

# LAW ON BANKS

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## I - GENERAL PROVISIONS

### Article 1

This Law regulates the establishment, business operation, governance, supervision and termination of legal persons who engage in the business of receiving money deposits and extending credits, as well as other operations in accordance with this Law (hereinafter: bank) in the Federation of Bosnia and Herzegovina (hereinafter: the Federation).

A bank shall be established and perform business operation as a joint stock company.

### Article 2

No one shall engage in the business of receiving money deposits and extending credits for its own account in the Federation without a banking license issued by the Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter: the Agency) pursuant to this Law.

Micro-credits which are approved by the micro-credit non-deposit and non-profit institutions are not included in the loans from the paragraph 1 of this Article.

No one shall use the word "bank" or derivatives of the word "bank" in respect to a business, product or service without a banking license or authorization issued by the Agency pursuant to this Law, unless such usage is established or recognized by law or international agreement, or unless it shall be clear from the context in which the word "bank" is used that it does not concern banking activities.

No bank shall use any words in its name that, in the opinion of the Agency, may mislead the public because of association with any state, federal or cantonal institution.

### Article 2a

Terms used in this Law have the following meanings:

#### **Supplementary**

**Capital of a bank**– amount of permanent preferred cumulative shares, general reserves for loan losses for assets classified as good assets, subordinated debts up to 50% of core capital, hybrid capital instruments up to 50% of core capital and such other items as regulated by the Agency. Supplementary capital cannot exceed 100% of core capital.

**Capital of a bank** - sum of core capital and supplementary capital.

- Supervisory Board** - body that is responsible for the supervision of the business operations of a bank, along with other authorities as specified under this Law. The Supervisory Board and its Chairman shall be duly elected at the General Meeting of Shareholders and must act in accordance with this Law.
- Dormant Account** - an account where there has been no accountholder activity, either deposit to or withdrawal from the account by the accountholder, for a period of one year from the date of the last accountholder activity, and in the case of Time Deposits, one year beyond the maturity date.
- Net Capital of a bank** - sum of the bank's core and supplementary capital decreased for deductible items as defined and regulated by the Agency.
- Core Capital of a bank** - is composed of all cash and tangible assets given for all common shares, preferred non-accumulative shares as well as general legal reserves, retained profits and certain other reserves all as regulated by the Banking Agency.
- Related Banks** – two or more Banks that share two or more of the same members of the Supervisory Board, or common ownership by the same legal entity or individual of at least 10% of each of their outstanding Common Shares.
- Related Entities** - two or more legal entities and/or natural persons who individually or jointly have:
- direct or indirect control of a bank's Supervisory Board, Management, or a Significant Ownership Interest, or
  - by mutual agreement act in concert to create a Significant Ownership Interest in order to affect the operations of a bank.
- Preferred Shares** - those shares that pay a fixed dividend which are issued without voting rights and are permanently outstanding unless converted to Common Shares. Preferred Shares may only be converted to Common Shares upon the prior approval by the Agency and the subsequent approval by the shareholders. Preferred shareholders have a claim to the assets ahead of common shareholders in the event of liquidation.
- Subsidiary** - any legal entity for which a Bank holds the equivalent of 50% or more of the total voting shares, which permits the bank to exercise control over the management and policies of that legal entity. If the Subsidiary is a Bank, then the Subsidiary Bank must independently meet all requirements of this Law.

**Paid in Share****Capital -**

the amount of cash paid by the shareholders for all Common or Preferred Shares.

**Management -**

Director, Deputy Director and Executive Directors appointed by the Supervisory Board to direct the business operations of a bank and must act in accordance with this Law.

**Participation****Interest -**

any shareholder's ownership participation as determined in a contract duly registered with the relevant institutions that provide for contribution of money or other property which represents a proportional interest in managing rights and rights to receive profit from that legal entity's operations.

**Significant**

**Ownership Interest** - any legal entity or natural person who owns at least 10% of the aggregate voting rights of another legal entity or bank.

Article 3

The Agency will not issue a license to any legal person who, designed to entice others to make payments, in exchange for the chance to receive financial or other gains resulting from a progressive increase (geometric or otherwise) in the number of persons making such payments.

The Agency shall be empowered to start the procedure with the authorized court of seizing the assets, books and records of any person who conduct operation described in Paragraph 1 and to liquidate the business of such person.

Article 4

Banks with headquarters outside the Federation may be authorized by the Agency to establish representative offices in the Federation.

The request for approval to open a representative office needs to include the following:

1. information on the name, legal status and headquarters of the bank
2. the bank's Charter
3. information on the financial operations of the bank
4. document on the establishment of the representative office
5. name and headquarters of the representative office
6. activities of the representative office
7. program of representative office's operations
8. information on the senior employees of the representative office
9. authorization of the person responsible for the activities and representation of the representative office
10. certified statement from the bank that confirms the bank's willingness to take over all the liabilities resulting from the operation of the representative office.

In the context of this Law, a representative office is an organizational part of the bank where banking business is not conducted. Presentations, collection and provision of data are the operations of a representative office.

A decision regarding the issuance of authorization according to the request from this Article paragraph 2 the Agency shall issue in 60 days from the day that the request was received.

#### Article 5

A bank with headquarters outside the Federation shall be permitted to receive money deposits and extend credits for its own account in the Federation through a branch office authorized by the Agency pursuant to Articles 36 and 37 of this Law.

In its request for issuance of authorization to open a branch office, the bank needs to provide a certified statement that confirms the bank's willingness to provide guarantees, with all of its assets for the liabilities created in the operation of the bank's branch office.

In the context of this Law, a bank's branch office is a business unit of the bank with legal authorizations, as defined in the bank's charter.

#### Article 6

In order for the Agency to cooperate with the Central Bank of Bosnia and Herzegovina (hereinafter: the Central Bank), and with other agencies responsible for the licensing and supervision of banks, with respect to the domestic activities of banks licensed outside the Federation and the activities of domestic banks outside the Federation, the Agency shall be authorized to provide information to the Central Bank and such other agencies responsible for licensing and supervision of banks with headquarters outside the Federation.

#### Article 6a

Banks may be established by independent bank associations as non-profit voluntary associations.

Bank association's charter must ensure that banks cannot sign any contract with other banks or associations that limits the principle of the free market and transparent competition in banking business.

## II - LICENSING AND AUTHORIZATION

#### Article 7

Banking licenses shall be applied for in writing to the Agency by the founders and shall be accompanied by the following information and documents:

1. founding contract signed by all founders, draft of Charter, and other founding documents, as directed by the Agency;
2. the qualifications and experience of the Supervisory Board and Management of the proposed bank;

3. the amounts of capital stock and other forms of bank capital;
4. a business plan for the proposed bank, setting out inter alia the types of activities envisaged for and the structural organization of the proposed bank;
5. a list of owners of the bank.

#### Article 8

Within 60 days from the date of receipt of an application for a banking license, pursuant to Article 7 under this Law, the Agency shall finalize its decision.

Objections to the Decision from Paragraph 1 of this Article can be submitted to the Director of the Agency within 8 days from the date when the Decision was made.

#### Article 9

The banking license is a condition for registration at the Court Register.

The Agency shall grant a banking license if, and only if, an amount of the bank's capital stock from Article 20 of this Law has been paid in and if it is confident that:

1. the bank will comply with the provisions of this Law and projections for the future financial condition of the bank are documented;
2. the qualifications and experience of the Supervisory Board and Management of the bank will be appropriate for the banking activities that the bank will be licensed to engage;
3. all holders of Significant Ownership Interest are of sufficient financial capability, and suitable business background;

In the case of an applicant that is a legal entity, the criteria of Paragraph 2, Items 2 and 3 of this Article shall also apply to any Management official and persons with Significant Ownership Interest.

In the context of this law, members of the Supervisory Board and Management are employees who have special responsibilities and authorities in accordance to the charter of the bank.

#### Article 10

Licenses concerning a founding of a subsidiary of a bank whose headquarters are outside the Federation shall be granted only if that bank has a banking license issued by the institution that is in charge of issuing licenses and supervision of this bank.

(Paragraph 2 was deleted).

#### Article 11

Banking licenses pursuant to Article 10 of this Law shall be granted only following consultations on the granting of a banking license between the Agency and the authorities that supervise the banking activities of the founder bank concerned, and only following a finding by the Agency that the founder bank is adequately supervised.

#### Article 12

The Agency shall also refuse both a banking license and an authorization if the laws or regulations referring to banks' headquarters outside the Federation prevent or make it difficult to exercise effectively its supervisory functions.

The Agency shall require banks to provide it with the information required for monitoring of compliance with the conditions referred to in Paragraph 1 of this Article.

#### Article 13

A bank obtains the status of a legal entity upon entry into the Court Registry.

An application for registration of a founding of the bank in court register shall be submitted within 30 days starting from the date when the Agency issues a banking license.

Organizational subsidiaries or branches of the bank have to be entered into the Court Registry, in accordance with the provisions on court registration of business components of legal entities that have authorities in the legal system.

#### Article 14

Banking licenses shall be granted for an indefinite period of time and shall not be transferable.

The banking license of each bank shall specify the banking activities that such bank shall be authorized to engage in.

All banks licensed by the Agency shall be required to meet the membership criteria for deposit insurance in order to maintain their banking license.

#### Article 15

(Paragraph 1 was deleted).

Branches of foreign banks have the status of legal entities and must obtain an authorization.

#### Article 16

A separate register shall be kept by the Agency and it shall record for each registered bank the name, headquarter and branch office addresses and applicable documents specified under Paragraph 2 of Article 28 of this Law.

Entries and other information concerning former banks whose banking licenses have been revoked shall be removed from the separate register.

The Agency can publish data from the separate register of banks.

#### Article 17

The Agency can, by its decision, revoke a license or an authorization in the following cases:

1. upon a request of the bank pursuant to Article 18 of this Law;
2. following an infraction pursuant to Article 65 of this Law;

3. following the report of a provisional administrator pursuant to Article 58 Paragraph 2, Item 1 of this Law;
4. the license or the authorization has been obtained on the ground of false or fraudulent statements or other material irregularities that occurred in connection with the license application;
5. the bank has not submitted an application for registration in the court register within thirty days after the date that the banking license took effect, or has not begun to engage in banking activities within 90 days after its registration in the court register, or has ceased for more than 6 months to engage in the business of receiving money deposits or other repayable funds from the public or extending credits for its own account;
6. a merger, acquisition or division of the bank has occurred;
7. the bank no longer possesses the minimum amount of capital and reserves required by regulation of the Agency; and
8. the owner or owners of the bank have decided to liquidate the bank, or the bank has ceased to exist as a legal entity.
9. failure to meet membership for deposit insurance.

Objections to the Decision from Paragraph 1 of this Article can be submitted to the Director of the Agency within 8 days from the date when the Decision was made.

The decision from previous Paragraph of this Article shall be communicated in writing by the Agency to the bank concerned one day after the decision has been made.

#### Article 18

A bank can request the Agency in writing to revoke its banking license.

Within 60 days after its receipt of the request from Paragraph 1 of this Article, the Agency shall decide on the request and inform the bank of its decision.

Objections to the Decision from Paragraph 2 of this Article can be submitted to the Director of the Agency within 8 days from the date when the Decision was made.

#### Article 19

The Agency's decision from Article 17 of this Law determines the date when the banking license or the authorization will be revoked.

The decision to revoke a banking license or the authorization shall immediately be published in the "Official Gazette of the Federation of Bosnia and Herzegovina" and in one newspaper of general circulation in the Federation and a newspaper available in the Republika Srpska and Brcko District.

The Agency must additionally inform the Central Bank of Bosnia and Herzegovina and the Federation Deposit Insurance Agency or its successor of any actions described in Article 17 of this Law.

Starting on the date that the revocation of a banking license or an authorization takes effect, as determined by the decision in Article 17 of this Law, the former bank shall be prohibited from engaging in any of the banking activities specified in Article 39 of this

Law, and shall within 90 days thereafter liquidate its assets, terminate its current deposit agreements and discharge its liabilities.

During conducting its affairs as described in Paragraph 4 of this Article, the former bank shall otherwise continue to be subject to the provisions of this Law as if it were licensed or authorized.

### III - CAPITAL AND OWNERSHIP OF A BANK

#### Article 20

The minimum amounts of share capital in cash of the bank and the lowest amount of net capital which the bank must keep up shall not be less than the equivalent of 15.000.000 (fifteen million) Konvertible Marks (hereinafter: KM).

No bank shall decrease its capital or deteriorate the structure of its capital by repurchasing shares or distributing reserve assets without prior written authorization from the Agency.

Paid in Share Capital cannot be treated as such if the funds originate from:

- loan funds granted by the bank into whose capital the payment is being made;
- loan funds that another bank granted for some other purposes;
- loan funds, where the bank receiving capital is a guarantor.

If a connection is established between a loan user or its related entity and a loan granted and payment made to the bank's Paid in Share Capital or if a connection is made between a payment to the Paid in Share Capital and a loan granted, then such a payment to the bank's shareholders' capital has no legal effect whether payments were made on the same or a different day.

The Agency has a right to review cash flows in a bank, loan user and its related entity. Also, the Agency holds a discretionary right to decide whether payments to the Paid in Share Capital were performed in accordance with the Law and, in a case of Law violations, to deny such payment and exclude them from the Paid in Share Capital.

Provisions of this article apply to branches of foreign banks.

#### Article 21

No physical or legal person, alone or acting in concert with one or more other persons, may acquire significant voting rights in a bank, or increase the amount of his ownership of the bank's voting shares or capital in such a way that the thresholds of 10%, 33%, 50% and 66.7% are reached or exceeded without obtaining the approval from the Agency.

To obtain authorization specified under Paragraph 1 of this Article, a person must submit to the Agency a request and information specified under the regulations of the Agency.



No such gain or increase in significant voting rights in the bank, as described in Paragraph 1 of this Article, shall have legal effect without such authorization issued by the Agency.

The Agency shall respond to the request specified under Paragraph 2 of this Article within 60 days when the request was received.

Neither a political party nor a related legal entity of a political party can be a bank shareholder.

#### Article 22

No bank shall, directly or indirectly, without prior written authorization of the Agency:

1. hold a Significant Ownership Interest in a legal entity or indirectly in a subsidiary of that legal entity that exceeds 5% of the bank's Core Capital, or
2. hold the aggregate net value of all Participation Interests of the bank in other legal entities and in subsidiaries of those legal entities to exceed the equivalent of 20% of the bank's Core Capital.

A bank cannot directly or indirectly have a Participation Interest in a legal entity that exceeds 15% of the bank's Core Capital, and the Participation Interest in a non-financial entity the Participation Interest cannot exceed 10% of its Core Capital nor can the Participation Interest exceed 49% of ownership of the non-financial legal entity.

Total amount of all Participation Interests of a bank in other legal entities may not exceed 50% of its Core Capital, and total amount of all Participation Interests in other non-financial legal entities may not exceed 25% of the bank's Core Capital.

Loans granted by the bank to legal entities that the bank has investments in shall be considered as investments for the limitations under this Article.

Neither a bank nor a Subsidiary may invest in any legal entity that is primarily engaged in the business of armaments, gambling, nor the selling or consuming of alcohol on its premises, nor make a donation or loan to any political party. In addition, the Agency may, by regulation or decision, determine additional restrictions in investments or donations.

#### Article 23

The Agency may refuse authorization to acquire or increase an Ownership Interest in a bank upon any of the following grounds:

1. bad financial condition of the applicant;
2. lack of competence, experience, or trustworthiness of any of the applicants, such that the interests of the bank or its depositors could be threatened;
3. granting such authorization would lead to breach of requirements of Article 40 of this Law; or
4. the applicant submitted unreliable information or information not complying with the requirements of Paragraph 1 to 3 of this Article or regulation of the

Agency, or refused to submit information required by the Agency to make a decision on the application.

#### Article 24

In the case of an applicant from Article 21, Paragraph 2 of this Law that is a legal entity, the criteria in Article 23 of this law shall also apply to every management official or holder of significant voting rights in this legal entity

#### Article 25

The Agency, upon prior application and in writing may allow that on these institutions requirements and limits described in Articles 21-24 of this law may not apply in the case of acquisition of non-voting shares in a bank by official multilateral lending institutions or regional development institutions.

#### Article 26

Status changes in a bank, mergers, acquisitions or divisions of a bank shall require the prior written authorization of the Agency.

To obtain authorization for a status change, the bank must submit to the Agency an analysis of the economic justification and a plan of operation of the resulting bank or banks, in accordance with the Agency's regulations.

Status changes that would be inconsistent with the provisions of Paragraphs 1 and 2 of this Article shall not have any legal effect.

#### Article 27

The Agency may refuse authorization for the status change of a bank on any of the following grounds:

1. any resulting bank would fail to meet the minimum capital requirement established by the Agency;
2. lack of competence and experience of Supervisory Board and Management of any resulting bank, such that the interests of the bank or its depositors could be threatened;
3. the applicant submitted unreliable information or information not complying with the requirements established by the Agency's regulation, or refused to submit information required by the Agency to make a decision on the application.

Where close links exist between the bank and other natural or legal persons, the Agency shall grant such authorization only if those links do not prevent the effective exercise of its supervisory functions.

#### Article 28

Bank's charter must specify bank's corporate name and address; its purposes; the jurisdiction and authority of its bodies, as well as the amount of its share and other kind of capital, the classes, numbers and nominal values of its shares, and the voting rights attaching to its shares, process of issuance of general acts and other significant questions related to the bank's business.

The Bank shall submit to the Agency a duly certified copy of its charter, and a list of the officials of the bank who are currently authorized contractually to obligate the bank, together with their specimen signatures and a description of the limits of their authority.

The Agency gives its approval to the bank's charter.

### IIIa - MANAGEMENT OF BANK

#### Article 29

Bodies of the bank are:

1. General Meeting of Shareholders;
2. Supervisory Board;
3. Management.

#### **1. General Meeting of Shareholders**

##### Article 29a

The General Meeting of Shareholders of the bank shall be composed of shareholders.

The General Meeting of Shareholders shall normally be held in the place of the bank's headquarter.

The General Meeting of Shareholders shall be chaired by its Chairman, who shall be elected at the beginning of the General Meeting of Shareholders session.

Upon proposal of the Chairman, General Meeting of Shareholders shall appoint a person in charge of the minutes, two shareholders who certify the minutes and appoint members of the General Meeting of Shareholders Voting Committee.

Chairman and members of Supervisory Board, and members of Management shall be present during General Meeting of Shareholders session.

Members of Supervisory Board in a bank consisting of five shareholders or less are not obliged to be present at General Meeting of Shareholders.

In a bank with a single shareholder the authorities of the General Meeting will be carried out by the shareholder.

##### Article 29b

A General Meeting of Shareholders shall be held at least once a year.

Supervisory Board, except for the cases otherwise provided by this Law, shall convene General Meeting of Shareholders.

Shareholder who was placed on the list of shareholders at the Registry 45 days before the date of the General Meeting of Shareholders session shall have voting rights in the General Meeting of Shareholders.

Bank shall cover expenses of the General Meeting of Shareholders session.

### **1.1 Convening the General Meeting of Shareholders**

#### Article 29c

Notification of the agenda, place, date and time of the General Meeting of Shareholders session shall be published in at least one of the daily newspapers published within the Federation, no later than 30 days before the date determined for the General Meeting of Shareholders session.

If the General Meeting of Shareholders session was convened out of headquarter of the bank, notification provided by Paragraph 1 of this Article shall within the same time period be sent to each of the shareholders by registered mail, fax or electronic mail, to the address from list of shareholders provided by Article 29b, Paragraph 3 of this Law.

### **1.2 Convening an Emergency General Meeting of the Shareholders**

#### Article 29d.

A majority of members of the Supervisory Board may vote to hold an Emergency General Meeting of the Shareholders and may vote to hold this Emergency General Meeting of the Shareholders in less than the 30 days required in Paragraph 1, Article 29c of this Law. However, every shareholder must be notified of the emergency General Meeting of the Shareholders, including its purpose and the proposed Agenda in the manner provided in Article 29c. The Emergency General Meeting of the Shareholders may only be held if shareholders holding an aggregate total of 75% of the outstanding shares are represented and are available to vote. Further, any action taken at the Emergency General Meeting of the Shareholders must be approved by two thirds of the number of shares represented.

### **1.3 Decision Making**

#### Article 29e

Shareholder or group of shareholders with at least 5% of the total number of shares with voting rights, shall have right to propose in writing amendments to the agenda and the proposal of the decisions of the General Meeting of Shareholders no later than eight days from the day of publication of notification provided by Article 29c, Paragraph 1 of this Law.

Supervisory Board shall publish notification on shareholders' proposal provided by Paragraph 1 of this Article in the same manner as notification on convening the General Meeting of Shareholders as provided by Article 29c, Paragraph 1 of this Law.

Supervisory Board shall not publish the proposal provided by Paragraph 1 of this Article if proposal is:

1. illegal or contrary to provisions of the charter of bank;
2. based on inaccurate and incomplete data or containing such a data;
3. the same proposal was discussed at the General Meeting of Shareholders at least two times in the last 5 years and was not supported by other shareholders with more than 5 % of the total number of shares with voting rights;

4. person who gave proposal announced that he/she will not be present at the General Meeting of Shareholders.

Costs of publication of individual proposals provided by Paragraph 1 of this Article that contain up to 100 words shall be covered by bank, and for longer proposals, by the person who gave the proposal.

#### Article 29f

Request for convening the General Meeting of Shareholders may be submitted by:

1. shareholder or group of shareholders with more than 10% of the total number of shares with voting rights;
2. two members of the Supervisory Board;
3. Audit Board.

Request for convening the General Meeting of Shareholders, with proposal on its agenda, shall be submitted to the Supervisory Board in written form.

If Supervisory Board, within 45 days from the day the request was submitted, fails to publish notification on convening the General Meeting of Shareholders session in a manner provided by Article 29c of this Law, person who submitted request is authorized directly to convene the General Meeting of Shareholders session in the same manner and shall inform the Agency about it in writing.

Persons provided by Paragraph 1 of this Article are authorized directly to convene the General Meeting of Shareholders session in case if the General Meeting of Shareholders had not been convened six months after expiration of period for making of annual report.

#### Article 29g.

General Meeting of Shareholders may make decisions only if shareholders with more than 50% of the shares with voting rights are represented in person or through proxies.

If upon expiration of 60 minutes from the set time of commencement of the General Meeting of Shareholders quorum is not reached for decision making provided by Paragraph 1 of this Article, General Meeting of Shareholders shall be postponed, and the Supervisory Board shall not earlier than 15 and no later than 30 days from initially set up date for convening it publish notification on reconvening the General Meeting of Shareholders.

In case provided by Paragraph 2 of this Article quorum shall be made of one third of the shares with voting rights.

#### Article 29h.

General Meeting of Shareholders of bank shall make decisions on:

1. establishment of bank's Core Capital through the issuance or increase of Common Shares and the issuance or increase of Preferred Shares.
2. increase and decrease of core capital;

3. annual financial report, with the reports of external auditor, Supervisory Board and Audit Board;
4. distribution of profit and payment of dividend;
5. manner of loss coverage;
6. consolidation with other enterprises and merger of other enterprises by the bank, except for consolidation or merger of subsidiaries;
7. division and termination of the bank;
8. purchase, sale, exchange, leasing and other transactions with property, directly or through subsidiaries within business year, in the extent that exceeds one third of the bookkeeping value of property of the bank;
9. sale and purchase of property with accounting value between 15% and 33% of the total existing property of the bank, if such a transaction is not previously approved by unanimous decision of Supervisory Board;
10. election and release of duty of the members of Supervisory Board on individual basis;
11. establishment, reorganization and liquidation of subsidiaries, and approval of their respective charters;
12. compensations for the members of Supervisory Board and Audit Board;
13. adoption, changes and amendments to the charter; and
14. other issues important for business operation of the bank, in accordance with the Law and charter of the bank.

#### Article 29i

Shareholder shall have right, from the day of publication of notification on convening the General Meeting of Shareholders in the bank premises, to review the financial statement, with the reports of external auditors, Supervisory Board and Audit Board as well as other documents that concerned proposal of the decisions placed on the agenda of General Meeting of Shareholders.

#### Article 29j

General Meeting of Shareholders shall make decisions by majority of shares with voting rights, except for the issues specified under Article 29h, Paragraphs 2, 6, and 13 under this Law (error made by the legislator, instead of Paragraphs 2, 6 and 13, there should stand Items 2, 6 and 3) on which decisions are made by the two third majority of the represented shares with voting rights.

Regarding the reports provided under Article 29h, Item 3 of this Law, the General Meeting of Shareholders shall give its decision no later than six months from the end of business year.

#### Article 29k

Voting at the General Meeting of Shareholders shall be conducted through ballot papers that shall contain name or company name of the shareholder and the number of votes on his/her disposal.

Voting shall be conducted by circling on the ballot paper responses “for” and “against” proposal of the decision or the name of the candidate at the election of bodies of the bank.

The Voting Committee shall determine results of voting.

#### **1.4 Decision Making Through Proxies**

##### Article 29l

Shareholders' proxy shall have authorization for representation by shareholders, signed by a shareholder – natural person or representatives of the shareholder-legal person. The signed proxy must be certified.

##### Article 29m

Proxy shall deliver to the voting board a written authorization for representation of the shareholders.

Voting Committee shall check validity of authorization and identity of the proxy.

##### Article 29n

If a shareholder or his proxy, within seven days from the day of General Meeting of Shareholders, deliver certified statement of the shareholders to the Voting Committee, public document or other verifiable evidence that denies validity of authorization to the Voting Committee, it shall declare votes based upon such authorization to be invalid and inform the Supervisory Board about it in writing.

Supervisory Board shall suspend enforcement of the decision, passing of which was decisively influenced by invalid votes and it shall convene the General Meeting of Shareholders for repeated decision making on these issues no later than 30 days from the day of receipt of notification of the Voting Committee on invalid votes.

#### **1.5 Minutes of General Meeting of Shareholders**

##### Article 29o

Minutes shall be made of the work of the General Meeting of Shareholders and it shall contain:

1. company name and address of the headquarter of the bank;
2. place and time of the General Meeting of Shareholders
3. first name and family name of the Chairman, person in charge of minutes, persons in charge of certification of minutes and members of voting committee;
4. agenda;
5. decisions;
6. data about voting;
7. objections of shareholders and members of Supervisory Board to the General Meeting of Shareholders decisions.

Minutes shall be accompanied with proposals in writing and the reports submitted to the General Meeting of Shareholders.

Supervisory Board shall ensure that the minutes be made no later than 30 days from the day of convening the General Meeting of Shareholders.

Minutes shall be signed by chairman of the General Meeting of Shareholders, person in charge of minutes and the persons who certify the minutes.

Shareholder may request that the copy of minutes or excerpt from minutes be delivered to him for all the General Meetings of Shareholders.

#### Article 29p

Bank shall maintain minutes of the General Meeting of Shareholders for an indefinite period, evidence on presence and voting of shareholders, notifications and invitations for the General Meeting of Shareholders.

Liquidator shall ensure maintenance of the documents provided under Paragraph 1 of this Article at least 10 years after the bank has ceased its operations.

### **1.6 Protection of Minority in Decision Making and Contest of the General Meeting of Shareholders Decisions**

#### Article 30

If the General Meeting of Shareholders rejects proposal of shareholders with more than 20% of the shareholders with voting rights for appointment of an external auditor for extraordinary examination of all the issues relating to establishment and business operation of the bank within last five years, external auditor shall be appointed by the Agency.

Decision of the General Meeting of Shareholders shall be null and void if:

1. General Meeting of Shareholders was not convened in a manner determined under Article 29c of this Law;
2. was not entered into the minutes;
3. nullity is determined by a court decision.

Procedure to contest and annul the decision of the General Meeting of Shareholders, with the court at which the bank was entered into court register, may be initiated by:

1. a shareholder representing minimum of 33% ownership and who attended the General Meeting of Shareholders, whose objection to the decision was entered into the minutes, or was not entered correctly;
2. a shareholder who was not present at the General Meeting of Shareholders due to convening the General Meeting of Shareholders contrary to the provisions under the Article 29c of this Law;
3. Supervisory Board and Management and each member of Supervisory Board and Management, if enforcement of the decision would constitute an economic offense or crime or create damage to the bank.

Procedure provided under Paragraph 1 of this Article may be initiated no later than 60 days from the day of General Meeting of Shareholders.

According to the procedure provided under Paragraph 1 of this Article, bank shall be represented by Director or other member of Management, upon authorization issued by Director.



If the claimant is a member of the Management, bank shall be represented by a person appointed by Supervisory Board, and if the claimants are the Supervisory Board and Management or the members thereof, the court shall appoint representative for bank, if not appointed by General Meeting of Shareholders.

## **2. Supervisory Board**

### Article 31

Supervisory Board shall be composed of a Chairman and at least four members, with a maximum of six members appointed and released of duty by the General Meeting of Shareholders, provided that entire number of members of the Supervisory Board is odd, including the Chairman.

Chairman and members of Supervisory Board shall be appointed simultaneously for the period of four years.

The same person may be appointed as Chairman or member of Supervisory Board several times without limitations.

Chairman and members of Supervisory Board shall be entered into the register maintained with the Agency.

### Article 31a

Following persons may not be Chairman or member of Supervisory Board:

1. person convicted of crime or economic offense within the economic and financial crime;
2. person who, pursuant to the court decision, was denied to conduct activities within competence of Supervisory Board; and
3. person older than 70 years of age on the day of appointment.

### Article 31b

A shareholder or a group of shareholders with at least 5% of the shares with voting rights may nominate candidate for member of Supervisory Board.

Each proposal provided under Paragraph 1 of this Article shall be submitted in writing, no later than eight days from the day of publication of notification on convening the General Meeting of Shareholders that has on its agenda issue of election of the Chairman and members of Supervisory Board.

Each proposal provided under Paragraph 1 of this Article that was delivered to the Supervisory Board before publication of notification under Article 29c of this Law, shall also be delivered to the shareholders, accompanied with other materials.

Candidates for Chairman and members of Supervisory Board shall before voting give statement in writing on their acceptance of nomination.

#### Article 31c

The chairman and members of Supervisory Board shall be elected by voting, in accordance with Article 29j of this Law, provided that each shareholder may cast one vote for each share with voting rights. Each shareholder with voting rights may cast all votes for one person or distribute their votes to more than one person.

Each shareholder shall receive a ballot that sets out at the top the number of votes entitled to be exercised as set out in paragraph 1 of this Article.

The candidate that wins greatest number of votes shall be declared Chairman by the General Meeting of Shareholders, while candidates with the second greatest number of votes shall be declared members of Supervisory Board.

If they receive an equal number of votes, the Supervisory Board can select the Chairman from among them.

#### Article 31d

Chairman and members of Supervisory Board shall enter into employment contracts with the bank that is subject to approval by the General Meeting of Shareholders.

Each employment contract shall be signed on behalf the bank by its Director, in accordance with General Meeting of Shareholders approval.

#### Article 31e

Chairman and members of Supervisory Board in the first mandate shall be elected at the founding General Meeting of Shareholders in accordance with provisions of Articles 31b and 31c of this Law.

#### Article 31f

Director and members of Management of the bank may not be appointed Chairman and member of the Supervisory Board in that or any other bank in Bosnia and Herzegovina.

Elected officials and all employees of the State, Entity, Canton and Municipal Governments and their respective Institutions may not serve as members of the Management of any bank while so employed.

Elected officials, Ministers and Deputy Ministers of State, Entity, Canton and Municipal Governments and their respective Institutions may not serve as members of the Supervisory Board of any bank while they are so employed and for a period of one year thereafter.

All employees of the State, Entity, Canton and Municipal Governments and their respective Institutions who serve as members of a Supervisory Board of any bank must recuse themselves and refrain from involvement in any discussions or decisions within the government having to do with the bank for which they are a member of the Supervisory Board.

A person or a legal entity's duly proxy cannot serve as Chairman or member of a Supervisory Board of more than one bank concurrently, unless that person or that legal entity owns more than 50% of shares of each bank.

The same person may not be appointed simultaneously Chairman or member of the Supervisory Board in more than three banks.

#### Article 31g

A session of Supervisory Board shall be held when necessary, and at least once a quarter.

Chairman of Supervisory Board shall convene session of Supervisory Board.

Chairman of Supervisory Board shall convene the session upon request of the Director of the bank or two members of the Supervisory Board, no later than 14 days from the day of submission of the request, otherwise person who submitted the request shall be authorized for convening the session. However, provided that all members of the Supervisory Board are invited, and the invitation is accompanied by an Agenda and material for each item on the Agenda, a majority of members of the Supervisory Board may convene an emergency session within three days of the vote to convene such emergency session of the Supervisory Board. All provisions of Article 31i apply to emergency meetings of the Supervisory Board.

#### Article 31h

Written invitation for the session of Supervisory Board, in which place and date of session, time of its commencement and the agenda of session shall be delivered to the members of Supervisory Board no later than 7 days before the date of holding of the session.

Invitation for session shall be accompanied by the materials for each of the items on the agenda.

#### Article 31i

In order to convene the session of the Supervisory Board, quorum of majority of the entire number of members is required.

Supervisory Board shall issue its decisions by majority of votes of the entire number of members.

Chairman and member of Supervisory Board may not vote on the issues that relate to him/her personally.

Persons who are not members of Supervisory Board may be present at the session only based upon written invitation by Chairman of the Supervisory Board.

#### Article 31j

Supervisory Board of the bank shall be competent to:

1. supervise business operation of the bank;

2. supervise work of Management;
3. adopt report of Management on business operation upon semi-annual balance sheet, profit and loss statement, annual balance sheet and internal and external audit reports;
4. submit an annual report to the General Meeting of Shareholders on business operation of the bank, which shall include internal and external audit reports, report on work of the Supervisory Board and the board for revision, as well as plan of business operation for the following business year;
5. appoint Management of the bank;
6. appoint external auditor;
7. propose distribution and manner of use of profit and manner of loss coverage;
8. approve purchase, sale, exchange, leasing and other property transactions by property, directly or through Subsidiaries during the business year to the extent ranging from 15% to 33% of the accounting value of the entire property of the bank;
9. ensure that appropriate internal controls for the bank are established and maintained;
10. ensure that appropriate internal and external audits are performed;
11. establish provisions for loan losses to be expensed; establish necessary reserves out of net profit of the bank; and declare dividends;
12. appoint chairmen and members of the committee for compensation and the committee for appointment;
13. establish ad hoc commissions and determine their composition and tasks;
14. convene the General Meeting of Shareholders;
15. approve issuance of new shares of the existing class in the amount up to one third of the sum of nominal value of the existing shares and determine amount, time of sale and price of these shares, that may not be lesser than average market value of the existing shares of the same class in 30 consecutive days prior to the day of decision making;
16. approve internal acts, business and other policies and procedures; and
17. decide on issues not specifically directed under the Law or its charter to some other decision making body of the bank.

#### Article 31k

Chairman and members of Supervisory Board shall carry out their commitments and responsibilities in accordance with the interests of the shareholders and bank and may not perform activity that would compete with activities of the bank without advice and consent of other members of Supervisory Board.

Chairman and members of Supervisory Board shall upon proposal of the emission of new or purchase of its own shares of bank and other securities announce all the important data relating to business operation of the bank.

Chairman and member of Supervisory Board shall report to the Supervisory Board on each personal interest within the legal person, with which bank has or intends to enter into business relationship.

In case provided under Paragraph 3 of this Article, Chairman and member of Supervisory Board may not make decision on issues that concern relations of bank and

other legal persons in which Chairman and member of Supervisory Board shall have direct or indirect financial interest.

Article 31 l.

If Chairman or a member of Supervisory Board act contrary to the provisions of the Article 31k of this Law, bank shall have right to claim compensation of damage caused by that.

Bank may forfeit the claims provided under Paragraph 1 of this Article upon expiration of three years from the day of raising request for compensation, if the General Meeting of Shareholders consent to resignation, provided that no objections of the shareholders who possess at least 10% of the shares with voting rights.

Article 31m

Chairman and members of Supervisory Board shall be either individually or jointly and severally liable for damages caused by failure to comply or irregular compliance with their duties.

Article 31n

Chairman and members of Supervisory Board shall have right to request all the data on business operation and presence of the management members to the sessions of Supervisory Board.

Chairman and members of Supervisory Board shall have right to attend the sessions of bank's Management.

### **3. Management**

Article 32

Management shall organize work and direct business operation.

Management of the bank shall consist of Director and Executive Directors as well as the Deputy Director who may be appointed at the discretion of the Supervisory Board.

Article 32a

Director shall preside over Management, direct business operation, represent bank and be responsible for legality of business operation.

The term in office for the Director shall be 4 years, which may be renewed without any limitation as to the number of terms.

Position, authorities, responsibilities and rights of the Director shall be regulated by contract between Supervisory Board and Director.

The Director cannot be appointed without the prior approval of the Agency.

#### Article 32b

Deputy Director shall substitute for the Director in case of his/her absence, and if the bank has no Deputy Director appointed, the Director shall authorize in writing one of the Executive Directors to substitute for him and determine his/her authorities.

Executive Directors shall organize work, represent bank and shall be responsible for the legality of business operation in businesses and their scope defined by written act of the Director.

Executive Directors shall be appointed and removed by Supervisory Board upon proposal of the Director, for the period for which Director was appointed.

Salary and other material rights of the Executive Director shall be regulated by contract between the Director and Executive Director, upon prior approval of the Supervisory Board.

#### Article 32c

Director, Deputy Director and Executive Directors shall report to Supervisory Board each direct or indirect interest within the legal person with which bank has or intends to enter into business relationship.

In case provided under Paragraph 1 of this Article, Director, Deputy Director and Executive Director may participate in such a business relation based upon written consent of the Supervisory Board.

#### Article 32d

In any case when the Director is released of duty, resigns, dies, or is ill or otherwise absent from his/her duties without the prior approval of Supervisory Board for a period of more than thirty consecutive calendar days, the Supervisory Board must confirm the Deputy Director in this position or appoint an interim Director to serve until such time as the Supervisory Board appoints a new Director.

The Interim Director may serve a maximum period of ninety days without having to obtain the approval of the Agency.

Prior to the expiration of ninety days the Supervisory Board must either submit an application for approval for Director of the bank to the Agency or an application for extension for another ninety days for approval for the Interim Director from the Agency. The Agency has 45 days to act on this application. Thereafter if the application for an extension for the Interim Director is not approved by the Agency or if no Director has been appointed by the Supervisory Board and approved by the Agency, the Agency shall appoint a Provisional Administrator.

#### Article 32e

Bank shall have its Secretary, appointed by Supervisory Board, upon proposal of the Director of bank, serve for the same period for which the Director has been appointed.

Salary and other material rights of the Secretary shall be regulated by contract between the secretary and Supervisory Board, upon Director's proposal.

#### Article 32f

Secretary is responsible for maintaining the register of shareholders, register of minutes of General Meeting of Shareholders and Supervisory Board and keeping documents determined by this Law and charter of bank, except for financial reports.

Secretary shall be authorized for carrying out decisions of the General Meeting of Shareholders, Supervisory Board and the Director.

Secretary shall be responsible for preparation of sessions and maintaining minutes of the General Meeting of Shareholders and Supervisory Board.

#### **4. Audit Board**

##### Article 32g

Bank must establish an Audit Board appointed by the Supervisory Board.

The Audit Board shall consist of five members appointed for terms of four (4) years. Members may be reappointed.

The Audit Board must have all oversight responsibilities for the conduct and employment of an external audit firm to prepare the annual audited financial statement.

The Audit Board will present the completed annual audited financial statement to the Supervisory Board and to the General Meeting of Shareholders.

The Audit Board must also supervise all internal audit activities including the oversight of the annual balance sheet and auditing of financial business operation of bank upon request of shareholders with at least 10% of the shares with voting rights, and deliver a report on that to the General Meeting of Shareholders and Supervisory Board, no later than eight days from the completion of auditing.

##### Article 32h

Chairman and members of Audit Board may not be appointed from the group that includes the Chairman or members of Supervisory Board and must not be members of Management or staff within the bank, nor may he/she have direct or indirect financial interest in the bank, except for the compensation based upon conduct of that function.

Compensation and other rights of the members of the Audit Board shall be regulated by contract based upon the decision of the General Meeting of Shareholders.

The Audit Board reports directly to the Supervisory Board.

##### Article 32i

The Audit Board is responsible for implementing the decisions of the General Meeting of the shareholders concerning the selection and engagement of the external auditor.

##### Article 32j

The Audit Board shall be authorized to request convening the session of Supervisory Board and the General Meeting of Shareholders when it considers that the shareholders

interests are threatened or when it determines irregularities in work of the Chairman or members of Supervisory Board, Director or Executive Directors.

#### Article 32k

The Internal Auditor is responsible for identifying, monitoring and assessing risks in the operations of a bank and determining whether the system of internal control that is in place makes sure that those risks are managed in the manner that the risks are mitigated in an acceptable measure.

In performing his/her responsibilities, the Internal Auditor shall have authorities for unrestricted and unimpeded work and he/she is obliged to cooperate with the Audit Board of a bank.

The Internal Auditor reports directly to the Audit Board. However, in cases of major unresolved disputes, the Internal Auditor will notify the Supervisory Board and the Supervisory Board must resolve the dispute.

Supervisory Board appoints the Internal Auditor.

Salary and other material rights of the Internal Auditor shall be determined by the contract signed by the Supervisory Board and the Internal Auditor.

#### Article 33

The Director of a bank shall be responsible for the legality of the bank's operations and implementation of the established business strategy of the bank.

The Chairman and all members of the Supervisory Board, the Director, the Deputy Director and the Executive Directors of the Loan Department of a bank cannot be appointed without the previous agreement of the Agency.

The bank's Director shall not be:

1. a member of the Supervisory Board of the same bank or some other bank that is registered in the Federation, except if that bank has close relation with a bank of which he is a Director.
2. person who had a position of a Director or of a Deputy director of the Agency for past two years, except if it has received previous approval of the Management Board of the Agency.

The bank's Director shall:

1. represents the bank and acts as its agent;
2. executes decisions of the General Meeting of Shareholders, the Audit Board and the bank's Supervisory Board;
3. organizes and manages the bank's operations;
4. makes decision about all matters which are not in the jurisdiction of the General Meeting of Shareholders, the Audit Board or the Supervisory Board of a bank;
5. performs other functions in accordance with the law, the bank's charter and its general acts.



The Director may delegate part of his powers to others.

#### Article 34

Individuals appointed as members of Management of a bank cannot be older than 65 years old and must meet all requirements set by the Agency's regulations and general acts of the bank.

Individuals appointed as Internal Auditor cannot be related by marriage or blood to the third degree of consanguinity to any member of the Supervisory Board, Management or any person who holds a Significant Ownership Interest.

If the Agency rejected a request to approve an individual, in accordance with Article 33 of the Law, the bank cannot file another request for the appointment of that individual for the same position until the reasons stated in the Agency's Decision on rejection of giving an Agreement are eliminated.

#### Article 34a

The Supervisory Board, Management and members of their immediate family who are living in the same household, or have joint investments are each required to file a signed disclosure statement, within thirty calendar days of the Supervisory Board or Management member concerned assuming position.

This disclosure statement will describe all assets, including information on all of the investments, any loans or credits of over 20,000 KM, and information on legal entities for which 5% or more of shares or equities with voting rights is owned, as well as any other information required by the Agency.

The form of the Disclosure Statement will be promulgated by the Agency. Each person, who is required to file a disclosure statement hereunder, must also file an annual update of this disclosure statement with the Agency as of the first day of each calendar year.

#### Article 35

The Supervisory Board, Management, and all employees, as well as any person engaged to work in the bank on any basis, shall be required to keep business secret, and not to use for personal gain or permit to be examined by others, any information that they obtained in the course of their services to the bank, except to the Agency, which includes supervisors and auditors appointed by the Agency and except to such other institutions as the Law shall provide.

Persons from Paragraph 1 of this Article shall be required to keep business secrets even after the completion of their engagement in the bank.

#### Article 36

Bank branches or subsidiaries cannot be established without a written authorization of the Agency.

The Agency can reject the request of a bank to establish a branch or representative office on the following grounds:

1. the staff, premises and equipment of the proposed office do not meet regulatory requirements established by the Agency;
2. operations or financial condition of the applicant bank indicate that establishment of the office would not be in the interest of its depositors;
3. a bank whose headquarter is located outside the Federation is not subject to comprehensive regulation or supervision on a consolidated basis.

#### Article 37

Business and control of the bank's parts in Federation and the bank with headquarters outside of the Federation will be regulated by the Agency's regulation.

### IV - OPERATIONAL REQUIREMENTS

#### Article 38

Bank is obliged to conduct its business operations in accordance with the Law, regulation issued by the Agency, any conditions and restrictions attached to its banking license, and corresponding business and accounting principles and standards determined by a special law.

Bank shall continuously while conducting its business operation maintain adequate capital, that is its solvency, and sufficient liquid resources, that is its payment and lending capability, and shall ensure that its assets are diversified.

In the context of this Law, diversification shall include the expansion of assets by investing and lending funds to various different legal entities.

#### Article 39

Banks may only conduct the following activities:

1. receiving money deposits or other repayable funds;
2. making and purchasing of loans and financial leasing;
3. issuing all forms of monetary guarantees;
4. participating, buying and selling for its own account or for account of customers of money market and capital market instruments;
5. providing payment system and money transfer services;
6. buying and selling foreign currencies;
7. issuing and managing payment instruments (including credit cards, travelers' and bankers' checks);
8. safekeeping and managing of securities and other valuables;
9. providing financial management services;
10. purchase and sale of securities; and
11. anything that shall be incidental to the foregoing from Item 1 to 10 of this Article.

#### Article 40

Banks shall refrain from entering into transactions or engaging in practices of any kind that would provide them a position of dominance on the financial markets.

#### Article 40a

The Agency has the right to regulate fees that banks charge in cases of price fixing agreements or other unfair business practices as defined by the Agency's regulations.

#### Article 41

When prescribed by regulation of the Banking Agency, each bank shall observe the maximum ratios and risk exposures to be maintained by it concerning its balance sheet and off-balance sheet items, assets and risk-weighted assets, capital and its structure.

The bank shall ensure that at all times the value of its share capital and net capital will be in accordance with Article 20 of this law and shall be equivalent to not less than 12% of the total value of its risk weighted assets, whereby not less than 1/2 of its capital shall consist of core capital.

The values of capital, share capital and risk weighted assets shall be determined in accordance with the regulation issued by the Banking Agency.

#### Article 42

Outstanding principal amount of all credit from a bank to a single borrower or a group of related borrowers may not exceed the equivalent of 40% of the bank's core capital. This limitation is subject to the following further conditions and qualifications:

1. the maximum amount of unsecured credit to a single borrower or a group of related borrowers may not exceed the equivalent of 5% of the bank's core capital;
2. any amount of credit to a single borrower or a group of related borrowers exceeding the equivalent of 25% of the bank's core capital must be fully secured by readily marketable collateral whose good quality, as determined by reliable and continuously available price quotations, exceeds the amount of such credit;

Large credit exposure means credit to a single borrower or group of related borrowers amounting to more than the equivalent of 15% of the bank's core capital. The bank's total aggregate outstanding principal amount of all large credit exposures may not exceed the equivalent of 300% of the bank's core capital

Two or more borrowers shall be considered to be a "group of related borrowers" where their mutual relationships make it likely that, exposure to this group presents a unified exposure of the bank to credit risk. The Agency shall prescribe via regulation further conditions under which these circumstances shall be deemed to exist.

#### Article 42a

If a bank receives payments of public revenue funds, deposits, and performs payment transactions on behalf of the budgets and non-budgetary funds, the bank must either:

- a) transfer 50% of those daily balances, in cash, at the close of each business day to a special reserve account that each depository bank must establish at the Central Bank of Bosnia and Herzegovina under the Law on the Central Bank of Bosnia and Herzegovina and regulations passed based on the Law; or

- b) fully collateralize the average daily balance with either domestic or foreign securities held by another third party bank acting as custodian. The accountholder, the bank, and the third party bank must enter into an agreement specifying the type of securities and that the securities must be held in the name of, or for benefit of, the accountholder and providing that the interest on the securities accrues to the bank. The securities must be sufficient to provide 100% coverage of the average daily balances. The securities may be substituted and traded upon the agreement of the accountholder so long as the securities continue to equal 100% of the average daily balance. Upon default, or should the bank be declared to be under provisional administration or bankrupt, the securities will belong to the accountholder. Otherwise if the accountholder closes the account, or the bank ceases to be a depository bank, the securities will be transferred back to the bank.

For the purpose of this Law “public revenue funds” are defined to be customs, taxes, fees, contributions, donations and other revenues belonging to the State, Entities, Cantons, and their respective ministries and institutions, as well as municipalities.

#### Article 42b

A bank cannot hold from any one source, funds in an amount greater than 20% of its total daily deposits.

Should a bank receive cash from any one source that exceeds 20% of its total daily deposits then the bank shall, by the next business day, maintain the total excess amount in cash to the special reserve account established at the Central Bank of Bosnia and Herzegovina described in Article 42a, Paragraph 1 Item a of this Law.

For the purpose of the previous Paragraph “one source” is defined to be one legal entity, one physical person, or the total amount of all users of public revenue funds regardless of their level and number.

The bank is completely and independently responsible to perform special oversight of its depositors, especially those of public revenue funds.

#### Article 42c

A bank is required to submit reports to the Agency on the basis of the provisions of Articles 42a and 42b of the Law in the form, content and within time limits as prescribed in a regulation promulgated by the Agency.

#### Article 43

No bank shall without permission of the Agency invest more than 50% of its core capital in fixed assets.

#### Article 43a

No bank shall deposit funds in a Related Bank or make loans to or invest in such bank that in combination exceeds 25% of the bank’s Core Capital, or 40% of Core Capital in the case of all such Related Banks.

#### Article 44

Banks shall keep on file the pertinent documents for each one of their transactions, in accordance with law.

#### Article 45

Each bank shall regularly notify its customers of the terms and conditions associated with the deposits made and credits received by them, including the annual rate of interest.

#### Article 45a

Bank is required to publish a notice listing all Dormant Deposit Accounts in at least three daily newspapers published in the Federation and at least one in the Republika Srpska and Brčko District every six months when deposit account becomes dormant deposit account.

After a Dormant Deposit Account has been published at least twice by the bank as provided in Paragraph 1 of this Article, thereafter the Dormant Deposit Accounts and all records pertaining thereto shall be transferred to the Ministry of Finance of the Federation of Bosnia and Herzegovina (hereinafter: the Ministry).

The funds shall be deposited into the budget of the Federation of BiH pending proof of ownership by an accountholder.

At any time thereafter the accountholder may submit proof of ownership of the Dormant Deposit Account funds to the Ministry.

The Ministry shall review the evidence and if the proof is satisfactory return the money to the accountholder.

The Ministry shall issue regulations regarding procedures for claiming dormant accounts.

The Ministry is required to publish information of all Dormant Accounts once a year in three daily newspapers available in the Federation and at least one daily newspaper in the Republika Srpska and in Brcko District.

The Agency shall issue Regulations governing the accrual of interest and limiting the service charges that may be assessed on Dormant Deposit Accounts, until such time as they are transferred to the Ministry.

Once the dormant deposit accounts have been transferred, the accountholder is not entitled to be paid any interest on this account.

#### Article 46

In conducting operations with persons related to the bank and in the name and in behalf of persons related to the bank, bank cannot offer to that person more favorable conditions than to any other person that is not related to the bank.

For the purposes of paragraph 1, persons related to the bank are especially considered to be:

1. Chairman and members of the Supervisory Board, members of the Management, members of the Audit Board and members of their immediate family within the third degree of consanguinity or marriage, or persons who are living in the same household, or who have interconnected or joint investments;
2. Individuals with Significant Ownership Interest in the bank and members of their immediate family within the third degree of consanguinity or marriage, or persons who are living in the same household, or who have interconnected or joint investments;
3. Legal entities holding any common shares, preferred shares or any voting rights in the bank;
4. Legal entities in which the bank holds Significant Ownership Interest;
5. Legal entities in which Significant Ownership Interest is held by same legal or natural person holding Significant Ownership Interest in the bank;
6. Legal entities in which the holder of Significant Ownership Interest, a member of the Supervisory Board or Management is one of the persons mentioned under items 1 through 5 of this paragraph;
7. Related Entities as defined in Article 1, Paragraph 2 of this Law, and the Related Entities of all Shareholders of the bank.

Bank cannot grant loans to its employees that exceed the amount determined by the Agency's regulations.

The Agency issues regulations ensuring implementation of the limitations determined in provisions of Paragraphs 1 to 3 of this Article.

#### Article 47

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 or used for the financing of any criminal activities.

No bank shall engage in a transaction that the bank knows or can reasonably expect will constitute a money laundering offense as defined in Article 2 of the Law on the Prevention of Money Laundering in the Federation of BiH (Official Gazette of the FBiH, number 8/00).

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 or for the support of people engaged in or supporting terrorism nor convert or transfer, nor be instrumental in the acquisition, conversion or transfer of money or other property as aforesaid that the bank knows or might reasonably be expected to know might be used by those individuals who, or legal persons or bodies which, obstruct or threaten to obstruct or pose a significant risk of actively obstructing the implementation of the peace process; or who or which materially assist in, sponsor, or provide financial or technological support for, or goods and services in support of,

such obstructionism; or which are owned or controlled by, or act or purport to act directly or indirectly for or on behalf of, any of the foregoing.

Each bank shall establish internal control and communication procedures in order to detect and prevent transactions involving criminal activities, money laundering, or those supporting terrorism as well as those supporting the obstruction of the peace process or materially assisting in the same described in Paragraphs 1, 2 and 3 in this Article.

Each bank shall take reasonable measures to satisfy itself as to the true identity of any person seeking to enter into a business relationship with it, or carry out a transaction or a series of transactions with it, by requiring the applicant to produce an official document establishing the true identity of the person (ID card, birth certificate, driver's license, passport or other official means of identity) and, in case of a legal entity certificate of incorporation. Each bank shall take reasonable measures to establish whether the person is acting on behalf of another. If it appears that the person is acting on behalf of another person, the bank shall take reasonable measures to establish the true identity of such person.

Each bank shall also take reasonable measures to satisfy itself as to the true identity of any person seeking to carry out a transaction where the amount is 30,000 KM or greater, notwithstanding the number of transactions necessary to execute the transaction. The Supervisory Board, Management, and all employees shall have a duty to automatically report promptly to the Financial Police or its successor and the Federation Banking Agency all transactions that are 30,000 KM or greater as well as any other transactions or any other activity of the bank which he knows or can reasonably expect will violate the provisions of Paragraphs 1, 2, or 3 of this Article and to provide such information as the Financial Police or its successor or the Agency shall request. Providing information pursuant to this Article shall not be regarded as a disclosure of professional secrets.

The Director of the bank will block deposit accounts or any other form of account and such other property and assets of natural persons and legal entities upon presentation of a written or faxed order issued by the Financial Police or its successor or the Agency to do so. Failure to comply with such a blocking order by the Director of the Bank, or by any individual on behalf of the Bank or by any employee thereof, shall be treated for all purposes, under Paragraph 1, Item 23 of Article 65 of the said Law, as participation in a transaction contrary to the provisions of the said Article 47, and Article 65, and in addition article 66 thereof, shall fully apply thereto. Such failure is in turn to be treated for all purposes of Article 67 thereof as a violation under the said Article 65.

Banks shall be required to forward to the Federation Banking Agency all information related to action taken pursuant to a blocking order, as well as all information related to attempted transactions to and from blocked accounts, immediately upon receipt of such information.

## V - BOOKKEEPING, AUDIT AND EXAMINATION

### Article 48

A bank and its subsidiaries shall maintain at all times accounts and records, and prepare annual financial statements, adequate to reflect their respective operations and financial condition, in such form and with such content that is in accordance with the law, international accounting standards, and regulations of the Agency.

The accounts, records and financial statements of a bank shall also reflect the operations and financial condition of its subsidiaries both on an individual and on a consolidated basis.

### Article 49

Banks and their subsidiaries shall each appoint an independent external auditor acceptable to the Agency who shall:

1. advise the bank on maintaining proper accounting systems;
2. prepare an annual report together with an audit opinion as to whether the financial statements present a full, accurate and fair view of the financial condition of the bank, in accordance with the provisions of this Law and regulations of the Agency; and
3. inform bank's Supervisory Board, Audit Board, Management and the Banking Agency about any fraudulent act by an employee of the bank or a subsidiary of the bank, and of any irregularity or deficiency in the administration or operations of the bank or a subsidiary of the bank, of which he has become aware and which should be expected to result in a material loss for the bank or the subsidiary.
4. comment in the annual report to the bank's Supervisory Board, Audit Board, Management, and the Agency on the effectiveness of the Internal Auditor and the system of internal controls.

Each bank shall promptly at the request of the Agency provide to the Agency such information and supplemental audit opinions about the banks and their subsidiaries that they audit, for the account of such a bank

### Article 50

Each bank shall, within 75 days after the end of the preceding financial year, submit to the Agency its financial statements and its external auditor's report for the preceding financial year within 5 months after the end of the preceding financial year.

Each bank shall publish the external auditor's report in abbreviated form in one or more of the daily newspapers in the Bosnia and Herzegovina within 15 days after receiving it. Each bank should submit a copy of the abbreviated form of the external auditors report to the Agency.

In addition to publishing the audited annual report, at the end of each six months, the Bank is required to publish a non-audited semi annual report which includes a balance sheet, including all off-balance sheet items, an income statement and a cash flows statement, as well as information containing names of members of the Supervisory



Board and Management and each of the bank's shareholders owning 5% or more of shares with voting rights.

The Bank is required to publish the report from Paragraph 3 of this Article within 30 days after the expiration of the first six months period in one or more local newspapers available throughout Bosnia and Herzegovina and must continuously make copies available to the clients at each location of teller windows.

#### Article 51

The bank is obliged to prepare and submit to the Agency reports concerning its administration and operations, liquidity, solvency, and profitability, and those of its subsidiaries, for an assessment of the financial condition of the bank and each of its subsidiaries on an individual and a consolidated basis. The reports shall be prepared in such form and detail and shall be submitted at such intervals as shall be prescribed by regulation of the Agency.

Every bank and each of its branches established in the Brcko District as well as any branch of a bank headquarters outside the Federation shall be subject to all supervisory activities by the Agency, in accordance with the Agency's regulations.

Subject from Paragraph 2 of this Article shall admit and cooperate fully with the examiners of the Agency and the auditors appointed by the Agency.

### VI - PROCESS OF BANKRUPTCY AND LIQUIDATION OF THE BANK

#### Article 52

The process of bankruptcy and liquidation of the bank is conducted pursuant to the "Law on Bankruptcy and Liquidation" (Official Gazette of the Federation of Bosnia and Herzegovina, number 23/98), unless differently determined by this Law.

#### 1. PROVISIONAL ADMINISTRATION AND LIQUIDATION

#### Article 53

The Agency may appoint a Provisional Administrator when it assesses that:

1. there has been any violation of law, regulation or decision of the Agency, seriously undermining the interests of the bank's depositors;
2. the bank has been conducting unsafe or unsound practice in the operation of the bank, which has caused or is likely to cause a substantial deterioration in the level of the bank's capital or financial condition, or other serious risk to the interests of the bank's depositors;
3. the bank has violated provisions of Article 65 of this Law, and such violation is continuing;
4. books, papers, records, or assets of the bank have been concealed or withheld from the Agency or any of its examiners or auditors;
5. a request for a provisional administrator received from the Supervisory Board, the Audit Board, Director, or the General Meeting of Shareholders of the bank provides adequate justification for such action;

6. the capital of the bank is less than 50% of the core capital required pursuant to Article 41, Paragraph 2 of this Law;
7. the bank is not paying its financial obligations as they fall due consistently for 15 days or inconsistently for 30 days during a period of 45 days;
8. after the revoking of a banking license it is necessary to have protection of depositors' interests until the authorized court appoints bankruptcy administrator.

#### Article 54

A bank shall be deemed to be insolvent when the Agency, in its sole judgment, determines that the value of its liabilities is greater than the value of its assets.

In the process of solvency determination the value of the assets and liabilities of a bank shall be determined in accordance with valuation standards and procedures prescribed by regulation of the Agency; and in determining the value of the assets and liabilities of a bank for a future date, the reasonably anticipated future income and expenses of the bank until that date shall be taken into account.

The Agency must revoke the license of any bank that it deems to be insolvent and initiate liquidation process or file request to the authorized court to start bankruptcy procedure.

The Agency's decision to revoke banking license under Paragraph 3 shall be final.

#### Article 55

The provisional administrator shall be appointed by written order of the Agency giving the grounds on which the appointment is based with reference to the applicable section of Article 53 of this Law.

Decision about appointment, release of duty or extension of mandate of the provisional administrator of the bank will be immediately submitted to the provisional administrator and the bank for which the provisional administrator has been appointed; published in the Official Gazette of the Federation of BiH; registered in the register of banks pursuant to Article 16 of this Law, and registered in the court registry with the authorized court.

The Provisional Administrator will have absolute immunity from and be protected against any liability, personal and official, for action or inaction, or decision taken within the scope of duties as the Provisional Administrator. The Provisional Administrator may not be prosecuted in any court so long as the Provisional Administrator is acting in good faith within the provisions of this Law.

#### Article 56

The provisional administrator shall have unrestricted access to the premises of the bank and any of its offices and subsidiaries, and control over the financial assets, the offices, the books of account and other records, and all other assets of the bank, including its subsidiaries.

Immediately after being appointed or any of its subsidiaries the Provisional Administrator is obliged to take certain measures to secure the assets and records of the bank in order to prevent their dissipation by theft or other improper action.

In the implementation of the measures from their authority, the Agency and the provisional administrator are authorized to request assistance from the authorized institutions of internal affairs and other authorized institutions.

#### Article 57

The Provisional Administrator shall be responsible for conserving the assets and assuming control of the operation of the bank and making a determination as to whether to continue the operations of the bank.

During the tenure of the Provisional Administrator of a bank, the powers of the Supervisory Board, Audit Board, Management, and shareholders of the bank to take decisions or actions shall be suspended.

The Provisional Administrator shall have all the powers of such Supervisory Board, Audit Board, Management, and shareholders, in accordance with the Agency's decision on his/her appointment.

The Provisional Administrator may immediately suspend the powers of the bank representatives on the Supervisory Board, Management and General Meeting of Shareholders of the bank's Subsidiaries and in all of the bank's Participation Interests and exercise directly or through appointees all powers of such representatives.

The provisional administrator is authorized to:

1. sell assets and purchase liabilities of the bank as may be necessary to conserve the appropriate value of the bank or to protect the interests of the depositors and other creditors of the bank;
2. cancel or unilaterally amend agreements the bank has signed, including suspension of interest accruals and change of interest rates, fees and maturity dates and may offset loans with deposits held by the same natural person or legal entity;
3. issue orders concerning dismissal, demotion or temporary removal from a position, or the distribution of responsibilities between the bank's employees;
4. suspend the acceptance of deposits by the bank;
5. sign any contracts and documents and accept liabilities in the name of the bank;
6. lodge claims in the name and interests of the bank, and represent the interests of the bank in court;
7. suspend the payment of any kind to members of the Supervisory Board, Management, Audit Board, and shareholders of the bank;
8. make the pay-out of deposits of natural depositors to such depositors, within the funds available and on a pro-rata basis if applicable.

Subject to the availability of reserves for priorities from Items 1 and 2 of Article 63 of this Law, the maximum amount to be paid out per natural depositor shall be the

aggregate of all of his or her deposits less any legal or contractual debt owed to the bank by the natural depositor or 5000 KM, which ever is smaller.

The deposits shall exclude funds kept in any account whereby the account title is not transparent as to its ownership or any non-nominative deposit or assets kept in a bank's safe deposit box. Also excluded shall be deposits, loans or any other transaction for which the natural depositor has obtained rates, whether preferential or otherwise, and/or any other financial concession from the bank which may have helped to aggravate the bank's financial condition.

The bank's Supervisory Board members, Management, shareholders of at least 5% of the bank's capital and persons responsible for carrying out the statutory audits of the bank's accounting documents are not entitled to any pay-out.

The immediate family within the third degree of consanguinity or marriage of persons mentioned in the previous sentence as well as third parties acting on behalf of the same persons are also not entitled to any pay-out.

9. with the approval of the Agency, may make the pay-out of deposits of legal entities and other depositors on a pro rata basis after paying or reserving funds for the higher priorities and reserving funds for operation and expenses. The Provisional Administrator will comply with other requirements in item 8 of this Article;
10. file a request with the Agency for issuing a decision to all banks in the Federation of BiH to cease payments from accounts of defaulting debtors of the bank under provisional administration and/or those debtors' guarantors and their Related Entities, which they have in other banks, until those liabilities are fulfilled;
11. requiring that all transfers of common and preferred shares including the sale, assignment, or pledge must have the prior written approval of the Provisional Administrator and the Agency.

The Agency is required to review and act within 15 days in accordance with the Provisional Administrator's requests from Paragraph 5, Item 10 of this article.

The Agency's decision in Paragraph 5, Item 10 of this Article and in Paragraph 6 of this Article, is to be implemented as the first priority claim before any other payment order and before any other collection as determined by other laws.

The Provisional Administrator may delegate some of his authority to others.

The Provisional Administrator is obliged to implement laws, regulations, and orders issued by the Agency.

#### Article 58

Within 60 days of his appointment, unless this period is affirmatively extended by the Agency, the provisional administrator shall present a written report to the Agency on the financial condition and future prospects of the bank for which he has been appointed. The provisional administrator shall prepare pro forma balance sheets and shall document the assumptions on which his analysis is based, including those with

regard to interest rates, asset recovery rates, asset holding costs, and contingent liabilities.

The provisional administrator shall propose in the report under Paragraph 1 of this Article one or more of the following measures:

1. a recommendation to revoke the banking license of the bank and to liquidate the bank; with an assessment of the amount of assets likely to be realized in a liquidation of the bank;
2. a detailed plan to restore the bank in compliance with the requirements of the law and the regulations of the Agency, including an increase in the bank's capital to the minimum level required by law or regulation within the time set forth in the plan;
3. a detailed plan to sell the bank as a going concern or to sell any part of the assets and purchase liabilities of the bank; or
4. merger or acquisition of one bank with another bank.

#### Article 59

Within thirty days of the receipt of the report of the provisional administrator, the Agency shall revoke the banking license of the bank, unless the report of the provisional administrator includes one of the measures listed in Article 58, Paragraph 2, Items 2 to 4 of this Law.

The Agency, taking into account the report of the provisional administrator and the need to protect the interests of the depositors and other creditors of the bank, determines if there are reasonable prospects that such plan can be successfully carried out within 12 months upon determination of the Agency regarding the report of the provisional administrator.

The Agency may change or amend the provisional administrator's plan in any way it deems appropriate, prior to or during the implementation of the plan.

If the Agency revokes banking license and issues decision on liquidation of the bank, taking into account the bank's assets and liabilities, it may, upon its own evaluation:

1. Nominate Liquidation Administrator, in accordance with the Article 61 of this Law, in both cases when liabilities do not exceed assets and when liabilities exceed assets of the bank, who will conduct liquidation of assets under the best circumstances he may achieve with concurrence of the Agency and make the payments according to the priority list defined in the Article 63 of this Law from the proceeds. As to the remaining assets and liabilities that can not be liquidated within a reasonable timeframe as assessed by the Agency in its sole discretion, the Agency may apply for bankruptcy to the court in charge; or
2. Immediately apply to the court in charge for bankruptcy and appointment of bankruptcy administration in the bank.

Notwithstanding anything to the contrary in the Law on Compulsory Settlements, Bankruptcy Procedures and Liquidation Procedures, only the Agency may apply for bankruptcy of a bank.

#### Article 59a

All litigation against the bank will cease on the initiation of liquidation of the bank.

#### Article 60

The powers of a provisional administrator shall end upon:

1. the termination of his appointment by order of the Agency; or the completion of his term specified in the order of his appointment or in any order extending his term; or
2. the revocation of the banking license of the bank and the decision by the Agency to order liquidation of the bank;
3. the appointment by the Agency of a liquidation administrator for the bank;
4. decision on appointment of the bankruptcy administrator by the court in charge.

#### Article 61

If the Agency, based on the provisional administrator's report, determines to sell, merge, or liquidate the bank, it may appoint a liquidation administrator to carry out this task.

The Agency's order appointing the liquidation administrator shall be in writing, and shall be in accordance with Paragraph 1 of this Article.

Liquidation administrator may be a person who meets the requirements as to the professional qualification, experience and trustworthiness determined under this Law and regulations of the Agency.

The Agency shall cause its order of appointment, extension or termination of a liquidation administrator to be published in the Official Gazette of the Federation of Bosnia and Herzegovina, and to be registered in the register of banks pursuant to Article 16 of this Law, and to be distributed to the appropriate court and the bank for which the liquidation administrator was appointed.

From the moment of the appointment of the liquidation administrator by the Agency, all powers, authority, and ownership rights of members of the Supervisory Board, Management, Audit Board, and shareholders of the bank are terminated.

Within 7 days after receiving the Decision on Appointment, the liquidation administrator is required to announce in at least three daily newspapers available in the Federation and at least one in the Republika Srpska and one in the Brcko District a notice that all creditors are required to register their claims against the bank with the liquidation administrator within 60 days of the date of publication of this notice.

Within 30 days after the first publication, the liquidation administrator is required to publish a second creditors' notice in at least three daily newspapers available in the Federation and at least one in the Republika Srpska and one in Brcko District.

However, all creditors will still be required to file their claims against the bank with the liquidation administrator 60 days from the date of the publication of the first notice.

The liquidation administrator shall act in accordance with law, regulations, and orders of the Agency. He/she is responsible to the Agency for completion of tasks.

The liquidation administrator will have immunity from and be protected against any liability, personal and official, for action or inaction, or decision taken within the scope of duties as the liquidation administrator. The liquidation administrator may not be prosecuted in any court so long as the liquidation administrator is acting in good faith within the provisions of this Law.

The liquidation administrator of a bank, apart from the authorities of the provisional administrator under Article 57 of this Law, has the authority to:

1. sell all or substantially all, or any part, of the assets and redeem liabilities of the bank,
2. merge the bank with another bank, or sell the bank to an acquirer, subject to the approval of the Agency;
3. liquidate the bank, and, in connection therewith, decide the validity of, and pay, claims against the bank.

Offsetting of claims against counterclaims of a bank are only possible in accordance with the list of priorities determined in Article 63 of this Law.

The procedures for determination of claims and disposal of assets and liabilities of a bank in liquidation are determined by regulation of the Agency.

During the execution of the liquidation administrator's plan for sale or merger of the bank, the liquidation administrator shall report to the Agency no less frequently than quarterly on the progress of the plan.

At any time during the execution of the plan, the Agency, after having received a written report of the liquidation administrator may abort the plan, revoke the license of the bank, and order the liquidation of the bank.

#### Article 62

If recommended by a provisional administrator or liquidation administrator, the Agency may at any time declare all or part of deposits and investments by the public in the bank to be totally or partially blocked.

The decision from Paragraph 1 of this Article may be declared only to ensure the orderly development or implementation of the provisional administrator's plan, or the functions of the liquidation administrator, and when a blocking order is declared the provisional administrator or receiver shall take measures which, in the opinion of the Agency, will preserve the approximate value of these deposits and investments in the bank.

#### Article 63

In the liquidation or bankruptcy, the following priorities of claims shall be observed:

1. Debts of a bank that is being liquidated which resulted from borrowings to the bank, or other obligations created during the provisional administration of a bank or liquidation pursuant to this Law;
2. Claims by secured creditors, up to the value of their security;
3. Claims of the Federation Deposit Insurance Agency or its legal successor for reimbursement of payments of deposits belonging to natural persons and legal entities up to a maximum as set out in the Law on Deposit Insurance;
4. Deposits of natural persons and legal entities up to a maximum per depositor as set out in the Law on Deposit Insurance, which were not otherwise paid by the Federation Deposit Insurance Agency or its legal successor under Item 4 of this Law;
5. Other deposits, including deposits of natural persons above the amount per depositor set forth in the Deposit Insurance Law not already paid under Item 4 of this Article;
6. Dormant Deposit Accounts transferred to the Ministry;
7. Claims by other creditors;
8. Claims by preferred shareholders;
9. Claims by common shareholders.

In the procedure from Paragraph 1 of this Article, payment of bank's liabilities to the members of the Supervisory Board, Management, members of the Audit Board, shareholders of at least 5% of voting rights, Related Entities and Related Banks will be suspended until all liabilities to other bank's creditors are fully fulfilled.

Third parties acting on behalf of natural persons or legal entities mentioned in the previous paragraph as well as the immediate family within the third degree of consanguinity or marriage of the same natural persons are also not entitled to be paid until all liabilities to other bank's creditors are fully fulfilled.

## VIa - LIABILITIES AND RESPONSIBLE PARTIES

### Article 64

A provisional administrator or liquidation administrator appointed by the Agency shall conduct the sale or disposition of assets, liabilities, and sale or merger of a bank in a manner which will:

1. maximize the price of such sale or disposition, consistent with the goal of protection of depositors and other creditors of the bank;
2. ensure fair competition among potential purchasers or merger partners;
3. prohibit any kind of discrimination in the solicitation and consideration of offers; and



4. ensure that the acquirer, merger partner, or combined bank is majority owned and controlled by private owners, unless, with the written authorization of the Agency, a state owned bank which has a privatization plan approved in writing by the authorized state entity; or a bank that is majority owned by a foreign state or government.

#### Article 64a

A bank can be declared through court proceedings responsible individually or jointly with other banks or business companies for the liabilities of a bank or business company, which is insolvent or declared bankrupt, provided there are evidences that the banks and business companies were placed under a situation of related management.

A situation involving related management can result from agreements among the bank and/or business companies or from their respective by-laws or when the Supervisory Boards are made up of a majority of the same persons, persons related to the bank, as defined in Article 46 of this Law, Related Entities or the majority of the shares are held by the same persons.

#### Article 64b

Bank Shareholder is responsible for bank obligations up to the level of his share in the bank.

Exception of provision in Paragraph 1 is in cases when bank is in bankruptcy or is insolvent where bank shareholders, members of its Management and Supervisory Board, as well as other legal entities and individuals (who had a direct or indirect influence to bank's operations or control in the bank) will bear responsibility, jointly or individually, for bank's obligations with their entire property. These cases include:

- a) when a bank is used for fulfilling goals opposite to goals of the bank as determined by the Law; or
- b) when there was no difference between bank property and personal property of the above listed persons; or
- c) when bank operated with a purpose to commit fraud against its creditors or against interest of the creditors; or
- d) when a cause for bankruptcy or insolvency of the bank is found in intentional poor management or lack of attention in managing the bank.

### VII – PENALTY PROVISIONS

#### Article 65

A monetary fine of KM 1,000 to KM 10,000 shall be imposed on the bank or another legal entity for a violation, if it:

1. engages in receiving money deposits or extending credits without the permission of the Agency contrary to provisions in Article 2, Paragraph 1 of this Law;
2. directly or indirectly engages in collecting deposits as described in Article 3 of this Law;

3. uses words in its name that are contrary to provisions of Article 2, Paragraph 3 of this Law;
4. continues to conduct banking activities after its banking license has been revoked, contrary to provisions in Article 19, Paragraph 3 of this Law;
5. does not discontinue its assets and pay its liabilities within the deadline established in the decision to revoking of its license, in accordance with Article 19, Paragraph 3 of this Law;
6. does not collect paid in share capital and does not maintain net capital in accordance with Article 20 of this Law;
7. does not comply to provisions on the limitations of ownership structure from Article 21, Paragraph 1 of this Law;
8. if a bank, without obtaining the approval of the Agency, makes an investment in contravention of Article 20 of this Law;
9. without the prior consent of the Agency, engages in activities concerning mergers, acquisitions and divisions of the contrary to provisions in Article 26, Paragraph 1, and makes changes and amendments to its charter, contrary to provisions in Article 28, Paragraph 3 of this Law;
10. does not conduct its activities in accordance to its internal acts, contrary to provisions in Article 28, of this Law;
11. does not submit the necessary documents for the Agency's files, in accordance with Article 28, Paragraph 2 of this Law;
12. appoints the Chairman or members of the Supervisory Board, the Director and the Management non conforming with provisions of Article 33 of this Law;
13. if the Supervisory Board, the Management or members of their immediate family living in the same household fail to submit signed disclosure statement in accordance with Article 34a of this Law;
14. does not keep business secrets in accordance with the provision from Article 35 of this Law;
15. establish a bank branch or representative office in violation of Article 36 of this Law;
16. conducts business contrary to the provisions in Article 38 of this Law;
17. conducts business contrary to the provisions from Articles 40 and 40a of this Law;
18. engages in transactions or participates in activities that present unfair competition in the financial market, contrary to the provisions in Article 40 of this Law;
19. does not comply to limitations in business operations, as described in Articles 41-44 of this Law;
20. does not maintain records and documentation on its transactions in accordance with provisions in Article 44 of this Law;
21. does not regularly inform its customers on the conditions of its operations, in accordance with Article 45 of this Law;
22. conducts transactions with related persons, contrary to provisions in Article 46 of this Law;
23. participates in transactions contrary to provisions of Article 47 of this Law;
24. does not appoint an independent external auditor in accordance with the provisions in Article 49 of this Law;

25. does not submit a financial report and the external auditor report to the Agency, or fails to publish the financial information in accordance with Articles 50 and 50a of this Law;
26. does not cooperate with the Agency in the process of its bank examination in accordance with the provisions in Article 51 of this Law.

For violations from Paragraph 1 of this Article, the time period for discovery of the violation is limited to three years. After discovery of the violation, the time period for submission of the violation to the Violation Committee is limited to one year.

For violations from Paragraph 1 of this Article, a monetary fine can be imposed that will be in proportion to the level of created damage or unsettled liability, which cannot be greater than twenty times the level of created damage or unsettled liability that is the subject of the violation.

Upon a specific finding of willful misconduct, the Violation Committee may determine that each day the violation continues shall be considered to be separate offense.

For violations from Paragraph 1 of this Article, the responsible person and the person who actually committed the violation in the bank, or another legal entity, will be charged with a monetary fine of 200 KM to 10, 000 KM.

However, upon a specific finding of willful misconduct, the Violation Committee may determine that each day the violation continues shall be considered to be separate offense.

All monetary fines stipulated in this Article will be paid to the Federation budget.

Establishing of responsibility and pronouncing of measures under this Law do not exclude establishing of responsibility and pronouncing of measures determined by other Laws.

## 1. VIOLATION PROCEDURE

### Article 66

The procedure is carried out by Violation Committee (hereinafter: the Committee) comprising of 3 members.

The Director of the Agency appoints the members of the Committee, as well as their deputies, in accordance to the Law.

The committee carries out the procedure in accordance to the "Law on Violations" by which the Federal regulations are confirmed (Official Gazette of the Federation of BiH, number 9/96) and in accordance to this law.

### Article 67

The measures provided for in this Article shall be determined in each particular case by the Agency.

The Agency may take one of the following actions as provided in this Article in regards to a bank or any of its Supervisory Board or Management members, employees, persons that have Significant Ownership Interest, or any Related Entity thereof:

- 1) issue written warnings;
- 2) call the General Meeting of Shareholders of the bank or the other owners of the bank to discuss and to agree on remedial measures to be taken;
- 3) issue written orders:
  - a) requiring the bank to cease and desist from such violations of this Law and regulations of the Agency, or to undertake remedial action;
  - b) and imposing special prudential requirements that differ from those normally applicable to such bank;
- 4) issue written orders containing prescriptions concerning the rate of interest, maturity or other conditions applicable to any type or form of financing extended or received (including deposits) by the bank, or to contingent liabilities of the bank;
- 5) issue written orders imposing monetary fines in accordance to this Law;
- 6) issue written orders suspending temporarily members of bank's Supervisory Board, Management or employees from duties in the bank where:
  - a) the Agency determines that such persons have committed one of the violations set forth in Article 54 of this Law (the legislator's error, the correct wording in Article 65); or
  - b) such persons do not meet the requirements of qualifications, experience, or other conditions established by regulation issued by the Agency;
- 7) issue written orders prohibiting that one or more persons with Significant Ownership Interest in the bank from exercising voting rights, or requiring them to sell or otherwise dispose of all or any part of their ownership rights in the bank in accordance with the Law and within a period specified in the order, where:
  - a) the Agency determines that such persons have intentionally or recklessly committed one of the violations set forth in Article 54 of this Law (the legislator's error, the correct wording in Article 65 of the Law);
  - b) the Agency learns of facts that would warrant refusal of an authorization to acquire or increase the Significant Ownership Interest; or
  - c) the Significant Ownership Interest was acquired or increased without the prior authorization of the Agency;
- 8) issue written orders attaching conditions to the banking license of the bank to the extent required to remedy such infraction;
- 9) with the agreement of the Supervisory Board, the Agency may appoint an adviser for the bank with the duties and responsibilities prescribed by the Agency;
- 10) appoint an external auditor at the expense of the bank to perform a financial or operational audit under terms of reference provided by the Agency;
- 11) appoint a provisional administration in accordance with provisions of this Law;
- 12) revoke the banking license of a bank.

In the event the Agency determines to take an action set out in Items 3, 9, 11, and 12 it shall also notify the Federation Deposit Insurance Agency or its legal successor.

In the case of Agency's order for sale of all or portion of common or preferred shares with voting rights, the potential buyer must receive Agency's approval first.

If any person referred to in Paragraph 2 of this Article is charged with any criminal offense within the Financial and Economic scope of crime, the Agency may issue a written order temporarily suspending such person from his or her position in the bank, and, if applicable, suspending the exercise of voting rights in the bank by such person, pending the determination of the legal case.

If the person from the Paragraph above is convicted by legally valid verdict, the Agency may issue a written order removing such person from his or her position in the bank, and, if applicable, prohibiting the exercise of his or her voting rights in the bank and requiring him or her to dispose of all or any part of his or her ownership interest in the bank.

No prior notice or hearing is required for orders issued under this Paragraph.

If any person referred to in Paragraph 2 of this Article is charged by the Agency with violation of an Order of the Agency or any part of Article 65 of the Law, and that person's actions pose a immediate threat to the bank's financial condition or to the safety of its financial operations, the Agency may issue a written order immediately and temporarily suspending that person from his or her duties and responsibilities in the bank, and, if applicable, suspending the exercise of voting rights in the bank.

This temporary suspension may not exceed 45 days pending a final determination by the Violation Committee.

No prior notice or hearing is required for written orders issued under this Paragraph.

No person may hold any position in, or participate in any manner in the conduct of the activity of, any bank without the prior written approval of the Agency if he or she is subject to an Order of the Agency:

1. suspending or removing him/her from a bank;
2. prohibiting the exercise of his/her Significant Ownership Interest in a bank, or requiring him/her to dispose of a Significant Ownership Interest in any bank due to an intentional or reckless infraction; or
3. involving him/her in a criminal activity pursuant to Paragraph 3 of this Article.

The Order from Paragraph 5, Item 3 of this Article may be issued against any person within five years after such person ceases to be a member of the Supervisory Board, Management, Audit Board, shareholder, employee, or holder of Significant Ownership Interest in a bank.

In the event that any person is required to sell or dispose of voting shares of a bank pursuant to an order issued in accordance with this Article and does not do so within the prescribed period of time, the Agency is authorized to sell such voting shares at public auction, except in the case when the license is revoked because of the lack of solvency of the bank.

A complaint concerning any Decision of the Agency taken under this Article may be submitted to the Director of the Agency within 8 days from the date of receipt of the decision.

However, any complaint submitted will not delay the implementation of the Decision.

The measures provided in this Article shall not preclude application of other civil penalties or criminal penalties as provided in other legislation in force.

If a bank has been found to commit a violation under Article 65 of the Law, and the Violation Committee has issued a final order imposing monetary fines, and the Violation Committee finds second violation any time within the next six months for the same or similar conduct, the Violation Committee must direct the Agency to proceed to implement one or more of the actions from Paragraph 2, Items 6, 7 and 8 of this Article.

In the event a third violation is committed by the same bank within 6 months of the second violation as determined by the Violation Committee involving the same or similar conduct, the Violation Committee must direct the Agency to implement Paragraph 2, item 12 of this Article.

## VIII - TRANSITIONAL AND FINAL PROVISIONS

### Article 68

Licensed banks must comply with Article 20 of this Law as of December 31, 2002.

The deadline defined by Paragraph 1 of this Article does not refer to the FBiH Investment Bank and BOR Bank.

The banks specified under Paragraph 2 of this Article shall be regulated by a separate regulation (FIB) and separate deadline (BOR). These banks cannot receive deposits until they meet minimum capital requirement.

### Article 69

The Banking Agency shall harmonize its regulations with this Law within 4 months of this Law entering into force.

Regulations from Paragraph 1 of this Article shall be published in the "Official Gazette of the Federation of Bosnia and Herzegovina".

Regulations that shall be passed by the Agency pursuant to this Law as well as Agency's activities in implementation of its legally prescribed authorities shall be based on the basic principles for effective bank supervision issued by the Basel Committee for Bank Supervision.

### Article 69a

Banks are required to adjust their business operations with the provisions of this Law within 6 months from the day this Law becomes effective, and requirements from Article 14, Paragraph 3, one year from the effective date of the Law on the Deposit Insurance of Bosnia and Herzegovina.

Article 70

On the date when this law enters into force the "Law on Banks" (Official Gazette of the Federation of Bosnia and Herzegovina, number 2/95, 9/96 and 25/97) no longer exists, as well as the application of other laws and regulations which have regulated this material, and were applied in the Federation region up to when this law entered into force.

Article 70a

Legislative Commission of the House of Peoples and Legislative Commission of the House of Representatives of the Parliament of the Federation Bosnia and Herzegovina are authorized to prepare a consolidated version of the Law on Banks.

Article 71

This Law comes into effect eight days after its publication in "Official Gazette of the Federation of Bosnia and Herzegovina".

**NOTE: Law on Changes and Amendments to the Law on Banks as published in the Official Gazette of the FBiH, number 41/02, dated of 23.08.2002., became effective on 24.08.2002. Implementation of the 6 months deadline from Article 69a of this Law shall start as of that date.**

**Law on Deposit Insurance in Banks of Bosnia and Herzegovina as published in the Official Gazette of BiH, number 20/02, became effective on 11.08.2002. Implementation of the one year deadline from Article 69a of this Law shall start as of that date.**