

Based on Articles 90 and 128 of the Law on Banks of Republika Srpska (“Official Gazette of Republika Srpska”, no. 74/02) and Article 4, Paragraph 1, Point dz, and Article 10, Paragraph 2, Point b, and Article 25, Paragraph 1 of the Law on Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, no. 10/98, 16/00, 18/01, and 71/02) and Article 15, Point 2, and Article 28 of the By-Laws of the Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, no. 38/98) on its session held on February 10, 2003 the Managing Board of the Banking Agency of Republika Srpska declared

DECISION ON MINIMUM STANDARDS FOR BANK’S FOREIGN EXCHANGE RISK MANAGEMENT

Article 1

This Decision determines minimum standards that a bank is obliged to ensure and maintain in the foreign exchange risk management process, that is, minimum standards to issue and implement programs, policies and procedures for taking over, follow up, control and foreign exchange risk management.

Article 2

In accordance with this Decision foreign exchange risk (hereinafter: FX risk) represents: bank’s exposure to potential impact due to changes of exchange rate, and danger that adverse changes result in losses for the bank in KM (domestic currency), where the amount of FX risk represents the function of the level and duration of bank’s exposure to potential changes of foreign exchange rate, and depends on amount of bank’s debt abroad and exchange rate adjustment level of assets and liabilities in the balance sheet and off balance sheet (hereinafter: assets and liability) of the bank, that is, level of adjustment of bank’s exchange cash flows.

Article 3

Bank’s Supervisory Board is responsible for the issuance, completeness and to ensure implementation of the Program for performance of FX activities (hereinafter: the FX activities) and FX risk management (hereinafter: the Program) which includes also establishing prudent restriction for taking over or decrease of bank’s exposure to FX risk i.e. to potential losses, and at least in accordance with this Decision.

At minimum, bank’s Supervisory Board is obliged to:

1. order bank’s management to develop Program proposal, and overall and detail policy for FX risk management (hereinafter: the policies), establishment and application of procedures for monitoring, measurement, management and control within the Program and the policies;
2. develop, and at least once semi-annually update the Program in accordance with economic and market condition changes, adjust and update the policies, and continuously review bank’s management proposals;

3. assure that bank's internal control and internal audit continuously follow and review whether the bank performs FX operations in accordance with the law, this decision, other regulations, the Program, the policies and procedures;
4. assure selection and appointment of competent management members for bank's FX activities;
5. under proposal of bank's management defines format, content, and frequency of reporting to Supervisory Board on bank's FX activities.

Article 4

At a minimum, bank's management is obliged to:

1. prepare and propose the Program and the policy to Supervisory Board;
2. develop and apply procedures for monitoring, measuring, management and control of bank's FX risk within the Program and the policies;
3. establish and apply adequate system for precise monitoring and measuring of bank's FX risk exposure;
4. establish and apply adequate method for precise monitoring and measurement of bank's income and loss based on FX operations;
5. follow economical and other operational conditions in order to anticipate possible changes in FX business operations, foreign currency rate and FX risk;
6. assure that bank's internal control and internal audit constantly follow, and evaluate the Program and the policies and their implementation;
7. give recommendations to the Supervisory Board related to reductions of FX risk, in connection with currencies, clients, traders, maturity dates, currency mismatches, etc.
8. prepare and recommend to the Supervisory Board type, contents and frequency of reporting to the Supervisory Board on bank's FX activities, that is on position of the bank related to efficient monitoring, analysis, prudent managing and control of existing and potential bank's FX risk exposure;

Article 5

Cautious FX risk management represents bank's restraint from undertaking too large obligations towards abroad, and maintaining foreign currency positions in such a way as to follow, control and eliminate potential adverse effect of foreign currency rate changes on stability of bank's financial position.

The Program, as a minimum, should contain i.e. encompass:

1. description of bank's current and FC activities planned for future;
2. the policies, that should contain minimum of:
 - a) review of principles and objectives of the bank in performing FX business operation and taking over FX risk;
 - b) clear, prudent and precise restrictions of bank's FX risk exposure, adjusted to bank's financial and operational capacity, and this Decision, but more specifically developed especially related to the risk levels the bank is ready to take debts abroad, related to the foreign currency the bank is ready to have risk exposure to, related to individual over-night and term limits for each currency and total over-night and term limits for all FC, etc.;

- c) clearly defined authority levels within the bank regarding foreign exchange operations and risk take over, with detailed description of eventual unlimited, largest and major levels, departments, individuals and possible commissions given the authorizations, power of such authorizations and possibility of their transfer, and precise and concrete restrictions of such authorizations, etc.;
3. procedures for management and control of FX activities and FX risk, proportionally to the size, complexity and frequency of bank's FX activities, which should include minimum following areas:
- a) accounting system and management and Supervisory Board information system, related to the monitoring and assessment of: foreign debt, FC positions of the bank, FC risk over taken, loss and income generated - which are available for measuring, rating and reporting about:
 - foreign debt amount related to the bank's core capital and related to other operational elements in the bank's business, including balance sheet and off balance items;
 - net over-night and time-limit position of each currency (assets/liability) that the bank is dealing with;
 - total net over-night and time-limit position in all currencies that the bank is dealing with;
 - incomes and losses regarding FC activities and FC risk exposure.
 - b) control of foreign currency, including, at least:
 - organizational control in order to monitor if authorities division is implemented between person deciding on FX activities (transactions) and persons responsible for its realization (contracting, executing and recording);
 - procedural control assuring that all transactions are filed at the same date when they occurred, properly placed and immediate detection of failure and not approved actions;
 - monitoring and frequent controls in order to assure adjustment to the regulations and established risk restrictions.

Article 6

“Individual foreign currency position” (open position) represents difference between items referring each foreign currency (henceforth: the items) in bank's balance sheet assets and liability (gold and other precious metals are considered FC), denominated (expressed) in KM, including potential income or loss (positive or negative exchange balance). Potential loss or income result if exchange rate used to record the items (in the bank's business books) is differing from exchange rate, published by the Central Bank of Bosnia and Herzegovina, as of date the daily position is recorded.

“Individual foreign currency position” is calculated as sum of balances of assets items taken into consideration with a plus (+) sign and liability items with a minus (-) sign.

Bank has a “long position” in a certain FC if assets balance is bigger than liabilities balance, that is, if the difference is a positive number or having + (plus) sign.

Bank has a “short position” in a certain FC if assets value is less than liabilities value, that is if the difference is negative number or having - (minus) sign.

“FC position” is sum of all long and short individual FC positions of the bank.

“FC day position” means position at certain moment, during daily working hours.

“Over-night position” means daily FC position after conclusion of working hours of the day and the one that is transferred to the next day.

Article 7

The Bank is obliged to perform foreign currency operations only within the restrictions from this article, calculated according to the bank’s core capital as defined in article 8. of the Decision on Minimum Standards For Capital Management In Banks (henceforth: core capital).

Restrictions in FC activities related to the core capital, according to this article, are:

1. for individual foreign currency over-night position maximum up to 20%;
2. FC position of the bank maximum up to 30%.

Article 8

In accordance with this Decision bank is obliged to monthly inform on its foreign currency position.

The report from the paragraph 1 of this article shall be submitted by the bank in a special form prescribed by the decision of the Banking Agency of Republika Srpska within 15 days after the last day of reporting month, and shall be signed by two persons authorized and responsible to represent bank, where integral parts of the form shall be: external auditor’s confirmation that the report is complete and accurate; and b) contact persons’ names and phone numbers.

Article 9

By the day of enactment of this Decision, the Decision on Minimum Standards for Foreign Exchange Risk Management (“Official Gazette of Republika Srpska” No. 3/00) will cease to exist.

Article 10

This Decision comes into force on the eighth day after its being published in the "Official Gazette of Republika Srpska".

No. UO-88/03
February 10, 2003
Banja Luka

PRESIDENT OF THE
MANAGING BOARD
Ph. D. Novo Plakalovic /signed