
- (2) If the shares of a bank are kept in a custody account, the custodian shall inform the Agency about the identity of the client for whose account they manage the bank's shares.
- (3) A bank shall carry out the conversion of individual items into capital, as well as an increase in the bank's capital from external sources, with prior approval of the Agency.
- (4) Acquisition of shares of a bank through a non-pecuniary contribution shall be prescribed by the Agency.

Article 26

(Prohibited actions)

- (1) A bank may not directly or indirectly grant credits or issue guarantees or other sureties for the acquisition of its own shares or of shares and/or holdings in a legal person in whose capital the bank participates with at least 20 percent, unless such acquisition of shares or holdings is to result in the termination of all types of capital links between the bank and the company in question.
- (2) A bank may not directly or indirectly grant credits or issue guarantees or other sureties for the acquisition of other financial instruments issued by that bank or by a legal person in whose capital it participates with at least 20 percent, which, due to their characteristics, are included in the calculation of the bank's regulatory capital.
- (3) Other legal arrangements the economic purpose of which is equivalent to credit shall also be deemed to be the granting of credits referred to in paragraphs (1) and (2) of this Article.
- (4) The Agency shall have the right to examine the flow of funds in the bank, the credit beneficiary and their related person and in case of violation of the provisions of this Article, it shall refuse to recognise the thus paid shares and other financial instruments, and exclude them from the calculation of the bank's capital.
- (5) Acquisition of shares and other financial instruments in contravention of paragraphs (1) and (2) of this Article shall be a void legal transaction.

Article 27

(Regulatory capital adequacy)

- (1) A bank shall ensure at all times, depending on the risk profile and systemic importance of the bank, the amount of capital adequate for the types, volume and complexity of the operations it performs and risks it is or may be exposed to in its operations.
- (2) A bank shall comply at all times with the requirement related to the regulatory capital adequacy ratio at the minimum level of 12 percent. The regulatory capital adequacy ratio of a bank is the ratio between its regulatory capital and the total amount of risk exposures.
- (3) A bank shall assess capital adequacy in relation to the type and level of risks to which it is exposed or could be exposed in its operations in accordance with the regulation referred to in paragraph (9) of this Article.
- (4) Notwithstanding the above, the Agency may prescribe a regulatory capital adequacy ratio for an individual bank that is higher than the level prescribed in paragraph (2) of this Article, where it finds it necessary given the bank's type and level of risk, systemic importance and business operations.
- (5) A bank shall also maintain capital buffers, in the manner prescribed by the acts of the Agency referred to in paragraph (9) of this Article.
- (6) A bank shall develop and implement an adequate and comprehensive strategy and procedures for a continuous process of internal capital adequacy assessment.
- (7) A bank shall continuously review the strategy and procedures referred to in paragraph (6) of this Article to ensure that they have remained comprehensive and aligned with the type, volume and complexity of the bank's operations.
- (8) If a bank does not meet the requirements referred to in paragraphs (1), (2), (4) and (5) of this Article, the Agency shall set a time limit which may not be longer than 60 days, in which the bank is to implement activities aimed at increasing the capital.
- (9) The Agency shall prescribe in more detail:
 - a) the characteristics, types, method and amount of individual items included in the calculation of common equity Tier 1 (CET1) capital, additional Tier 1 capital and supplementary capital;
 - b) the method for calculating the regulatory capital adequacy ratio, CET1 capital ratio, Tier 1 capital ratio, as well as other capital ratios, the financial leverage ratio,
 - c) capital requirements for certain types of risks (credit, market, operational, etc.), and
 - d) assessment procedures, methods and deadlines for reporting to the Agency on the internal process for assessment of capital adequacy in banks.

Article 28

(No payments)

(1) A bank shall not pay any profits or dividends from common shares nor effect any payouts based on the participation in the profit of the company by the management, supervisory board and employees in the following cases, if:

a) a bank's capital is lower than the minimum capital, or where that bank's capital would shrink, due to the profit payouts, falling below the minimum capital amount set forth in Article 24, paragraph (2) of this Law;

b) a bank fails to reach capital ratios and capital buffers prescribed by the Agency's acts.

c) a bank fails to settle its due liabilities in a timely manner, or if a bank would not be able to settle its due liabilities because of profit payouts,

d) the Agency has ordered the bank to eliminate deficiencies and shortcomings related to the misstatement of any on- and off-balance sheet items on the asset and liability sides, whose correct statement would affect the business result presented in the bank's income statement;

e) a bank has unpermitted concentrations of credit and other risks relative to the bank's eligible capital, as well as other unpermitted concentrations in keeping with the Agency's regulations referred to in Article 90, paragraph (5) of this Law and Article 93, paragraph (9) of this Law.

f) the Agency has placed a ban on dividend payouts and other payments from profits.

(2) The ban on payments shall be effective for as long as it takes the bank to eliminate the reasons for the ban referred to in paragraph (1) of this Article.

(3) A bank may not pay out to the persons referred to in paragraph (1) of this Article any advance payments relating to the distribution of profits referred to in that paragraph.

(4) A bank shall pay variable part of remuneration to employees in accordance with the regulation of the Agency.

(5) The Agency shall prescribe additional conditions for the ban on the payouts of the bank's profit.

CHAPTER IV – ACQUISITION OF OWNERSHIP AND STATUS-RELATED CHANGES

SECTION A. ACQUISITION OF OWNERSHIP

Article 29

(Approval for acquisition of ownership)

(1) Any legal person, natural person or persons acting in concert, shall file an application with the Agency for prior approval of any acquisition of bank shares, based on which they are to acquire, individually or collectively, directly or indirectly, qualifying participations in a bank.

(2) A person holding a qualifying participation in a bank shall also obtain a prior approval of the Agency for each further direct or indirect acquisition of shares of a bank on the basis of which their holding would reach or exceed 20 percent, 30 percent or 50 percent of the capital or of the voting rights of a bank.

(3) A person who obtained the prior approval referred to in paragraphs (1) and (2) of this Article shall complete the acquisition of shares and holdings referred to in paragraphs (1) and (2) of this Article within 12 months from the adoption of the decision on the prior approval, and notify the Agency thereof within 15 days from the acquisition date.

(4) Where the person who has been granted prior approval referred to in paragraphs (1) and (2) of this Article has not completed the approved acquisition of holdings within the time limit referred to in paragraph (3) thereof, they shall obtain a fresh approval if they intend to proceed with the acquisition.

(5) Any natural or legal person who has decided to sell, directly or indirectly, their qualifying participations in a bank, or to reduce in any other manner their participation in the bank's capital or voting rights below the level of participation referred to in paragraphs (1) and (2) of this Article, which was approved by the Agency, shall notify the Agency to that effect in advance and in writing.

(6) The Agency shall define detailed requirements, documentation and data to be attached to the application for a prior approval of participation acquisition referred to in paragraphs (1) and (2) of this Article.

Article 30

(No acquisition of shares)

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

(2) Where a legal person has a qualifying participation in a bank, that bank may not acquire a qualifying participation in that legal person.

(3) The exemptions from the restriction on total investments of the bank from paragraph 94 (8) of this law shall also apply to the restrictions referred to in paragraph (2) of this Article.

Article 31

(Several persons acting as a single acquirer)

(1) For the purpose of acquisition of ownership referred to in Article 29, paragraphs (1) and (2) of this Law, the following persons shall be deemed to act as a single acquirer:

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

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

c) where the majority of members on the supervisory boards of two or more legal persons are the same persons;

d) where two or more persons are members of one family;

e) where two or more persons, on the basis of a contract, agreement or informal agreement, jointly perform business operations in a more significant volume.

(2) For the purpose of the ownership acquisition referred to in Article 29, paragraphs (1) and (2) of this Law, a person shall also act as a single acquirer with another person where there is no link referred to in paragraph (1) of this Article between them, but each of the persons acts as a single acquirer with the same third party in any of the manners set out in items from a) to e) in paragraph (1) of this Article.

Article 32

(Acquisition of own shares)

(1) A bank may not acquire own shares without prior approval of the Agency.

(2) Any acquisition of own shares without prior approval of the Agency shall be considered null and void.

(3) A bank shall finance the acquisition of own shares from its profit.

(4) A bank shall sell the acquired own shares within a period of one year from the date of their acquisition.

(5) If a bank fails to sell the acquired own shares within one year from the date of the acquisition of own shares, it shall withdraw and cancel such shares against its share capital.

Article 33

(Period of deciding on a prior approval application for acquisition of qualifying participations)

(1) Within two business days from the date on which an application for prior approval to acquire a qualifying participation was filed, the Agency shall issue the applicant with a written proof acknowledging receipt of the application.

(2) The Agency shall issue a decision on the application referred to in paragraph (1) of this Article within 60 days from the date on which the application with complete documentation was received.

(3) If the Agency, in the course of decision-making, finds that the application for acquisition of a qualifying participation is not complete, it shall request the applicant, in writing, to submit additional

documentation necessary to decide upon the application and set a time limit for such submission, which may not exceed 20 days from the date of receipt of the Agency's letter.

(4) The Agency may extend the time limit for submitting the additional documentation referred to in paragraph (3) of this Article by up to 30 days if the applicant has permanent residence or a registered office in a foreign country or if the applicant is not subject to supervision.

(5) If the applicant for acquisition of a qualifying participation fails to eliminate the deficiencies within the time limit set by the Agency, the Agency shall dismiss such application as incomplete.

(6) If the Agency has not refused the proposed acquisition in writing within the time limit referred to in paragraph (2) of this Article, the acquisition shall be deemed approved.

Article 34

(Deciding on a prior approval application for acquisition of qualifying participations)

(1) In the process of deciding on the granting of prior approval for the acquisition of qualifying participations, the Agency shall assess, in particular, the applicant's suitability, financial standing, management skills and influence on the bank based on the following criteria:

a) their business reputation and goodwill, which are assessed relative to their financial and business activities, the fact whether bankruptcy proceedings against the applicant's assets have been initiated and/or whether the applicant who is a natural person held a managerial position in a bank or another legal person at the time when the bankruptcy proceedings against it were instituted;

b) whether an acquirer has been sentenced for a criminal offence by virtue of a final and binding judgment to an unconditional prison sentence, or convicted by virtue of a final and binding judgment for a criminal offence in the area of economic and financial crime, or whether proceedings for these offences are conducted against them, rendering them unsuitable for acquisition of qualified participations;

c) an assessment of the managerial capacity, knowledge and skills of the acquirer of a qualifying participation, including the reputation, relevant professional competences and experience of persons who the applicant would propose to run the bank once the qualifying participation has been acquired;

d) the applicant's financial standing and influence on the operations of the bank if the approval is granted;

e) indicators that may be relevant for the assessment of the applicant's influence on risk management in the bank,

f) the existence of valid reasons for suspicion under anti-money laundering and terrorist financing regulations that the acquisition of a qualifying participation is or is intended to be used for money laundering or terrorist financing, or that such acquisition may increase the risk of money laundering or terrorist financing;

g) The bank's ability to comply with the requirements set by this Law and relevant regulations, in particular whether the group the bank intends to be a member of has an ownership structure that enables the implementation of efficient supervision and exchange of information between the competent authorities and allocation of responsibilities among the competent bodies;

(2) Prior to deciding on the prior approval for the qualifying participation acquisition, the Agency shall consult the competent regulatory and other authorities if the applicant is:

a) a bank or another financial sector person;

b) an entity that is a parent company of the bank or of another financial sector person.

(3) The Agency shall reject an application for approval of the qualifying participation acquisition where:

a) the applicant has failed to meet the suitability and financial standing criteria laid down in paragraph (1) of this Article and in the Agency's regulations;

b) the acquisition of a qualifying participation is to result in violation of the restrictions set out in Article 30 of this Law,

c) it is not possible to identify the origin of funds the applicant intends to use to acquire the qualifying participation;

d) the acquisition results in the concentration of participants in the financial market, which significantly prevents, restricts or undermines competition on the market, primarily by creating or strengthening the dominant position in the financial market.

(4) The Agency shall prescribe more specific requirements and method for assessing the fulfilment of the criteria for acquisition of qualifying participations in a bank.

Article 35

(Request for information)

(1) Where there are reasonable grounds to believe that a person has acquired, without the Agency's approval, the ownership referred to in Article 29, paragraphs (1) and (2) of this Law, the Agency may request the person or their parent company or the members of such persons' bodies to furnish the information and relevant documentation concerning the fulfilment of the approval requirements.

(2) The Agency may request that the information and documentation referred to in paragraph (1) of this Article be also furnished by persons granted the approval referred to in Article 29, paragraphs (1) and (2) or Article 36, paragraph (2) of this Law, within the validity period of the approval, as well as after the acquisition of ownership, and at least once a year.

(3) The persons referred to in paragraph (2) of this Article shall furnish the Agency with the data and information on the newly appointed members of the supervisory board and management, persons who have acquired participations in such persons, a new partner (partnership) and a new general partner (limited partnership), no later than 15 days from the date of their appointment or the date of acquiring such capacity.

(4) A bank shall notify the Agency, at least once a year or upon the Agency's request, about the identity of all persons holding participations in the bank that exceed 10 percent.

(5) A bank shall also notify the Agency about any increase of more than 10 percent or decrease below qualifying participation in the bank within 15 days from the date on which it learnt of the increase or decrease.

(6) A bank shall notify the Agency about any change in the status of persons related to the bank within 15 days from the date on which it learnt of a status-related change.

(7) The Agency shall pass a regulation defining more specifically the criteria against which it assesses the suitability and financial standing of an acquirer of a qualifying participation and more specific requirements and the method of providing data and information referred to in Article 34 and this Article of the Law.

Article 36

(Acquisition of ownership without approval)

(1) A person may acquire ownership referred to in Article 29, paragraphs (1) and (2) of this Law without the Agency's approval provided that they have acquired it as inheritance, legal succession or other forms of acquisition independent from the acquirer's will.

(2) The person who has acquired ownership in the manner referred to in paragraph (1) of this Article may not exert any influence on the management of the bank in which they have acquired ownership or on the bank's business policy; nor may they exercise the voting rights arising from such ownership before the Agency has approved such acquisition.

(3) The person referred to in paragraph (1) of this Article shall file an application with the Agency for approval of such acquisition within 30 days from the date of the ownership acquisition referred to in that paragraph, or notify the Agency that they have sold or reduced such ownership.

(4) The Agency shall decide on the application referred to in paragraph (3) of this Article in the manner and time limit laid down in Articles 33 and 34 of this Law.

Article 37

(Legal effects of unapproved acquisition)

(1) Where a person has acquired a qualifying participation referred to in Article 29 of this Law without the Agency's prior approval, or if they fail to file an application for subsequent approval referred to in Article 36 of this Law, or where such application for subsequent approval is rejected, the Agency shall order the person, by virtue of a decision, to sell the shares acquired without approval and submit a proof of sale and the information on the buyer if known.

(2) In the decision referred to in paragraph (1) of this Article the Agency shall set the time limit for the sale, which may not be shorter than three months or longer than nine months.

(3) The decision referred to in paragraph (1) of this Article shall be served on the person ordered to sell the shares to the bank, the Securities Commission and the Securities Register.

(4) From the date of receipt of the decision referred to in paragraph (1) of this Article, the acquirer may not exercise any rights from any of the shares whose sale has been ordered, and the voting quorum and the requisite majority for decision-making at the general meeting shall be computed relative to the total number of voting shares reduced by the amount of the shares stripped of voting rights.

(5) A bank shall:

a) ensure that the acquirer referred to in paragraph (1) of this Article does not exercise any rights from any of the shares whose sale has been ordered;

b) report to the Agency on a monthly basis any change of shareholders, from receipt of the decision referred to in paragraph (1) of this Article to the expiry of the time limit set for the sale of the shares.

(6) Notwithstanding paragraph (4) of this Article, if the unapproved acquirer has the majority vote required for decision-making at the general assembly, after a decrease in the quorum for valid decision-making, the Agency may appoint a voting delegate.

(7) A voting delegate shall exercise all management rights arising from shares ordered to be sold, while property rights arising from shares shall be exercised by the bank.

(8) The Agency shall appoint a voting delegate by virtue of a decision, who shall vote as instructed by the Agency. The notification on the appointment of a voting delegate must be delivered to the bank.

(9) The term of office of a voting delegate shall expire on the date of the sale of shares.

Article 38

(Withdrawal of approval to acquire qualifying participations)

(1) The Agency may withdraw approval to acquire a qualifying participation if:

a) the acquirer of a qualifying participation has obtained approval by providing false or inaccurate data;

b) the acquirer exercises their rights in the manner that undermines the stability of the bank's operations;

c) the Agency has assessed that the acquirer no longer meets the criteria laid down in Article 34 of this Law.

(2) The bank shall issue an internal regulation defining the data considered to be a bank secret and the method to access, use, exchange, store and protect these data, as well as a procedure for the declassification of such data.

Article 39

(Termination of validity of approval for acquiring qualified participations)

(1) If, within the time limit referred to in Article 29, paragraph (3) of this Law, the holder of a qualified participation has not acquired the shares of the bank so as to reach at least a 10 percent share in the capital or voting rights in the bank, the approval shall cease to be valid in its entirety.

(2) If, within the time limit referred to in Article 29, paragraph (3) of this Law, the holder of a qualified participation acquires at least a 10 percent share in the capital or voting rights in the bank, but does not acquire the full approved amount of the approved participation, the approval shall be valid for the segment used by the holder, and shall cease to be valid in the remaining part which has been approved.

(3) If the acquirer of a qualifying participation has reduced their holding through a sale of shares or in any other manner below the level for which prior approval was granted, the approval shall remain valid for the part of the holding that exceeds the percentage specified in Article 29, paragraphs (1) and (2) of

this Law, which the holder of a qualifying participation possesses on the day on which the time limit for the acquisition referred to in Article 29, paragraph (3) expired.

SECTION B. STATUS CHANGE

Article 40

(Change in a bank's status)

- (1) A bank may make status-related changes in terms of merger, merger by acquisition or division only with the Agency's prior approval.
- (2) The bank shall support the application for approval of a status-related change by submitting the following documents:
 - a) a decision on the intended reorganisation;
 - b) a feasibility study of the status-related change;
 - c) a written report or reports of the bank's management on the bank's status-related change and companies participating in the status-related change;
 - d) a report on the independent audit of the intended status-related change;
 - e) consolidated balance sheets and income statements of the banks taking part in the merger, or the balance sheet and income statement of the bank dividing a portion of its assets and liabilities, with the data for the month preceding the month in which the application was submitted;
 - f) a written report of the supervisory board;
 - g) a business plan of the bank or banks founded by the status-related change;
 - h) other documentation as required by the Agency's regulations.
- (3) A complete application referred to in paragraph (2) of this Article shall be submitted by the bank no later than 60 days prior to scheduling the general meeting at which it is to be decided.
- (4) No change in the status of a bank may be entered in the register of business entities without the Agency's prior approval of the status change.
- (5) The provisions of this Law governing the issuance of operating licences to banks shall apply *mutatis mutandis* to the issuance of operating licence to banks founded through the status changes of merger and division.
- (6) Status-related changes in a bank effected contrary to the provisions of this Article shall not have any legal effect.

Article 41

(Rejecting an application for a bank's status change)

- (1) The Agency shall reject an application for approval of a status change in a bank if:
 - a) the status changes are not justified and may lead to a deterioration of the safety and stability of the operations of one of the banks and do not ensure sound and safe bank management after the status change;
 - b) the status change may have negative consequences for the financial system as a whole;
 - c) the status change may lead to a deterioration of market competition;
 - d) the resulting bank fails to meet the requirements prescribed for the minimum amount of capital and recognised professional standards;
 - e) due to the lack of competence, experience or good reputation of the proposed members of the resulting bank's management, which may pose a threat to the interests of the bank or its depositors;
 - f) the applicant has provided incorrect information or information incompatible with the requirements set by the Agency, or the applicant has refused to provide the requested data;
 - g) a person who was a member of a the supervisory board, management, or an internal auditor in a bank in which the Agency or other competent authority introduced an external administrator and/or provisional administration or in which liquidation or bankruptcy proceedings were initiated, is proposed as a candidate for a member of the management of the resulting bank, the Agency shall assess such a candidate in order to issue prior approval for them, provided that it has established that they were not

- associated with the reasons for the introduction of an external administrator, or a provisional administration, or institution of liquidation or bankruptcy proceedings;
- h) if a person who was a member of the supervisory board, management or an internal auditor in a bank in which the Agency or other competent authority introduced an external administrator and/or provisional administration or in which liquidation or bankruptcy proceedings were initiated, is proposed as a candidate for a member of the supervisory board of the resulting bank, the Agency shall assess such a candidate in order to issue prior approval for them, provided that it has established that such candidate was not associated with the reasons for the introduction of an external administrator, or a provisional administration, or institution of liquidation or bankruptcy proceedings;
- i) there exist other reasons that may undermine safe operations of the banks;
- j) other requirements prescribed by the Agency's regulations have not been met.

CHAPTER V – MANAGEMENT OF A BANK

SECTION A. GENERAL PROVISIONS

Article 42 (Bodies of a bank)

Bodies of a bank shall include:

- a) A general meeting;
- b) A supervisory board;
- c) A management.

SECTION B. GENERAL MEETING

Article 43 (General meeting)

- (1) The general meeting of a bank shall be composed of the bank's shareholders.
- (2) The bank's shareholders shall exercise their voting rights at the general meeting either directly or via their proxies.
- (3) Voting rights may be exercised at the general meeting by shareholders who have been on the Shareholders' List in the Securities Register for 30 days before the day on which the general meeting is held.
- (4) The bank's general meeting shall meet at least once a year in the manner specified by the law, statute and the general meeting's rules of procedure.
- (5) As a rule, the general meeting shall be held in the place where a bank is headquartered at least once a year. The costs of the general meeting shall be borne by the bank. If the general meeting does not have a quorum, the repeated general meeting needs one-third of the represented shareholders of the total number of voting shares.
- (6) The general meeting shall be convened by the supervisory board of a bank except where stipulated otherwise by this Law.
- (7) The Agency may request from the supervisory board that certain issues relevant for the compliance of the bank's operations with regulations and regulatory requirements be included in the agenda of the bank's regular annual general meeting.
- (8) The general meeting may take decisions if shareholders with more than 50 percent of the total number of voting shares are represented.
- (9) Pending the election of its chairperson, the general meeting shall be chaired by a shareholder or a proxy in attendance with the largest number of voting shares; the general meeting shall then elect by a majority vote, from among the present shareholders and proxies, its chairperson. The general meeting appoints two verifiers of the minutes of the general meeting, who may also be employees of the bank.

(10) The voting committee, comprising at least three members appointed by the supervisory board in the decision convening the general meeting, shall determine the quorum and the results of voting at the general meeting.

(11) The general meeting shall be attended by the chairperson and members of the supervisory board, and management of the bank.

(12) Related to paragraph (7) of this Article, an Agency's representative may attend sessions of the general meeting and address the shareholders. The bank's supervisory board shall notify the Agency of the date and venue, as well as of the agenda of the bank's general meeting within the time limit set for notifying the shareholders.

(13) In a bank with a single shareholder, the powers of the general meeting are exercised by the shareholder.

Article 44

(Extraordinary general meeting)

(1) An extraordinary general meeting may be convened at the request of the following persons:

a) A member of the supervisory board or any other bank's body authorised by the statute of the bank or law to convene extraordinary general meetings;

b) the bank's shareholders holding at least 10 percent of voting shares;

c) the external administrator of the bank;

d) the liquidation administrator, if the bank is in voluntary winding-up,

(2) The bank's supervisory board shall convene an extraordinary general meeting of the bank in the following cases:

a) when the bank's capital adequacy ratios are lower than those prescribed, or when the bank's capital is lower than required in accordance with this Law and regulations of the Agency,

b) at the request of the bank's external auditor or the audit committee,

c) at the request of the Agency and

d) whenever it deems it necessary.

(3) The notification about the agenda, venue, date and time of the extraordinary general meeting, including the manner of authorising proxies and voting at the extraordinary general meeting shall be published at least in one daily newspaper circulated in the Federation 14 days prior to the date set for a session of the extraordinary general meeting.

(4) Voting rights may be exercised at the extraordinary general meeting by shareholders who have been on the Shareholders' List with the Securities Register for 30 days before the day on which the extraordinary general meeting is held or the last business day preceding that time limit in case of a holiday.

(5) The extraordinary general meeting may be attended by the shareholders or their proxies, who applied with the voting committee before the deliberations of the extraordinary general meeting have started, within the time limit specified in the statute, which may not exceed three days prior to the date fixed for the extraordinary general meeting.

(6) If the extraordinary general meeting is to be held outside the place where the bank is headquartered, the notification referred to in paragraph (3) of this Article shall be sent, within the same time limit, to each shareholder by registered mail, facsimile or electronic mail, to the address listed in the Shareholders' List referred to in paragraph (4) of this Article.

(7) The extraordinary general meeting may be held only where the shareholders and their proxies holding 50 percent of the total voting shares are in attendance and able to vote. Any step taken by the extraordinary general meeting must be approved by two thirds of the shares represented.

Article 45

(Competence of the general meeting)

(1) The general meeting of a bank shall decide on the following:

a) adoption, changes and amendments to the statute;

- b) the bank's business policy, its business plan, programs and plans for maintaining the capital adequacy ratio in accordance with laws and regulatory requirements specified in implementing regulations;
 - c) The formation of the bank's core capital by way of issuing shares or increasing ordinary shares, and issuance or increasing of preference shares and decide on an issue, withdrawal or cancelation of shares and other transactions with securities, in accordance with law and the bank's statute;
 - d) any capital increase or decrease, and/or investment of capital in another bank or other legal persons;
 - e) adoption of the bank's annual business report, including financial statements and reports of the auditor, the supervisory board and the audit committee;
 - f) distribution of profits and dividend payouts;
 - g) the method of covering losses;
 - h) status-related changes and termination of the bank's operations;
 - i) purchase, sale, replacement, leases, and other transactions related to assets, directly or via subsidiaries of the bank, effected in the course of a business year, if the amount exceeds 33 percent of the book value of the assets of the joint stock company according to the balance sheet as of the end of the previous year, at the proposal of the management and the supervisory board;
 - j) the sale and purchase of assets the value of which ranges from 15 percent to 33 percent of the book value of the bank's assets if such a transaction has not already been approved by virtue of a unanimous decision of the supervisory board;
 - k) individual appointments and dismissals of the members of the supervisory board;
 - l) selection of the audit firm;
 - m) adoption of appropriate policies for election and assessment of the fulfilment of requirements for members of the supervisory board and self-assessment by the supervisory board of its performance in accordance with Agency regulations;
 - n) establishment, reorganisation and liquidation of subsidiaries and approval of their statutes;
 - o) remuneration of the members of the supervisory board and audit committee;
 - p) the rules of procedure of the bank's general meeting;
 - r) restrictions on or exclusion of the pre-emptive rights for the purchase of new shares as part of a decision on an issue of new shares of the existing or a new class;
 - s) other issues relevant for the bank's operations, which are in the purview of the general meeting in accordance with the law, regulations – the Agency's decision, the bank's statute and the rules of procedure of the bank's general meeting.
- (2) On the competences referred to in paragraph (1), items a), f), h) and i) of this Article the general meeting shall decide by a 2/3 majority of represented shares, and a simple majority of represented shares decides in other cases.
- (3) The competences referred to in paragraph (1) of this Article the general meeting of a bank may not delegate to another body of the bank.

Article 46

(Shareholder's right to information)

- (1) Shareholders shall be entitled, as of the date on which the notification about a general meeting's session has been published, to review on the bank's premises the Shareholders' List, the financial statement with the reports of the external auditor, the supervisory board and the audit committee, and all other documents pertaining to proposed decisions included in the general meeting's agenda.
- (2) The shareholders may request to be provided with a copy of the minutes or excerpt from the minutes of all sessions of the general meeting.
- (3) The bank shall keep the minutes of general meeting sessions permanently, including the records of shareholder attendance, voting, notifications and invitation letters.
- (4) In the event of the bank's liquidation, the liquidator shall ensure that the documentation referred to in paragraph (3) of this Article is kept for a period of at least 10 years from the date of the bank's termination.

Article 47

(Obligation to inform the bank's general meeting of remuneration levels)

(1) At least once a year, the bank's general meeting shall discuss about the information paper with data on all salaries, benefits and all other earnings of the members of the supervisory board, management and senior management, as well as all contracts between the bank and members of such boards and other persons related to such members which result in material gain for such persons, as well as proposals of the supervisory board concerning salaries, remunerations and other material gain of these persons for the following year.

(2) The data from paragraph (1) of this article shall be published on an aggregate level.

SECTION C. SUPERVISORY BOARD

Article 48

(Composition of the supervisory board)

(1) The supervisory board of a bank shall be discharging a supervisory function in the bank

(2) A bank's supervisory board shall comprise at least five members elected and dismissed by the general meeting. The incorporation act and statute of the bank may set out a higher number of the supervisory board members than five, provided that the total number of its members is odd.

(3) The supervisory board of the bank shall have at least two independent members. An independent members shall be understood to mean a person who has no direct or indirect qualified participation in the ownership of the bank, or in a member of the banking group to which the bank belongs, who has not been a member of the management of the bank or any of its subsidiaries or affiliated companies for at least five years, has not been an employee of the bank or any of its subsidiaries or affiliated companies for at least three years, does not receive and has not received other substantial extra payment from the bank except the remuneration for their work in the supervisory board, not counting possible dividend (this applies particularly to participation in the bonuses and other forms of remuneration which depend on the results of the bank, such as options on shares) or is not connected to the bank on any other ground which could prevent them from objectively and impartially supervising the operations of the bank, and the work of the management. The Agency may prescribe additional requirements that persons shall meet in order to be considered independent member of the supervisory board of a bank.

(4) The members of the bank's supervisory board as a whole shall possess necessary professional knowledge, abilities and experience for independent and autonomous supervising of the bank's operations and performance of the bank's management, and at least half of the candidates for supervisory board members shall have the required knowledge and experience in the fields necessary for successful operation of a bank (work experience in the banking industry, financial organisations, etc.).

(5) At least one member of the supervisory board shall be fluent in one of the languages in official use in BiH and have permanent residence in the territory of BiH.

(6) Such a person may be a member of the supervisory board who meets the following requirements at all times:

a) they shall have a good reputation;

b) they shall have relevant professional qualifications, abilities and experience required for the discharge of duties falling within their competence;

c) they shall not be in a conflict of interest in respect of the bank, shareholders, members of the supervisory board, holders of critical functions and the bank's management, and other stakeholders (creditors, depositors, governments, etc.) as well;

d) they shall be willing and able to devote sufficient time to the performance of the duties and responsibilities falling within the purview of the supervisory board; and

e) they may be a member of the supervisory board under the regulation on Business Companies.

(7) If such person has been nominated as a member of the bank's supervisory board who was a member supervisory board, management or an internal auditor in a bank in which the Agency or another competent authority introduced a provisional administration or an external administrator, or against

which liquidation or bankruptcy proceedings were initiated, the Agency shall make an assessment for the purpose of granting prior approval for such candidate, provided that it has determined that the candidate was not associated with the reasons for the introduction of a provisional administration or an external administrator, and/or initiation of liquidation or bankruptcy proceedings.

(8) A person who has been convicted by virtue of a final and binding decision, or a person subject to criminal proceedings for criminal offences in the fields of finances, capital markets, money laundering and terrorist financing, or a person under a ban of performing banking or other financial activities or the ban on performing the function of a member of the supervisory board, shall be deemed not to have good reputation.

(9) The chairperson and members of the supervisory board shall be appointed for a term not longer than four years. The same person may be appointed as chairperson or a member of the supervisory board more than once without any restrictions.

(10) The chairperson and members of the supervisory board of a bank shall be entered in the register kept by the Securities Commission, in line with the prescribed requirements and time limits, and into the Agency's records on banks.

(11) Supervisory board members may receive remuneration for their work.

(12) The remuneration shall be appropriate for the tasks performed by a member of the supervisory board and the situation in the bank.

(13) The rights and obligations of the chairperson and members of the supervisory board shall be regulated by a contract with the bank to be approved by the bank's general meeting in accordance with this and other laws and the provisions of the bank's statute.

(14) The contracts referred to in paragraph (13) of this Article shall be signed by the bank's head of management in accordance with the approval of the general meeting.

(15) The Agency shall issue regulations specifying the following:

a) the requirements referred to in paragraph (4) of this Article for serving on the bank's supervisory board;

b) a procedure for granting prior approval and documentation to be enclosed with an application for a prior approval of appointment of a supervisory board member;

c) the content of the policy referred to in Article 45, paragraph (1), item m) of this Law and the time frame for assessing the eligibility of a candidate for a member of the bank's supervisory board;

d) the criteria and procedures for the assessment of good reputation and sufficient experience of the bank's supervisory board members and the bank's actions in case the criteria have not been met.

Article 49

(Incompatibility of the functions of the supervisory board members)

(1) A member of the supervisory board may not be an employee or a procurator of that bank, or any other bank in BiH, except for the persons referred to in paragraph (3) of this Article.

(2) A member of the supervisory board may not be an elected official on state, entity, cantonal, or municipal levels.

(3) An individual or authorised representative of a legal person may not be the chairperson or a member of the supervisory board in several banks at the same time unless such individual or legal person holds more than 50 percent of shares in each of the banks. The same person may not serve as chairperson or member of the supervisory board in more than two banks in BiH.

(4) A person serving on supervisory boards or management in more than five business companies may not be a member of the supervisory board, in line with Article 48, paragraph (6), item e).

Article 50

(Proposing candidates for members of the supervisory board)

(1) Candidates for the position of a supervisory board member shall be proposed by the shareholders or a group of shareholders holding at least 5 percent of voting shares.

(2) Candidates for members of the supervisory board shall make a written statement accepting the candidacy before applying to the Agency for approval.

Article 51

(Prior approval for candidates for members a bank's supervisory board)

(1) Only a person who has obtained prior approval from the Agency to perform the function of a supervisory board member may be appointed to the bank's supervisory board.

(2) An application for the prior approval referred to in paragraph (1) of this Article shall be submitted by the bank or its founders for a term of office not exceeding four years, at least three months before the expiry of the term of office of a supervisory board member.

(3) The application referred to in paragraph (2) of this Article shall include documentary proof of eligibility as set forth in Article 48 of this Law, a proposed decision of the supervisory board on the nomination of a candidate for a member of the supervisory board, as well as a certificate issued by the competent authority that the candidate has not been convicted of criminal offences in the fields of finance, capital markets, money laundering and terrorist financing and that they have not been placed under a ban on the performance of banking or other financial activities or the ban on the performance of the function of a member of the supervisory board, as well as a certificate issued by the competent court that no criminal proceedings are not pending against the person for the above offences.

(4) When deciding on the prior approval, the Agency shall issue a prior approval referred to in paragraph (1) of this Article for the period of the proposed term in office.

(5) The Agency shall decide on the granting of the prior approval referred to in paragraph (1) of this Article on the grounds of the following:

a) documentation referred to in paragraph (3) of this Article;

b) information on the penalties imposed and proceedings conducted against a candidate for the supervisory board member in keeping with the Agency's regulations; and

c) other data and information available to the Agency.

(6) The Agency shall reject an application for prior approval to perform the function of a member of the bank's supervisory board if it assesses that:

a) the candidate for a supervisory board member does not meet the criteria referred to in Article 48 of this Law, or

b) the bank has not assessed the candidates for supervisory board members, or that the results of the assessment of candidates indicate that a candidate is not suitable under the Agency's regulation.

(7) If the Agency rejects the application for prior approval to serve as a member of the supervisory board, the bank may not reapply for prior approval in respect of the same person until reasons cited in the decision of the Agency which caused the rejection of the approval, have been eliminated.

Article 52

(Motion to dismiss an existing member of the supervisory board)

(1) In the event of a change of members of the supervisory board during the term of office, the bank shall submit to the Agency an application for prior approval to selection a new candidate for the supervisory board member, and enclose with it the required documentation referred to in Article 48 of this Law, as well as a draft decision on the dismissal of the incumbent member of the supervisory board, with a detailed explanation of reasons for dismissal.

(2) If a bank has no proposal for a new candidate when dismissing an incumbent member of the supervisory board, it shall submit to the Agency a complete application for prior approval for a new candidate at the same time, and not later than 30 days from the dismissal of a member of the supervisory board.

(3) A new member of the supervisory board referred to in paragraph (1) of this Article shall be elected for a term until the expiry of the term of office of a supervisory board member whose term of office was terminated, or who has been dismissed.

Article 53

(Withdrawal of approval for a member of the bank's supervisory board)

- (1) The Agency shall withdraw the approval given for a supervisory board member where:
 - a) a member of the supervisory board obtained approval by submitting false or inaccurate documentation or through false presentation of data relevant for performing the function of a member of the supervisory board;
 - b) a member of the supervisory board no longer meets the criteria for membership in the bank's supervisory board referred to in Article 48 of this Law;
 - c) a member of the supervisory board breaches the provisions on duties and responsibilities of supervisory board members referred to in Articles 55 and 56 of this Law;
 - d) the person does not assume the office to which the approval relates within six months from the approval;
 - e) the Agency appoints an external or special administrator.
- (2) The revocation of the Agency's approval shall imply the termination of the office of the bank's supervisory board member.
- (3) For the purpose of implementing the procedure referred to in paragraph (1) of this Article, the Agency shall carry out controls in the manner allowing it to verify whether there are facts and circumstances referred to in paragraph (1) of this Article.
- (4) If the Agency revokes the approval for appointment of a supervisory board member, the bank's general meeting shall at the following session, which must be convened urgently, adopt a decision to remove from office the member of the supervisory board and appoint a new member.

Article 54

(Session)

- (1) Sessions of the supervisory board of the bank shall be held at least once in three months, and on the premises of the bank's headquarters at least once a year.
- (2) When convening, holding and deciding at the sessions, the supervisory board shall act in accordance with laws and regulations, the bank's statutes, the rules of procedure of the supervisory board and other regulations, rules and standards applicable to the operations of banks and joint stock companies.
- (3) Where the Agency finds it necessary, representatives of the Agency may attend the sessions of the supervisory board and take part in the deliberations.
- (4) The supervisory board of a bank shall hold an extraordinary session where the Agency requires so to discuss certain issues.
- (5) The bank's supervisory board shall notify the Agency of the date and agenda of a supervisory board session, convened at the request of the Agency, within the time limit set for notifying the members of the bank's supervisory board.

Article 55

(Responsibilities of the supervisory board)

In line with its competences, the bank's supervisory board shall:

- a) convene sessions of the bank's general meeting and draft a proposal for the agenda,
- b) prepare proposals of decisions for the bank's general meeting and control their implementation,
- c) elect the chairperson of the supervisory board;
- d) determine the proposal of the bank's business policy and strategy and business plan and submits to the bank's assembly for final adoption, and determines risk assumption strategy and policy, risk-taking and risk management in business operations, a program to maintain the adequacy of regulatory capital and the implementation of procedures for the conduct of the internal capital adequacy assessment process of the bank according to its risk profile and provide conditions for their implementation;
- e) adopt the recovery plan of the bank;
- f) decides on the organisational structure of the bank, which sets out a clear and precise allocation of competences, duties and responsibilities of the organisational units in the bank so as to prevent conflicts

of interest and ensure a transparent and documented process of taking and implementing business decisions in accordance with defined responsibilities and powers;

- g) adopt the bank's general terms and conditions and other general enactments of the bank, and decide on their amendments;
- h) adopt the policy of remuneration in the bank, in accordance with a special regulation of the Agency which lays down the regulatory requirements in terms of remuneration policy and practices;
- i) adopt policies and procedures for the selection and assessment of the eligibility of the bank's management members, in accordance with the regulations of the Agency;
- j) provide conditions for the establishment of effective control functions in the bank and supervise their functioning, including the adoption of a decision on the remuneration of key function holders in the bank (internal audit, risk management and compliance), as well as strategic annual work plans of the control functions and the adoption of their annual and semi-annual reports;
- k) adopt the reports of the audit committee;
- l) define the annual business plan of the bank, including the financial plan;
- m) adopt the semi-annual and annual accounts of business operations prepared by the management, including balance sheets and income statements and the report of the internal audit and the report of the external audit, and submit to the general meeting the annual report on the operations of the bank, which shall include financial statements and reports of external auditors, the supervisory board and the audit committee;
- n) submit to the general meeting a report on the work of the supervisory board with the annual report on the operations of the bank, financial statements, the report of the audit firm, the internal audit report and the audit committee;
- o) propose distribution and manner of use of profit and the method for covering losses;
- p) appoint and dismiss the management of the bank and supervise its work;
- r) appoint and dismiss the Secretary of the bank; appoint and dismiss the holders of critical functions in the bank, propose an external auditor of the bank and appoint the internal auditor;
- s) appoint and dismiss the audit committee, remuneration committee, risk committee, nomination committee, voting committee and other specialised committees which provide expert assistance to it in supervising the bank's operations;
- t) periodically revise the adopted policies and procedures and other internal regulations of the bank that were adopted by the supervisory board;
- u) approve purchase, sale, replacement, leases, and other transactions related to assets, directly or via subsidiaries, effected in the course of a business year, in the amount ranging between 15 percent and 33 percent of the book value of the total assets of the bank according to the balance sheet as of the end of the previous year;
- v) propose to the general meeting the purchase, sale, replacement, leases, and other transactions related to assets, directly or via subsidiaries, effected in the course of a business year, in the amount higher than 33 percent of the book value of the total assets of the bank according to the balance sheet at the end of the previous year;
- z) give prior approval for the conclusion of a legal transaction that results in the total exposure of the bank of 10 percent of eligible capital to a single party or a group of related persons or in any subsequent increase in this exposure;
- aa) adopt its rules of procedure and rules of procedure of its committees;
- bb) inform the Agency and other competent authorities and institutions of the irregularities identified in the supervision of banks;
- cc) approve an issue of new shares of the existing class in the amount up to one third of the sum of the nominal values of existing shares and determine the amount, time of sale and price of these shares, which may not be lower than the average market value of the existing shares of the same class in 30 consecutive days prior to the date of the decision; and
- dd) perform other duties in accordance with laws and regulations, the statute and other internal regulations adopted pursuant to the Statute.

Article 56

(Duties and responsibilities of members of the bank's supervisory board)

- (1) The supervisory board shall supervise the bank's operations and the work of the management.
- (2) The supervisory board may inspect and examine business books and documentation of the bank, cash in hand, securities and other items and it may use for this purpose its individual members or may engage experts or give an order to the audit firm to audit the annual financial statements of the bank.
- (3) The right to inspect and examine the books and documentation of the bank referred to in paragraph (2) of this Article shall also pertain to each member of the supervisory board of the bank.
- (4) The supervisory board shall submit to the general assembly a written report on the its work, which includes the performed supervision of the bank's operations and performance of the management, which indicates in particular whether the bank operates in accordance with the law and the bank's enactments, decisions of the general assembly, as well as whether the annual financial statements were prepared in accordance with the accounts in business books and whether they accurately reflect the state of assets and business status of the bank, as well as give an opinion on the annual financial statements and the management's proposal on the distribution of profits and covering losses in the bank.
- (5) The members of the supervisory board who do not agree with any part of the report or the whole report referred to in paragraph (4) of this Article shall submit their comments in writing to the general meeting for comment.
- (6) The supervisory board of the bank shall be responsible for the establishment of an efficient management system in the bank and for the control of that system, and shall ensure that the bank's management identifies the risks the bank is exposed to, and to carry out control of such risks in accordance with approved policies and procedures.
- (7) The supervisory board shall represent the bank vis-à-vis members of the management.
- (8) Members of the supervisory board shall:
 - a) take positions on the findings of the Agency in banking supervision procedures namely within 30 days from the date of the delivery of the report of the Agency on the performed supervision;
 - b) review the appropriateness of procedures and the effectiveness of internal audit;
 - c) discuss internal audit findings;
 - d) immediately inform the Agency of:
 - 1) appointment or termination of their functions in the governing and supervisory bodies of other legal persons and
 - 2) legal transactions through which a member of the supervisory board personally, or one of their nuclear family members, directly or indirectly, acquired shares or participation in a legal person on the basis of which such member of the supervisory board together with members of his nuclear family has acquired qualified participation in the legal person or on the basis of which their participation fell below the threshold of qualified participation;
 - 3) all materially significant information which may negatively affect the appropriateness of persons that have qualified, significant, or control participation in the bank, or to the appropriateness of the members of the supervisory board or management of the bank,
 - 4) all important changes in activities, organisation and overall condition of the bank or all materially significant deterioration after their knowing, including violation of regulations and Agency acts,
 - e) monitor the implementation of the bank's business policy, the strategic objectives and strategies and policies for assuming and managing risks; and
 - f) supervise the publication and communication of information on the financial condition and operation of the bank to the general public.
- (9) Members of the bank's supervisory board shall be jointly and severally liable to the bank for damages arising as a result of acts, omissions or failure to fulfil their duties, unless they prove that they acted conscientiously in discharging their duties of supervision over the management of the bank, in accordance with professional and ethical standards prescribed by the Agency's regulations.

(10) Members of the bank's supervisory board shall carry out their duties and responsibilities falling within the prescribed competences in line with the interests of the bank and requirements related to the exercise of due care by members of the bank's bodies, in conformity with statutory requirements with regard to the prevention of conflict of interest, and/or the bank's adopted policy for managing conflicts of interest.

(11) For the purposes of paragraph (10) of this article, they are obliged to report to the supervisory board any interest in a legal person with which the bank has a business relationship or has the intention to enter a business relationship.

(12) If members of the supervisory board have direct or indirect interest in a bank or another legal person that is related to the bank, they may not decide on issues related to it.

(13) The supervisory board of the bank shall ensure conditions for the implementation of imposed supervisory measures.

(14) A member of the supervisory board shall require approval of the supervisory board to enter into a contract with the bank or another person related to the bank, except for the performance of tasks as a member of this board.

(15) A member of the supervisory board who has concluded a contract referred to in paragraph (14) of this Article for whose conclusion they were not granted approval by the supervisory board, shall repay to the bank all the amounts received on the basis of such contract, unless the supervisory board grants subsequent approval to such contract.

(16) The supervisory board of the bank shall be responsible for the accuracy of all reports on the bank's operations, its financial standing and results of business operations, capital of the bank intended for shareholders, which are made public, as well as for the regulatory reports submitted to the Agency.

Article 57

(Committees of the supervisory board)

(1) The supervisory board shall appoint an audit committee, a remuneration committee, a risk committee, a nomination committee and other committees.

(2) The supervisory board of a bank that is considered significant based on its size, internal organisation and type, volume and complexity of its operations, shall set up, in addition to the audit committee, a remuneration committee, a nomination committee and a risk committee.

(3) If a bank is not considered significant based on its size, internal organisation and type, volume and complexity of its operations and has no committees for remuneration or nomination, the supervisory board shall perform the tasks referred to in Article 60 and/or Article 62 of this Law.

(4) The members of the remuneration committee, risk committee and nomination committee shall be appointed from among the ranks of the bank's supervisory board members, or the members of the supervisory board and at most one person from an expert department in the bank. Each committee shall have at least three members, one of whom shall be appointed the chairperson of the committee.

(5) The Agency shall pass a regulation more specifically defining the tasks, organisation and activities of the individual committees referred to in this Article, including the manner and extent of the implementation of the requirement to set up these committees

Article 58

(Audit committee)

(1) The audit committee shall provide professional support to the bank's supervisory board in its oversight of the bank's operations and performance of the bank's management.

(2) The audit committee shall report directly to the bank's supervisory board, and its members shall be appointed by the supervisory board for a period of four years with a possibility for appointment in two consecutive mandates.

(3) The audit committee shall have at least three members, in any case the number of member must be or an odd number, who shall have expert knowledge and experience in the fields of finance, audit and accounting, where the chairperson and members of the audit committee may not be members of the

supervisory board or management or the staff nor may they have any direct or indirect financial interest in the bank save for the remuneration for performing such function, of whom at least one shall be a person who holds the professional title of a certified auditor in accordance with the law governing accounting and auditing and is fluent in one of the official languages.

(4) The members of the audit committee may be persons who are the members of the supervisory board and management within the banking group to which the bank belongs, provided that they meet the requirements referred to in paragraph (3) of this Article.

Article 59

(Responsibilities of the audit committee)

(1) The audit committee shall:

- a) propose to the supervisory board a work plan of internal audit,
- b) consider reports of internal audit and other control functions, and give opinions on these reports,
- c) review annual financial statements and reports on the bank's operations, with the report of the audit firm, which are to be submitted to the supervisory board and the general meeting of the bank and other financial statements, and give opinions on them,
- d) examine the application of accounting standards in the compilation of financial statements,
- e) analyse and monitor the application and adequate implementation of the adopted strategies and policies for risk management and the implementation of the internal control system,
- f) inform the supervisory board of the activities undertaken, as well as of the irregularities identified, immediately after their detection, and suggest methods to eliminate them,
- g) inform the supervisory board of the implementation of recommendations from the reports on conducted internal and external audits,
- h) submit to the supervisory board and the general meeting a special report on contracts entered into by the bank and persons in a special relationship with the bank,
- i) inform the supervisory board of the compliance of the bank's operations with law, regulations and business standards,
- j) conduct the procedure and put forward a proposal to the supervisory board for the proposal of the selection of an external audit firm and, if necessary, make a substantiated proposal for the dismissal of the audit firm,
- k) monitor and examine, with the bank's audit firm, the annual audit of the bank's financial statements,
- l) propose to the bank's supervisory board to include certain issues related to internal and external audit into the agenda of the bank's general meeting,
- m) submit to the supervisory board quarterly, semi-annual and annual reports on its activities and
- n) convene a session of the supervisory board if it considers that the shareholders' interests are threatened or has established illegalities and irregularities of the supervisory board and management.

(2) The audit committee shall, where it has assessed that the bank operates contrary to the law and other regulations, statute or another enactment of the bank, give recommendations to the bank's supervisory board to eliminate the identified illegalities and irregularities, as well as request an extraordinary session of the general meeting of the bank in case the identified illegalities and irregularities could have serious consequences for the bank's operations.

(3) The members of the audit committee shall hold meetings at least quarterly, and more often if necessary, usually in headquarters of the bank.

Article 60

(Nomination committee)

(1) The nomination committee shall:

- a) put forward proposals for members of the management;
- b) on a regular basis and at least once a year, assess the structure, size, composition and performance of the management and the supervisory board and recommend changes as necessary;

- c) on a regular basis and at least once a year, assess the knowledge, skills and experience of individual members of the management and of the supervisory board, as well as of the management and the supervisory board en bloc, and notify these bodies of that assessment;
 - d) on a regular basis, review the policies for selecting members of the management and the supervisory board and for appointments to the senior management and make recommendations to the management and the supervisory board, and propose their changes as necessary;
 - e) on a continuous basis, to the extent possible, ensure that individuals or small groups of individuals do not exercise dominant influence on the decision-making process at the level of the management or the supervisory board, for the purpose of protecting the interests of the bank as whole; and
 - f) perform other tasks as specified in the regulations.
- (2) Dominant influence in the sense of paragraph (1), item e) of this Article exists in case of effectuation of desired operational and financial policies by the influence holder, despite the rights and influence of any other party. Dominant influence is in place in case the holder of influence issues orders related to operational and financial policies to another company whose management is obliged to act upon, regardless of whether that company will reap benefits.

Article 61

(Risk committee)

- (1) Members of the risk committee shall possess relevant knowledge, skills and expertise in order to fully understand and monitor the bank's risk strategy and risk appetite.
- (2) The risk committee shall inform the supervisory board of the implementation of the strategy for risk assumption and management, the adequacy and manner of implementation of adopted policies and procedures for risk management, as well as the adequacy and reliability of the overall risk management system, facilitate and monitor the implementation of the adopted strategies, and advise the supervisory board regarding the overall current and future risk appetite, without prejudice to the responsibility of supervisory board and management for the overall risk management and oversight of the bank.

Article 62

(Remuneration committee)

- (1) The remuneration committee shall be appointed by the bank's supervisory board in keeping with special regulations to be issued by the Agency in the area of remuneration policies and practices in banks.
- (2) The remuneration committee shall be established by the bank's supervisory board in such a manner as to enable it to make competent and independent assessments of policies and practices with regard to appropriate remuneration structures in line with the assumed risks, the maintenance of capital adequacy and liquidity of the bank, on the basis of which the bank's supervisory board will be able to take appropriate decisions.
- (3) In terms of paragraph (2) of this Article, the remuneration committee shall be responsible for preparing proposals of remuneration policies while taking into account all statutory requirements with regard to long-term interests of the shareholders, investors, clients, regulatory and supervisory authorities and other stakeholders, including the public interest.

SECTION D. BANK MANAGEMENT

Article 63

(Composition of the bank management)

- (1) The management of a bank shall comprise the head and members of management.
- (2) The bank's management members shall perform the tasks falling within the statutory competences of a bank management, and be employed with the bank on a full-time basis.
- (3) At least one member of the bank's management shall be fluent in one of the languages in official use in BiH and have permanent residence in the territory of BiH.

(4) The members of the bank's management shall act in line with the prescribed requirements concerning the prevention of conflicts of interest and/or the bank's policy adopted to manage conflicts of interest.

(5) Unless the statute regulates this matter otherwise, the members of the management shall conjointly act and represent the bank in legal transactions in the manner determined by the statute of the bank. No member of the management may be authorised to individually act on the bank's behalf with regard to the entire volume of the bank's business.

(6) The Agency shall prescribe in a separate regulation the criteria and procedures for assessing the good reputation and sufficient experience of the members of a bank's management, as well as the measures to be taken by the bank in case these criteria are not met.

Article 64

(Requirements for members of a bank's management)

(1) A bank's management shall have at least three members who organise, conduct business and act on behalf of the bank, one of whom shall be the head of management.

(2) Such a person may be a member of the bank's management who meets the following requirements at all times:

a) they shall have a good reputation;

b) they shall have a university degree - qualification level VII, i.e., higher education of the 1st cycle (worth 240 ECTS credits) or education of the 2nd or 3rd cycle of the Bologna Framework;

c) they shall have the required educational level and profile, as well as training and relevant practical experience necessary to run the bank's business;

d) they shall not be in a conflict of interest in respect of the bank, the bank's shareholders, supervisory board members, holders of critical functions and management;

e) they shall have track record on the basis of which it may be reasonably concluded that they shall perform the tasks of a member of the bank's management honestly and with due diligence;

f) they shall also meet other requirements for a management member under the provisions of the legislation on business companies.

(3) A person who has been convicted by virtue of a final and binding decision, or a person subject to criminal proceedings for offences in the fields of finance, capital markets, money laundering and terrorist financing, or a person under the ban on performing banking or other financial activities or the ban on holding a position of a management member, shall be deemed not to have good reputation.

(4) Such a person may not be a bank's management member who:

a) is a member of the supervisory board of another bank in BiH, unless that bank is a related person of the bank in which they are a member of the management in accordance with Article 49, paragraph (3) of this Law,

b) is a person that may not be a member of the bank's management under the provisions of other laws;

c) has been convicted of a criminal offence to unconditional imprisonment or been convicted of a crime that makes him unsuitable to perform this function

d) who serves or has served as the Agency's director or deputy director for the past two years;

e) has been subject to a measure involving a ban on their performance of profession, activities, duties, as well as been issued three times with a warning pursuant to Article 155 of this Law, within the past four years.

(5) If a person has been proposed for a member of the bank's management who was a member of supervisory board, management or an internal auditor in a bank in which the Agency or other competent authority introduced an external administrator and/or provisional administration, or in which liquidation or bankruptcy proceedings were initiated, the Agency shall assess such a candidate in order to issue prior approval for them, provided that it has established that the candidate was not associated with the reasons for the introduction of an external administrator, or a provisional administration, or institution of liquidation or bankruptcy proceedings.

(6) The Agency shall issue a regulation more specifically defining:

- a) the requirements referred to in paragraph (2) of this Article for the membership of the management of a bank;
- b) the procedure for granting prior approval;
- c) documentation to be enclosed with an application for prior approval of the appointment of members of management of the bank; and
- d) the content of the policy referred to in Article 55, paragraph (1), item i) of this Law and the time frame for the assessment of the eligibility of a candidate for a member of the bank's management.

Article 65

(Prior approval to serve as a bank's head of management)

- (1) Such a person may only be appointed as head of management of a bank who has obtained prior approval of the Agency to perform the function of a bank's head of management.
- (2) An application for prior approval referred to in paragraph (1) of this Article shall be submitted by the bank at least three months before the expiry of the term in office of the head of management. The head of management of a bank shall be appointed for a period of four years. The same person may be appointed as head of management of the bank repeatedly without any restrictions.
- (3) The application referred to in paragraph (2) of this Article shall be supported by proof of eligibility defined in Article 64 of this Law.
- (4) A candidate for head of management of a bank shall submit to the Agency the work program of the bank for a period of four years and a proposal for members of management.
- (5) The candidate for whom the bank has submitted the application for issuance of prior approval pursuant to paragraph (1) herein shall provide data on final and binding convictions for criminal offences and misdemeanours in the Federation from the criminal or misdemeanour records on the basis of a reasoned request or in accordance with the law governing legal consequences of convictions, criminal records and rehabilitation.
- (6) When deciding on prior approval, the Agency shall issue prior approval referred to in paragraph (1) of this Article for the period of the proposed term in office.
- (7) When deciding on prior approval, the Agency may ask a candidate for the members of management of a bank to make a presentation detailing how they propose to run the affairs of the bank in the segment related to the tasks falling within their competence.
- (8) The Agency shall decide on the prior approval referred to in paragraph (1) of this Article on the basis of:
 - a) the documentation referred to in paragraph (3) of this Article;
 - b) the work program of the bank referred to in paragraph (4) of this Article;
 - c) the presentation referred to in paragraph (7) of this Article;
 - d) data on issued punishments and ban measures and proceedings conducted against the candidate for member of management pursuant to Article 64 of this Law and the warnings referred to in Article 155 of this Law;
 - e) other data and information available to it.
- (9) The Agency shall refuse to grant prior approval to perform the function of a bank's head of management if it has assessed:
 - a) that a candidate for head of management of a bank does not meet the requirements referred to in Article 64 of this Law or
 - b) that the data and information referred to in paragraph (8) of this Article show that a candidate for head of management of a bank is not suitable.
- (10) A person who has obtained prior approval to perform the function of a bank's head of management shall obtain, before being appointed to the same office with another bank, a new prior approval of the Agency. The provisions of paragraphs (2) to (9) of this Article shall apply *mutatis mutandis* to the approval under this paragraph.

(11) Where the supervisory board wishes to reappoint a person who has performed the function of the bank's head of management, they shall obtain prior approval of the Agency to perform the function of the bank's head of management.

(12) In case a head of management has been dismissed or otherwise prevented from performing his function of head of management for a period longer than a month, the supervisory board of the bank may, without prior approval of the Agency, appoint a new head of management as acting duty for a period which may not be longer than 90 days from the appointment date, who has to meet the requirements for appointment as member prescribed by this Law.

(13) The revocation of the Agency's approval shall imply concurrent termination of the office of the bank's head of management.

Article 66

(Prior approval for members of management)

(1) Only a person who has been granted prior approval by the Agency to perform the function of member of management may be appointed as member of management.

(2) Provisions of Article 65 of this Law shall apply accordingly to the issuance of prior approval for performing the function of member of management.

Article 67

(Duties and responsibilities of the members of the bank's management)

The members of the bank's management shall ensure:

a) legality of the bank's operations and their compliance with the regulations adopted pursuant to this Law, other regulations, generally accepted professional standards and rules;

b) implementation of the supervisory measures imposed by the Agency;

c) implementation of decisions of the bank's general meeting and supervisory board;

d) implementation of the adopted strategies, policies, rules and procedures in the bank's daily operations as adopted, in particular the rules for risk management, assessment of the bank's internal capital, establishment of control functions and the internal control system in all business activities and lines of the bank;

e) decision-making on the bank's exposures in line with the powers conferred upon it by the bank's supervisory board;

f) analyses of the efficiency in the implementation of the adopted policies and procedures, and reporting of the findings to the supervisory board, including relevant proposals to improve their efficiency;

g) reporting on a regular basis to the bank's supervisory board about the bank's business operations in accordance with laws and other regulations, the bank's statute and internal regulations;

h) information of the staff on all internal regulations of the bank governing their rights and obligations in the work process;

i) provision of information without delay to the bank's supervisory board and the Agency about any deterioration in the bank's financial situation or a threat of such deterioration, as well as other relevant facts that may significantly affect the bank's financial situation;

j) the security and reliability of the bank's IT system on a daily basis;

k) decision-making on other issues pertaining to the organisation of the work and operations of the bank, which do not fall under within the competence of the bank's general meeting and supervisory board.

(2) The members of the bank's management shall periodically, and at least once a year, review the effectiveness of the bank's governance system, including the appropriateness of the procedures and efficiency of the control functions, document their findings and communicate them to the supervisory board, and take adequate measures to eliminate the identified shortcomings.

(3) The bank's management members shall be jointly and severally liable to the bank for the damage caused by their actions, omissions or failure to perform their duties unless they are able to prove that they have exercised due diligence in the performance of their duties to manage the bank.

Article 68

(Notification of the supervisory board)

- (1) The bank's management shall promptly and in writing, inform the bank's supervisory board of:
- a) any deterioration in the financial condition of the bank or existence of a threat of this deterioration, as well as other facts which may significantly influence the bank's financial position, particularly if the bank's capital falls below the minimum capital requirement referred to in Article 24 of this Law or the minimum regulatory capital adequacy ratio referred to in Article 27, paragraph (2) of this Law, or in case of a significant decline in the regulatory capital adequacy ratio;
 - b) any threat to the bank's liquidity or solvency;
 - c) any occurrence of the circumstances leading to the termination of the validity of the operating licence, reasons for the revocation of the operating licence or reasons for withdrawal of authorisation to provide certain financial services
 - d) if the bank exceeds the allowable exposure to one person or a group of related persons due to a capital decrease;
 - e) transactions that may be of great significance for successful operation and liquidity of the bank;
 - f) any action that is contrary to the bank's regulations and other enactments;
 - g) all the measures imposed by the Agency pronounced in the course of supervision or inspection of the bank.
- (2) A member of the bank's management shall promptly and in writing notify the bank's supervisory board of the following:
- a) their appointment to or removal from the supervisory body of another legal person or the appointment or removal of their nuclear family member;
 - b) legal transactions on the basis of which a supervisory board member personally, or any of their nuclear family members, has acquired, directly or indirectly, shares or holdings in a legal person, based on which such supervisory board members together with the members of their nuclear family have acquired a qualifying participation in such legal person or based on which their participation fell below the qualifying participation threshold.

Article 69

(Revocation and termination of validity of a decision appointing the bank's head and members of management)

- (1) The Agency shall set aside the decision approving the appointment of the bank's head or member of management if the approval for the performance of the function of head or member of management was obtained on the grounds of false or fraudulent documents or untruthfully presented information that is relevant to the performance of the functions of the head or member of management.
- (2) The Agency shall set aside the decision granting approval to perform the function of the bank's head or member of management if:
- a) the bank's head or member of management no longer meets the requirements for a member of the bank's management referred to in Article 64, paragraph (1) of this Law;
 - b) the bank's head or member of management has been issued a third warning by the Agency in the last four years;
 - c) if it has appointed external or special administrator, or initiated liquidation proceedings against the bank;
- (3) The Agency may set aside the decision granting approval to perform the function of the bank's head or member of management where:
- a) the bank's head or member of management has failed to ensure the implementation, or to implement, the supervisory measures imposed by the Agency;
 - b) the bank's head or member of management is in serious breach of the duties of a management member referred to in Article 67 of this Law;
 - c) the bank's head or member of management is in breach of the duties of a management member referred to in Article 68 of this Law;

(4) The decision granting approval to perform the function of the bank's director or executive director shall cease to be valid if:

a) a person is not appointed within six months from the date of the approval or they have not assumed office as a member of the management,

b) the person's employment contract with the bank has expired, namely on the day of expiry of the contract.

(5) The bank's head or member of management shall be considered to be in serious breach of duties referred to in Article 67 of this Law where such breach caused deterioration of the bank's liquidity or solvency.

(6) For the purpose of implementing the procedure referred to in paragraphs (2) and (3) of this Article, the Agency shall carry out controls of an appropriate scope and nature to verify whether there are facts and circumstances referred to in paragraphs (2) and (3) of this Article.

(7) If the Agency revokes the decision granting approval for the appointment of the bank's head or member of management, the bank's supervisory board shall immediately, and up to five days from the day of revocation of the decision, issue a decision on the dismissal of the bank's head or member of management, appoint an acting director and initiate the procedure for approval of new members.

Article 70

(Duties and responsibilities of the members of the supervisory board and management)

(1) The members of the bank's management and supervisory board, within one month after taking office, shall submit a written statement to the bank's supervisory board and the Agency, with the information on:

a) all the assets owned by them and members of their immediate family with information about each type of property right whose market value exceeds KM 20 000.00,

b) legal person in which they or their family members participate in the management or governing bodies or have a qualified participation in the legal person.

(2) If the information in their asset declaration changes, the persons who made the statement shall inform the supervisory board and the Agency about the change within one month from the day when they learned of the change.

(3) The information referred to in paragraph (1) of this Article shall be submitted to the bank's general meeting by the supervisory board at least once a year and to the Agency no later than March 31st of the current year for the previous one.

(4) The members of the management and the supervisory board shall also report to the bank, in addition to the data referred to in paragraph (1) of this Article, any other direct or indirect interest in a legal person with which the bank has established or intends to establish a business relationship

(5) The members of the bank's supervisory board and management shall act in accordance with high professional and ethical standards of bank management, in the interests of the bank, and prevent, to the highest extent possible, adoption of any decision based on personal interests or in circumstances that may or have caused a conflict of interest; also, they shall encourage, through their actions, an adequate organisational culture, while giving priority to professional, honest and diligent performance of activities at all organisational levels, and clearly defined, transparent and consistently implemented lines of command and authorisations within the bank's organisational structure.

(6) In accordance with their statutory responsibilities, the bank's supervisory board and management shall take timely and appropriate measures to prevent any unlawful or inappropriate practices and influences that are detrimental or not serving the best interests of the bank, its shareholders, depositors, clients, regulator, supervisor and other stakeholders, exerted by the persons having significant or controlling holdings in the bank.

(7) Where the legal and statutory provisions for normal functioning of the bank's supervisory board or management have not been observed in accordance with the provisions of this Law, the Agency shall impose a prescribed supervisory measure and define the time limit for changing the composition of the bank's supervisory board and management. Where the irregularities have not been eliminated within the

given time frame, the Agency may revoke the operating licence of the bank in conformity with Article 22 of this Law.

(8) The bank shall immediately, and not later than within 3 business days, notify the Agency of the termination of a management or supervisory board member's term in office and specify the reasons for the termination of the term in office.

(9) The members of the supervisory board and the management shall participate in training courses and professionally develop within the bank's programs.

(10) The bank, i.e., its nomination committee, shall set, when selecting members of the bank's supervisory board and management, a wide range of qualities, competences and structure

(11) The Agency may prescribe that the statement referred to in paragraph (1) of this Article shall contain other data as well.

SECTION E. SECRETARY, PROCURATOR AND ASSOCIATION OF BANKS

Article 71

(Secretary)

A bank shall have its Secretary. Responsibilities, qualifications, as well as the procedure and authority for appointment and dismissal are determined in the bank's statute. The amount of remuneration and other issues shall be regulated by the contract.

Article 72

(Procurator)

(1) When entering the name of a procurator in the court register, the bank's management shall also enter the restrictions on the powers of the procurator.

(2) The conditions that a person vested with the general power to represent has to fulfil, the type of powers and the manner in which procurators are named, the scope of the powers of procurators, including any restrictions on actions that procurators may take, shall be defined in the Statutes of a bank.

(3) The Agency shall define more specifically the requirements for appointing a procurator.

Article 73

(Association of banks)

(1) Banks may found an independent professional bankers' association for the purpose of improving their own business operations and aligning their activities with market requirements, regulations, professional rules and international standards.

(2) The Articles of Association establishing the Association of Banks shall define the name, activity and headquarters of the association, the representation of the association and liability in legal transactions, as well as the termination of the association and management of the association, and other issues relevant to the establishment of the associations of banks.

(3) The Association of Banks shall submit to the Agency its statute, as well as all other enactments at the request of the Agency.

CHAPTER VI – OPERATIONS OF A BANK

SECTION A. OPERATIONS OF A BANK AND OUTSOURCING OF BANKING OPERATIONS

Article 74

(Operations a bank may perform)

(1) A bank may perform the following operations:

- a) take and hold deposits or other repayable funds from the public;
- b) take out and extend credits and loans;

- c) issue guarantees and all forms of surety;
 - d) provide services in domestic and foreign payment operations and money transfer in keeping with special regulations;
 - e) purchase and sell foreign currencies and precious metals;
 - f) issue and manage payment instruments (including payment cards, travellers' and bank cheques);
 - g) financial leasing;
 - h) purchase, sell and collect receivables (factoring, forfeiting, and other);
 - i) take part, purchase and sell instruments on the money market for its own or another person's account;
 - j) purchase and sell securities (brokerage and dealership operations);
 - k) manage securities portfolios and other valuables;
 - l) provide support to the securities market, perform agent operations and underwriting, in keeping with the regulations governing the securities market;
 - m) provide investment counselling and custody operations;
 - n) provide services of financial management and consulting;
 - o) provide services of data collection, preparation of analyses and provision of information on the creditworthiness of legal persons and self-employed individuals performing a registered activity;
 - p) provide services of renting safe deposit boxes;
 - r) provide services of insurance mediation, in conformity with the regulations governing insurance mediation;
 - s) perform other operations as support to specific banking activities
- (2) A bank shall conduct its operations in accordance with the law, the Agency's regulations, requirements and restrictions set out in its licence, and relevant business and accounting principles and standards.
- (3) A bank may perform activities of technical support within the framework of its infrastructure for its subsidiaries, with prior approval of the Agency.

Article 75

(Definition of outsourcing)

- (1) Outsourcing shall be understood to mean a contractual arrangement in which service providers are entrusted with the performance of those activities of the bank which would otherwise be performed by the bank.
- (2) The Agency shall prescribe which services may not be outsourced.

Article 76

(Outsourcing requirements)

- (1) Banks shall set up an adequate system for managing risks related to outsourcing.
- (2) Banks may outsource the activities that enable them to engage in the provision of banking and financial services, including the activities supporting the pursuance of such activities, provided that outsourcing does not undermine:
- a) the bank's regular business operations;
 - b) the bank's efficient risk management;
 - c) the bank's internal control system, and
 - d) the Agency's supervision of materially significant outsourced activities.
- (3) Where a bank intends to outsource materially significant activities, it shall notify the Agency thereof and submit the prescribed documentation.
- (4) The Agency shall assess whether requirements for outsourcing pursuant to laws and regulations have been met and notify the bank of its assessment within 90 days from receipt of the notification and prescribed documentation.
- (5) If the Agency has assessed that the bank is not able to adequately manage the risks related to the outsourcing in its intended and/or current outsourcing, it may impose additional requirements or prohibit such outsourcing.

Article 77

(No outsourcing)

- (1) Banks shall not outsource the activity of providing banking and financial services for which it was issued with the operating licence by the Agency under this Law.
- (2) The bank's liability to third parties shall not be transferred to service providers under any circumstances.
- (3) Banks shall not outsource the rights and obligations of its supervisory board and management, nor any of the control functions of the bank as defined by this Law.
- (4) Notwithstanding paragraph (3) of this Article, banks may outsource certain segments of the internal audit function based on approval by the Agency, on the terms and in the manner prescribed by the Agency.

Article 78

(The Agency's regulations on outsourcing)

The Agency shall pass a regulation more specifically defining the following:

- a) the term 'materially significant activities';
- b) detailed outsourcing requirements; and
- c) the content of the documentation to be enclosed with the notification and time limits for submission of the notification referred to in Article 76, paragraph (3) of this Law.

SECTION B. RISK MANAGEMENT

Article 79

(Risk management system in a bank)

A bank shall, in proportion to the type, volume and complexity of operations performed and the risks inherent in its business model, set up and implement an effective and reliable risk management system including:

- a) a clear organisational structure with well-defined, transparent and consistent lines of authority and responsibility within the bank, established so as to avoid conflicts of interest,
- b) efficient management of all risks to which it is or might be exposed in its operations,
- c) adequate systems of internal controls, which include appropriate administrative and accounting procedures,
- d) remuneration policies that are consistent with and promote sound and effective risk management;
- e) the procedure for internal capital adequacy assessment of the bank and the bank's internal assessment of the adequacy of the bank's liquidity and recovery plan.

Article 80

(Risk management)

(1) A bank shall establish comprehensive and effective risk management, i.e. as a minimum to:

- a) define the strategy, policies and procedures for risk management;
- b) establish processes and procedures in risk management, pursuant to the defined strategy, policies and procedures referred to in item a) of this paragraph, which includes the identification and assessment of significant risks, risk measurement, measures to limit and mitigate risks, monitoring, analysis and control of risks, and appropriate lines for continuous reporting to the supervisory board and management;
- c) provide efficient, reliable and timely reports on risks, with adequate IT support that ensures comprehensive, timely and reliable collection and processing of data needed to measure, monitor and report on a bank's exposures to risks in conformity with the regulatory requirements and for internal needs of the bank in the risk management system;

d) carry out stress tests - testing the sensitivity of the bank to risks (individual and integrated), by using several scenarios, i.e., assumptions regarding changes in external and internal factors that can have a significant impact on the risks in the bank's operations;

e) draw up contingency plans for unforeseen or emergency situations in the bank's operations.

(2) A bank shall clearly and precisely define in its enactments the powers and responsibilities in risk management for all organisational levels, all levels of the work process and decision-making at the bank.

(3) When setting up and implementing a system for risk management, the bank shall ensure that risk assumption is functionally separate from the activities of risk identification, measurement, monitoring, control, and in this regard, depending on the volume and complexity of its business, define in its organisational structure organisational units or employees who will be directly responsible for risk management at the operational level.

The Bank shall ensure an independent assessment of the functioning of the risk management system by the internal and external audit.

The Agency shall prescribe in more detail the elements of the risk management system, as well as the internal process for assessment of the bank's capital adequacy which should include all the risks in the bank's business operations.

Article 81

(Types of risk in the bank's operations)

(1) The risk management system in the bank must be set up so as to cover all the risks the bank deems to be important and to which it is or may be exposed to in its operations, and shall define them in its risk management strategy, policies and procedures while including, as a minimum, the following risks:

a) credit risk;

b) liquidity risk;

c) market risks (position risk, currency risk, commodity risk and other market risks);

d) operational risk;

e) interest rate risk in the banking book;

f) country risk;

g) compliance risk;

h) concentration risk;

i) settlement risk;

j) strategic risk;

k) reputational risk;

l) other risks.

(2) For the purposes of this Law, credit risk shall be understood to mean the risk of loss stemming from a debtor's failure to repay their liabilities to the bank.

(3) Liquidity risk shall be understood to mean the risk of loss stemming from the current or anticipated inability of the bank to pay its liabilities when they fall due. The Agency may decide on the need to impose special liquidity requirements to include liquidity risks the bank is or may be exposed to, while taking account of a bank's business model, systems, processes and mechanisms, the findings of supervision conducted pursuant to Article 139 of this Law and systemic liquidity risk.

(4) For the purposes of this Law, market risks shall include position risk, currency risk and commodity risk. Position risk shall be understood to mean the risk of loss incurred due to the changes in prices of financial instruments or, for derivatives, changes in the price of the underlying variable. Currency risk shall be understood to mean the risk of loss incurred due to the change in the currency rates and/or the price of gold. Commodity risk shall be understood to mean the risk of loss incurred due to the changes in commodity price.

(5) Operational risk shall be understood to mean the risk of loss incurred due to inadequate or ineffective internal processes, people and systems or external events, including legal risk.

(6) Interest rate risk in the banking book shall be understood to mean the risk of possible negative effects on the financial result and capital of the bank stemming from positions in the banking book as a result of changes in interest rates.

(7) Country risk shall be understood to mean the risk associated with the country of origin of the person the bank is exposed to, i.e., the risk of possible negative effects on the financial result or capital of the bank due to the inability of the bank to collect its receivables from such person for reasons that are the result of political, economic or social circumstances in the country of origin of that person. Country risk includes political and economic risk and transfer risk.

(8) Compliance risk shall be understood to mean the risk of imposition of potential measures and penalties and the risk of significant financial losses that a bank may incur due to the non-compliance with the legislation, standards, codes and the bank's internal regulations.

(9) Concentration risk shall be understood to mean any individual, direct or indirect exposure to one person or a group of related persons or a set of exposures interconnected by common risk factors, such as the same economic sector, geographical area, same-type products or implementation of credit risk mitigating techniques, including in particular the risks associated with large indirect credit exposures to a single collateral provider, which may lead to losses that could threaten further operation of a bank or a materially significant change in its risk profile.

(10) Settlement risk shall be understood to mean the risk of possible negative effects on the financial result and capital of the bank stemming from the difference in the agreed settlement price for a debt instrument, equity, foreign currency or commodity instrument and its present market value.

(11) Strategic risk shall be understood to mean the risk of loss caused by the lack of a long-term development strategy of the bank, adverse business decisions, non-responsiveness to changes in the economic environment, etc;

(12) Reputational risk shall be understood to mean the risk of loss of trust in the integrity of a bank caused by the adverse public opinion on the bank's business practices, which stems from the activities of the bank, the bank's business relationships with individual clients or activities of members of the bank bodies, regardless of whether there are any grounds for such public opinion.

(13) The bank shall adopt and implement appropriate policies and procedures for managing risks to which it is or may be exposed to in its operations.

(14) The Agency shall prescribe the minimum requirements for risk management in banks, which shall include, *inter alia*, risk identification, measuring, monitoring and control.

SECTION C. INTERNAL CONTROL SYSTEM

Article 82

(Internal control system scope)

A bank shall set up and implement an efficient system of internal controls in all areas of the bank's business, which shall include as a minimum:

- a) appropriate organisational structure;
- b) organisational culture;
- c) setting up of the bank's control functions;
- d) adequate control activities and allocation of duties;
- e) adequate internal controls integrated in the bank's business processes and activities; and
- f) appropriate administrative and accounting procedures.

Article 83

(Control functions)

(1) A bank shall set up three control functions:

- a) risk management function;
- b) compliance monitoring function; and
- c) internal audit function.

(2) Pursuant to paragraph (1) of this Article, the bank's supervisory board shall pass an enactment for each of the control functions and set them up in the manner which ensures their independence, i.e., functional separation from the business processes and activities where risks occur, i.e., which these control functions monitor, control and assess.

(3) A bank shall organise the performance of control functions at the headquarters of the bank, and implement the system of control function in in other organisational units in proportion to its size, internal organisation, type, volume and complexity of tasks performed by specific control functions.

(4) When establishing control functions a bank shall:

a) apply the principle of proportionality to the scope, type and complexity of the bank's business operations and risk profile;

b) cover all significant risks to which it is or may be exposed;

c) avoid conflicts of interest;

d) establish direct lines of reporting to the bank's supervisory board,

e) ensure a sufficient number of employees in control functions, with relevant expertise and experience, as well as their regular professional education and training;

f) appoint persons responsible for the control functions and notify the Agency about their appointment.

(5) The heads of control function organisational units shall compile quarterly, semi-annual and annual reports on risk management, compliance monitoring and internal audit, and submit them to the management, the supervisory board and the audit committee and shall at least once a year participate in the meetings of the bodies to which they report.

(6) The reports referred to in paragraph (5) of this Article shall be adopted by the supervisory board of the bank, after obtaining representations of the management and the audit committee.

(7) If any of the control functions in the performance of tasks falling within their competence establishes illegalities in business operations or breaches of strategies, policies and procedures in risk management which could undermine the stability, security, solvency or liquidity of the bank, the person in charge of the control function shall immediately inform the management and the supervisory board of the bank and the Agency to that effect.

(8) The Agency shall issue a regulation more specifically defining the contents of internal regulations for each control function, the requirements to be met by persons performing control function tasks, and the scope and manner of operation of each function referred to in paragraph (1) of this Article, as well as the method used by the bank's management to review the adequacy and effectiveness of control functions in accordance with Article 67, paragraph (2) of this Law.

Article 84

(Organisational structure of the control functions)

(1) A bank shall set up permanent and efficient control functions with relevant powers, independent from the business processes and activities where risks occur, i.e., which the control functions monitor and oversee, commensurate with its size and the type, volume and complexity of its operations and in line with its risk profile.

(2) One control function may not be organised as part of another control function.

(3) Notwithstanding paragraph (2) of this Article, a bank may organise the performance of tasks within the compliance function as part of the risk management function or another support function where it is appropriate given its size, type, volume and complexity of its operations; however, the tasks of such functions may not be organised as part of the internal audit function.

(4) A bank shall organise the internal audit function as a separate organisational unit that is functionally and organisationally independent from the activities it audits, as well as from other organisational units of the bank.

(5) A bank shall organise its control functions in a manner to cover all material risks to which the bank is or may be exposed in its operations.

(6) A bank shall set up the control function in a manner to avoid conflicts of interests.

Article 85

(Persons carrying out control functions)

(1) Commensurate with its size, type, volume and complexity of its operations, a bank shall ensure a sufficient number of persons with relevant qualifications and experience to perform the tasks of each control function.

(2) Where several persons are entrusted with the performance of tasks in a certain control function, a person responsible for the operation of the control function as a whole shall be appointed.

(3)

A bank shall notify the Agency immediately, and at the latest within eight business days, of the appointment of persons responsible for the operation of each control function and of the reasons for their removal.

(4) A bank shall provide regular professional education and training for persons carrying out control function tasks.

(5) Persons appointed to carry out the control functions may not be persons related to the bank or persons having another basis for interconnectedness which may be the ground for a conflict of interest, i.e., which may call into question the independence and objectivity in the performance of statutory responsibilities of internal audit.

(6) For the needs of carrying out the tasks falling within the responsibilities of control functions, it is necessary to provide to employees of control functions with the right to review all necessary documents, without limitation.

Article 86

(Internal audit function)

A bank shall organise internal audit as an independent function in the bank, which shall be responsible for the assessment of:

a) The risk management system in the bank and key risks in the bank's operations in order to ensure that key risks are appropriately identified, measured, assessed, monitored, analysed, controlled and reported, and that adequate measures to limit and mitigate them are taken;

b) efficiency and reliability of the compliance function and risk control function, including the internal control system in place in all areas of the bank's operations;

c) the bank's information management system;

d) accuracy and reliability of the bank's financial statements;

e) adequacy of the bank's asset management;

f) implementation of the remuneration policy in the bank;

g) compliance of new products and procedures with the applicable legislation, internal regulations, standards and codes, and the impact of the new products / procedures / markets on risk exposure.

h) strategy, policies and procedures for assessing the required internal capital of the bank commensurate with its risk profile, etc.

(2) The internal audit function in the bank shall be organised in a manner which ensures its independence, competence, objectivity and impartiality in the performance of the tasks it is responsible for, including the continuity and efficiency of the internal audit function, the adequacy and timeliness of reporting on internal audit findings and recommendations.

(3) A bank's management and supervisory board shall ensure a timely and efficient implementation of corrective measures as recommended by internal audit with a view to eliminating the identified irregularities and weaknesses outlined in internal audit reports.

(4) A bank shall have at least one employee in the organisational unit of internal audit who shall have certified internal auditor title and certificate.

(5) Employees in the organisational unit of internal audit may not perform managerial or other tasks in the bank's purview, apart from the tasks relating to the performance of internal audit, nor may they participate in the preparation and drafting of enactments and other documents that may be subject to internal audit.

(6) Employees in the organisational unit of internal audit shall have the right to review the business books, financial statements and all the documents of the bank and its subordinated companies, as well as members of the same banking group, and to oversee the operations of the bank and participate in the sessions of the supervisory board.

Article 87

(Compliance in operations function)

(1) A bank shall establish the function of monitoring compliance in operations and develop it in a way that ensures:

- a) monitoring the bank's compliance with this law, regulations of the Agency and other regulations, and standards of prudent banking operations, procedures on anti-money laundering and financing terrorist activities, as well as other acts which regulate the operations of a bank,
- b) identification of weaknesses and risk estimation as a consequence of lack of compliance of the bank with the law and other regulations, especially risk of implementation of supervisory measures and sanctions of the Agency and other competent regulatory authorities, of financial losses, and of reputational risk.
- c) counselling the management and other responsible persons on the manner of implementation of relevant laws, standards, and procedures, including information on current developments in those areas,
- d) estimating the effects of changes of relevant regulations on the operations of the bank.

(2) The organisational unit responsible for monitoring the compliance of the operations of the bank shall develop a compliance monitoring program for the bank, including in particular the work methodology of that organisational unit, its planned activities, methods and deadlines for preparing reports, method of verifying compliance, as well as an employee training plan.

Article 88

(Risk management function)

Within the risk management function, a bank shall ensure the performance of at least the following tasks:

- a) risk analysis that includes identifying, measuring and assessing risks to which the bank is or may be exposed in its operations,
- b) the continuous monitoring of all significant risks the bank is exposed to,
- c) conduct of stress tests,
- d) verification of the implementation and effectiveness of the methods and procedures for managing risks the bank is or may be exposed in its operations, including risks from the macroeconomic environment,
- e) testing and evaluation of the adequacy and effectiveness of internal controls in the process of risk management, and assessment of how adequate the risk management methodology is,
- f) participation in the development and review of strategies and policies for risk management, methods and procedures for risk management, and making suggestions and recommendations for efficient risk management,
- g) analysis, monitoring and reporting on the adequacy of internal capital of the bank, and verification of strategies and procedures for the assessment of the required internal capital,
- h) analysis of the risks inherent in new products and new markets, and
- i) implementation of other checks required for adequate risk control.

SECTION D. EXPOSURE OF A BANK

Article 89

(Large exposure)

(1) A bank's exposure to a single entity or a group of related persons shall be considered to be a large exposure if its value is equal to or exceeds 10 percent of eligible capital.

(2) A bank shall adopt policies and procedures to identify and monitor individual exposures and total exposure, as well as exposures to the bank's related persons, and keep records and monitor and report on them in accordance with the regulations of the Agency.

Article 90

(Largest allowable exposure)

(1) A bank's exposure to one person or a group of related persons after the application of credit risk mitigation techniques shall not exceed 25 percent of the bank's eligible capital.

(2) The maximum allowable amount of an uncollateralised loan in accordance with the regulations of the Agency to a single person or group of related persons may not exceed 5 percent of the bank's eligible capital.

(3) A bank may in exceptional cases exceed the limitations pursuant to paragraph (1) of this Article for exposures in the trading book if the following conditions are met:

a) the exposure toward one person or group of related parties for exposures from the banking book do not exceed the limitation from paragraph (1) of this Article, so that the excess arises entirely from the trading book,

b) a bank shall meet the additional capital requirement related to the excess over the exposure limit of 25% of eligible capital of the bank in the trading book,

c) where 10 days or less have elapsed since the excess in the trading book occurred, the trading-book exposure to the person or group of related persons in question shall not exceed 500 percent of the bank's eligible capital,

d) any excesses of the limitation of 25 percent of eligible capital in the trading book that have persisted for more than 10 days do not, in aggregate, exceed 600 percent of the bank's eligible capital;

(4) In each case in which the limit has been exceeded, the bank shall immediately notify the Agency of the amount of the excess, the name of the person, or group of related persons concerned.

(5) The bank is obliged to attach to the notification a description of measures it will undertake to meet the limitation requirements described herein, and a deadline in which these measures shall be implemented.

(6) The Agency shall issue a decision to the bank to meet the limitation, and the deadline thereof,

(7) The Agency shall prescribe detailed requirements and the method of calculating large exposures as well as the sum of all the largest allowable exposures of a bank.

Article 91

(Prior approval of the supervisory board)

Prior approval of a bank's supervisory board shall be required before concluding a legal transaction on the basis of which the bank's total exposure could result in the bank's large exposure, as well as for each subsequent in the exposure to a single person or group of related persons.

Article 92

(Exposure of a bank to a group)

The bank's total exposure to its parent company, its subordinated companies and persons related to them shall be subject to the restrictions laid down in Article 90, paragraphs (1) and (2) of this Law.

Article 93

(Legal transactions with persons in a special relationship with the bank)

(1) In its business operations, a bank may not grant to a person in a special relationship with the bank or the bank employee more favourable conditions than the conditions granted to other persons not in a special relationship with the bank to or employed by the bank.

(2) A bank's legal transactions with a person in a special relationship with the bank shall include transactions concluded by the bank with this person and with a person related to the person in a special relationship with the bank.

(3) The Agency shall determine the amount over which the bank may conclude a legal transaction with a person in a special relationship with the bank exclusively after obtaining a written approval of the bank's supervisory board.

(4) The approval referred to in paragraph (3) of this Article shall not be required in the following cases:

- a) taking deposits of persons in a special relationship with the bank;
- b) granting loans collateralised by a related deposit of a person in a special relationship with the bank;
- c) granting loans collateralised by debt securities of the Federation, and/or debt securities of persons rated by recognised international credit rating agencies not lower than "A".

(5) A member of a bank's supervisory board and a member of the management may not participate in the consideration or approval of any legal transaction between them and the bank, between the bank and any member of their family, and between the bank and a legal person in which they or any member of their family participate in the management or governance, or in which they have a significant or controlling participation.

(6) A bank may undertake legal actions in favour of persons in a special relationship with the bank and persons that are related to persons in a special relationship with the bank after obtaining a written approval of the bank's supervisory board.

(7) It is forbidden for the bank to approve loans to its shareholders before the expiry of one year from the start of its operations.

(8) A legal transaction concluded by a bank contrary to the provisions of paragraphs (1) to (7) of this Article shall be null and void.

(9) The Agency shall prescribe detailed requirements for and restrictions on transactions with persons in a special relationship with the bank.

Article 94

(Investments of the bank)

(1) A bank may not hold, directly or indirectly, without prior written approval of the Agency:

- a) significant ownership interest in a legal person, or indirectly in a subsidiary of that legal person, which exceeds 5 percent of the regulatory capital of the bank or
- b) the total net value of all ownership holdings of the bank in other legal persons and in subsidiaries of those legal persons in excess of 20 percent of the bank's regulatory capital.

(2) The criteria for deciding on the approval of the Agency referred to in paragraph (1) of this Article shall include:

- a) no exposure to unnecessary risks;
- b) no interference with effective supervision, implementation of supervisory measures or bank resolution; and
- c) adequate financial, managerial and organisational resources for effecting transactions; and
- d) ability to manage non-banking risks.

(3) In deciding on the approval referred to in paragraph (1) of this Article for cross-border investment of a bank, the Agency shall take into account, in addition to the criteria referred to in paragraph (2) of this Article, the following criteria:

- a) an adequate flow of information necessary for consolidated supervision;
- b) effectiveness of supervision in the home country; and
- c) ability to conduct supervision on a consolidated basis.

(4) A bank may not, directly or indirectly, have an ownership holding in a legal person that exceeds 15 percent of its regulatory capital, while an ownership holding in a non-financial sector person may not exceed 10 percent of its regulatory capital, nor may an ownership holding exceed 49 percent of ownership of non-financial sector legal person.

(5) The total participation of a bank in a non-financial sector person may not be higher than 25 percent of the bank's eligible capital, and the total participation of a bank in persons in the financial sector may not exceed 50 percent of its eligible capital.

(6) The total investments of a bank in fixed assets shall not exceed 40 percent of the bank's eligible capital.

(7) A bank's loans to legal persons in which the bank has investments shall be considered holdings subject to the restrictions laid down in this Article.

(8) Investments acquired by a bank in the financial restructuring process, in bankruptcy and enforcement proceedings, and through the application of security instruments under the regulation on Enforcement Procedure, in exchange for its receivables over the first three years after their acquisition shall not be considered investments referred to in paragraphs (4), (5) and (6) of this Article.

Article 95

(Permissible excess of investments)

(1) A bank may exceed the limits laid down in Article 94, paragraphs (4) and (5) of this Law if the amount of investment that exceeds the limit is completely covered by regulatory capital. If, at the same time, the bank has exceeded the limit referred to in Article 94, paragraphs (4) and (5) of this Law, the excess amount shall be covered out of the regulatory capital.

(2) The Agency shall prescribe in more detail deductible items for the calculation of capital adequacy.

SECTION E. SALE OF THE BANK'S INVESTMENTS

Article 96

(Sale of the bank's investments)

(1) The sale of investments shall be regulated by a contract transferring the investment (receivables from credits, interest, loans, held-to-maturity investments, except investments in debt securities, and the like), or risks and benefits from the underlying investments, from the selling bank to a company engaged in the sale of investments (hereinafter: the purchaser), resulting in derecognition of the investment from the balance sheet of the bank in accordance with the International Financial Reporting Standards.

(2) A bank may enter into an investment sales contract after obtaining approval from the Agency confirming that the general requirements for the purchase and sale of investments, as well as special conditions for purchase and sale of materially significant amounts of investments, as prescribed by this Law and regulations of the Agency have been met.

(3) The bank may cede investments in the form of loans and other services approved to users of financial services exclusively to other banks and financial organisations that have permission of the Agency,

(4) The Agency shall more specifically prescribe:

a) definition and scope of investments;

b) financing of an investment sale;

c) general and specific requirements for investment sales;

d) materially significant amounts of investments;

e) documentation that the bank shall submit to the Agency for the purpose of verifying compliance with the prescribed requirements; and

f) other issues pertaining to investments subject to sale.

Article 97

(Obligations of the selling bank before taking a decision on the sale of investments)

(1) Prior to deciding to conclude an investment sales contract, a selling bank shall ensure an appraisal of the value of receivables by an independent appraiser, as well as to evaluate the effects of the investment sale on the bank's financial result, business continuity, reputation, risk exposure, solvency, liquidity, and the protection of users of financial services if loans and advances approved to users of financial services are the subject of such sale.

(2) Prior to deciding to conclude an investment sales contract, the selling bank shall assess the purchaser in terms of their financial, staffing and technical capacities to take over the subject of sale.

(3) The Agency shall prescribe in more detail the criteria for the assessment referred to in paragraph (2) of this Article.

Article 98

(General requirements for investment sale)

(1) The selling bank may conclude an investment sales contract where the following requirements have been met:

a) the investment sale has an economic rationale;

b) the selling bank has evaluated the effects of the investment sale;

c) the financing of the investment sale, management and collection are carried out in conformity with the provisions of this Law, and the Agency's regulation,

d) the purpose of the sale is not the generation of proceeds otherwise not possible for the selling bank.

(2) The selling bank may conclude an investment sales contract with a purchaser from a banking group where:

a) the purpose of the investment sale is not to avoid compliance with capital requirements, other prudential or other requirements laid down in this Law and regulations adopted pursuant to it;

b) the purpose of the sale is not to generate proceeds that would otherwise not be possible for the selling bank on an individual basis or for the banking group on a consolidated basis.

(3) The selling bank shall ensure that the investments or risks and benefits from investments have been permanently transferred to the purchaser.

(4) The selling bank shall not assume, directly or indirectly, any responsibility for the quality of sold investments, including their collectability and the debtor's credit rating, which served as a basis for fixing the agreed selling price.

(5) In case of occurrence of reasons for breach of contract on the sale of investments, the selling bank and the buyer may not negotiate the return of investment, but they do have the right to compensation of damages for the breach of contract.

Article 99

(Special conditions for purchase and sales of materially significant amount of investment)

(1) A selling bank may conclude a contract for the purchase and sale of a material amount of investments, provided that along the general conditions of purchase and sale of investments, the following special conditions are met:

a) ensuring a permanent transfer of investment or risk and benefits derived from the investment,

b) the selling bank does not take, directly or indirectly, the responsibility for the quality of the sold investments, including their recoverability and creditworthiness of the debtor, based on which the contracted selling price was formed and

c) the management and recovery if sold investments is performed in line with Agency regulations.

(2) The selling bank shall it apply in writing for the Agency's approval on the fulfilment of general and special conditions of purchase and sale and shall deliver the prescribed documentation no later than 60 days before the conclusion of a contract on the purchase and sale of a material amount of investments.

Article 100

(Financing of investment sale)

(1) The selling bank shall stipulate in the contract that the purchaser shall meet their payment obligation by disbursing the full agreed price into the selling bank's account immediately after the conclusion of the investment sales contract, and no later than 60 days from the date of its signing.

(2) Notwithstanding paragraph (1) of this Article, in special cases, at the request of the selling bank, the Agency may allow other methods and deadlines for the payment of the agreed price.

(3) The selling bank shall not finance, directly or indirectly, any sale of its investments or risks and benefits from investments.

Article 101

(Protection of users of financial services at the time of investment sale)

(1) When concluding contracts on sales of investments that pertain to the investments approved to the users of financial services as defined in the regulation on the Protection of Financial Services Consumers, the selling bank shall ensure that such users of financial services are not put in a less favourable position through the protection of financial services consumers than the position they had as debtors vis-à-vis the selling bank.

(2) The provisions of Article 96, paragraph (2) of this Law and paragraph (1) of this Article shall not apply to the contracts concluded within measures for the bank's recovery and resolution.

SECTION F. BANK SECRECY

Article 102

(Bank secret)

(1) A bank secret shall be understood to mean data, facts or information of which shareholders members of the bodies of the bank, and bank employees, have become aware in the course of performing tasks and discharging duties that are part of their responsibilities, as well as persons working for the audit firm auditing the bank and other persons who have access to these data because of the nature of their work, and whose disclosure to an unauthorised person would or could cause detrimental consequences for the bank and its customers.

(2) A bank secret referred to in paragraph (1) of this Article shall include in particular:

a) the data known to the bank, related to: personal data, financial situation and transactions, as well as the ownership and business relationships of natural and legal persons that are clients of that or another bank,

b) information on the balances in and transactions through individual accounts of natural and legal persons opened with the bank.

(3) The following shall not be considered to be a bank secret:

a) public data and data accessible from other sources to interested persons with legitimate interest;

b) bulk information, where it is not possible to identify any personal or business information on individual clients to whom/which such information pertains; and,

c) data on a bank's shareholders and the amount of their participation in the bank's share capital, as well as data on other persons, regardless of whether they are clients of the bank, and

d) public data from the single register of accounts.

(4) A bank secret is a business secret.

(5) The provisions of this Law governing bank secrecy shall apply *mutatis mutandis* to all organisational units of banks headquartered in RS or the Brčko District established in the Federation.

Article 103

(Obligation of banking secrecy)

(1) The persons who in the performance of tasks and discharge of duties falling within their responsibilities have access to data referred to in Article 102, paragraph (2) of this Law, shall keep such information in conformity with this Law, regulations passed pursuant to it and other regulations governing the keeping of bank and professional secret, and they may not use it for their personal benefit or disclose it to third persons.

(2) The persons referred to in paragraph (1) of this Article shall be bound by the obligation of banking secrecy even after the termination of their employment with the bank or after the termination of their engagement in the bank, i.e., termination of the status on the basis of which they gained access to such information.

The bank shall issue an internal regulation defining the data considered to be bank secret and the method to access, use, exchange, store and protect these data, as well as a procedure for the declassification of such data.

Article 104

(Exemptions from bank secrecy)

(1) The obligation to keep bank secret shall not apply if data are disclosed:

- a) to a third party pursuant to a written consent of the client to whom the information relates,
- b) in order to safeguard the interests of the bank when selling the investments of clients,
- c) to the competent court, office of the prosecutor or persons acting under their orders, pursuant to a decision or request of the competent court or prosecutor's office, if such information is necessary for proceedings that they conduct within their jurisdiction, and in accordance with the regulations governing their activities;
- d) to the court or administrative body in connection with the enforcement or bankruptcy administrator related to the bankruptcy against the assets of the bank's client,
- e) to the Agency and other relevant regulatory authorities for the purpose of carrying out tasks falling within their competence,
- f) to the Ombudsman for the banking system, if the interests or obligations of the bank or banking service users require disclosure of confidential information in the process of settling legal disputes between banks and users of banking services or other arbitration or mediation proceedings,
- g) at the written request of tax authorities, inspection and other control bodies in accordance with the regulations governing their activities,
- h) to the Deposit Insurance Agency, in accordance with the regulations on insurance of bank deposits,
- i) to insurance companies in the process of insuring a bank's receivables, which are related to those receivables,
- j) at the conclusion of legal transactions which result in securing a bank's receivables, including credit derivatives, bank guarantees and other similar transactions,
- k) if a bank that provides services of storing and administering financial instruments for account of clients delivers to the bank which is the issuer of dematerialised securities, at its request, information on the holders of these securities,
- l) to social welfare centres at their written request for the purpose of taking measures within their competence,
- m) at written request to a person who incorrectly paid funds to an account of a bank's client, and only information necessary to initiate judicial proceedings for the repayment of incorrectly paid funds,
- n) to the authority competent for the restructuring, liquidation or bankruptcy of a bank, if the confidential information is necessary to settle the claims of creditors, and other requests relating to the restructuring, liquidation or bankruptcy of the bank, except for those data which refer to other entities involved and have a legal standing in these proceedings,
- o) to the Central Bank, or another competent authority in accordance with the regulations governing the supervision of payment systems and payment transactions, within the boundaries of their competence,
- p) to a competent foreign regulatory authority authorised to issue and revoke operating licences to financial sector persons or to exercise control and supervision of these persons, only for the purposes of implementing control and supervision within their jurisdiction, which also applies in emergency situations, on the terms laid down in the agreement on cooperation signed between that authority and the Agency,
- r) to the ministry in charge of internal affairs and the body in charge of combating organised crime and corruption in accordance with regulations.
- s) to the competent authorities in accordance with the regulations governing the prevention of money laundering and terrorist financing,
- t) to a person established to collect information on the amount, type and regularity of fulfilling the obligations by natural and legal persons that use banking services, and to exchange these data among

banks and between banks and financial sector persons (credit bureau), in accordance with a separate law, or on the terms provided for in the cooperation agreement concluded between the banks and that person,

u) within the banking group for risk management purposes,

v) to a co-debtor, pledger, guarantor or another participant in the credit relationship, and only the information about that credit relationship,

z) to providers of outsourced services, where the disclosure of information is necessary for the exercise of the bank's activities which are subject to outsourcing

aa) to foreign authorities and other bodies, if provided so by international agreements,

bb) to other authorities exercising public powers, in accordance with a separate law,

cc) to an audit firm for the purpose of auditing reports or a bank, and

dd) pursuant to other laws.

(2) A bank shall ensure for a client that has concluded a contract on provision of banking services, to provide his written consent referred to in paragraph (1), item a) of this Article, for each individual contract in a separate document.

(3) When the exchange of information is performed on the basis of written consent of the client referred to in paragraph (1), item a) of this Article or the information is provided in accordance with paragraph (1), item t) of this Article, the bank shall meet the following requirements:

a) to ensure that the information provided is accurate, complete and updated,

b) at the customer's request, to give them access to their data which the banks is disclosing,

c) to ensure that the data exchanged in such a manner are not of a larger volume than necessary for the purpose for which they are exchanged and

d) to store the data received by the deadline, which is required for the purpose for which data are disclosed.

(4) The Agency shall prescribe detailed requirements referred to in paragraph (3) of this Article.

Article 105

(Handling confidential information)

Persons referred to in Article 104, paragraph (1) of this Law, may use the information that represent a bank secret exclusively for the purpose for which the information has been disclosed and shall not disclose it to any third parties or enable them to learn of such information or use it, other than in the cases set out in this Law.

SECTION G. OTHER OBLIGATIONS OF THE BANK

Article 106

(Required reserve of the bank)

A bank shall keep and maintain the reserve requirement in accordance with regulations issued by the Central Bank.

Article 107

(Keeping the documentation)

(1) A bank and organisational units of banks headquartered in RS and the Brčko District and established in the Federation shall keep the documentation, data and records on transactions effected, in hardcopy or electronic form, in accordance with the regulations governing archiving, prevention of money laundering and terrorist financing, accounting and auditing, other laws, as well as Agency regulations

(2) Banks shall keep payment orders and other documentation on opened accounts and executed payment transactions for at least 10 years from the day the account was opened and the day of execution of the transaction.

Article 108

(Protection of the users of banking services)

The protection of the rights and interests of banking service users shall be implemented in accordance with laws governing this area.

Article 109

(Dormant accounts)

- (1) A bank shall prescribe procedures for dealing with dormant accounts and ensure that the documentation is kept.
- (2) A bank shall inform account holders about the procedures referred to in paragraph (1) of this Article.

Article 110

(Anti-money laundering and terrorist financing)

- (1) No bank shall acquire, convert or transfer, or be instrumental in the acquisition, conversion or transfer of, money or other property if the bank knows or can reasonably expect that the money or other property are the proceeds of criminal activity.
- (2) No bank shall engage in a transaction that the bank knows or can reasonably expect will constitute a money laundering offence as defined in the Law on the Prevention of Money Laundering and Terrorist Financing.
- (3) No bank shall convert or transfer, or be instrumental in the acquisition, conversion or transfer of money or other property that the bank knows or can reasonably expect to be used in terrorist activity in accordance with the Law on the Prevention of Money Laundering and Terrorist Financing, regulations that govern the introduction and implementation of certain temporary measures for the efficient implementation of international restrictive measures and the UN Security Council resolution.
- (4) A bank is forbidden to perform conversions or transfers, as well as intermediate in the acquisition, conversion or transfer of money or other assets, for which it is known or could be reasonably assumed that may be used by individuals or legal entities or bodies who obstruct or threaten to obstruct or represent a significant risk of active obstruction of implementation of a peace process, in accordance with regulations that govern the introduction and implementation of certain temporary measures for the efficient implementation of international restrictive measures
- (5) A bank shall set up internal controls and internal audit, and introduce policies and procedures with a view to detecting and preventing transactions that include criminal activities, money laundering and terrorist financing.
- (6) A bank shall make a risk assessment in order to establish the level of risk for individual client groups or individual clients, business relations, transaction or products in relation to the possibility of their abuse for the purposes of money laundering or terrorist financing, in line with the regulations governing this area
- (7) In its business operations, a bank shall perform obligations and tasks and undertake measures and actions defined by the regulations governing anti money laundering and terrorist financing.
- (8) A bank shall submit to the Agency monthly statistical reports on the transactions referred to in paragraphs (2) do (4) of this Article, of which it has notified the relevant authority receiving and analysing such reports, in the form prescribed by the Agency.

Article 111

(Disclosure of information)

- (1) A bank shall at least once a year publicly disclose quantitative and qualitative data, which are of importance for informing the public about its financial condition and operations, and at least information on:
 - a) the bank's capital and capital adequacy,
 - b) the banks ownership structure, members of the supervisory board and the management,
 - c) other facts, in accordance with the Agency's regulations.

(2) A bank shall not be obliged to publish data and information which are not material, as well as data and information whose public disclosure could adversely affect the competitive position of that bank in the market, and data that might negatively affect the safety of employees and bank bodies.

(3) The Agency shall prescribe in more detail the content of the data and information referred to in this Article, and the terms, manner of and deadlines for their publication.

Article 112

(Client protection)

(1) A client of the bank shall have the right of access to the data related to the contractual agreement it has with the bank and it must be made available to them under this Law, and the bank shall grant them such access at their request.

(2) The bank shall be free to decide on the choice of clients.

Article 113

(Publication of general terms and conditions)

(1) For the purposes of this Law, the general terms and conditions shall be considered to be each document containing standard operating terms and conditions, that apply to all clients of the bank, the general requirements for establishing a relationship between the customer and the bank, the process of communication between clients and the bank and the general requirements for conducting transactions between clients and banks. The general terms and conditions include also acts that define fees and other expenses that the bank charges to the client.

(2) The Bank shall publish general terms and conditions of business, as well as amendments thereof, in one of the languages in official use in the Federation, on its premises and the bank's web site, at least 15 days prior to their implementation, and disclosure may also be made through the media.

(3) The obligation to publish general terms and conditions referred to in this Article shall also apply to branches of banks headquartered in RS and the Brčko District, opened in the Federation.

(4) General terms and conditions are an integral part of the contract signed between the bank and the client and must be permanently available to clients during the time of its validity.

(5) The client may request the bank to give appropriate explanations and instructions related to the application of the general terms and conditions.

(6) The Agency shall prescribe more specific requirements and manner of publication and application of general business conditions of the bank.

Article 114

(Client information)

(1) A bank shall provide information to the customer, at their request, about their loan or deposit account, as well as other information from the business relationship between the client and the bank.

(2) The Agency shall prescribe a single method of calculation and publication of costs, interest and fees of banking services, especially for deposit and lending operations and the detailed terms and conditions for informing the bank's clients.

Article 115

(Clients' complaints)

(1) If a client believes that a bank is not adhering to its contractual obligations under the concluded agreement, they may lodge a complaint with the manager of the relevant organisational unit or to the competent body of the bank. A bank shall reply to the complainant within 30 days from the date of the complaint.

(2) The Agency shall be authorised, within its supervisory function, check whether the bank adheres to good business practices, published general terms and conditions and provisions of contracts signed with customers.

(3) The Agency shall more specifically define terms and conditions of protection and the rights of the client, as well as the conditions and manner of the bank's actions with respect to the client's the objection.

SECTION H. FINANCIAL STATEMENTS AND EXTERNAL AUDIT

Article 116

(Financial statements)

(1) A bank shall compile annual financial statements, individually and on a consolidated basis, which truthfully and objectively present its financial result and financial position, in accordance with the legislation governing accounting and audit, International Financial Reporting Standards, this Law and acts passed pursuant to these pieces of legislation.

(2) A bank shall keep business books and other business documentation and records in a manner which makes it possible to verify at all times whether the credit institution operates in accordance with applicable regulations and professional standards.

Article 117

(Statutory audit)

(1) Audits shall be mandatory for annual financial statements of a bank and consolidated financial statements of a banking group.

(2) For the purpose of conducting annual audits of financial statements referred to in paragraph (1) of this Article, a bank and reporting entities on a consolidated basis referred to in Article 125, paragraphs (12) and (2) of this Law shall hire an audit firm.

(3) The Agency shall issue prior approval for the appointment of an audit firm to audit financial statements.

(4) The audit referred to in paragraph (1) of this Article shall be conducted in accordance with the regulations governing accounting and auditing, this Law and regulations of the Agency.

Article 118

(Appointing an audit firm)

(1) The bank's general meeting, based on the Agency's prior approval, shall appoint an audit firm no later than by 30 September of the current year to audit the financial statements for that year.

(2) A decision on the appointment of the audit firm shall be submitted to the Agency by the bank within eight days from the date of the decision.

(3) If a bank fails to comply with paragraphs (1) and (2) of this Article, the Agency shall appoint an audit firm within 30 days from the date of the annual general meeting.

(4) A contract on audit of financial statements shall be concluded between a bank and an audit firm in writing, and the bank shall submit such contract to the Agency within eight days from the date on which the contract was signed.

(5) For each bank with which it has concluded an audit contract, an audit firm shall submit to the Agency an audit plan for that business year by 31 October of the current year, which shall show the business areas that are to be audited, a description of the content of the planned audit by individual area, as well as the anticipated period of the audit.

Article 119

(Audit restrictions)

(1) A bank may not appoint an audit firm if that same audit firm generated more than half of its total income in the previous year from auditing the accounts of that bank or the banking group to which the bank belongs.

(2) A bank's audit firm and a certified auditor performing the audit of the bank may not be a person:

- a) that is in a conflict of interest and performs incompatible activities defined by the law governing accounting and auditing, as well as their related person that performs these activities,
 - b) that is in a special relationship with the bank or of a member of the banking group,
 - c) that is an agent or representative of the bank and has a financial interest in the bank or in a member of the banking group, resulting from the business relationship with the bank or a banking group member, which raises a reasonable doubt about their independence and impartiality,
 - d) whose report on the audit of financial statements for the previous financial year was not accepted by the Agency.
- (3) A bank's audit shall be performed by the same audit firm for at least three consecutive years, but no longer than the period set out in the law governing accounting and auditing.
- (4) Notwithstanding paragraph (3) of this Article, where the Agency has not accepted an annual audit report for the previous year, in accordance with this Law, or where a bank has provided a rationale to the Agency in writing, explaining that there are valid reasons to change the audit firm, the audit firm shall not perform audit for three consecutive years.
- (5) The Agency shall prescribe detailed requirements and criteria that an audit firm shall meet in order to obtain prior approval for auditing the financial statements of a bank and a banking group.

Article 120

(Protection of an auditor's independence)

In the event of the cancellation of a contract on the audit of a bank's financial statements, the bank and/or the audit firm shall explain in writing the reasons for the cancellation to the Agency.

Article 121

(Obligations of an audit firm)

- (1) An audit firm shall, after conducting an audit in accordance with the regulation on accounting and auditing, prepare a report on the audit with an opinion, prepare an extended report on the audit performed for the needs of the Agency and submit a letter of recommendation to the Agency.
- (2) The audit firm shall notify the supervisory board, the management and the audit committee, in writing and without delay, about the following:
- a) identified illegalities or facts and circumstances that could in any way threaten the further operations of the bank;
 - b) circumstances constituting the reasons for revocation of the licence referred to in Article 22, paragraphs (1) and (2) of this Law;
 - c) a material difference in the assessment of risks inherent in the bank's operations and the valuation of its on- and off-balance sheet items and profit and loss account (income statement) items ;
 - d) serious breaches of internal regulations;
 - e) major weaknesses in the set up of internal control systems or failures in the implementation of internal control systems, and
 - f) facts that could result in a qualified opinion, an adverse opinion or a disclaimer of an opinion on the financial statements.
- (3) An audit firm shall notify the Agency in writing of any of the facts referred to in paragraph (2) of this Article of which it becomes aware in the course of the audit of financial statements of a company controlled by the bank.
- (4) The submission of the information referred to in paragraph (3) of this Article to the Agency shall not be considered to constitute a breach of the auditor's confidentiality obligation arising from the legislation governing auditing or from the contract.
- (5) An audit firm shall submit, at the request of the Agency, necessary clarifications in writing concerning the report on the performed audit and other information that the Agency needs to carry out supervision in accordance with this Law.

Article 122

(Refusal of audit reports)

If the Agency has established that an audit of financial statements was not performed, or that an audit report was not prepared, in accordance with this Law, regulations adopted pursuant to this Law, the legislation governing accounting and auditing and rules of the auditing profession or where, in the course of the supervision of the bank's operation or in any other way, it establishes that the audit opinion on the bank's financial statements referred to in Article 121(1) of this Law is not based on true and objective facts, it may refuse the audit report and request the bank that the audit be carried out by certified auditors of a different audit firm, or directly appoint an auditor by itself where it deems it necessary, at the expense of the bank.

Article 123

(Scope of the audit for the purposes of the Agency)

- (1) For the purposes of the Agency, an audit firm shall provide a report with an opinion on the following:
- a) compliance with risk management rules;
 - b) efficiency in the performance of the risk management function, the compliance function and the internal audit function;
 - c) the state of the information system and the adequacy of information system management; and
 - d) the regularity, accuracy and completeness of the reports submitted to the Agency.
- (2) The Agency may request an audit firm to provide additional information about the conducted audit.
- (3) If the Agency has established that the report with an opinion referred to in paragraph (1) of this Article was not prepared in accordance with this Law, regulations adopted pursuant to this Law, the law governing auditing and rules of the auditing profession or if, in the course of the supervision of the bank's operation or in any other way, it establishes that the audit opinion is not based on true and objective facts, it shall request the bank to obtain an opinion of certified auditors of another audit firm, at the expense of the bank.
- (4) The Agency shall more specifically define the scope of the audit for the purposes of the Agency.

Article 124

(Submission of reports to the Agency and their disclosure)

- (1) A bank shall submit to the Agency annual financial statements not later than the last day of February of the current year, and audit reports of the audit firm not later than 31 May of the current year.
- (2) A bank shall publish the audit firm's report in an abridged form, within 15 days of its receipt, on its web site and in one or more daily newspapers available throughout the BiH territory, and promptly notify the Agency to that effect, while submitting a copy of the announcement.
- (3) A bank shall publish on its web site and make available its audited annual financial statements, together with its annual report, not later than six months from the end of the business year to which they refer.
- (4) In addition to publishing the audited annual financial statements, a bank shall publish at the end of the first half of each year unaudited semi-annual reports, as well as the information on the names of members of the supervisory board and the management, and all shareholders holding 5 percent or more of voting shares.
- (5) A bank shall publish the report referred to in paragraph (4) of this Article within 30 days after the end of the first semester in one or more local daily newspapers available throughout the BiH territory.
- (6) The parent bank headquartered in the Federation shall publish its audited consolidated annual financial statements and the consolidated financial statement of the group in accordance with the provisions governing accounting and auditing, in the manner referred to in paragraph (3) of this Article and within nine months from the end of the business year they refer to.
- (7) The Agency shall prescribe the elements and contents of the report of an audit firm in abridged form that is made available to the public.

Article 125

(Audit of consolidated financial statements)

- (1) The obligor of the audit of consolidated financial statements of a banking group shall be the parent bank.
- (2) The audit report of financial statements for a banking group having a bank holding company or an ultimate parent company shall be submitted by the bank that is under the control of such holding or company, which is headquartered in the Federation.

Article 126

(Exemptions from consolidation)

- (1) Consolidated financial statements of a banking group shall not cover a subordinated member of the group whose balance sheet accounts for less than 1 percent of the balance sheet of the parent member of the group.
- (2) Notwithstanding paragraph (1) of this Article, where several subordinated members of a banking group meet the requirement referred to in the above paragraph, the Agency may order that such members of the banking group be included in the consolidated financial statements if it assesses that the sum of their balance sheets is significant for understanding the financial standing of the banking group.
- (3) The entities under an obligation of reporting on a consolidated basis may exclude from consolidated financial statements, based on prior approval of the Agency, the data on a subordinated member of the banking group:
 - a) which is headquartered in a country where there are legal impediments to the exchange of data and information necessary for the preparation of the consolidated financial reports;
 - b) whose inclusion in consolidated financial statements is not relevant for understanding the financial standing of the banking group;
 - c) whose inclusion in consolidated financial statements would be misleading as to the financial standing of the banking group;
 - d) in other cases laid down by accounting and auditing legislation.
- (4) An application for approval referred to in paragraph (3) of this Article, with a rationale, shall be submitted to the Agency by the entity under an obligation of reporting on a consolidated basis not later than 30 days prior to the expiry of the reporting period.

Article 127

(Consolidation in other cases)

- (1) The Agency may order a bank that is the ultimate parent company to the persons that do not perform financial activities to consolidate certain activities or activity groups, or carry out full consolidation of the financial situation and business operations of such persons, as well as the persons that are not considered financial sector persons, irrespective of their business activity, if that is necessary for the purpose of a full and objective presentation of the financial standing and operations of the bank.
- (2) The persons referred to in paragraph (1) of this Article shall send to the bank all data required for the preparation of consolidated financial statements in a timely fashion.

Article 128

(Special audits and audits in case of status changes of a bank)

- (1) If it has assessed that, for the purposes of supervision pursuant to this Law, it is necessary collect, analyse and process certain data on a bank's operations, which are not covered by the report on the audit of annual financial statements of the bank, the Agency may order the bank to hire an audit firm to perform a special audit of financial statements of the bank and a member of the banking group or their individual parts, as well as to conduct other types of audit, and/or examination of particular business processes and data on the operations of these persons.
- (2) A bank or a member of a banking group shall submit to an audit firm, promptly and without any restrictions, all information and documents necessary for the conduct of a special audit, and provide all the required assistance, in accordance with this Law.

(3) The costs of a special audit shall be borne by a bank.

(4) In the case of changes in the status of a bank, the bank that has been established through a merger or which has acquired another bank in a merger, i.e., banks established through the division of a bank, shall hire an audit firm to perform an audit of financial statements as of the date of the status change.

(5) The bank referred to in paragraph (4) of this Article shall submit, within 60 days from the date of the registration of the status change in the business entities register, to the Agency a report of an audit firm on the truthfulness and objectivity of its opening balance sheet as at the status change date.

(6) The Agency may prescribe detailed requirements and manner of conducting a special audit and the requirements and methods of an audit in the case of status changes in a bank.

SECTION I. REPORTING TO THE AGENCY AND RECOVERY PLANS

Article 129

(Reporting)

(1) A bank shall report to the Agency in accordance with this Law and regulations adopted pursuant to this Law.

(2) A bank shall notify the Agency without delay of the following:

- a) a session of the general meeting that was held and all the decisions taken in that general meeting,
- b) each planned change in the bank's capital amounting to 10 percent or more,
- c) termination of provision of certain services in the purview of bank operations,
- d) any knowledge that a natural or a legal person has acquired qualifying participation or the holding referred to in Article 30 of this Law, or that a holder of qualifying participation has sold or divested in any other way their shares, on which account their holding has increased above, or decreased below, the level for which prior approval was granted.

(3) In addition to the facts referred to in paragraph (2) of this Article, a bank shall notify the Agency of the following:

- a) a bank's shareholders and persons related to such shareholders holding 5 percent or more of voting shares at the general meeting;
- b) persons related to the bank; and
- c) the composition of the groups of related persons to which the bank is exposed.

(4) A bank whose shares are traded in a regulated market shall inform the Agency about the shareholders holding qualifying participations and of the size of such participations.

(5) The bank's management shall promptly notify the Agency of the following:

- a) if the bank's liquidity or solvency is threatened;
- b) if circumstances occur for revocation of the operating licence, reasons for such revocation of the operating licence or reasons for withdrawing the authorisation for the performance of approved activities;

(6) A bank shall periodically submit the following information:

- a) names and holdings of persons with significant participations;
- b) the identity of beneficial owners of shares registered to authorised persons, custody accounts or other instruments.

(7) The Agency shall issue a regulation specifying the time limits and methods of reporting referred to in this Article.

Article 130

(Reports)

(1) A bank shall prepare and submit to the Agency reports and data on its financial position and operations, including exposure to risks, large exposures, asset quality, provisions for credit losses, operations with persons in a special relationship with the bank, liquidity, solvency and profitability, as well as on planned business activities of the bank and its subsidiaries in accordance with this Law and regulations of the Agency.

(2) Along with the reports from paragraph (1) of this Article, the bank shall, at the request of the Agency, deliver:

- a) data on the financial position, operations and exposure to risk on a consolidated basis, and
- b) data for the member of the banking group which are needed for the assessment of the status and risks of the bank or banking group.

(3) A bank shall submit reports and information at the request of the Agency on all issues relevant to the implementation of supervision or control, or to the performance of other tasks within the competence of the Agency.

(4) Organisational units of the bank headquartered in RS or the Brčko District which operate in the Federation shall prepare and deliver reports and data on their operations to the Agency in a timely manner, as prescribed by Article 17, paragraph (5) of this Law and Agency regulations.

(5) The Agency shall adopt an act to prescribe the content and form of the reports referred to in this Article, as well as the manner and deadlines for their submission, and may request the authentication of these reports.

Article 131

(Annual report on the implementation of control functions)

(1) A bank shall submit to the Agency, together with its annual financial statement, an annual report on the implementation of the control functions, which was adopted by the supervisory board of the bank.

(2) The Agency shall prescribe the content and time limits for the delivery of the reports referred to in paragraph (1) of this Article.

Article 132

(Recovery plan)

(1) A bank shall draw up a recovery plan specifying the measures a bank is to apply in the event of a significant deterioration in its financial standing, in order to restore its viable operation and adequate financial position.

(2) The Agency may prescribe a more limited scope of the recovery plan and reduced frequency of its updating for those banks whose size, business model and linkages with other institutions or the financial system as a whole ensures that their failure will not have any adverse impact on financial markets, other institutions or financing terms.

(3) The plan referred to in paragraph (1) of this Article shall be adopted by the bank's supervisory board, but its content shall not be disclosed to any natural or legal person, including the bank's shareholders, even if the bank's shares are traded in a regulated market, except for the persons involved in its drafting and adoption. Such plan shall be submitted to the Agency for the purpose of assessing the appropriateness and implementability of the proposed measures.

(4) A bank shall review the plan referred to in paragraph (1) of this Article:

- a) at least once a year, in keeping with the Agency's regulation;
- b) if an event occurs that affects the bank's legal and/or organisational structure, business model or financial standing, which may have a significant impact on the final implementation of the plan;
- c) in case the assumptions used in the development of the plan have changed, which may have a significant effect on the final implementation of the plan;
- d) at the request of the Agency pursuant to items b) or c) of this paragraph.

(5) The recovery plan does not oblige the Agency and does not provide a right nor an obligation to the bank and third parties to implement measures and strategies contained in the plan.

(6) Independently from paragraph (5) herein the Agency is authorised to, within its supervisory function, order the bank one or more measures the bank may undertake if all the conditions for early intervention have been met, and it may not assume any financial support from public funds.

Article 133

(Content of the recovery plan)

- (1) A bank shall provide in its recovery plan for different options of recovery and measures to be applied in the context of each of these options, as well as to put in place appropriate conditions and procedures for taking timely actions aimed at its recovery.
- (2) A bank shall define activities and measures for recovery on the basis of the projections of different situations in which serious macroeconomic and financial disturbances could arise, which are significant for the bank's operations, including system-wide events and disorders related to the operation of certain persons or groups of companies.
- (3) A recovery plan shall include a description of a set of different activities and recovery measures to be undertaken by the bank in relation to its capital and liquidity, set time limits for the implementation of individual elements of the plan and identification of critical functions, as well as other elements and data prescribed by the Agency.
- (4) The measures referred to in paragraph (1) of this Article which may be set out in a recovery plan shall include in particular changes of members of the supervisory board, management and other persons holding managerial positions in the bank, changes in assignment of duties and responsibilities to employees, closing of one or more organisational units, changes in business activities and services of the bank, raising of additional capital, conversion of specific elements of capital into shares or other equity instruments, etc.
- (5) A recovery plan shall also include measures which a bank will undertake where the conditions for early intervention under Article 164 of this Law are met.
- (6) The use of extraordinary public financial support from the budget and other public may not be defined as a recovery measure nor may the recovery plan in any other manner be based on the assumption of such support.
- (7) The Agency shall prescribe the contents of recovery plans, and the manner and time limits for submission of recovery plans and their amendments.

Article 134

(Assessment of recovery plans)

- (1) Within six months from the submission of a recovery plan, the Agency shall examine the recovery plan and assess the extent to which the plan meets the requirements referred to in Article 133 of this Law, including the following criteria:
 - a) adequacy of the proposed measures and strategies, the implementation of which would ensure the maintenance or recovery of regular operations and the financial position of the bank or group;
 - b) the bank's ability to rapidly and efficiently implement the proposed measures and strategies in the situations of financial stress, while avoiding, as much as possible, substantial detrimental consequences for the financial system, even in the event of concurrent implementation of a recovery plan in another bank.
- (2) When assessing the adequacy of a recovery plan, the Agency shall consider the adequacy of the bank's capital and funding structure for the level of complexity of the bank's organisational structure and risk profile.

The Agency may examine the recovery plan to identify any measures in the recovery plan that may have detrimental effects on the potential resolution of the bank.
- (4) When the Agency assesses that the plan has significant deficiencies or major obstacles to the implementation of the plan, it shall inform the bank of its assessment and request the bank to submit, within a period of two months which may be extended for another month if approved by the Agency, a revised plan, which demonstrates how these deficiencies or obstacles will be addressed within a reasonable time frame. Before requesting the bank to re-submit its recovery plan, the Agency shall give the bank a possibility to respond to the request.
- (5) Where a bank fails to submit a revised recovery plan, or where the Agency finds that the revised recovery plan does not effectively eliminate the identified deficiencies and potential obstacles established in the initial assessment, the bank's management shall, after consulting with the Agency, draft a mutually agreed framework of measures to ensure that the deficiencies and obstacles are

eliminated. The measures available to the Agency include the measures referred to in Article 153 of this Law and, as necessary and proportionate, a request that the bank:

- a) reduce the risk profile of the bank, including liquidity risk;
- b) facilitate timely recapitalisation;
- c) review the bank's business policy and strategy;
- d) make changes to the part of the business policy and strategy relating to funding so as to additionally protect the core business lines and critical functions;
- e) make changes to the governance structure;
- f) revisit the organisational structure.

Article 135

(Group recovery plan)

- (1) The parent company of the banking group, which is subject to supervision on a consolidated basis by the Agency, shall prepare and deliver to the Agency for approval a plan of recovery for the banking group, which defines measures in order to achieve financial stability and reestablishment of an appropriate financial standing at the level of the group as a whole, and every individual member of the group, while listing all persons who fall within the given scope of supervision on a consolidated basis.
- (2) A recovery plan of the banking group shall contain measures and activities whose implementation is required at the level of the banking group as a whole, particularly the parent company and every individual subsidiary, as well as the manner through which coordination and coherence of implementation of these measures and activities is achieved.
- (3) A recovery plan of a banking group with the bank holding company, or ultimate parent company, shall be submitted to the Agency by the bank that is under the control of that holding or company and is headquartered in the Federation.
- (4) The provisions of Articles 132 to 134 of this Law shall apply to the recovery plan of a group.
- (5) The Agency shall adopt an act to prescribe the contents, manner and deadline for submission of the recovery plan of the banking group

Article 136

(Implementation of the recovery plan)

- (1) A recovery plan shall include indicators for determining the timing for the implementation of an appropriate measure envisaged by the plan, while still providing the bank with a possibility to take recovery measures even where the relevant indicators from the plan have not been met, or refrain from taking the measures although these indicators have been met, if the circumstances of a particular situation warrant so, on the basis of a decision of the bank's supervisory board.
- (2) A bank shall ensure in an appropriate manner the regular monitoring of the indicators referred to in paragraph (1) of this Article.
- (3) A bank shall promptly notify the Agency in writing if it has taken measures under its recovery plan, and/or refrained from taking measures under its recovery plan even though the conditions for its implementation have been met, and shall send a reasoned explanation along with the notification.
- (4) The Agency shall prescribe in detail the minimum quantitative and qualitative indicators referred to in paragraph (1) of this Article.

CHAPTER VII - SUPERVISION

SECTION A. GENERAL PROVISIONS

Article 137

(Banking supervision)

- (1) The basic objectives of supervision conducted by the Agency shall be the maintenance of trust in the banking system in the Federation, preservation of its safety and stability and depositor protection.

(2) The activities of the banks with the seat in the Federation, organisational units of the Bank with the seat outside the Federation, subsidiaries, representative offices of foreign banks, as well as other legal persons that are subject to consolidated supervision, as well as other legal persons that are subject to consolidated supervision (members of banking groups and holding companies) in line with the provisions of this Law. The scope and principles of such supervision are defined by this Law and the act which regulates the operations of the Agency and the Agency regulations.

(3) In conducting supervision of a bank, the Agency shall be entitled to inspect business books and other documentation, as well as request other information from persons connected to the bank through ownership and management relations, persons to which the bank transferred a significant portion of its business activities, as well as the owner of qualifying holdings in the bank.

(4) The Agency shall regulate and conduct supervision referred to in paragraph (2) of this Article with the competent regulatory authority.

Article 138

(Conducting supervision)

(1) The Agency is authorised to conduct banking supervision by:

- a) performing off-site supervision,
- b) performing on-site supervision of bank operations,
- c) imposing supervisory measures, and
- d) issuing opinions, approvals, consents and assessing the bank in line with this Law.

(2) Except for supervision, the Agency shall also conduct oversight of the banks in line with the law which regulates the operations of the Agency, regulations adopted based on that legislation and other laws and regulations adopted based on those laws, for which it is authorised based on those laws.

(3) The Agency shall issue a regulation regulating in more detail the conditions and manner of conducting supervision, imposing supervisory measures and the obligations of the bank bodies during and after the supervision conducted by the Agency, as well as the manner and procedure of conducting banking group supervision on a consolidated basis.

Article 139

(Scope of banking supervision)

(1) In line with this Law and the laws prescribing the status, competences and mandate of the Agency, in conducting supervision, the Agency shall review the legality of the bank's operation, including organisation, strategies, policies, processes and procedures adopted by the bank for the purpose of complying with the regulations and assess the risks to which the bank is or may be exposed, as follows:

- a) impact of the bank's risk on the banking system,
- b) risks identified in the course of the bank's stress test, taking into account the nature, scope and complexity of the bank's operations.

(2) On the basis of supervision referred to in paragraph (1) of this Article, the Agency shall determine whether the organisation, strategies, policies, processes and procedures put in place by the bank, as well as the capital and liquidity of the bank, ensure an appropriate governance system and coverage of risks to which the bank is or could be exposed in its operation.

(3) In determining supervision frequency and intensity referred to in paragraph (1) of this Article for a specific bank, the Agency shall be guided by its size and importance for the banking system in the Federation, as well as the type, volume and complexity of operations performed by the bank and the principle of proportionality.

(4) When deemed necessary for a specific bank based on supervision, the Agency shall conduct enhanced supervision, inter alia, by:

- a) increasing the number and frequency of on-site examinations of such bank;
- b) appointing a consultant in line with the provisions of this Law;
- c) requesting additional or more frequent reporting to the Agency by the bank;

- d) conducting additional or more frequent reviews of such bank's operational, strategic or business plans and
- e) conducting supervision of individual business lines and current potential risks.

Article 140

(Supervisory tasks)

In conducting supervision, the Agency shall monitor and assess:

- a) the financial condition of the bank, including its solvency, asset quality, liquidity and financial results,
- b) the quality of governance at the bank, risk management system and internal control system,
- c) granted loans, advances, letters of credit, guarantees and issued securities in terms of compliance with the applicable regulations,
- d) security instruments and sureties received based on loans granted and timeliness in the repayment of liabilities by debtors,
- e) compliance with the concentration limits and the process of identification, monitoring and control of exposure concentration, including large exposures,
- f) compliance with standards in terms of allowable risks in banking operations prescribed by the Agency, risk management in carrying out banking operations, including the adjustment of the process of risk identification and monitoring, as well as risk reporting,
- g) assessment, maintenance and analysis of the bank's capital,
- h) other essential parameters affecting the regular operations of the bank and compliance with legislation and Agency regulations.

Article 141

(Systemically important banks and stress tests)

(1) The Agency, determines the list of systemically important banks in accordance with the methodology determined jointly with the Central Bank, the Deposit Insurance Agency, and the Banking Agency of RS and ,

(2) The methodology shall particularly take into account the bank's size, its interconnectedness with other participants in the financial system and its replaceability in that system, as well as the complexity of its operations, and the Agency shall publish it.

(3) The list of systemically important banks is updated on an annual basis and is delivered to the Central Bank, the Deposit Insurance Agency, and the Banking Agency of RS.

(2) The Agency may set special regulatory requirements for the banks identified as systemically important banks.

(3) For the purposes of supervising and assessing the stability of the banking sector, the Agency shall conduct bank stress test in cooperation with the Central Bank in order to monitor each bank's operations, assess risks and take appropriate measures in a timely manner.

Article 142

(Supervision plan)

(1) In accordance with the scope of supervision referred to in Article 139 of this Law, the Agency shall adopt a Banking Supervision Plan at least annually. The plan must contain:

- a) the manner of carrying out the supervision referred to in Article 138 of this Law and required resources;
- b) identification of banks to be subject to enhanced supervision;
- c) definition of the location for carrying out the supervision.

(2) Supervision plans shall cover:

- a) banks where the results of stress tests or the results of supervision and assessment according to Article 139 of this Law point to significant risks to the maintenance of the bank's financial position and financial stability or indicate violations of the legal provisions governing bank operations;
- b) banks of systemic importance to the financial system;

c) other banks for which the Agency deems that on-site examination is necessary.

Article 143

(Persons authorised to conduct supervision)

- (1) The supervision referred to in Article 138, paragraph (1) Item a) of this Law shall be performed by the Agency employees (hereinafter: staff authorised by virtue of their employment).
- (2) The supervision referred to in Article 138, paragraph (1) Item b) of this Law shall be performed by the Agency employees based on the authorisation by the Agency Director (hereinafter: authorised persons).
- (3) Notwithstanding this, for the performance of the tasks in connection with on-site examination of bank operations, the Agency Director may authorise a certified auditor, an audit firm or a person authorised according to special laws to provide expert opinions (appraisers, experts and other).
- (4) In performing the tasks related to on-site examination of bank operations for which they were authorised by the Agency Director, the persons referred to in paragraph (3) of this Article shall have equal powers and responsibilities as the authorised persons of the Agency.
- (5) Authorised persons from another competent regulatory authority authorised to supervise and oversee the operation of the members of the same banking group to which the bank belongs may participate in an on-site examination of the bank, in accordance with a cooperation agreement between the Agency and such regulatory authority.

Article 144

(Off-site examination of operations)

- (1) The Agency shall perform off-site examination of operations by collecting and analysing reports, documentation and information, by continuously monitoring the operations of banks and other persons obliged to report to the Agency according to the provisions of this Law and the regulations adopted based on this Law, or other laws and the regulations adopted based on such other laws.
- (2) When in the course of off-site examinations, irregularities in bank operations are determined, a report is produced, except in case that the bank has informed the Agency of the irregularities,
- (3) Exceptionally, the Agency may issue an order in the course of the examination, before drafting the report.
- (4) The report from paragraph (2) of this article shall be subject to the provisions of this law and regulations of the Agency.

Article 145

(On-site examination of operations)

- (1) The Agency shall perform on-site examination by reviewing bank operations at or outside the bank's seat where the bank or other person authorised by it perform bank operations, as well as at other locations in cases prescribed by this Law.
- (2) The bank shall enable the Agency's authorised persons to conduct on-site examination of its operations at the bank's seat and at all its organisational units.
- (3) The bank shall enable the authorised persons to examine the compliance of its business books and other documentation, as well as its information technology.
- (4) The bank shall present for inspection to the authorised persons any business books or documentation requested by such persons, in hard copy and/or electronic format, as well as give them access to the database system used by the bank for the purpose of examining the information system.
- (5) The examination of operations referred to in paragraphs (1) and (2) of this Article shall be conducted by authorised persons during the bank's working hours. Where appropriate because of the scope or nature of supervision, the bank shall enable the authorised persons to conduct the examination of its operations outside the bank's working hours as well.
- (6) During the supervision procedure and upon the request of the authorised persons, the bank shall provide:

- a) access to all organisational units and premises of the bank, subject to observance of its security procedures;
- b) a separate room for conducting the examination of operations;
- c) copies of documents related to the subject of supervision;
- d) direct communication with bank managers and bank employees in order to receive necessary clarifications.

(7) A bank that processes data or keeps its business books and other documentation in electronic form shall provide to the authorised persons, upon their request, necessary technical support for examining those books and/or documentation.

(8) The bank shall appoint its representative who shall provide all necessary support to the authorised persons, facilitating unimpeded performance of supervision.

(9) The provisions of this Article also apply to other legal persons that are subject to the supervision referred to in Article 137, paragraph (2) of this Law, as well as the persons outsourced by the bank.

Article 146

(Notifying the bank of on-site examination)

(1) The Agency shall deliver to the bank a notification of on-site examination not later than fifteen days before the start of examination.

(2) Notwithstanding paragraph (1) of this Article, the Agency may deliver the notification of on-site supervision before the start of on-site examination of operations, if the purpose of supervision could not be achieved otherwise.

Article 147

(Examination report)

(1) Upon a performed examination, authorised persons are obligated to produce a report.

(2) If, in the course of on-site examination, the Agency's authorised person establishes irregularities or illegalities, the Agency shall deliver an examination report to the bank.

(3) The bank shall have a right to file objections to the delivered report within 15 days from the date of its receipt. The Agency may exceptionally and at the request of the bank extend the deadline for delivery of objection to the report, but only in cases when the findings of the report are related to activities in the purview of the operations of the supervisory board.

(3) If the bank fails to file, within the timeframe prescribed by this Law, its objection to the report or to the amendment to the report, or fails to reasonably dispute with its objection the findings in the report or the amendment to the report establishing irregularities and weaknesses in its operation, the Agency shall impose against the bank an appropriate measure prescribed by this Law.

Article 148

(Amendment to the report)

(1) An amendment to the report shall be prepared in cases where, by considering the bank's objection to the report, it is established that the objection is well-founded and significantly changes the factual state stated in the report.

(2) The amendment to the report shall be delivered to the bank within 15 days from the day of submission of the objection to the report.

(3) The bank shall be entitled to file an objection to the amendment to the report within five days from the day of receiving the amendment to the report.

Article 149

(Conclusion of banking supervision procedure)

(3) If in a specific on-site examination no irregularities are found, the Agency shall produce a report and terminate such procedure by a conclusion.

(4) The conclusion referred to in paragraph (1) of this Article shall be delivered to the bank.

SECTION B. SUPERVISORY MEASURES

Article 150

(Manner of Implementing Supervisory Measures)

(1) The aim of supervisory measures implemented by the Agency is a timely undertaking of activities to improve the safety and stability of bank operations and eliminate the established illegalities, weaknesses or deficiencies in operations.

(2) If the Agency establishes that a bank acted contrary to the provisions of this Law, Agency regulations or other regulations, or prudent banking standards, or in any other manner jeopardising the bank's soundness, it shall, in accordance with the criteria prescribed in Article 156 of this Law, take one of the following measures:

- a) issue a letter of warning;
- b) issue a written order to eliminate the established illegalities, weaknesses or deficiencies in operation;
- c) issue a reprimand to a management member;
- d) take early intervention measures;
- e) initiate procedures of assessment of fulfilment of conditions to initiate resolution process;
- f) revoke the operating licence, and initiate involuntary liquidation proceedings or issue a decision on petitioning for bankruptcy proceedings initiation;

(3) The Agency may in the course of inspection order the bank one or more measures for the elimination of irregularities and illegality if it finds that there has been a serious breach of regulations and business principles which endangers or may endanger the financial position or liquidity of the bank and the interests of its depositors, which requires taking urgent measures.

(4) The obligation to publish a takeover bid, determined by the law governing the takeover of joint stock companies, does not apply if the acquirer acquires the shares of the bank during the increase of core capital:

- a) by implementing measures for the elimination of irregularities and illegalities in business activities and measures of early intervention of the Agency or
- b) conversion of capital instruments of the bank, which the bank may take into consideration when calculating capital and which are converted also into shares when the conditions are met in accordance with this Law.

(5) The acquirer bank shares may use the right of exemption under paragraph (4) of this Article, with the prior consent of the Agency, only if it deems that the use of the right of exemption is in the interest of preserving financial stability, of which the Agency shall inform the Securities Commission.

(6) If the organisational unit of the bank headquartered in RS and the Brčko District performing operations in the Federation is acting contrary to the provisions of this Law and the regulations of the Agency, the Agency shall issue an appropriate supervisory measure to the organisational unit of the bank.

Article 151

(Letter of warning)

(1) If in the course of supervision (on- and off-site), the Agency establishes weaknesses or deficiencies that do not constitute violations and do not directly affect the bank's financial position but could have such impact if not eliminated, the Agency may issue to the bank a letter of warning to undertake measures and procedures aimed at improving its operation.

(2) A written warning must establish:

- a) the established weaknesses, deficiencies or inconsistencies in operations,
- b) the timeframe and the actions of the bank aimed at eliminating the weaknesses or deficiencies in the bank's operation and
- c) the timeframe and/or the schedule according to which the bank shall report to the Agency on the discharge of obligations from the written order.

(3) If the bank fails to discharge the obligations from the letter of warning within the timeframe and in the manner defined by the letter, the Agency may impose a new measure against the bank.

Article 152

(Written order)

(1) The Agency shall issue to the bank a written order and instruct it by a decision to eliminate the illegalities, weaknesses or deficiencies established in its operation if, within its supervisory powers, it establishes that:

- a) the bank, with its actions or omissions, acted or is likely to act in the following 12 months in violation of this Law or other regulations governing bank operations;
- b) the bank's liquidity is jeopardised and liabilities cannot be settled in short term;
- c) such a measure is necessary in order to protect the interests of depositors and creditors;
- d) the bank needs to undertake actions and procedures to improve its operation.

(2) Provisions of this law and Agency regulations are applicable to the procedure of execution of orders.

Article 153

(Measures from written order)

(1) If any of the circumstances referred to in Article 152, paragraph (1) of this Law arise, the Agency shall be authorised to:

- a) request the bank to adopt and implement a comprehensive plan for eliminating the identified illegalities, weaknesses or deficiencies in its operation;
- b) request the bank, depending on the nature of the identified illegalities, weaknesses or deficiencies in its operation, to take important steps or refrain from certain activities;
- c) restrict the operation or expansion of the bank's network;
- d) suspend the procedure for issuing consents to new business lines or acquisitions;
- e) introduce restrictions on taking new deposits and other repayable funds, lending or investment;
- f) prohibit the bank from collecting any deposits or just from certain persons or groups;
- g) prohibit the bank from entering into new transactions or related transactions;
- h) restrict the introduction of new products;
- i) introduce higher prudential requirements;
- j) request from the bank higher capital than the one referred to in Article 24 of this Law;
- k) order the implementation of special provisioning policies or treatment of assets with regard to capital requirement calculation;
- l) restrict asset divestment;
- m) instruct the bank to reduce in its further operation risks related to its activities, products or systems;
- n) request an improvement of collection of due receivables;
- o) request an improvement of risk management control mechanisms;
- p) order a temporary ban on or restrict the payout of dividends or any other form of profit;
- r) order a temporary ban on or restrict the purchase of shares;
- s) suspend and request a dismissal of any member of the supervisory board or management;
- t) ban individuals from holding offices in the banking sector;
- u) restrict majority shareholders' rights with regard to bank governance;
- v) order the closure of organisational units or temporarily prohibit the extension of the bank network;
- z) enable takeover, acquisition or merger with a sound bank;
- aa) protect the bank from actions by its parent bank, subsidiaries, branches and other related parties that may result in any of the cases referred to in Article 152 of this Law;
- bb) order the implementation of any measure from the bank recovery plan;
- cc) seize control over the bank by introducing an external administrator;
- dd) order the amount of variable benefits be restricted;
- ee) order a measure be implemented in line with a recommendation of the Standing Committee for Financial Stability of Bosnia and Herzegovina;

ff) order public disclosure of additional information;

gg) order the bank to take other measures necessary for the resolution of some issues referred to in Article 152 of this Law .

(2) The Agency shall prescribe the manner and timeframe for the bank's actions related to the elimination of identified illegalities, weaknesses or deficiencies in operation, as well as timeframe for the bank's reporting to the Agency on the activities implemented, accompanied with appropriate documentation demonstrating that such illegalities, weaknesses or deficiencies in operation have been eliminated.

(3) Apart from the report on implemented measures referred to in paragraph (2) of this Article, the Agency may order the bank to submit a special audit report related to the elimination of illegalities, weaknesses or deficiencies in operation.

(4) The Agency may impose new measures against the bank that failed to comply with a decision issued by the Agency if the imposed measures have not been efficient in eliminating the existing illegalities, weaknesses or deficiencies in operation.

Article 154

(Decision in the course of on-site examination)

The Agency may issue a decision in the course of on-site examination ordering the bank to take measures to eliminate certain illegalities, weaknesses or deficiencies in its operation, which the bank shall implement without delay if:

a) an authorised person establishes, in the course of on-site examination, that the bank has failed to organise its operation or maintain its business books, business documentation and other business records in a manner enabling at all times a verification whether the bank operates in line with risk management regulations and rules;

b) an authorised person establishes, in the course of on-site examination, that the bank must take measures without delay while on-site examination is in progress,

c) the bank conducts activities in a manner that may cause a deterioration or jeopardise the capital, its liquidity or solvency;

d) there is no possibility of continuing with on-site examination in the bank;

e) in other cases of violation of this Law and regulations.

Article 155

(Reprimand to management members)

(1) The Agency may issue a reprimand to the responsible member of the management:

a) if the bank fails to act in the manner and within the timeframe set in a letter of warning in line with this Law or

b) if the bank fails to implement the instructed supervisory measures from a letter of warning in the manner and within the timeframe set in the Agency's decision,

c) in other cases when conditions for revoking the consent for the holding the office of a management member are not met.

(2) The reprimand referred to in paragraph (1) of this Article shall be issued against the responsible member of the management regardless of whether at the time of the issuance of the reprimand such person is still a member of the bank management, and at most within two years of the occurrence of circumstances due to which the warning is issued.

Article 156

(Agency assessment)

(1) The Agency shall issue a decision on a measure against the bank based on:

a) severity of irregularities identified;

b) demonstrated willingness and ability of the bank bodies to eliminate the identified irregularities;

c) degree to which the bank jeopardises financial discipline and smooth operation of the banking system.

(2) In assessing the severity of irregularities identified in the bank's operation, the following shall be assessed in particular:

- a) financial position of the bank;
- b) capital adequacy level relative to risks taken;
- c) impact of the irregularity on the future position of the bank;
- d) number of irregularities identified and their interdependence;
- e) duration and frequency of irregularities;
- f) legality of the bank's operation.

(3) In assessing the demonstrated willingness and ability of the bank bodies to eliminate the identified irregularities the following shall be assessed in particular:

- a) ability of the bank management to identify, assess and monitor the bank's operating risks and to manage those risks;
- b) effectiveness of the internal audit system and internal control system in the bank;
- c) efficiency in eliminating previously identified irregularities and in particular in implementing previously imposed measures;
- d) degree of cooperation of the employees and bank bodies with authorised persons during supervision.

(4) In assessing the degree to which a bank jeopardises financial discipline and smooth operation of the banking system, the importance of the bank in the financial system and its impact on the systemic risk shall be assessed.

SECTION C. CONSOLIDATED SUPERVISION

Article 157

(Consolidated supervision)

(1) The Agency shall supervise a banking group such that the bank headquartered in the Federation has the attribute of ultimate parent company or attribute of subsidiary on a consolidated basis.

(2) The supervision referred to in paragraph (1) of this Article shall be conducted by the Agency by:

- a) analysing consolidated financial statements of the banking group,
- b) on-site examination of the banking group and its members, for the purpose of verifying the data from the consolidated financial statements, as well as risks to which the bank is exposed as a member of the banking group and the banking group as a whole, and
- c) assessing the situation of the banking group.

(3) In the supervision procedure referred to in paragraph (1) of this Article, the Agency shall be authorised to review:

- a) adequacy of supervision over the operation of the bank abroad by the management of the parent bank or holding company;
- b) possibility for the parent bank to access data on foreign branches and subsidiaries in host countries;
- c) expertise of the local management, and
- d) efficiency of supervision in host countries.

(4) The Agency shall be authorised to visit abroad the bank subject to supervision referred to in paragraph (1) of this Article and meet the host supervisors.

(5) The Agency may restrict the activities of the consolidated group and the location of activity if:

- a) the bank or the group is exposed to excessive risks and/or it is not managed appropriately;
- b) supervision in the host country is inadequate or
- c) certain obstacles arise in the course of consolidated supervision.

(6) The supervision shall be conducted by the regulatory authority of the home country of the holding company, if:

- a) the seat of the holding is outside the Federation;
- b) the regulatory body of the home country of the holding company conducts supervision on a consolidated basis in the manner that meets the requirements of the Agency;

c) there is appropriate cooperation between the Agency and the regulatory body referred to in item b) of this paragraph.

Article 158

(Transparency of banking group structure)

(1) The structure of a banking group must be transparent to the extent that it enables the Agency to establish the following:

- a) the ultimate parent company of the banking group and persons with a controlling or significant holding in that company;
- b) the location and types of business lines conducted within the banking group;
- c) the financial position and business results of the banking group and its members;
- d) the types and levels of risks to which of the banking group and its members are exposed;
- e) the manner in which risk management is organised and implemented at the banking group level;
- f) business, financial and other relations among the members of the banking group.

(2) The structure of the banking group must be such as to enable adequate internal and external audit, as well as smooth performance of the supervisory function by the Agency.

Article 159

(Subordinated company of a bank)

(1) The bank may found or acquire a subordinated company only with a consent of the Agency.

(2) The Agency shall prescribe the manner and detailed conditions for obtaining the consent referred to in paragraph (1) of this Article.

Article 160

(Subordinated company of a holding company)

(1) A holding company may not found or acquire direct or indirect ownership in a subordinated company if such an acquisition may have an adverse effect on the operation of the bank in which such holding company has a controlling holding.

(2) The holding company shall notify the Agency of the acquisition of direct or indirect ownership in the subordinated company within 15 days from the day of such acquisition.

(3) If the Agency establishes that the acquisition of direct or indirect ownership in the subordinated company may have adverse effects on the bank referred to in paragraph (1) of this Article, it shall apply the measures prescribed by this Law.

Article 161

(Consolidated financial statements of a banking group)

(1) The ultimate parent company of the banking group shall prepare and submit to the Agency consolidated financial statements of the group.

(2) The bank and the ultimate parent company of the banking group shall be held liable for the obligations related to the submission of consolidated financial statements of the banking group in line with this Law.

(3) Members of a banking group are obligated to deliver all data necessary for consolidation in a timely manner to consolidated reporting obligors referred to paragraphs (2) and (3) herein.

(4) The Agency may request a member of the banking group to deliver to it reports and data other than individual financial statements.

(5) The statements of the banking group referred to in paragraph (1) of this Article shall be prepared in line with the International Financial Reporting Standards and the International Accounting Standards.

(6) The Agency shall prescribe the scope and frequency of reporting referred to in paragraph (1) of this Article, as well as the contents of such reports.

(7) The Agency may instruct a bank which is a member of a banking group to consolidate certain items of financial statements referred to in paragraph (1) of this Article, activities or group of activities within

the banking group if this is necessary for full and objective assessment of the financial position and business results of the banking group or the bank that is a member of such group.

Article 162

(Risk management at the banking group level)

(1) The following shall be established for a banking group whose parent bank is in the Federation on a consolidated basis:

- a) capital adequacy ratio,
- b) large exposures,
- c) investments in other legal persons and fixed assets,
- d) open net foreign exchange position,
- e) liquidity of the banking group,
- f) restrictions to intra-group lending,
- g) exposure to related parties,
- h) group structure.

(2) If, based on the data referred to in paragraph (1) of this Article and consolidated financial statements of the banking group, the Agency assesses that the capital level of the banking group jeopardises the bank's stable operation, it may request the bank to provide additional capital and set for the bank a capital adequacy ratio above the prescribed level in line with Article 27 of this law, as well as order other supervisory measures related to group-level risks.

(3) The banking group must put in place procedures for risk management and internal audit and internal control which shall be appropriate to the activities of this group, as well as regular monitoring and updating of these procedures.

(4) The bank and the ultimate parent company shall be responsible for identifying and delivering the data referred to in paragraph (1) of this Article to the Agency.

(5) The Agency shall prescribe the manner of identifying and delivering the data referred to in paragraph (1) of this Article, as well as more detailed requirements and the manner of managing risks at the banking group level.

Article 163

(Types of supervisory measures for members of a banking group)

(1) When the Agency discovers that a member of a banking group, other than the bank, has violated the provisions of this Law or regulations of the Agency or that actions or financial position of any member may have detrimental consequences for the bank's financial stability or may undermine the interests of the bank's depositors, it shall order such members to eliminate the irregularities within the timeframe set by the Agency.

(2) When the irregularities referred to in paragraph (1) of this Article have not been eliminated within the timeframe, the Agency may take the following measures:

- a) order the bank to suspend temporarily investments in its subordinate company;
- b) order the parent company with the seat in the Federation to suspend temporarily the exercise of its rights and benefits from the controlling holding it has in the bank, including direct and indirect voting rights;
- d) order a member of the banking group to suspend temporarily all direct and indirect business lines between the bank and the members of the banking group;
- e) order a legal person, in which another legal person has a controlling holding and which has holdings in the bank to suspend temporarily the exercise of the rights and benefits arising from the holdings in the bank, including the exercise of direct and indirect voting rights, as well as all direct and indirect business lines between the bank and such legal person.

(3) When the measures referred to in paragraph (2) of this Article have failed to result in the elimination of irregularities referred to in paragraph (1) of this Article, the Agency may take the following measures:

- a) request the bank to reduce investments in the subordinate company so that it is no longer the bank's subordinate company;
 - b) revoke the consent granted to the parent company to acquire a controlling holding in the bank;
 - c) request the parent company to sell a significant or controlling holding in the subsidiaries;
 - d) revoke the consent to the takeover of holdings in the bank granted to a person that already has a holding in the bank and in which another person has a controlling holding.
- (4) When the circumstances command urgent action, the Agency may also take the measures referred to in paragraphs (2) and (3) of this Article even before the expiry of the deadline set by the Agency in line with paragraph (1) of this Article.
- (5) If the member of the banking group referred to in paragraph (1) of this Article is a person supervised by another regulatory authority in the Federation and RS, the Agency shall inform such regulatory authority of the measures taken.

SECTION D. EARLY INTERVENTION MEASURES

Article 164

(Early intervention measures)

- (1) If in the course of supervision it is established that a bank acts in violation of the provisions of this Law, regulations of the Agency or other regulations, or it is likely that, due to rapid deterioration of its financial position, including a deteriorated position relating to liquidity, increased indebtedness, NPLs or exposure concentration, in the near future it will violate the provisions of this Law, regulations of the Agency or other regulations, the Agency may, in addition to the measures taken to eliminate the illegalities and irregularities referred to in Article 153 of this Law, take one or several of the following measures:
- a) order the management bodies of the bank to implement one or several measures specified in its recovery plan or, if the circumstances leading to early intervention differ from the assumptions from the original plan, update such plan and implement one or several measures from the updated plan within a certain timeframe;
 - b) request the supervisory board and management of the bank to analyse the situation, design the measures for resolving the identified issues and prepare an action plan for resolving those issues, as well as set the timeframe for its implementation;
 - c) order the supervisory body of the bank to convene or to directly convene the bank general meeting if the supervisory board fails to comply with this request, and in both of these cases set the agenda of the general meeting and request the shareholders to consider and adopt appropriate decisions;
 - d) order the competent body of the bank to dismiss one or several members of the supervisory board and management of the bank or senior management of the bank if it is established that these persons are unable to perform their duties and appoint new persons in accordance with law;
 - e) introduce an consultant or external administrator to the bank;
 - f) request the supervisory board and management of the bank to prepare a plan for debt resolution negotiations with some or all creditors in line with the recovery plan;
 - g) request the bank to amend its business strategies;
 - h) request the bank to amend its organisational structures;
 - i) obtain through on- or off-site examination information necessary for updating the resolution plan, valuation of assets and liabilities and preparation for potential implementation of resolution proceedings.
- (2) For each of the measures listed under paragraph (1) of this Article, the Agency shall set the appropriate timeframe for execution.
- (3) In connection with paragraph (1) of this Article, the Agency shall collect all the necessary information, for the purpose of updating the resolution plan and preparing for potential bank resolution and valuation of assets and liabilities of the bank in line with Article 189 of this law.
- (4) The Agency shall adopt a regulation regulating in more detail the conditions referred to in Paragraph (1) of this Article.

Article 165

(Convening the bank general meeting)

- 1) If the bank failed to implement the measure referred to in Article 164, paragraph (1), item c) of this Law as instructed by the Agency in the manner and within the timeframe set by the Agency, the Agency may convene the bank general meeting and set the agenda for the purpose of adopting necessary decisions.
- (2) The Agency shall, for the purposes of the meeting, prepare a report on the bank's operation based on the examination conducted, and make it available to the shareholders.
- (3) The Agency shall convene the Assembly with at least 30-day notice, not counting the day of publication of invitation to the meeting.
- (4) The shareholders may not give a counter suggestion or propose an amendment to the agenda proposed by the Agency.

Article 166

(Dismissal of the members of management, supervisory board, and senior management of a bank)

- (1) In the event of a significant deterioration of the financial position of the bank or a serious violation of law, regulations of the Agency or internal regulations of the bank, and when other early intervention measures taken in line with Article 164 of this Law are insufficient to improve such a position, the Agency may revoke consent from all or certain members of management and supervisory board of the bank to hold offices and request their dismissal, as well as dismissal of the bank's senior management.
- (2) In addition to measures referred to in paragraph (1) of this Article, the Agency may for all or individual members of management, supervisory board, and senior management also perform the following:
 - a) prohibit or restrict the holding of such office or any other activity in the bank;
 - b) prohibit or restrict direct or indirect exercise of voting right in the bank;
 - c) request a disposal of direct or indirect holding in the bank, within the timeframe it sets;
 - d) prohibit the holding of office in any bank or member of the banking group or participation in activities in the bank or the banking group without prior consent of the Agency.
- (3) New members of the supervisory board and management shall be appointed in line with the provisions of this Law governing the appointment of members of the bank supervisory board and management.

Article 167

(Consultant)

- (1) When the Agency assesses that there is need for more detailed assessment and monitoring of the bank's financial position, it may appoint one or several consultants to work temporarily with the bank's management body.
- (2) The bank's consultant must be a person independent from the bank and have good business reputation and relevant qualifications, and must meet the same requirements as in the case of bank management appointments.
- (3) The consultant shall be entitled to remuneration for his work payable by the Agency.
- (4) In the Decision on the Appointment of the Consultant, the Agency shall define the duties, powers and mandate of the consultant, as well as define the issues on which the bank management and the supervisory board shall consult with the consultant or for which their consent will be required prior to taking decisions.
- (5) If the consultant's consent is required, the management and the supervisory board may not take decisions independently, and the decisions taken without prior consent of the consultant shall be null and void.

(6) In the decision on the appointment of the consultant, the Agency shall also define the content of the report on financial position referred to in Article 168, paragraph (1) of this Law, which the consultant shall be required to prepare, as well as other reports they shall deliver to the Agency.

(7) The Agency shall appoint a consultant for a period of up to 12 months. Exceptionally, this period may be extended by another 12 months if the Agency assesses that some of the reasons for appointing the consultant still prevail.

(8) The consultant may not delegate their powers to other persons and shall be responsible for their work to the Agency.

(9) The bank shall invite the consultant to the meetings of the management, supervisory board and their bodies and deliver to them in a timely manner all documentation required for following the meeting and the consultant shall be entitled to be present at such meetings and participate in their work, but without a voting right.

(10) The bank and all its bodies shall make all necessary documentation available to the consultant and ensure their access to the business books.

Article 168

(Consultant's reports on the bank's financial position)

(1) The consultant shall, within 60 days from their appointment, prepare a report on the financial position and conditions of the bank's operation, with an assessment of its financial stability and options for its further operation (hereinafter: report on financial position) and deliver it to the Agency.

(2) The report referred to in paragraph (1) of this Article shall be delivered to the bank by the Agency.

(3) The consultant shall report to the Agency regularly, at least once a month and more frequently if requested by the Agency, on the bank's operation and its financial position and actions they took in performing their duties.

(4) The consultant shall notify the Agency without delay of all circumstances that, according to their assessment, may lead to failure to implement the supervisory measures as instructed and of all circumstances that, according to their assessment, may lead to a deterioration of the bank's financial position.

(5) Based on the report referred to in paragraph (1) of this Article the Agency may impose against the bank a supervisory measure referred to in Article 153 of this Law.

Article 169

(Termination of the consultant's authority)

The consultant's authority shall be terminated as of the day of:

- a) expiry of the period stated in the appointment decision;
- b) cancellation of their appointment;
- c) appointment of an external administrator;
- d) appointment of special management;
- e) appointment of a liquidator; or
- f) initiation of bankruptcy proceedings.

Article 170

(Decision on introducing an external administrator)

(1) The Agency may appoint an external administrator when, in the course of performing its supervisory function, it assesses that the early intervention measure referred to in Article 166 of this Law is insufficient to improve the bank's operation and restore the sound and stable management of the bank.

(2) The decision on introducing an external administrator shall:

- a) specify the reasons for introducing an external administrator in the concrete case;
- b) appoint the external administrator and define the scope of tasks they are to perform or manage;
- c) specify the period for which the external administrator is appointed;
- d) define the content and schedule for the delivery of the report referred to in Article 177 of this Law;

e) it may stipulate that the external administrator may perform certain tasks only with prior consent of the Agency.

(3) The external administrator shall be appointed for a period of up to 12 months. This period may only exceptionally be extended for a period of 12 months if the Agency assesses that the conditions for appointing an external administrator are still in place.

(4) The management of the bank by an external administrator may be terminated even before the expiry of the period referred to in paragraph (3) of this Article, if the external administrator or the Agency assess that introducing the external administrator failed to lead to an improvement of the financial position of the bank or that the financial position of this bank has improved to such an extent that the external administrator is no longer needed.

(5) The decision on appointment, dismissal or extension of the term of office of the external administrator shall be delivered without delay to the external administrator and to the bank to which they have been appointed, the Central Bank, the Securities Commission, the Securities Register, the Deposit Insurance Agency, the RS Banking Agency shall be notified, the decision shall be published in the Official Gazette of the Federation of BiH and on the web page of the Agency and entered in the bank records referred to in Article 20 of this Law and the business register with the competent court.

Article 171

(External administrator)

(1) The Agency may appoint one or several external administrators to a bank.

(2) The external administrator shall be appointed and dismissed by the Agency.

(3) Only a person who is independent from the bank, has a good business reputation, relevant qualifications and obligatorily meets the same requirements set for bank management appointments may be appointed an external administrator.

(4) A person who is a shareholder or a related party of the bank or a member of the immediate family of any of such persons may not be appointed an external administrator.

(5) The Agency may dismiss an appointed external administrator if they fail to perform their duties or fails to perform them in a satisfactory manner, as well as for other justified reasons, and appoint a new external administrator whose term of office shall not last longer than until the expiry of the initiated term of office of the external administrator.

(6) The rights and obligations of the external administrator shall start as of the day of the adoption of the decision on introducing an external administrator regardless of the entry into the business register.

(7) The external administrator shall represent the bank.

(8) The provisions of this Law that are related to the provisions of Article 67, paragraph (1) of this Law and the provisions of Articles 55 and 56 of this Law shall apply to the external administrator.

(9) The external administrator shall be entitled to remuneration for his work.

Article 172

(Entry into the business register and publication of the decision on introducing an external administrator)

(1) The decision on introducing an external administrator shall be entered in the business register. At the same time, any change in the persons authorised to represent the bank shall be noted in the business register.

(2) A proposal to register the data referred to in paragraph (1) of this Article shall be submitted within three business days from the day of adoption of the decision on introducing an external administrator in the bank. The decision on the appointment of the external administrator shall be attached to the proposal.

Article 173

(Legal effects of the decision on introducing an external administrator)

(1) The external administrator shall be authorised and responsible for protecting the assets and taking control over the bank's operation and adopting the decision on the continuation of the bank's operation.

(2) As of the day of the adoption of the decision on introducing an external administrator in the bank, all powers of the current members of the management and the supervisory board shall be terminated, and the decisions from their area of competence shall be adopted by the external administrator.

(3) As of the day of the adoption of the decision on appointing an external administrator, all contracts based on which the current members of the management were employed with such bank shall be terminated and the contracts with the incumbent members of the supervisory board shall also be terminated.

(4) In the case referred to in paragraph (2) of this Article the current members of the management and supervisory board shall not be entitled to the payment of contracted severance pay and variable benefits, regardless of whether the exercise of such rights was contracted with the bank or whether it arose from another act of the bank.

Article 174

(Obligations of the current members of management when an external administrator is introduced)

(1) The current members of the management shall promptly ensure the external administrator's access to entire business and other documentation of the bank and prepare a transfer of business report.

(2) The current members of the bank management shall provide the external administrator with all clarifications or additional reports on the bank's operation.

(3) All employees of the bank shall cooperate with the external administrator.

(4) The external administrator shall be empowered to remove a person impeding their work and, where appropriate, request assistance from the competent law enforcement agency.

Article 175

(Right of access)

(1) The external administrator shall be entitled to full access and control of all business premises of the bank, financial assets, accounting and other records, as well as other assets of the bank and its subsidiaries.

(2) Upon receiving the decision on appointment, the external administrator shall promptly take measures to protect and prevent misappropriation or misuse of property and documentation of the bank and its subsidiaries, as well as undertake all necessary measures and activities needed for continued operation of the bank and protection of its property, including the following:

a) elimination of irregularities observed in the bank's operation,

b) collection of the bank's receivables, in particular NPLs,

c) restriction of growth of assets and off-balance sheet liabilities of the bank and

d) reduction of operating costs of the bank.

(3) In taking measures within their competences, the Agency and the external administrator shall be authorised to seek assistance of the competent law enforcement agencies and other competent agencies.

Article 176

(Tasks of the external administrator)

(1) The external administrator shall run the bank's operations.

(2) The Agency shall be authorised to give the external administrator written orders and instructions.

(3) In running the bank's operations, the external administrator must adhere to the restrictions put in place by the Agency's decision on their appointment.

Article 177

(Reports of the external administrator)

(1) Following their appointment, within 60 days from the appointment day, unless a longer period is specified in the Agency's decision, the external administrator shall prepare and deliver to the Agency a report on financial position and business conditions of the bank, along with an assessment of its financial stability and possibilities for its further operation.

(2) The external administrator shall report regularly and upon the request of the Agency, at least once a month, to the Agency on the bank's operation and its financial position and notify the Agency without delay of any circumstances that may lead to a deterioration of the bank's financial position.

(3) In the report referred to in paragraph (1) of this Article, the external administrator shall propose one or several of the following measures:

- a) bank capital increase to the amount set by this Law and regulations of the Agency,
- b) sale of part of or all assets,
- c) concurrent sale of part of or all assets and liabilities to a bank or another person authorised for the performance of these activities,
- d) sale or merger with another bank,
- e) initiation of bank resolution proceedings,
- f) revocation of operating licence and liquidation of the bank, with an estimate of the amount of assets which will be sold in the course of bank liquidation and
- g) revocation of the operating licence and initiation of bankruptcy proceedings, if the conditions are not met for initiating and conducting liquidation proceedings.

(4) Together with the report referred to in paragraph (1) of this Article, the external administrator shall also deliver to the Agency a plan of activities that the bank shareholders are obliged to prepare and deliver to the external administrator within 20 days from the day they are introduced to the bank.

(5) The activity plan referred to in paragraph (4) of this Article shall contain proposed necessary activities to be undertaken by the bank in order to eliminate illegalities and irregularities in the bank's operation and improve its financial position, with set timeframe for the implementation of those activities.

(6) When deciding on the plan of measures proposed in the report of the external administrator, the Agency shall also assess the need to protect the interests of depositors and other creditors of the bank, and determine the existence of realistic preconditions for the successful implementation of the plan in the period of the external administrator's procedure.

(7) At the end of their term of office, the external administrator shall prepare and deliver to the Agency the final report, with an explanation of measures implemented by the external administrator.

(8) The external administrator shall act in line with orders and instructions of the Agency and regularly report to the Agency on the execution of such orders and instructions.

(9) The Agency may order the external administrator to convene a general meeting of the bank, with a predetermined agenda and proposed decisions.

(10) The external administrator shall convene the meeting not later than eight days from the day of receiving the order of the Agency referred to in paragraph (9) of this Article.

Article 178

(Termination of powers of the external administrator)

The powers of the external administrator of the bank shall be terminated:

- a) upon the expiry of the period for which they were appointed;
- b) on the day of dismissal and appointment of the new external administrator;
- c) on the day of adoption of the decision on appointment of special management, liquidator;
- d) decision of the competent court on the appointment of the bankruptcy administrator.

CHAPTER VIII – BANK RESOLUTION, LIQUIDATION AND BANKRUPTCY

SECTION A. BANK RESOLUTION

Article 179

(Agency powers in bank resolution)

(1) The tasks and competences related to bank resolution shall be performed by the Agency in line with this Law and the regulation governing the operation of the Agency.

(2) The persons in charge of bank resolution must have relevant qualifications, expertise, skills and experience needed for performing resolution tasks and achieving the objectives of bank resolution.

Article 180

(Bank resolution objectives)

(1) The objectives of bank resolution shall be as follows:

- a) ensuring the continuity of critical functions,
- b) avoiding a significant adverse effect on financial stability, in particular by preventing contagion in the financial system, including to the market infrastructure, and the preservation of market discipline,
- c) protection of public funds by minimising reliance on public financial support,
- d) protection of depositors with covered deposits, and
- e) protection of clients' funds and assets.

(2) In applying the resolution tools or exercising resolution powers referred to in Article 179 of this Law the Agency shall take into account the resolution objectives and select instruments and powers best suited for the achievement of the objectives that are relevant to the circumstances of a particular case.

(3) In achieving the resolution objectives referred to in paragraph (1) of this Article, the Agency shall seek to minimise resolution costs and avoid a loss of bank asset value unless necessary in order to achieve the resolution objectives.

(4) The Agency shall take into account all resolution objectives, paying attention to the nature and circumstances of the specific case, with all resolution objectives being of equal significance.

Article 181

(General principles governing resolution)

(1) In applying the resolution tools or exercising the resolution powers, the Agency shall take all appropriate measures in order to ensure that resolution is conducted in line with the following principles:

- a) losses shall be taken first by the shareholders of the bank under resolution;
- b) bank creditors shall take losses after the shareholders, in a way that ensures equal treatment of creditors whose claims are in the same rank under liquidation and bankruptcy proceedings in accordance with this law;
- c) the supervisory board, management, and, where appropriate, senior management of the bank under resolution shall be dismissed, except in the cases when it is deemed necessary to retain supervisory board, management or senior management wholly or in part, depending on the circumstances, in order to achieve the resolution objectives;
- d) the supervisory board, management, and senior management of the bank under resolution shall provide all necessary assistance for the achievement of the resolution objectives;
- e) members of the supervisory board, management, shareholders and other persons which have contributed to the bank's inability or likely inability to continue its operations, shall be liable in accordance with the law for negligence in their actions and damages they have caused;
- f) creditors of the same category shall be treated equally, unless this law prescribes otherwise or the protection of financial stability from potential systemic influence of the failing bank is necessary or preservation of the value of the bank in the interest of all creditors as a whole is necessary
- g) no creditor shall sustain greater losses than those that would have been sustained if liquidation or bankruptcy proceedings had been initiated against the bank in line with the safeguards referred to in Articles 212 and 213 of this Law;
- h) insured deposits shall be fully protected up to the amount determined by the regulation governing deposit insurance in banks;
- i) safeguard measures shall be implemented in line with this Law.

(2) If the bank is a member of the banking group, the Agency shall apply the resolution tools and exercise resolution powers in a manner that minimises the effect on associated institutions and the group as a whole and reduces the adverse effect on financial stability in the country.

(3) In the course of application of the resolution tools and exercise of resolution powers, the Agency shall notify representatives of employees of the bank under resolution

Article 182
(Resolution plan)

(1) Agency shall prepare a resolution plan for each bank that is not a member of the group that is subject to consolidated supervision, as well as a group resolution plan in line with Article 183 of this Law.

(2) The resolution plan shall provide for the application of appropriate resolution tools and measures and exercise of authority of the Agency after the adoption of the decision on resolution, if the bank resolution requirements are met in line with this Law.

(3) The resolution plan shall include at least:

- a) a brief summary of key elements of the resolution plan;
- b) a brief summary of material changes in the bank that have occurred since the latest amendments to the resolution plan;
- c) an overview of the manner in which, to the extent it is necessary, the bank could separate critical functions and core business lines from other activities, in order to ensure business continuity if the resolution requirements are met;
- d) an estimate of timeframe for implementation of each important aspect of the plan;
- e) a detailed description of assessed resolvability and a description of measures needed for removing obstacles to resolution, determined in line with Articles 184 and 185 of this Law;
- f) a description of procedures for determining the market value of critical functions, core business lines and property of the bank;
- g) a detailed description of procedures ensuring that updated information and data is obtained from the bank;
- h) an explanation of the manner of ensuring the financing of different options and resolution tools provided for by the resolution plan, which is not based on the assumption of use of extraordinary public financial support,
- i) a detailed description of different options for the application of the resolution tools, with a timeframe for their application, based on the consideration of different scenarios in which serious macroeconomic and financial disruptions that are relevant for that bank's operation may arise;
- j) a description of potential systemic consequences of bank resolution;
- k) a description of different options for preserving access to payment operation services and clearing systems and assessment of options for transfer of client funds,
- l) an analysis of consequences of the resolution plan on the employees, including an analysis of potential resulting costs,
- m) a plan for disseminating information on bank resolution to media and general public;
- n) minimum capital requirements referred to in Article 205 of this Law and eligible liabilities referred to in Article 204 of this Law and the timeframe in which the bank is obliged to reach the prescribed level of this requirements,
- o) a description of activities and systems in the bank that are necessary for continuous performance of bank operations and
- p) opinion of the bank on the resolution plan, where appropriate.

(4) Resolution plans shall be reviewed and, where appropriate, updated, at least annually and after any change in the legal or organisational structure of the bank or its operation or financial position which could materially impact the effectiveness of the plan or create need for resolution plan revision. For the purpose of revising or updating resolution plans, the banks shall notify the Agency of any change warranting such revision or update.

(5) The bank shall cooperate with the Agency and deliver to it information and data necessary for the preparation and updating of the resolution plan.

(6) The bank shall promptly notify the Agency of any change of the data relevant for resolution plan update.

(7) When preparing the resolution plan, the Agency shall use the data obtained in the course of performing the supervisory function.

(8) In the drafting of the resolution plan, the Agency shall seek the opinion of the Deposit Insurance Agency related to the possibility of bank resolution, especially with regards to the implementability of bank liquidation.

(9) When adopting a decision on bank resolution or application of appropriate resolution tools, the Agency shall not be obligated to apply the resolution tools provided for in the resolution plan for that bank.

(10) After preparing the resolution plan, the Agency shall deliver to the bank a brief summary of the key elements of the resolution plan.

(11) The Agency shall prescribe the data and information banks are obliged to deliver to the Agency for the purpose of preparation and updating of resolution plans, as well as the manner and timeframes for their delivery.

Article 183

(Group resolution plan)

The Agency shall prepare a resolution plan for the banking group which is subject to supervision by the Agency on a consolidated basis, covering the resolution of the group or any member of such group in line with the provisions of this Law.

The provisions of Article 182, paragraphs (1) and (4) of this Law shall apply accordingly to the preparation and updating of the resolution plan.

(3) The resolution plan for a banking group shall contain at least the following:

- a) a description of activities and measures to be taken against the members of the banking group;
- b) a detailed description of different options for the application of the resolution tools of the banking group based on consideration of different scenarios in which serious macroeconomic and financial disruptions relevant for the operation of such group may arise;
- c) an explanation of the manner in which financing of application of different options and resolution tools of the banking group provided for by this plan will be obtained, which may not be based on the assumption of use of extraordinary public financial support;
- d) an assessment of possibility of conducting coordinated activities and measures aimed at the banking group resolution when supervision over the members of this group is not conducted only by the Agency, including the measures of sale of the entire group to a third party and separation of core business lines performed by certain members of this group, as well as a description of measures needed for the removal of obstacles to resolution, in particular with regard to the coordination of activities of different competent authorities;
- e) a description of possibilities for cooperation with the competent regulatory authority and resolution authority, in connection with the banking group resolution, when members of the banking group have a seat outside the Federation;
- f) a description of measures for separating certain functions or business lines that are necessary for the removal of obstacles to smooth resolution of the banking group and
- g) a description of other measures and activities to be undertaken for the purpose of resolving the banking group, which are not specifically provided for by this Law.

(4) The provisions of Article 182, paragraphs (5), (7) and (10) of this Law shall apply accordingly to the parent company and member of the banking group when the Agency prepares the resolution plan for the banking group.

Article 184

(Assessment of bank resolvability)

(1) The Agency, after receiving the opinion of the Deposit Insurance Agency, shall assess to what extent it is possible to resolve a bank that is not a member of a group.

(2) The bank's resolvability shall be deemed to exist if the following conditions exist cumulatively:

- a) bankruptcy or liquidation proceedings or resolution proceedings can be conducted against the bank,
- b) implementation of any of those proceedings, to the extent possible, will not lead to significant adverse repercussions for the financial system stability;
- c) with the implementation of any of those proceedings the continuity of critical functions of the bank can be ensured and
- d) that implementation of resolution is possible without resorting to extraordinary public financial support.

(3) When conducting the assessment referred to in paragraph (1) of this Article, the Agency shall assess at least the following:

- a) possibility of achieving the resolution objectives by applying the available resolution tools;
- b) consequences of bank resolution on the stability of the financial system, economy and citizens' confidence in the banking system;
- c) consequences of the bank resolution on the creditors, depositors, counterparties and employees;
- d) consequences of the bank resolution on smooth operation of the payment system and securities clearing system;
- e) ability of the bank to ensure the continuity of core functions and core business lines;
- f) level of harmonisation of the legal and organisational structure with the core functions and core business lines performed in the bank;
- g) ability of the bank to provide, in line with already concluded deals and capacities, minimal personnel and infrastructure resources, as well as financing, liquidity and capital that are sufficient to sustain core functions and core business lines;
- h) separation of core business lines from other activities of the bank;
- i) applicability of risk management procedures and measures;
- j) amount and type of liabilities, excluding those referred to in Article 204 of this Law;
- k) adequacy of IT system risk management related to the provision of access to information and data necessary for implementing the resolution proceedings.

(4) In preparing and updating the resolution plan for a banking group, the Agency shall assess the resolvability by applying paragraphs (1) through (3) of this Article accordingly.

(5) The Agency shall prescribe the elements to be taken into account when assessing the resolvability of a bank or a group.

Article 185

(Removal of obstacles to resolution)

(1) If in the course of assessment referred to in Article 184 of this Law, the Agency determines that there are significant obstacles to the resolution of a bank, the Agency shall order the bank to submit a proposal of possible measures for the resolution or removal of such obstacles within four months from the day of receiving that decision.

(2) If the Agency assesses that the measures proposed by the bank cannot effectively reduce or remove the obstacles to resolution, it shall request the bank to take alternative measures which may achieve that objective and notify the bank in writing of such measures, with the bank proposing a plan in line with such measures within one month.

(3) In the case referred to in paragraph (2) of this Article, the Agency may order the bank to:

- a) amend the agreement on financial support within the banking group or review the conclusion of such agreement if not concluded yet, or conclude a service agreement within the group or with third parties;
- b) restrict its maximum individual and aggregate exposure referred to in Articles 90, 92 and 93 of this Law;
- c) regularly deliver additional information and data relevant for the resolution of the bank or deliver certain information and data relevant for resolution in a specific case;
- d) divest part of assets;
- e) restrict or cease to perform or develop a certain type of activity, and not to initiate new activities or cease to develop them further;

- f) introduce or secure appropriate legal and/or organisational changes to the bank and/or any other member of the banking group to which this bank belongs, in order to reduce the complexity of this bank and/or group and enable the separation of critical functions from other activities of the bank in the course of resolution proceedings;
 - g) issue eligible liabilities to cover losses that meet the requirements referred to in Articles 204 and 205 of this Law;
 - h) take other measures to meet minimum requirements for own funds and eligible liabilities referred to in Item g) of this paragraph, prescribed in Article 205 of this Law; legally separate financial and non-financial activities at the level of the banking group to which it belongs;
 - i) take other measures determined by the Agency.
- (4) When ordering measures referred to in paragraph (3) of this Article, the Agency shall assess any potential consequences of the application of measures on the operation and stability of the bank, stability of the financial system, and the bank shall deliver the plan of compliance with the ordered measures to the Agency within the set timeframe.
- (5) The provisions of paragraphs (1) through (4) of this Article shall apply accordingly to the removal of obstacles to resolution of a banking group.
- (6) If a bank under resolution performs activities requiring a special licence of another competent regulatory authority, the Agency shall notify such authority of the measures taken that may affect the performance of such activities.

Article 186

(Request for capital instrument write-down or conversion)

- (1) The write-down or conversion of appropriate capital instruments into shares or other instruments of ownership of the bank may be performed:
- a) independently from the resolution measures or
 - b) concurrently with the implementation of the resolution measures, if the conditions are met for bank resolution.
- (2) Before initiating the resolution proceedings, the Agency may write down appropriate bank capital elements or convert them into shares or other instruments of ownership of such bank, and after initiating the procedure, it shall perform capital write-down or conversion before applying the appropriate resolution tool.
- (3) Write-down or conversion shall be performed in line with Article 187 of this Law and without delay, with regard to relevant capital instruments issued by the bank if one or several of the following circumstances occur:
- a) if it is determined that the resolution requirements referred to in Article 188 of this Law have been met, before taking any resolution measures;
 - b) if the Agency determines that the bank will no longer be able to proceed with regular operation unless a write-down or conversion of the relevant capital instruments is performed, and no other measure of the bank or a private sector person or measure taken in the supervisory procedure in line with this Law, except for the write-down or conversion, is likely to eliminate obstacles to the continued operation of the bank within a reasonable period of time, taking into account all circumstances of the individual case;
 - c) if the bank requests extraordinary public financial support, except if the bank is liquid and financial support is sought for the purpose of resolving a shortage of capital established in the course of stress tests and asset quality reviews.
- (4) The power of write-down or conversion of capital instruments shall be exercised without the consent of shareholders, depositors and other creditors of the bank or any other third person.
- (5) Before exercising the power to write down or convert capital instruments, the Agency shall provide for an independent valuation of assets and liabilities of the bank which shall be conducted in line with Article 189 of this Law. Such valuation shall be the basis of calculation of write-down that should be

applied to relevant capital instruments in order to cover losses and calculate the level of conversion applied to relevant capital instruments in order to increase the bank capital.

Article 187

(Implementation of write-down or conversion of capital instruments)

(1) Write-down or conversion of capital instruments shall be conducted in a manner ensuring the following results:

a) Common Equity Tier 1 capital items shall be written down in proportion to the losses and up to the total amount of those capital elements, and the Agency shall take against the shareholders one or both measures provided for by this Law in the application of the bail-in tool;

b) additional Tier 1 instrument items shall be written down and/or converted into Common Equity instruments to the lower of either the extent necessary for achieving the resolution objectives or up to the total amount of those capital elements;

c) Tier 2 capital items shall be written down or converted into bank shares that can be included in Tier 1 capital of the bank to the lower of either the extent necessary for achieving the resolution objectives referred to in Article 180 of this Law or up to the total amount of those capital items.

(2) In the event of writing down capital items, liabilities on those grounds to the holder of the relevant capital item shall cease to exist in the written down amount of such item, except for the liabilities already accrued, with no compensation being paid to such owner on account of such write-down.

(3) For the purpose of conducting the conversion referred to in paragraph (1), item b) of this Article, the Agency may order the bank to issue shares that may be included in Tier 1 capital of the bank to the holders of certain capital items referred to in that Item.

(4) If the conversion of bank capital items would lead to an acquisition of or increase in the holdings in the bank above the percentages prescribed in Article 29, paragraph (1) of this Law – the Agency shall, in a timely manner, assess the compliance with the requirements for issuing consent to the acquisition of holdings, so that the assessment would not stay such conversion.

(5) A banking group shall be deemed to be failing within the meaning of Article 186, paragraph (3), item b) of this Law when it fails to comply or is likely to fail to comply with the provisions of this Law governing indicators pertaining to group risk management, due to which the Agency may impose against it a measure referred to in this Law, in particular if it suffered or is likely to suffer losses in the amount of its entire capital or a significant portion of its capital.

(6) Article 186 of this Law and paragraphs (1) through (6) of this Article shall apply accordingly to a write-down and conversion of capital items of a member of a banking group that is not a bank.

(7) The Agency shall conduct a write-down or conversion of capital items against a member of a banking group that is seated in the Federation and subject to supervision, after obtaining an opinion of the regulatory authority supervising the operation of such member.

(8) The Agency shall prescribe more detailed conditions of capital item conversion referred to in paragraph (3) of this Article.

Article 188

(Resolution requirements)

(1) The Agency shall adopt a decision on initiating bank resolution proceedings when it establishes that the following conditions have been met:

a) when the Agency established that the situation of the bank is such that it is failing or likely to fail;

b) it is not reasonable to expect that any other measure of the bank or a private sector person or supervisory measures, including early intervention measures, or capital instrument write-down or conversion measures could, within a reasonable timeframe, remove obstacles to continued bank operation, taking into account all circumstances of the specific case;

c) bank resolution is in the public interest.

(2) Prior implementation of supervisory measures and early intervention measures in line with this Law shall not be a precondition for taking bank resolution measures.

(3) The situation of the bank is deemed to be such that it is failing or likely to fail, within the meaning of this Law, if at least one of the following requirements is met:

a) reasons for revoking the operating licence referred to in Article 22 of this Law have arisen or are likely to arise soon, in particular when losses have been generated in the bank's operation whose coverage would require the entire or a significant portion of capital or when such losses are likely to arise;

b) bank assets are lower than its liabilities or bank assets are soon likely to be lower than its liabilities;

c) the bank is illiquid or is likely to be illiquid soon;

d) if the bank requested extraordinary public financial support, except in exceptional cases when such support is provided to a solvent bank for the purpose of eliminating a serious disruption in the economy and preserving stability of the financial system, as a temporary and proportionate measure, in the form of:

1) guarantees of the Federation for newly-issued debt and guarantees and loans of its public institutions or

2) capital increase or purchase of instruments of ownership under non-preferential terms, up to the amount necessary to eliminate the shortage of capital, under the terms set by the Agency, only if at the time of provision of this assistance the requirements referred to in Items a) through c) of this paragraph or the conditions for capital write-down and conversion referred to in Articles 186 and 187 of this Law have not been met.

(4) Bank resolution shall be deemed to be in the public interest, within the meaning of paragraph (1), item c) of this Article, if financial stability is ensured, and if the implementation of resolution action can appropriately achieve one or more resolution objectives, which could not be achieved to the same extent with the implementation of liquidation or bankruptcy proceedings against the bank.

(5) The provisions of this Article shall apply accordingly to the initiation of resolution proceedings for a banking group and holding.

Article 189

(Valuation in the event of resolution)

(1) Before initiating the procedure of capital instrument resolution or write-down, the Agency shall provide for a fair and realistic valuation of bank assets and liabilities.

(2) The valuation referred to in paragraph (1) of this Article shall be conducted for the purpose of informing the determination by the Agency if the conditions for bank resolution or conditions for capital instrument write-down or conversion have been met, or the selection of appropriate resolution tool or measure, or capital instrument write-down or conversion if it determines that these conditions have been met, as well as for the purpose of ensuring that all bank losses are fully presented in the business books and financial statements of the bank, compiled at the date of undertaking resolution activities.

(3) The valuation referred to in paragraph (1) of this Article shall be conducted by an audit firm or another person in line with the regulation of the Agency.

(4) Agency shall select an audit firm or another person referred to in paragraph (3) of this Article that will conduct the valuation, with the valuation fee being borne by the bank.

(5) The audit firm or another person referred to in paragraph (3) of this Article must be independent from the Agency or any other public authority or institution vested with public authority, as well as from the bank that is the subject of valuation or the banking group of which the bank is a member.

(6) The valuation referred to in paragraph (1) of this Article shall be based on prudent assumptions, including a prudent assessment of the level of losses caused by the debtor's default and may not assume any use of public financial support, liquidity loans or liquidity loans with non-standard collateralisation, repayment period or interest rates.

(7) The valuation referred to in paragraph (1) of this Article shall also take into account any potential claims by the Agency for the compensation of costs related to conducting the resolution proceedings, as well as interest and fees for any disbursement of loans and guarantees provided to the bank from sources of resolution financing.

(8) The valuation referred to in paragraph (1) of this Article shall be accompanied by updated financial statements of the bank, an analysis and assessment of the accounting value of assets, as well as a list of outstanding balance-sheet and off-balance sheet liabilities presented in the bank's business books and records, with an indication of the respective priority classes to which the liabilities would be classified in line with the provisions of this Law regulating bank bankruptcy and liquidation.

(9) The Agency may, for the purpose of adopting a decision on selecting resolution tools provided for by this Law, request the independent valuer to supplement the analysis and valuation of the accounting value of assets with an analysis and valuation of market value of assets and liabilities of the bank under resolution.

(10) The valuation referred to in paragraph (1) of this Article must also encompass an assessment of total value to which each creditor class would be entitled in the event of liquidation and bankruptcy proceedings, but shall not exclude the obligation to conduct a separate independent valuation referred to in Article 212 of this Law.

(11) The Agency shall request from the Deposit Insurance Agency to deliver necessary information to calculate the hypothetical amount of loss coverage. The Deposit Insurance Agency shall deliver its opinion within 24 hours of receipt of the appraisal performed by an independent appraiser.

(12) If due to urgency a valuation in line with paragraphs (8) and (10) of this Article cannot be conducted, the company or another person referred to in paragraph (3) of this Article shall conduct a provisional valuation, which is used in the resolution proceedings pending definitive valuation of the bank's assets and liabilities (hereinafter: definitive valuation), and exceptionally in the case when it is not possible to provide independent valuation referred to in paragraph (1) of this Article, the Agency shall conduct a provisional valuation of the bank's assets and liabilities, until the company or other person referred to in paragraph (3) of this Article completes the definitive valuation.

(13) The provisional valuation referred to in paragraph (12) of this Article shall also provide for a buffer for additional losses, with appropriate justification.

(14) The Agency may also initiate resolution proceedings and apply resolution tools and measures based on the provisional valuation referred to in paragraph and (12) of this Article.

(15) In the case referred to in paragraph (12) of this Article, as well as in other cases when the valuation referred to in paragraph (1) of this Article has not been conducted before the initiation of resolution proceedings in line with the conditions referred to in this Article, the company referred to in paragraph (3) of this Article shall conduct a definitive valuation as soon as the appropriate conditions are met.

(16) If the value of assets and liabilities of the bank determined by the definitive valuation exceeds the value determined by the provisional valuation, the Agency may increase the amounts of claims of the creditors or shareholders which will be written down by applying the resolution tools referred to in Article 203 of this Law, or order the bridge bank or asset management company referred to in Article 202 of this Law to make an additional payment to the bank and shareholders on account of the transfer of shares, assets or liabilities.

(17) The Agency shall prescribe more detailed conditions and manner of conducting independent valuation of assets and liabilities referred to in this Article, as well as more detailed conditions and criteria which the company or other person referred to in paragraph (3) of this Article which will conduct the valuation referred to in paragraph (1) of this Article should fulfil to conduct the valuation.

Article 190

(Adoption of the decision on initiation of resolution proceedings)

(1) The Agency shall continuously in line with Article 55, paragraph (2), item bb) and Article 67, paragraph (1), item i) of this Law, take measures against the bank for the purpose of preventing a deterioration of its financial position (crisis).

(2) When the Agency determines that the resolution requirements have been met, it shall issue a decision on initiation of bank resolution proceedings and notify the following accordingly:

a) the bank to which the decision on initiation of resolution proceedings refers;

- c) the Banking Agency of RS and the Brčko District, if the bank operates through organisational units established in RS and the Brčko District;
 - d) the Central Bank;
 - e) the Deposit Insurance Agency;
 - f) where appropriate, the competent regulatory authority and resolution authority of the banking group of which the bank is a member;
 - g) Federal Ministry of Finance (hereinafter: Ministry of Finance);
 - h) competent registration court.
- (3) The notification referred to in paragraph (2) of this Article shall be subject to the confidentiality provisions of the Agency.

Article 191

(Publication of the decision on initiation of resolution proceedings)

- (1) The Agency shall publish in the Official Gazette of the Federation of BiH, one or several dailies available across the territory of BiH and on the web page of the Agency the initiation of bank resolution proceedings with a notification of resolution measures taken and consequences of such measures and, where appropriate, conditions and period of suspension of certain obligations of the bank in a manner deemed fit by the Agency.
- (2) The bank shall publish on its web page the decision on initiation of resolution proceedings and all subsequent decisions implementing the decision on initiation of resolution proceedings.

Article 192

(General powers in resolution proceedings)

- (1) For the purpose of taking resolution measures, the Agency shall use the following powers separately or jointly:
- a) to request any person to provide of all information necessary for decision making on bank resolution measures and its preparation, including updating and amending the information contained in the resolution plan, as well as to request the collection of information through on-site supervision;
 - b) to dismiss the supervisory board, management, and senior management of the bank under resolution,
 - c) to take over all powers from the shareholders, supervisory board and management of the bank under resolution and to entrust those powers to special management;
 - d) to transfer the shares and other instruments of ownership issued by the bank under resolution,
 - e) to transfer the rights, assets or liabilities of the bank under resolution to another person, with a consent of such person,
 - f) to reduce partially or completely the value of principal or balance of an outstanding debt in relation to eligible liabilities of the bank under resolution,
 - g) to convert eligible liabilities of the bank under resolution into ordinary shares or other instruments of ownership of such bank, its parent company or bridge bank to which assets or liabilities are transferred,
 - h) to cancel debt tool issued by the bank under resolution, except for eligible liabilities referred to in Article 204 of this Law,
 - i) to reduce, including the reduction to zero, the par values of shares or other instruments of ownership of the bank under resolution, and to cancel such shares or other instruments of ownership;
 - j) to request the bank under resolution or its parent company to issue new shares, other instruments of ownership or other capital instruments, including preference shares and potential negotiable instruments;
 - k) to declare due and terminate financial agreements or agreements on financial derivatives for the purpose of exercising the power to write down and convert liabilities under derivatives;
 - l) to assess the purchaser of qualifying holdings without the obligation to apply the prescribed timeframe for such assessment and

m) to amend the maturities of debt instruments or other eligible liabilities, the amount of interest payable based on such instruments or liabilities or the due date of such interest, including the suspension of payment during a certain period, except for liabilities referred to in Article 204, paragraph (1) of this Law.

(2) In exercising its powers, the Agency shall not be obliged to notify or obtain approval or consent of any authority or organisation or shareholder or creditor of the bank under resolution, which should be obtained in regular operation of the bank.

(3) In the period of implementation of bank resolution measures, the Agency may petition the competent court to issue a temporary ban on execution against the assets of the bank under resolution or for termination of all court or administrative procedures against the bank.

Article 193

(Additional powers of the Agency)

(1) Apart from the general powers referred to in Article 192 of this Law, for the purpose of efficient implementation of resolution measures, the Agency shall be authorised to:

a) ensure that due to transfer no additional rights or liabilities impacting transferred financial instruments, assets or liabilities are created, for which purpose no right to setoff or netting under the provisions of this Law shall be considered an additional right or obligation,

b) revoke the rights to acquire additional shares or other instruments of ownership,

c) request the competent authority to suspend trading and exclusion from the stock exchange or other regulated market or official quotation of financial instruments, in line with regulations governing securities trading,

d) ensure that the company receiving the shares, other instruments of ownership, debt instruments, assets, rights or liabilities or any combination thereof from the bank under resolution (hereinafter: recipient) regarding all rights, obligations or measures taken by the bank under resolution is treated as a bank under resolution, including, according to Article 200, paragraphs (12), (13) and (18) and Article 201 of this Law, all rights and obligations related to the participation in the market;

e) request the bank under resolution or the recipient to exchange information and provide assistance to each other and

f) cancel or amend terms of the agreement in which the bank under resolution is one of the counterparties and ensure that the recipient replaces as a counterparty the bank under resolution.

(2) In the bank resolution proceedings, the Agency shall be authorised to ensure for the recipient continued operating arrangements needed for ensuring the efficiency of resolution measures, in particular:

a) continuation of agreements concluded by the bank under resolution, so that the recipient accepts the transferred rights and obligations of the bank under resolution in connection with a financial instrument, asset or liability transferred, and replaces the bank under resolution in all relevant agreements;

b) that the recipient replaces the bank under resolution as a party to all legal procedures regarding all transferred financial instruments, assets or liabilities irrespective of the opposite side's consent.

(3) The powers of the Agency referred to in paragraph (1), item d) and paragraph (2), item b) of this Article shall not affect:

a) the rights of employees in the bank under resolution to cancel the employment agreement,

b) the right of the counterparty to the agreement, including the right to agreement termination, in line with Article 195 of this Law, if entitled to do so in line with the terms of the agreement on the basis of actions or omissions of the bank under resolution before the transfer or on the basis of actions or omissions of the recipient after the transfer.

Article 194

(Power to provide services and premises)

(1) The Agency – Resolution Authority may request the bank under resolution or any of its subsidiaries to provide all operational services or provide premises and equipment, which do not include any form

of financial support, and are needed by the recipient in order to provide successfully services and perform banking activities transferred to it.

(2) Services and premises referred to in paragraph (1) of this Article shall be provided:

a) under the terms from the agreement on the provision of services or use of premises which was in force immediately before the resolution measure was implemented and during the period of validity of such agreement or

b) if the agreement on the provision of services or use of premises does not exist or ceased to be in force before or during the implementation of the resolution measure, under reasonable terms.

Article 195

(Power to temporarily suspend certain obligations)

The Agency may temporarily suspend the settlement of all payment obligations or discharge of obligations under any agreement in which the bank under resolution is one of the parties for a period of 48 hours from the moment of publication of the decision of the Agency on suspension.

If the obligation to pay or deliver becomes due during the suspension period, the obligation to pay or deliver shall become due on the business day following the day on which the suspension period expires. If the obligations of payment or delivery of the bank under resolution are suspended in line with paragraph (1) of this Article, the obligations of payment or delivery of other parties to the agreement under such agreement shall be suspended for the same period.

Notwithstanding paragraph (1) of this Article, the suspension shall not be applied to:

a) covered deposits in accordance with the act governing the bank deposit insurance;

b) obligations to payment systems and securities clearing systems defined in accordance with law as important systems, i.e. to operators of those systems and participants of those systems, which arose based on participation in such systems;

c) public revenue assets paid for the settlement of obligations to BiH, the Federation, RS, the Brčko District, cantons, cantons, cities, , municipalities and funds, which are passing through the unique bank account in a commercial bank, upon which all public revenues are lodged in accordance with regulation that treats treasury operations of BiH, the Federation, RS, and the Brčko District.

The Agency may temporarily suspend the enforcement of liens on assets of the bank under resolution by secured creditors of such bank for a period of 48 hours from the moment of publication of the decision of the Agency on suspension.

The Agency may temporarily suspend the right to agreement termination of all parties in contractual relations with the bank under resolution during a period of 48 hours from the moment of publication of the decision of the Agency on suspension, provided that the obligations of payment and delivery and lien continue to be discharged.

After the expiry of the period of suspension referred to in paragraph (6) of this Article, if the contractual rights and obligations have been transferred to the recipient, the other counterparty may terminate the agreement only if after the moment of transfer the conditions for agreement are created relative to the recipient.

In exercising the power referred to in this Article, the Agency shall take into account the effects that the exercise of these powers shall have on smooth operation of the financial markets.

Article 196

(Special manager)

(1) The Agency shall issue a decision to name a special manager in the bank under resolution, if it assesses that a change in the method of governing and managing the bank would contribute to the realisation of the resolution objectives.

(2) The decision referred to in paragraph (1) of this Article may be issued by the Agency at any time during the resolution proceedings.

(3) The Agency shall issue the decision referred to in paragraph (1) of this Article when the resolution proceedings are initiated against the bank whose operating licence has been revoked.

- (4) The special manager shall be appointed for not longer than a year and their term of office may exceptionally be extended for another year if the Agency assesses that it is necessary in order to complete the initiated activities for the purpose of achieving the resolution objectives or that the conditions referred to in paragraph (1) of this Article are still fulfilled.
- (5) The decision referred to in paragraph (1) of this Article shall specify the amount of remuneration for the special manager, which is payable by the bank.
- (6) The Agency may in the course of the special manager's term of office adopt a decision dismissing them and appointing another special manager.
- (7) The special manager must be a person independent from the bank and meet the requirements referred to in Article 64 of this Law.
- (8) As of the day of adoption of the decision referred to in paragraph (1) of this Article, the offices of the members of management and the supervisory board of the bank and the powers of the general meeting shall be terminated, while the functions of the management and the supervisory board of the bank, as well as the powers of the bank general meeting shall be taken over by the special manager.
- (9) The current members of the management, other authorised persons with special powers and responsibilities in the bank and employees shall cooperate with the special manager and ensure their access to entire business and other documentation of the bank and prepare a transfer of business report, provide them with all explanations or additional reports on bank operation. The special manager shall be empowered to remove a person impeding their work and, where appropriate, seek assistance from the competent law enforcement agency.
- (10) The special manager shall take all measures necessary for the attainment of the resolution objectives, as well as to apply resolution tools and measures in line with the decision of the Agency on conducting the resolution proceedings against the bank. Such measures may include capital increase, change in the ownership structure of the bank or takeover of its assets, rights or liabilities by institutions that are financially and organisationally stable, in line with the selected resolution tool.
- (11) The discharge of obligations of the special manager referred to in paragraph (10) of this Article shall have priority over other obligations arising from the regulations or regulations of the bank.
- (12) The special manager may engage, at the cost of the bank, independent experts in the area of banking, finance, accounting or other appropriate professions, under conditions approved by the Agency.
- (13) The special manager shall deliver to the Agency a report on the bank's performance and its financial situation, as well as the actions taken in performing their duties at least on a quarterly basis, and more frequently upon the request of the Agency. The special manager shall report to the Agency at the start and at the end of their term of office.
- (14) Supervision over the exercise of office and powers of the special manager shall be performed by the Agency - Resolution Authority.
- (15) The decision referred to in paragraph (1) of this Article may provide for certain restrictions to the functions and powers of the special manager, as well as their duty to obtain the consent of the Agency before taking certain legal actions.
- (16) The Agency shall publish on its web page the appointment of the special manager.
- (17) The decision on the appointment, dismissal or extension of the term of office of the bank's special manager shall, without delay, be delivered to the special manager, to the bank to which they are appointed, published in the Official Gazette of the Federation of BiH and in one or several dailies available across the territory of BiH and entered in the bank records referred to in Article 20 of this Law and business register with the competent court.
- (18) If another competent resolution authority intends to appoint a special manager for another member of the banking group, the Agency shall consider with such other competent resolution authority a possibility of appointing the same special manager for those members of the banking group, in order to facilitate the implementation of resolution measures.

(1) Resolution tools shall be the following:

- a) sale of a portion or entire operation to another entity authorised for the performance of the given activities (hereinafter: sale of operations);
- b) transfer of a portion or entire operation to one or several bridge banks (hereinafter: bridge bank);
- c) separation and transfer of assets;
- d) the bail-in.

(2) The Agency may apply the resolution tools listed in paragraph (1) of this Article individually or combined, depending on the case being resolved, except for the asset separation and transfer tool which may only be applied in combination with another resolution tool.

(3) When deciding on the resolution tool to be applied, the Agency shall perform a cost analysis including each of the options and assess the ratio of costs and efficiency of each tool in achieving the objectives of resolution.

(4) When the resolution tools referred to in paragraph (1), items a) or b) of this Article are applied in the transfer of part of assets, rights or liabilities of the bank under resolution, the remaining part of the bank from which the assets, rights or liabilities were transferred shall be liquidated under regular bankruptcy proceedings.

(5) The Agency, the Deposit Insurance Agency and other persons participating in financing bank resolution shall be entitled to recover any reasonable costs properly incurred in connection with the application of resolution tools or powers or provision of extraordinary public financial support in one or several of the following manners:

- a) as a deduction from any consideration paid by the recipient to the bank under resolution or shareholders of the bank under resolution;
- b) from the bank under resolution, as preferred creditors;
- c) from all proceeds generated in the liquidation or bankruptcy of the bridge bank or asset management company, as preferred creditors.

(6) The Agency shall notify without delay the bank's depositors, creditors and debtors of the application of the resolution tools referred to in paragraph (1) of this Article and the performed transfer on the web page of the Agency and via one or several dailies available across the territory of BiH.

(7) The Agency shall prescribe the manner and procedure of publishing the resolution decision.

Article 198

(Sale of the bank's business)

(1) The Agency may sell shares or other instruments of ownership issued by a bank under resolution or all or any assets, rights or liabilities of the bank under resolution to a purchaser that is not a bridge bank.

(2) The sale referred to in paragraph (1) of this Article shall not require a prior consent of shareholders of the bank under resolution or any other third party, other than the purchaser.

(3) The sale in line with paragraph (1) of this Article shall be conducted under market conditions, ensuring equal treatment of all parties involved, under the terms warranted by the given circumstances.

(4) The proceeds generated from the transfer of shares from the shareholder to the acquirer, net of the expenses of the resolution proceedings in connection with Article 197, paragraph (5) of this Law, shall belong to the shareholders, whereas the proceeds generated from the transfer of all or part of assets or liabilities from the bank under resolution or bridge bank to the acquirer, net of the expenses of the resolution proceedings in connection with Article 197, paragraph (5) of this Law, shall belong to the bank under resolution.

(5) In applying the sale of business tool, the Agency may transfer on several occasions shares or other instruments of ownership or, depending on the case, assets, rights or liabilities of the bank under resolution.

(6) After applying the sale of business tool, the Agency may, with a consent of the purchaser, effect transfers in connection with assets, rights or liabilities transferred to the purchaser in order to return the assets, rights or liabilities to the bank under resolution, or shares or other instruments of ownership to

the original owners, while the bank under resolution or original owners shall be obliged to take back all such assets, rights or liabilities, or shares, or other instruments of ownership.

(7) The purchaser must have all the necessary approvals to provide the services that are the subject of sale. If the transfer of shares or other instruments of ownership by applying the sale of business tool would lead to a takeover or increase in qualifying holdings in the bank, the acquirer of qualifying holdings shall, at the moment of sale or registration, have a prior consent to acquisition of qualifying holdings in line with Article 29 of this Law. The Agency shall decide on an application for acquisition of qualifying holdings in a timely manner in order to avoid a delay of the application of the sale of business tool and non-achievement of the relevant resolution objectives by the use of resolution measures.

(8) Notwithstanding paragraph (7) of this Article, in order to avoid a delay in the sale and non-achievement of resolution objectives, the Agency may effect the sale before the expiry of the timeframe for decision making on the application referred to in paragraph (7) of this Article, and the Agency shall subsequently decide on the application for acquisition of qualifying holdings.

(9) In the case referred to in paragraph (7) of this Article if the purchaser acquired qualifying holdings, and the Agency failed to decide of the application for prior consent to the acquirer of qualifying holdings, the sales agreement shall have legal effects and transfer of ownership may be conducted. The purchaser that acquired shares or other instruments of ownership of the bank under resolution in this manner shall have all the property rights arising from those instruments of ownership. The Agency shall have the voting and other management rights based on such instruments of ownership. The Agency shall not be obliged to exercise such voting rights nor bear any liability for retaining from exercising such right during the resolution period.

(10) In a case referred to in paragraph (7) of this Article if the Agency rejects an application for the issuance of consent for acquisition of qualifying holdings, the Agency shall still have the voting and other management rights arising from such shares or other instruments of ownership and may order a divestment of such shares or other instruments of ownership for which the acquirer failed to obtain the necessary consent within a certain timeframe.

(11) If acquirer fails to sell the shares or other instruments of ownership within the requested timeframe, the Agency shall take measures provided for by Article 36 of this Law.

(12) Transfers based on the sale of business tool that entail the sale of some but not all parts of assets, rights or liabilities of the bank shall be subject to safeguards applicable to partial ownership transfers referred to in Article 213 of this Law.

(13) The purchaser referred to in paragraph (1) of this Article may continue to exercise the rights of membership and access to the payment, clearing systems, stock exchanges and deposit insurance of the bank under resolution, provided that such purchaser meets the criteria for participating in them.

(14) The purchaser shall be considered a continuation of the bank under resolution in connection with transferred assets, rights or liabilities, and shall take the place of the bank under resolution in all procedures in which it participated in connection with the transferred assets, rights or liabilities, irrespective to the consent of the counterparty.

(15) Shareholders and creditors of the bank under resolution and other third parties whose shares, or assets, rights and liabilities have not been sold or transferred to a bridge bank or asset management company shall have no rights relating to the sold or transferred shares, or assets, rights and liabilities, or relative to the purchaser and its management bodies, except for the right to safeguards provided for by this Law.

(16) The Agency shall prescribe in more detail the procedure of sale of business of the bank under resolution.

Article 199

(Implementation of the procedure of the sale of the bank's business)

(1) The sale procedure shall be implemented in line with the following principles:

- a) transparency and correct presentation of assets, rights, liabilities or shares or other instruments of ownership of the bank under resolution seeking to preserve financial stability;
 - b) level playing field for potential purchasers;
 - c) avoidance of conflict of interest;
 - d) urgency of the resolution proceedings and
 - e) acting with due care.
- (2) Respecting the principles referred to in paragraph (1) of this Article, the Agency shall issue a public invitation to potential bidders to submit their tenders.
- (3) The Agency shall promptly provide the potential purchasers with conditions for access to relevant information on the bank's financial position, for the purposes of valuation of assets, rights or liabilities being sold.
- (4) The Agency may favour the sale to a certain purchaser class or negotiate a direct sale to a certain buyer without violating the principle of level playing field for potential purchasers.
- (5) Notwithstanding paragraph (2) of this Article, the Agency may conduct the procedure of sale without public call if it establishes that such a call would prevent or hamper the achievement of one or several resolution objectives, in particular if the following conditions have been met:
- a) if it considers that there is a significant threat to financial stability arising from the possible failure of the bank under resolution;
 - b) if it believes that a public call would reduce the efficiency of the sale tool or achievement of the resolution objective.
- (6) If it assesses that by accepting one of the bids submitted the resolution objectives are not met, the Agency may decide not to sell and to apply another bank resolution tool.

Article 200 (Bridge bank)

- (1) A bridge bank is a legal person established by the Federation or companies partially or fully owned by the state for the purpose of ensuring the continuity of critical functions and sale of the bank under resolution. The Agency shall be authorised to transfer to a bridge bank:
- a) shares or other instruments of ownership issued by one or several banks under resolution;
 - b) all or part of assets, rights or liabilities of at least one bank under resolution.
- (2) The transfer referred to in paragraph (1) of this Article shall not require a consent of the shareholders, depositors or other creditors or debtors of the bank under resolution.
- (3) The Agency shall approve constitutional documents, as well as the strategy and risk profile of the bridge bank.
- (4) The bridge bank's operating licence shall be issued by the Agency on the basis of an application of the founder to which the following shall be attached:
- a) incorporation act and statute of the bank, to which the Agency issued a consent,
 - b) proof of payment of minimum charter capital,
 - c) names of the proposed members of the supervisory board and bank management with the data on their qualifications, professional expertise, experience, business reputation and standing.
- (5) The application referred to in paragraph (4) of this Article shall be decided upon by the Agency not later than within two business days from the day of receipt of an orderly application and the decision on the issuance of the operating licence shall be published in the Official Gazette of the Federation of BiH, one or several dailies available across the territory of BiH and on its web page.
- (6) The operating licence for a bridge bank shall be issued for a period that may not be longer than two years from the day of the last executed transfer referred to in paragraph (1) of this Article, with a possibility of extension of such period by one year or several one year periods, if such an extension is needed in order to maintain the critical functions of the bridge bank and provide conditions for the termination of its operation.
- (7) The founder of the bridge bank shall submit an application for entry in the business register not later than on the day following the day of issuance of the operating licence.

(8) The founder referred to in paragraph (1) of this Article shall appoint the members of the supervisory board and management of the bridge bank, subject to prior consent of the Agency. The Agency shall give consent to the remuneration of the members of the supervisory board and management.

(9) When applying the bridge bank tool, the Agency shall ensure that the total value of liabilities transferred to the bridge bank does not exceed the total value of the rights and assets transferred from the bank under resolution or provided from other sources.

(10) The provisions of this Law shall apply to the establishment and operation of the bridge bank, as well as to the supervision over it. Exceptionally, the founder may apply to the Agency for an operating licence for the bridge bank even if the conditions for establishment provided for by this Law have not been met.

(11) In the event of issuance of the operating licence referred to in paragraph (10) of this Article, the Agency shall set a timeframe by which the bridge bank shall harmonise its operation with the provisions of this Law which refer to its capital and bank performance ratios, which may not be longer than six months.

(12) When applying the bridge bank tool, the Agency may execute transfers more than once in order to make additional transfers of shares or other instruments of ownership issued by the bank under resolution or, as the case may be, rights or liabilities of the bank under resolution.

(13) After applying the bridge bank tool, the Agency may:

a) transfer rights, assets or liabilities from the bridge bank back to the bank under resolution, or shares or other instruments of ownership back to the original owners, and the bank under resolution or the original owner shall be obliged to take back such assets, rights or liabilities, or shares or other instruments of ownership, provided that such transfer was explicitly provided for in the transfer tool or that the transferred rights, assets, liabilities or shares do not meet the transfer requirements.

b) transfer shares or other instruments of ownership, assets, rights or liabilities from the bridge bank to a third party.

(14) For the purpose of exercising a right exercised by the bank under resolution regarding the membership and access to the payment system, clearing and settlement system, as well as the deposit guarantee system, the bridge bank shall be considered the legal successor of the bank under resolution, provided that it meets the criteria for participation in such systems within six months, with a possibility for extension.

(15) The objective of the bridge bank does not imply any duty or responsibility to the shareholders or creditors of the bank in resolution and the supervisory board and management or senior management of the bridge bank shall have no liability to the shareholders or creditors of the bank under resolution or the creditors of the bridge bank for their actions or omissions in the course of discharging their duties, except if the damage has been caused by gross negligence or misconduct.

(16) The provisions of the law governing the securities market shall not apply to the establishment of the bridge bank and the competent authorities shall, for the purpose of the establishment of the bridge bank, upon the request of the Agency, urgently issue the documents and conduct actions provided for by law.

(17) The Agency shall adopt a regulation prescribing in more detail the contents of documentation and evidence submitted when establishing a bridge bank.

(18) The Agency shall prescribe in more detail the options for the transfer of assets, rights or liabilities from a bank under resolution to a bridge bank, as well as the options for the transfer of assets, rights or liabilities from the bridge bank back to the bank under resolution. The Agency shall specify in a regulation the assets and liabilities to be transferred to a bridge bank at the time when the bridge bank is established.

Article 201

(Termination of operations of a bridge bank)

(1) When selling a bridge bank or its assets or liabilities, the Agency shall ensure that the bank or relevant assets or liabilities are offered on the market under equal conditions, and that the sale does not lead to

their misrepresentation or favouring of or discriminating against certain potential buyers. Each such sale shall be conducted under market conditions.

(2) The Agency shall revoke the operating licence of the bridge bank in any of the following cases, whichever comes first:

- a) the bridge bank is merged with another bank or acquired by the other bank, in line with this Law,
- b) the bridge bank no longer meets the requirements provided for by Article 200, paragraph (1) of this Law,
- c) all or almost all of its assets, rights or liabilities are taken over by a third party;
- d) the time limit referred to in Article 200, paragraph (6) of this Law expires;
- e) the assets of the bridge bank are completely wound down or sold and its liabilities are fully settled.

(3) If the operation of the bridge bank is terminated under the circumstances referred to in paragraph (2), items c) and d) of this Article, the bank shall be liquidated or a competent court shall be petitioned to initiate bankruptcy proceedings against the bridge bank. The proceeds from the sale of the bridge bank net of the amount determined in line with Article 197, paragraph (5) of this Law shall be paid by the Agency to:

- a) the shareholders of the bank under resolution, if such bridge bank was established with the transfer of their shares or other instruments of ownership;
- b) the bank under resolution if such bridge bank was established with the transfer of all or part of assets, rights or liabilities of the bank under resolution.

(4) If the bridge bank is used for the transfer of assets and liabilities of more than one bank, the obligation referred to in paragraph (3) of this Article shall refer to the liquidation of assets and liabilities transferred from each of the banks and not to the bridge bank only.

Article 202

(Separation and transfer of assets)

(1) The Agency may adopt a decision on transferring assets and liabilities of a bank under resolution or a bridge bank to an asset management company (hereinafter asset management company) which is not a bridge bank, if at least one of the following conditions has been met:

- a) if the situation in the market is such that the sale of such assets in the liquidation or bankruptcy could have an adverse effect on the financial market;
- b) if the transfer is necessary in order to ensure smooth operation of the bank whose assets or liabilities have been transferred;
- c) if the transfer is necessary for the purpose of maximising proceeds from the liquidation or sale of the transferred assets while minimising costs.

(2) An asset management company shall be a legal person fully or partially owned by one or several public institutions or partly or fully state owned companies, which was established for the purpose of receiving all or part of assets, rights or liabilities of one or several banks under resolution or a bridge bank. Supervision over the asset management company shall be conducted by the Agency.

(3) The Agency shall:

- a) give a prior consent to the incorporation act of the asset management company;
- b) give prior consent to the appointment of management body of the asset management company;
- c) give consent to remuneration payable to the members of management body of the asset management company and the document determining their duties, rights and obligations;
- d) give approval to the strategy and risk profile of the asset management company.

(4) The asset management company shall manage the transferred assets for the purpose of maximising their value through their sale or liquidation in another manner.

(5) The Agency may transfer assets and liabilities of the transferring bank to one or several asset management companies by a decision referred to in paragraph (1) of this Article.

(6) The Agency may transfer assets and liabilities referred to in paragraph (1) of this Article back to the bank under resolution if such a possibility is explicitly provided for in the decision referred to in that paragraph, or if certain assets or liabilities by their nature do not belong to the classes of assets or

liabilities provided for in this decision or do not meet the requirements for transfer referred to in such decision.

(7) The transfer referred to in paragraph (1) of this Article shall be conducted without a consent of the shareholders, depositors and other creditors of the bank under resolution or any other third party.

(8) The Agency shall set the amount of compensation payable by the asset management company for assets and liabilities it takes over, which may also have a negative value.

(9) Compensation referred to in paragraph (8) of this Article may be also be paid in the form of debt instrument issued by the management company, subject to prior consent of the Ministry of Finance.

(10) The asset management company shall perform activities related to the transferred assets and liabilities referred to in paragraph (1) of this Article with due care and inform the Agency accordingly within the timeframe set in the decision referred to in that paragraph.

(11) In connection with Article 197, paragraph (5) of this Article, any compensation paid by the management company in connection with assets, rights or liabilities acquired directly from the bank under resolution shall belong to the bank under resolution, after deducting the costs arising from the use of this tool.

(12) The shareholder or creditor of the bank under resolution and a third party whose assets, rights or liabilities were not transferred to the management company shall have no rights relative to the transferred assets, rights or liabilities, except for the right to safeguards referred to in Article 213 of this Law.

(13) The objectives of the management company shall not imply any duty or responsibility to the shareholders or creditors of the bank under resolution, and the supervisory board, management and senior management shall have no responsibility to such shareholders or creditors of the bank in resolution for their actions or omissions in the course of discharging their duties, except if actions or omissions imply gross negligence or misconduct.

(14) The Agency shall also prescribe in more details the manner of granting consent referred to in paragraph (3) of this Article.

Article 203

(Bail-in)

(1) The Agency may apply the bail-in tool for the purpose of:

- a) increasing capital of the bank under resolution to the extent necessary for further smooth operation of the bank in line with this Law and preservation of confidence in the bank in the financial market;
- b) conversion into capital or write-down of principal of debt or debt instruments transferred to a bridge bank for the purpose of providing capital for that bank or transferred within the application of the sale of business tool or the asset separation tool applied against the bank under resolution.

(2) The Agency may apply the bail-in tool for the purposes referred to in paragraph (1), item a) of this Article only if there is a reasonable prospect that with the application of that tool, together with the measures implemented in line with the business reorganisation plan referred to in Article 209 of this Law, and with the achievement of the appropriate resolution objectives, will restore the bank to financial soundness and long-term viability.

Article 204

(Scope of the bail-in)

(1) Liabilities of the bank under resolution to which the write-down and conversion referred to in Article 203, paragraph (1), items b) of this Law (hereinafter: eligible liabilities) shall encompass all liabilities of such bank, except for:

- a) liabilities related to covered deposits, up to the covered amount in line with the regulation governing bank deposit insurance;
- b) liabilities secured by lien, financial collateral or other related rights, including repo transactions, covered bonds or liabilities related to financial instruments which are used for hedging purposes and are an integral part of the cover pool and which are secured in a similar manner as covered bonds;

c) liabilities arising from the management of clients' assets and cash, including clients' assets or cash the bank under resolution keeps on behalf of investment and pension funds if such funds are segregated by virtue of special laws from the liquidation or bankruptcy estate;

d) liabilities towards the banks in BiH and foreign banks and investment funds, excluding the members of the same group, whose original maturity is below seven days;

e) liabilities with a remaining maturity of below seven days owed to payment and security clearing systems, or operators of such systems and participants in such systems, which arose from participation in such systems;

f) liabilities towards:

1) employees for overdue wages, contributions for mandatory pension and health insurance or other fixed remuneration, except for variable benefits not regulated by law or collective agreement;

2) creditors based on the sale of goods or provision of services to the bank under resolution, which are critical for daily operations of the bank, including IT services, utilities and rental services, business premise servicing and maintenance;

3) tax authorities and authorities to which social insurance contributions are paid, provided that those liabilities have precedence in terms of order of priority in line with this Law and other regulations;

4) the Deposit Insurance Agency based on the deposit insurance premium.

(2) The initiation of resolution proceedings and implementation of the bail-in tool shall not affect the assets backing covered bonds, which shall remain secured, separate and at a determined level. This requirement, as well as the requirement referred to in paragraph (1), item b) of this Article shall not prevent the Agency from implementing the bail-in instrument also to part of a covered liability or a liability backed by collateral which exceeds the value of assets, pledge, lien, or collateral by which it is secured.

(3) Exceptionally, the Agency may exclude or partially exclude certain eligible liabilities from the implementation of write-down or conversion if:

a) this liability cannot be written off or converted within a reasonable time frame despite all actions the Agency took for the timely and efficient application of that instrument;

b) this exclusion is necessary in order to ensure the continuity of critical functions and core business lines;

c) this exclusion is necessary for the purpose of preventing financial contagion, in particular in connection with deposits of individuals, entrepreneurs, micro, small and medium-sized enterprises, potentially jeopardising the stability of the financial system in the manner that could produce serious disruptions in the economy;

d) the application of the bail-in tool to those liabilities would result in greater losses of other creditors than if such liabilities had been excluded from the write-down or conversion.

(4) If an eligible liability or a class of eligible liabilities is excluded or partially excluded, the level of write-down or conversion applied on other eligible liabilities may be increased in order to take into account such exclusions, provided that the creditors of other eligible liabilities do not suffer greater losses than those they would suffer if liquidation or bankruptcy proceedings were initiated against the bank.

(5) In applying this tool, the Agency may use other sources of resolution financing if, by way of write-down, conversion or in another manner, the shareholders and other creditors participated in loss absorption and capital increase in the amount no less than the acceptable amount of total liabilities, including regulatory capital of the bank under resolution, calculated at the moment of taking resolution measures in line with the independent valuation referred to in Article 189 of this Law.

(6) The minimum acceptable amount of loss absorption and capital increase to total liabilities referred to in paragraph (5) of this article is:

a) 4% starting from 1 January 2017,

b) 5% starting from 1 January 2018,

c) 6% starting from 1 January 2019,

d) 7% starting from 1 January 2020,

e) 8% starting from 1 January 2021,

(7) When deciding to use sources of resolution financing in line with paragraph (5) of this Article, the Agency shall take into account:

a) the principle that losses shall first be taken by the shareholders, then by creditors of the bank under resolution according to the order of priority in bankruptcy proceedings in line with this Law;

b) the ability of the bank under resolution to cover losses it would incur in the event of exclusion of the liability; and

c) the need to ensure appropriate resolution financing.

(8) The exclusion of eligible liabilities in line with paragraph (3) of this Article may be implemented for the purpose of completely excluding the liability from the write-down or restricting the level of write-down applied to such liability.

(9) The Agency shall also prescribe in more details the procedure and manner of writing down and converting liabilities of the bank under resolution, as well as the conditions for the use of funds provided for bank resolution for the purposes referred to in paragraph (5) of this Article.

Article 205

(Minimum requirements for capital and eligible liabilities)

(1) Banks must meet minimum requirements for capital and eligible liabilities at all times. Minimum requirement shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of total liabilities and own funds of the bank.

(2) The Agency shall determine for each bank separate minimum requirements referred to in paragraph (1) of this Article based on the following criteria:

a) the need to provide for a possibility of bank resolution by applying resolution tools, including the application of the bail-in tool, in a manner achieving the resolution objectives;

b) the need to ensure that the bank has sufficient eligible liabilities to cover losses in the event of use of the bail-in tool and restore the capital adequacy ratio to a level that would enable further smooth operation and preservation of sufficient confidence in the bank on the financial market;

c) the need to ensure, if the resolution plan provides for a possibility for certain types of eligible liabilities to be excluded from the bail-in based on Article 204, paragraph (3) of this Law or for certain types of eligible liabilities to be fully transferred to the recipient based on partial transfer, that the bank has sufficient other eligible liabilities to cover losses and restore the bank capital adequacy ratio to a level that would enable its further smooth operation;

d) size, business model, funding model and risk profile of the bank;

e) estimate of the potential amount of funds of the Deposit Insurance that could be used for financing the resolution proceedings in accordance with law governing bank deposit insurance;

f) assessments of adverse consequences of termination of bank operation on the stability of the financial system, including contagion to other banks, due to their interconnectedness or connections with other parts of the financial system.

(3) Provisions of this Article shall apply accordingly to the parent company or the banking group on a consolidated basis.

(4) The Agency shall prescribe in more detail the conditions under which eligible liabilities are included in the amount of capital and eligible liabilities referred to in paragraph (1) of this Article, and may also prescribe additional criteria on the basis of which such requirement is determined.

Article 206

(Assessment of the amount of bail-in)

(1) When applying the bail-in tool, the Agency shall, based on the independent valuation referred to in Article 189 of this Law, determine the following sum of:

a) the amount by which eligible liabilities must be written down in order to ensure that the value of assets of the bank under resolution is equal to the value of its liabilities;

b) the amount by which eligible liabilities must be converted into shares or other types of capital instruments in order to reinstate the necessary regulatory capital adequacy ratio of the bank under resolution or bridge bank.

(2) When determining the amount referred to in paragraph (1) of this Article the Agency shall take into account the need to maintain confidence in the bank under resolution or the bridge bank in the financial market and in order to ensure smooth further operation of these banks in the period of at least one year.

(3) If the Agency intends to apply the asset separation tool in determining the amount referred to in paragraph (1), items a) of this Article, it shall take into account the assessment of the required capital of the asset management company.

Article 207

(Actions towards shareholders)

(1) The Agency shall be authorised to apply write-down or conversion, as well as, when applying the bail-in tool to do the following against the shareholders:

a) cancel shares or transfer them to creditors taking losses in the course of application of this tool, and/or

b) significantly reduce the nominal value of shares and other appropriate rights of the bank shareholders, as a consequence of conversion of the elements of capital or eligible liabilities of the bank under resolution into its shares, provided that in line with the independent valuation referred to in Article 189 of this Law the assets of the bank under resolution exceed its liabilities.

(2) With regard to paragraph (1), item b) of this Article, the conversion shall be conducted at a conversion rate that significantly reduces the nominal value of the existing shares and other instruments of ownership.

(3) Measures referred to in paragraph (1) of this Article shall also refer to the shareholders to whom the Core Equity Tier 1 capital instruments were issued or granted on the basis of conversion of:

a) debt instruments into shares or other instruments of ownership in line with the contracted conditions of the original debt instruments upon the occurrence of the event which preceded or occurred simultaneously with the adoption of the decision on the opening of the resolution proceedings;

b) appropriate capital instruments into Common Equity Tier 1 capital instruments in line with Article 187 of this Law.

(4) When deciding on the measure it will take in line with paragraph (1) of this Article, the Agency shall take into account:

a) results of valuation conducted in line with Article 189 of this Law;

b) the amount up to which, according to the assessment of the Agency - Resolution Authority, the Common Equity Tier 1 capital items must be reduced and the appropriate capital instruments written down or converted in line with Article 186, paragraph (1) of this Law; and

c) total sum of the amounts assessed by the Agency in line with Article 206 of this Law.

Article 208

(Order of write-downs and conversions)

(1) By applying the bail-in, the Agency may reduce the value or convert the instrument or liability which is not excluded based on Article 204, paragraphs (1) through (4) of this Law in the following order:

a) writing down the Common Equity Tier 1 capital items in line with Article 187, paragraph (1), item a) of this Law to the extent possible and necessary;

b) writing down the principal of the additional Tier 1 capital instrument to the extent possible and necessary and in line with the instrument properties, if the total write-down in line with item a) of this paragraph is lower than the sum of amounts referred to in Article 207, paragraph (4), items b) and c) of this Law,

c) writing down the principal of Tier 2 capital instrument to the extent possible and needed and in line with the instrument properties, if the total write-down in line with items a) and b) of this paragraph is lower than the sum of the amounts referred to in Article 207, paragraph (4), items b) and c) of this Law,

d) writing down the principal of the subordinated debt not included in the additional Tier 1 capital items or Tier 2 capital items, to the extent possible and necessary, in line with the order of priority in bankruptcy proceedings, so that it would together with the write-down in line with items a), b) and c) of this paragraph reach the sum of amounts referred to in Article 207, paragraph (4), items b) and c) of this Law, if the total write-down in line with items a), b) and c) of this paragraph is lower than the sum of amounts referred to in Article 207, paragraph (4), items b) and c) of this Law,

e) writing down the principal or the remaining amount of eligible liabilities, to the extent possible and necessary, in line with the order of priority in bankruptcy proceedings in line with this Law, so that together with the write-down in line with items a), b), c) and d) of this paragraph it would reach the sum of amounts referred to in Article 207, paragraph (4), items b) and c) of this Law, if the total write-down referred to in items a), b), c) and d) of this paragraph is lower than the sum of amounts referred to in Article 207, paragraph 4, items b) and c) of this Law.

(2) When conducting write-down or conversion, the Agency shall apportion the loss referred to in Article 207, paragraph (4), items b) and c) of this Law, to shares or other instruments of ownership and eligible liabilities of the same class, unless a different distribution arises from the implementation of Article 204, paragraph (4) of this Law. This paragraph shall not prevent preferred treatment of liabilities excluded from the bail-in tool in line with Article 204, paragraphs (1) through (4) of this Law relative to eligible liabilities of the same priority level in line with this Law.

(3) When conducting conversions referred to in paragraph (1) of this Article, the Agency may apply different conversion rates to different classes of shareholders and creditors referred to in that paragraph, making sure that the same rate is applied to all creditors of the same priority level in line with the provisions of the law governing bankruptcy, with the more favourable conversion rate being applied to a higher order of priority.

Article 209

(Business reorganisation plan)

(1) If the Agency applies the bail-in tool for the purpose of bank capital increase in line with Article 203, paragraph (1), item a) of this Law, the supervisory board and management, or the special management appointed in line with Article 192, paragraph (1), item c) of this Law shall be requested to prepare a business reorganisation plan and deliver it to the Agency within one month from the application of the bail-in tool.

(2) If the bail-in tool referred to in Article 203, paragraph (1), item a) of this Law is applied against two or more members of the banking group, whose supervision is conducted on a consolidated and sub-consolidated basis by the Agency, the business reorganisation plan shall be prepared and delivered to the Agency by the parent company and it shall cover all members of the group.

(3) In exceptional circumstances and if it is necessary in order to achieve the resolution objectives, the Agency may extend the period referred to in paragraph (1) of this Article by another month.

(4) The business reorganisation plan shall contain measures ensuring within a reasonable timeframe a long-term viability of the bank or part of its operation and shall be based on realistic assumptions in connection with market conditions under which the bank will operate.

(5) The business reorganisation plan shall take into account, inter alia, the current and expected situation in the financial markets reflecting the best and the worst case scenario assumptions, including the combination of events, facilitating the determination of the main weaknesses of the bank. The assumptions shall be compared to the corresponding sector-wide benchmarks.

(6) The business reorganisation plan shall contain at least the following elements:

a) a detailed analysis of circumstances that led to the failure or likely failure of the bank;

b) a description of activities that need to be conducted for the purpose of restoration of long-term viability of the bank and a timeframe for the implementation of such activities.

(7) Measures for restoration of long-term viability of the bank may include:

a) reorganisation of the bank's operation, in particular so that the bank would become competitive again;

- b) changes in the bank governance system, risk management system, internal control system, IT system and other systems in the bank, as well as changes in the bank infrastructure;
 - c) withdrawal from the part of business where losses are generated;
 - d) sale of assets or business lines.
- (8) Within a month from the day of submission of the business reorganisation plan, the Agency shall assess whether it is probable that the implementation of such a plan would lead to a long-term viability of the bank. If the Agency considers that the plan will lead to the achievement of such objective, it shall be approved by the Agency.
- (9) If the Agency assesses that the plan will not lead to the achievement of the objective stated in paragraph (8) of this Article, it shall notify the management bodies or the special manager of its objections and request the preparation and delivery of an amended plan eliminating the identified deficiencies within 14 days.
- (10) The Agency shall assess the amended plan within seven days and determine whether the identified deficiencies have been eliminated.
- (11) The supervisory board, and management or the special manager shall implement the reorganisation plan and report at least once every six months to the Agency - Resolution Authority on the progress made in the implementation of the plan.
- (12) The supervisory board and management or the special manager shall amend the plan if, according to the opinion of the Agency – Resolution Authority in agreement with the Agency that is necessary in order to achieve the objective referred to in paragraphs (4) and (5) of this Article and any such amendment shall be delivered to the Agency - Resolution Authority for approval.
- (13) The Agency shall regulate the content and criteria for approval of the reorganisation plan.

Article 210

(Effects of bail-in)

- (1) When the Agency applies the measure of capital write-down and conversion, or the bail-in tool, such measure or tool shall promptly produce legal effect against the bank under resolution, shareholders of such bank and creditors to whom such measure or tool refers.
- (2) The Agency may conduct the necessary actions or request the adoption of appropriate documents and implementation of all the necessary actions by other competent authorities and persons required for the implementation of measures and tools referred to in paragraph (1) of this Article, in particular:
- a) entry or amendment of appropriate data in the registers and records maintained by the Securities Register and other competent authorities and organisations;
 - b) exclusion of shares and other ownership or debt instruments from trading or listing in the appropriate market;
 - c) admission of new shares or other instruments of ownership to trading or listing in the appropriate market;
 - d) readmission to trading or listing of written down debt instruments in the appropriate markets, without the issuance of prospectus.
- (3) If the Agency fully writes off certain liabilities, those liabilities, as well as all other liabilities and claims related to them, but were not accrued at the moment of taking measures – shall be considered discharged, or settled and it shall not be possible to attempt to prove otherwise in any procedure in connection with the bank under resolution or its legal successor.
- (4) If the Agency partially writes down (reduces) the principal of a liability or outstanding balance of a liability:
- a) the liability shall be considered settled in the written down amount;
 - b) the instrument or agreement creating the original liability shall still be applied relative to the balance of the principal or outstanding amount of the liability following the write-down, in line with changes in the amount of interest reflecting the reduction of principal and every other change in the conditions and time limits that the Agency could unilaterally effect.

(5) During the resolution proceedings, when necessary for the purpose of meeting the resolution objectives, the Agency may unilaterally amend the maturities of debt instruments or other eligible liabilities, the amount of interest that would be paid based on such instruments and liabilities or the due date for the payment of such interest, including the suspension of payment in a certain period, except for the liabilities referred to in Article 204, paragraph (1), item b) of this Law.

(6) The Agency may request the bank to maintain the number of authorised shares at a level needed for efficient conversion of eligible liabilities into such shares, taking into account the possibility of application of this tool according to the resolution plan.

Article 211

(Contractual recognition of bail-in)

(1) The bank shall ensure that the agreement contains a provision that the liability arising from the contractual relation may be subject to a write-down or conversion and the creditor or other counterparty agrees to the write-down of the principal and outstanding amount, conversion or cancellation of such a liability in the event of application of the bail-in tool.

(2) Paragraph (1) of this Article shall apply to all liabilities which:

- a) are not excluded based on Article 204, paragraph (1) of this Law,
- b) are not part of the deposits referred to in Article 227, paragraph (1), item d) of this Law that are subject to deposit insurance but exceed the covered amount,
- c) are regulated by the law of another government and
- d) were created after this Law entered into force.

(3) Paragraph (1) of this Article shall not apply if the Agency assesses that the liabilities referred to in paragraphs (1) of this Article may be written down or converted based on the rights of such other government or based on a binding agreement concluded with such other government.

(4) For the purposes of the assessment referred to in paragraph (3) of this Article, the Agency may request the bank to submit to it a legal opinion on the implementability of the provision of paragraph (1) of this Article according to the law of such other government.

(5) Irrespective of whether the agreement contains the provision referred to in paragraph (1) of this Article or not, the Agency may write down or convert such liability.

Article 212

(Assessment of Differences in Treatment)

(1) The Agency shall ensure that, immediately following the initiation of resolution proceedings or after the application of the resolution tools, an independent assessment is conducted as to whether the shareholders and creditors of the bank would be in a more favourable position if, instead of the resolution proceedings, bankruptcy proceedings had been initiated against the bank. In the course of such assessment:

- a) it shall be assumed that for the bank under resolution against which one or several resolution measures have been applied, bankruptcy proceedings were initiated at the moment when the decision on resolution measures was adopted;
- b) it shall be assumed that the resolution measure or several of them had not been applied;
- c) the provision of public financial support to the bank under resolution shall not be taken into account.

(2) The assessment referred to in paragraph (1) of this Article shall determine the following:

- a) the manner in which the shareholders and creditors or relevant deposit insurance systems would have been treated if for the bank under resolution against which one or several resolution measures were implemented bankruptcy proceedings had been initiated at the moment when the decision was adopted;
- b) the actual treatment that the shareholders and creditors received in the resolution of the bank under resolution; and
- c) if there is any difference between the treatment referred to in Item a) and the treatment referred to in Item b) of this paragraph.

(3) The assessment referred to in paragraph (1) of this Article may be performed only by an independent valuer meeting the conditions referred to in Article 189, paragraph (5) of this Law, with the bank under resolution bearing the assessment costs.

(4) The Agency shall prescribe in more detail the methodology for conducting the assessment referred to in this Article, specifically the methodology for assessing the method in which the shareholders and creditors would have been treated if a bankruptcy proceedings had been conducted against the bank under resolution at the time when the decision was adopted.

Article 213 (Safeguards)

(1) If the Agency transfers some but not all rights, assets and liabilities of the bank under resolution, the shareholders and those creditors whose claims have not been transferred shall be entitled to a settlement of their claims at least in the amount in which such claims would have been settled if the bank under resolution had been liquidated at the time when the decision was adopted.

(2) If the Agency uses the bail-in tool, the shareholders and creditors whose claims were written down or converted into capital shall not take greater losses than they would have taken if the bank under resolution had been liquidated in bankruptcy proceedings at the time the decision was adopted.

(3) If the assessment conducted in line with Article 212 of this Law determines that any shareholder or creditor referred to in paragraphs (1) and (2) of this Article, including the Deposit Insurance Agency if it participated in financing the bank resolution, took greater losses than they would have taken in liquidation within bankruptcy proceedings shall be entitled to the payment of the difference up to the amount of losses they would have taken in bankruptcy proceedings from funds for resolution.

(4) The Agency may not, by exercising additional resolution powers, perform partial transfer of rights or liabilities nor partially alter or cancel the rights or liabilities protected under a title transfer financial collateral arrangement on set-off and netting, which was concluded between the bank under resolution and another person.

(5) For the purpose of implementation of paragraph (4) of this Article, the rights and liabilities shall be considered protected by such contract or agreement if the parties thereto are entitled to set-off or netting of such rights and liabilities.

(6) In the resolution proceedings:

a) assets used as collateral for a certain liability may not be transferred to an acquirer if with the transfer of assets the acquirer failed to take over such liability and if the creditor failed to retain all the rights in respect of the acquirer held towards the current debtor on the basis of the secured claim;

b) a liability whose settlement is collateralised by certain assets may not be transferred to an acquirer unless those assets have been transferred as well and unless the creditor retained all the rights towards the acquirer held in respect of the current debtor on the basis of the secured claim;

c) the creditor's rights in respect of the acquirer based on a secured claim against the current debtor may not be retained if the acquirer failed to take over the liability whose settlement was secured towards such creditor;

d) by exercising the rights based on these activities an agreement based on which a certain collateral was given may not be amended nor may its termination be requested if that would result in the claim no longer being collateralised.

(7) Notwithstanding paragraphs (1) through (6) of this Article, the Agency may transfer the covered deposits that are the subject of the agreement referred to in those paragraphs without a concurrent transfer of other assets or liabilities subject to the same agreement and may also transfer, modify or write down such assets and liabilities without a concurrent transfer of covered deposits – provided that it is necessary in order to ensure the full protection of such deposits.

(8) The application of the resolution tools and measures in bank resolution proceedings shall not affect the rights and obligations of third parties defined by the act governing the finality of settlement in payment and securities clearing systems.

(9) In the resolution proceedings against a member of a banking group that is not a bank, paragraphs (1) through (5) of this Article shall apply accordingly.

(10) The Agency shall regulate the types of agreements and financial instruments to which the measures of counterparty protection referred to in this Article apply.

Article 214

(Sources of resolution financing)

(1) Financial support of the Deposit Guarantee Fund may be used for resolution financing in accordance with the law governing bank deposit insurance of BiH.

(2) Where the funds referred to in paragraph (1) herein are not sufficient, the Agency may ensure resolution financing from other sources, such as loans, credits and other acceptable forms of support from banks and other third parties.

(3) The funds referred to in paragraph (1) and (2) herein may be used for bank resolution financing only if the shareholders and other creditors, by way of write-down, conversion, or another manner have participated in the loss absorption and capital increase in the amount of at least:

- a) 4% starting from 1 January 2017,
- b) 5% starting from 1 January 2018,
- c) 6% starting from 1 January 2019,
- d) 7% starting from 1 January 2020,
- e) 8% starting from 1 January 2021

of total liabilities, including the regulatory capital of the bank under resolution, calculated at the moment of taking resolution measures in line with the independent valuation referred to in Article 189 of this Law.

(4) Where the funds referred to in paragraph (1) and (2) herein are not sufficient or it is not possible to obtain them in a timely manner to finance the resolution, funds from extraordinary public financial support secured by the Federation may be used, provided that the Government has approved the use of funds of extraordinary public financial support and that the conditions determined in article 204 (6) have been met.

(5) If funds of extraordinary public financial support from paragraph (4) herein are used, the Agency shall submit to the Ministry of Finance a request for a no-objection on the provision of extraordinary public financial support which contains an overview of anticipated resolution tools and actions, including the explanation as well as the amounts, manner and deadline in which the financial support needs to be provided, bearing in mind the resolution procedure principles.

(6) Enclosed to the request referred to in paragraph (5) herein, the Agency shall submit the cost estimate of the payment of insured deposits of the Deposit Insurance Agency, as well as the independent valuation of bank's assets and liabilities referred to in Article 189 of this Law.

(7) Based on the no-objection of the Ministry of Finance, the Agency shall submit to the Government a proposal on providing extraordinary public financial support, outlining the overview of planned bank resolution tools and actions, including the explanation as well as the amounts, manner and deadline in which the financial support needs to be provided, by enclosing documents referred to in paragraph (5) herein.

(8) Based on the proposal referred to in paragraph (7) of this Article, the Government shall enact a decision on providing extraordinary public financial support and submit it without delay to the Agency and the Deposit Insurance Agency.

(9) Conditions and manner of providing extraordinary public financial support referred to in this Article shall be laid down in the memorandum of cooperation signed between the Agency and the Ministry of Finance.

Article 215

(Restrictions on other proceedings)

- (1) For a bank under resolution for which it was established that it meets the resolution requirements, bankruptcy proceedings may not be initiated except upon the initiative of the Agency.
- (2) In connection with paragraph (1) of this Article, the Agency shall be notified without delay of any petition for initiation of bankruptcy proceedings regardless of whether the bank is under resolution or a decision on resolution initiation has been adopted.
- (3) The petition referred to in paragraph (2) of this Article may be decided upon only if:
 - a) the Agency does not intend to take any resolution measures in connection with such bank;
 - b) the period of seven days from the day of petition submission has expired.
- (4) In the period of application of the bank resolution tools, the Agency may petition the competent court for a temporary ban on execution against assets of the bank under resolution, or termination of all court or administrative procedures against the bank.

SECTION B. BANK LIQUIDATION AND BANKRUPTCY

Article 216

(Initiation of voluntary liquidation proceedings)

- (1) The bank general meeting may adopt a decision on the termination of bank operation (voluntary liquidation).
- (2) The decision on voluntary liquidation of a bank may be adopted by the bank general meeting only when the bank has sufficient resources to settle all its liabilities.
- (3) The bank which has initiated voluntary liquidation proceedings may not change its activity by ceasing to perform banking activities and continuing to operate and, instead, it must complete the liquidation proceedings and delete itself from the register in accordance with the act governing business registration.
- (4) Before the adoption of the decision on voluntary bank liquidation, the supervisory board and management of the bank shall seek an opinion of the Agency on such matter.
- (5) The implementation of voluntary liquidation proceedings may be initiated only after obtaining a consent from the Agency.
- (6) The bank shall submit an application to the Agency for a prior consent to voluntary liquidation proceedings, containing:
 - a) a proposed liquidation plan, timeframe and stages of preparation of the bank for the termination of its activities;
 - b) proof that the assets of the bank are sufficient for the the bank to settle all its liabilities;
 - c) proposed appointments as liquidators and
 - d) other necessary information and data, in line with regulations of the Agency.
- (7) With the issuance of the Agency's consent to bank voluntary liquidation, the bank's operating licence shall cease to be valid.

Article 217

(Appointment of the liquidator)

- (1) The bank shall appoint one or several liquidators, proposed in the application for prior consent to voluntary liquidation proceedings, to which the Agency issued a consent.
- (2) Only persons who are independent from the bank and meet the requirements to be appointed as members of bank management may be appointed as liquidators.

Article 218

(Publication of decision on voluntary liquidation)

- (1) The liquidator shall notify the Agency of the decision on voluntary liquidation on the first business day after the day of its adoption.
- (2) The bank shall publish the decision on voluntary liquidation in the Official Gazette of the Federation of BiH, in one or several dailies available across the territory of BiH and on its web page.

Article 219

(Responsibilities of liquidator in voluntary liquidation)

- (1) The liquidator shall complete the activities that are in progress, collect claims, cash in the assets of the bank and settle the liabilities towards creditors.
- (2) The liquidator may enter into new activities only to the extent required by voluntary liquidation proceedings.
- (3) Notwithstanding paragraph (2) of this Article, the liquidator may not accept new monetary deposits or other repayable funds from the public.
- (4) If the bank liquidator determines that reasons for initiating bankruptcy proceedings against the bank under liquidation have been created, they shall promptly terminate the liquidation proceedings and petition the Agency for initiation of bankruptcy proceedings.
- (5) The liquidator shall report to the Agency on the implementation of liquidation proceedings in the manner and within the timeframe set by the Agency.

Article 220

(Implementation of other regulations in voluntary liquidation)

- (1) The provisions of the act governing liquidation proceedings and the provisions of the act governing the operation of companies relating to voluntary liquidation shall apply to voluntary bank liquidation proceedings, unless contrary to this Law.
- (2) The provisions of this Law shall apply accordingly to the operation of the bank against which voluntary bank liquidation proceedings is implemented.

Article 221

(Initiation of involuntary liquidation proceedings)

- (1) The Agency shall initiate involuntary liquidation proceedings against a bank in the following cases:
 - a) if it adopted a report of the external administrator with a proposal to revoke the operating licence and initiate involuntary bank liquidation proceedings;
 - b) if the bank is failing or likely to fail, provided that there are no reasons for initiating bankruptcy proceedings;
 - c) if the conditions for implementing voluntary liquidation proceedings have not been met.
 - d) on the basis of a report of the Agency that the conditions for initiating bank resolution have not been met.
- (2) The Agency may initiate involuntary bank liquidation proceedings in the following cases as well:
 - a) if it determines that the shareholders of the bank where the external administrator was introduced, failed to prepare the action plan referred to in Article 177 of this Law within the prescribed timeframe;
 - b) if the general meeting, convened upon a request of the external administrator, refuses to adopt a decision on bank capital increase, or fails to adopt a decision on merger or other similar decision;
 - c) if on the basis of a report of the external administrator it assesses that the external management cannot eliminate irregularities and illegalities in the bank's operation and improve the financial position, so that the bank would meet and maintain the amount of capital and regulatory capital adequacy ratio in line with this Law, and there are no reasons for initiating bankruptcy proceedings;
 - d) if during the term of office of an external administrator, based on a report of the external administrator, it assesses that the financial position has not improved so the bank does not meet conditions related to capital amount or the regulatory capital adequacy ratio in line with this Law, and there are no reasons for initiating bankruptcy proceedings.
- (3) At the initiation of involuntary liquidation proceedings, the Agency shall appoint the bank liquidator by a decision and establish the remuneration for his/her work which is payable by the bank.
- (4) Simultaneously with the initiation of involuntary liquidation proceedings and appointment of the liquidator, the Agency shall also adopt a decision on revoking the operating licence.

(5) On the day of appointment of the liquidator, all powers, competences and rights of the supervisory board, management and bank shareholders shall be cancelled.

(6) During the liquidation proceedings, the powers of the bank management, supervisory board and bank general meeting shall be transferred to the liquidator.

(7) The same person who performed the function of the external administrator in the bank may perform the function of the liquidator in such bank, provided that they have passed the professional exam for bankruptcy administrators.

Article 222

(Notification of involuntary liquidation proceedings)

(1) The decision on initiating bank liquidation proceedings and appointment, dismissal or extension of the term of office of the liquidator of the bank shall be delivered without delay to the liquidator and to the bank under liquidation, to the competent regulatory bodies in RS, and the Brčko District, the Central Bank and to the Deposit Insurance Agency, published in the Official Gazette of the Federation of BiH, one or several dailies available across the territory of BiH, as well as on the web page of the Agency and the bank, as well as entered in the bank records referred to in Article 20 of this Law and in the business register.

(2) The liquidator shall, within seven days from the day of the receipt of the letter of appointment, publish a notice in one or several dailies available across the territory of BiH that all creditors are obliged to report to the liquidator all their claims against the bank within 60 days from the day of issuance of the first notification.

(3) Within 30 days from the day of the first notice the liquidator shall publish the second notice to the creditors in one or several dailies available across the territory of BiH.

(4) All creditors shall report to the liquidator all their claims against the bank within 60 days from the day of the first notice.

Article 223

(Duties and powers of the liquidator)

(1) The liquidator shall:

a) act in accordance with law, regulations and orders of the Agency and shall be accountable to the Agency for the exercise of their powers and responsibilities;

b) represent and present the bank;

c) regularly and at least on a quarterly basis, as well as upon a request of the Agency, report on the implementation of the liquidation proceedings, or shall notify the Agency without delay of the fulfillment of conditions for the initiation of bank bankruptcy proceedings;

d) at the end of the term of office prepare and deliver to the Agency the final report on liquidation proceedings and its conclusion, with an explanation of measures taken.

(2) The liquidator of the bank shall have powers to:

a) sell part of or all assets of the bank;

b) sell part of or all assets and liabilities to a bank or another person authorised for conducting such activities;

c) sell or merge the bank in line with this Law;

d) cancel or unilaterally amend the agreements signed by the bank, including the suspension of interest accrual and change of interest rates, fees and maturities;

e) pay liabilities within available funds and proportionately if applicable;

f) liquidate the bank, and decide on the merits and settlement of the creditors' claims against the bank within such procedure.

(3) The liquidator shall obtain the Agency's consent before selling part of or all assets and liabilities or before selling or merging the bank.

(4) The sale and takeover of a part of or all assets and liabilities of the bank shall be conducted without the consent of depositors, other creditors and debtors of the bank.

(5) Offsetting bank assets and liabilities may be conducted only in line with the order of priority in the process of liquidation provided for by this Law.

(6) During the implementation of the plan of bank sale or merger, the liquidator shall deliver to the Agency a report on plan implementation at least on a quarterly basis.

(7) During the implementation of the plan of bank sale or merger, the Agency may, after obtaining an opinion of the liquidator, suspend such procedure and adopt a decision on the continuation of liquidation proceedings with other appropriate procedures in line with the provisions of this Law.

(8) With the adoption of the decision on initiating bank liquidation proceedings, all administrative and court proceedings in which the bank is a defendant shall be suspended until the liquidator adopts a decision on the settlement or recognition or non-recognition of the plaintiffs' claims, with enforcement proceedings against the bank being interrupted.

(9) The Agency shall prescribe the procedure for establishing the claims and distributing the assets, as well as establishing and settling the liabilities of the bank under liquidation.

Article 224

(Responsibilities of the liquidator)

The liquidator shall conduct the sale of parts of or all assets, sale of part of or all assets and liabilities to a bank or other person authorised for performing such activities, or sale or merger of the bank in line with this Law, so that:

- a) the maximum price is obtained in such sale or distribution, for the purpose of protecting the depositors and other creditors of the bank;
- b) level playing field is ensured for potential purchasers or merger partners and
- c) any type of discrimination during tendering and bid consideration is prevented.

Article 225

(Forced collection in liquidation proceedings)

(1) The liquidator shall be authorised to issue decisions ordering forced collection from all accounts of defaulting debtors of the bank under liquidation and/or guarantors of such debtors open with other banks seated in BiH, as well as freezing of all of their accounts until full settlement of these liabilities, in accordance with the law governing domestic payment operations, the law governing enforcement procedure and other laws.

(2) The decision referred to in paragraph (1) of this Article shall have the force of an enforceable decision and forced collection based on it shall be executed according to the order of priority defined by the provisions of the law on domestic payment operations governing settlement and forced collection from accounts, as well as the provisions of the law on enforcement procedure governing the scope and order of priority of monetary claims.

Article 226

(Pre-bankruptcy proceedings)

(1) When initiating involuntary liquidation proceedings as well as during liquidation proceedings, the Agency may, based on its own assessment, decide to initiate and manage or continue to manage liquidation proceedings even in a case when the amount of liabilities exceeds the value of assets of the bank.

(2) For the remaining portion of assets and liabilities, which may be impossible to liquidate within a reasonable period of time according to a discretionary decision of the Agency, upon the proposal of the liquidator, the Agency may petition the competent court for initiation of bankruptcy proceedings.

Article 227

(Order of priority)

(1) In liquidation and bankruptcy proceedings, liabilities shall be settled in line with the following order of priority:

- a) liabilities to secured creditors, up to the level of their security;
- b) bank debts related to loans given to the bank or other costs of the bank incurred during the external administrator process, resolution proceedings, bank liquidation proceedings and bankruptcy proceedings, in line with this Law;
- c) employee claims stemming from employment for the past 12 months up to the day of initiating liquidation proceedings, in the amount of the minimum gross wage calculated according to the General Collective Bargaining Agreement for the territory of the Federation, as well as claims of employees based on compensation for work injuries and members of families of an employee perished in work, which are paid out in full,
- d) insured deposits or claims of the Deposit Insurance Agency for the compensation of paid out deposits, up to the amount defined by the regulations governing bank deposit insurance; and the costs incurred in the process of payout of such deposits,
- e) other deposits and deposits excluded according to the regulations on bank deposit insurance;
- f) claims of other creditors who are not shareholders of the bank,
- g) claims of subordinated debt owners,
- h) claims of owners of preference shares and
- i) claims of holders of ordinary shares.

(2) In case of bank liquidation, the funds of public revenue accounts to which payments of public revenues are made to the benefit of BiH, the Brčko District, Republika Srpska, the Federation, cantons, municipalities, cities and funds, and from which allocation is made to the accounts of public revenue users are exempt from the liquidation estate.

(3) In the procedure referred to in paragraph (1) of this Article payments of any liabilities of the bank to the members of the supervisory board and management of the bank, audit committee, bank shareholders holding 5% or more voting rights or capital, related persons or related banks shall be suspended pending full settlement of liabilities to other creditors of the bank.

(4) Liabilities of the bank under liquidation shall be settled in line with the liquidation plan, which is an integral part of the liquidation balance sheet and financial statement prepared by the liquidator, and approved by the Agency.

(5) Third parties that act on behalf of individuals and legal persons referred to in paragraph (3) of this Article, as well as members of immediate family, blood relatives and in-laws of the persons referred to in that paragraph up to the third degree of kinship shall also not be entitled to payment until all other creditors of the bank are paid in full.

Article 228

(Application of other regulations in involuntary liquidation)

Provisions of the regulations governing liquidation proceedings and bankruptcy proceedings shall apply to the bank undergoing liquidation, unless stated otherwise in this Law.

Article 229

(Petition for initiation of bankruptcy proceedings)

(1) Only the Agency may petition for initiation of bankruptcy proceedings against a bank.

(2) The Agency shall petition for initiation of bankruptcy proceedings against a bank simultaneously with the revocation of its operating licence if the conditions for bank resolution have not been met and when the existence of one of the following causes has been established:

- a) if the bank's account has been frozen for more than two business days upon the order of a creditor in accordance with the law governing enforcement against cash funds;
- b) if the bank is insolvent or there are objective circumstances based on which it is determined that it would soon be insolvent or
- c) if the Agency determines that, despite the ordered supervision measures or measures taken by the external administrator, the bank still does not meet capital requirements in line with this Law, and if it

assesses that it will be unable to settle its due cash liabilities, while the conditions for liquidation have not been met.

(3) Exceptionally, if the resolution proceedings have been initiated against a bank, the Agency shall petition for initiation of bankruptcy proceedings in the following cases:

- a) when by the application of resolution tools the bank's assets and liabilities have been transferred, and the Agency assesses that the resolution objectives have been met with such transfer;
- b) when in the course of resolution proceedings it establishes that additional funds need to be provided for resolution financing, and such funds are not provided;
- c) when the Agency assesses that the resolution objectives can no longer be met.

(4) A bank shall be considered insolvent when the Agency determines, according to the regulations it adopts, that the value of the bank's liabilities exceeds the value of its assets.

(5) In the procedure of solvency assessment, the value of the bank's assets and liabilities shall be assessed in line with standards and procedures prescribed by the regulations of the Agency, with the value of assets and liabilities of the bank for the future period also including the realistic estimate of the amount of income and expenses of the bank for such period.

Article 230

(Application of other regulations in bankruptcy proceedings)

The provisions of the law governing bankruptcy proceedings shall apply to bank bankruptcy, unless provided otherwise by this Law.

Article 231

(Effects of the decision to petition for initiation of bankruptcy proceedings)

The decision of the Agency to petition for initiation of bankruptcy proceedings against a bank shall have the following effects:

- a) a temporary ban on the enforcement of collection against the accounts of the bank and against the accounts of the client according to the law governing enforcement against cash funds;
- b) a temporary ban on the bank effecting payments from any of its accounts for its own purposes;
- c) a temporary ban on the bank allowing withdrawals and transfers from its clients' accounts;
- d) a temporary ban on the bank providing payment operation services for its clients and
- e) a temporary ban on incoming payments into the accounts of the bank and accounts of its clients.

(2) Notwithstanding paragraph (1) of this Article:

- a) cash payments from cash resources of the bank may be effected with a consent of the Agency only if such payments are necessary in order to preserve the bank's assets;
- b) for the purpose of settling their liabilities towards the bank, the debtors, as well as the liquidator and the external administrator if appointed, may effect the following payments:
 - 1) cash payments to the bank,
 - 2) payments to a special account of the bank opened with another bank for these purposes;
 - 3) payments arising from the bank's liabilities as a participant in the clearing system in line with regulations governing the securities market shall be allowed, and the bank shall effect such payments under the conditions prescribed by the law governing the securities market.

(3) The bankruptcy administrator on behalf of the bank, and bankruptcy creditors shall be authorised to contest all outgoing payments, transfers and payment transactions effected contrary to the temporary bans provided for by this Article, after the publication of the decision to petition for initiation of bankruptcy proceedings against the bank.

Article 232

(Notification of petition for initiation of bankruptcy proceedings)

(1) The Agency shall deliver the decision on petitioning for initiation of bankruptcy proceedings against a bank, in which the date and hour of the decision adoption shall be stated, without delay in written or electronic format to the bank, to the competent regulatory authority in RS, and the Brčko District, the

Central Bank, the Deposit Insurance Agency, the Securities Commission, the Securities Register, the Insurance Supervision Agency of the Federation of Bosnia and Herzegovina.

(2) The Agency shall publish the decision on petitioning for initiation of bankruptcy proceedings against a bank in one or several dailies available across the territory of BiH and on its web page, stating the effects referred to in Article 231, paragraph (1) of this Law.

Article 233

(Continuation of work of the external administrator or liquidator)

(1) If the Agency adopted a decision on petitioning for initiation of bankruptcy proceedings against a bank in which an external administrator or a liquidator has been appointed, after the delivery of the notification they shall continue with their work and duties until the appointment of a bankruptcy administrator.

(2) If at the moment of adoption of the decision on petitioning for initiation of bankruptcy proceedings in that bank an external administrator has not been appointed, the Agency shall at the same time appoint an external administrator.

(3) After the delivery of the notification, the persons referred to in paragraphs (1) and (2) of this Article shall:

protect and maintain the bank's assets and

upon a request of the bankruptcy judge examine whether the bank's assets can cover the costs of bankruptcy proceedings.

Article 234

(Petitioning for initiation of bankruptcy proceedings)

(1) The Agency shall petition the competent court for initiation of bankruptcy proceedings not later than on the business day following the adoption of the Agency's decision on petitioning for initiation of bankruptcy proceedings against a bank.

(2) In the petition for initiation of bankruptcy proceedings the Agency shall state the facts and circumstances from which one of the causes for bankruptcy referred to in Article 229 of this Law arises.

(3) When the Agency petitions for initiation of bankruptcy proceedings the preliminary proceedings shall not be conducted.

(4) The bankruptcy judge shall, within 8 days from the day of the receipt of the petition for initiation of bankruptcy proceedings, schedule a hearing to discuss the conditions for initiation of bankruptcy proceedings.

(5) The bankruptcy judge shall, within 30 days from the day of petitioning for initiation of bankruptcy proceedings, issue a decision on initiation of bankruptcy proceedings or reject the petition for initiation of bankruptcy proceedings.

Article 235

(Appointment of the bankruptcy administrator)

A person who, apart from the conditions provided for by the law governing bankruptcy proceedings, has banking knowledge and experience shall be appointed bankruptcy administrator of the bank.

Article 236

(Order of priority in bankruptcy proceedings)

(1) In bank bankruptcy proceedings the liabilities of the bank shall be settled according to the order of priority and conditions in bank liquidation proceedings provided for in Article 227 of this Law.

(2) At the examination hearing the bankruptcy judge shall determine a list of recognised claims, order of priority and conditions for settlement and enter them in a table in line with the provisions of Article 227 of this Law.

(3) In the schedule of amounts and ranking of recognised claims, the table entry shall have an effect of a final judgement.

Article 237

(Termination and closing of bankruptcy proceedings)

The bankruptcy judge shall deliver to the Agency a decision on termination and closing of bankruptcy proceedings.

SECTION C. LIABILITY FOR DAMAGE

Article 238

(Liability for damage incurred)

- (1) A shareholder of the bank shall be liable for the bank's liabilities up to the level of his holding.
- (2) When resolution, liquidation or bankruptcy proceedings have been initiated against the bank, the bank shareholders, members the management and supervisory board and other legal persons or individuals, if they actually had direct or indirect material impact on the bank's operation or control over the bank, shall be liable, jointly and severally, for the liabilities of the bank in the following cases:
 - a) when the bank was used for fulfilling objectives that are contrary to the objectives of the bank as defined by law, or
 - b) when there was no differentiation between the assets of the bank and the assets of the persons listed above, or
 - c) when the bank operated with an intention to defraud the creditors or against the interests of the creditors, or
 - d) when the cause of the initiation of resolution, liquidation or bankruptcy proceedings was purposeful mismanagement or gross negligence in managing the bank.

Article 239

(Liability of the Bank)

- (1) In court proceedings, a bank may be pronounced liable severally or jointly with other banks or businesses for the liabilities of the bank or business that is insolvent or facing bankruptcy if there is evidence that the bank and the businesses are jointly managed.
- (2) Joint management may arise from an agreement between the bank and/or businesses or their enactments pointing to the existence of circumstances of such management or when the supervisory boards are mostly composed of the same persons or persons in a special relationship with the bank in line with Article 2 Item v) of this Law, or most shares are owned by the same persons.

CHAPTER IX – PENAL PROVISIONS

Article 240

(Infractions by the Bank)

- (1) A fine of KM 40 000.00 to KM 200 000.00 shall be imposed on a bank if it:
 - a) accepts cash deposits or other repayable funds or extends loans without the Agency's approval, contrary to Article 4, paragraph (4) of this Law;
 - b) continues to perform banking activities contrary to the ban referred to in Article 23, paragraph (3) of this Law;
 - c) fails to maintain the regulatory capital level in line with Article 24, paragraph (2) of this Law;
 - d) breaches the restrictions related to capital referred to in Article 26 of this Law;
 - e) fails to maintain the capital adequacy ratio in line with Article 27, paragraph (2) of this Law;
 - f) fails to put in place, implement or regularly review the strategy and procedures for on-going internal capital adequacy assessment in line with Article 27, paragraph (6) of this Law;
 - g) takes actions and activities of merger, acquisition or division of the bank without the Agency's consent and contrary to the provisions of Article 40, paragraph (1) of this Law;
 - h) fails to operate in line with the provisions of Article 74 of this Law;

- i) in outsourcing, acts contrary to Article 77 of this Law;
 - j) effects transactions with persons in a special relationship with the bank contrary to the provisions of Article 93 of this Law;
 - k) enters into investment sales agreements contrary to Article 96, paragraph (2) of this Law;
 - l) fails to conduct audit in line with Article 117 of this Law;
 - m) in the course of supervision fails to act in line with the provisions of Article 145 of this Law;
 - n) fails to establish and deliver the banking group data on a consolidated basis in line with Article 162, paragraph (4) of this Law;
 - p) fails to act in line with the early intervention measures referred to in Article 164 of this Law;
 - r) fails to accommodate a request of the Agency referred to in Article 166 of this Law.
- 2) A fine of KM 10 000.00 to KM 50 000.00 shall be imposed for an infraction on a bank if it:
- a) uses in its name words contrary to the provisions of Article 4, paragraph (3) of this Law;
 - b) acts contrary to the provisions referred to in Article 5 of this Law;
 - c) fails to deliver to the Agency the required documentation and adopts the statute or amendments to the statute contrary to the provisions of Article 9, paragraphs (3) and (4) of this Law;
 - d) acts without consent of the Agency in converting certain items into capital, as well as in increasing bank capital from external sources in line with Article 25, paragraph (3) of this Law and does not maintain capital buffers in the manner prescribed by the regulations of the Agency in line with Article 27, paragraph (5) of this law;
 - e) makes advance payment of its profits or dividend contrary to Article 28 of this Law;
 - f) acquires qualifying holdings in a legal entity that has qualifying holdings in the bank in line with Article 30, paragraph (2) of this Law;
 - g) acquires its own shares contrary to Article 32 of this Law;
 - h) fails to notify the Agency in line with Article 35 of this Law,
 - i) acts contrary to Article 37, paragraph (5) of this Law;
 - j) the bank's general meeting transfers its competences prescribed by this Law to another body of the bank contrary to Article 45, paragraph (3) of this Law
 - k) appoints members of the supervisory board contrary to the provisions of Article 49, paragraph (1) of this Law;
 - l) fails to notify the Agency within the prescribed period of the termination of term of office of the members of the supervisory board and management in line with Article 70, paragraph (8) of this Law;
 - m) in outsourcing, acts contrary to Article 76, paragraphs (1) and (3) of this Law;
 - n) fails to establish an adequate risk management system in line with Article 79, 80 and 81 of this Law;
 - o) fails to organise internal audit in line with Article 86 of this Law;
 - p) fails to establish the compliance function in line with Article 87 of this Law;
 - r) fails to establish the risk management function in line with Article 88 of this Law;
 - s) acts contrary to the provisions of Articles 89 and 90 of this Law on permissible exposure;
 - t) concludes a legal transaction without prior consent of the supervisory board contrary to Article 91 of this Law;
 - u) fails to notify the Agency on exceeding the largest permissible exposure in the manner prescribed by Article 92 of this Law;
 - v) invests without prior consent of the Agency referred to in Article 94, paragraph (1) of this Law;
 - z) acquires a holding in another legal person contrary to the provisions of Article 94, paragraphs (4) and (5) of this Law;
 - aa) total investment of the bank in fixed assets exceeds the restrictions referred to in Article 94, paragraph (6) of this Law;
 - bb) funds the sale of investment contrary to the provisions of Article 100 of this Law;
 - cc) acts contrary to the provisions of Article 107 of this Law regarding the retaining of documentation;
 - dd) fails to prescribe the procedures for treatment of dormant accounts in line with Article 109 of this Law;

- ee) fails to deliver to the Agency monthly statistical reports in line with Article 110, paragraph (8) of this law;
 - ff) fails to maintain business books and accounting records in line with Article 116 of this Law;
 - gg) fails to appoint an audit firm in line with Article 118 of this Law;
 - hh) fails to deliver reports to the Agency or fails to disclose financial information in line with Articles 124, 129 and 130 of this Law;
 - ii) upon the order of the Agency, fails to engage an audit firm for the purpose of conducting a special financial report audit in line with Article 128, paragraph (1) of this Law;
 - jj) fails to engage an audit firm to conduct an audit in the event of status change in line with Article 128, paragraphs (4) to (6) of this Law;
 - kk) fails to furnish the annual report on control function delivery in line with Article 131 of this Law;
 - ll) fails to prepare and deliver a recovery plan for the improvement of the bank's financial situation in line with Article 132 of this Law;
 - mm) the recovery plan does not contain all the elements prescribed by the regulation of the Agency based on Article 133 of this Law;
 - nn) fails to prepare a revised recovery plan in line with Article 134 of this Law;
 - oo) as a parent company, fails to comply with an order of the Agency in line with Article 135 of this Law;
 - pp) fails to comply with an order of the Agency referred to in Article 153 of this Law;
 - rr) establishes or acquires a subordinated company contrary to the provisions of Article 159 of this Law;
 - ss) fails to comply with an order of the Agency referred to in Article 160 of this Law;
 - tt) fails to invite the consultant to the meetings of the management, supervisory board and their bodies in line with Article 167, paragraph (9) of this Law;
 - uu) fails to enable access to the documentation referred to in Article 167, paragraph (11) of this Law;
 - vv) fails to cooperate or provide assistance to the Agency with regard to the preparation and updating of a resolution plan, thus acting contrary to Article 182, paragraph (4) of this Law;
 - zz) fails to cooperate with the Agency or furnish the information at the time of preparing the resolution plans in line with Article 182, paragraphs (5) and (6) of this Law;
 - aaa) fails to remove the impediments to resolvability within the given timeframe, thus acting contrary to Article 185 of this Law;
 - bbb) fails to notify the Agency when it deems that it meets any of the conditions referred to in Article 188, paragraph (1) of this Law;
 - ccc) fails to comply with a request of the Agency referred to in Article 194 of this Law;
 - ddd) fails to comply with the minimum capital requirements and eligible liabilities specified in Article 205 of this Law on an individual, consolidated or sub-consolidated basis;
 - eee) fails to develop a business reorganisation plan in line with Article 209 of this Law;
 - fff) fails to ensure that the agreement contains a provision stipulating that a liability arising from such contractual relationship may be subject to the write-down or conversion and that the creditor or other counterparties agree to reducing the principal and outstanding amounts, conversion or cancellation of that liability in case of implementation of the bail-in tool in line with Article 211 of this Law.
- (3) If the Agency finds in course of control that a repeated violation was committed within two years, the Agency may for the same repeated violation issue double the amount of the prescribed fine, under the condition that the level of total fines issued for repeated violations may not exceed the maximum fine prescribed in paragraph (1) of this Law.
- (4) For the infractions referred to in paragraph (1) of this Article the responsible person in the bank shall also be imposed a fine of KM 4 000.00 to KM 20 000.00.
- (5) For the infractions referred to in paragraph (2) of this Article the responsible person in the bank shall also be imposed a fine of KM 2 000.00 to KM 10 000.00.
- (6) For the infractions referred to in paragraph (1) of this Article the individual who committed the infraction in the bank shall be imposed a fine of KM 1 000.00 to KM 5 000.00.

(7) For the infractions referred to in paragraph (2) of this Article the individual who committed the infraction in the bank shall be imposed a fine of KM 600.00 to KM 3 000.00.

(8) All fines prescribed in this Article shall be paid to the Federation budget.

Article 241

(Infractions of banks headquartered in RS and the Brčko District)

(1) A fine of KM 10 000.00 to KM 50 000.00 shall be imposed on a bank headquartered in RS and the Brčko District if:

a) establish the organisational unit in the Federation without the permission of the Agency contrary to Article 15, paragraph (2) of this Law,

b) it makes changes that apply to branches and lower organisational units established in the Federation in accordance with Article 17, paragraph (3) of this Law without the prior consent of the Agency,

c) open a representative office without the consent of the Agency in accordance with Article 19, paragraph (1) of this law and does not act in accordance with Article 19, paragraph (8) of this Law,

d) organisational units not report to the Agency in accordance with Article 130, paragraph (4) of this Law and

e) the organisational unit, does not enable on-site inspection and does not cooperate with the authorised persons of the Agency in accordance with Article 145 of this Law.

(2) For the infractions referred to in paragraph (1) of this Article a fine shall be imposed on the responsible person from KM 2 000.00 to KM 10 000.00.

(3) Banks headquartered in RS and the Brčko District, and the responsible person of that bank shall be punished if its branch or lower organisational unit commits infractions of Article 240, paragraph (2), item cc) and Article 245 of this Law, a fine set out in these articles.

Article 242

(Other infractions of the management and supervisory board)

(1) A member of the bank management shall be fined for an infraction in the amount of KM 2 000.00 to KM 10 000.00 if such member:

a) fails to set up or implement an efficient and reliable governance system in line with Article 67 of this Law;

b) fails to notify without delay the supervisory board of the circumstances referred to in Article 68 of this Law;

c) fails to deliver a written ownership disclosure statement and data in line with Article 70, paragraphs (1) through (4) of this Law,

d) fails to deliver to the Agency reports and information in the manner and within the timeframe referred to in Article 130 of this Law;

e) being a current management member, fails to provide access to the bank's business documentation to the external administrator and fails to provide all clarification and additional reports on the bank's performance in line with Article 174, paragraphs (1) and (2) of this Law;

f) being a current management member, fails to provide access to the bank's business documentation to the special manager and fails to provide all clarification and additional reports on the bank's performance in line with Article 196, paragraph (9) of this Law.

(2) A member of the supervisory board shall be fined for an infraction in the amount of KM 2 000.00 to KM 10 000.00 if such member:

a) provided false and incorrect documentation or falsely presented data important for the performance of the function of a member of the supervisory board referred to in Article 53, paragraph (1), item a) of this Law;

b) fails to hold a meeting upon a request of the Agency in line with Article 54, paragraph (4) and if such member fails to act in line with Article 54, paragraph (5) of this Law;

c) fails to establish committees in line with Article 55 of this Law;

d) fails to perform duties in line with Article 56, paragraph (8), items a), b), c), e), and f) of this Law;

- e) fails to notify the Agency without delay of the arising circumstances referred to in Article 56, paragraph (8), items d) of this Law;
- f) participates in the consideration or approval of a legal transaction between himself/herself and the bank, or the bank and a person related to the them contrary to Article 56, paragraph (12) of this Law;
- g) committees of the supervisory board do not comply with Articles 57 through 62 of this Law or if they violate a regulation adopted based on this Law, in connection with the relevant remuneration policy in the bank;
- h) in line with Article 65, paragraphs (2) and (11) of this Law, fails to file with the Agency an application for issuance of prior consent to appointment of a management member;
- i) fails to adopt without delay a decision referred to in Article 69, paragraph (7) of this Law.

Article 243

(Infractions by other persons)

- (1) Another legal person shall be imposed a fine of KM 10 000.00 to KM 50 000.00 for an infraction if such person:
- a) uses the word “bank“, or a derivative thereof contrary to the provisions of Article 4, paragraph (2) of this Law;
 - b) collects deposits or other repayable funds from the public contrary to the ban referred to in Article 4, paragraph (4) of this Law;
 - c) another legal person (custodian) fails to disclose to the Agency the identity of clients for whose account it manages the bank’s shares in line with Article 25, paragraph (2) of this Law;
 - d) acquires shares of the bank in a manner contrary to the provisions of Article 29, paragraphs (1), (2) and (5) of this Law;
 - e) the person who acquired the bank’s shares by inheritance, legal succession or other acquisition independent from the will of the acquirer acts contrary to Article 36, paragraphs (2) and (3) of this Law;
 - f) fails to comply with an order of the Agency referred to in Article 37, paragraph (1) of this Law;
 - g) has their consent to acquisition of qualifying holdings cancelled by the Agency for the reasons prescribed in Article 38, paragraph (1), item a) and b) of this Law;
 - h) fails to comply with the provisions of Article 101, paragraph (1) and (2) of this Law;
 - i) fails to comply with the provisions related to the group recovery plan referred to in Article 135 of this Law;
 - j) a holding company establishes or acquires directly or indirectly ownership in a subordinated company contrary to the provisions of Article 160 of this Law;
 - k) fails to submit consolidated financial statements as the ultimate parent company to the Agency in line with Article 161 of this Law;
 - l) fails to establish and deliver, as the ultimate parent company, data for the banking group on a consolidated basis in line with Article 162, paragraph (4) of this Law;
 - m) fails to act in line with the measures referred to in Article 163 of this Law;
- (2) For the infractions referred to in paragraph (1) of this Article the responsible person in the legal person shall be imposed a fine of KM 2 000.00 to KM 10 000.00.
- (3) For the infractions referred to in paragraph (1) Items d), e) f) and g) of this Article an individual shall be imposed a fine of KM 1 000.00 to KM 5 000.00.
- (4) A consultant shall be imposed a fine of KM 2 000.00 to KM 5 000.00 for an infraction if they fail to deliver to the Agency a report on the bank’s financial situation in line with Article 168, paragraph (1) of this Law.
- (5) An external administrator shall be imposed a fine of KM 2 000.00 to KM 5 000.00 for an infraction if they fail to comply with a decision of the Agency referred to in Article 170 of this Law or fails to comply with orders and instructions of the Agency referred to in Article 177 of this Law.
- (6) A liquidator shall be imposed a fine of KM 2 000.00 to KM 5 000.00 if they settle a liability contrary to the provisions of Article 227 of this Law.

(7) An independent valuer shall be imposed a fine of KM 2 000.00 to KM 5 000.00 if they fail to conduct a valuation in the manner and within the timeframe prescribed by Articles 189 and 212 of this Law.

(8) A special manager shall be imposed a fine of KM 2 000.00 to KM 5 000.00 for an infraction if they fail to deliver to the Agency a report on the bank's performance and financial position, including the actions they have taken to discharge their duties in line with Article 196, paragraph (13) of this Law.

Article 244

(Infractions by an audit firm or a certified auditor)

(1) An audit firm shall be imposed a fine of KM 10 000.00 to KM 50 000.00 for an infraction if they:

a) fail to audit financial statements or prepare an audit report in line with Article 117, paragraph (4) of this Law;

b) fail to deliver to the Agency an audit plan within the timeframe and in the manner prescribed in Article 118, paragraph (5) of this Law;

c) conduct an audit contrary to Article 119 of this Law;

d) fail to notify the Agency of and explain to the Agency the termination of agreement with the bank in line with Article 120 of this Law;

e) fail to comply with the requirements of Article 121, paragraphs (1), (2) or (3) of this Law;

f) fail to conduct an audit for the purposes of the Agency in line with Article 123 of this Law and regulations adopted based on paragraph (4) of that Article.

(2) The responsible person of a legal person shall be imposed a fine for an infraction in the amount of KM 2 000.00 to KM 10 000.00 if they commit an infraction referred to in paragraph (1) of this Article.

(3) A certified auditor shall be imposed a fine for infraction in the amount of KM 1 000.00 to KM 5 000.00 if they commit the infraction referred to in paragraph (1) of this Article.

Article 245

(Infractions with regard to the obligation of banking secrecy)

(1) A bank that is breach of the provisions referred to in Article 102, paragraphs (1) and (2), Article 103, paragraphs (1) and (2) and Article 104, paragraphs (2) and (4) of this Law on the obligation of banking secrecy shall be imposed a fine for an infraction in the amount of KM 40 000.00 to KM 200 000.00.

(2) For the infraction referred to in paragraph (1) of this Article, the responsible person from the bank management shall be imposed a fine in the amount of KM 4 000.00 to KM 20 000.00.

(3) For the infraction referred to in Article 102, paragraph (1), Article 103, paragraph (1) and Article 104, paragraph (4) of this Law a legal person shall be imposed a fine in the amount of KM 20 000.00 to KM 100 000.00, as well as the responsible person in that legal person with a fine in the amount of KM 4 000.00 to KM 20 000.00.

(4) For the infraction referred to in Article referred to in Article 102, paragraph (1), Article 103, paragraph (1) and Article 104, paragraph (4) of this Law an individual shall be imposed a fine in the amount of KM 2 000.00 to KM 10 000.00.

(5) For the infraction referred to in Article 105 of this Law a legal person shall be imposed a fine if in breach of the provisions of this Law on confidentiality requirements in the amount of KM 40 000.00 to KM 200 000.00.

(6) For the infraction referred to in paragraph (5) of this Article the responsible person in a legal person referred to in Article 103, paragraph (1) of this Law shall be imposed a fine in the amount of KM 4 000.00 to KM 20 000.00.

(7) An individual referred to in Article 105 of this Law shall be imposed a fine for an infraction if in breach of the provisions of this Law on confidentiality requirements in the amount of KM 2 000.00 to KM 10 000.00.

Article 246

(Infractions by shareholders)

(1) A shareholder of a bank that is a legal person shall be imposed a fine for an infraction if such shareholder acquires shares of the bank or acts contrary to the provisions of Article 29, paragraphs (1), (2) and (5) of this Law or if such shareholder fails to comply with an order of the Agency referred to in Article 37, paragraphs (1) and (2) of this Law in the amount of KM 10 000.00 to KM 50 000.00.

(2) The responsible person of a legal person committing an infraction referred to in paragraph (1) of this Article shall be imposed a fine of KM 1 000.00 to KM 5 000.00.

(3) A shareholder of a bank that is an individual shall be imposed a fine for an infraction if they acquire shares of the bank in a manner contrary to the provisions of Article 29, paragraphs (1), (2) and (5) of this Law or if they fail to comply with an order of the Agency referred to in Article 37, paragraphs (1) and (2) of this Law in the amount of KM 1 000.00 to KM 5 000.00.

Article 247

(Infraction proceedings)

(1) Infraction proceedings shall be initiated and conducted in line with the regulations governing infraction proceedings.

(2) Establishing the liability and imposing measures in line with this Law shall not preclude the establishment of liability and imposition of measures provided for by other acts.

(3) If the bank does not execute its obligations and tasks in its operations, and if it does not undertake measures and actions defined by regulations that govern anti-money laundering and terrorist activity financing, the Agency shall undertake measures, issue violation orders or initiate a proceeding in accordance with those regulations.

CHAPTER X – TRANSITIONAL AND FINAL PROVISIONS

Article 248

(Adoption and Publication of regulations)

(1) The Agency shall harmonise its organisation and adopt regulations provided for by this Law within six months from the day this Law enters into force, except for the regulations of Articles 182, 184, 187, 189, 197, 198, 200, 202, 204, 205, 209, 212, 213 of this Law, which it shall adopt within nine months from the day this Law enters into force.

(2) The regulations referred to in paragraph (1) of this Article shall be published in the Official Gazette of the Federation of BiH

Article 249

(Application of existing regulations)

Until the adoption of the regulations referred to in Article 248 of this Law, the regulations that were in force as of the day this Law entered into force and that are not contrary to this Law shall be implemented.

Article 250

(Harmonisation of banks' operations)

(1) The banks shall harmonise their operation, organisation and general regulations with the provisions of this Law and regulations of the Agency within nine months from the day this Law enters into force, except for the provisions of Article 2, item hh), which regulates the ratio of supplementary and core capital, and with which banks must harmonise within 18 months of this Law entering into force.

(2) The banks shall deliver to the Agency the recovery plans referred to in Article 132 and 135 of this Law within six months from the day Agency regulations referred to in Articles 133, 135, and 136, which regulate the contents of the recovery plan, enter into force.

Article 251

(Preparation of resolution plans)

(1) The Agency shall prepare the resolution plans referred to in Article 182 of this Law for the banks that as of the day this Law enters into force have an operating licence of the Agency within 12 months, and banking group resolution from Article 183 of this Law at latest within 18 months from the day the Agency regulation from Article 182 of this Law enters into force, which prescribes the data and information delivered by banks for the purpose of drafting the resolution plan.

(2) The Agency may initiate a resolution procedure and apply resolution instruments in accordance with this Law regardless of whether the resolution plans from paragraph (1) of this Article and recovery plans from article 132 and 135 of this Law were made.

Article 252

(Proceedings in progress)

Proceedings for the issuance of operating licences and other consents of the Agency that are initiated but not completed up to the day this Law enters into force, shall be concluded in line with the provisions of the Banking Law (Official Gazette of the Federation of BiH, Nos. 39/98, 32/00, 48/01, 27/02, 41/02, 58/02, 13/03, 19/03, 28/03 and 66/13).

Article 253

(Repeal of the Law)

On the day this Law enters into force, the Banking Law (Official Gazette of the Federation of BiH, Nos. 39/98, 32/00, 48/01, 27/02, 41/02, 58/02, 13/03, 19/03, 28/03 and 66/13) shall cease to have effect.

Article 254

(Entry into force)

This Law shall enter into force on the eighth day from the day of its publication in the Official Gazette of the Federation of BiH.

Chairman
of the House of Representatives
of the Parliament of the Federation of BiH
Edin Mušić

Chairwoman
of the House of Peoples
of the Parliament of the Federation of BiH
Lidija Bradara