Pursuant to Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b and Article 37 of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No. 59/13 and 4/17), Article 61, 70, 89, 92 and 99 of the Banking Law of Republika Srpska ("Official Gazette of Republika Srpska", No. 4/17, 19/18 and 54/19), Article 6, Paragraph 1, Item b and Article 19, Item b of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No. 63/17), the Management Board of the Banking Agency of Republika Srpska, at its 32nd session, held on 15 June, 2021 adopted the

DECISION
ON
MANAGEMENT SYSTEM IN A BANK

1. General provisions

Decision subject

Article 1

(1) This Decision shall define in more detail:

1) minimum requirements for the establishment and application of a comprehensive, reliable and efficient management system referred to in Article 87 of the Banking Law of Republika Srpska (hereinafter: the Law),

2) rules for assessing the fulfillment of conditions for performing the function of a member of the bank governing body and

3) minimum requirements for conscientious conduct of members of the bank governing body.

(2) The provisions of this Decision shall apply to banks seated in Republika Srpska, to which the Banking Agency of Republika Srpska (hereinafter: the Agency) has issued an operating license.

(3) The provisions of this Decision shall be applied by the bank on an individual and consolidated basis.

(4) In terms of Paragraph 3 of this Article, the remuneration provisions referred to in Subsection 2.5. of this Decision apply at the level of the banking group, the bank, the bank's subsidiary, including the bank's subsidiaries established in financial centers with a more favorable tax regime.

(5) In terms of issues related to the management system in the bank, conscientious conduct of members of the bank's governing body and assessment of fulfillment of conditions for members of the bank's governing body which are not regulated by this Decision, but are regulated by the Law of other by-laws, the provisions of that law or other by-laws shall apply.

Terms

Article 2

(1) The terms used in this Decision shall have the following meanings:

1) **The bank governing bodies** are the supervisory board and the bank management.

2) **Professional and ethical management standards** are rules, recommendations and best business practices that ensure reliable and good management of the bank, compliance with law and by-laws and internal acts of the bank, and especially contribute to adequate risk management of the bank, including operational and reputational risk management.

3) **Conflict of interest at the bank level** is a circumstance or set of circumstances that jeopardize or may endanger the bank interests, inter alia, due to various activities and operations of the bank, members of the banking group, other persons in a special relation with the bank and related persons, business lines or organizational units of the bank, in relation to clients, shareholders, employees, significant suppliers, business partners of the bank and other relevant persons.

4) **Conflict of interest at the employee level** is a circumstance or set of circumstances in which the personal interest of an employee of the bank or a member of the supervisory board affects or could affect the impartial and objective performance of tasks and responsibilities of that employee or member of the supervisory board in relation to the bank interests.

5) **Risk management culture** (hereinafter: risk culture) minimally includes standards, attitudes and actions in order to ensure general knowledge of all levels of the bank about risks, risk appetite and risk management, as well as internal controls, which have an impact on risk decisions and risk appetite by the bank.

6) **Risk appetite** is the overall level of risk that the bank is willing to take in order to achieve its business strategy and objectives. The propensity to risk appetite also includes tolerance towards risks, i.e. determining the level of risk that the bank considers acceptable.

7) **Risk-bearing capacity** represents the highest total level and types of risk that the bank can take, taking into account the available capital and liquidity, the quality of the risk management system and internal control system, and regulatory constraints.

8) **Risk exposure limits** (hereinafter: risk limits) are adopted quantitative limits and measures for risk appetite and their concentration by products, operations, business lines, members of the banking group and other risk management criteria, which allow the bank to allocate risk by business lines and types of risks, taking into account the adopted risk appetite and the ability to bear the risk.

9) **Risk mitigation** means a set of strategic decisions, methods, criteria and procedures for accepting, avoiding, mitigating or transferring an established level of risk.

10) **Bank risk profile** is a measure, i.e. assessment of the structure and level of all significant risks to which the bank is exposed or might be exposed in its operations, where quantitative methods used to measure risk are documented, and manners to assess the risks the bank is unable to quantify are clearly defined.

11) **Stress testing** is a risk management technique used to assess the potential impact of specific events and / or changes in several relevant risk factors on the bank's financial condition or on a particular portfolio of the bank's exposure (forward looking technique). This includes scenario analysis and / or sensitivity analysis.

12) **Scenario analysis** is an assessment of the bank's resilience or the bank's exposure portfolio in a particular scenario, which measures the impact of simultaneous change of several relevant risk factors on the bank's financial condition, i.e. the bank's exposure portfolio in clearly defined and internally harmonized stress conditions, which cover various risks and segments of the bank's operations.

13) **Sensitivity analysis** is an assessment of the potential impact of one particular risk factor or more simple risk factors (simple multi-risk factors) on the capital and liquidity of the bank, i.e. on a particular exposures portfolio or financial condition of the bank.

14) **Stress testing at the level of the bank's exposure portfolio** is an assessment of the potential impact of one or more risk factors on one or more of the bank's exposure portfolios.

15) **Data infrastructure** includes technical and organizational structure and capacities for collecting and maintaining data on the bank's risks, as well as information support, which ensures adequate data integration and risk reporting.

16) **The business support function** includes the activities of the bank performed by employees authorized to keep bookkeeping and administrative records and other background activities.

17) **The function of contracting transactions** includes the activities of the bank performed by employees authorized to contract transactions from which risks arise.

18) **Remunerations** are all forms of fixed and variable remunerations that include direct or indirect financial and non-financial payments and other forms of remunerations or benefits to which employees are entitled, based on contracts concluded with the bank or other legal entity from the banking group.

Financial payments, other forms of remunerations and benefits include: salaries, reimbursement of costs, performance bonuses, including remunerations in the form of shares, stock options, profit sharing, discretionary pension benefits, life insurance policies, debt forgiveness or reduction of liabilities under basis for repayment of loans to employees with a significant impact on the bank's risk profile during the period of notice of termination of employment and other similar forms of remunerations and benefits, including additional agreed severance pay and similar benefits in cases of early termination agreed on an individual and discretionary basis.

Non-financial payments and benefits include non-monetary benefits related to additional health insurance, benefits of using various technical means that are not used in business activities (for example, use of a business vehicle, mobile phone, computer, etc. for private purposes) and other additional privileges.

Remunerations also include non-financial payments and benefits provided to bank employees by another legal entity - a member of the same banking group or legal entities that have a special relation with the bank.

The total remuneration consists of a fixed and a variable part of the remuneration. Fulfillment of the requirements from this Decision implies that the amount of remuneration is expressed on a gross basis.

19) **Variable remuneration** is a part of the total remuneration that depends on the performance of the employee, business unit and the bank, and is based on pre-defined and measurable criteria. Variable remuneration and benefits are not considered payments and benefits that do not depend on a discretionary decision, i.e. to which all employees in the bank are entitled and which do not encourage them to take risks for the bank (e.g. mandatory legal contributions for pension, social and health insurance, collective insurance policies and contracted health examinations of all employees, salary remuneration in accordance with legal regulations and the collective agreement, etc.).

20) **Business unit** is an organizational part of the bank for which the bank can independently assess performance.

21) **Fixed remuneration** is a part of the total remuneration that represents the difference between the total amount of the remuneration and the variable part of the remuneration and is based on pre-defined criteria.

22) **An employee of a bank** is a private individual who, on the basis of an employment contract or some other contract concluded with the bank, performs certain tasks for the bank. In terms of this Decision, the procurator of the bank is also considered an employee.

In the case of outsourcing, by which the bank has contractually entrusted the performance of certain activities to service providers who are members of the banking group, employees in the sense of this Decision are also considered private individuals who are directly involved in the provision of services to the bank for the purpose of performing certain tasks, which the bank would otherwise perform itself.

23) **Identified (relevant) employees** are all employees whose professional activities have a significant impact on the risk profile of the bank (hereinafter: identified employees). Identified employees include at least the following categories of employees:

1. members of the bank supervisory board,
2. members of the bank management,
3. senior management,
4. heads of bank control functions,
5. persons who take risks for the bank and
6. all other employees in the bank whose activities have a significant impact on the risk profile of the bank, who according to the corresponding range of total remunerations, together with discretionary pension benefits, are at the same or higher level in relation to senior management and risk takers.

Senior management, in terms of this paragraph, includes the heads of organizational parts of the bank of the highest hierarchical level (e.g. main branch, branch, etc.) and the heads of significant business units of the bank.

24) **Persons who assume risks for the bank** are employees whose professional activities have a significant impact on the risk profile of the bank, including employees in trading and sales departments who in the area of their responsibilities conclude transactions that have a significant impact on the risk profile of the bank or other persons authorized to conclude contracts and taking over risky positions of the bank within the assigned powers and responsibilities. In addition to employees whose individual professional activities have an impact on the bank's risk profile, persons who take risks for the bank also include those employees whose professional activities on a collective basis (as members of a group of employees) have an impact on the bank's risk profile.

25) **Discretionary pension benefits** are pension benefits that the bank grants to an employee on a discretionary basis within the package of the variable part of the remuneration.

26) **Bonus pool** is the maximum allowed amount of the variable part of the remuneration that can be awarded in the allocation process at the bank level or at the level of the bank's business unit.

27) **Award** is the approval of a variable part of the remuneration for a certain accounting period, regardless of the time of payment of the awarded amount.

28) **Vesting** is the moment when the employee becomes the legal owner of the variable part of the remuneration, which is assigned to him/her regardless of the manner and time period of payment, including the case when the payment is subject to additional retention period or contractual provision for reimbursement.

29) **Accrual period** is the period during which performance is assessed and measured for the purpose of determining the variable part of the remuneration to be awarded. The accounting period is at least one year.

30) **Deferral** is a contractual provision according to which the variable part of the remuneration is not paid immediately after the end of the accounting period, due to the adjustment of the

remuneration with the performance and risks taken from the previous period. Remunerations are deferred if they are not paid to the recipient, i.e. if the rights from financial instruments are not transferred to him/her.

31) **Deferral period** is the period during which the bank postpones the payment of the variable part of the remuneration and occurs after the end of the assessment period, i.e. the date of determining this part of the remuneration, and lasts at least three years.

32) **Malus** is a contractual provision according to which the employee agrees that the bank is not obliged to pay or transfer rights over part or all of the deferred unpaid variable remuneration, if the realization of previously assumed risks leads to impaired performance of the bank or business unit, i.e. poorer financial result of the bank or the business units or in cases of fraud or other conduct with intent to defraud or gross negligence which have led to significant losses. The conditions, i.e. the criteria according to which the provision on malus will be activated must be defined in detail by the contract between the bank and the employee, and the period during which this provision can be applied must be defined.

33) **Claw back** is a contractual provision according to which the employee undertakes to return to the bank a certain amount of its variable part of remuneration, by returning the paid amount or by returning the rights from financial instruments, if the realization of previously assumed risks leads to impaired performance or poor financial result. The conditions and criteria according to which the provision on claw back will be activated must be defined in detail in the contract between the bank and the employee, including the period in which the provision can be applied.

34) **Remuneration retention** is a contractual provision according to which the employee agrees that in case of payment of a variable part of remuneration in the form of eligible financial instruments when the rights from those instruments are transferred, he/she may not transfer rights from those instruments during a pre-agreed period.

35) **Retention period** is a period during which the employee retains a variable part of remuneration paid in the form of eligible financial instruments, on the basis of which rights may not be transferred during that period. The retention period begins with the transfer of rights from financial instruments.

36) **Assessment of a member of the bank's governing body** is an assessment of his/her suitability in terms of good reputation, appropriate knowledge, abilities, skills and experience, ability to act openly, honestly and independently, and readiness and ability to devote sufficient time to perform the function of a member of the bank's governing body.

37) **Assessment of the holder of a key function** is an assessment of his/her suitability in terms of good reputation and honesty, as well as knowledge, skills and experience to perform key functions.

38) **The director function** in terms of this Decision includes the following functions in legal entities that are not banks:

1. management function, within which the person is authorized to conduct operations in the company, including the function of independent entrepreneur and procurator (hereinafter: executive director function),

2. the function of supervision, within which the person is authorized and responsible for the supervision and monitoring of the operations of the company (hereinafter: non-executive director function).

In terms of this definition, the executive director function in the bank is considered to be membership in the bank's management, and the non-executive director function is membership in the bank's supervisory board.

39) **Holders of key functions** are persons who are not members of the bank's governing bodies but have a significant influence on the bank's management and its operations and include control function heads and other holders of key functions, identified by the bank based on the bank's risk assessment.

40) **Training** is an education program, i.e. the bank initiative whose goal is to prepare a member of the bank's governing body, including a newly appointed member, to perform a new function in the bank's governing body.

41) **Qualification** is a regular or extraordinary education program, which the bank conducts in order to improve the knowledge, skills and abilities of the members of the bank's governing bodies.

(2) Terms that are not defined by this Article, and are used in this Decision, have the meaning in accordance with the Law and other Agency's bylaws.

Definition of risk

Article 3

(1) For the purposes of risk management in accordance with this Decision, the bank shall apply the following definitions of risk:

1) **Legal risk** is the existing or potential risk of losses due to litigation due to non-fulfillment of a contractual or legal obligation, making business decisions that are determined not to be enforceable, negatively affecting the operations or financial position of the bank.

2) **Model risk** is the existing or potential risk of losses due to business decisions and risk management decisions that would be based on the results of internal models, including models for determining internal capital requirements, product prices, valuation of financial instruments and similar. Losses could occur due to inadequate model initial settings, model implementation errors, or improper model use.

3) **Conduct risk** is the existing or potential risk of losses due to inappropriate provision of financial services, including cases of intentional or unintentional violation of rules and regulations.

4) **Political-economic risk** is the existing or potential risk of losses due to the bank's inability to collect receivables due to restrictions set by regulations / acts of state and other authorities from the debtor's country of origin, as well as general and systemic circumstances in that country.

5) **Transfer risk** is the existing or potential risk of losses due to the bank's inability to collect receivables denominated in a currency other than the official currency of the debtor's country of origin, due to restrictions on payment of obligations to creditors from other countries in a certain currency which is determined by acts of state and other bodies from the debtor's country of origin.

6) **Credit and foreign exchange risk** is the existing or potential risk of losses to which the bank that approves placements in foreign currency or with a foreign exchange clause is additionally exposed and which arises from the debtor's exposure to foreign exchange risk.

7) **Residual risk** is the existing or potential risk of losses if credit risk mitigation techniques are less effective than expected or their application does not sufficiently reduce the risks to which the bank is exposed.

8) **Excessive leverage risk** is the risk arising from the bank's vulnerability to leverage or potential leverage and which may lead to undesirable changes to its business plan, including forced sale of assets, which may result in loss or adjustment of the value of its remaining assets.

9) **Management risk** is the existing or potential risk of losses due to the fact that the bank due to its size and / or complexity of operations has a limited capacity to establish adequate management mechanisms, systems and controls.

10) **Free delivery risk** is the existing or potential risk of losses when the payment of securities, currency or commodities is made before they are received or the relevant delivery is made before they are paid, or if the payment or delivery is not in accordance with the expected time dynamics.

11) **Business risk** is a negative unexpected change in the volume of operations and / or profit margins of the bank that can lead to significant losses and thus reduce the market value of the bank. Business risk can be primarily due to a significant deterioration of the market environment and changes in market competition or consumer behavior in the market.

12) **Migration risk** is the existing or potential risk of losses due to changes in the fair value of credit exposure, and as a consequence of changes in the client's rating.

13) **Profitability (earnings) risk** is the risk that arises due to inadequate structure and distribution of earnings or the inability of the bank to provide an appropriate, stable and sustainable level of profitability.

14) **Investment risk** is the existing or potential risk of losses due to changes in the market values of the bank's investments in fixed assets and investments in other legal entities.

15) **Capital risk** refers to the inadequate capital structure to support the volume and type of business activities of the bank or the difficulties faced by the bank in obtaining new sources of capital, especially in cases where there is an urgent need to increase capital or in unfavorable conditions.

(2) Terms that are not defined by this Article, and are used in this Decision, have the meaning in accordance with the Law and other Agency's bylaws.

2. Management system in a bank

2.1. General requirements

Management system in a bank

Article 4

(1) The bank is obliged to establish and implement a comprehensive, reliable and efficient management system, which is proportional to the size and internal organization of the bank, and the type, scope and complexity of its operations, i.e. business model, risk profile of the bank and established risk appetite, which includes:

1) transparent, efficient and stable organizational structure with clearly defined and consistent levels of responsibility,

2) efficient and reliable risk management system, which includes efficient and reliable processes and procedures for determining, assessing, i.e. measuring, limiting and mitigating, monitoring and reporting on the bank's risk exposure,

3) an appropriate and efficient system of internal controls of the bank in all areas of its operations, including clear administrative and accounting procedures,

4) remuneration policies and practices that are harmonized with the scope of the assumed risk and that promote stable, efficient and reliable risk management of the bank,

5) adequate procedures for internal assessment of capital adequacy (hereinafter: ICAAP) and liquidity of the bank (hereinafter: ILAAP) and

6) adequate recovery plans.

(2) Special requirements that the bank is obliged to meet with regard to ICAAP and ILAAP are defined by the Decision on the procedure of internal assessment of capital adequacy in the bank and the Decision on the procedure of internal assessment of liquidity adequacy in the bank, while the special requirements which the bank is obliged to meet in terms of recovery plans are defined by the Decision on recovery plans of the bank and the banking group.

Proportionality principle

Article 5

(1) The bank shall conduct an analysis with the aim of adequate application of the principle of proportionality referred to in Article 4, Paragraph 1 of this Decision, and shall take into account at least the following criteria:

1) the amount of the bank's assets and the structure of the bank's income and expenses,

2) available equity and debt instruments,

3) types of services provided to clients and types of clients (e.g. retail, companies, public sector, etc.),

4) business strategy, structure of business activities, measurability and predictability of business activity risks, including outsourced business activities,

5) structure of funding sources,

6) complexity of products and other bank contracts,

7) geographical presence and scope of activities in certain geographical areas.

(2) Based on the analysis of the criteria referred to in Paragraph 1 of this Article, the bank shall determine whether it is considered a significant bank, and accordingly assess how and to what extent it will apply the requirements related to compliance of the bank's management system with the business model, the bank's risk profile and established risk appetite, taking into account the general rule that banks with a larger volume and complexity of operations are required to have a more complex management system, while banks with a smaller volume and complexity of operations may have a simpler management system.

(3) The analysis of the criteria referred to in Paragraph 1 of this Article must be adequately documented, comprehensive and understandable, and the bank shall, at the request of the Agency, explain the manner in which it conducted it and submit all relevant documentation.

(4) The bank that is considered significant shall be obliged to apply all the provisions of this Decision, and the bank that is not considered significant shall not be obliged to apply the provisions referred to in Article 67, Paragraph 1 of this Decision. Irrespective of the results of the analysis of the criteria, the bank is obliged to ensure that the application of the principle of proportionality does not affect the achievement of the objectives of legal requirements and requirements of this Decision regarding comprehensiveness, reliability and efficiency of the bank's management system.

Bank strategy for risk appetite and risk management

Article 6

(1) The bank shall adopt and implement an efficient and comprehensive strategy for risk appetite and risk management (hereinafter: Risk Strategy), which is in line with the established business objectives, strategy and policy of the bank, and long-term economic interests of the bank, as well as regulations and requirements of the Agency.

(2) The risk strategy referred to in Paragraph 1 of this Article shall at least define the bank:

1) goals and basic principles of risk appetite and risk management of the bank;

2) the bank's propensity to take risks and the bank's risk tolerance. When determining the propensity to take risks, the bank is obliged to, in addition to quantitative information, take into account qualitative information, expert assessments and other factors from the macroeconomic environment that affect or may affect the bank's attitude to bank risks;

3) review of all bank risks and

4) objectives and principles of the bank's capital and liquidity management, including the basic principles of the bank's ICAAP and ILAAP.

(3) In the event that the bank has defined in its business objectives, strategy and policy a strong propensity to take risks, its governing bodies shall ensure a relatively reliable and efficient management system in accordance with Article 4 of this Decision. The risk strategy that is not based on a relatively reliable and efficient management system can lead to excessive risk appetite and significant exposure of the bank to strategic risk.

Bank policies for risk appetite and risk management

Article 7

(1) In order to adequately implement the Risk Strategy referred to in Article 6 of this Decision, the bank shall adopt and implement a comprehensive and effective risk appetite and management policy (hereinafter: Risk Policy) and other internal acts defining in detail the functions, systems, processes, procedures, activities and methodologies, as well as competencies, responsibilities (collective and individual) and reporting lines at all levels of the bank 's organizational structure.

(2) In accordance with the principle of proportionality, the bank shall ensure that the internal acts referred to in Paragraph 1 of this Article are appropriately harmonized with business objectives and strategy, risk appetite and risk profile of the bank, and values and long-term interests of the bank.

(3) The risk policy and other internal acts referred to in Paragraph 1 of this Article must be clearly defined and documented.

(4) The bank shall ensure that the Risk Policy and other internal acts referred to in Paragraph 1 of this Article are reviewed at least once a year and that they are revised as necessary, as well as in the event of any significant change in the bank's risk profile.

(5) The bank shall ensure that employees are timely and adequately acquainted with the content of all policies, procedures and other internal acts necessary for the performance of their work tasks.

Corporate culture, risk culture and code of ethics

Article 8

(1) The bank's governing bodies are obliged to define, adopt and supervise the implementation of corporate culture and risk culture, on the basis of which members of the bank's governing bodies and other employees are expected to be conscientious and responsible in assuming bank risk, applying high professional and ethical business standards. in accordance with the regulations, standards and internal policies of the bank, its code of ethics and rules for the prevention of conflicts of interest.

(2) In order to achieve the adopted standards of corporate culture and risk culture referred to in Paragraph 1 of this Article, the bank's supervisory board shall adopt a code of ethics and ensure its application. The code of ethics defines acceptable and unacceptable behavior of bank governing body members and employees and determines the policy of zero tolerance for the actions of individuals that may have a negative impact on the bank's reputation or is unacceptable from a legal, moral or ethical point of view.

(3) The bank is obliged to ensure regular monitoring of the compliance of the members of the bank's governing body and employees with the code of ethics and standards of corporate culture and risk culture. The compliance function is required to report regularly, and at least annually, to the bank's governing bodies on compliance with the bank's code of ethics and corporate and risk culture standards, including the identification of potential breaches and reporting on non-compliance issues. In the event that the compliance function determines significant irregularities and deficiencies, it is obliged to immediately notify the supervisory board.

(4) The bank management shall ensure that members of the bank's governing bodies and employees are familiar with the adopted standards of corporate culture, values and risk culture of the bank, risk appetite and risk tolerance, and code of ethics and rules for preventing conflicts of interest in the bank. This includes publishing internal acts in such a way that they are available to all employees and signing a statement by all employees that they are familiar with the adopted standards of corporate culture, values and risk culture of the bank, risk appetite and risk tolerance, and code of ethics and rules to prevent conflicts of interest in the bank.

Responsibilities of the bank governing bodies

Article 9

(1) Based on the competencies and responsibilities from the Law and this Decision, the supervisory board and the bank management shall assume full responsibility for the bank's operations, including responsibility for adopting, supervising and implementing the management system referred to in Article 4 this Decision, which ensures efficient and reliable management of the bank.

(2) The supervisory board and the bank management are obliged, in accordance with their competencies, to be adequately involved in the risk management process in the bank, and to allocate sufficient time and resources for consideration and risk management of the bank.

(3) The bank shall clearly determine the responsibilities related to the definition, adoption, implementation, monitoring of implementation, review, i.e. updating of strategies, policies and other internal acts. In doing so, the general responsibility of the bank's governing bodies that the objectives, strategies, policies and other internal acts referred to in Articles 6 and 7 of this Decision are:

1) defined and adopted,

2) adequate and implemented consistently in the stipulated manner,

3) regularly, and at least once a year, reviewed and reassessed, and that in case of significant changes in the bank, i.e. in the risk profile of the bank, as well as in the external environment in

which it operates, analysis of changes was performed and the need for their revision was considered,

4) harmonized with laws and bylaws and requirements of the Agency.

(4) In case the bank is a member of a banking group, the bank's governing bodies, in addition to the responsibility for compliance of objectives, strategies and policies and other internal acts with laws and regulations, shall also have responsibility for control of compliance with objectives, strategy and policies adopted at the level of a banking group.

Responsibilities of the supervisory board

Article 10

(1) Taking into account Article 9, Paragraph 3 of this Decision, the supervisory board of the bank shall:

1) determine the proposal of a comprehensive business strategy, policy and business plan of the bank, harmonized with its long-term objectives;

2) adopt the Risk Strategy referred to in Article 6, Paragraph 1 of this Decision and the Risk Policy referred to in Article 7, Paragraph 1 of this Decision;

3) supervise business decision-making and the work of the bank management, which includes monitoring and reviewing the performance of the bank management at the collective and individual level in terms of adequate implementation of objectives, strategies and policies referred to in Articles 6 and 7 of this Decision;

4) constructively and critically review and analyze proposals, information and decisions of members of the bank management;

5) perform a regular assessment of the efficiency of the management system referred to in Article 4 of this Decision and take appropriate measures to eliminate the identified deficiencies;

6) establish a transparent, efficient and stable organizational structure in accordance with Article 12 of this Decision;

7) establish, maintain and improve an efficient system of internal controls in the bank and ensure that the bank management provides conditions for their implementation;

8) at the proposal of the bank management, adopt an act for the establishment of permanent, efficient and independent control functions in accordance with Article 33, Paragraph 1 of this Decision, and adopt the methodology of each control function, as well as annual work plans of control functions;

9) appoint a person at a senior management level with exclusive responsibilities for risk management in the bank, who is independent in his/her work and clearly responsible for the risk management function (head of the risk management function);

10) ensure the active involvement of the persons referred to in Item 9 of this Paragraph when drafting the Risk Strategy and Risk Policy in accordance with Articles 6 and 7 of this Decision and when making all significant decisions on risk management;

11) provide the necessary competencies, organizational status, resources and direct reporting lines of the supervisory board and / or risk committee, if established, including the possibility for the person referred to in Item 9 of this Paragraph, in cases of specific developments in the risk area, to ask questions and warns the supervisory board and / or the risk committee, if established, without prejudice to the competences of the bank management, whereby the supervisory board and the risk committee, if established, determine the type, scope, form and frequency of risk

reporting which will submitted by the competent functions, organizational units, i.e. employees of the bank in accordance with the adopted internal acts of the bank;

12) adopt the final assessments of the members of the bank's governing bodies prior to their appointment;

13) adopt Remuneration Policies and Practices (hereinafter: Remuneration Policy) and ensure their implementation within the management system based on:

1. assessment of whether the bank takes into account the risks to which it is exposed or could be exposed in its operations when making payments, its financial position and long-term interests of the bank, clients, creditors, shareholders, supervisors, regulators and other interested parties,

2. cooperation with control and relevant corporate functions (e.g. human resources department, legal department, etc.), taking into account their contribution when drafting the Remuneration Policy,

3. consideration and decision-making on all significant policy exemptions for individual employees and its changes, including the procedure for determining identified employees, and monitoring the effects of such exemptions or changes on the established system of remuneration in the bank and risk management,

4. assessments of the adequacy of the procedure for determining identified employees;

14) make decisions on:

1. the bonus pool of the variable part of the remuneration that the bank will award and / or pay to all employees for a certain business year,

2. remuneration of members of the bank management and heads of control functions, on an individual basis,

3. reduction or abolition of the variable part of remuneration of employees, including activation of provisions on malus or claw back, if there is a significant impairment of performance or loss of the bank, in accordance with Article 50, Paragraph 3 of this Decision;

15) to perform regular assessment of the work of control functions, taking into account the following:

1. compliance of the bank's operations with applicable regulations, and internal policies and procedures,

2. reliability of financial reports on the bank's operations for internal and external use,

3. adequate and efficient implementation of the planned business activities of the bank,

4. clear, transparent and documented decision-making process, which prevents or limits conflicts of interest,

5. assessment of the efficiency of control functions performed by the bank management,

6. assessment of the internal audit on the functioning of the internal control system, i.e. on the quality of risk management in the bank's operations,

7. evaluation of the report on the work of control functions and

8. efficiency of procedures according to given recommendations and proposals of control functions;

16) undertake adequate measures to maintain or improve the efficiency of control functions, based on the results of the evaluation of the work of control functions;

17) at least once a year, adopt an adequate internal audit program of the bank and provide conditions for its implementation, which include the right of the internal audit function to unrestricted access to all records, documents, information, employees and premises of the bank.

(2) Exceptionally from Paragraph 1, Item 14 and 15 of this Article, the bank's general meeting approves the Remuneration Policy and the decision on the bonus pool of variable part of remuneration that the bank will award and / or pay to all employees for a certain business year and makes a decision on variable part of remuneration to the bank management members. The general meeting of the bank shall make a decision on the remuneration of the supervisory board, adhering to the requirements of Article 63 of the Law and the provisions of this Decision.

Responsibilities of the bank management

Article 11

Taking into account Article 9, Paragraph 3 of this Decision, the bank management is obliged to:

1) prepare a proposal of objectives, strategies and policies referred to in Articles 6 and 7 of this Decision for adoption by the supervisory board, and ensure their implementation at all levels of decision-making and in all business activities of the bank, as well as reporting to the supervisory board on their implementation;

2) establish clear and consistent lines of competences and responsibilities for risk appetite and management, including delimitation of competences and responsibilities between the supervisory board and other appointed committees in the bank, on the one hand, and management and other employees involved in the risk management process, on the other hand;

3) establish adequate communication, exchange of information and cooperation at all organizational levels of the bank in order to implement the objectives, strategies, policies, procedures and other internal acts for risk management;

4) provide an adequate number of employees with professional knowledge and experience in risk management of the bank, methodologies for assessment, i.e. measurement of risks to which the bank is exposed, stress testing and in the valuation of bank assets;

5) determine the holders of key functions in the bank and replacements for those employees, as well as the plan for replacement of individual holders of key functions due to possible long-term absence or unexpected termination of employment by the key employee;

6) periodically review, or if necessary, propose changes to the objectives, strategies and policies referred to in Articles 6 and 7 of this Decision, and adopt changes to the procedures of other internal acts of the bank;

7) maintain the efficiency of internal controls in the bank, including ensuring the security of information systems;

8) establish appropriate procedures for assessing the impact of the introduction of new or significantly modified products, processes, services or systems on the bank's exposure to risk;

9) adequately and timely undertake measures in the process of risk appetite and management in accordance with the Risk Strategy, Risk Policy, and procedures and other internal acts for risk appetite and management;

10) implement the decisions of the supervisory board on remuneration referred to in Article 10, Paragraph 1, Item 14 of this Decision in accordance with the Remuneration Policy. Remuneration to employees who are not members of the bank management or heads of control functions may be determined by the bank management on a group basis. The bank management is obliged to

inform the supervisory board on the variable part of the remuneration of other identified employees determined by the bank on the basis of the analysis performed in accordance with Article 48 of this Decision;

11) review the efficiency of the bank's control functions once a year, including the adequacy of procedures, of which it is obliged to inform the supervisory board, in order to correct the identified shortcomings. When reviewing the efficiency of control functions in the bank, the bank management is obliged to take into account the following as a minimum:

1. methodology of control functions,
2. execution of the work plan of control functions,
3. analysis of the number and professional qualifications of employees involved in performing control functions,
4. structure and content of reports of control functions,
5. findings obtained by the individual control function in the time period for which the review procedure is performed,
6. risk profile of the bank,
7. business strategy and risk management and
8. other criteria that may affect the review of the adequacy and efficiency of a particular control function;

12) ensure timely delivery of information to the heads of each control function, with special reference to planned activities related to organizational changes, new projects, new or significantly changed products or processes, etc., all in order to identify and assess all future risks of the bank.

2.2. Organizational structure

General requirements

Article 12

(1) The bank is obliged to establish a transparent, efficient and stable organizational structure, which provides clearly defined, transparent and consistently applied:

1) levels of competences and responsibilities at all operational, organizational, managerial and governing levels (hereinafter: organizational level), adhering to the rules for preventing conflicts of interest, including the rules for separation of competences and responsibilities, and the rule of incompatibility of functions,

2) reporting lines between the relevant organizational levels, i.e. efficient communication and cooperation, including an adequate flow of information within the organizational structure of the bank.

(2) The rules for separation of competences and responsibilities and incompatibility of functions referred to in Paragraph 1, Item 1 of this Article shall, inter alia, include:

1) clear organizational and operational separation of business lines and independent control functions, which unambiguously divide the risk exposure activities, i.e. risk-taking from risk management activities and business support functions, including management and governing levels, and

2) separation of the duties of the president of the bank management from the duties of the member of the bank management responsible for the risk management function.

(3) The reporting lines referred to in Paragraph 1, Item 2 of this Article should ensure adequate informing of the bank's governing bodies, their boards, senior management, functions and other employees on the bank's operations and significant risks, in accordance with assigned competences, roles and responsibilities.

(4) In accordance with Paragraph 1 and 2 of this Article, the bank shall at least provide the following:

1) that the competences and restrictions of the bank's employees are clearly and precisely determined in the act on the internal organization and systematization of the bank's operations, adopted by the supervisory board,

2) that employees at all organizational levels are familiar with the assigned competences, roles and responsibilities,

3) that the personnel policy is implemented in the bank in such a way that employees are employed in positions that correspond to their professional qualifications, abilities and appropriate work experience,

4) comprehensive, continuous and successful training of bank employees is carried out,

5) continuous control and assessment of the quality of work performed by each employee of the bank is carried out,

6) that the bank ensures the separation of incompatible activities, so that one person cannot simultaneously have duties related to asset protection and duties related to its bookkeeping, i.e. cannot simultaneously perform certain business activities and have the authority to control those activities, and in particular in the following cases:

1. the person in charge of processing the loan approval application may not make loan disbursements,

2. the person in charge of processing the loan approval application may not perform tasks related to the loan bookkeeping function,

3. the persons authorized to sign orders and checks on the accounts with correspondent banks may not perform the tasks of reconciling the balance on the accounts with those banks,

4. the tasks of harmonization of data with the general ledger must be performed only by the person who did not perform the original postings,

5. to adhere to the principle of separation of incompatible duties in all other cases,

6. to implement, where applicable, at certain intervals the principle of planned and unannounced rotations of the day-to-day duties of bank employees, which must be made possible by the overall training program for employees (e.g. temporary replacement of employees in cash management positions, cashier business, portfolio management, etc.),

7. to provide employees with the use of annual leave in such a way as to ensure the continuous performance of business activities, prevent the performance of incompatible tasks and similar.

(5) In the event that the bank plans significant changes in the organizational structure, the bank management shall assess the impact of these changes on the stability and efficiency of the organizational structure prior to the adopted changes. In case of identified weaknesses, the bank management is obliged to implement appropriate measures in order to eliminate the same.

Bank employees and personnel policy

Article 13

(1) In order to establish and maintain an efficient and stable organizational structure referred to in Article 12 of this Decision, and in accordance with the principle of proportionality referred to in Article 4 of this Decision, the bank shall adopt and implement adequate personnel policy, paying special attention to employment and maintaining a sufficient number of employees who have the appropriate expertise and professional experience, and the appropriate level of specialization in the process of risk appetite and management.

(2) In the event that the bank plans a significant reduction in the number of employees (e.g. due to reorganization or austerity measures), it shall provide a preliminary analysis of the impact of these changes on the bank's operations and risks.

(3) In the analysis of the impact referred to in Paragraph 2 of this Article, the bank, in addition to reducing the number of employees in terms of their actual number at the bank level, shall take into account the importance of their knowledge, experience and skills for an individual area of work and / or for the bank.

(4) Before making a decision on reducing the number of employees, the bank management should inform the supervisory board of the results of the impact analysis and apply appropriate risk mitigation measures, i.e. to adequately revise the strategies, policies and other internal acts referred to in Articles 6 and 7 of this Decision, if necessary.

Conflict of interest policy

Article 14

(1) The bank is obliged to adopt and implement the Conflict of Interest Policy, which determines the procedures and responsibilities for identifying actual and potential conflicts of interest at the bank level and at the employee level, as well as measures and responsibilities for preventing and managing conflicts of interest.

(2) The policy referred to in Paragraph 1 of this Article should define the circumstances, i.e. relations from which conflicts of interest arise, including:

1) economic interests (e.g. ownership of shares, other equity rights and memberships and other economic and financial interests in legal entities, etc.),

2) personal or professional relations with persons with qualifying holding in the bank,

3) personal or professional relations with employees in the bank or in the banking group, including governing bodies, if applicable (e.g. immediate family members),

4) other or previous jobs of employees in the last five years,

5) personal or professional relationships with other stakeholders (e.g. supervisors, regulators, service providers, significant suppliers, clients, consultants, other business partners of the bank, etc.) and

6) political influence, i.e. political connections.

(3) The policy referred to in Paragraph 1 of this Article should also define the bank's approach to significant business relations, which include:

1) business relations of shareholders, members of the bank governing bodies or members of their immediate family, arising from the concluded contract on delivery of goods or provision of services for the needs of the bank,

2) business relations of a member of the bank governing bodies or a member of his/her immediate family, in the case when the choice of the supplier of goods or service provider was not the subject of public procurement,

3) conditions under which transactions are performed in the name and on behalf of a member of the bank governing bodies, which should be transparently and clearly defined by the bank's internal policy, which should be harmonized with stipulated minimum standards and restrictions in dealing with persons in special relations with the bank;

4) treatment of a member of the bank governing body, in the case when he/she uses banking and other services under more favorable conditions in relation to the conditions determined by the bank's internal policy on the use of these services for bank employees.

(4) The policy referred to in Paragraph 1 of this Article should define responsibilities for identification and prevention, impact assessment and implementation of measures for resolving and mitigating conflicts of interest, and procedures for documenting and reporting responsible control functions on identified examples of conflicts of interest in the bank.

(5) The policy referred to in Paragraph 1 of this Article shall define adequate measures for resolving and preventing conflicts of interest, which include administrative, accounting, IT and other types of controls (e.g. separation of duties and responsibilities, defining access to information, physical separation of individual departments, etc.). When defining and implementing these measures, the bank should take into account the difference between a long-term conflict of interest that must be managed on an ongoing basis and a conflict of interest that may arise unexpectedly in a particular position (e.g. at the level of legal transaction, contract with a particular service provider, etc.) and which can be solved by an individual measure.

(6) The bank management shall cooperate with the supervisory board in the phase of preparation of the proposal of the Conflict of Interest Policy and shall report to the supervisory board on its implementation.

2.3. Risk management system

General requirements

Article 15

(1) The bank is obliged to establish a comprehensive and efficient risk management system, which should include all business lines and organizational units of the bank, and enable timely and quality assessments, analyzes and reports on significant bank risks, as well as other results of risk management process, including the results of stress tests, internal capital adequacy assessment and internal liquidity adequacy assessment, on the basis of which the bank's governing bodies can make reliable business decisions on risk-taking, which are in line with the adopted risk appetite, risk limits and risk tolerance.

(2) In order to establish a comprehensive, reliable and efficient risk management system referred to in Paragraph 1 of this Article, the bank shall at least establish functions, systems, methodologies, procedures, processes and activities for risk management based on the acts referred to in Articles 6 and 7 of this Decision, which include:

1) identification of significant risks of the bank,

2) risk measurement through established procedures and activities for accurate and timely measurement, i.e. risk assessment,

3) measures to limit and mitigate risks in a way that will minimize negative impacts on the bank's operations and solvency to the lowest extent possible,

4) monitoring, analysis and control of risk,

5) establishment of an appropriate organization of operations for efficient implementation of risk management processes and procedures with clearly defined, transparent and consistent competences and responsibilities within the bank,

6) appropriate lines for timely and continuous reporting of the bank's governing bodies on risks,

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

8) conducting stress testing, taking into account the assumptions about changes in external and internal factors that may have a significant impact on the risks in the bank's operations and

9) making plans for acting in unforeseen, i.e. emergency situations in the bank's operations.

Policies and procedures for risk management

Article 16

(1) The bank shall adopt and implement the Risk Policy referred to in Article 7, Paragraph 1 of this Decision, which shall include at least:

1) the manner of organizing risk management, including a clear delineation of the responsibilities of employees for risk management in the bank at all stages of the process,

2) the method of assessing the bank's risk profile and the methodology for identifying and measuring, i.e. assessing the bank's risk,

3) program and methodology of stress testing and back stress testing, including measures and procedures in cases of unfavorable test results,

4) measures for mitigating individual risks, which include measures for accepting, reducing, diversifying, transferring, and avoiding risks that the bank has identified and measured or assessed as significant, and rules for the application of these measures,

5) defining internal risk limits for individual risks,

6) manner of monitoring and control of individual risks, including established internal risk limits,

7) procedures and measures in cases when there are deviations in the application of adopted strategies, policies, procedures and activities provided for in the internal acts of the bank, as well as in cases of emergency situations.

(2) Based on the adopted Risk Strategy and Risk Policy, and in accordance with the principle of proportionality, the bank is obliged to ensure the establishment of formal procedures in the risk management process, ensuring that they contain sufficiently precise and detailed level of instructions for work and descriptions of work process, including rules and guidelines regarding organizational, operational and procedural requirements, internal system for assigning tasks related to the decision hierarchy, competencies and responsibilities of employees and implementation of work procedures, rules for monitoring established restrictions for limiting risk exposure, and acting in case of identified irregularities, i.e. deviations from established procedures.

Risk management process

Article 17

(1) The bank shall establish an adequate and efficient risk management process, which includes regular and timely identification, measurement, i.e. assessment, mitigation, monitoring and control of risks, and reporting on the bank's risks. This process also includes risks arising from the introduction of new services, products, models, processes or systems, significant changes in existing services, products, models,

processes or systems, entering new markets, trading in new instruments or concluding similar transactions the bank has not previously provided, including the procedures of mergers or acquisitions of other legal entities (hereinafter: new products).

(2) The bank shall adopt a risk management methodology which will determine the criteria, methods and procedures for risk management, and adequately document the risk management process.

(3) The risk management process also includes clear definition and documentation of the risk profile, harmonization of the bank's risk profile with risk appetite and risk tolerance, and compliance of the bank's risk profile with the results of ICAAP and ILAAP of the bank.

(4) In the process of risk management, the bank is also obliged to assess the potential impact of relevant internal and external influences and trends, regulatory changes, indicators and data on risk exposure and / or individual exposure categories, i.e. portfolios, and include these assessments when making decisions in terms of taking over the risk, i.e. in its management.

(5) Within the risk management process referred to in Paragraph 1 of this Article, the bank shall also comply with special rules for managing individual risks from the Decision on Credit Risk Management and Determining Expected Credit Losses, Decision on Liquidity Risk Management, Decision on Interest Rate Risk in the Banking Book and Attachments 1–3 of this Decision.

Risk identification

Article 18

The bank is obliged to continuously identify, i.e. determine the significant risks to which it is exposed or might be exposed in its operations. Risk identification minimally includes:

1) analysis of the causes of exposure to risks, including risks that may have a negative impact on profit, capital, liquidity and the value of the bank's shares,

2) analysis of risk concentrations and potential risks that may arise from the legal and organizational structure of the bank,

3) analysis of trends for the purpose of determining new risks, i.e. increased existing risks due to changes in the bank's operating conditions.

Measurement, i.e. assessment of risk

Article 19

(1) The bank is obliged to regularly measure, i.e. assess the risks it has identified.

(2) When measuring or assessing risk exposure, the bank shall establish and maintain adequate procedures, which include:

1) adequate quantitative and qualitative methods of measurement, i.e. assessment of risk, the application of which will enable the detection of changes in the risk profile of the bank, i.e. the emergence of new risks in operations,

2) use of appropriate and reliable internal and external databases.

(3) When measuring risk based on quantitative measurement methods, including stress testing, the results of the risk assessment may significantly depend on the limitations and assumptions of the model (including severity, duration of shock and risks involved). In that case, when determining the level of assumed risk, the bank should, in addition to the quantitative results of the model, provide an adequate qualitative analysis of the results of the model based on expert assessment.

(4) In the process of identifying and measuring, i.e. assessing significant risks, the bank is obliged to ensure the involvement of all relevant business lines and other relevant organizational units.

Risk mitigation

Article 20

(1) The bank shall clearly and precisely determine and apply the criteria for decision-making and risk mitigation procedures, taking into account the risk profile, i.e. the bank's risk appetite and risk tolerance.

(2) The bank shall ensure that the risk management function has the responsibility to provide proposals for measures to mitigate significant risks of the bank, and to control the implementation of these measures. In case the bank temporarily accepts risks that exceed the adopted risk limits, the risk management function, in cooperation with organizational units that assume these risks, is obliged to regularly monitor and report on these risks, in accordance with the decisions of the bank management.

(3) The bank shall adequately document the manner of risk mitigation, including the reasons for accepting, reducing, avoiding or transferring the risk.

Monitoring, analyzing and controlling the risks and reporting on risks

Article 21

(1) The bank shall establish a system of regular monitoring, control and reporting on risk exposure and risk profile so as to provide all relevant levels of management in the bank with timely, accurate and sufficiently detailed information necessary for making business decisions and decisions on risk management, i.e. for safe and stable operations of the bank.

(2) The information referred to in Paragraph 1 of this Article must at least include appropriate information on exposure to certain risks, including information on the risk profile and its changes, data on significant bank losses, measures and activities intended to be taken or already taken to mitigate risk. , on exceeding the risk limit and other exemptions from acting in accordance with internal acts, including exceptions to the established risk appetite, and on positive and negative changes in business operation indicators that indicate or may indicate a change in risk exposure.

(3) Risk reporting should include timely reporting on the occurrence of risks that have not been previously identified, as well as the unexpected impact of already identified risks on the bank's risk profile, including the reasons for the bank's increased exposure to these risks.

(4) The bank shall adequately monitor the risks that it has transferred to a third party.

(5) When performing risk control, the bank shall review the application of methods and procedures for risk management and assess their adequacy and efficiency, and regularly analyze the established risk limits in order to verify their adequacy.

(6) The bank shall ensure that the reports on the risks to which it is exposed are:

1) transparent (to contain clear, understandable and precise information regarding risk exposure),

2) comprehensive (complete, i.e. to cover all significant risks in operations),

3) usable (in terms of the content of important information for decision-making regarding risks),

4) comparable (in terms of uniformity of information they contain) and

5) timely (in the sense that they enable timely undertaking of necessary measures).

(7) The content, scope and detail of the report referred to in Paragraph 6 of this Article shall be determined by the bank in its internal act (Risk Policy or other internal act for risk management).

(8) The bank shall ensure the complete and timely availability of internal risk reports at the request of the Agency.

Risks arising from new products

Article 22

(1) In the process of risk management, the bank shall stipulate criteria and procedures relating to new products referred to in Article 17, Paragraph 1 of this Decision, which shall include at least:

1) defining what is considered a new product, including a description of the product,

2) providing the necessary technical, organizational and personnel conditions for the introduction and application of new products and managing the risks arising from these products,

3) determination of competences and responsibilities for testing, approval and verification of new products,

4) establishment of appropriate verification procedures performed by control functions in the bank,

5) implementation and adequate documentation of the impact of the new product on the risk profile, capital adequacy, profitability and liquidity,

6) accounting, tax, legal, supervisory and other regulatory requirements related to new products,

7) model, i.e. methodology for determining the price of the product, if applicable.

(2) Before deciding on the introduction of a new product, the bank shall conduct and adequately document a comprehensive analysis of the risks arising from these products, which should at least include an objective assessment of:

1) all risks arising from the introduction of new products, including compliance risk, using different scenarios,

2) whether the introduction of a new product causes potential weaknesses in risk management and internal controls,

3) the bank's ability to effectively manage the risks referred to in Item 1 of this Paragraph.

(3) If the risk analysis referred to in Paragraph 2 of this Article indicates that appropriate resources for understanding the risk of a new product and managing them are not provided, the bank management shall postpone the introduction of a new product until these resources are provided.

Information systems as support to reporting on risks

Article 23

(1) As part of the bank's information system development strategy, the bank shall also define adequate information support for the risk management process, which provides comprehensive, reliable, timely and accurate data collection and processing, i.e. the information basis for:

1) effective risk management and

2) preparation of all necessary regular and occasional reports and information for internal and for the needs of all other users.

(2) The bank is obliged to apply and maintain an adequate information flow that enables efficient implementation of the Risk Strategy, Risk Policy, and procedures and other internal acts for risk management, and which is an integral part of the bank's information system.

Stress testing for all significant risks

Article 24

(1) The bank is obliged to regularly, and at least once a year, conduct comprehensive stress testing for all significant risks. In the event of a significant change in the bank's risk profile, macroeconomic environment or the bank's operations, stress testing should be conducted more frequently, in accordance with the principle of proportionality referred to in Article 4 of this Decision.

(2) Stress testing should be an integral part of the bank's risk management process and is an important instrument in determining the bank's internal capital adequacy and liquidity, risk-taking capacity, and risk appetite and risk limits.

(3) The supervisory board and the bank management are obliged to ensure adequate use of stress testing in the process of risk management and capital and liquidity planning of the bank to cover all risks in the bank's operations, and to use the results of stress testing as a basis for decision making and undertaking measures at the appropriate organizational levels in the bank, including strategic business decisions regarding capital and liquidity planning of the bank. When making these measures and decisions, the supervisory board and the bank management shall be obliged to take into account all deficiencies, limitations and other weaknesses that have been identified in a certain period of stress testing.

(4) According to the principle of proportionality, stress testing should cover the most important areas of the bank's operations, and events that may be particularly harmful to the bank, including not only events that may cause losses to the bank but also those that may damage the bank's reputation.

Stress testing program

Article 25

(1) The bank shall establish an adequate stress testing program, which is harmonized with the risk profile and business model of the bank, and the program of the banking group, if applicable. The stress testing program should contribute to improving the risk management process, improving the bank's capital and liquidity management process, and enabling a better understanding of the bank's risk by the bank's governing bodies, senior management or supervisory bodies.

(2) When defining the stress testing program, the bank shall pay special attention to the application of the principle of proportionality referred to in Article 4 of this Decision.

(3) Stress testing of banks may be conducted through:

1) sensitivity analyzes and / or

2) scenario analysis.

The bank shall ensure that stress testing includes meaningful and possible scenarios, and that the level of severity of the scenario reflects the intent of the testing.

(4) When conducting stress testing through sensitivity analysis referred to in Paragraph 3, Item 1 of this Article, the bank shall include and document all significant risk factors specific to its exposures, exposure portfolios and business areas, and business and macroeconomic environment. The bank is obliged to assess the meaningfulness and feasibility of an individual sensitivity analysis and to provide an adequate explanation of the expert assessment.

(5) When conducting stress testing through scenario analysis referred to in Paragraph 3, Item 2 of this Article, the bank should include different types of possible events and possible levels of severity of events, and these scenarios should be future-oriented (forward looking) in order to better identify hidden vulnerabilities of the bank, and to take into account changes in the bank's exposure portfolio, new information and potential risks, if meaningful and feasible. A sufficiently long period of time should be

covered, depending on the risk characteristics, the exposure portfolio, the testing intention and so on. As part of a comprehensive stress testing program, it is important to include extreme events that threaten the bank's sustainability. The bank is obliged to ensure that significant risk factors or hidden vulnerabilities of the bank are not left out of the scenario analysis without adequate and comprehensive expert explanation.

(6) The bank shall ensure that when conducting stress testing for assessing capital sustainability through sensitivity analysis or scenario analysis, it covers at least one economic recession scenario with different levels of scenario severity, taking into account possible specific vulnerabilities of the bank and characteristics of its business model.

Activities, procedures and methodologies of stress testing

Article 26

(1) The bank shall adopt and implement appropriate activities and procedures for managing stress testing and determine the organizational units responsible for conducting stress testing, with responsibilities for cooperation, communication and active professional dialogue with other organizational units and governing bodies of the bank, and primarily with those units responsible for risk management (if testing is not performed in the same organizational unit) and capital and liquidity planning. The bank management is required to provide adequate resources, including financial, human and information technology resources for conducting stress testing.

(2) The bank shall establish an appropriate infrastructure, including a data infrastructure for conducting stress testing and risk reporting in accordance with the principle of proportionality, which corresponds to the risk profile of the bank, and which is flexible enough to enable the bank:

1) timely calculation of the bank's total exposure towards the relevant risk factor, product or types of debtors, and application of a new and / or modified scenario, when necessary,

2) collection of comprehensive, reliable and accurate data for the purposes of stress testing and reporting for all significant risks of the bank in accordance with the testing program,

3) adequate level of flexibility, quality and control of testing.

(3) The bank's methodology for stress testing and selection of risk factors, i.e. scenarios should cover all significant risks and business areas and integrate them so as to cover all balance sheet and off-balance sheet assets of the bank and already incurred and potential risks, taking into account their interrelationships and all relevant risk factors, i.e. correlations between them, their changes in crisis periods, and the position of the economic cycle in which the bank is located, where the appropriate level of detail should be used in accordance with the purpose and type of stress testing, i.e. risk profile, business strategy and business model of the bank.

In the credit risk segment, the stress testing methodology should include, inter alia, credit and foreign exchange risk, based on the assumption of the level of risk arising from loans with a foreign exchange clause, in accordance with their materiality, i.e. share in the loan portfolio. In this regard, the bank should apply scenarios with various assumptions of emergency situations, including the assumption of an increase in the exchange rate of the domestic currency (KM), a change in the exchange rate of a foreign currency by a predetermined percentage or a combination of these assumptions. The bank is not obliged to implement this requirement for exposures with a foreign exchange clause in euros, given the existence of a currency board in Bosnia and Herzegovina.

(4) When determining hypothetical and macroeconomic risk factors, i.e. scenarios for the needs of the model, the bank shall, when selecting the scenario, with the aim of mitigating the risk of the model, be obliged to provide:

1) conservative expert assessment of the adequacy of the adopted assumptions and methodology of the model,

2) an appropriate conservative approach in determining model assumptions that may have an impact on model results and

3) regular assessment of the impact of assumptions on the model results.

The bank should ensure that all identified shortcomings of the model, as well as the methodology, which indicate the relationship between risk factors and bank losses, are taken into account when interpreting the results of stress testing.

(5) As part of the overall stress testing program, the bank should take into account the interrelationships of factors related to financial markets and financial assets, and the impact of market liquidity reduction on risk exposure valuation (price shocks of specific asset categories, liquidity correlation of individual asset categories, increased liquidity needs, reduced and / or difficult access to financial markets, etc.).

(6) Special attention should be paid to reviewing the used risk mitigation techniques and assessing the possibility of their implementation in market emergencies. When stress testing the financial collateral, the bank should identify circumstances that may adversely affect the realization of collateral value, including cases of deterioration in the credit rating of financial collateral providers or market liquidity.

(7) In the segment of credit risk and credit risk of the counterparty, within the stress testing the bank should at least analyze the client's ability to repay its obligations, the rate of return in case of default, including the deterioration of collateral value or credit rating of the guarantor; guarantees, and the size and dynamics of the client's credit exposure.

(8) As part of the overall stress testing program, the bank should identify the concentration risk, i.e. the interrelation of different exposures to risks that may be demonstrated in emergency situations. In doing so, the bank should take into account the credit risk of each exposure and analyze additional sources of risk arising from the bank's exposure to the same or similar source of risk occurrence. Sources of risk include, inter alia, the total exposure of the bank to one person or group of related persons, the same economic sector, the same geographical area, the same type of product and the same credit protection instrument, or credit protection provider.

(9) If the bank has derivatives in its portfolio, it is obliged to include in the stress testing information on the underlying assets, their dependence on market conditions and similar.

(10) The bank should include in the stress testing program the impact of reputational risk, including the spillover of risks arising from persons related to the bank, or assess the impact of reputational risk on other types of risks, especially credit, market, operational and related risks (e.g. legal and risk of reckless act) and liquidity risk.

Back stress testing

Article 27

(1) As part of a comprehensive stress testing program, the bank should conduct a back stress testing for all significant bank risks, starting from the known result of stress testing, and reviewing the events and adverse circumstances that led to such a result for the bank, in order to provide information on the assessment of vulnerability and sustainability of the bank's business model and strategies, and analyze the bank's strategies and measures in terms of whether they are adequate and consistently applied in case of market emergencies (e.g. adverse economic and political events, industrial collapse, litigation, natural disasters, etc.) Scenarios for back stress testing should be used by the bank to supplement existing types of stress tests, and to assess the severity and relevance of scenarios when conducting stress tests in ICAAP and ILAAP.

(2) Areas in which back stress testing is particularly used are business lines for which traditional risk management models indicate a very good risk-return ratio, new products and new markets that have not yet developed significantly and similar. In this regard, the bank should use back stress testing both in planning and reviewing its business models and decisions and in analyzing the circumstances that could cause the business model to fail. In the event that the back stress testing indicates a high risk of unsustainability of the business model, or a risk that is not in line with the adopted risk appetite, the bank is obliged to apply appropriate measures to prevent and mitigate this risk.

Stress testing results

Article 28

(1) Based on the results of stress testing, the bank is obliged to assess the reliability and sustainability of the capital and liquidity plan, i.e. to take them into account in the bank's ICAAP and ILAAP. Stress testing for the needs of ICAAP and ILAAP is adequate only if the bank applies comprehensive stress tests at the bank level, which include at least:

1) all members of the group to whom ICAAP and ILAAP apply, if applicable,

2) all significant categories and subcategories of the bank's risk,

3) the use of a number of scenarios, which include at least one serious and feasible scenario (e.g. an economic recession scenario),

4) compliance of the testing period with the period of ICAAP and ILAAP.

(2) In conducting stress testing within the ICAAP, the bank is obliged to determine the impact of the obtained results on regulatory capital, i.e. to assess the bank's ability to absorb losses that may occur due to various shocks applied in scenarios, in order to maintain the bank's capital requirements at minimum capital requirements or above the minimum requirements, if applicable, or the requirements of the Agency regarding capital requirements in periods of stress.

(3) The results of stress testing relevant to the liquidity area shall be used by the bank for the purposes of ILAAP.

(4) The bank uses the results of stress testing to determine a wide range of appropriate measures to be undertaken by the bank supervisory board and the bank management in order to maintain adequate capital and liquidity, adequate risk appetite, risk limits, and mitigation of potential adverse effects in periods of stress. When determining adequate measures arising from the relevant stressful business conditions, the bank is obliged to define the time required for their implementation.

(5) The management measures referred to in Paragraph 4 of this Article shall include, inter alia:

1) review of the adequacy of the adopted risk appetite and its revision,

2) review of the effectiveness of risk mitigation techniques,

3) making contingency plans and recovery plans,

4) revision of capital and liquidity plans,

5) revision of strategy and business plan,

6) restriction of dividend payment to shareholders,

7) raising capital or providing additional sources of financing and

8) other appropriate measures.

(6) The bank shall submit a report on the results of stress tests and a plan of measures that the supervisory board and the bank management will undertake to mitigate potential negative effects to the Agency in printed and electronic form, no later than 30 April of the current year for the previous year.

Stress testing program assessment

Article 29

(1) The bank shall regularly, and at least once a year, assess the effectiveness and sustainability of the stress testing program and its main individual components, as well as consider the need to revise the program. The assessment should be based on a quantitative and qualitative analysis of the stress tests performed, including back stress tests, and take into account changes in the bank's internal and / or external environment. The frequency of assessment should depend on the frequency of stress testing.

(2) During the assessment referred to in Paragraph 1 of this Article, areas related to the following should be included:

1) efficiency of the program from the aspect of fulfilling the planned purpose and the need to improve the program,

2) identified risk factors, including the definition of scenarios and an explanation of the reasons for the application of these scenarios, model assumptions and the role and quality of analyzes and expert assessments,

3) adequacy of documentation, application and development of the system, quality of data and models,

4) manner of control by the supervisory board and the bank management and

5) applied / used assumptions, including business and management assumptions and corrective measures determined by the bank's governing body.

(3) In order to ensure the independence of the assessment, it is necessary to include the bank's internal audit function in the assessment procedure.

Documenting the stress testing program

Article 30

The bank is obliged to provide adequate documentation of the implementation of stress testing programs for all types of tests, which includes a clear and detailed description of each component of the program, including:

1) stress testing methods,

2) objectives, type and frequency of stress testing,

3) functions and responsibilities in the stress testing program,

4) methodological details related to the definition of relevant scenarios and the manner in which the assumptions and basic elements of stress testing are regulated,

5) assumptions and basic elements of stress resistance testing,

6) assessment of basic assumptions,

7) results of the performed testing and description of the procedure for evaluation of the results of stress testing,

8) planned corrective measures depending on the results of stress testing,

9) description of procedures for determination, adoption, implementation, monitoring of performance and regular evaluation of stress testing,

10) description and list of IT support and tools used in stress testing and

11) other aspects relevant to the conduct of stress testing.

2.4. System of internal controls and control function of the bank

General requirements

Article 31

(1) The bank is obliged to:

1) establish and implement an appropriate and efficient system of internal controls in all areas of business and

2) establish independent control functions of the bank, which include the function of risk management, the function of compliance and the function of internal audit.

(2) The system of internal controls of the bank referred to in Paragraph 1, item 1 of this Article is a set of processes, procedures and measures established to perform adequate risk management, monitor the efficiency of the bank operations, reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes to ensure the stability of the bank's operations.

(3) The independent control functions of the bank referred to in Paragraph 1, Item 2 of this Article shall provide an independent and objective assessment of the comprehensiveness, reliability and efficiency of the management system referred to in Article 4 of this Decision, based on reviews and assessments of strategies, policies, procedures, activities and methodology of risk assumption and managing risks from Articles 6 and 7 of this Decision and the bank's risk management.

(4) The system of internal controls and control functions should ensure that no person employed in the bank can be in a position to make significant mistakes or commit violations established by the Law, other regulations and internal acts of the bank, and if such a case occurs, to enable that such actions be detected in the short term.

Internal control system

Article 32

(1) The bank shall ensure that the system of internal controls referred to in Article 31, Paragraph 1, Item 1 includes at least:

1) efficient organizational structure,

2) efficient control activities and division of duties and tasks,

3) efficient internal controls integrated into the bank's business processes and activities,

4) efficient administrative and accounting controls and procedures,

5) effective protection of the bank from abuse and criminal activities (money laundering, financing of terrorist activities, robbery, etc.),

6) effective protection of bank assets and

7) efficient organization of activities within the scope of the bank's control functions.

(2) The bank is obliged to stipulate and establish adequate control activities and division of tasks, adequate internal controls, and adequate administrative and accounting procedures that it must carry out as part of its regular activities.

(3) During the establishment and implementation of the bank's internal control system, all employees, senior management, management and supervisory board of the bank are obliged to participate in it in an appropriate manner.

(4) The bank's internal control system should in particular ensure:

1) calculation and review of capital requirements for risks in accordance with the Decision on calculating capital in banks and the Decision on ICAAP,

2) identification and monitoring of large exposures, changes in large exposures and verification of compliance of large exposures with the Law, regulations of the Agency and the bank's policies in relation to that type of exposure,

3) concluding legal transactions with persons in a special relation with the bank, as well as the reporting system and procedures for supervision over concluding legal transactions with those persons,

4) accounting controls, and keeping business books, other business documentation and records, valuation of assets and liabilities and compiling, publishing and submitting financial statements that must be kept in accordance with all stipulated and established accounting and banking principles and international standards,

5) processes that ensure timely, truthful and accurate public disclosure of information,

6) management, logical and physical controls in the information system,

7) procedures for checking the accuracy of data and information required for supervision on a consolidated basis,

8) reporting to supervisory and other bodies and

9) assessment of the effects of outsourcing of business activities on the system of internal controls of the bank.

(5) The system of internal controls must ensure that the management levels of the bank constantly monitor and control the execution of functions and obligations of the lower management levels of the bank.

(6) Administrative controls and procedures referred to in Paragraph 1, item 4 of this Article shall be the starting point in the establishment of accounting controls and procedures and shall include:

1) establishment, monitoring, development and control of the organizational structure of the bank and

2) control of procedures and records related to decision-making processes on approving business transactions of the bank.

(7) Accounting controls and procedures referred to in Paragraph 1, Item 4 of this Article shall include a plan of procedures, procedures and records related to the protection of assets and reliability of the bank's financial records and must ensure the following:

1) that the bank's business transactions are carried out in accordance with general or special decisions, i.e. approvals of the bank's authorized persons,

2) that the bank's business transactions are recorded in the books without delay and accurately,

3) that the bank's business transactions are recorded in the books in such a way that it is possible to prepare financial statements in accordance with IAS / IFRS,

4) that the bank's business transactions are recorded in such a way that the responsibility for the bank's assets is recognizable and transparent,

5) that access to the bank's assets is allowed only in accordance with the approvals of the authorized persons in the bank,

6) that the bookkeeping records of assets are checked and compared with the actual condition of assets in certain, at least stipulated, time intervals and that, in case of any differences, appropriate measures and activities are taken.

(8) The bank's bookkeeping records must be kept in accordance with all stipulated and established accounting and banking principles, as well as international standards, and the bank is obliged to compile an accounting manual containing instructions for processing everyday transactions.

(9) The bookkeeping records and accounts of the bank must at all times reflect its actual financial condition and the results of its operations, in particular with regard to:

1) operational responsibilities that must ensure that the accounting system enables the preparation of internal reports for control purposes. Records must be updated daily and have (analytical) auxiliary control accounts that are in line with the balance in the general ledger;

2) control records that must be created so that each individual item can be examined and monitored through the bank's business books;

3) mandatory pre-numbering of financial instruments, which facilitates the processes of proving, reconciling and controlling accounting items.

(10) The bank shall, within the system of internal controls, draw up a plan for the protection of physical assets, which shall include as a minimum:

1) cash control,

2) in transactions where verification and confirmation are required, such as transfer of funds, issuance of letters of guarantee and similar activities, establishment of a double control system, according to which the activity of one person must be verified by another person to ensure that only the authorized person performs a certain transaction, that the transaction has been properly recorded and that the reconciliation has been performed in an appropriate manner,

3) in activities related to cash in the vault, devices for cash payments and disbursements, access to payment cards, marketable pledges and other items stored in the vault, spare locks and keys by establishing a system of joint protection of two persons at the same time, in which activities of only one person are disabled by two different locks or combinations and having only one key or one combination,

4) contingency plans and storage of auxiliary registers and files for all key records and data outside the bank's premises,

5) a system for reporting on deficiencies that enables the immediate submission of reports and the initiation of investigations into cash shortages and other deficiencies or irregularities at the time they are detected,

6) procedures for physical and technical protection and

7) procedures for employment in the bank, which must include prior verification of reliability, education and recommendations on previous employment, especially for specific job positions.

Control functions of the bank

Article 33

(1) The bank shall establish the control functions referred to in Article 31, Paragraph 1, Item 2 of this Decision as permanent and efficient organizational units independent of business processes and activities in which risk arises, i.e. which these functions monitor, control, evaluate, i.e. audit in accordance with their risk profile. Member of the bank management responsible for the control function within its powers and responsibilities may not perform tasks that could cause a conflict of interest in terms of the rules of separation of incompatible duties referred to in Article 12, Paragraph 2 of this Decision or jeopardize the independence of the control function.

(2) An individual control function may not be organized within another control function of a bank.

(3) Notwithstanding Paragraph 2 of this Article, the bank may organize the performance of the function of compliance within the risk management function or other function if appropriate to the size of the bank, and the type, scope and complexity of its operations, provided that the activities of that functions cannot be organized within the internal audit function.

(4) When establishing control functions, the bank shall pay special attention to:

1) application of the principle of proportionality referred to in Article 4 of this Decision,

2) coverage of all significant risks of the bank, i.e. the obligation of the bank to organize its functions so as to cover all significant risks of the bank,

3) prevention, i.e. avoidance of conflicts of interest, and consistent application of the rules for separation of powers and responsibilities and incompatibility of functions referred to in Article 12, Paragraph 2 of this Decision,

4) establishing direct reporting to the bank's supervisory board,

5) staff training, i.e. the existence of a sufficient number of employees with appropriate professional knowledge and experience, as well as adequate information and technical support,

6) remuneration of employees in control functions, which must not be related to the performance of business activities and organizational units, which monitor, control, evaluate, i.e. revise these functions, and

7) the appointment of the heads of control functions and the obligation of the bank to immediately inform the Agency about their appointment.

(5) Control functions should ensure compliance of the bank's operations with the strategies, policies and other internal acts referred to in Articles 6 and 7 of this Decision.

(6) If an individual control function during the performance of its activities determines illegality in operations or violation of rules and regulations on risk management, due to which the liquidity, solvency or security of the bank's operations is endangered, it shall immediately inform the supervisory board, the bank management and the Agency thereof.

(7) The bank management, the supervisory board and the audit committee of the bank shall ensure timely and efficient undertaking of measures in accordance with the recommendations of the internal audit, with the aim of eliminating detected irregularities and weaknesses identified in the internal audit reports.

Act on control function

Article 34

The bank is obliged to stipulate in its internal acts for each control function at least the following:

1) objectives, scope and manner of operation of the control function,

2) organizational structure and role of the control function,

3) the position of the control function within the bank and measures to ensure its independence and objectivity,

4) authorizations, responsibilities and relations with other organizational units, as well as mutual relations with other control functions,

5) measures for ensuring and monitoring professional training, appropriate professional knowledge and experience of persons performing control functions,

6) the right of access to data and information,

7) duties and responsibilities of the head of the control function,

8) manner of cooperation with external auditors, the Agency and other competent supervisory bodies and

9) system of reporting on the work of control functions.

Control function employees

Article 35

(1) In accordance with the principle of proportionality referred to in Article 4 of this Decision, the bank is obliged to provide a sufficient number of persons who must have appropriate professional knowledge and experience to perform the tasks of each control function.

(2) Persons performing the tasks of control functions may not be persons in a special relation with the bank, nor persons with a conflict of interest, in order to ensure independence and objectivity in the performance of their tasks.

(3) The bank shall ensure that each control function has a head, who is appointed and dismissed by the bank's supervisory board. The supervisory board is obliged to ensure adequate hierarchical status and powers of the heads of control functions.

(4) In the event that the dismissal of the head of the control function is proposed by the bank management, i.e. a member of the bank management, the supervisory board shall, when considering the reasons for dismissal of that person, review:

1) written explanations of the bank management board, i.e. the relevant member of the bank management and written explanations (i.e. opinion) of the head of the control function on the reasons for dismissal,

2) submitted material evidence, which is the reason for dismissal of the head of the control function,

3) regulations and personnel policy of the bank that regulate the termination of employment contracts, i.e. dismissal of employees,

4) other relevant evidence and explanations.

(5) The bank shall, without delay, and no later than eight working days from the appointment of the head of each control function, inform the Agency about the appointment, as well as about the reasons for dismissal of those persons.

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

(7) Employees who perform the tasks of control function of risk management should have a university degree, as a rule of economics or other appropriate profession when there is a need with certain specialized knowledge (e.g. in the field of mathematical models, statistical analysis, etc.), and to possess adequate professional knowledge and experience related to the identification, assessment, control and mitigation of risks in the bank, as well as professional and personal skills that enable them to perform their tasks efficiently.

(8) Employees who perform the tasks of the control function of compliance should have a university degree, as a rule of law or economics, knowledge, experience, and professional and personal skills that enable them to perform tasks efficiently. They are obliged to know and follow the changes in legal regulations, and the impact of these changes on the bank's operations, as well as to know the rules of the profession, good business practices and business ethics.

(9) Employees in organizational units of control function of risk management and control function of compliance should be experts with a wide range of knowledge, experience and skills in the field of bank operations, and especially in the field of risk management methodologies and procedures.

(10) The bank is obliged to have at least one employee in the organizational unit of internal audit who has the title of certified or internal auditor in accordance with regulations governing accounting and auditing and experience of at least 3 (three) years in the most complex banking and control activities, supervision or audit of banks or other persons in the financial sector.

(11) Employees in the organizational unit of internal audit must have a university degree, the necessary professional knowledge in the field of auditing, experience of at least 3 (three) years in the most complex banking and control activities, supervision or audit of banks or other persons in the financial sector and to hold appropriate titles in accordance with the regulations governing the field of accounting and auditing (except in the case of persons performing internal audit in certain specialized areas, such as, for example, internal audit of the information system).

(12) Employees in the organizational unit of internal audit have the right to inspect the business books, financial statements and all documentation of the bank and its subsidiaries, as well as members of the same banking group, and to supervise the bank's operations and participate in supervisory board meetings and its committees without limitation.

(13) Employees in the organizational unit of internal audit must be engaged full-time in the bank and may not perform managerial or other tasks within the activities of the bank, except for tasks related to performing internal audit, nor may participate in the preparation and drafting of acts and other documentation that may be subject to internal audit.

(14) Employees of the bank are obliged to provide persons performing control functions with access to all documentation in their possession and to provide all necessary information.

(15) Heads of control functions report directly to the supervisory board and / or audit committee as well as other competent committees, informing the bank management, for timely and efficient implementation of recommendations for elimination of illegalities, irregularities, deficiencies and weaknesses identified during previous controls. Heads of control functions participate in the meetings of the reporting bodies at least once a year. In the case of the risk management function and the compliance function, the above condition is met if the heads of these control functions report to the bank management, i.e. the competent member of the bank management, but a direct reporting line to the supervisory board is provided.

(16) The bank is obliged to establish and provide conditions, financial resources and a program of regular professional education and training of persons performing control function tasks.

Activity plan of control functions

Article 36

(1) The bank shall periodically, and at least once a year, identify and assess the bank's risks, including risks arising from the macroeconomic environment in which the bank operates.

(2) Each control function is obliged to make an annual activity plan of the control function, based on a documented risk assessment.

(3) The activity plan of each control function adopted by the supervisory board shall include at least:

1) list of business areas or risks that will be subject to control,

2) organizational parts, i.e. business processes that will be included in the control,

3) description of planned control methods and procedures and

4) the time period in which the planned activities and controls will be performed.

(4) The bank shall stipulate in more detail the content of the plan referred to in Paragraph 3 of this Article.

(5) Each control function on the basis of the activity plan shall adopt operational activity plans.

(6) Each control function is obliged to document the methodology used in its field of work.

Tasks and scope of activities of the risk management control function

Article 37

The bank is obliged to ensure the performance of at least the following tasks within the risk management function:

1) risk analysis, which includes the identification and measurement, i.e. assessment of bank risk, including ICT and cyber risk,

2) continuous monitoring of all significant risks of the bank,

3) conducting stress testing,

4) verification of the application and effectiveness of the bank's risk management methods and procedures, including risks from the macroeconomic environment,

5) examination and assessment of the adequacy and efficiency of internal controls in the risk management process,

6) assessment of the adequacy and documentation of the risk management methodology,

7) participation in the development and review of risk management strategies and policies,

8) participation in the development, application and supervision of the functioning of risk management methods and procedures,

9) making proposals and recommendations for effective risk management,

10) analysis, monitoring and reporting on the capital adequacy and liquidity of the bank, and verification of strategies and procedures for internal assessment of capital adequacy and internal assessment of the liquidity of the bank,

11) analysis of risks present in new products or markets,

12) reporting to the supervisory board, audit committee and risk committee, if established, and the bank management on risk management,

13) reporting to the supervisory board and the bank management on its work and

14) conducting other checks necessary for adequate risk control.

Tasks and scope of activities of the compliance control function

Article 38

The bank is obliged to establish and develop the compliance function in a way that provides:

1) monitoring the compliance of the bank's operations with the Law, regulations of the Agency and other regulations and standards of prudent banking operations, procedures on prevention of money laundering and financing of terrorist activities, as well as other acts governing the bank's operations,

2) identification of omissions and assessment of the bank's compliance risk, and inclusion of compliance risk in the ICAAP, if the risk is significant,

3) advising the bank management and other responsible persons on the manner of application of relevant laws, standards and rules, including information on current events in these areas, and

4) assessment of the effects that changes in the relevant regulations will have on the bank's operations.

Tasks and scope of activities of the internal audit control function

Article 39

(1) The bank is obliged to organize the internal audit function as a separate organizational unit, functionally and organizationally independent from the activities it audits and from other organizational parts of the bank.

(2) The bank shall perform the function of internal audit in accordance with the regulations, standards of professional practice of internal audit and the basic principles of organization and work of internal audit.

(3) The bank's internal audit program must at least include the following elements:

1) clearly defined objective of the internal audit and the responsibility of the internal audit function to propose the internal audit program to the audit committee, and to develop and implement it,

2) defining all areas of the bank's operations that carry risk, including outsourced activities,

3) the degree of comprehensiveness and detail of internal audit in certain areas of the bank's operations that carry risk, including outsourced activities,

4) list of priorities for performing internal audit and risk assessment with explanation,

5) the manner and deadlines for reporting to the audit committee on all elements within the competence of internal audit,

6) defining the conditions when the internal audit function may make proposals for convening a meeting of the audit committee and

7) detailed elaboration of the elements of the activity plan and internal audit procedures, including:

1. internal audit activities with deadlines for execution,
2. the subject of internal audit operational plans,
3. documentation basis on performed internal audit activities,
4. drafting of reports on performed internal audit activities, manner and deadlines for reporting to the audit committee and
5. making proposals to the audit committee.

(4) The program of activities of the internal audit function must be comprehensive and detailed.

(5) The frequency of activities of the internal audit function should ensure the achievement of its objectives, whereby the activities related to areas of the bank with a higher degree of risk should be of a higher frequency.

(6) Within its tasks, the internal audit function shall assess:

1) efficiency and adequacy of the management system in the bank referred to in Article 4 of this Decision and significant risks in order to identify, assess or measure, monitor, control, report and undertake appropriate measures to limit and mitigate risks in the bank,

2) adequacy of the Risk Strategy, Risk Policy and other policies of the bank, and their compliance with regulations, internal acts, requirements of the Agency and the adopted risk appetite and business strategy of the bank,

3) compliance of the established procedures and activities of the bank with regulations, internal acts and decisions of the bank's governing bodies,

4) adequacy and efficiency of established procedures and activities of the bank, including the comprehensiveness of procedures, which ensure the reliability of methodologies and methods, assumptions and sources of information used in the internal models of the bank,

5) the adequacy, quality and efficiency of the internal control system, including the reporting of business units, and the adequacy, quality and efficiency of the risk management function and the compliance function,

6) adequacy, quality and efficiency of the risk management function and the compliance function in order to identify, assess or measure, monitor and control significant risks of the bank, and undertake appropriate measures to limit and mitigate them,

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

8) adequacy of the information system in the bank,

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

10) reliability of the reporting system, and timeliness and accuracy of reports stipulated by the Law and other laws, as well as regulations adopted on the basis of those laws,

11) system of collection and correctness of information that is publicly disclosed in accordance with this Law,

12) management and protection of bank assets,

13) application of the Remuneration Policy, which includes a review of the implementation of the remuneration policy,

14) weaknesses in the operations of the bank and its employees, as well as cases of non-fulfillment of obligations and exceeding of authority,

15) actions of the bank according to the orders and recommendations of the Agency and the external auditor,

16) conducting continuous and successful training of bank employees,

17) other activities of the bank stipulated by the Law and other regulations and

18) perform other tasks necessary to achieve the objectives of internal audit.

(7) The internal audit function is obliged to give an independent and objective opinion to the supervisory board and the bank's audit committee on issues subject to audit, to provide advice and recommendations for improving the existing system of internal controls and operations of the bank, as well as to provide assistance to the supervisory board. the audit committee in achieving their objectives, applying a systematic, disciplined and documented approach to evaluating and improving the existing way of controlling, managing risks and managing processes.

(8) Special requirements that must be met by employees who audit information systems are defined by the Decision on information system management in banks.

(9) The bank management, supervisory board and audit committee of the bank are obliged to ensure timely and efficient undertaking of measures as recommended by the internal audit function, with the aim of eliminating the detected irregularities and weaknesses identified in the reports of the internal audit function.

(10) In order to ensure the independence of the internal audit function, the bank management shall ensure that the internal audit function:

1) carries out and coordinates the tasks referred to in Paragraph 7 of this Article on its own initiative, in all areas, activities, processes and functions of the bank, including the risk management function and the compliance function, whereby employees of the internal audit function must not be exposed to any attempts of inappropriate influence or pressure from a member of the bank's governing body or a member of the bank's senior management,

2) does not directly participate in the establishment, development, establishment and implementation of internal control systems,

3) has the right to access all premises, employees, information and data of the bank.

(11) In order to ensure the independence of the internal audit function, the supervisory board is obliged to monitor its efficiency on the basis of:

1) careful consideration of the report of the internal audit function,

2) regular meetings (e.g. on a quarterly basis) between the chairman of the supervisory board or the chairman of the audit committee and the head of the internal audit function. These meetings should be held without the presence of members of the bank management, their deputies or other members of senior management.

(12) Employees of the internal audit function shall be obliged to declare in writing at least once a year whether there is any conflict of interest in connection with the implementation of the tasks referred to in Paragraph 6 of this Article.

Reports of the risk management function and the compliance function

Article 40

(1) The risk management function and the compliance function shall compile quarterly, semi-annual and annual work reports. This includes the submission of reports for the first quarter, the first half of the year, nine months and for the entire year.

(2) The work reports, depending on the tasks of the bank's control function, shall contain at least:

1) report on the realization of the annual activity plan,

2) list of all performed planned and extraordinary activities,

3) list of planned but not executed activities and reasons for non-execution of the plan,

4) an overview of the most important facts established in the performed controls, i.e. performed other tasks,

5) general assessment of the adequacy and efficiency of the internal control system in the areas that were subject to control in the reporting period,

6) general assessment of the adequacy and efficiency of the individual risk management system or risks in the bank and

7) report on the execution of proposals, recommendations and measures for the elimination of illegalities and irregularities, as well as shortcomings and weaknesses identified during the performed controls and the reasons for their non-execution.

(3) Heads of the risk management function and the compliance function are obliged to submit work reports for opinion to the audit committee and, if established, to another appropriate committee established by the supervisory board (e.g. the risk committee). With the stated opinion and with the information and statement of the bank management, the supervisory board shall consider and adopt the said reports.

(4) The bank is obliged to submit reports on the work of the risk management function, i.e. the compliance function, with proof that they have been adopted by the supervisory board, to the Agency no later than 60 days after the end of the reporting quarter or half-year, while the annual work plan is required to submit no later than March 31 of the current year for the previous year.

(5) Reports on the work of the risk management function and the compliance function must be signed by the heads of individual control functions.

Reports on performed controls of internal audit function

Article 41

(1) The internal audit function compiles reports on performed controls, which it performs in accordance with the established operational activity plan of internal audit.

(2) The head of the internal audit function shall submit a report on the performed control to the member of the bank management responsible for the area that was subject to control and to the head of the organizational part of the bank whose competence is the area of operation that was subject to control.

(3) If the head of the internal audit function deems it necessary, he/she may submit the report on the performed control to all other members of the bank management and the supervisory board and / or other appropriate board established by the bank's supervisory board.

(4) The reports on performed controls of the internal audit function shall contain at least:

1) subject and scope of performed audits,

2) illegalities and irregularities in the bank's operations, if they were determined during the audit,

3) deficiencies and weaknesses in the operations or risk management process, if identified during the audit,

4) assessment of the adequacy, quality and efficiency of the internal control system in a particular business area, including reporting of business units, and the adequacy, quality and efficiency of the risk management function or the compliance function,

5) assessment of the adequacy and efficiency of the risk management process, including information on risk exposure,

6) proposals, recommendations and deadlines for elimination of established illegalities and irregularities, as well as shortcomings and weaknesses,

7) data on persons in charge of implementing recommendations and measures,

8) information on the status of execution of recommendations and measures for elimination of illegalities and irregularities, as well as shortcomings and weaknesses,

9) verification of compliance of new products and procedures with regulations, internal acts, standards and codes, and assessment of whether the above affects the bank's exposure to risks,

10) assessment of the bank's compliance with regulations, internal acts, standards and codes.

(5) The internal audit function shall regularly monitor the status of execution of the given recommendations and measures for the elimination of illegalities and irregularities, as well as shortcomings and weaknesses.

Reports on the work of internal audit function

Article 42

(1) The internal audit function is obliged to compile quarterly, semi-annual and annual work report. This includes the submission of reports for the first quarter, the first half of the year, nine months and for the entire year.

(2) The reports on the work of the internal audit function shall contain at least:

1) report on the realization of the annual activity plan,

2) an overview of the most important facts established during the performance of the audit and

3) report on the execution of proposals and recommendations for the elimination of illegalities and irregularities, as well as shortcomings and weaknesses identified during the audit,

(3) The report on the implementation of the annual activity plan of the internal audit function shall contain at least:

1) list of all audited areas,

2) list of planned but not performed audits,

3) reasons for non - execution of the plan and

4) list of all performed extraordinary audits.

(4) The overview of the most significant facts established during the audit shall contain at least:

1) a description of the irregularities and non-compliance with the bank's policies and procedures, if they were detected during the audit,

2) a description of the shortcomings and weaknesses of the audited areas, if they were identified during the audit,

3) assessment of the adequacy and efficiency of the internal control system and

4) assessment of the adequacy and efficiency of risk management in the audited areas.

(5) The report on the execution of proposals and recommendations shall contain at least:

1) proposals, recommendations and deadlines for elimination of identified illegalities and irregularities, as well as shortcomings and weaknesses, if they were identified during the audit,

2) data on persons in charge of implementing proposals and recommendations and

3) information on the status of execution of proposals and recommendations for elimination of illegalities and irregularities, as well as shortcomings and weaknesses given during previous audits.

(6) The head of the internal audit function is obliged to submit the work reports to the audit committee for an opinion. With the obtained opinion of the audit committee and with the information and statement of the bank management, the bank's supervisory board considers the said reports.

(7) The bank shall submit reports on the work of the internal audit function, with proof that they have been adopted by the bank's supervisory board, to the Agency no later than 60 days after the end of the reporting quarter or half a year, while the annual activity report shall be submitted no later than March 31 of the current year for the previous year.

(8) Reports on the work of the internal audit function must be signed by the head of internal audit.

2.5. Remuneration policies and practices

2.5.1. Adopting and implementing Remuneration Policy

General requirements

Article 43

(1) The bank shall adopt and implement the Remuneration Policy that is in line with the business strategy, objectives, corporate culture, values, long-term interests of the bank and shareholders, and the Risk Strategy to promote effective risk management, so as not to encourage risk appetite which exceeds the level of acceptable risk for the bank.

(2) The bank may not disburse a variable part of remuneration through other legal entities or by means of methods or instruments that facilitate the avoidance of requests on remuneration from this Decision. Avoidance of the remuneration requirements implies that the bank is formally compliant with the requirements of this Decision, although it does not substantially achieve the objectives of the remuneration requirements, including the following examples:

1) the remuneration is formally considered a fixed part of the remuneration in accordance with the definitions in this Decision, although it can essentially be considered a variable remuneration if the objectives of the remuneration provisions of this Decision are taken into account (e.g. the bank temporarily significantly increases the fixed part of the remuneration in order to disburse a bonus),

2) a variable remuneration is awarded or paid even though:

1. is not based on the success of an employee, business unit or bank,

2. harmonization of the variable part of the remuneration with the assumed risks is not efficient,

3. the variable part of the remuneration is not sustainable in relation to the financial position of the bank (e.g. the bank disburses the variable part of the remuneration in the amount that implies a significant part of the generated profit of the bank),

3) the fixed part of the remuneration is awarded as a fixed number of financial instruments, and not as a fixed amount of the remuneration,

4) the bank regularly negotiates the harmonization of the fixed part of the remuneration with the performance of the employee,

5) the employee receives remuneration from another member of the banking group, i.e. another entity included in the consolidation, where the remuneration is not in accordance with the definition of remuneration from Article 2, Paragraph 1, Item 18 of this Decision, but is based on instruments that avoid requirements in relation to the remuneration from this Decision (e.g. a loan that does not need to be repaid), i.e. on instruments that encourage excessive risk-taking (e.g. the remuneration enables disproportionate yields based on discretionary investment conditions by the employee),

6) additional benefits referred to in Article 45, Paragraph 3 of this Decision shall be granted in amounts that are not justified in the relevant circumstances,

7) the bank compensates for the reduction or restructuring of variable parts of remunerations from previous years (e.g. due to recovery and resolution measures or due to the use of extraordinary public financial support) in subsequent years or in the form of other payments, instruments or methods.

(3) When concluding employment contracts or other contractual relations between the bank and employees, the bank must ensure their compliance with the Remuneration Policy.

Requirements regarding Remuneration Policy

Article 44

(1) The supervisory board, the bank management, and the remuneration committee and the risk committee, if established, shall cooperate actively in order to ensure that the Remuneration Policy is harmonized with the scope of the assumed risk and efficient and appropriate risk management. Remuneration policies and practices, and remuneration decision-making procedures should be clear, well-documented, recorded and transparent.

(2) The risk management function is obliged to:

1) participate in determining adequate criteria for evaluating the performance and assessing the impact of the variable part of remuneration on the risk profile and risk culture of the bank,

2) confirm and assess the adequacy of the compliance of remuneration with the assumed risks, and in connection with these issues participate in the meetings of the remuneration committee, if established,

3) participate in the process of determining identified employees in accordance with their role.

(3) The compliance function is obliged to:

1) conduct an analysis of the compliance of the Remuneration Policy with laws, by-laws, and internal acts and risk culture of the bank and report on the findings to the bank's governing bodies,

2) participate in the process of determining identified employees in accordance with their role.

(4) In the event that the risk management function and the compliance function identify that the Remuneration Policy encourages inadequate conduct of employees in terms of risk-taking that exceeds the level of acceptable risk for the bank, they must actively cooperate in determining the bonus pool of variable part of remuneration and awarding the variable part of remuneration in the bank.

(5) The human resources management function shall actively participate in the development and review of the Remuneration Policy, including the remuneration structure, remuneration level of awarding and employee incentive mechanisms, in a manner that, in addition to attracting and retaining the necessary employees, will ensure the compliance of the Remuneration Policy with the risk profile of the bank.

(6) The internal audit function shall, at least once a year, evaluate the application of the Remuneration Policy, and submit a report thereon to the Audit Committee and the Supervisory Board. The report on the evaluation of the application of the Remuneration Policy includes the assessment of:

1) the process of drafting and implementing the Remuneration Policy and its impact on the bank's risk profile,

2) compliance, consistency and adequacy of the implementation of the Remuneration Policy with regard to the execution of the plan (e.g. adequacy and compliance of remuneration disbursements with the business strategy, risk profile and long-term objectives of the bank) and the bank's ability to maintain or increase capital,

3) the procedure for determining the identified employees and the results of that procedure.

Remuneration categories

Article 45

(1) The bank shall establish clear, objective and transparent criteria for the categorization of all categories of bank remuneration into the category of fixed or variable remuneration. In the event that the bank, based on the criteria referred to in Paragraph 2 of this Article, cannot award a certain category of remuneration to the category of fixed remuneration, such remuneration should be considered variable.

(2) In order to be able to consider a certain category of remuneration as fixed, the bank shall take into account the following criteria:

1) the remuneration is based on pre-established criteria,

2) the remuneration is based on a non-discretionary decision (valid for all employees) and reflects the level of professional experience and work experience of the employee,

3) the remuneration is clear in terms of the individual amount awarded to the individual employee,

4) the amount of remuneration in a certain period is constant and related to the job position and responsibility of the employee,

5) the remuneration cannot be reduced, temporarily revoked or canceled unilaterally by the bank, except in cases when it is allowed by the relevant legal regulations,

6) the remuneration does not provide incentives to take risks,

7) the remuneration does not depend on the performance of the employee, business unit or bank,

8) the remuneration is proportional to the fixed part of remuneration of employees at work in another country in relation to the level of living costs and tax rates in that country,

9) the remuneration is part of the general policy of the bank for all employees.

(3) Based on the criteria referred to in Paragraph 2 of this Article, the bank shall assess and adequately categorize and document additional benefits granted to employees, if any (e.g. allowances or other benefits). In the event that the bank has categorized a certain category of these remunerations as a fixed remuneration, it is necessary to conduct and document with special care the assessment of the fulfillment of the criteria referred to in Paragraph 2 of this Article if any of the following conditions are met:

1) the disbursement of these additional remunerations is made only to identified employees,

2) the disbursement of these additional remunerations is limited only to cases where, otherwise, the amount of the variable part would exceed the amount of the fixed part of the total employee remuneration,

3) the disbursement of these additional remunerations may be linked to certain performance indicators.

(4) In order to be able to pay a bonus for retaining an identified employee, the bank must prove a legitimate interest in paying such a bonus, i.e. it must be caused by a certain event (e.g. due to resolution, sale or liquidation of the bank). The retention bonus is considered a variable remuneration, and the bank is obliged to apply the requirements related to the variable part of the remuneration, including adjusting the remuneration to the assumed risks from the previous period, disbursement in financial instruments, deferral, retention, malus provisions and claw back. The bank may not award a retention bonus in exchange for unpaid remuneration due to its insufficient performance or unfavorable financial position in the previous period. In order to disburse the retention bonus, the bank is obliged to determine the period of retention of the employee or specific conditions related to the retention of the employee, which must be met before the payment of the bonus.

(5) The bank shall harmonize the disbursement of discretionary pension benefits, as a variable part of remuneration, with its business strategy, objectives, values, long-term interests, economic position and risks assumed by the employee and the provisions on malus and claw back. In the event of termination of the contractual relationship, where the employee does not retire, the bank is obliged to convert the amount of discretionary pension benefits into financial instruments. The bank may not transfer the rights from these financial instruments to the employee before the expiration of the period of five years, counting from the day when the employee left the bank. In case of termination of the contractual relationship, where the employee retires, the bank is obliged to pay the amount of discretionary pension benefits in financial instruments, whereby a retention period of five years must apply, counting from the date of retirement of the employee.

(6) The bank may not guarantee the disbursement of a certain amount of the variable part of the remuneration to the employee. Guaranteeing the disbursement of a certain amount of the variable part of remuneration is considered a contractual obligation of the bank to pay a certain amount of the variable part of remuneration to the employee, regardless of performance, i.e. only under the condition of retaining a contractual relationship until a certain date.

(7) Notwithstanding Paragraph 6 of this Article, the bank may contract a guaranteed variable remuneration only with new employees and only for the first year of their work, whereby the bank does not apply the provisions on malus or claw back.

(8) The bank does not include the guaranteed amount of variable remuneration when calculating the ratio between the variable and fixed part of the total employee remuneration referred to in Article 47, Paragraph 4–6 of this Decision in the event that this remuneration is awarded to the employee before the beginning of the first period of performance.

(9) The bank may contract remuneration as compensation to an employee for loss of variable remuneration due to termination of employment contract with the previous employer, and only for the first year of the new employee, provided that such compensation does not limit the bank's ability to maintain or increase its capital. In that case, the bank shall apply all provisions of this Decision to the variable part of the remuneration, including the provisions on deferral of remuneration, retention of remuneration, disbursement of the variable part of remuneration in financial instruments and provisions on malus and claw back.

(10) The bank shall define in the Remuneration Policy the responsibilities for determining and adopting severance pay for identified employees, the maximum possible amount of severance pay and the criteria for determining that amount. The bank is in the award, i.e. payment of severance pay, or assessment of the adequacy of the amount must take into account that the severance pay:

1) does not represent disproportionate awards, but adequate compensation of the employee in case of early termination of the contract,

2) reflects the performance in a certain period, i.e. does not represent awards for non-performance or violation of the bank's rules,

3) may not be awarded in the event of an employee's error which provides for the termination of the employment contract,

4) may not be awarded in the case when the employee voluntarily resigns in order to accept a job in another legal entity,

5) may include severance pay due to dismissal of redundant employees and may be subject to a non-competition clause,

6) is not subject to the requirements on the variable part of remuneration if it is stipulated by labor law.

(11) When determining the amount of severance pay, the bank shall take into account the performance achieved during a certain period and, if necessary, assess the seriousness of any error by the bank or employee.

(12) The bank shall oblige all identified employees not to use personal risk protection strategies, and not to contract insurance against loss of remuneration or insurance against adverse outcome of assumed risks, since this impairs the compliance of their remunerations with risk exposure. This provision applies to all identified employee remunerations, including deferred remunerations and remunerations that have been paid but are subject to a retention provision.

(13) The bank shall establish and maintain effective controls to ensure compliance of employees in accordance with Paragraph 12 of this Article, including a statement by the identified employee that it will not apply personal risk hedging strategies or insurance contracts to limit the impact of adjusting the variable part of remuneration for assumed risk.

Application of the Remuneration Policy requirement

Article 46

(1) The bank is obliged to apply the general requirements from Article 47 of this decision to all employees.

(2) The bank is obliged to apply the special requirements referred to in Articles 49–52 of this Decision to identified employees.

(3) Notwithstanding Paragraph 2 of this Article, the bank shall not be obliged to apply the provisions referred to in Article 50, Paragraph 4–13 of this Decision on identified employees whose variable part of the remuneration on an annual basis does not exceed 100,000 KM on a gross basis (neutralization principle).

(4) Notwithstanding Paragraph 2 of this Article, with the aim of better harmonization of remuneration with assumed risks and performance, the bank may make some or all special requirements referred to in Articles 49–52 of this Decision apply to employees who are not identified employees, which is required to stipulate by the Remuneration Policy and apply consistently.

2.5.2. General requirements of the Remuneration Policy for all employees

General requirements

Article 47

(1) The bank shall ensure that the Remuneration Policy meets all of the following conditions:

1) that it is in accordance with adequate and efficient risk management in order to provide an efficient framework for performance assessment, harmonization of variable remuneration with assumed risks and that there is a close link between performance and variable part of the remuneration,

2) to encourage appropriate and efficient risk management,

3) not to encourage risk-taking that exceeds the level of acceptable risk for the bank,

4) that it is in accordance with the business strategy, objectives, corporate culture, values, long-term interests of the bank and shareholders, and

5) to include measures to prevent conflicts of interest, including the prevention of conflicts of interest in determining the remuneration of employees involved in control functions.

(2) The Remuneration Policy shall encourage the assumption of risk that exceeds the level of acceptable risk for the bank, if any of the following conditions is met:

1) there is a significant dependence of employees on the variable part of remuneration, which arises from the inappropriate relationship between the variable and fixed part of total remunerations, or

2) remunerations of employees in case of termination of the contractual relationship with the bank do not reflect the performance achieved in a certain period or do not have a corrective factor for failure or for actions that are not in accordance with regulations or internal acts of the bank.

(3) The bank shall, among other things, include in the Remuneration Policy:

1) performance objectives for the bank, business units and employees,

2) methods and criteria for performance assessment,

3) the procedure for determining the identified employees and the manner of conducting the analysis for determining the identified employees,

4) the structure of the variable part of the remuneration, preferably including financial instruments for awarding of the variable part of the remuneration,

5) measures for harmonization of the variable part of the remuneration with the risks,

6) objective criteria for awarding remuneration to employees and measures for identifying and preventing conflicts of interest, including possible conflict of interest in the following situations:

1. when determining the remuneration of employees involved in control functions,

2. when disbursing a fixed or variable part of remuneration in the form of financial instruments,

7) pension policy and, if necessary, rules in case of early retirement,

8) remuneration rules for third parties acting on behalf of the bank (e.g. bank representatives), ensuring that remunerations to those persons do not encourage excessive risk-taking or sale of products without prior adequate information to clients in accordance with applicable law.

(4) The bank shall determine in the Remuneration Policy an adequate ratio between the variable and fixed part of total remuneration for all categories of employees, and for them determine an adequate cap of that ratio, above which the disbursement of the variable part of remuneration is not allowed. The cap of the ratio between the variable and fixed part of the total remunerations is the sum of all variable remunerations that can be awarded in the next assessment period, including the amount of possible retention bonus referred to in Article 45, Paragraph 4 of this Decision, divided by the sum of all fixed remunerations, which should be awarded in the same performance assessment period. The fixed part of the total remunerations must have a sufficiently high share in the total remunerations, so that it enables the implementation of a fully flexible policy of disbursement of the variable part of the remuneration, including the possibility of non-payment of that part of the remuneration, as well as the activation of the provisions on malus or claw back in the event of changes in the performance of the employee, business unit or bank.

(5) When determining the ratio referred to in Paragraph 4 of this Article, the bank shall take into account:

1) quality of performance measurement and related adjustment of risk remuneration,

2) the length of the period of deferral and retention of remuneration,

3) type, scope and complexity of the bank's business activities,

4) types of risks to which the bank is exposed,

5) the category to which a certain employee belongs, including the categories of employees referred to in Article 2, Paragraph 1, Item 23 of this Decision,

6) the position of the employee in the organizational structure, and the powers and responsibilities associated with that position and

7) other elements that the bank deems important.

(6) Irrespective of Paragraphs 4 and 5 of this Article, the bank is obliged to determine the ratio of the fixed and variable part of the remuneration of an individual employee in accordance with the following rules:

1) the fixed part of the remuneration of an employee performing control functions must not be less than two thirds of the total remuneration of that employee, and the total annual remuneration of that employee must not be less than the average remuneration of employees performing tasks of comparable scope, complexity and responsibility,

2) for other employees, the bank is obliged to determine the ratio between the variable and fixed part of total remuneration so that the amount of the variable part does not exceed the amount of the fixed part of total remuneration.

(7) The conditions under which the provisions on malus and claw back are activated include, inter alia, the following cases:

1) evidence of misconduct or serious failure of the employee (e.g. violation of the code of ethics and other internal regulations, especially if they relate to risks),

2) the bank and / or business unit subsequently suffered a significant decline in its financial performance,

3) there has been a significant risk management failure in the bank and / or business unit in which the employee works,

4) a significant increase in the requirements for available and regulatory capital at the level of the bank or business unit,

5) any regulatory measures caused by the employee's behavior.

(8) The bank shall ensure that the bonus pool of the variable part of remuneration of all employees in the bank, including the awarding, disbursement and vesting of the variable part of remuneration to employees, does not limit its ability to maintain or increase the amount of its capital (recapitalization from profit). When assessing the ability to maintain or increase the amount of its capital, the bank must take into account own funds, i.e. CET1 capital, the result of the internal capital adequacy assessment procedure, the requirement for a combined buffer and distribution restrictions from Articles 40 and 41 of the Decision on calculating capital in banks. If the bank determines that the fulfillment of obligations or the achievement of capital or liquidity targets is jeopardized, it will immediately apply a conservative policy of disbursement of the variable part of remuneration, which includes:

1) defining the cap for the amount of the variable part of the remuneration on the basis of the appropriate percentage of the total net profit for the current financial year, or

2) inclusion of net profit and decision-making on distribution and inclusion of retained earnings of previous years when calculating own funds.

(9) The Remuneration Policy and the procedures adopted by the bank for the implementation of the Remuneration Policy must be clear, well documented and accessible to all employees of the bank. In order to comply with the principles of remuneration policy, the bank is obliged to inform each employee in writing or electronically about the provisions of the Remuneration Policy that apply to him/her.

2.5.3. Special requirements of the Remuneration Policy for identified employees

Procedure of determining identified employees

Article 48

(1) The bank shall, in a regular procedure, determine the identified employees referred to in Article 2, Paragraph 1, Item 23 of this Decision.

(2) For the purpose of determining identified employees, the bank shall conduct an analysis once a year, and on the basis of its own qualitative and quantitative criteria determine employees, i.e. individual categories of employees who have a significant impact on the bank's risk profile, taking into account the bank's size and internal organization, the scope and complexity of the bank's business operations, position, tasks and responsibilities of employees, total variable remunerations of employees, divided into monetary and non - monetary fixed and variable remunerations in the previous financial year, labor market conditions and other criteria the bank deems relevant.

(3) The analysis referred to in Paragraph 2 of this Article must be adequately documented, comprehensive and understandable and must at least include the following information:

1) reasons and scope of application of the analysis in the bank,

2) methodology for assessing risks arising from the bank's business strategy and activities,

3) assessment of employees performing work in other members of the banking group, if relevant,

4) the role and responsibilities of the bank's governing bodies and control functions involved in the planning, supervision, control and application of the procedure for determining identified employees, and

5) results of the analysis, including the number, tasks, names and job positions of the identified employees.

(4) Irrespective of the results of the analysis referred to in Paragraph 2 of this Article, the identified employees are considered to be the persons referred to in Article 2, Paragraph 1, Item 23, Subitems 1–4 of this Decision.

(5) The bank shall, at the request of the Agency, explain the manner and criteria on the basis of which it determined the identified employees referred to in Paragraph 1 of this Article and submit all relevant documentation.

Procedure of harmonizing variable remunerations for risks

Article 49

(1) The awarded amount of the variable part of remuneration must be based on a combination of employee performance appraisal (taking into account quantitative and qualitative, absolute and relative financial and non-financial criteria) and relevant business units, and on the bank's overall results.

(2) The performance assessment must relate to a multi-annual period, in order to ensure that the assessment process is based on long-term performance.

(3) Performance assessment, as a basis for calculating the variable part of the remuneration, must be transparent and adjusted to all types of significant risks of the bank, and must take into account the necessary capital requirements and the required liquid assets.

(4) The bank shall ensure that the performance objectives, as well as the methods and criteria for performance assessment referred to in Article 47, Paragraph 3, Item 1 and 2 of this Decision are realistic. The bank must not use objectives, methods and criteria for performance assessment that could encourage excessive risk-taking, including the risk of bad faith. Performance criteria should be clearly distinguished

depending on whether the performance (results) of business units, support functions, control functions and other functions of the bank (e.g. legal affairs, human resources, strategic planning), etc. are measured.

(5) Methods and criteria for performance assessment must be as much as possible related to the results, i.e. decisions of the identified employee or category of identified employees, in order to establish an appropriate link between the process of harmonizing the variable part of risk remuneration and employee risk taking behavior.

Special requirements for variable part of remuneration

Article 50

(1) The bank shall ensure that the fixed part of the remuneration of an identified employee is based on professional experience and responsibility in the bank, as well as on the achieved level of education, work experience, expertise and skills, and work experience of the employee in relevant business activities.

(2) The bank may not disburse a variable part of remuneration or transfer rights from financial instruments, including the deferred part of the remuneration, if such remuneration is not sustainable and justified. The variable part of the remuneration is considered sustainable if in the period from the determination of these remunerations until their final disbursement there is no impaired financial condition, i.e. the realization of the bank's loss. The variable part of the remuneration is considered justified if it is based on the performance of the bank, business unit or relevant employee.

(3) The bank shall significantly reduce the total variable part of remuneration, including the possibility of canceling the total variable part of remuneration, if there is a significant impairment of performance of the identified employee, business unit or generated loss at the bank level. All the following forms of remuneration reductions are taken into account:

1) reduction of remuneration for the current business year,

2) reduction of disbursement of remunerations that were previously earned, but which have been deferred and have not yet been disbursed (by activating the provisions on malus), and

3) subsequent reduction of disbursement of remunerations that were previously earned and that have already been disbursed (by activating the provisions on claw back).

(4) The bank shall defer and determine the disbursement schedule in the period of deferral for a significant share of the variable part of the remuneration of the identified employee for an appropriate period of time. The share of the variable part of remuneration of the identified employee to be deferred and the length of the remuneration deferral period is determined in accordance with:

1) the position, responsibilities and tasks of the identified employee,

2) business cycle and characteristics of the bank's operations,

3) the risks of the bank and the level of risk that the identified employee may assume,

4) the ratio between the fixed and variable part of remuneration, and the amount of the variable part of remuneration of an identified employee.

(5) Irrespective of Paragraph 4 of this Article, the bank is obliged to defer at least 40% of the variable part of the remuneration of the identified employee. Exceptionally, if the amount of the variable part of the remuneration is extremely high, the bank is obliged to defer the disbursement of at least 60% of this part of the remuneration of the identified employee.

(6) Notwithstanding Paragraph 4 of this Article, the deferral period of the variable part of remuneration shall not be shorter than three years. Exceptionally, for those identified employees who have the greatest significant impact on the risk profile of the bank, the deferral period may not be shorter than five years.

(7) The bank is obliged to disburse a significant part of the variable part of the remuneration, deferred and non-deferred part, in the form of financial instruments. The part of the variable part of the remuneration that will be disbursed in the form of financial instruments is determined in accordance with the position, powers and responsibilities of the identified employee, the amount of the variable part of his/her remuneration and the level of risk that the identified employee can assume.

(8) Notwithstanding Paragraph 7 of this Article, at least 50% of each variable part of the remuneration must consist of financial instruments. The variable part of the remuneration consisting of financial instruments is calculated as the ratio between the amount of the variable part of the remuneration awarded in the instruments and the sum of the variable part of the remuneration awarded in cash and other benefits, at the time of awarding.

(9) The financial instruments used by the bank for awarding of variable remuneration should contribute to the harmonization of variable remunerations with the performance and risks of the bank. The financial instruments in terms of this Decision are:

1) ordinary shares of the bank,

2) financial instruments related to ordinary shares of the bank, which have a built-in clause which limits the maximum possible value of the instrument to the value that was valid on the day of determining the remuneration,

3) ordinary shares of the parent company of the legal entity or its parent company,

4) financial instruments related to ordinary shares of the person referred to in Paragraph 4 of this Article, which have a built-in clause limiting the maximum value of the instrument to the value that was valid on the day of determining the remuneration, and

5) other financial instruments for the use of which the bank has obtained the prior consent of the Agency.

(10) With regard to financial instruments, the bank is obliged to adopt an appropriate retention remuneration policy which harmonizes the employee's motivation with the long-term interests of the bank, whereby the retention remuneration policy is applied to the deferred and deferred variable part of remuneration.

(11) The bank may not disburse to an identified employee dividends or interest on a financial instrument that has been awarded and deferred to him/her either during the deferral period or after the end of the deferral period. All interest or dividends that could be disbursed during the deferral period become the property of the bank.

(12) In determining the appropriate retention policy of the variable part of the remuneration, the bank shall take into account the following:

1) the length of the assessment period and the deferral period,

2) the impact of the employee on the risk profile of the bank,

3) the precision of adjusting the remuneration to the risks taken in measuring performance and determining remuneration,

4) the time required for certain relevant risks to materialize and

5) other elements that the bank deems important.

The bank is obliged to ensure that it applies a retention period of at least one year for the awarded financial instruments.

(13) The bank may not disburse deferred remuneration faster than the principle of regular (even) accrual.

The principle of regular accrual in disbursement of deferred remuneration means that for remunerations deferred during “n” years, beginning at the end of the assessment period, remuneration disbursement at the end of each year from the end of the assessment period constitute a deferred remuneration amount multiplied by (1 / n).

Deferred parts of remunerations may not be disbursed by the bank more than once a year, with the first deferred part of remunerations being disbursed by the bank at least one year after the end of the assessment period.

Additional rules for remuneration of employees in control functions

Article 51

(1) The bank is obliged to provide an adequate amount of remuneration to employees in control functions, in order to employ employees with an adequate level of education, expertise, skills and work experience.

(2) The bank shall ensure that the variable part of remuneration of employees performing control functions depends on the achieved objectives related to their functions and must not depend on the performance of the business areas they control or their assessment of the performance of business areas they control.

(3) Taking into account the restriction referred to in Article 47, Paragraph 6, Item 1 of this Decision, the bank shall ensure that internal methods for determining the variable part of remuneration of employees performing control functions do not jeopardize the objectivity and independence of those employees.

(4) The restriction referred to in Article 47, Paragraph 6, Item 1 of this Decision shall also apply to a member of the bank management who is responsible for risk management area (CRO).

Additional rules for remuneration of members of the bank governing bodies

Article 52

(1) The supervisory board is obliged to ensure that the remuneration of the members of the bank management is in accordance with their competencies and responsibilities, tasks and professional qualifications.

(2) The remuneration of the members of the supervisory board must be in accordance with the Remuneration Policy and must not stimulate the members of the supervisory board to make decisions that may encourage risk-taking that exceeds the level of risk acceptable to the bank, in accordance with the provisions of this Decision.

(3) The bank's general assembly shall decide on the remuneration of the members of the supervisory board. If, in addition to the fixed part of the remuneration, which is the remuneration for performing the function, the members of the supervisory board are in exceptional cases disbursed a variable part of the remuneration, this part of the remuneration should reflect the quality of their work in the execution of the competences of the supervisory board and to be based on their performance, i.e. the achieved results in performing supervision over the operations and work of the bank management. If the agreed disbursement of remuneration to the members of the supervisory board is in the form of a fixed amount paid per hour of work or working days, it is considered a fixed remuneration even if the time of disbursement of remuneration is not defined in advance.

(4) In cases when a member of the bank's supervisory board is disbursed a variable part of the remuneration in the form of financial instruments, the bank shall apply adequate measures to ensure the independence of members, including determining the retention period, which must last at least until the end of the term of the member.

2.5.4. Other requirements relating to remuneration

Remuneration in case of utilization of extraordinary public financial support

Article 53

(1) Members of the supervisory board and the management of the bank which has received public financial support referred to in Article 2, Paragraph 1, Item 40 of the Law may not be disbursed a variable part of the remuneration, unless it is proven that such remunerations are justified (e.g. awarding a variable part of the remuneration to newly appointed members of the management who are employed during the recovery or resolution phase of the bank in order to appoint new eligible members of the management in that period).

(2) The Agency may issue a written order to the bank that has received public financial support for the restructuring of the variable part of the remuneration, in a manner that is in line with efficient risk management and long-term sustainable growth of the bank.

(3) The disbursement of the variable part of remuneration to employees, including members of the bank's governing body, must not jeopardize the regular and timely return of extraordinary public financial support to the state or the achievement of objectives set in the bank's resolution plan.

(4) The restructuring of the variable part of the remuneration referred to in Paragraph 2 of this Article shall mean the following measures:

1) setting limits on remuneration for members of the bank's supervisory board and the bank management,

2) prohibition of disbursement of the variable part of remuneration for the business year in which the public financial support was requested,

3) reduction of the variable part of remuneration that has been deferred and not paid, i.e. for which the rights from financial instruments have not been transferred,

4) prohibiting the determination of any variable part of the remuneration until the public financial support is fully repaid or until the financial recovery plan of the bank is implemented, i.e. realized;

5) other similar measures determined by the Agency.

Application of other regulation

Article 54

The provisions on remuneration from this Decision do not jeopardize the exercise of general principles of labor and contract law, shareholders' rights, general responsibilities of the bank's governing bodies, as well as rights arising from collective agreements in accordance with legal and other regulations.

Keeping records on remuneration

Article 55

The bank is obliged to ensure the comprehensiveness and systematicity of documentation related to employee remuneration, which includes:

1) Remuneration policy and possible procedures for its implementation,

2) decisions of the bank's supervisory board referred to in Article 10, Paragraph 1, Item 14 of this Decision,

3) decisions of the bank management referred to in Article 11, Item 10 of this Decision,

4) consents and decisions of the bank general assembly referred to in Article 10, Paragraph 2 of this Decision,

5) reports referred to in Article 67, Paragraph 12, Item 10 of this Decision,

6) analysis referred to in Article 48, Paragraph 2 of this Decision and

7) methodology and results of performance measurement in determining the variable part of remuneration of identified employees.

3. Due diligence of members of bank bodies

3.1. Basic rules of due diligence

Professional and ethical standards

Article 56

(1) A member of the bank's governing body is obliged to act in accordance with high professional and ethical standards of bank management, acting in the interest of the bank, and to prevent to the greatest possible extent making decisions based on personal interests, which may lead or have already led to conflicts of interest.

(2) A member of the bank's governing body is obliged, by means of his/her behavior, to encourage an adequate organizational culture, which gives the highest priority to professional, honest and conscientious performance of business activities at all organizational levels, and clearly defined, transparent and consistently applied levels of responsibility and authority within the bank's organizational structure.

Application of professional and ethical governance standards

Article 57

(1) The bank's governing bodies are obliged to apply professional and ethical governance standards in order to achieve a balance between the interests of the bank, the bank's governing bodies, clients, creditors, shareholders, employees, the Agency and other interested parties.

(2) The supervisory board of the bank, in order to act in accordance with Paragraph 1 of this Article, should define by the code of ethics approach to acceptable and unacceptable conduct in the bank, including clear identification of unallowed or illegal activities, such as: inaccurate financial statements, money laundering, fraud, bribery and corruption, as well as dealing with cases of their occurrence.

(3) Members of the bank's governing body should achieve the balance referred to in Paragraph 1 of this Article by acting in accordance with legal regulations, supervisory and regulatory rules, professional rules and code of ethics, in order to leave as little space as possible to the personal assessment of the member of the bank's governing body.

(4) In the activities referred to in Paragraph 2 of this Article, the bank's supervisory board should encourage measures to identify and sanction any illegal, unprofessional, and unethical conduct, so that the sanction demotivates potential executors in the bank.

Due diligence

Article 58

(1) A member of the bank management must perform his / her duty professionally and with due diligence, in accordance with the highest ethical management standards and established procedures and mechanisms for disposing of inside information for his / her own account or on behalf of third parties. Conduct is considered appropriate if a member of the bank management performs his / her duties in accordance with the objectives, strategy and policy of the bank and in its best interest.

(2) A member of the supervisory board must professionally and with due diligence perform his / her duty of supervision over the management of the bank, in accordance with legal powers and the highest ethical standards, including the obligation to establish procedures and mechanisms for disposing of inside information for his / her own account or on behalf of third parties. Performing duties requires a member of the bank's supervisory board to understand and continuously monitor the bank's operations, as a prerequisite for performing the function of supervising the bank's operations and management and adequate understanding of legislation, business strategy, Risk Strategy and Risk Profile Strategy and interests of the bank.

(3) A member of the supervisory board who has been prevented from performing his / her function for any reason (for example, due to conflict of interest, unjustified pressures on his / her independent decision-making, long-term passivity and inactivity of other members, etc.) and who has applied all statutory procedures is obliged to inform the Agency thereof.

Responsibilities

Article 59

(1) The responsibilities of the members of the bank's governing bodies must be clearly defined and documented, including:

1) defining the responsibilities of the members of the bank's governing bodies in terms of performing the stipulated competencies for each individual function of the bank's governing body,

2) knowledge, abilities, skills and experience, necessary for performing each individual function,

3) expected time for performing a certain function,

4) obligations regarding training and qualification for a certain function,

5) description of relevant work procedures,

6) minutes from the sessions of the bank's governing bodies,

7) other documentation, on the basis of which the Agency can assess the activities of the members of the bank's governing bodies, i.e. the quality of their work.

(2) Members of the bank's governing bodies shall, in the performance of their obligations and responsibilities, cooperate with each other in the best interest of the bank. Procedures and activities regarding the fulfillment of obligations and responsibilities of the members of the bank management and supervisory board and their mutual cooperation must be clearly determined by the bank's statute and internal rules of procedures of the bank's supervisory board and management. In the decision-making process, members of the bank's governing bodies are obliged to ensure: foundation on adequate, reliable and timely information, objective, critical and comprehensive discussion, and reaching consensus when adopting important bank decisions that may have a significant impact on its business, financial or legal status.

(3) Cooperation between members of the bank's governing bodies implies cooperation in formulating business strategy and policy proposals adopted by the bank's general assembly and formulating the Risk Strategy and Risk Policy adopted by the bank's supervisory board, as well as defining the manner of supervising the implementation of adopted strategies and policies.

Independence and professional competence

Article 60

(1) A member of the bank's governing body must have the necessary knowledge and experience to independently assess and make decisions in the best interest of the bank. In doing so, he / she is obliged to take into account all available information and other relevant factors that may have an impact on decision-making process.

(2) During the assessment and decision-making process within the stipulated competencies, members of the bank's governing body shall consider their impact on: the bank's operations, protection of interests the bank's depositors and other clients, the bank's obligations to creditors, the Agency, shareholders and other interested parties.

In doing so, they should in particular take into account the importance of:

1) encouraging the safety and financial health of the bank,

2) understanding of applicable regulations and

3) avoiding potential conflicts of interest in the bank's operations and the decision-making process on issues within the competence of the bank's governing body.

(3) A member of the bank's governing body shall, in the decision-making process, independently and based on professional knowledge and understanding of all relevant facts and in accordance with the highest ethical standards, assess all opinions and instructions of those who elected, appointed and proposed him / her. This also refers to the opinions or instructions given by the parent bank's body to the member of the bank's body of the subsidiary regarding the implementation of business objectives, risk profile, strategy and policy of the bank.

(4) In connection with the procedure referred to in Paragraph 3 of this Article, a member of the bank's governing body shall inform the chairman of the bank's governing body in detail, precisely and in a timely manner of all events relevant to the formulation of the opinion, and prior to the decision-making.

(5) If a certain member of the bank's governing body considers that most of the decisions adopted by this governing body in relation to specific problems are contrary to the bank's objectives, strategies and policies, this disagreement must be explained in a written separate opinion and entered in the minutes of the sessions of the bank's governing body.

(6) A member of the supervisory board is obliged to inform the other members of the supervisory board regarding the received opinion or instruction referred to in Paragraph 3 of this Article. All members of the supervisory board have the same rights and responsibilities, regardless of who proposed or elected them.

Independence of the supervisory board member

Article 61

(1) The supervisory board must have at least one third of its members who are independent of the bank, and in accordance with Article 58, Paragraph 10 of the Law, when determining the independence of members, the provisions of the Law on Company governing the independence of a management board member shall apply accordingly.

(2) None of the members of the bank's supervisory board may depend on the bank or its subsidiaries and other related parties, i.e. its business, financial, ownership, personal or other relation with the bank, the bank's governing body or its related person may not affect impartiality, objectivity, due diligence and comprehensiveness in personal judgment on issues within the competence of the supervisory board.

(3) A member of the bank's supervisory board shall immediately notify this body of the existence of any relation with the bank or its related person referred to in Paragraph 1 of this Article.

Conflict of interest assessment

Article 62

(1) A conflict of interest with a member of the bank's governing body exists when it is not neutral in relation to the subject of decision-making or due to his / her relations with other companies, persons or businesses, it can be assumed that he / she may have interests that are not necessarily the bank's interests.

(2) When assessing conflict of interest, all circumstances or relations referred to in Article 14, Paragraph 2 of this Decision must be taken into account, and which are defined in the Conflict of Interest Policy, and are directly related to a member of the bank's governing body and other legal persons and private individuals which have the same interests as a member of the bank's governing body.

(3) A member of the bank's governing board shall avoid circumstances and acting that could lead to a conflict of interest between him / her and the bank, or between him / her and a person who has economic, political or other interests that are common to the member's interests, and which indicate a joint acting or conduct of a member and that other person. When performing his / her activities and in decision-making process, a member of the bank management is primarily obliged to respect the interests of the bank and to subject all personal interests to the interests of the bank, i.e. he / she may not use the business opportunities of the bank for his / her own account or for the account and on behalf of a person who has common interests with the respective member of the bank management.

(4) When performing his / her activities and in decision-making process, a member of the bank's supervisory board shall primarily respect the interests of the bank and subordinate to its interests all personal interests or specific interests of shareholders, management, the public or other persons.

(5) A member of the bank's governing body shall immediately inform the supervisory board of the existence of circumstances that could lead to a suspicion of a conflict of interest. If a conflict of interest or circumstances that could lead to a conflict of interest is identified, the supervisory board is obliged to take appropriate measures to eliminate it or to establish control over the circumstances that could lead to a conflict of interest.

(6) If the supervisory board, based on the assessment referred to in Paragraph 5 of this Article, identifies a conflict of interest or the possibility of its occurrence in relation to a certain member of the bank's governing body, that member shall immediately terminate the proceedings due to suspicion of conflict of interest and transfer to the bank all benefits which he / she eventually acquired on the basis of such conduct, i.e. business activities.

(7) In the event that the bank suffers any damage due to that business activity, that member shall compensate the damage caused to the bank from own funds.

(8) The bank's supervisory board shall assess whether it is necessary to terminate the function of a member of the bank's governing body if it identifies a significant conflict of interest that the member of the bank's governing body is unable to eliminate, and take appropriate measures based on the said assessment.

(9) In the event that a member of the bank management does not immediately inform the supervisory board of his / her suspicion of a conflict of interest or if based on the measures imposed by the supervisory board he / she does not take corrective action or enable control over circumstances that could lead to a conflict of interest, the supervisory board is obliged to dismiss him / her from the position of a member of the bank management immediately after identifying the disputed situation.

(10) In the event that a member of the supervisory board does not immediately notify the supervisory board of his / her suspicion of a conflict of interest or if based on the measures imposed by the supervisory board he / she does not take corrective action or enable control over circumstances that could lead to a

suspicion of conflict of interest, the supervisory board is obliged to propose to the bank's general assembly to dismiss the member of the supervisory board immediately after identifying the disputed situation.

(11) The competent body of the bank, in addition to dismissal from the position of a member of the bank's governing body referred to in Paragraph 8 and 9 of this Article, shall assess the need to initiate proceedings before the competent authorities, which should be notified to the Agency.

General precautions to avoid conflict of interest

Article 63

General precautions to be taken to avoid conflict of interest include at least the following:

1) at a session of the bank's governing body, the member must, on his / her own initiative or at the invitation of the chairman of the bank's body, state whether there is a suspicion of conflict of interest regarding issues subject to consideration and decision-making process at the bank's governing body session and explain circumstances that led to the suspicion of conflict of interest,

2) a member of the bank's governing body shall not vote in the event that there is a suspicion of a conflict of interest regarding issues that are subject to consideration and decision-making process at a session of the bank's governing body, and

3) the bank's governing body is obliged to ensure that the minutes of the session include explanations and statements of the member concerned that he / she did not vote due to a conflict of interest, i.e. suspicion of a conflict of interest referred to in Item 2 of this Paragraph.

Special measures for the prevention of conflict of interest

Article 64

(1) The bank's governing bodies shall consider the circumstances or relations referred to in Article 14, Paragraph 2 of this Decision relating to conflicts of interest.

(2) A member of the bank's governing body is obliged to give a written statement regarding the issue of conflict of interest referred to in Paragraph 1 of this Article before taking office, as well as subsequently every year or after any changes.

Identification of significant direct and indirect business relations

Article 65

(1) Conflict of interest especially refers to the existence of a significant direct or indirect business relation between a member of the bank's governing body or a member of his / her immediate family with the bank or its subsidiary.

(2) Direct business relation referred to in Paragraph 1 of this Article is any contractual or other business relation that meets the following criteria:

1) that the contract on delivery of goods or performance of services, including financial services, advisory services and IT support services, is concluded between a member of the bank's governing body or a member of his / her immediate family, on the one hand, and the bank or its subsidiary, on the other hand,

2) that a member of the bank's governing body or a member of his / her immediate family uses banking or other services provided by the bank or its subsidiary, under conditions that are not in accordance with the adopted business policy or usual practice of the bank or its subsidiary and

3) that a member of the bank's governing body or a member of his / her immediate family is a member of another organization or association or has business activities with it, and that organization or association receives funds in the form of donor, sponsorship or other assistance from the bank, if the total annual amount of these funds exceeds 2,000 KM.

(3) The indirect business relation referred to in Paragraph 1 of this Article exists if a member of the bank's body or a member of his / her immediate family has a significant ownership interest in a company or organization that has significant business relations with the bank or is a member of their bodies or a significant business partner.

(4) The supervisory board of the bank is obliged to consider any significant business relation in which there is a suspicion of a conflict of interest, as stated in Article 62, Paragraph 5–9 of this Decision.

3.2. Additional rules of due diligence

Work efficiency

Article 66

(1) The efficiency of the work of the bank's governing body is directly related to the level of informing and access to important information. Timely, comprehensive, clear and accurate informing of the bank's governing bodies, including the supervisory board committees, is a precondition for achieving efficiency in performing activities within their competence.

(2) The bank management regularly, comprehensively and timely reports to the supervisory board regarding the implementation of their responsibilities on issues related to operations, risks and risk profile of the bank, implementation of adopted policies, possible deviations from established business policy objectives and other issues within its competence.

The supervisory board has the right and obligation to request additional explanations and reports from the bank management regarding all important issues of the bank's operations and its subsidiaries.

(3) The chairman of the supervisory board is in charge of coordinating its work and determining the agenda of meetings in order to ensure priority resolution of strategic issues, ensures that the supervisory board makes decisions based on reliable information and good informing and chairs its meetings. He / she is also obliged to encourage other members of the supervisory board to efficiently and effectively perform their duties and responsibilities, so that:

1) members of the supervisory board receive adequate documents and reliable information in a timely manner in order to adequately prepare for the meetings of the supervisory board and its committees,

2) ensure an open, constructive and critical discussion between the members of the supervisory board, on the basis of which they can freely express their views during the discussion, and in the voting and decision-making process.

(4) Members of the bank's supervisory board are obliged to devote sufficient time to performing their tasks. During their term of office, they are obliged to complete and improve the necessary collective and individual knowledge, skills and professional knowledge, further educating themselves in areas that are important for the efficient and quality performance of their duties. In that sense, the bank should allocate funds and other resources needed for these purposes, which includes the adoption of a plan for professional training of members of the supervisory board and members of the bank management.

(5) Once a year, the bank's supervisory board should perform a self-assessment of adequate staffing and evaluation of its activities, the work of the supervisory board as a whole and the work of individual members, potential conflicts of interest of individual members, functioning of its committees and cooperation with the bank management. In that sense, in accordance with the results of self-assessment,

the bank's supervisory board should define possible measures to improve efficiency in terms of composition, education, dynamics of meetings and attendance, necessary information, preparation for meetings, etc.

(6) The bank must submit to the Agency the results of the self-assessment and any proposed measures for improving efficiency referred to in Paragraph 5 of this Article by 31 March of the current year for the previous year.

Supervisory board committees

Article 67

(1) In addition to the audit committee, the supervisory board of a significant bank shall establish a remuneration committee, an appointment committee and a risk committee. In order to achieve efficiency in work, and depending on the size and complexity of the bank's operations, the supervisory board should consider the formation of other specialized committees, such as: ethics committee, human resources committee, compliance committee and similar. The formation of these committees is in the function of providing support in specific areas within the competence of the supervisory board, in order to enable the application and development of good practices of bank management and effective decision-making.

(2) If it is not a significant bank and if the risk committee, the remuneration committee and the appointment committee referred to in Paragraph 1 of this Article have not been established, the supervisory board shall perform the tasks of those committees.

(3) The supervisory board is obliged to determine the responsibilities and scope of its work for each established committee referred to in Paragraph 1 of this Article, as well as the appropriate working procedures. Working procedures should include regular reporting to the supervisory board, and documenting agendas and minutes with the main decisions and conclusions of the meetings.

(4) The risk committee, the appointment committee and the remuneration committee shall have at least three members, one of whom is the Chairman, and they shall be appointed from among the members of the supervisory board, i.e. members of the supervisory board and a maximum of one person employed in the bank.

(5) Notwithstanding the requirement referred to in Paragraph 4 of this Article, the supervisory board shall ensure the following:

1) that the chairmen of these committees are appointed from among the members of the supervisory board, and not from among the persons from the professional services in the bank,

2) that the chairman of the risk committee is, if possible, an independent member of the supervisory board, and that he / she is not the chairman of the supervisory board or the chairman of another committee of the supervisory board,

3) that the chairman of the remuneration committee is an independent member of the supervisory board,

4) that the independent members of the supervisory board referred to in Article 61, Paragraph 1 of this Decision actively participate in the work of the supervisory board and the subcommittee of the supervisory board.

(6) The supervisory board shall ensure that the risk committee, the appointment committee or the remuneration committee do not have exactly the same composition as another supervisory board committee.

(7) The supervisory board is obliged to ensure adequate cooperation between the supervisory board committees. Taking into account Paragraph 6 of this Article, adequate cooperation between committees

includes the case in which the chairman or a member of one committee may be a member of another committee. In the event that the risk committee and the remuneration committee are established, adequate cooperation includes the circumstances in which a member of the risk committee participates in the meetings of the remuneration committee, and vice versa.

(8) The bank management shall ensure that the supervisory board is adequately informed and that they have access to adequate human and financial resources for the performance of their tasks, including the possibility of hiring external consultants, if necessary.

(9) Members of the risk committee must individually and / or jointly have appropriate knowledge, skills, expertise and experience in the field of risk management and internal controls of the bank, which enables them to fully understand and monitor the implementation of strategies and policies, as well as the risk profile and the risk appetite of the bank.

(10) The risk committee has the following tasks:

1) advise and assist the supervisory board in monitoring the overall current and future risk appetite, taking into account all significant risks of the bank, in order to ensure compliance with the risks arising from the business objectives or business strategy of the bank,

2) assists the supervisory board in supervising the implementation of the adopted Risk Strategy and risk limits, without prejudice to the responsibility of the bank management and the supervisory board in the overall risk management and supervision of the bank,

3) report to the supervisory board and the bank management on the implementation of the Risk Strategy, adequacy and manner of implementation of the adopted Risk Policy and other risk management procedures, as well as the adequacy and reliability of the entire risk management system,

4) supervise the implementation of capital and liquidity management strategies, as well as the bank's significant risk management strategies, with the aim of assessing the adequacy of these strategies in relation to the adopted risk appetite and the Risk Strategy,

5) make recommendations to the supervisory board on changes to the Risk Strategy in the event of changes in the bank's business model, market trends, recommendations made by the risk management function, etc.,

6) make proposals to the supervisory board related to the possible use of external consulting services in the field of risk management,

7) review of various scenarios, including scenarios for stress testing, in order to assess the impact of external and internal events on the risk profile of the bank,

8) review the compliance of prices of products / services of the bank offered to clients with the business model and the Risk Strategy, and in cases that it is determined that these prices do not adequately reflect risks in accordance with the business model and Risk Strategy, propose an improvement plan to the supervisory board and the bank management,

9) without prejudice to the tasks of the remuneration committee, the risk committee shall examine whether the incentives provided by the Remuneration Policy take into account risk, capital, liquidity and probability, and the time schedule of salaries, in order to help establish a good Remuneration Policy,

10) review the adequacy of the established recovery plans, from the aspect of their inclusion in the bank's management system, compliance with the established risk management system and the implementation of measures defined by those plans, and if necessary, propose measures for their improvement,

11) assess the recommendations of the internal audit function and the recommendations of the appointed audit company, which performs the bank's external audit in the area of risk and monitors the adequacy of the measures undertaken.

(11) The Remuneration Committee shall be formed in a manner that enables the adoption of professional and independent decisions on the Remuneration Policy, as well as on the impact of remuneration on the management of risk, capital and liquidity of the bank. In this regard, members of the remuneration committee should, individually and / or jointly, have knowledge, skills and experience regarding remuneration policies and practices, risk management systems and internal control systems, including knowledge of methods for adjusting the variable part of remuneration with the risk profile and capital structure of the bank.

(12) The Remuneration Committee has the following tasks:

1) provide support to the supervisory board in the adoption and regular review of the general principles of the Remuneration Policy and actively cooperate in the process of determining identified employees,

2) provide support and advise the bank management during the preparation of the Remuneration Policy proposals,

3) supervise the determination of the variable part of the remuneration of the heads of control functions and provide the supervisory board with recommendations on the structure and amount of remuneration to those persons,

4) compile proposals for decisions of the supervisory board, i.e. the bank's general assembly referred to in Article 10, Paragraph 1, Item 14 of this Decision on remuneration, whereby it assumes all responsibility for the accuracy and adequacy of the information provided to the bank's general assembly,

5) compile proposals for decisions of the supervisory board that have an impact on the risks and risk management of the bank,

6) evaluate the procedures and methods related to ensuring that the remuneration system takes into account all bank risks, as well as the bank's capital and liquidity, and that the Remuneration Policy is harmonized with the scope of assumed risk, efficient and reliable risk management, business strategy, objectives, corporate culture, values and long-term interests of the bank,

7) assess the achievement of objectives related to the performance and the need to harmonize the variable part of the remuneration with the assumed risks from the previous period, including the application of the provisions on malus and claw back,

8) review different scenarios in order to assess the impact of external and internal events on remuneration policy and practice, including assumptions for back stress testing,

9) make proposals to the supervisory board regarding the possible use of consulting services regarding the Remuneration Policy and the implementation of that policy, as well as the implementation of control over the process of appointing a consultant,

10) at least once a year, review and assess the compliance of the implementation of the Remuneration Policy, as follows:

1. with relevant regulations, guidelines, generally accepted standards, principles and codes,

2. with the bank's policies and procedures related to the remuneration of bank employees.

The board responsible for conducting the procedure from this Item is obliged to include in that procedure the control and other relevant functions of the bank (e.g. human resources, legal department, etc.), for the purpose of professional support to the board. If deficiencies in the Remuneration Policy or in its implementation are identified in this procedure, the supervisory board is obliged to adopt a plan for eliminating these deficiencies without delay and to initiate the implementation of that plan. If this procedure is carried out by the remuneration committee, the report on the performed procedure must be submitted to the bank management and supervisory board, as well as to the persons responsible for the work of the bank's control functions. Reporting to the bank management and persons responsible for the work of control functions also refers to the case when the procedure from this Item is carried out by the supervisory board.

(11) In performing the activities referred to in Paragraph 12 of this Article, the remuneration committee shall take into account the long-term interests of shareholders, clients, creditors, the Agency and other interested parties of the bank.

(12) Members of the appointment committee should, individually and / or jointly, have appropriate knowledge, skills, expertise and experience in the field of the procedure for electing members of the bank's governing body, as well as requirements for meeting the conditions for members of the bank's governing body.

(13) The Appointment Committee has the following tasks:

1) prepare a description of the duties and qualifications required for a particular function in the bank's governing body,

2) propose members of the supervisory board and members of the bank management and actively cooperate, with the participation of the human resources function, in the selection of candidates for vacant positions in the bank's governing bodies,

3) regularly, and at least once a year, assess the structure, size, composition and operation of the supervisory board and the bank management and, if necessary, propose changes,

4) regularly, and at least once a year, assess the knowledge, abilities and experiences of individual members of the bank management and the supervisory board, and the bank management and the supervisory board as a whole and report on the assessment to those bodies,

5) regularly review the merits and effectiveness of the policy for the election of members of the supervisory board and the bank management and the appointment of key function holders, i.e. senior management, make recommendations to the supervisory board and the bank management and propose changes if necessary, taking into account diversity of objectives and policies, as well as the time required to perform an individual function,

6) continuously, to the extent possible, ensure the absence of dominant influence of individuals or small groups of individuals when making decisions of the supervisory board and the bank management in order to protect the interests of the bank as a whole.

Reporting to the bank's general assembly

Article 68

(1) The supervisory board shall submit to the bank's general assembly an annual report on the work of this board in writing, stating precisely and credibly the activities during the year.

(2) The report referred to in Paragraph 1 of this Article shall include in particular the activities carried out with regard to:

1) supervision of the bank's operations,

2) supervision over the work of the bank management,

3) evaluations of the bank management report,

4) evaluation of the report of the audit committee, which is responsible for supervising the implementation of the external audit in the bank,

5) assessment of the bank's internal audit report, which is responsible for risk assessment in the bank's operations and internal control system,

6) functioning and work of the bank's supervisory board and its specialized committees,

7) self-assessment of work efficiency and possible proposed measures for its improvement,

8) the existence of conflict of interest within the bank's governing bodies and the manner of resolving them,

9) concrete contribution of individual members in the work of the supervisory board, their attendance at meetings and participation in discussions and decision-making,

10) assessment of the degree of achieved cooperation with other governing bodies of the bank and specialized committees and

11) execution of other tasks in accordance with the competencies determined by the Law.

Election, appointment and dismissal of members of the bank's governing bodies

Article 69

(1) With regard to the exercise of legal competencies of the bank's general assembly or the bank supervisory board for the election and dismissal of supervisory board members, i.e. appointment and dismissal of the bank management, the bank's general assembly, i.e. the bank supervisory board must carefully and timely select or appoint candidates to ensure continuity of work of the bank governing bodies.

(2) The general assembly or the supervisory board of the bank shall be obliged to select or appoint candidates for the supervisory board or the bank management in accordance with the Law and bylaws of the Agency.

3.3. Specific tasks of supervisory board members

Adopting the bank's business policy

Article 70

(1) The bank's supervisory board shall make a proposal for the bank's business policy, having previously assessed whether it enables the implementation of the bank's business strategy.

(2) During the assessment referred to in Paragraph 1 of this Article, the supervisory board of the bank shall take into account in particular the following:

1) compliance of business objectives and plans with regard to:

1. significant business activities and
2. all expected changes in the bank's business strategy,

2) risks arising from the macroeconomic environment in which the bank operates, from the aspect of the bank's position in the business cycle,

3) potential risks that may arise due to the planned introduction of new products,

4) expected macroeconomic trends in the domestic and international environment,

5) the competitive position of the bank and the possibility of increasing its market share and / or expanding its market,

6) security aspect and improvement of business quality and

7) development aspects of banking and financial services.

Adopting the bank’s financial plan

Article 71

(1) The supervisory board of the bank shall adopt the proposal of the financial plan as a part of the business plan which is harmonized with the business strategy and policy of the bank.

(2) When adopting the financial plan, as an integral component of the business plan, it is necessary to define acceptable and unacceptable risks with the responsibilities of the bank management for identification, measurement, i.e. assessment, monitoring, control and reporting of risks, in accordance with the adopted Risk Strategy.

(3) During the assessment referred to in Paragraph 2 of this Article, the supervisory board of the bank shall take into account in particular the expected indicators:

1) growth of total assets,

2) trend of market share of the bank by business areas,

3) income and expenses of the bank, starting from the analysis of the same in the previous period and expected trends,

4) business results and

5) return on equity and assets before tax.

4. Assessment of the suitability of members of the bank's bodies and holders of key functions

4.1. Requirements for a bank

Application

Article 72

(1) The bank shall assess the members of the bank's governing bodies in the following cases:

1) before submitting the request for issuing the prior consent of the Agency for the election, i.e. appointment of new members of the bank's governing bodies,

2) during the performance of the function of elected, i.e. appointed members of the bank's governing bodies,

3) in other cases that the bank deems relevant for performing the function of a member of the bank's governing bodies.

(2) The founder of the bank shall evaluate the members of the bank's governing bodies, on the basis of the criteria defined by this Decision, before submitting the request to the Agency for issuing an operating banking license.

(3) The assessment of the holder of key functions shall be performed by applying the requirements referred to in Paragraph 1 and 2 of this Article, whereby the bank does not submit to the Agency a request for the issuance of a prior consent for election, i.e. appointment.

Responsibility for the assessment

Article 73

(1) The bank has the primary responsibility for performing the initial assessment and reassessment of members of the bank's governing bodies referred to in Article 72, Paragraph 1 of this Decision, including the assessment of the suitability of members of the bank's governing bodies as a whole.

(2) The founder of the bank shall be responsible for performing the initial assessment of the members of the bank's governing bodies referred to in Article 72, Paragraph 2 of this Decision, including the assessment of the suitability of the members of the bank's governing bodies as a whole.

(3) The bank has the responsibility to perform the initial assessment and reassessment of the holders of key functions referred to in Article 72, Paragraph 3 of this Decision.

Assessment general requirements

Article 74

(1) The bank shall ensure that a member of the bank's governing body meets the conditions for performing that duty at all times, on the basis of Article 59 of the Law, i.e. Article 69 of the Law.

(2) For the assessment of the members of the bank's governing bodies, all relevant and available information must be taken into account, regardless of when and where it was collected.

(3) When assessing the reputation of a member of the bank's governing body, the criteria stipulated by the Law and this Decision must be taken into account.

(4) A member of the bank's governing body must at all times have a good reputation, be honest and have the ability to think independently, regardless of the size, internal organization, type, scope and complexity of the bank's operations, or the duties and responsibilities of a specific function, including membership in committees of the bank's governing bodies.

(5) When assessing the knowledge, abilities and skills, experience and available time for performing the function of a member of the bank's governing body, the type, scope and complexity of the bank's operations, as well as the duties of the function performed must be taken into account.

(6) When assessing the members of the bank's governing body, other criteria relevant to the functioning of the bank's governing body, stipulated by the Law and this Decision, and requirements regarding the diversity of the bank's governing bodies in accordance with the relevant internal policy of the bank must be taken into account.

(7) If there are cases that cast doubt on the reputation, knowledge, abilities, skills, experience or other criteria relevant to the performance of the function of a member of the bank's governing body, it must be assessed how these cases will impair or could impair the suitability of that member and the bank's governing body as a whole.

Assessment process

Article 75

(1) The assessment of a member of the bank's governing body must be completed before he / she starts performing the function, as well as once a year for the previous year of performing this function.

(2) Taking into account Article 55, Paragraph 1, Item 9 of the Law, the bank shall ensure that the results of the assessment of candidates for a member of the supervisory board are provided to the bank's general assembly in a timely manner, before appointing a member of the supervisory board at the bank's general assembly session.

(3) The bank shall re-assess the member of the bank's governing body, with the aim of verifying his / her further suitability, if the re-assessment is necessary due to a certain case that calls into question the fulfillment of conditions for performing the function of a member of the bank's governing body, that is who:

1) significantly affects the adequacy of the composition of the bank's governing body due to the reappointment of a member of the bank's governing body to a position for which conditions have changed or in case the member is appointed to another position in the bank's governing body, including change of area for which he / she is responsible,

2) has an impact on the readiness and ability to perform the function of a member of the bank's governing body, including the case when a member of the bank's governing body begins to perform additional functions or activities,

3) significantly affects the reputation of a member of the governing body of the bank or the bank, and

4) indicate the facts established within the regular assessment of the management system in the bank referred to in Article 10, Paragraph 1, Item 5 of this Decision, conducted by the supervisory board.

Such reassessment is limited to examining the further suitability of a member of the bank's governing body only in relation to the relevant case.

(4) During the initial assessment and reassessment of individual members of the governing body, the bank shall, on the basis of its own methodology, perform both the initial assessment and reassessment of the members of the bank's governing body as a whole. The bank shall re-assess the suitability of the members of the bank's governing body as a whole in the case of appointing a new member, in the cases referred to in Paragraph 3 of this Article, and in cases when:

1) the appointed members cease to be members of the bank's governing body,

2) there is a significant change in the business model, risk appetite or the bank's Risk Strategy at the individual or consolidated level.

The identified shortcomings in the overall composition of the bank's governing body do not mean that an individual member is not eligible.

(5) The assessment process and its results must be adequately documented. The documentation should include:

1) description and role of the relevant function of the bank's governing body,

2) the results of the assessment of the members of the bank's governing body based on the following criteria:

1. reputation, including openness and honesty,
2. appropriate knowledge, abilities, skills and experience,
3. available time to perform the function.

(6) The bank shall submit to the Agency the results of the performed assessment within 30 days from the day of the performed assessment.

Assessment policy of members of the governing bodies

Article 76

(1) The bank's general assembly shall adopt policies and procedures for the selection and assessment of the fulfillment of conditions for members of the supervisory board and self-assessment of the work of the supervisory board, in accordance with the Law and bylaws of the Agency.

(2) The policy of assessment of members of the governing bodies shall determine the principles on the selection, monitoring and planning of the replacement of members of the bank's governing bodies and shall include as a minimum:

1) procedure for selection, appointment, reappointment and planning of replacement of members of the bank's governing bodies, internal procedure applied in the assessment of members of the bank's governing bodies, measures taken after the assessment and internal function (e.g. human resources function), which is responsible for providing support to the supervisory board, i.e. the appointment committee, if any, in the process of assessing the members of the bank's governing bodies,

2) criteria for assessing the suitability of members of the bank's governing bodies, which include knowledge, experience, abilities, skills, independence, readiness and ability to devote sufficient time to work in the bank's governing bodies, and other conditions necessary to perform the function of a member of the bank's governing body;

3) documentation that a member of the bank's governing body and the bank should submit for the purpose of conducting the assessment,

4) defining that the appointment committee, i.e. the supervisory board, regularly, and at least once a year, assesses the knowledge, skills, abilities and experience of the members of the bank management and the supervisory board and those governing bodies as a whole, and reports on the results of the assessment to the members of the governing bodies;

5) measures to be taken after the assessment,

6) activities to be undertaken in case of election of members of the supervisory board, in terms of informing shareholders about the conditions for performing the function of a member of the supervisory board, criteria which that person must meet to perform the function and the results of assessing his / her suitability before election;

7) cases when it is necessary to reassess suitability, including measures to determine the existence of such cases,

8) the obligation of members of the bank's governing body to regularly, i.e. annually inform the bank of all changes that affect their suitability to perform the function, and in the event of a significant change - notification immediately upon its occurrence,

9) conditions and methods of additional training of members of the bank's governing body, and according to the needs for professional training of members of the bank's governing body,

10) the objectives of the bank in the diversity of governing bodies,

11) defining adequate financial and human resources for training and professional development of members of the bank's governing body,

12) defining persons, manner and deadlines for informing the Agency on acting in accordance with the provisions of this Decision, i.e. on all significant information that may negatively affect the suitability of members of the governing body,

13) the manner of documenting the assessment procedure of the members of the bank's governing body.

(3) The bank shall ensure that the appointment committee and other relevant functions, including the control functions of the bank, cooperate in defining the Assessment Policy of the members of the governing body.

(4) With the assessment policy of members, the bank is obliged, in proportion to the size, scope, type, complexity and organization of business, to conduct an assessment for the holders of key functions. The bank should assess the reputation, knowledge, abilities, skills and experience of key function holders on the basis of the same criteria that apply to members of the bank's governing body, taking into account the role and duties of the relevant function.

(5) By means of the Assessment Policy of the members of the governing body, the bank shall determine the function responsible for assessing the holders of key functions, and for reporting to the function of human resources and the governing body of the bank on the results of the assessment.

(6) The bank is obliged to adequately document the assessment procedure and the results of the assessment of the key function holders and submit the results of the assessment in the case of control function heads to the Agency within 30 days from the day of the assessment or planned appointment.

Bank measures

Article 77

(1) If, after the assessment, the bank concludes that a certain person is not suitable for election or appointment as a member of the bank's governing body, that person may not be elected or appointed. If this member has already been elected or appointed, the bank should take appropriate measures to dismiss him / her or measures to ensure his / her suitability.

(2) If the bank concludes, on the basis of assessment or re-assessment, that a member of the governing body is not, or is no longer suitable for performing the given function, it shall take appropriate measures, taking into account the specific situation and shortcomings of individual members of the bank governing bodies.

These measures may include: replacement of certain members of the bank's governing body, i.e. their dismissal, training of an individual member or the entire bank's governing body and other appropriate measures to ensure satisfactory training of the bank's governing body as a whole.

(3) Bank measures referred to in Paragraph 1 and 2 of this Article shall also apply if the bank concludes, on the basis of assessment or re-assessment, that the governing body as a whole is not, i.e. is no longer suitable.

(4) In case of dismissal of a member of the bank's governing body referred to in Paragraph 1 and 2 of this Article, the bank is obliged to carry out the stipulated procedure with the Agency.

(5) In case of taking other measures from Paragraph 1 and 2 of this Article, the bank is obliged to inform the Agency about the implementation of these measures, stating the content, holders and deadlines for their implementation.

(6) If the bank, after the assessment, concludes that the candidate for the key function holder is not suitable, that candidate cannot be appointed, i.e. the bank is obliged to take measures to ensure adequate performance of that function.

Criteria and reputation assessment

Article 78

(1) A member of the bank's governing body shall be deemed to have a good reputation if there is no evidence to the contrary, and if there is no reason for reasonable doubt in his / her reputation. When assessing this criterion, all available information for assessment should be taken into account, regardless of where the event relevant to the assessment of this criterion occurred.

(2) A member of the bank's governing body shall be deemed not to have a good reputation if his / her personal or business conduct raises significant doubts about his / her ability to ensure adequate, efficient and prudent management of the bank.

(3) When assessing the reputation of the member of the bank's governing body, the following shall be taken into account:

1) records of all court, administrative and misdemeanor proceedings or other relevant records, in particular: type of accusation, sentence imposed, degree of appeal, stage of the proceedings, effect of any measures imposed, aggravating and mitigating circumstances, severity and importance of any relevant offense, administrative and supervisory measures, time period from the imposition of the measure, i.e. punishment, behavior of the member after the imposed measure, i.e. punishment,

2) cumulative effects of several minor offenses, which individually do not damage the reputation of the member, but which together can have a significant impact on the same.

(4) It is necessary to analyze the factors that could call into question the reputation of an individual member of the bank's governing body, as follows:

1) initiating criminal proceedings or passing a verdict sentencing for a criminal offense, according to the laws governing:

1. banking and other financial activities, or are related to the securities market, securities or payment system instruments, including laws on anti-money laundering and terrorist financing, prevention of corruption and other relevant regulations governing the provision of financial services,

2. fraud or financial crime,

3. tax liabilities and

4. business operations of companies, liquidation, bankruptcy or consumer protection,

2) relevant current or previous investigative procedures and / or enforcement measures for non-compliance specified in Item 1, Sub-item 1 of this Paragraph, and

3) relevant current or previous investigative procedures and / or measures imposed by other regulatory or professional authorities for non-compliance with any regulations.

(5) The correct conduct of an individual member of the bank's governing body in performing previous activities shall be assessed on the basis of the following evidence:

1) whether he/ she acted transparently and whether he / she cooperated with the Agency or other competent supervisory or regulatory authorities,

2) whether the professional body has denied, annulled, revoked or canceled the relevant document on the possession of professional knowledge or has excluded him / her from its membership,

3) resignation or eventual dismissal and reasons for the same or similar situations,

4) imposition of a measure of prohibition by the competent authority for acting in the capacity of an authorized person and

5) any other evidence that the member of the bank's governing body failed to act in accordance with professional standards of conduct and the attention of a good businessman.

(6) The impact of current and previous business results and financial stability of an individual member of the bank's governing body should be considered on the basis of the following:

1) available data from the records on non-performing debtors,

2) financial and business results of the legal entity in which the individual member of the bank's governing body has or has had a significant ownership interest in the previous three years, with special reference to possible liquidation and bankruptcy proceedings, and whether and in what manner the member had influence to initiate these proceedings,

3) declaring personal bankruptcy in the legal systems of the countries in which it is stipulated,

4) material investments or credit exposures that have a significant impact on his / her financial capacity as a member of the bank's governing body.

(7) Without prejudice to the rights of individuals, it is necessary to consider current investigations when they arise from judicial or administrative proceedings or other similar investigations by regulatory authorities.

Criteria and assessment of knowledge, abilities, skills and experience

Article 79

(1) The bank shall ensure that members of the governing body have appropriate individual and collective knowledge, abilities, skills and experience in order to fully and proportionately to their responsibilities understand and monitor the bank's operations, main risks and management system in the bank, and the bank's organization, i.e. the group, including potential conflicts of interest, that may arise from that organization.

(2) When assessing the experience of an individual member of the bank's governing body, the following should be considered:

1) theoretical experience, i.e. knowledge, abilities and skills acquired through education and professional training and

2) practical experience gained by performing previous tasks.

In addition to the above, the skills and professional knowledge acquired and demonstrated during the performance of professional duties of a member of the bank's governing body should be taken into account.

(3) With regard to the assessment of theoretical experience, i.e. knowledge, abilities and skills of an individual member of the bank's governing body, the level and profile of education shall be considered, and whether the same applies to banking, other financial activities or other relevant areas (economics, law, administration, financial regulations, information and communication technology, etc.).

(4) The assessment of experience should not be limited to the level of education or proof of a certain level of work in a bank or other financial institution. It is necessary to analyze in detail the practical experience of the members of the bank's governing body, since the knowledge acquired during the performance of previous tasks depends on the type, scope and complexity of the work, i.e. the function that these members perform.

(5) When assessing the experience of a member of the bank's governing body, theoretical and practical experience regarding the following are particularly considered:

1) banking and financial market,

2) regulatory framework and stipulated business standards of banks and other institutions of the banking system,

3) planning and knowing the business strategy of the bank or its business plan and their implementation,

4) risk management (identification, measurement, i.e. assessment, monitoring and control of significant risks), including the responsibilities of an individual member of the bank's governing body in that process,

5) accounting and auditing,

6) assessment of the efficiency of the bank's management system, and management, supervision and control in the procedures and measures of the bank and other institutions of the banking system, and

7) interpretation of the bank's financial data, financial planning, analysis and control in banks and similar institutions of the banking system.

(6) A member of the bank management must have sufficient theoretical and practical experience in managerial positions, which has been acquired during a sufficiently long period in managerial positions, and at least three years. Theoretical and practical experience gained in performing previous tasks is assessed on the basis of:

1) period of performing management tasks,

2) types and complexity of work, as well as the organizational structure in which the work was performed,

3) scope of competencies, decision-making powers and responsibilities,

4) technical knowledge of the bank's operations and knowledge of the risks to which it is exposed, acquired at a certain job position, and

5) the number of persons he / she managed.

Other criteria of suitability assessment

Article 80

When assessing the suitability of an individual member of the bank's governing body, other criteria relevant to the functioning of the bank's governing body should be assessed, which relate to:

1) independence, which includes the ability of a member of the bank's governing body to perform his / her duties independently in the interest of the bank and without the influence of other persons that may lead to a conflict of interest,

2) readiness and ability of a member of the bank's governing body to devote sufficient time to work in the bank's governing body,

3) the entire composition of the bank's governing body, its collective knowledge and professional characteristics.

Independence and independence of an opinion

Article 81

(1) The assessment of the independence of a member of the bank's governing body referred to in Article 80, Paragraph 1, Item 1 of this Decision shall include the assessment of the independence of the opinion of the bank's governing body and the assessment of the independence of the supervisory board member.

(2) When assessing the independence of the opinion of a member of the bank's governing body referred to in Paragraph 1 of this Article, it shall be considered whether the member is willing and able to cooperate in the discussion and decision-making of the bank's governing body based on its own prudent, objective and independent views, i.e. opinions, including:

1) personal characteristics of a member of the bank's governing body (e.g. courage, persuasiveness and character, which are necessary for effective consideration and review of proposals and attitudes of other members of the bank's governing body, ability to ask questions to members of the bank management, ability to oppose collective thinking, etc.);

2) the impact of a possible conflict of interest on the ability of a member of the bank's governing body to perform the function independently and objectively.

When assessing the personal characteristics of a member of the bank's governing body referred to in Paragraph 2, Item 1 of this Article, the previous and current behavior of the member, including the behavior of the member in the bank, should be considered. When assessing the impact of possible conflict of interest referred to in Paragraph 2, Item 2 of this Article on the ability of a member of the bank's body to perform the function independently and objectively, the circumstances referred to in Article 14, Paragraph 2 of this Decision should be considered as a minimum.

(3) When assessing the independence of an individual member of the supervisory board referred to in Paragraph 1 of this Article, the circumstances referred to in Article 61, Paragraph 1 and 2 of this Decision should be considered as a minimum.

Assessment of available time to perform the function

Article 82

(1) When assessing the available time for performing the function referred to in Article 80, Paragraph 1, Item 2 of this Decision, the readiness and possibility of a member of the bank's governing body to devote sufficient time to performing his / her duties and responsibilities in the work of the bank's governing body should be considered (hereinafter: assessment of available time), with the aim of understanding the bank's operations, significant bank risks, and the impact of the business strategy and the Risk Strategy on the bank's operations. The assessment should also include the readiness, i.e. the member's ability to devote sufficient time to work in the bank's governing body in possible periods of significantly increased bank activities (e.g. in case of resolution, acquisition, merger, takeover, etc.) or in a possible crisis situation. i.e. significant difficulties in the bank's operations, taking into account that in such periods of the bank's operations more time should be devoted to performing the function.

(2) In order to assess the available time referred to in Paragraph 1 of this Article, when determining the number of functions of directors that a member of the bank's governing body may simultaneously perform in other legal entities, the bank shall take into account individual circumstances related to the bank and the member, including:

1) the time that the member should dedicate to performing the relevant function in the governing body of the bank and

2) type, scope and complexity of the bank's operations.

(3) A member of the bank management may be a person who, in addition to that function, performs a maximum of two non-executive director functions in other legal entities.

(4) Notwithstanding Paragraph 3 of this Article, one director function shall be considered:

1) non-executive director function within the same banking group,

2) non-executive director function in the bank's subsidiary, including non-financial companies.

(5) The director function performed by a member of the bank's governing board in legal entities whose main business activity is of a non-profit nature, and which are not entities of the banking system shall not be considered a director function within the meaning of Paragraph 3 of this Article.

(6) When assessing the time for performing the function referred to in Paragraph 2 of this Article, at least the following should be taken into account:

1) the number of director functions in legal entities performed by a member of the bank's governing body at the same time, taking into account possible synergies in the event that a member performs these functions within a banking group,

2) the size, type, scope and complexity of the operations of the legal entity in which the member of the bank's governing body has a director function,

3) the actual presence of the member of the governing body in the bank, including the possible geographical distance of the member and the travel time required in that case to perform that function,

4) number of planned meetings at the level of the bank's governing body with competent bodies and other interested persons,

5) the number of director functions that a member of the bank's governing body performs simultaneously in institutions with predominantly non-commercial goals,

6) type of specific function and responsibility of a member of the bank's governing body,

7) other external professional or political functions, or other relevant functions,

8) necessary training and qualification for the function,

9) all other relevant duties of a member of the bank's governing body.

(7) The bank shall ensure that the member of the bank's governing body is aware of the bank's expectations regarding time availability and that he / she is obliged to give a documented statement that he / she is ready and able to devote sufficient time to performing his / her function.

(8) The bank shall monitor and regularly review whether members of the bank's governing body devote sufficient time to performing their functions and responsibilities, including preparation for meetings, attendance and active cooperation at meetings of the governing body, and the impact of possible long-term absence of an individual member on the work of the governing body.

(9) The bank shall be obliged to update and document all external professional and political functions of the members of the bank's governing body. In case of circumstances that may have a negative impact on the time availability of a member of the governing body, the bank is obliged to re-assess the available time for that member.

Suitability of the overall composition of the bank's governing body

Article 83

(1) When assessing the overall composition of the bank's governing body referred to in Article 80, Paragraph 1, Item 3 of this Decision, it shall be considered whether the bank's governing bodies, separately for the bank's supervisory board and the bank management, have appropriate collective knowledge, skills and experience. activities and risks of the bank, and adequate consideration and adoption of appropriate decisions, based on knowledge of the business model, risk appetite, Risk strategy and bank market.

(2) When assessing the knowledge, skills and experience of the bank's governing body referred to in Paragraph 1 of this Article, the business areas of the bank for which the members of the bank's governing body are jointly responsible in terms of managing and supervising the bank's operations shall be considered in particular, including:

1) all business activities and risks of the bank,

2) relevant areas in the field of the financial sector, including financial markets, capital markets, capital requirements and models, and in the field of other relevant sectors,

3) financial accounting and reporting,

4) risk management, compliance and internal audit,

5) information technology and information system security,

6) local, regional and global markets, if applicable,

7) legislation and regulations,

8) managerial skills and experience,

9) ability of strategic planning,

10) experience related to the management and supervision of banking groups, if applicable.

(3) During the assessment referred to in Paragraph 1 of this Article, the bank shall also consider the knowledge, skills and experience of an individual member of the governing body and how they contribute to the suitability of the governing body of the bank as a whole.

(4) Persons who jointly have the knowledge, abilities, skills and experience necessary for a sufficiently good understanding of the bank's operations and risks may be appointed to the supervisory board, i.e. its members should be able to prove that they will acquire them within a reasonable time. The bank management, as a whole, should have a high level of management skills and sufficient practical experience in a bank or other financial institution.

(5) When assessing the suitability of the entire composition of the governing body referred to in Paragraph 1 of this Article, the bank may use the assessment questionnaire, which the Agency shall publish on its website.

Diversity of the composition of the bank's governing body

Article 84

(1) The assessment policy of the members of the governing body should also include the diversity policy of the bank's governing body (hereinafter: diversity policy), which should enable a wide range of qualities and competencies of candidates to be taken into account in the process of electing and appointing attitudes and experiences, as well as independent opinion and prudent decision-making in the bank's governing body. In this regard, the bank shall ensure that diversity policies prevent discrimination based

on sex, race, color, ethnic or social origin, genetic characteristics, religion or belief, national minority, property, birth, disability, age or sexual orientation.

(2) The bank shall ensure that the diversity policy includes at least the following aspects:

1) education and professional experience,

2) gender and

3) work experience.

(3) The bank shall determine the objective of representation of women and men in the governing body of the bank, which shall include at least:

1) a description of the measures implemented by the bank to ensure equal opportunities for both sexes in the governing body of the bank, as well as an explanation of the added value of such a structure of members of the governing body, in accordance with the objective of representation,

2) a description of how to improve the possible under-representation of a certain gender in the bank's governing body, in accordance with the bank's objective, available opportunities and career prospects in the bank's governing body,

3) adequate time period for achieving the objective of representation.

Training and qualification of members of the bank's governing body

Article 85

(1) The bank shall ensure that the Assessment Policy of governing members includes policy and procedures for conducting introductory training and qualification of members of the bank's governing body. Introductory training of members of the governing body should provide support to members in achieving their clear understanding of the structure, business model, risk profile and management system of the bank, and their duties and responsibilities in the bank.

The training of members of the bank's governing body should be based on general and, where applicable, specific educational programs in order to maintain and develop the knowledge, abilities and skills of members of the bank's governing body in relation to fulfilling their duties and responsibilities. The bank is obliged to provide adequate financial and human resources for introductory training and qualification of members of the governing body. Resources for introductory training and qualification should enable the achievement of the objectives of introductory training and qualification of members of the governing body in terms of meeting the conditions for a given function.

(2) The bank shall ensure that the policies and procedures for training and qualification referred to in Paragraph 1 of this Article are up-to-date and include at least:

1) objectives of introductory training and qualification of members of the bank's governing body, including members of the supervisory board,

2) responsibilities for the preparation of detailed education programs,

3) financial and human resources for introductory training and qualification, taking into account the time, costs and administration required,

4) the procedure within which a member of the bank's governing body may request training or qualification.

(3) When defining training and education policies, the bank shall ensure the cooperation of the appointment committee, if established, human resources functions, finance functions and relevant control functions.

(4) The bank shall ensure that all newly appointed members of the bank's governing body receive the most important information on the areas referred to in Paragraph 1 of this Article no later than one month after taking office, and introductory training no later than six months from the date of taking office. A member of the bank's governing body is obliged to fulfill all obligations or requirements of the bank related to knowledge, abilities and skills no later than one year after taking over the given function.

5. Transitional and final provisions

Coming into force and application of the Decision

Article 86

(1) This Decision shall come into force on the eighth day from the day of its publication in the "Official Gazette of Republika Srpska".

(2) With the entry into force of this Decision, the following shall cease to be valid:

1) Decision on risk management in banks ("Official Gazette of Republika Srpska", No. 75/17),

2) Decision on internal controls system of a bank ("Official Gazette of Republika Srpska", No. 89/17),

3) Decision on remuneration and practice policy in a bank ("Official Gazette of Republika Srpska", No. 75/17),

4) Decision on due diligence of members of bank bodies ("Official Gazette of Republika Srpska", No. 75/17) and

5) Decision on suitability of members of bank bodies ("Official Gazette of Republika Srpska", No. 75/17).

(3) The bank is obliged to harmonize its operations with the provisions of this Decision by 31 December 2021.

Number: UO-233/21

Date: 15 June, 2021

PRESIDENT OF THE
MANAGEMENT BOARD
Bratoljub Radulović

Attachment 1. Rules for market risk management

(1) The bank shall ensure a clear and consistent operational separation of the transaction contracting function from the risk management function and the back-office activities function, including the management and governance levels. Operational separation of the transaction contracting function from the back-office activities function implies the establishment of appropriate security and operating procedures, the right of access to the information system, the physical separation of these functions and all other aspects in order to maintain the separation of these functions.

(2) When contracting transactions, the bank shall provide a minimum of:

1) that all essential elements of the transaction have been previously agreed between the contracting parties before the conclusion of each individual transaction;

2) that transactions are contracted in accordance with transparent market conditions. The Bank may contract transactions that are not in accordance with market conditions, if the transaction is contracted based on a clear and reasonable request of the client, where there must be a clearly visible description of the deviation from market conditions and the reasons for this deviation. The bank is obliged by internal acts to stipulate the manner of reporting to the supervisory board, the bank management and senior management on all significant transactions that are not contracted according to market conditions;

3) that the contracting of transactions is performed within the business premises of the bank, and if that transaction is contracted by telephone, the bank is obliged to provide recording of the said telephone conversation;

4) to determine by an internal act the employees of the bank who are authorized to contract transactions, with a clear definition of the type and amount of transaction that the employee can contract, the manner of contracting that transaction, the system of reporting on contracted transactions and similar;

5) that for each contracted transaction there is documentation in printed form, which contains all relevant elements and other information relevant to the contracted transaction, whereby the confirmation of the contracted transaction and related documentation should be forwarded to the back-office activities function as soon as possible;

6) the employee authorized to contract transactions enters data into the information system exclusively using an individual account (username and password), whereby it is obligatory to automatically record the time of entry and the username under which the entry was made.

(3) When recording and controlling transactions, the bank shall be obliged to provide at least:

1) that each contracted transaction is appropriately recorded and included without delay in the internal reports on contracted transactions;

2) that the confirmations on the contracted transactions submitted by the counterparties are timely and complete, and that they are received within the back-office activities function. The bank shall immediately notify the counterparty if the confirmation has not been received in time or the confirmation is incomplete;

3) to establish regular control of the transaction contracting process, which includes control of: completeness of documentation and timeliness of forwarding documentation to the back-office activities / support function; compliance of the data on the contracted transaction with the confirmations on the contracted transaction, the confirmation of the electronic trading system and other sources; compliance of the contracted transaction with market conditions; possible deviations from internal trading rules and compliance of transaction records with the function of contracting transactions and other independent organizational units.

(4) When analyzing the exposure to market risks, the bank shall at least take into account the following:

1) all activities of the bank sensitive to changes in market factors, taking into account the positions of the trading book and the banking book,

2) development and liquidity of relevant financial markets, and volatility of market prices of financial instruments,

3) actual and anticipated mismatches and open positions arising from the bank's activities,

4) present risk concentrations in the trading book,

5) correlations between market prices of different financial instruments,

6) correlations with other risks to which the bank is exposed, such as credit risk and liquidity risk,

7) existence of complex financial instruments, built-in options, etc.,

8) profit and capital simulations in different scenarios, including quantification of the largest loss in extreme market conditions. Simulations refer to:

1. interest rate and interest rate sensitive income and expenses and the economic value of balance sheet and off-balance sheet items arising from different scenarios of interest rate trends,

2. currency and currency sensitive income and expenses and the economic value of balance sheet and off-balance sheet items arising from different scenarios of exchange rate trends,

3. other market factors and market-sensitive income and expenses and the economic value of balance sheet and off-balance sheet items arising from different market scenarios.

The bank is obliged to regularly assess profit and capital simulations in relation to the generated results.

(5) When analyzing the exposure to interest rate risk, in addition to the elements referred to in Paragraph 4 of this Attachment, the bank shall include various aspects of interest rate risk, including the minimum risk arising from:

1) changes in the yield curve and correlations between different yield curves that are relevant to the bank's activities,

2) possible execution of built-in options related to the interest rate.

(6) When analyzing the exposure to foreign exchange risk, in addition to the elements referred to in Paragraph 4 of this Attachment, the bank shall take into account at least the following elements:

1) the impact of unfavorable exchange rate trends on the amount of the open foreign exchange position,

2) changes in the accounting value of the bank's foreign exchange positions due to changes in foreign exchange rates.

(7) With regard to the trading book, in addition to the regulatory valuation requirements referred to in Article 113 of the Decision on calculating capital in banks, the bank shall establish at least the following:

1) identification of possible exceeding of limits immediately after their occurrence and on a daily basis up-to-date report on these cases,

2) regular monitoring of price volatility for trading book positions,

3) continuous measurement and monitoring of open positions that are divided into spot and forward positions, and position in options, taking into account the individual risks arising from these positions, and the size, maturity and complexity of positions.

(8) Monitoring of risks arising from trading activities includes daily monitoring of data on:

1) trading positions,

2) utilization and exceeding of limits and

3) trading results.

(9) The bank shall establish a system of limits for limiting exposure to market risks that it is unable to measure, and when setting limits, it shall take into account the level of capital and income, base the limit structure on risk level assessment and maximum allowable losses. The bank is obliged to provide regular review and, if necessary, change of the established limits based on the results of stress tests.

(10) The bank is obliged to establish an efficient system for monitoring the utilization and exceeding of established limits, which includes control of: compliance of contracted transactions with established limits, approval of business transactions exceeding established limits, documenting reasons for exceeding established limits, and reporting system to the supervisory board and the bank management on all exceedances of established limits.

(11) Reports on the basis of which the bank monitors data on contracted transactions and limits should include an overview of open positions by individual types of transactions, type of risk, organizational part or portfolio, and an overview of established limits and level of their utilization. The bank is obliged to monitor limit exceedance on a daily basis, during and at the end of working hours.

(12) The reports on the basis of which the bank monitors data on trading results should contain an overview of current and cumulative results at least on a monthly, quarterly, semi-annual and annual basis.

Attachment 2. Rules for operational risk management

(1) The bank shall ensure that the operational risk management system is based on the fact that the operational risk relates to all activities of employees, processes, products and systems of the bank.

(2) In terms of Paragraph 1 of this Attachment, the supervisory board and the bank management shall ensure that all relevant organizational levels and segments of the bank's management are included in the operational risk management process.

(3) For the purposes of operational risk management, the bank shall determine:

1) principles for determining and classifying events, i.e. sources of operational risk and

2) what is a significant adverse event for the bank based on operational risk, and the minimum amount that is entered in the database of adverse events.

(4) Within operational risk management, the bank is obliged to include business changes, including new products, activities, processes and systems, project management, outsourced activities, significant operational risks, as well as operational risks related to existing products, activities, processes and systems.

(5) In determining and measuring, i.e. assessing operational risk, the bank shall take into account all relevant internal and external factors and events based on operational risk that caused the actual loss to the bank, as well as the operational risk to which the bank is exposed, but which did not cause an actual loss to the bank.

(6) With the aim of adequate operational risk management, the bank shall, in accordance with laws and bylaws, ensure adequate management of:

1) information system and information system risks,

2) outsourcing risks,

3) legal risk, risk of negligence and compliance risk,

4) risk model,

5) business continuity,

6) a system of anti-money laundering and terrorist financing and

7) other relevant systems in the bank.

(7) The bank shall without delay perform a detailed analysis of significant losses based on operational risk and take appropriate measures to mitigate and / or limit the consequences of events, and inform the supervisory board, the bank management and other relevant bodies or persons thereof.

(8) As part of regular monitoring and reporting on operational risk, the bank shall include minimum information on the type of loss or risk, causes and sources of events. i.e. risks, significance of events or risks and measures undertaken or planned to be taken to mitigate the consequences of events.

(9) As part of regular stress testing, the bank shall include data on relevant adverse events that caused the loss to the bank. In the segment of legal risk and the risk of negligence as part of operational risk, data on possible losses of the bank resulting from inadequate provision of financial services and related court costs should be included in stress testing. Examples of inadequate provision of financial services include: deceptive sales of products, tied sales of inadequate products to customers, conflict of interest in business, manipulation of reference interest rates or exchange rates, unfairly resolved customer complaints, etc.

(10) The bank is obliged to establish a business continuity management process which ensures its continuous business, i.e. timely re-establishment of business activities, processes, systems and service levels.

(11) With the aim of efficient planning and management of business continuity, the bank is obliged to:

1) conduct an analysis of the impact on business, i.e. the process of analyzing business processes and information system resources required for the performance of business processes,

2) adopt a business continuity plan,

3) adopt a plan for the recovery of the information system,

4) establish an incident management process,

5) establish a process for managing data backup and

6) provide a backup location for the recovery of the information system.

(12) Based on the conducted business impact analysis, and with the aim of limiting losses in cases of significant disruption or business interruption, the bank adopts a business continuity plan, which ensures timely re-establishment of core / critical business activities, processes, systems and service levels.

(13) The business continuity plan shall contain at least:

1) description of procedures in case of business interruption,

2) appointment of teams responsible for re-establishing business in case of unforeseen events,

3) clearly defined duties and responsibilities of the teams referred to in Item 3 of this Paragraph and all members of those teams,

4) a list of all resources required to re-establish core / critical business activities,

5) plan of internal and external lines of communication and

6) plan for establishing core / critical business activities at the backup location.

(14) The continuity plan must be regularly analyzed and revised in accordance with business changes related to products, activities, processes and systems in the bank, changes in the environment, business strategy and objectives of the bank and similar. The continuity plan should be tested regularly (at least once a year) and the results of that testing documented.

(15) The bank shall establish reporting to the relevant levels of bank management on all relevant facts related to the management of the business continuity plan, testing of the business continuity plan and on significant changes related to business continuity management.

(16) The bank shall immediately inform the Agency in case of events that require the initiation of a business continuity plan with all relevant facts and circumstances related to it.

(17) Requirements related to business impact analysis, adoption of information system recovery plan, establishment of incident management process, establishment of data backup management process and provision of backup location for information system recovery are defined by the Decision on information system management in banks.

Attachment 3. Rules for other risk management

1. Country risk

(1) A bank that in accordance with laws and bylaws approves placements to debtors with registered office or residence outside Bosnia and Herzegovina shall have adequate policies and procedures for identification, measurement, mitigation, monitoring and control, and reporting on risk of the country in which the debtor has seat or residence.

(2) Country risk monitoring should include an assessment of the probability of non-fulfillment of obligations of the counterparty with registered office or residence outside Bosnia and Herzegovina, arising from economic and political factors specific to a particular country, and an assessment of the enforceability of the contract on the basis of which the individual placement and the possibility of realization of the receivables collateral has occurred, and according to the legislation of a particular country in a certain period.

(3) In the policies referred to in Paragraph 1 of this Attachment, the bank shall determine the limits of country risk exposure individually according to the debtor's countries of origin, as well as according to the regional basis and other criteria relevant for adequate country risk management. The bank is obliged to provide periodic review and, if necessary, change of the established limits, with adequate documentation of the performed analysis and reasons for change.

(4) The bank shall establish and maintain an appropriate level of value adjustments, i.e. provisions based on the assessment of expected losses based on country risk exposure, by determining the basis for their formation by reducing the exposure amount by the amount already formed based on the bank's credit risk exposure.

(5) In connection with the procedure under Paragraph 4 of this Attachment, the bank shall document the determined level of value adjustments / provisions, whereby the Agency may require the bank to set a higher level of allocation for potential losses based on country risk, if it finds that the bank has not allocated sufficient level or if it assesses that the country risk management is not in accordance with the risk profile of the bank.

2. Excessive leverage risk

(1) The bank shall adopt and implement appropriate policies and procedures for excessive leverage risk management based on established indicators of excessive leverage risk, which include the leverage ratio and the mismatch between the bank's assets and liabilities.

(2) The bank shall treat the risk of excessive leverage with caution, taking into account the potential increase in the risk of excessive leverage due to the reduction of the bank's regulatory capital due to expected or generated losses, in accordance with accounting rules. To this end, the bank must be able to withstand a wide range of different stressful events, given the risk of excessive leverage.

3. Concentration risk

(1) The bank shall establish adequate policies, procedures and activities for managing concentration risk arising directly or indirectly from the bank's exposure to the same or similar source of risk arising from the bank's total exposure to one person or group of related persons, the same economic sector, the same geographical area, the same type of product and from the use of the same credit protection instruments, i.e. the same credit protection providers.

(2) In order to manage the concentration risk, the bank is obliged to establish appropriate internal limits, and the adequacy of the established limits must be regularly considered and, if necessary, adjusted.

4. Other risks in bank's operations

The bank is obliged to adopt and implement adequate policies and procedures for managing strategic, reputational, business risk, profitability risk, investment risk, capital risk and other risks to which it is exposed or could be exposed in its operations.