

LAW
ON DEVELOPMENT BANK OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

I. GENERAL PROVISIONS

Article 1.

This Law establishes Development Bank of the Federation of Bosnia and Herzegovina (hereinafter referred to as: the Bank) as separate financial institution, and defines as follows:

- Position;
- capital;
- ownership;
- goals of business operations and activities;
- authorizations;
- organization;
- bodies;
- documents;
- supervision and audit;
- financial reports;
- profit distribution and loss cover and
- other issues relevant for the work of the Bank.

The Bank is developmental and an export bank of the Federation of Bosnia and Herzegovina (hereinafter referred to as: the Federation).

The goal of the Bank is to incite the development of economy and overall social development, as well as to incite sustainable return to the territory of the Federation.

The Bank from Paragraph 1 of this Article operates under name: "Razvojna banka Federacije Bosne i Hercegovine".

Abbreviated name of the bank is: "RB FBiH".

In its business operations abroad, the Bank may use its name in English language which, is as follows:

"Development Bank of the Federation of Bosnia and Herzegovina".

The seat of the Bank is in Sarajevo.

The Bank has capacity of legal entity, established by this Law.

For the purpose of regional and structural harmonization of development, the Bank will establish regional organizational units as well.

The Articles of Incorporation define Establishment of organizational units of the Bank.

The Bank has its seal with the following text written in it: "Razvojna banka Federacije Bosne i Hercegovine".

The Bank is not registered with the Court Register.

The Bank is not subject to either bankruptcy or liquidation.

The Bank may cease to operate only with the cancellation of this Law, i.e. based on special law.

The Bank is exempted from profit tax.

The Bank is liable with its overall property.

The Federation guarantees for the liabilities of the Bank unconditionally, irrevocably and at the first call without issuing special guarantee document.

Responsibility of the Federation as guarantor for the liabilities of the Bank from the previous Paragraph of this Article is joint and several and unlimited.

Article 2.

The Bank may establish and be a member of corporations in the Federation, Bosnia and Herzegovina and abroad.

The Bank may be member of international financial institutions and international organizations in charge of the field of inciting economic development and may participate in their work.

Supervisory Board of the Bank makes decision on membership in corporations and organizations from this Article.

II CAPITAL OF THE BANK

Article 3.

The Federation owns capital of the Bank 100%.

Current capital of Investment Bank of the Federation of Bosnia and Herzegovina d.d. Sarajevo (hereinafter referred to as: IBF BIH) becomes the capital of the Bank as of the day this Law comes into force.

The capital will increase for the amount of 400.000.000,00 KM from the budget of the Federation. The amount of 400.000.000,00 KM will be ensured through the budget of the Federation in equal installments during the course of the next four years, starting from 2008 through 2011.

The Bank capital consists of one business share owned exclusively by the Federation.

The Bank Assembly makes decision on increase and decrease of capital, as well as of dynamic of capital payment, at the proposal of the Government of the Federation of Bosnia and Herzegovina (hereinafter referred to as: The Government of the Federation) on behalf of the Federation.

III GOALS OF BUSINESS OPERATIONS AND ACTIVITY

1. Goals of business operations

Article 4.

The goals of business operations of the Bank incite systematic, sustainable and even economic and social development of the Federation, within the competencies of the Bank, in accordance with general strategic goals of the Federation, and they refer to the following in the first place:

a) Financial goals:

1. Financing of reconstruction and development of the economy of the Federation and increase of employment;
2. Financing of economic infrastructure;
3. Financing of improvement of agricultural production;
4. Financing of rural development and incitement of construction of modern agricultural and tourist rural economies and development of rural tourism;
5. Financing of export incitement

b) Comprehensive goals:

1. Improvement of education and introduction of new technologies and innovations of business methods;
2. Support to the development of small and medium entrepreneurship;
3. Insurance of export of goods and services from the Federation against non-market risks;
4. International promotion of developmental possibilities of the Federation;
5. Improvement of environmental control;
6. Development of single economic space;
7. Development of production chains of domestic products;
8. Even development of the Cantons of the Federation.

2. Activities

Article 5.

In order to meet the goals from Article 4 of the Law, the Bank:

1. Approves loans and other placements;
2. Manages overall domestic and foreign funds earmarked for development projects, on behalf of the Federation;
3. Receives financial deposits intended for financing development projects as well as for ensuring loan return;
4. Performs operations of financial leasing;
5. Provides all forms of fiscal guarantees at home and toward abroad;
6. Issues bills of exchange and bonds and borrows;
7. Buys and sells claims in order to manage credit risks and other risks (factoring);
8. Performs activities with securities in accordance with the law regulating issuing and turnover of securities;
9. Provides services of financial management;
10. Invests and performs transactions with real estate and movables in order to run credit and other risks;
11. Performs other tasks on its own behalf and at its own expense, on its own behalf and for other party's expense as well as on other party's behalf and other party's expense (commission business);
12. Performs other activities arising from Item 1 through Item 11 of this Article;
13. Performs other financial activities and provides services in order to implement activities prescribed by this Law and decisions of the Government of the Federation;
14. Performs payment operations for users of Bank's services;
15. Purchases and sells foreign currency.

Deposits may be received in both local currency and foreign currency.

Loans and guarantees may be approved in both local currency and foreign currency.

The Government of the Federation may entrust the Bank the other financial operations as well, if it is deemed to be in the interest of the Federation;

Loans approved, guarantees issued and other operations of the Bank are to be insured in the way common for banking business operations.

Applying principles of banking business operations, the Bank reduces the risk of business operations to the minimum.

Article 6.

Fiscal deposits from Article 5, Paragraph 1. Item 3 of this Law, which, besides the capital of the Bank, are the sources of funds necessary for business operations of the Bank, consists of the following:

- Funds ensured from the budget of the Federation in “The special part of the Budget – Plan of development programs”, which are financed from the Budget in accordance with the programs of relevant ministries;
- Funds ensured from the Budget for all other developmental purposes;
- Funds from local supports and supports from abroad (loans and grants) earmarked for financing developmental projects planned by the Budget and
- Funds of users of credit instruments of the Bank for the purpose of managing credit and other risks.

Government of the Federation (“Official gazette of the Federation of BiH”, No.:19/06) performs deposit insurance from Paragraph 1 of this Article, in accordance with the Law on budgets of the Federation of Bosnia and Herzegovina.

Article 7

Profit realization is not primary goal of business operations of the Bank, but the Bank applies basic principles of cost-effectiveness, liquidity and placement safety within limits of established developmental goals and developmental conditions of financing.

Article 8

To ensure sources necessary to perform activity from Article 5 of this Law, the Bank may issue bonds and other debtor’s securities and may borrow and take credits.

The Bank may provide funds in the Federation, Bosnia and Herzegovina and abroad.
The Government of the Federation approves borrowing from Paragraph 1 of this Article.

The Federation guarantees liabilities of the Bank from Paragraph 1 of this Article.

IV. BANK AUTHORITIES

Article 9

Authorities of the Bank are as follows: Assembly, Supervisory Board, Managing Board and Auditing Board.

1. Assembly

Article 10

Government of the Federation constitutes the Assembly of the Bank (hereinafter referred to as: the Assembly).

Prime Minister of the Government of the Federation is “ex officio” chairperson of the Assembly.

Competence of the Assembly:

The Assembly makes decisions on the issues prescribed by the Law and Articles of Incorporation of the Bank, and especially as follows:

1. Strategy and plans for business operations and development;
2. Financial reports of the Bank, distribution of profit gained and loss cover;
3. Request for payment (increase) of fixed assets;
4. Appointment and revocation of the members of Supervisory Board;
5. Control measures and supervision over business operations;
6. Adoption and amendment to the Articles of Incorporation of the Bank;
7. Application for indemnity that the Bank may have against members of the Managing Board and Supervisory Board and stand-in members of Managing Board as well as appointment of representatives in judicial proceedings, in case the Bank may not be represented by members of the Managing Board or Supervisory Board.

Competence of the Assembly may be extended through Articles of Incorporation, but making decisions from Paragraph 1, items 2 and 5 of this Article may not be excluded from its competence.

Articles of Incorporation of the Bank determine *modus operandi* and dynamic of the sessions of the Assembly.

The Assembly meets at least annually on a regular basis.

2. Supervisory Board

Article 11

Supervisory Board consists of seven members.

Supervisory Board incorporates chairperson and six members who are appointed and revoked by the Assembly at the proposal of the Federal Ministry of Finances (hereinafter referred to as: the Ministry) in conformity with the Law.

Chairperson and members of Supervisory Board are appointed at the same time for the period of five years. The same person may be appointed to the position of the chairperson or member of Supervisory Board two times consecutively at the most.

Chairperson and members of Supervisory Board may be revoked before expiry of their mandate at their personal request or in case they fail to act in accordance with the Law, documents of the Bank, abuse the office or if there arise circumstances incompatible with exercising duties in Supervisory Board.

Chairperson and members of Supervisory Board are to have university degree in economy, law or technical field and professional experience of at least five years.

The following persons cannot be appointed chairperson and member of Supervisory Board:

- a) Persons with a criminal record and sentenced for business crime in the field of economic and financial crime, during the course of 5 years as of the day of legal validity of the sentence, excluding the period of imprisonment and
- b) Persons banned from exercising activity within the competence of Supervisory Board by final judgement.

Chairperson and members of Supervisory Board may not perform party-related activities in political party. Chairperson and members of Supervisory Board may not be members of supervision, management and administration authority of any commercial bank.

Supervisory Board reports to the Assembly.

Article 12

Supervisory Board:

1. Appoints and revokes the members of the Managing Board;
2. Provides authorizations for certain programs;
3. Supervises business operations of the Bank;
4. Supervises the work of the Managing Board
5. Defines business goals and strategy of business operations of the Bank;
6. Develops proposals of the strategy of maintaining the rate, type and distribution of capital;
7. Develops strategy of risk and risk profile of the Bank, as well as ensures implementation of risk management policies and procedures;

8. Adopts reports on business operations of the Bank prepared by the Managing Board on semi-annual and annual statement of accounts with balance sheet and income statement as well as other reports within their competence;
9. Adopts annual report prepared by internal and external auditing;
10. Submits to the Assembly for consideration and adopts proposal of annual report on business performance of the Bank with financial report and reports from internal and external auditing, reports on work of Supervisory Board and Auditing Board and business plan of the Bank for the following business year;
11. Represents the Bank in relations with members of the Managing Board;
12. Appoints and revokes Auditing Board and Auditor General of internal audit of the Bank;
13. Appoints and revokes Credit Committee of the Bank at the proposal of the Managing Board of the Bank;
14. Proposes profit distribution and manner to cover loss;
15. Prepares instructions and other documents for implementation of credit policy;
16. Forms reserves to the expense of expenditures for credit loss;
17. Establishes proposal of Articles of Incorporation of the Bank;
18. Prepares rule books for Supervisory Board and Auditing Board as well as other general and internal documents of the Bank, business and other policies and procedures;
19. Establishes temporary task groups and defines their membership and tasks;
20. Ensures implementation of adequate internal and external auditing; and
21. Decides on the issues that no other authority of the Bank is granted right to do according to this Law or Articles of Incorporation of the Bank.

Article 13

Once Assembly adopts it, the Government of the Federation submits report on business performance and business plan to the Parliament of the Federation of Bosnia and Herzegovina for adoption on annual basis.

Article 14

Supervisory Board sessions are held as necessary, and quarterly at least.
Two-thirds majority of the total number of members is necessary for the session, and to have decisions made by Supervisory Board adopted, it is necessary to have common majority of total number of members.

3. Managing Board

Article 15

Managing Board organizes the work and runs business operations of the Bank.

Managing Board consists of the President, Vice-President and Executive Director.

Supervisory Board appoints President and vice-president of the Managing Board as well as executive directors by the means of vacancy announcements in compliance with constitutional provisions on proportional representation of constituent nations.

Article 16

President chairs the Managing Board, runs business operations, represents and presents the Bank, implements decisions of Supervisory Board and Auditing Board and is held liable for legality of business operations.

President of the Managing Board may transfer part of the authorities to other persons.

Mandate of the President of the Managing Board lasts for four years and may be renewed only once.

Position of the President of the Managing Board, his/her authorities, responsibilities and rights are defined by contract between Supervisory Board and President of the Managing Board.

In the absence of the President of the Managing Board or in case he/she is prevented to attend, Vice-President of the Managing Board presents and represents the Bank.

Vice-President is appointed for the same period of time as President of Managing Board is.

Position of the Vice-President of the Managing Board, his/her authorities, responsibilities and rights are defined by contract between Supervisory Board and Vice-President of the Managing Board.

Article 17

Executive directors are appointed and revoked by Supervisory Board at the proposal of the President of the Managing Board for the same period of time as President of Managing Board is appointed.

Executive directors organize work, represent the Bank and are liable for legality of the business operations and its volume that are defined by the document prepared by the President of the Managing Board.

Wage and other material rights of executive director are regulated by the contract between President of the Managing Board and executive director, with previously granted approval by Supervisory Board.

Article 18

Members of Managing Board are to have university degree in economic or legal field as well as professional experience of at least five years.

The following persons can not be members of the Managing Board:

- a) Persons with criminal record and sentenced for business crime in the field of economic and financial crime, during the course of 5 years as of the day of legal validity of the sentence, excluding the period of imprisonment;
- b) Persons banned by final judgement from exercising activity within the competence of Managing Board, and
- c) Persons older than 65 years of age at the day of appointment.

Members of Managing Board cannot perform party-related activities in any political party.

Article 19

Members of Managing Board may be relieved of duty at their own request before expiry of their mandate, or in case they do not act in conformity with the Law and/or documents of the Bank and in case of abuse of an office, or under other circumstances incompatible with exercise of one's duty in the Managing Board.

Article 20

President and Vice-President of the Managing Board report to Supervisory Board for their work. Executive directors report to the President of the Managing Board and Supervisory Board for their work.

Article 21

The Bank has Bank Secretary that Supervisory Board appoints and revokes at the proposal of the President of the Managing Board, which is preceded by vacancy announcement.

Wage and other material rights of the Secretary are regulated by the contract between the President of the Managing Board and Bank Secretary, with previously granted approval of Supervisory Board.

Bank Secretary is authorized to implement decisions of the Supervisory Board, Auditing Board and President of the Managing Board.

Bank Secretary is responsible for the preparation of the sessions and keeping minutes of Supervisory Board and Auditing Board.

4. Auditing Board

Article 22

The Bank has Auditing Board that is appointed and revoked by the Supervisory Board.

Auditing Board consists of President and four members that are appointed at the same time for the period of four years. The same person may be appointed President or member of Auditing Board consecutively twice at the most.

Auditing Board:

1. Is liable for implementation of external audit;
2. Submits financial reports to the Supervisory Board;
3. Supervises operations of internal auditing and
4. Carries out audit of financial operations of the Bank at the request of the Supervisory Board and reports to the Supervisory Board about it.

Article 23

Neither President and member of Auditing Board may be appointed from the group, member of which is the President nor they may be appointed from amongst members of the Supervisory Board; they can not be member of the Managing Board or come from amongst employees of the Bank; likewise, they may not have direct or indirect financial interest in the Bank, with an exception of the fee based on that position.

Fee and other rights of the members of Auditing Board are defined by the contract based on decision of the Supervisory Board.

Auditing Board reports directly to the Supervisory Board.

5. Internal Auditing

Article 24

The Bank has Internal Auditing Service (hereinafter referred to as: Internal Auditing), which is led by Internal Audit General (hereinafter referred to as: Internal Auditor).

The Supervisory Board makes decision on appointment and revocation of Internal Auditor.

Internal Auditor is responsible for the following: identification, monitoring and evaluation of business operations risk and check up if the Bank is provided with adequate system of internal audit, ensuring that

risks are managed in the way that reduces risks to acceptable level, and monitoring of compliance of business operations of the Bank with the law, other regulations and general documents, and monitoring and evaluation of established business operations within the Bank.

To implement its competencies, Internal Auditor has to have authorities for unrestricted and undisturbed work.

Internal Auditor cooperates with the Auditing Board and reports to the Supervisory Board.

Wage and other material receipts of Internal Auditor are defined by the contract made between the Supervisory Board and Internal Auditor.

6. Credit Board and Liquidity Committee

Article 25

The Bank has Credit Board consisting of seven members who, by virtue of their office are members of the Managing Board, and they are appointed and revoked from amongst executive directors, by the Supervisory Board at the proposal of the Managing Board of the Bank.

Manner of work, decision making, rights and responsibilities of Credit Board are defined by the Articles of Incorporation of the Bank and the Rulebook.

Article 26

The Bank has Liquidity Committee consisting of three to five members; the Managing Board appoints and revokes it at the proposal of the President of the Managing Board.

Method of the work, decision-making, rights and responsibilities of the Liquidity Committee are defined by the Articles of Incorporation of the Bank and the Rulebook.

V. DOCUMENTS OF THE BANK

1. Articles of Incorporation of the Bank

Article 27

The Supervisory Board establishes the proposal of the Articles of Incorporation, i.e. its amendments, at the proposal of the Managing Board and delivers it to the Government of the Federation for adoption.

Articles of Incorporation regulates the following obligatorily:

1. Organizational parts of the Bank;
2. Authorities of the Bank and their scope of work;
3. Internal organization and competence of the authorized employees;
4. Organization, work method, scope of work and responsibilities of the boards and committees;
5. System of internal controls;
6. Internal and external auditing;
7. Rules of business, general documents and business policies of the Bank;
8. Method of technical and financial control in implementation of financing and
9. Other issues important for the work of the Bank.

2. General documents

Article 28

Supervisory Board enacts general documents at the proposal of the Managing Board.

General documents of the Bank regulate internal work structure and job classification and classification of work tasks as well as other issues important for the work of the Bank.

3. Business policies

Article 29

Business policies ensure comprehensive implementation of international accounting standards and international standards of financial reporting as well as application of banking business principles and standards.

Supervisory Board introduces business policies in accordance with the Articles of Incorporation of the Bank.

The Bank will ensure the adoption of the following business policies, at least:

- Capital management policies and maintaining its value;
- Policies on business of credit granting and issuing guarantees;
- Policies on monetary deposits receiving;
- Policies on the method of attending to business on one's own behalf at somebody else's expense, as well as businesses on somebody else's behalf and somebody else's expense (commission business);
- Policies on defining, evaluation and treatment of instruments ensuring debt collection;
- Policies on identification, measuring and evaluation of the risk (credit risk, solvency risk, interest risk and exchange risk, risk of exposure of the Bank to one person or a group of connected persons, operational risk and similar);
- Policies on risk management and ensuring due application of all internal regulations with regards to risk management;
- Policies on establishing reserves for credit and other losses;
- Policies on taking over (purchase) of property based on uncollected debts from credit relations and their further sale for the purpose debt settling;
- Policies of interest rates and banking services fees;
- Policies on the method of management by the property of the Bank;
- Policies on management of risk from money laundry and financing terrorism;
- Policies on establishing internal control systems and their efficient functioning;
- Policies on work method of internal auditing and engagement of external auditor;
- Accounting and other policies necessary for the work of the Bank.

Business policies are based on the principal of conservative and reliable business in conformity with banking principles and for the purpose of preserving capital substance of the Bank.

VI. SUPERVISION AND AUDITING

Article 30

Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter referred to as: the Agency) supervises the business operations of the Bank in conformity with the Law, special decision of the Government of the Federation on criteria and method of performing supervision over business operations of the Bank and in conformity with Articles of Incorporation of the Bank and prescribed business policies of the Bank.

Government of the Federation enacts the decision from the Paragraph 1 of this Article at the proposal of the Agency, taking into consideration specific features of business operation of the Bank established by this Law.

VII. FINANCIAL REPORT, PROFIT DISTRIBUTION AND LOSS COVER

3. Financial report

Article 31

Supervisory Board adopts annual report on work of the Management, introduces the proposal of annual financial reporting by the end of February of the current year at latest, for the previous year.

Together with the report on its work, work of Auditing Board, reports on internal and external audits, Supervisory Board submits annual financial report on business performance of the Bank to the Assembly for the adoption, and this is done through the Ministry.

Business year implies calendar year.

Assembly enacts annual financial report of the Bank by May 31. of the current for the previous year, at latest.

3. Profit

Article 32

Supervisory Board establishes the rate of profit and proposes profit distribution to the Assembly.

The Assembly makes decision on profit distribution.

Profit is distributed in accordance with the decision, as follows:

- to the reserves of the Bank;
- for the purpose of increase of fixed capital of the Bank.

Bank is exempted from profit tax.

3. Loss

Article 33

If the Bank suffer a loss in its business, it is covered from the capital.

If losses made can not be covered in the manner prescribed in the previous Paragraph, the Assembly makes decision on the method and measures to cover the loss, after adopting annual financial report of the Bank.

VIII. TRANSITIONAL AND FINAL PROVISIONS

Article 34

Banks operates in conformity with this Law and other laws unless they are contrary to the provisions of this Law.

Provisions of the Law on corporations and the Law on banks, with exception of the provisions regarding the approvals of Labor Agency, are adequately applied to the organization and business operations of the Bank as well as providing banking and other financial services, establishing branch offices and legal entities, supervising the Agency, deposit insuring, provisional administration, liquidation, bankruptcy and penalty clauses are, unless otherwise prescribed by the Law.

The following regulations are not applied to the Bank: regulations on appropriating and maintaining required reserves with Central Bank of Bosnia and Herzegovina and restrictions to the scope and dynamic of investment increase; regulations on organization and method of work of the authorities of the government administration; regulations on civil servants and employees; regulations on credit and guarantee deals of extra-budgetary users; Law on deposit insurance and other regulations regulating relevant matter.

Article 35

The Government of the Federation will make decision from Article 30, Paragraph 2 of this Law within 30 days from the date this Law comes into force.

Article 36

The Bank may stop its operations only in case this Law falls in abeyance or based on a special law.

In case the Bank cease to operate by the fall of this Law in abeyance, all property of the Bank remaining after meeting obligations is transferred to the owner of the Bank – to the Federation.

Article 37

With this Law coming into effect, the Bank assumes all rights and liabilities, including all employees and property of IB FBiH.

Administration and management authorities of IB FBiH continue to exercise its duty until new authorities are appointed.

Article 38

Decision on foundation and business operations of Investment Bank of the Federation of Bosnia and Herzegovina d.d. Sarajevo – cease to be valid with coming into force of this Law – clarified text (“Official gazette of the Federation of BiH”, No. 67/06).

Article 39

Government of the Federation will introduce regulations on implementation of this Law within 90 days from the date this Law comes into force.

Federal Minister of Finances introduces bylaws for operationalization of this Law within 90 days from the day, regulation from Paragraph 1 of this Article comes into force.

Article 40

This Law comes into force eighth day from the day it is published in “Official gazette of the Federation of BiH”.

CHAIRPERSON
OF HOUSE OF REPRESENTATIVES
OF THE PARLIAMENT OF BIH FEDERATION

Safet Softic

CHAIRPERSON
OF HOUSE OF PEOPLE
OF THE PARLIAMENT OF BIH FEDERATION

Stjepan Kresic