

Pursuant to Article 183 of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska” No. 04/17), Article 5, Paragraph 1, Item b, Article 20 and Article 37 of the Law on the Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska” No. 59/13 and 04/17), and Article 6, Paragraph 1, Item b and Article 19, Paragraph 1, 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 44th session, held on 11 December 2017, adopted the following

DECISION
ON THE METHOD OF CONDUCTING BANK SUPERVISION
AND IMPLEMENTING SUPERVISORY MEASURES

1. General provisions

General provisions

Article 1

- (1) This Decision defines more closely conditions and manner of conducting supervision of banks, content of supervision plan, acting of the Banking Agency of Republika Srpska (hereinafter: Agency) authorized persons in conducting supervision of banks and undertaking supervisory measures and obligations of the bank during and after the supervision.
- (2) In accordance with the Banking Law of Republika Srpska (hereinafter: Law), other laws and regulations adopted on the basis of the Law and other laws, the Agency performs supervision of operations of banks seated in Republika Srpska, organizational parts of banks seated in the Federation of BiH (hereinafter: FBiH) or Brčko District of BiH and representative offices of banks seated outside Republika Srpska, registered in Republika Srpska.
- (3) In accordance with the Law, other laws and regulations adopted on the basis of the Law, the Agency performs supervision of a banking group on a consolidated basis and it may also perform inspection of any member of such banking group.
- (4) In conducting supervision of the bank, the Agency is authorized to conduct insight into business books and other documentation, and to require other information from persons who are related to the bank in terms of property and management thereof, the persons to whom the bank transferred the significant part of its business activities and the owners of qualifying holding in the bank.
- (5) If for supervision of persons from Paragraph 4 of this Article the other authority is competent, the Agency in cooperation with this authority conducts on-site supervision over these persons.
- (6) Main objective of the supervision performed by the Agency is to maintain trust in the banking system of Republika Srpska, and preserve its stability, safety and ensure protection of depositors.
- (7) The Agency conducts supervision of the persons referred to in Paragraph 2 and 3 of this Article in order to verify acting in accordance with the Law, other laws and regulations adopted on the basis of the Law and other laws, risk management rules, as well as the standards and rules of the profession.
- (8) The implementation of the principles of legality and respect of the standards and the rules of the profession is the primary responsibility of the bank management body and represents a minimum requirement for its successful and stable functioning.

Scope, frequency and tasks of the supervision

Article 2

- (1) In accordance with the Law and competences stipulated by the Law on the Banking Agency of Republika Srpska, the Agency shall, when performing supervision, control the legality of the bank's operations, including the organization, strategies, policies, activities and procedures applied by the bank in order to harmonize its operations with regulations, standards of prudential operations and good practices.
- (2) The Agency shall assess financial position, risks to which the bank is or might be exposed, the impact of bank's risks to the banking system and risks identified by stress testing of the bank, taking into account the nature, scope and complexity of the bank's operations.
- (3) Based on the results of supervision, the Agency determines whether the organization, strategies, policies, activities and procedures established by the bank, as well as the capital and liquidity of the bank provide good governance and coverage of all risks to which the bank is or may be exposed in its operations.
- (4) The Agency, if deemed necessary, shall perform an enhanced supervision of the bank in the following manner:
 - 1) increase the frequency of on-site inspection of the bank,
 - 2) request for additional or more frequent reporting to the Agency,
 - 3) appoint an advisor in line with the Law,
 - 4) perform targeted supervision over individual business segments of the bank deemed as exposed or might be exposed to significant risks and
 - 5) perform additional reviews of operational, strategic or business plans of the bank.
- (5) Agency's activities related to implementation of its legally stipulated competencies rest on the Core Principles for Effective Banking Supervision and standards defined by the Basel Committee on Banking Supervision and relevant directives of the European Union based on such principles and standards.
- (6) The Agency shall define the frequency and scope of supervision of the bank, taking into account its size, financial condition, systemic importance for the financial sector, the scope and complexity of the operations it performs, risk profile and persons with significant bank share, applying the principle of proportionality.
- (7) Over the course of the supervision, the Agency shall monitor and assess the following:
 - 1) whether the bank operates in accordance with the Law and regulations of the Agency adopted on the basis of the Law, as with the standards of prudent banking operations,
 - 2) capital adequacy of the bank in relation to the risks that the bank is exposed or might be exposed in its operations, including internal capital adequacy assessment process, its implementation and results,
 - 3) adequacy of the bank management system, including the assessment of organizational structures, risk management system and internal control system,
 - 4) financial condition of the bank, including:
 1. assets' quality (loans extended, advances, letters of credit, guarantees, as well as investments in securities, and in terms of their quality, timely fulfilment of debtor's obligations and compliance with applicable regulations, including collateral and sureties received on the basis of placements),
 2. complying with restrictions concerning exposure and the process of determining, monitoring and control of exposure restrictions, including large exposure,
 3. liquidity and
 4. financial result.
 - 5) adequacy of management of the bank's information system and the information system risk,

- 6) application of regulations in the field of protection of the rights and interests of users of banking services,
- 7) application of regulations in the field of payment transactions and prevention of anti-money laundering and terrorism financing,
- 8) verification of accuracy and adequacy of data and information that the bank is obliged to disclose publicly and
- 9) other important indicators effecting operations of the bank, as application of laws and regulations of the Agency.

Supervision Plan

Article 3

- (1) The Agency shall draft the bank supervision plan at least on an annual basis, that shall contain the following:
 - 1) method in which the Agency performs its tasks and allocates resources,
 - 2) identification of banks subject to enhanced supervision, and
 - 3) defining supervision location (off-site or on-site supervision).
- (2) The supervision plan shall encompass the following as mandatory:
 - a) banks whose stress test results or supervision and assessment results referred to Article 2 of this Decision indicate major risks of preservation of the financial position and stability of the bank or indicate a violation of legal provisions in business operations,
 - b) systemically important banks, and
 - c) other banks requiring on-site supervision, as deemed necessary by the Agency.

2. Manner of conducting supervision

Conducting supervision

Article 4

- (1) The Agency shall conduct supervision of the bank's operations:
 - 1) via off-site supervision,
 - 2) via on-site supervision,
 - 3) issuing certain enactments in accordance with its competences (opinions, approvals, consents etc.), and
 - 4) by imposing supervisory measures.
- (2) The Agency shall ensure that supervision from Paragraph 1 of this Article shall be performed continuously, meaning regularly as per Article 5 of this Decision and via periodic and/or occasional inspection from Article 7 of this Decision, and shall periodically analyze the operations of each bank on the basis of monitoring all relevant data.
- (3) As a part of continuous monitoring of bank operations, the Agency may hold regular meetings and communicate with the bank management, senior management, external auditors, head of internal audit function and, if necessary, with its supervisory board.
- (4) Off-site and on-site supervision of the bank is conducted by employees of the Agency, where the on-site supervision employees must have a special authorization by the Agency's director.
- (5) Authorization from Paragraph 4 of this Article determines the scope and time period covered by supervision, and if authorized persons determine the need to extend supervision outside the framework determined by the original authorization, they shall request additional authorization from the Agency's director.

- (6) Exceptionally from Paragraph 5 of this Article, to perform certain tasks in on-site supervision, the Agency may engage an authorized auditor, an audit company or other authorized professional person to conduct on-site supervision of the bank.
- (7) Persons from Paragraph 6 of this Article have equal authority and responsibility as the authorized persons of the Agency in performing tasks related to the on-site supervision of the bank's operations for which the Agency authorized them.
- (8) In the procedure of on-site supervision of the bank, the authorized persons of another competent regulatory authority authorized to control or supervise the operations of members of the same banking group in which the bank is, can participate in accordance with the cooperation agreement concluded between the Agency and such regulatory authority.

Off-site supervision

Article 5

- (1) The Agency shall perform the off-site supervision by collecting and analyzing reports, other documentation and information, as well as continuous monitoring and verification of other data on operations of the bank and other entities subject to a reporting obligation towards the Agency. in accordance with the Law, other laws and regulations adopted on the basis of that laws.
- (2) Reports, other documentation and information from Paragraph 1 of this Article shall mean stipulated reports (annual, semi-annual, quarterly, monthly, etc.) which banks deliver to the Agency, as well as reports by external and internal auditors, correspondence with the bank, information, reports and statements delivered by banks at the request of the Agency, as well as any other available information, reports and notifications related to the bank.
- (3) Based on the analysis of information from Paragraph 1 and 2 of this Article, the Agency shall comprise analysis of the bank's operations, which shall in particular include the assessment of capital adequacy, assets quality, profitability and liquidity, and compliance with the legal restrictions.

Minutes on conducting off-site supervision

Article 6

- (1) Minutes of the off-site supervision are made only when in the process of supervision of the bank's operations the following is determined:
 - 1) irregularities and deficiencies in the bank's operations, including non-timely or incorrect deliverance of stipulated reports or
 - 2) basis for undertaking certain supervisory measures.
- (2) The procedure for compiling the minutes and filing complaints by the bank, and undertaking supervisory measures after conducting the off-site supervision, is performed in the same manner as after the on-site supervision.
- (3) The minutes on conducted off-site supervision and the minutes amendment is signed by the employees of the Agency who have conducted the supervision.

On-site supervision

Article 7

- (1) The Agency shall conduct an on-site supervision by reviewing the bank's operations at its seat or outside the seat of the bank in which the bank or another entity, under its authority, performs activities subject to supervision, as well as in other locations in cases as stipulated by the Law.
- (2) The on-site supervision may encompass overall banking operations or particular segment thereof.
- (3) The on-site supervision includes the following:
 - 1) review of accounting records, business books, auxiliary and other records and calculations, reports that the bank is obliged to compile, policies and other internal acts, and other documentation related to the bank's operations, in material (paper) form and / or in the form of electronic records on the media and in the form required by authorized persons of the Agency and through supervision of computer programs,
 - 2) verification of professional, organizational and technical capacities of the bank,
 - 3) obtaining written and oral explanations by the management, supervisory board or employees of the bank.
- (4) The bank is obliged to enable authorized persons of the Agency to supervise its operations in the bank's headquarters and in all its organizational units.
- (5) The bank is obliged to enable authorized persons to supervise the compliance of its business books and other documentation with regulations, and to supervise information technologies in the extent necessary for conducting individual supervision.
- (6) The bank is obliged to provide the authorized persons, upon their request, an insight into the business books and documentation in writing, i.e. electronic form, and access to the bank's information system, if during the supervision specialized software tools are used.
- (7) Authorized persons shall conduct the on-site examination on working days during regular business hours and, when required, due to the scope and nature of particular supervision, outside regular business hours as well.
- (8) During the supervision process, the bank shall ensure the following at the request of authorized persons:
 - 1) access to all organizational parts and premises of the bank, while respecting its security procedures,
 - 2) separate office for purposes of conducting supervision activities,
 - 3) copies of documentation related to the subject of supervision and insight into original documentation and,
 - 4) direct communication with the bank managers and employees for purpose of obtaining relevant explanations.
- (9) The bank that processes data and manages business books and other documentation in electronic form is obliged to provide the necessary technical support in the supervision of those books and documentation upon the request of authorized persons.
- (10) The bank shall appoint its representative who will provide to authorized persons all necessary assistance to ensure unhindered performance of on-site supervision.

(11) The provisions of this Article shall be applied also in case of supervision of persons from Article 181, Paragraph 2 and 3 of the Law, as well as the persons authorized for outsourced services.

(12) Members of the management and the supervisory board, proxy holders, managers and employees of the bank shall provide authorized persons, at their request, with written answers to questions of relevance for performing supervision and support them with adequate documentation.

On-site supervision notice

Article 8

- (1) The Agency shall send a notice on on-site supervision not later than 15 days prior to the start date of supervision.
- (2) Exceptionally from Paragraph 1 of this Article, the Agency may deliver the on-site supervision notice just before the very beginning of on-site supervision of operations, if otherwise the purpose of supervision could not be achieved.
- (3) The on-site supervision notice, in addition to the supervision subject, shall contain data on the planned supervision start date and duration, list of documentation which is necessary to provide as a minimum for the purpose of preparing and performing on-site supervision, and other information required for performing on-site supervision.
- (4) If the period of on-site supervision preparation and implementation includes use of specialized software tools requiring direct access to the bank's information system, the notice on the planned on-site supervision shall also contain a list of authorized persons who will conduct preparation and implementation, time period in which the bank should provide access to the bank's information system, the resources that the bank should provide at least to enable access to the bank's information system, and other information necessary for the preparation and implementation of on-site supervision.

Minutes on conducted on-site supervision

Article 9

- (1) Following the on-site supervision, the Agency's authorized persons shall prepare and deliver the minutes on conducted supervision within 20 working days since the last day of the supervision.
- (2) By delivering the minutes to the bank, it is considered that the same is submitted to the members of the bank management and management bodies, control functions, and senior management in whose jurisdiction is the area that was the subject of supervision and cannot be proven otherwise.
- (3) The on-site supervision end date shall be the last day of supervision conducted in the bank's premises and/or the Agency.
- (4) As an exception, if the bank delivers additional documentation and information it finds relevant for the on-site supervision, after the authorized persons have left its premises, the time period from Paragraph 1 of this Article may be extended by a decision of the Agency's director denoting the time necessary to adequately check such additional documentation and information depending on the volume of submitted documentation and information.
- (5) The Agency's director may issue a separate conclusion defining another delivery deadline for the minutes on conducted supervision.

- (6) The bank may file a complaint to the minutes within 15 days since its receipt.
- (7) As an exception from Paragraph 6 of this Article, the Agency may, upon the bank's request, extend the deadline for filing complaint on the minutes, but only if the minutes findings refer to the competences of the supervisory board.
- (8) If the bank fails to deliver complaint on the minutes within stipulated deadlines or with its complaint does not dispute the findings from the minutes which identified irregularities and weaknesses in operations, the Agency shall impose an appropriate measure to the bank as stipulated by the Law.
- (9) The Agency shall terminate the process of on-site supervision if an individual on-site supervision process revealed no irregularities or deficiencies, and shall prepare minutes and issue a conclusion on termination of this process.
- (10) The Agency shall terminate the process of on-site supervision if the bank prevents performance of the supervision, in line with Article 7 of this Decision, and shall draft minutes and conclusion on the process termination.
- (11) When during the on-site supervision, certain previous issues have been identified that fall outside the Agency's competencies, the process shall be discontinued until competent authorities resolve these issues.
- (12) The Agency shall draft the minutes and form a conclusion on the process discontinuance, but only with respect to the relevant issue, while the supervision of any other issues, i.e. issues relevant to the supervision in question, shall continue as such without a need to form a special document.
- (13) If the bank acted contrary to Article 7 of this Decision, it shall be deemed that it has prevented the Agency from conducting the supervision and has not cooperated with the authorized persons of the Agency, as well as in the following cases:
 - 1) if it failed to adhere to the deadline for delivery of all requested information and evidence, especially information the bank is required to hold in line with the Law, by-laws or standards of prudent banking operations,
 - 2) if it intentionally or due to gross negligence, delivers incorrect or incomplete information,
 - 3) if it does not ensure that authorized persons have all necessary conditions for performance of the bank supervision, i.e. if it does not prevent interruptions by bank employees or other persons,
 - 4) if it fails to deliver periodic reports that it is obliged to deliver in line with the Law or by-laws and if it does not meet the repeated request by the Agency for delivery of such reports or data by the given deadline.
- (14) The conclusion from Paragraphs 9-12 of this Article shall be delivered to the bank, whereas the bank may file relevant complaint within 15 days since its receipt to the director of the Agency.

Amendment to the minutes on conducted on-site supervision

Article 10

- (1) In the case when the justification of the complaint is determined by considering the bank's complaint to the minutes, i.e. if the authorized persons determine that the bank's complaints are well-founded, the Agency shall make an amendment to the minutes.
- (2) The minutes amendment shall be delivered to the bank within 15 days following delivery of the complaint to the minutes.
- (3) The bank cannot file a complaint to the minutes amendment.

Signing the minutes on conducted on-site supervision

Article 11

The on-site supervision minutes and the minutes amendment shall be signed by the authorized persons who have conducted the supervision.

3. Supervisory measures

Undertaking supervisory measures

Article 12

- (1) If the Agency determines that the bank acted contrary to the provisions of the Law, the Agency's regulations other regulations or prudent banking business standards, i.e. if the bank acted in another way that jeopardizes the bank's operations, the Agency shall undertake one or more supervisory measures against that bank:
 - 1) issue a written warning,
 - 2) order elimination of weaknesses or deficiencies identified in operations,
 - 3) restrict the rights of shareholders with qualifying holding,
 - 4) undertake early intervention measures,
 - 5) revoke a banking license and initiate a process of forced liquidation or issue a decision on filing a proposal for opening bankruptcy proceedings and
 - 6) initiate an assessment procedure regarding fulfilment of conditions to activate the resolution procedure, when it determines that the state of the bank is such that it cannot or may not continue with the business operations.
- (2) Over the course of the supervision, the Agency may impose to the bank one or several measures to eliminate irregularities and deficiencies if it assesses that there was a serious breach of regulations and business principles, thus jeopardizing or potentially jeopardizing financial condition or liquidity of the bank and interest of depositors, thus requiring implementation of urgent measures.
- (3) A bank's obligation to publicly disclose an acquisition offer, as defined by the law regulating acquisition of shareholder companies, shall not apply to cases where an acquirer receives bank shares in the process of a Tier 1 capital increase:
 - 1) implementation of measures to eliminate irregularities and deficiencies in operations and measures of early intervention by the Agency, or
 - 2) conversion of the bank's capital instruments to be taken into account during its capital calculation and which are converted to shares upon fulfilment of relevant conditions stipulated by the Law.
- (4) An exemption right from Paragraph 3 of this Article may be exercised by an acquirer along with a prior consent by the Agency, only if it deems that implementation of the exemption right is aimed to preserve financial stability, in which case the Agency notifies the Securities Commission of Republika Srpska.
- (5) If an organizational part of the bank seated in FBiH and the Brcko District conducts operations in the territory of RS and therein acts contrary to provisions of this law and the Agency's regulations, the Agency may impose appropriate supervisory measures to such banks' organizational part.

- (6) Supervisory measures from Paragraph 1 and 5 of this Article are imposed by the Agency's ruling and submitted to the bank after expiry of a complaint deadline regarding the minutes on conducted supervision.

Agency's discretionary right

Article 13

- (1) The Agency shall form its decision to impose a measure or measures to the bank based on discretionary assessment, i.e. the following criteria:
- 1) severity of identified irregularities and deficiencies,
 - 2) demonstrated readiness and capacity of the bank's managing bodies to eliminate the identified irregularities and deficiencies,
 - 3) extent to which the bank jeopardizes financial discipline and unhindered functioning of the banking system.
- (2) When assessing the severity of irregularities and deficiencies identified with respect to the bank's operations, the Agency shall assess the following in particular:
- 1) financial position of the bank,
 - 2) degree of capital adequacy vs. assumed risks,
 - 3) effect of actual irregularity and deficiencies on the bank's future position,
 - 4) number of identified irregularities and deficiencies and their interdependence,
 - 5) duration and frequency of rendered irregularities and deficiencies,
 - 6) lawfulness of the bank's operations.
- (3) When assessing the demonstrated readiness and capacity of the bank's managing bodies to eliminate identified irregularities and deficiencies, the Agency shall assess in particular the following:
- 1) capacity of the bank's management and senior management to identify, evaluate and monitor risks in the bank's operations and to manage such risks,
 - 2) efficiency of internal control systems of the bank, especially the internal audit function,
 - 3) efficiency in elimination of previously identified irregularities and deficiencies, especially regarding implementation of previously imposed measures, and
 - 3) level of cooperation of the bank managing and governing bodies and other bank employees in relation to authorized persons over the course of the supervision.
- (4) When assessing the extent to which the bank jeopardizes financial discipline and unhindered functioning of the banking system, the bank's systemic importance in the financial sector shall be assessed.

Written warning

Article 14

- (1) During the supervision process, if the Agency identifies weaknesses and deficiencies that do not constitute a breach of regulations or do not directly impact the financial condition, but may eventually lead to such an impact if not eliminated, the Agency may issue a written warning to the bank requiring it to undertake activities and procedures for improving its operations.
- (2) The written warning shall:
- 1) indicate to identified weaknesses, deficiencies or inconsistencies in operations,

- 2) define a deadline and acting of the bank in order to eliminate such weaknesses or deficiencies in the bank's operations, and
 - 3) define a deadline, i.e. dynamics of the bank's reporting to the Agency regarding fulfilment of requirements listed in the written warning.
- (3) If the bank fails to meet requirements from the written warning by the deadline and in manner defined therein, the Agency may impose one or several supervisory measures to the bank in line with Article 12 of this Decision, in accordance with the criteria defined in the Article 13 of this Decision.

Written warning to the bank management member

Article 15

- (1) The Agency shall issue a written warning to a competent management member:
 - 1) If the bank failed to act in manner and within deadlines defined in a written warning defining by the Agency's ruling and
 - 2) in other cases where conditions have not been met for revocation of an Agency's approval for performing the function of the management member.
- (2) The written warning from Paragraph 1 of this Article shall be issued to the competent management member whether or not such member is still performing this function at the time of its issuance or within two years at the longest from occurrence of circumstances giving rise to such written warning.

Measures for eliminating irregularities and deficiencies

Article 16

- (1) If the Agency, while performing supervision of the bank's operations, identifies irregularities or deficiencies, or that the bank's operations will not comply with the regulations in the following 12 months, the Agency shall issue a written order to impose measures for eliminating identified irregularities, deficiencies and weaknesses in business operations, and shall undertake activities for the purpose of improving the safety and stability of the bank's operations, in accordance with the Article 200 of the Law.
- (2) The written order from Paragraph 1 of this Article shall determine a deadline and manner in which the bank shall eliminate identified irregularities and deficiencies, as well as a deadline for deliverance of reports to the Agency on conducted activities aimed at implementing the imposed measures with appropriate evidence.
- (3) If it considers as necessary, the Agency may instruct the bank to submit the opinion of the bank's external auditor on eliminating irregularities and deficiencies.
- (4) The Agency shall check implementation of orders and measures after expiry of the deadline for their implementation or prior to such deadline if it has been notified by the bank on the execution of such orders.

Early intervention measures

Article 17

- (1) If the supervision reveals that the bank acts contrary to the provisions of the Law, the Agency's regulations or other regulations or, based on the deterioration of its financial condition and liquidity, increase of debt, non-performing loans or exposure concentrations, it can be assumed a possibility of breaching the provisions of the Law, the Agency's regulations or other regulations, the Agency may, irrespective of the measures taken to eliminate irregularities and deficiencies from the Article 200 of the Law, undertake one of early intervention measures from the Article 202 of the Law.
- (2) The written order shall define a deadline by which the bank is required to implement every imposed measure from Paragraph 1 of this Article and provide the Agency with relevant evidence thereof.
- (3) In case of a significant deterioration of the bank's financial condition or serious breach of the Law, the Agency's regulations or other regulations or internal enactments of the bank and upon assessing that other early intervention measures from Article 202 of the Law would not be sufficient to remedy such condition in the bank, the Agency may issue a new decision revoking approval of appointment of individual or all members of the management, supervisory board and senior management of the bank, and may ask for their recall.
- (4) In addition to measures from Paragraph 3 of this Article, the Agency may take measures towards all or individual members of the governing bodies:
 - 1) prohibit or restrict the performance of such a function or any activity in the bank,
 - 2) prohibit or restrict direct or indirect exertion of the voting rights in the bank,
 - 3) require the disposal of direct or indirect ownership they hold in the bank, in the deadline defined by the Agency,
 - 4) prohibit performing a function in any bank or member of a banking group or participating in performing activities in a bank or a banking group without the prior consent of the Agency.
- (5) The appointment of new members of the governing bodies is done in accordance with the provisions of the Law regulating the appointment of members of the supervisory board and the bank's management.

Revocation of a banking license

Article 18

The Agency shall issue a decision to revoke a banking license in cases defined in Article 30 of the Law.

Administrative procedure

Article 19

- (1) Based on the facts established in the procedure and the written minutes, the Agency shall issue a ruling on the matter that is subject to procedure.
- (2) The ruling from Paragraph 1 of this Article is final.

- (3) Against the ruling referred to Paragraph 1 of this Article, the administrative dispute may be initiated, but the lawsuit against the ruling cannot prevent or postpone its execution, and dissatisfied party can achieve its property-legal request in contested procedure.
- (4) In an administrative dispute against the ruling referred to in Paragraph 1 of this Article, the court may not, in a procedure of full jurisdiction, resolve an administrative matter for the resolution of which the competence of the Agency has been determined by this Law.
- (5) If the court annuls the Agency's resolution, the rights of the prosecutor are limited to the compensation of damage made to him by the execution of that ruling.

Issuing a misdemeanor order and submitting a request for initiating misdemeanor procedure

Article 20

In addition to imposing supervisory measures from Article 12 of this Decision, the Agency may impose a fine by means of misdemeanor warrant, in line with the penalty provisions from Articles 284-289 of the Law or submit a request for initiating misdemeanor procedure in line with the regulations governing misdemeanor procedure, if it finds that the bank acted contrary to the Law, the provisions of other laws or the Agency's regulations.

4. Supervision of a banking group on a consolidated basis

Consolidated supervision

Article 21

- (1) The Agency shall perform a consolidated supervision of a banking group in which a bank seated in Republika Srpska holds a status of an ultimate parent company or an affiliate.
- (2) The Agency shall perform the supervision from Paragraph 1 of this Article by:
 - 1) analyzing consolidated financial statements of the banking group,
 - 2) on-site supervision of the banking group, i.e. its members, for purpose of determining accuracy of data from consolidated financial statements, as well as for purpose of determining risks to which the bank is exposed to, in the capacity of a banking group member or entire banking group, and
 - 3) assessing the banking group's condition.
- (3) During the supervision from Paragraph 1 of this Article, the Agency is authorized to examine the following:
 - 1) adequacy of supervision conducted by the management of the parent bank or a holding company regarding foreign operations of the bank,
 - 2) possibility that a parent bank has access to information of its subsidiaries and affiliates in host countries,
 - 3) expertise of local management and
 - 4) efficiency of supervision in host countries.
- (4) The Agency is authorized to perform on-site supervision of the banking group member or its organizational unit abroad, which is the subject to the supervision on a consolidated basis, as well as to cooperate with a foreign competent regulator.
- (5) The banking group structure must be transparent to the extent enabling the Agency to determine the following:

- 1) ultimate parent company of the banking group and persons holding qualifying or significant share in such company,
 - 2) location and type of business activities conducted within the banking group,
 - 3) financial condition and business result of the banking group and its members,
 - 4) types and levels of risks to which the banking group and its members are exposed to,
 - 5) manner in which the risk management is organized and performed at the banking group level,
 - 6) business, financial and other relations between the banking group members.
- (6) The banking group structure must be such that enables adequate internal and external audit, as well as unhindered performance of the Agency's supervision function.

Measures towards banking group members

Article 22

- (1) If the Agency finds that any banking group member, other than the bank, has violated the provisions of the Law or the Agency's regulations, or that activities or financial condition of any of its members may have adverse consequences to the bank's financial stability or may jeopardize the interests of bank's depositors, it shall order such member to eliminate the irregularities within the deadline defined by the Agency.
- (2) If the irregularities from Paragraph 1 of this Article have not been eliminated by the given deadline, the Agency may undertake the following measures:
 - 1) order the bank to temporarily suspend investments in its subsidiary company,
 - 2) order the holding to temporarily suspend exertion of its rights and benefits arising from the qualifying share of that holding in the bank, including also direct and indirect voting rights,
 - 3) order the holding to perform a capital increase in the bank,
 - 4) order the banking group member to temporarily suspend all direct and indirect business activities between the bank and that member, and
 - 5) order a legal entity in which another legal entity holds a qualifying share, which in turn holds a share in the bank, to temporarily suspend exertion of rights and benefits arising from the share of that entity in the bank, also including direct and indirect exertion of voting rights, i.e. order temporarily suspension of all direct or indirect business activities between the bank and such legal entity.
- (3) If undertaking measures from Paragraph 2 of this Article fails to eliminate irregularities defined in Paragraph 1 of this Article, the Agency may also undertake the following measures:
 - 1) request from the bank to reduce investments in a subsidiary company to the extent that it is no longer a subsidiary company of the bank,
 - 2) revoke approval to the holding to acquire a qualifying share in the bank,
 - 3) request from the holding to sell a significant or qualifying share in its subsidiary, and
 - 4) withdraw an approval of share acquisition in the bank that was granted to an entity already holding share in the same bank and in which other entity holds a qualifying share.
- (4) If circumstances require an urgent action, the Agency may also undertake measures from this Article even before the expiry of the deadline referred to in Paragraph 1 of this Article.
- (5) The Agency may limit activities of the consolidated banking group, as well as the location of conducting such activities, if:
 - 1) the bank or the banking group is exposed to excessive risk or does not manage it adequately,

- 2) supervision in the host country is not adequate, or
 - 3) certain obstacles appear during the consolidated supervision.
- (6) If the banking group member from Paragraph 1 of this Article is an entity being supervised by another regulatory body in Republika Srpska and the Federation of BiH, the Agency shall notify such regulatory body on measures it has implemented therein.

Transitional and final provisions

Article 23

- (1) This Decision shall become effective on the eight day since its publication in the “Official Gazette of Republika Srpska”.
- (2) This Decision shall render ineffective the Decision on bank supervision (“Official Gazette of Republika Srpska, No. 12/03).
- (3) All supervision procedures initiated prior to the effect date of this Decision shall be finalized in line with provisions of the Decision on bank supervision ((“Official Gazette of Republika Srpska, No. 12/03), except if not contradicting the Law.

No: UO-334/17
Date: 11 December, 2017

PRESIDENT OF THE
MANAGEMENT BOARD
Mira Bjelac