Pursuant to Articles 48, 63, 64, 80, 81, 83, 131 and 140(1)(f) of the Banking Law ("Official Gazette of the Federation of BIH", number 27/17), Articles 5(1)(h) and 19(1)(c) of the Law on the Federation of Bosnia and Herzegovina Banking Agency ("Official Gazette of the Federation of BIH", number 75/17) and Article 12(1)(d) of the Statute of the Federation of Bosnia and Herzegovina Banking Agency („Official Gazette of the Federation of BIH", number 03/18), the Management Bord of the Federation of Bosnia and Herzegovina Banking Agency passed, at its session that was held on May 12th, 2021, the following

DECISION
ON THE INTERNAL GOVERNANCE SYSTEMS IN BANKS

I. GENERAL PROVISIONS

Article 1
Subject Matter of the Decision

(1) This Decision sets out more closely the minimum requirements for establishing and applying an efficient internal governance system that shall be ensured, implemented and maintained on an ongoing basis by a bank, diligence rules for members of a bank's bodies and eligibility assessment rules for a bank's body member.

(2) This Decision applies to banks having their head office in the Federation of Bosnia and Herzegovina (hereinafter: FBIH), which are licensed to operate by the Federation of Bosnia and Herzegovina Banking Agency (hereinafter: Agency).

(3) Banks shall apply the provisions of this Decision on an individual and on a consolidated basis.

(4) Within the meaning of Paragraph (3) of this Article, the remuneration provisions referred to in Articles 43 to 55 of this Decision apply on a consolidated level, at the level of a bank, subsidiary of an entity, including subsidiaries of an entity that are incorporated in offshore financial centers.

(5) Any matters relating to internal governance systems in banks, diligence of members of a bank's bodies and eligibility assessment of members of a bank's bodies and key function holders which are not regulated by this Decision, but are governed by other regulations, shall be subject to application of the provisions of those regulations.

Article 2
Definitions

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

a) **A bank's bodies** within the meaning of this Decision are the „supervisory board" and „bank's management".

b) **Professional and ethical governance standards** refer to rules, recommendations and best business practices which ensure reliable and sound management of a bank, compliance of its operations with the legal and regulatory provisions and bank's internal regulations and high risk culture, contributing especially to adequate management of the bank's risks, including operational and reputational risk management.

c) **Bank-level conflict of interest** is a circumstance or set of circumstances which undermine or may undermine the legitimate interests of a bank, inter alia, due to the bank's various business activities and roles, members of the banking group, other persons in a special relationship with the bank and parties related to them, bank's business lines or organizational units, in relation to the bank's customers, shareholders, employees, significant suppliers, business partners and other relevant persons.

d) **Employee-level conflict of interest** is a circumstance or set of circumstances in which the personal interest of an employee of a bank and/or member of a bank's body affects or may affect impartial and objective exercise of the competences, duties and responsibilities of that employee and/or member of a bank's body in relation to the bank's interests.

e) **Risk culture** includes as a minimum standards, attitudes and behaviors related to general risk awareness, risk-taking and risk management, and internal controls that have an effect on decisions on risks and risk-taking by the bank.

f) **Risk appetite** is the aggregate level of risk a bank is willing to assume to achieve its business strategy and objectives in the existing business environment. Risk appetite includes setting out the risk-taking intention and setting the risk tolerance in terms of defining the level of risk that the bank deems acceptable.

g) **Risk capacity** is the maximum aggregate level and risk types a bank is able to assume given its available capital, its liquidity, the quality of its risk management system and internal controls system, and its regulatory constraints with regard to risk-taking.

h) **Risk exposure limits** (hereinafter: risk limits) are the quantitative limits and measures set for risk mitigation, risk-taking and risk concentrations by products, activities, business lines, sectors, geographical areas of members of a banking group and other risk management criteria that allow a bank to allocate risks by business lines and risk types, taking into account the adopted risk appetite and risk capacity.

i) **Risk mitigation** means a set of strategic decisions, methods, criteria and procedures for accepting, avoiding, reducing or transferring the identified risk level.

j) **A bank's risk profile** is a measure and/or estimate of the structure and level of all material risks that the bank is or may be exposed to in its operations. It is a clearly documented and categorized sum of the quantitative and/or qualitative measures and/or estimates of the measurable and unmeasurable risks that the bank assumes or may assume in its business activities.

k) **Stress testing** is a risk management technique that is used to assess the potential effects of specific events and/or changes in several relevant risk factors on the financial position of a bank or on an exposure portfolio of a bank ("forward looking" technique). It includes a scenario analysis and/or sensitivity analysis.

l) **A scenario analysis** is a resilience assessment of a bank or bank's exposure portfolio in a specific scenario measuring the impact of simultaneous change in multiple relevant risk factors on the bank's financial position and/or exposure portfolios in clearly defined and internally consistent stressed circumstances, which include the bank's various risks and business areas.

m) **A sensitivity analysis** is an assessment of the potential impact of one specific or simple multi-risk factors on a bank's financial position, including the impact on the bank's capital or liquidity and/or bank's specific exposure portfolio.

n) **Exposure portfolio stress testing** is an assessment of the potential impact of one or multiple risk factors on a bank's one or multiple exposure portfolios.

o) **Data infrastructure** includes technical and organizational structure, resources for collecting and maintaining data on a bank's risks, as well as IT support ensuring adequate risk data integration and reporting.

p) **A business support function** means a bank's activities performed by employees authorized to keep accounting and administrative records and conduct other back-office activities.

q) **Arrangement of transactions function** means a bank's activities performed by employees authorized to arrange transactions resulting in risks.

r) **Remuneration** means all forms of fixed and variable remuneration, including direct or indirect financial and non-financial payments and other forms of fixed and variable remuneration or benefits to which employees are entitled under contracts entered into with a bank or another legal entity in the banking group.

The financial payments, other forms of remuneration and benefits include the following: salaries, reimbursement of costs, performance bonuses, including remuneration in the form of shares, share options, profit participation rights, discretionary pension benefits, life insurance policies, debt forgiveness or reduction of the loan repayment obligation for an employee with a material impact on the bank's risk profile and other similar forms of remuneration and benefits, including additional contractual severance pays and similar benefits in cases of early employment termination, which are negotiated on an individual and discretionary basis.

The non-financial payments and benefits include non-monetary benefits related to additional health insurance, benefits of using different technical resources which are not used in performing business activity (e.g. using official vehicle, mobile telephone, computer, etc. for private purposes) and other additional privileges.

Remuneration also includes non-financial payments and benefits made and/or provided to employees of a bank by another legal entity, member of the same banking group, or legal entities in a special relationship with the bank.

The total remuneration may consist of fixed and variable remuneration. Compliance with the regulatory requirements of this Decision entails reporting remuneration amounts on a gross basis.

s) **Variable remuneration** is a proportion of the total remuneration which depends on an employee's, business unit's and bank's performance, and is based on predetermined and measurable criteria. A business unit is an organizational unit of a bank, for which the bank can exclusively assess performance. Variable remuneration and benefits are not considered as payments and benefits which do not depend on discretionary decision making and/or to which all employees of a bank are entitled and which do not incentivize the bank's employees to take risks for the bank (e.g. compulsory statutory pension, social and health insurance contributions, collective insurance policies and contractual health examinations of all employees, compensation for salary loss under legal requirements and collective agreement).

t) **Fixed remuneration** is a proportion of the total remuneration which is not based on an employee's, business unit's and bank's performance, representing the difference between the total remuneration amount and variable remuneration, and is based on predetermined criteria.

u) **A bank's employee** is a natural person who performs specific activities for the bank under an employment contract or any other contract concluded with the bank.

In case of outsourcing, whereby a bank has contractually entrusted service providers who are members of the banking group with the performance of specific activities which would otherwise be performed by the bank itself, a natural person who is directly engaged, under an employment contract or any other contractual relationship entered into with the service provider, in providing services to the bank for the purposes of performing specific tasks is also considered as employee within the meaning of this Decision.

The regulatory requirements provided in this Decision which are applicable to employees of a bank are also applicable to the bank's procurators.

v) **Identified employees** are all employee categories whose professional activities have a material impact on a bank's risk profile. The categories of identified employees include at least the following:

1) the supervisory board members,
2) the bank's management members,
3) the senior management,
4) heads of the bank's control functions,
5) risk takers for the bank,
6) all other employees of the bank whose activities have a material impact on the bank's risk profile, who are at the same or higher level compared to the senior management and risk takers according to the remuneration bracket that they belong to in terms of their total remuneration, together with the discretionary pension benefits.

z) **Risk takers for a bank** are employees whose professional activities have a material impact on the bank's risk profile, including persons authorized to conclude contracts or take risk positions and/or take decisions affecting the bank's risk exposure, under their assigned authorities and responsibilities. In addition to those employees whose individual professional activities have an impact on the bank's risk profile, the provisions of this Decision also apply to those employees whose professional activities on a collective basis (as members of an employee group) have an impact on the bank's risk profile.

aa) **Discretionary pension benefits** are additional pension benefits approved by a bank to an employee on an individual and discretionary basis, which are part of the employee's variable remuneration.

bb) **Bonus pool** is the maximum amount of variable remuneration which can be awarded in the award process at the level of a bank or bank's business unit.

cc) **Award** is the granting of variable remuneration for a specific accrual period, notwithstanding the actual point in time when the awarded amount is paid.

dd) **Vesting** is the time at which the employee becomes the legal owner of the variable remuneration awarded, notwithstanding the payment method and time period including the circumstance where the payment is subject to additional retention periods or contractual clawback provisions.

ee) **Accrual period** is the period of time for which the performance is assessed and measured for the purposes of determining the variable remuneration component to be awarded, which is at least one year.

ff) **Deferral** is a contractual provision under which variable remuneration is not paid out immediately after the end of the accrual period to align the remuneration to the performance and risks taken in the preceding period, where remuneration is deferred if it has not been paid to the remuneration recipient and/or if the rights from financial instruments have not been transferred to them.

gg) **Deferral period** is the period during which a bank defers the variable remuneration component payment starting after the end of the accrual period and/or from the variable remuneration setting date, lasting minimum three years.

hh) **Malus** is a contractual provision under which an employee agrees that the bank is not obliged to pay out and/or transfer the rights over the whole or part of the deferred unpaid variable remuneration if the materialization of previously taken risks leads to undermined performance and/or poorer financial performance of the bank, business unit or in cases of fraud as well as other conduct with the intention of fraud or gross negligence which have led to material losses. The conditions and/or criteria under which the malus provision will be triggered must be defined in detail by a contract between bank and employee.

ii) **Clawback** is a contractual provision under which an employee undertakes to return to a bank an amount of their variable remuneration, by returning the amount paid or by returning the rights from financial instruments, if the materialization of previously taken risks leads to the bank's undermined performance and/or poorer financial performance. This provision can be negotiated on deferred and immediate variable remuneration, where the conditions and criteria under which the clawback provision will be triggered must be defined in detail by a contract between bank and employee including the period in which the provision can be applied.

jj) **Retention of remuneration** is a contractual provision under which an employee agrees that in cases of payment of variable remuneration in the form of eligible financial instruments, they must not transfer the rights from those instruments to another natural or legal person during the pre-agreed period.

kk) **Retention period** is the period during which an employee retains variable remuneration paid in the form of eligible financial instruments under which no rights must be transferred in that period. The retention period begins with the transfer of the rights from financial instruments.

ll) **A bank's body member** is a selected and/or appointed bank's body member.

mm) **Key function holders** are persons who are not a bank's body members but have a material impact on the bank's performance and include the control function heads, Chief Financial Officer if they are not a member of the management and other key function holders identified by the bank based on risk assessment.

nn) **A bank's body member assessment** is an eligibility assessment in terms of good appointed, appropriate knowledge, skills, abilities and experience, ability to act openly, honestly and independently, and their willingness and ability to dedicate sufficient time to the performance of the function of a bank's body member.

oo) **A key function holder assessment** is their suitability assessment in terms of good appointed, appropriate knowledge, skills, abilities and experience, and ability to openly and honestly perform their function.

pp) **Directorship** within the meaning of this Decision includes the following functions in non-bank legal entities:

1) management function within which is a person authorized to conduct business in a company, including independent undertaking and procurator (hereinafter: executive directorship);
2) oversight function within which is a person authorized and responsible to oversee and monitor business activities of a company (hereinafter: non-executive directorship).

For the purposes of this definition, executive directorship in a bank is considered to be membership in the bank's management, while non-executive directorship is considered to be membership in the bank's supervisory board.

rr) **Training** is a bank's educational program and/or initiative whose purpose is to prepare a bank's body member, including a newly appointed member, to perform any function in the bank's body.

ss) **Capacity building** is a regular or extraordinary educational program implemented by a bank for the purpose of improving knowledge, skills and abilities of the bank's body members.

(2) The terms used in this Decision, but not defined it, shall have the meanings as in the Banking Law (hereinafter: Law) and other bylaws of the Agency in which they are defined.

Article 3
Risk Definitions

For the purposes of risk management under this Decision, in addition to the risk definitions provided by law, a bank shall also apply the following risk definitions:

a) **Legal risk** is the risk arising due to the likelihood of court proceedings being instituted against a bank, default by a bank, as well as business decisions made by a bank found to be unenforceable adversely affecting the bank's performance or financial position.

b) **Information and communication technology risk** is the risk of losses due to inappropriateness or failure in operation of hardware and software components of technical infrastructure, which can undermine availability, integrity, accessibility and security of such infrastructure and data.

c) **Cyber risk** is the risk of losses due to breach of confidentiality, loss of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change information technology within a reasonable time and with reasonable costs when the environment or business requirements change (i.e. agility). This includes security risks resulting from inadequate or failed internal processes or external events, including cyber-attacks or inadequate physical security.

d) **Model risk** is the risk of loss being incurred due to business decision-making and risk management decision-making which would be based on the results of internal models, including models for setting internal capital requirements, product pricing, valuation of financial instruments and the like. Losses could be incurred due to inadequate baseline model settings, model implementation errors or incorrect model use.

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

f) **Liquidity financing risk** is the risk that a bank will not be able to successfully meet expected and unexpected current and future cash needs and collateral needs, without affecting the bank's regular daily business or financial performance.

g) **Market liquidity risk** is the risk resulting from a bank's inability to simply perform clearing of positions or eliminate those positions at a market price, due to market disruption or due to insufficient market depth.

h) **Political and economic risk** implies the likelihood of a loss being incurred due to a bank's inability of to collect receivables due to restrictions established by the regulations/acts of the state and other state authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country.

i) **Transfer risk** implies the likelihood of a loss being incurred due to a bank's inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, namely due to the limitation of the payment of obligations towards creditors from other countries in a specific currency as determined by the acts of the state and other debtors of the country of origin of the debtor.

j) **Currency-induced credit risk** is the risk of loss that a bank which approves placements in a foreign currency or with a currency clause is additionally exposed to, resulting from the debtor's currency risk exposure.

k) **Residual risk** is the risk of loss arising if eligible credit risk mitigation techniques used by a bank are less efficient than originally expected or their application has an insufficient effect on mitigation of the risks that the bank is exposed to.

l) **Excessive leverage risk** is the risk resulting from a bank's vulnerability due to leverage or contingent leverage that may lead to unintended changes to its business plan, including distressed selling of assets which may result in losses or in valuation adjustments to its remaining assets.

m) **Management risk** is the risk of loss arising due to a bank having a limited capacity to establish adequate management mechanisms, systems and controls because of its size and/or complexity of its business.
n) **Free delivery risk** is the risk of loss of a bank which arises when securities, foreign currencies or commodities have been paid for before they are received or when the delivery has been made before they have been paid for, i.e. if the payment or delivery does not take place in accordance with the expected time dynamics.
o) **Business risk** is an adverse, unexpected change in a bank's business volume and/or profit margins which may lead to material losses, thereby reducing the bank's market value. Business risk may primarily arise due to material worsening in the market environment and changes in market competition or consumer behavior in the market.
p) **Migration risk** is the risk of loss due to a change in credit exposure's fair value, as a result of a change in client rating.
q) **Outsourcing risk** is the collective term for all risks which arise when a bank has contractually entrusted a third party (service providers) with the performance of activities which would otherwise be performed by the bank itself.
r) **Profitability risk** (earnings risk) is the risk which arises due to inadequate structure and distribution of earnings or a bank's inability to ensure an adequate, stable and sustainable level of profitability.
s) **Investment risk** is the risk of loss resulting from a bank's investments in fixed assets and investments in other legal persons, due to changes in their market values.
t) **Capital risk** refers to inadequate capital structure to support the scale and nature of a bank's business activities or to challenges faced by a bank when obtaining new sources of capital, especially in cases when there are urgent needs to increase capital or in adverse conditions.

II. INTERNAL GOVERNANCE SYSTEMS IN BANKS

2.1. General Requirements

Article 4
Internal Governance System

(1) The minimum requirements for establishing and implementing an efficient internal governance system referred to in Article 1(1) of this Decision shall include the following:
   a) requirements relating to transparent organizational structures with clearly defined and consistently implemented lines of responsibility and authority, as well as requirements relating to establishing conflict of interest management policy,
   b) minimum requirements in managing the risks that a bank is or may be exposed to in its operations (hereinafter: bank's risks), including general standards for establishing and implementing a risk management system, as well as specific standards in managing individual risk categories defined by the related instruction,
   c) minimum standards for establishing an appropriate and efficient internal controls system in all business activities and lines of a bank, including clear administrative and accounting procedures, and scope and method of performing activities of the bank's control functions and
   d) a bank's obligations relating to adopting and implementing a remuneration policy for the bank's employees.
(2) A bank shall establish and implement a comprehensive, reliable and efficient internal governance system, which must be proportionate to the bank's size and internal organization, nature, volume

and complexity of the bank's business, i.e., business model, bank's risk profile and bank's established risk appetite.

(3) The internal governance system referred to in Paragraph (2) of this Article shall include the following:
   a) a clear, efficient and stable organizational structure with clearly defined and consistent levels of responsibility,
   b) effective and efficient risk exposure identification, measurement and/or assessment, mitigation, monitoring and reporting processes,
   c) an adequate and efficient internal controls system in all of the bank's business activities and lines, which include clear administrative and accounting procedures and efficient and independent control functions of the bank,
   d) remuneration policies and practices which are consistent with risks taken and which promote stable and efficient risk management,
   e) the bank's internal capital adequacy assessment process (hereinafter: ICAAP) and internal liquidity adequacy assessment process (hereinafter: ILAAP) and
   f) adequate recovery plans.

(4) The specific requirements that must be met by a bank in relation to the ICAAP and ILAAP referred to in Paragraph (3)(e) of this Article are prescribed by the provisions of the Decision on Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process in Banks.

(5) The specific requirements that must be met by a bank in relation to the recovery plans referred to in Paragraph (3)(f) of this Article are prescribed by the provisions of the Decision on Recovery Plans of Banks and Banking Groups.

Article 5
Application of the Proportionality Principle

(1) A bank shall carry out a risk analysis with the aim of adequately applying the proportionality principle when establishing and implementing the internal governance system referred to in Article 4(1) of this Decision. When analyzing the risks, the bank must take into account at least the following criteria:
   a) the amount of the bank's assets and structure of the bank's income and expenses,
   b) available equity and debt instruments,
   c) the types of services provided by it to clients and types of clients (e.g. retail, companies, public sector authorities, etc.),
   d) the business strategy, structure of the business activities, measurability and predictability of business activity risks including outsourced business activities,
   e) the funding structure,
   f) the complexity of the bank's products and other contracts,
   g) the geographical presence and scale of the activities in specific geographical areas,
   h) the information technology system, etc.

(2) Based on the risk analysis referred to in Paragraph (1) of this Article, the bank shall identify whether it is deemed to be a significant bank and shall accordingly assess how and to what extent it will apply the requirements related to the bank's internal governance system's consistency with the bank's risk profile, business model and risk appetite, taking into account the general rule that the banks with a higher busines volume and complexity shall have a more complex internal governance system, whereas the banks with a lower busines volume and complexity may have a simpler internal governance system in the bank. The risk analysis must be adequately documented,

comprehensive and easy to understand.

(3) A bank which, based on the risk analysis referred to in Paragraph (1) of this Article, identifies that it is not a significant bank is not required to apply the provisions referred to in Article 68(1) of this Decision.

Regardless of the results of the risk analysis, the bank shall ensure that the application of the proportionality principle does not affect the achievement of the objectives of statutory requirements and requirements of this Decision relating to comprehensiveness, reliability and efficiency of the internal governance system in the bank.

(4) A bank which, based on the risk analysis referred to in Paragraph (1) of this Article, identifies that it is a significant bank shall apply all provisions of this Decision.

(5) At the request of the Agency, a bank shall provide reasons for how it carried out the analysis of the criteria referred to in Paragraph (1) of this Article and all relevant documentation.

Article 6

Risk Taking and Management Strategies in a Bank's Internal Governance Segment

(1) A bank shall adopt and implement an efficient and comprehensive risk taking and management strategy in the internal governance segment (hereinafter: Risk Strategy), which is consistent with the bank's established business goals, strategy and policy and bank's long-term economic interests, as well as regulations and requirements of the Agency.

(2) The Risk Strategy shall define the following:
   a) the bank's objectives and core risk-taking and management principles,
   b) the bank's risk appetite and bank's risk tolerance, consistent with the bank's strategic business goals. When setting the risk appetite, the bank shall, in addition to quantitative information, also take into account qualitative information, expert assessments and other factors from the macroeconomic environment which affect or may affect the bank's attitude towards the bank's risks,
   c) an overview of all of the bank's risks,
   d) the bank's capital and liquidity objectives and principles, including the core principles of the bank's ICAAP and ILAAP.

(3) Where the Risk Strategy referred to in Paragraphs (1) and (2) of this Article has defined a high risk appetite strategy, the bank's body shall ensure the proportionately reliable and efficient internal governance system referred to in Article 4 of this Decision.

(4) The Risk Strategy that is not based on a proportionately reliable and efficient internal governance system can cause excessive risk-taking and material exposure of the bank to strategic risk.

Article 7

Comprehensive Risk Taking and Management Strategies in a Bank's Internal Governance Segment

(1) A bank shall, with a view to adequately implementing the Risk Strategy referred to in Article 6 of this Decision and in accordance with applicable legal and regulatory requirements, adopt and implement comprehensive and efficient risk-taking and management policies in the internal governance segment which define in detail the functions, systems, processes, procedures, operations and methodologies, as well as competences, responsibilities and reporting lines at all levels of the bank's hierarchical and organizational structure.

(2) A bank shall, under the proportionality principle, ensure that the risk-taking and management policies in the internal governance segment referred to in Paragraphs (1) and (3) of this Article are adequately consistent with the bank's business goals and strategy, risk appetite and risk profile and

bank’s values and long-term interests.

(3) The risk-taking and management policies in the internal governance segment referred to in Paragraph (1) of this Article shall include the following:
  a) corporate governance principles, including the code of ethics and conflict of interest identification and prevention policies (hereinafter: Conflict of Interest Policy),
  b) risk management policies, including a stress testing program (hereinafter: Risk Policy),
  c) the bank’s capital and liquidity management policies,
  d) employee remuneration policies and practices (hereinafter: Remuneration Policy),
  e) policies and procedures for selecting and assessing the suitability of the bank’s body members and key function holders (hereinafter: Member Assessment Policy),
  f) procedures and measures to be implemented in crisis situations,
  g) staff policies, etc.

(4) The risk-taking and management policies in the internal governance segment referred to in Paragraphs (1) and (3) of this Article must be clearly defined and documented.

(5) A bank shall ensure that the risk-taking and management policies in the internal governance segment referred to in Paragraphs (1) and (3) of this Article are reviewed at least annually and revised where necessary, as well as in case of any major change in the bank’s risk profile, where that process should be adequately documented.

(6) A bank shall ensure that employees are made aware in a timely and adequate manner of the contents of all policies, procedures and other internal regulations which are necessary to perform their work assignments.

Article 8

Corporate Culture, Risk Culture and Code of Conduct and Ethics

(1) A bank’s body shall define, adopt and oversee the implementation of a corporate culture, values and risk culture based on which the diligence and responsibility are expected from the bank’s body members and other employees when taking the bank’s risks, application of the high professional and ethical standards of business and operation in accordance with regulations, standards and bank’s internal policies, bank’s code of ethics and conflict of interest prevention rules.

(2) The supervisory board shall, with a view to reaching the adopted corporate culture standards, values and risk culture referred to in Paragraph (1) of this Article, adopt a code of ethics and ensure its implementation. Through its code of ethics, the bank shall define acceptable and unacceptable conduct of the bank’s body members and other employees, establishing a zero-tolerance policy for individuals’ actions which may have an adverse impact on the bank’s reputation or which are impermissible from the legal, moral or ethical standpoint.

(3) A bank shall ensure regular monitoring of compliance of the bank’s body members and bank’s employees with the code of codex and accepted corporate culture and risk culture standards. The compliance function shall on a regular basis, but at least annually, report to the bank’s bodies on compliance with the bank’s code of ethics, including identifying potential breaches and reporting on non-compliance issues.

(4) A bank’s management shall ensure that the bank’s body members and bank’s employees are made aware of the bank’s adopted corporate culture standards, values and risk culture, risk appetite and risk-bearing capacity, and code of ethics and conflict of interest prevention rules in the bank. This entails disclosing the internal regulations so as to make them available to all employees and signing a declaration by all employees that they are aware of the bank’s adopted corporate culture standards, values and risk culture, risk appetite and risk-bearing capacity, and code of ethics and conflict of interest prevention rules in the bank.

Article 9
Responsibilities of a Bank's Bodies

(1) Based on the competences and responsibilities referred to in the Law and this Decision, a bank's bodies shall assume the overall responsibility for the bank's business, including responsibility for the adoption, oversight and implementation of the internal governance system referred to in Article 4 of this Decision that ensures efficient and reliable management of the bank.

(2) A bank's bodies must be adequately and actively involved in the risk management process in the bank and shall allow sufficient time and resources for consideration and management of the bank's risks.

(3) Starting from legal requirements, a bank must clearly identify the responsibilities relating to the definition, adoption, implementation and review and/or updating of the individual strategies and policies, taking into account the overall responsibility of the bank's bodies that the objectives, strategies and policies referred to in Articles 6 and 7 of this Decision are:

- a) defined, adopted and implemented in such a manner that:
  - 1) the supervisory board adopts the strategies and policies and ensures that they are subject to internal review by the internal audit,
  - 2) the bank's management proposes the strategies and policies for adoption to the supervisory board and ensures their implementation at all decision-making levels and in all business activities of the bank, reporting on potential non-compliances to the bank's supervisory board,
- b) reviewed and challenged on a regular basis, but at least annually, and that in case of any major changes in the bank and/or in the bank's risk profile, as well as in the external environment in which it operates, the changes are analyzed and the need to revise them is considered,
- c) consistent with legal and regulatory requirements and requirements of the Agency and other supervisory authorities.

(4) In accordance with legal requirements, a bank must ensure complete and adequate record of any changes and updating of the strategies and policies, as well as identified non-compliances.

(5) Where a bank is member of a banking group, the bank's bodies shall also have, in addition to the responsibility for compliance of the business strategy, objectives, risk-taking strategy, risk management policies and procedures with legal and regulatory requirements, the responsibility for the control of consistency with the objectives, strategy and policies adopted at the banking group level.

Article 10
Supervisory Board's Responsibilities

The supervisory board's key responsibilities within the meaning of Article 9(3) of this Decision shall relate to the following:

- a) proposing and overseeing the implementation of the bank's comprehensive strategy and busines plan, consistent with the bank's long-term objectives,
- b) adopting the Risk Strategy referred to in Article 6(1) of this Decision and risk-taking and management policies in the internal governance segment referred to in Article 7(1) of this Decision,
- c) overseeing the implementation of business decisions and operation of the bank's management, which includes performance monitoring and review of the bank's management on a collective and an individual level relating to the adequate implementation of the objectives, strategies and policies referred to in Articles 6 and 7 of this Decision,

d) constructively critical reviews and analyses of the proposals, information and decisions of the bank's management members,
e) performing regular efficiency assessments of the internal governance system referred to in Article 4 of this Decision and taking appropriate measures to rectify the identified deficiencies,
f) overseeing the implementation of the bank's consistent risk culture, code of ethics and Conflict of Interest Policy,
g) adopting and overseeing the implementation of the bank's organizational structure regulation in accordance with Article 12 of this Decision, establishing clear levels and lines of responsibility, as well as responsibilities with clear distinctions between the governance, supervision and management functions in the bank,
h) establishing, maintaining and improving an efficient internal controls system in the bank and ensuring that the bank's management provides the conditions for their implementation, i.e., that the bank's management and other employees in the bank establish and implement detailed procedures and processes relating to adequate risk control, efficiency and effectiveness monitoring of the bank's business, reliability of its financial and other information and compliance with regulations, internal regulations, standards and codes,
i) at the proposal of the bank's management, setting the objectives, and adopting and monitoring on an ongoing basis the implementation of the bank's policies on internal controls systems,
j) adopting a regulation and ensuring the conditions for establishing each of the independent control functions, and adopting working methodologies for each of the independent control functions, annual work plans and activity reports of those functions,
k) ensuring the appointment of an independent person at a higher management level with sole responsibilities for risk management in the bank, who is independent of the operational functions, and if the nature, volume and complexity of the bank's operations do not justify a specific appointment of such person under the proportionality principle, that function can be assumed by another person at a higher management level in the bank, provided that there is no conflict of interest,
l) ensuring active engagement of the person referred to in subparagraph (k) of this Paragraph in the development of the Risk Strategy referred to in Article 6 of this Decision, review of the overall scope of the bank's risks, in all material risk management decisions, including the possibility of directly informing and/or alerting in case of specific risk developments that affect or might affect the bank, without prejudice to the sole responsibility of the supervisory board and/or bank's management in their supervisory and management functions respectively,
m) ensuring the necessary competences, organizational status, resources and direct reporting lines to the supervisory board, including the possibility that the appointed persons referred to in subparagraph (k) of this Paragraph, in cases of specific risk developments, raise issues and alert the supervisory board to them, independently of the bank's management, without prejudice to the competences of the bank's management and supervisory board, where the supervisory board determines the type, scope, format and frequency of risk reporting to be provided by the bank's competent functions, organizational units and/or employees under the bank's adopted internal regulations,
n) adopting the final assessments of the bank's body members before their appointments,
o) regular monitoring and review of the individual and collective performance of the bank's management members as a whole, as it relates to the implementation of the strategies and policies referred to in Articles 6 and 7 of this Decision,
p) ensuring that the regular reviews and supervision of the application of the Remuneration Policy and/or adequacy reviews of the Remuneration Policy are performed based on the following:

1) a compliance assessment of the Remuneration Policy with regulations,
2) an assessment of whether the bank takes into account the risks, financial position and long-term interests of the bank, clients, creditors, shareholders, supervisors, regulators and other stakeholders when paying remuneration,
3) cooperation with the control and relevant corporate functions (e.g. human resources department, legal department, etc.), taking into account their contribution to the Remuneration Policy,
4) consideration and decision-making on all material exemptions from the Remuneration Policy for individual employees and its changes and overseeing the effects of such exemptions or changes on the established remuneration system in the bank and risk management,
5) an adequacy assessment of the process for determining identified employees,

r) making decisions on the following:
   1) the total amount of variable remuneration to be paid by the bank to employees for a specific financial year,
   2) the remuneration of the bank's management members and heads of the control functions, on an individual basis,
   3) the reduction or cancellation of employee variable remuneration to employees, including the triggering of the malus or clawback provisions, if the bank's performance is undermined or it makes loss, in accordance with Article 50(3) of this Decision,

s) the obligation to appoint a member of the bank's management responsible for the area of risk management (CRO).

Article 11
Responsibilities of a Bank's Management

(1) Within the meaning of Article 9(3) of this Decision, a bank's management shall be responsible for the following:
   a) establishing the risk culture in the bank,
   b) preparing proposals of the objectives, strategies and policies referred to in Articles 6 and 7 of this Decision for the supervisory board's adoption, ensuring their implementation at all decision-making levels and in all business activities of the bank, and reporting to the supervisory board on their implementation,
   c) establishing clear and consistent lines of authorities and responsibilities for risk-taking and management, including distinguishing the authorities and responsibilities between the supervisory board and other appointed committees in the bank on the one hand, and the management and other employees engaged in the risk management process on the other hand,
   d) establishing adequate communication, information sharing and cooperation at all of the bank's organizational levels to implement the bank's business policy and strategy, business plan, risk strategies and policies, risk management procedures and other internal regulations for the purpose of implementing a transparent and documented decision-making process and bank's employees accessing information that is relevant for adequate performance of their authorities and responsibilities,
   e) ensuring an adequate number of employees with expertise and experience in the system of managing all risks, activities of the valuation of the bank's assets, methodologies for identifying and measuring and/or assessing the risks that the bank is exposed to, stress testing,
   f) determining the key function holders in the bank and alternates for those employees, as well as the plan for replacing individual key function holders due to a potential long-term absence or

unexpected termination of the employment relationship by a key employee,

g) periodically reviewing and/or, where necessary, proposing changes to the objectives of the strategies and policies referred to in Articles 6 and 7, and adopting revisions to other internal regulations procedures,
h) maintaining efficiency of the internal controls in the bank, including ensuring security of the information systems,
i) establishing appropriate procedures for assessing the impacts of the introduction of new or substantially modified products, services, processes or systems in relation to the bank's risk exposure,
j) measure taking in the risk management process in an adequate and timely manner, in accordance with the Risk Strategy, Risk Taking and Management Policy in the internal governance segment, risk management procedures and other internal risk management regulations,
k) implementing the supervisory board's decisions referred to in Article 10(1)(r) of this Decision, in accordance with the Remuneration Policy, where the bank's management may set remuneration on a group basis of the bank's employees not specified in Article 10(1)(r)(2) of this Decision.

(2) A bank's management shall inform the supervisory board on the variable remuneration of other identified employees referred to in Article 48 of this Decision.

2.2. Organizational Structure

Article 12
Organizational Structure

(1) Within the meaning of Article 79(1)(a) of the Law, a bank shall establish such internal organization and/or organizational structure, whose implementation will ensure the following:
a) authorities and responsibilities at all governance, management and organizational levels (hereinafter: organizational level), which comply with the conflict of interest prevention rules, including rules on separation of authorities and responsibilities and incompatibility of functions,
b) reporting lines between relevant organizational levels and efficient communication and participation of employees within the bank's organizational structure.

(2) The rules on separation of duties and incompatibility of functions referred to in Paragraph (1)(a) of this Article shall include, inter alia, organizational controls which shall be carried out through the following:
a) clear organizational and operational separation of business lines and independent control functions, distinguishing unambiguously risk exposure and/or risk-taking activities from risk management activities and business support function activities including governance and management levels and
b) separation of incompatible duties of the chair of the bank's management from duties of the member of the management responsible for the area of risk management (CRO).

(3) The reporting lines referred to in Paragraph (1)(b) of this Article should ensure adequate awareness of the bank's bodies, their committees, senior management, functions and other employees of the bank's business and material risks, under their assigned authorities, roles and responsibilities and with a view to ensuring an adequate decision-making process.

(4) Concerning the bank's organizational structure referred to in Paragraphs (1) and (2) of this Article, the bank shall at least ensure that:

a) the authorities and restrictions of the bank's employees are clearly and precisely defined in the bank's regulation on the internal organization and systematization of jobs adopted by the supervisory board,
b) employees at all organizational levels are aware of their assigned authorities, roles and responsibilities,
c) the staff policy is implemented in the bank in such a manner that employees are employed in the jobs that match their professional qualifications, abilities and appropriate work experience,
d) comprehensive, ongoing and successful training of the bank's employees is conducted,
e) ongoing control and quality assessments of activities performed by each of the bank's employees are carried out,
f) separation of the performance of incompatible activities is ensured in the bank so that one person cannot simultaneously have duties relating to the protection of assets and duties relating to accounting for them, i.e., they cannot simultaneously perform specific business activities and have authority to control those same activities, particularly in the following cases:
   1) an employee responsible for processing a loan application shall not disburse the loan proceeds,
   2) an employee responsible for processing a loan application shall not also perform activities related to the function of accounting of the loan;
   3) persons authorized to sign orders and checks on the accounts at correspondent banks cannot also perform activities of reconciling the balances in the accounts at those banks,
   4) activities of reconciling the data with the general ledger must be performed by a person who did not make original entries in the accounts,
   5) that it complies with the principle of separation of incompatible duties in all other cases,
   6) that, where applicable, it implements the principle of planned and unannounced rotations of daily duties of the bank's employees at specified time intervals, which the bank's overall employee training program must also allow (e.g. temporary or occasional rotation of employees in the positions relating to cash management, cash on hand management, portfolio management, etc.),
   7) that it makes sure that the bank's employees take the annual leave so as to ensure continuous performance of business activities, prevent performance of incompatible activities and the like,
   8) that it makes sure that employees take the annual leave in the minimum continuous duration under legal provisions.

(5) Where a bank plans material changes in its organizational structure, the bank's management shall assess the impacts of those changes on the organizational structure's stability and efficiency before adopting the changes. Where weaknesses are identified, the bank's management shall draw up a proposal of appropriate measures to be implemented for the purpose of remedying them and provide the proposal to the bank's supervisory board for its adoption.

(6) The requirements relating to clear organizational, operational (executive) and functional separation referred to in Paragraph (1) of this Article that the bank is required to apply in the bank's operations and functioning of the bank's bodies shall also apply to the bank's secretary.

Article 13
A Bank's Employees and Staff Policy

(1) With a view to establishing and maintaining an efficient and stable organizational structure referred to in Article 12 of this Decision and in accordance with the proportionality principle referred to in Article 4 of this Decision, a bank shall adopt and implement an adequate staff policy referred to in

Article 7(3) of this Decision. This shall include employing and maintaining a sufficient number of employees who shall have appropriate expertise and professional experience, appropriate level of specialization in the risk management process, ensuring continuity in the implementation of risk management strategies, policies, procedures and other internal regulations.

(2) Where a bank plans a significant staff cut (e.g. due to reorganization or austerity measures), the bank shall ensure a preliminary analysis of the impacts of those changes on the bank's business and risks.

(3) In addition to the analysis referred to in Paragraph (2) of this Article, the bank shall also take into account, apart from the bank-level staff cut, their knowledge, experience and skills for individual work area and/or for the bank as a whole.

(4) Before making a decision to cut staff, a bank's management should notify the supervisory board of the results of the impact analysis and propose appropriate risk mitigation measures to be implemented, based on which the bank's supervisory board will decide on the need to revise the strategy, policy and procedures referred to in Articles 6 and 7 of this Decision.

Article 14
Conflict of Interest Policy

(1) A bank's Conflict of Interest Policy referred to in Article 7(3) of this Decision shall determine the procedures and responsibilities for identifying actual and potential bank-level conflicts of interest and employee-level conflicts of interest, as well as conflict of interest prevention and management measures and responsibilities.

(2) The Policy referred to in Paragraph (1) of this Article bank should define the circumstances and relationships relating to the existence of conflict of interest, including the following:

a) economic interests (e.g. ownership of shares or participations, other ownership rights and memberships and other economic interests in legal entities, etc.),
b) personal or professional relationships with persons with a qualifying participation in the bank,
c) personal or professional relationships with employees in the bank or in the banking group, if applicable (e.g. immediate family members),
d) employee's other or previous jobs in the period of the last five years,
e) personal or professional relationships with other stakeholders (e.g. supervisors, regulators, service providers, significant suppliers, consultants, other business partners of the bank, etc.) and
f) political influence and/or political connections.

(3) The Policy referred to in Paragraph (1) of this Article should define the bank's approach towards the material business relationships, which shall include the following:

a) business relationships of the shareholders, member of the bank's body or their immediate family members, arising from a concluded contract on a supply of goods or provision of services for the purposes of the bank,
b) business relationships of a member of the bank's body or their immediate family member, where the selection of the supplier of goods or service provider was not subject to public procurement,
c) conditions under which transactions are made on behalf of or for the account of the chair and members of the bank's body, which should be transparently and clearly laid down by the bank's internal policy that should be consistent with the minimum regulatory standards and restrictions in dealings with persons in a special relationship with the bank,

d) treatment of the bank's body members, where they use banking and other services under softer terms compared to the terms of use of those services laid down by the bank's internal policy for the bank's employees.

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

(5) The Policy referred to in Paragraph (1) of this Article should define adequate measures for addressing and preventing conflict of interest, which shall include administrative, accounting, IT and other types of controls (e.g. separating duties and responsibilities, defining access to information, physical separation of specific departments, etc.).

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

2.3. Risk Management System

Article 15

General Requirements

(1) A bank shall establish a comprehensive, reliable and efficient risk management system, which should include all business lines and organizational units of the bank, allowing timely and high quality assessments, analyses and reports on the bank's material risks, as well as other results of the risk management process, including the results of stress testing, ICAAP, ILAAP, based on which the bank's bodies can make reliable business decisions on risk-taking, which are consistent with the adopted risk appetite, risk limits and risk-bearing capacity.

(2) With a view to establishing a risk management system referred to in Paragraph (1) of this Article, a bank shall at least establish risk management systems, functions, processes, methodologies, procedures and operations based on regulations referred to in Articles 6 and 7 of this Decision, which shall include the following:

a) identifying the bank's material risks,
b) measuring risks through the established processes and procedures for accurate and timely risk measurement and/or assessment,
c) measures for limiting and mitigating risks so as to minimize the adverse impacts on the bank's performance and creditworthiness,
d) monitoring, analyzing and controlling risks,
e) appropriate lines for timely and ongoing risk reporting to the bank's bodies,
f) establishing appropriate organization of the activities for efficient implementation of the risk management processes and procedures with clearly defined, transparent and consistent authorities and responsibilities,
g) ensuring an information system which allows comprehensive and reliable collection and processing of the data that are required to monitor and analyze all risks of the bank,
h) performing stress testing, taking into account assumptions on changes in the external and internal factors which may have a material impact on risks in the bank's operations and
i) drawing up action plans for emergency situations in the bank's operations.

Article 16

Risk Management Policies and Procedures

(1) A bank shall adopt and implement a Risk Policy referred to in Article 7(3)(b) of this Decision, which shall regulate at least the following:

a) how to organize risk management, including clearly distinguishing the responsibilities of the bank’s risk management employees,
b) how to assess the bank’s risk profile and methodology for identifying and measuring and/or assessing the risks that the bank is exposed or might be exposed to,
c) a stress testing program and methodology including reverse stress testing, as well as measures and procedures in cases of unfavorable stress test results,
d) measures for mitigating individual risks, which shall include measures for accepting, reducing, diversifying, transferring and avoiding the risks identified and measured or assessed by the bank, and rules for applying those measures,
e) how to monitor and control individual risks, including setting the corresponding limits,
f) procedures and measures in cases of deviations in the implementation of the adopted strategies, policies, procedures and processes provided for by the bank’s internal regulations, as well as in cases of emergency or crisis situations.

(2) A bank shall ensure, based on the adopted Risk Strategy and Risk Taking and Management Policy in the Internal Governance Segment and in accordance with the proportionality principle, the establishment of formal risk management procedures, making sure that they include sufficiently precise and detailed level of operating instructions and descriptions of workflow processes, including rules and guidelines relating to the organizational, operational and procedural requirements, internal system for the allocation of tasks related to the decision-making hierarchy, employee competences and responsibilities and implementation of the operating procedures, rules for monitoring the established limits for limiting risk exposure and procedures in case of identified irregularities and/or deviations in relation to the established procedures.

Article 17
Risk Management Process

(1) A bank shall establish an effective and efficient risk management process which shall include regular and timely risk identification, measurement and/or assessment, mitigation, monitoring and control, including the bank’s risk reporting. This process shall also include risks arising due to the introduction of new services, products, models, processes or systems, material changes in the existing services, products, models, processes or systems, conduct on new markets, trade with new instruments or conclusion of similar transactions that the bank has not dealt with before, including merger or acquisition operations (hereinafter: new products).

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

(3) The risk management process shall also include a clear definition and documentation of the risk profile, consistency of the bank’s risk profile with its risk appetite and its consistency with the bank’s ICAAP and ILAAP.

(4) In its risk management process, a bank shall also assess the potential impact of relevant internal and external influences and trends, regulatory changes, indicators and data on the risk exposure and/or specific exposure categories and/or portfolios, as well as include those assessments when making decisions on risk-taking and/or in risk management.

(5) Within the risk management process referred to in Paragraph (1) of this Article, a bank shall also meet the specific individual risk management standards prescribed by the related instruction with this Decision and Decision on Credit Risk Management and Determination of Expected Credit Losses, Decision on Liquidity Risk Management and Decision on Management of Interest Rate Risk in the Banking Book.

Article 18
Risk Identification

(1) A bank shall identify risks on an ongoing basis.
(2) The risk identification within the meaning of Paragraph (1) shall include at least an analysis of the following:
   a) the root causes of risk exposure, including risks, which may have a negative impact on the bank's capital, profit, liquidity and share value,
   b) the risk concentrations and potential risks, which may result from the bank's legal and organizational structure;
   c) the trends for the purposes of identifying new risks and/or increased existing risks due to changes in the conditions of the bank's operations.

Article 19
Risk Measurement and/or Assessment

(1) A bank shall measure and/or assess on a regular basis the risks that it has identified.
(2) When measuring and/or assessing risk exposure, a bank shall establish and maintain adequate procedures which shall include the following:
   a) adequate quantitative and qualitative risk measurement and/or assessment methods, whose application will allow identification of changes in the bank's risk profile and/or emergence of new risks in its operations,
   b) use of relevant and reliable internal and external risk databases.
(3) When measuring risks based on quantitative measurement methods, including stress testing, the risk assessment results may materially depend on model limitations and assumptions (including the severity and duration of the shock and included risks). In that case, the bank should also ensure an adequate qualitative analysis of the model results based on an expert assessment in addition to the quantitative model results when identifying the level of the risk taken.
(4) In its material risk identification and measurement and/or assessment process, a bank shall ensure the engagement of all relevant business lines and other relevant organizational units.

Article 20
Risk Mitigation

(1) A bank shall clearly and precisely specify and apply criteria for risk mitigation decision-making and procedures, taking into account the bank's risk profile and/or bank's risk appetite and risk tolerance.
(2) A bank shall ensure that its risk management function is responsible for providing proposals of the material risk mitigation measures and that it exercises control over the implementation of those measures. Where the bank temporarily accepts risks which exceed the adopted risk limits, the risk management function shall monitor and report on those risks on a regular basis and in cooperation with the organizational units that take these risks, in accordance with the decisions of the bank's management.
(3) A bank shall adequately document the risk mitigation method, including the reasons for accepting, reducing, avoiding or transferring risks.

Article 21
Risk Monitoring, Control and Reporting

(1) A bank shall establish a system of risk exposure and risk profile monitoring, control and reporting on a regular basis so as to provide all of the bank's relevant governance levels with timely, accurate

and sufficiently detailed information required for making business decisions and risk management decisions and/or for the bank's secure and stable operations.

(2) The information referred to in Paragraph (1) of this Article should at least include relevant information on specific risk exposure, including information on the risk profile and its changes, data on the bank's material losses, on the measures and activities that are intended to be undertaken or have been undertaken to mitigate the risk, on the breach of the risk limit and other exemptions from the treatment under the internal regulations, including the exemptions from the established risk appetite, and on the positive and negative changes in the performance indicators that indicate or may indicate a change in the risk exposure.

(3) The risk report should also include in a timely manner reporting on the emergence of risks which have not been identified before, as well as the unexpected impact of the already identified risks on the bank's risk profile, including the reasons for the bank's increased exposure to those risks.

(4) A bank shall adequately monitor the risks transferred by it to a third party.

(5) When performing risk control, a bank shall verify the application of the risk management methods and procedures and assess their effectiveness and efficiency and analyze on a regular basis the established risk limits to verify their adequacy.

(6) A bank shall ensure that the reports on the risks that it is exposed to are:
   a) transparent (that they include clear, understandable and precise information relating to risk exposure),
   b) comprehensive (complete, in terms of covering all material risks in the operations),
   c) usable (in terms of including relevant information for risk decision making),
   d) comparable (in terms of the uniformity of the information included in them),
   e) timely (in terms of allowing the required measures to be taken in real time).

(7) A bank shall define the contents, scope and level of detail of the reports referred to in Paragraph (6) of this Article in its internal regulation.

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

Article 22
Risks Resulting from New Products

(1) In its risk management process, a bank shall lay down the criteria and procedures relating to new products referred to in Article 17(1) of this Decision, which shall at least include the following:
   a) defining what is considered a new product, including product description,
   b) ensuring the required technical, organizational and staffing conditions for the introduction, application and management of the risks resulting from new products,
   c) defining the authorities and responsibilities for the testing, approval and verification of new products,
   d) establishing appropriate verification procedures to be conducted by the bank's control functions,
   e) implementing and adequately documenting the impacts of a new product on the bank's risk exposure and/or risk profile, capital adequacy, profitability and liquidity,
   f) the accounting, tax, legal, supervisory and other regulatory requirements relating to new products,
   g) the product pricing model and/or methodology, if applicable.

(2) A bank is required to carry out and adequately document a comprehensive analysis of the risks resulting from new products, which should at least include an objective assessment of the following:

a) all risks that have arisen due to the introduction of new products, including compliance risk, by using different scenarios,
b) whether the automation or digitalization of processes and/or method for distributing new products have an impact on compliance and internal controls systems,
c) whether the introduction of a new product causes potential weaknesses in the risk management and internal controls,
d) the bank's ability to efficiently manage the risks referred to in subparagraph (a) of this Paragraph.

(3) If it follows from the risk analysis referred to in Paragraph (2) of this Article that appropriate resources for understanding and managing the risks of the new product have not been ensured, the bank's management shall postpone its introduction until such time when these resources have been ensured.

Article 23
Information System as Support to Risk Reporting

(1) A bank shall also define adequate IT support to the risk management process within the bank's information system development strategy and information system security policy, which shall ensure comprehensive, reliable, timely and accurate data collection and processing and/or IT basis for the following:
a) efficient risk management,
b) the development of all required regular and occasional reports and information for the internal purposes and for the purposes of all other users.

(2) A bank shall apply and maintain adequate information flow which shall allow efficient implementation of the Risk Strategy, Risk Taking and Management Policy in the Internal Governance Segment, risk management procedures and other internal regulations, which shall form an integral part of the bank's information system.

Article 24
Stress Testing for All Material Risks

(1) A bank shall perform comprehensive stress testing for all material risks on a regular basis, but at least annually. In case of a major change in the bank's risk profile, bank's macroeconomic environment or bank's business activities, stress testing should be performed more frequently in accordance with the proportionality principle referred to in Article 4 of this Decision.

(2) The stress testing, within the meaning of Paragraph (1) of this Article, should be an integral part of the risk management process, including the frequency of its performance, and shall be an important tool when establishing the bank's internal capital and liquidity adequacy, risk capacity, risk appetite and risk limits.

(3) A bank's supervisory board and management shall ensure adequate use of stress testing in the bank's risk management process and internal capital and liquidity planning for the coverage of all risks of the bank and use of the results of the performed stress testing as a basis for decision-making and measure taking at the relevant organizational levels in the bank, including strategic business decisions relating to the bank's capital and liquidity planning. When adopting those measures and decisions, the bank's supervisory board and management shall take into account all deficiencies, limitations and other weaknesses in the stress tests, which were identified in a specific stress testing period.

(4) Under the proportionality principle, the stress tests should include the most material business areas of a bank and events which may be especially harmful to the bank, including not only the events

that may cause losses to the bank, but also those that may consequently cause harm to the bank's reputation.

Article 25
Stress Testing Program

(1) A bank shall establish and apply an adequate stress testing program, which is consistent with the bank's risk profile and business model and program of the banking group, if applicable. The stress testing program should constitute an integrated strategy on the use of stress testing techniques and contribute to improving the risk management process, enhancing the bank's capital and liquidity management process and allowing better understanding of the bank's risks by the supervisory authorities, bank's bodies and senior management. The bank may perform stress testing by means of the following:
 a) a sensitivity analysis;
 b) a scenario analysis.
(2) A bank shall ensure that stress testing includes meaningful and plausible scenarios and that the severity level of the scenarios reflects the intention of the testing.
(3) When establishing its stress testing program, a bank shall pay special attention to the application of the proportionality principle referred to in Article 4 of this Decision.
(4) When performing stress testing by means of the sensitivity analysis referred to in Paragraph (1)(a) of this Article, a bank shall include and document all material risk factors which are specific to its exposures, exposure portfolio, business units and business environment, including macroeconomic environment factors. Also, the bank shall assess the meaningfulness and feasibility of the individual sensitivity analyses and ensure adequate expert substantiation of the assessment.
(5) When performing stress testing by means of a scenario analysis, a bank shall include forward looking scenarios from the spectrum of plausible events and plausible event severity levels, while those scenarios should be forward looking and take into account changes in the bank's exposure portfolio, new information and potential risks to better identify the bank's hidden vulnerabilities, if that is meaningful and feasible. In doing so, sufficiently long time periods depending on the risk characteristics, exposure portfolios, test's intention, etc., should be included.
(6) It is important to also include the extreme events that undermine the bank's sustainability as part of the comprehensive stress testing program,.
(7) A bank shall ensure that the bank's relevant material risk factors or hidden vulnerabilities are not left out of the scenario analysis without adequate and comprehensive expert substantiation.
(8) When performing stress testing for the capital sustainability assessment by means of a sensitivity analysis or scenario analysis, a bank shall ensure that it includes at least one economic downturn scenario with the different scenario severity levels, while taking into account the bank's plausible specific vulnerabilities and the bank's business model characteristics.

Article 26
Stress Testing Processes, Procedures and Methodologies

(1) Within its stress testing program, a bank shall adopt and conduct appropriate stress testing management processes and procedures and establish an organizational part which shall be responsible for performing stress testing, with the responsibilities for cooperation, communication and active expert dialogue with the bank's other competent organizational parts and bank's bodies, but primarily with those parts responsible for risk control (if the testing is not performed in that organizational part) and capital and liquidity planning. The bank's management shall ensure

adequate resources, including financial, human and information technology resources for performing stress testing.

(2) A bank shall establish appropriate infrastructure, including data infrastructure for performing stress testing and risk reporting in accordance with the proportionality principle, i.e., which shall be appropriate to the bank's risk profile and shall be flexible enough to allow the bank the following:
   a) timely calculation of the bank's total risk exposure and application of a new and/or modified scenario, where necessary,
   b) collection of comprehensive, reliable and accurate data for the purposes of stress testing and reporting for all material risks of the bank in accordance with the testing program,
   c) adequate level of flexibility, quality and control of the testing.

(3) A bank's stress testing methodology and selection of the risk factors and/or scenarios should include all material risks and business areas and integrate them so as to include all of the bank's on-balance sheet and off-balance sheet assets, already incurred and potential risks, taking into account their interrelationships and all relevant risk factors and/or correlations, their changes in crisis periods and position of the economic cycle that the bank is in, where an appropriate level of detail should be used in accordance with the stress testing purpose and type and/or bank's risk profile, business strategy and business model.

(4) In the credit risk segment, the stress testing methodology should also include, among other things, currency-induced credit risk, which is based on the assumption about indirect credit risk resulting from loans contracted with a currency clause, in accordance with their materiality and/or share in loan portfolio. In that regard, the bank shall apply scenarios with different assumptions of emergency situations, including the assumption of an increase in the domestic currency (BAM) exchange rate, change in a foreign currency exchange rate by a predetermined percentage or combination of those assumptions. The bank is not required to implement this requirement for exposures with a currency clause in euros, given the existence of the currency board in Bosnia and Herzegovina.

(5) When establishing the hypothetical and macroeconomic risk factors and/or scenarios for the purposes of a model, a bank shall ensure the following when selecting the scenarios to mitigate model risk:
   a) a conservative expert adequacy assessment of the adopted model assumptions and methodologies,
   b) an appropriate conservative approach when determining the model assumptions, which may have an impact on the model results,
   c) regular impact assessments of the assumptions on the model results.

(6) A bank shall ensure that all identified deficiencies of the model, as well as the methodology, which show the relationship between the risk factors and bank's losses, are taken into account when interpreting the stress testing results.

(7) As part of its overall stress testing program, a bank should take into account the correlations of the factors relating to financial markets and financial assets and impact of a decrease in market liquidity on the risk exposure valuation (price shocks of specific asset categories, connection of liquidity of specific asset categories, increased liquidity needs, reduced and/or hampered access to financial markets, etc.).

(8) Special attention should be focused on a systemic review of the risk mitigation techniques employed (credit protection, netting, use of collaterals, etc.) and their assessment under stressed market circumstances, complex products and/or structured financial instruments, etc. When performing stress testing of a financial collateral, a bank should identify the conditions that may negatively affect the realization of the collateral value, including cases of a deterioration in the

financial collateral provider's credit rating or market liquidity.

(9) In the segment of credit risk and counterparty credit risk, a bank should at least analyze in stress testing the client's capacity to repay their obligations, recovery rate in case of the client's default, including a deterioration in the collateral value or the credit rating of the guarantee provider or guarantor and size and dynamic of the client's credit exposure.

(10) As part of its overall stress testing program, a bank shall identify concentration risk and/or correlations of different risk exposures which may manifest in emergency situations. In doing so, the bank should take into account credit risk of each exposure and analyze additional risk sources resulting from the bank's exposure to the same or similar risk incurrence source. The risk sources shall include, inter alia, the bank's total exposure to a single party or a group of related parties, same economic sector, same geographical area, same product type and same credit protection instrument and/or credit protection provider.

(11) If a bank has financial derivatives in its portfolio, the bank shall include in stress testing information on the underlying assets, their dependence on the market conditions and the like.

(12) In order to reduce the spillover effects from reputational risk, a bank should also integrate in the stress testing program the risks resulting from other related parties and assess the impact of reputational risk on other risk types, in particular credit, market, operational and its related risks (e.g. legal risk and conduct risk) and liquidity risk.

Article 27
Reverse Stress Testing

(1) As part of its comprehensive stress testing program, a bank should also perform reverse stress testing for all of the bank's material risks, where the starting point shall be a known stress resilience result and events and adverse circumstances that led to such result for the bank shall be reviewed to ensure information on the bank's business model and strategy vulnerability and sustainability assessment and analyze the bank's protection strategy and measures in terms of whether they are sufficiently firm and consistent under stressed market circumstances (e.g. adverse economic and political events, industry collapse, litigations, natural disasters, etc.). The bank should use the reverse stress testing scenarios as a supplement to the existing types of stress tests and in the scenario severity and relevance assessment in the performance of stress tests in the ICAAP and ILAAP.

(2) The areas in which reverse stress testing shall be used in particular shall be the business lines for which the traditional risk management models indicate a very good risk to reward ratio, new products and new markets which still have not developed significantly and the like. In that regard, the bank should also employ reverse stress testing in the planning and review of its business models and decisions and in the analysis of the circumstances that might cause the business model to fail. Where reverse stress testing indicates a high risk of business model unsustainability and/or risk which is not consistent with the adopted risk appetite, the bank shall apply appropriate measures to prevent and mitigate such risk.

Article 28
Stress Testing Results

(1) Based on the stress testing results, a bank shall assess the reliability and sustainability of its capital and liquidity plan and/or take them into account in the bank's ICAAP and ILAAP. For the purposes of the ICAAP and ILAAP, the bank shall apply comprehensive bank-level stress tests, which shall include at least the following:

a) all members of the group for which the ICAAP and ILAAP shall be applied, if applicable,

b) all of the bank's material risk categories and subcategories,
c) the use of multiple scenarios, which shall include at least one severe and feasible scenario (e.g. economic downturn scenario),
d) the alignment of the testing period with the ICAAP and ILAAP period.

(2) When performing stress testing within the ICAAP, a bank shall identify the stress resilience results in relation to its regulatory capital to assess the bank's capacity to absorb losses which may occur due to various shocks applied in the scenarios and ensure that the bank's capital requirements are maintained at the level of the minimum regulatory capital requirements or above the minimum regulatory requirements, if appropriate, i.e., the Agency's requirements relating to the capital requirements in the stress periods, while also assessing the potential losses that may be incurred from a specific configuration of the macroeconomic variables.

(3) A bank shall use the stress testing results that are relevant to the area of liquidity for the purposes of the ILAAP.

(4) A bank shall use the stress testing results to identify a wide array of appropriate measures of the bank's supervisory board and management relating to the bank's risk mitigation techniques, plans for emergency situations, capital and liquidity plans, adequate risk appetite, risk limits and other measures according to the range of plausible stressed conditions. When identifying the measures resulting from relevant stressed business operating conditions, the bank shall define the time required for their implementation.

(5) A bank's measures referred to in Paragraph (4) of this Article shall include inter alia the following:
a) an adequacy review of the adopted risk appetite,
b) an efficiency review of the risk mitigation techniques,
c) drawing up the plans for emergency situations and recovery plans,
d) revising the adopted risk appetite,
e) revising the capital and liquidity plans,
f) revising the strategy and business plan,
g) restricting the dividend pay out to the shareholders,
h) raising the capital or ensuring additional funding and
i) other appropriate measures.

(6) A bank shall deliver to the Agency the report on the results of the performed stress testing, with the plan of measures under Paragraph (4) of this Article, in printed and electronic forms, no later than by 30 April of the current year for the preceding year.

Article 29
Stress Testing Program Assessment

(1) A bank shall assess on a regular basis, but at least annually, the efficiency and sustainability of the stress testing program and update it if necessary.

(2) The efficiency and sustainability assessment of the stress testing program and its main individual components should include qualitative and quantitative aspects of the performed stress tests and reverse stress tests and cover the areas relating to the following:
a) the program's efficiency in fulfilling the planned purpose, need to improve the program,
b) the identified risk factors, definitions and reasons for applying relevant scenarios,
c) the documentation adequacy, system implementation and development, data quality and model results,
d) the method of control by the bank's supervisory board and management and applied and/or used assumptions, including business and/or management assumptions, and corrective measures.

(3) The process referred to in Paragraphs (1) and (2) of this Article should include the internal audit function to ensure the independence of the assessment.

Article 30
Documentation of the Stress Testing Program

The implementation of the stress testing program should be adequately documented for all types of tests, which entails clear and detailed description of each component of the program, including the following:

a) the stress testing methods,
b) the stress testing objectives, type and frequency,
c) the functions and responsibilities in the stress testing program,
d) the methodological details relating to defining of relevant scenarios and role of the expert assessment,
e) the evaluation of the basic assumptions,
f) the results of the performed testing and description of the procedure for assessing the stress test results,
g) the planned corrective measures, depending on the stress testing results and
h) a description of the stress testing program establishment, adoption, implementation, performance monitoring and regular assessments procedure,
i) a description and list of the stress testing IT support and tools and
j) other aspects relevant to the stress testing program implementation.

2.4. A Bank's Internal Controls System and Control Functions

Article 31
General Requirements

(1) A bank shall:
a) establish and implement an efficient internal controls system in all business areas and
b) establish the bank's independent control functions which shall include a risk management function, compliance function and internal audit function.

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

(3) A bank's independent control functions referred to in Paragraph (1)(b) of this Article should ensure an independent and objective assessment of the comprehensiveness, reliability and efficiency of the internal governance system referred to in Article 4 of this Decision for the bank's bodies, based on a review and assessment of the bank's risk-taking and management strategies, policies, procedures, process and methodologies referred to in Articles 6 and 7 of this Decision and bank's risk management.

(4) The internal controls systems and control functions should ensure that no person employed in a bank can be in the position to make material errors or commit offenses set out in the law, other regulations and bank's internal regulations, in order for them to be detected in a short period of time.

Article 32
Internal Controls System

(1) A bank shall ensure that the internal controls system referred to in Article 31(1)(a) includes at least the following:
   a) an adequate organizational structure referred to in Article 12 of this Decision,
   b) adequate control activities and division of the authorities and responsibilities under Article 12(1)(a) of this Decision,
   c) adequate internal controls integrated in the bank's business processes and activities,
   d) adequate administrative and accounting procedures,
   e) establishment of appropriate procedures for the protection of the bank's assets,
   f) establishment of the bank's control functions,
   g) efficient protection of the bank against misuses and criminal actions (money laundering, terrorism financing, robbery, etc.).

(2) The internal controls system in a bank should also ensure, inter alia, the following:
   a) calculation and review of the risk capital requirements under the provisions of the Decision on the Calculation of Bank Capital,
   b) identification and monitoring of large exposures, as well as alignment of large exposures with regulations governing this area,
   c) conclusion of transactions with persons in a special relationship with the bank and reporting system and oversight procedures for conclusion of transactions with persons in a special relationship with the bank,
   d) accounting controls and keeping of the accounts, other business documentation and records, asset and liability valuation and preparation, disclosure and delivery of financial statements which must be kept in accordance with all prescribed and established accounting and banking principles, as well as international standards,
   e) a process which ensures timely, true and accurate public disclosure of the bank's data and information,
   f) accuracy verification procedure for data and information required for the supervision on a consolidated basis,
   g) organizational and technical controls of access to the bank's assets and utilization of access rights,
   h) management, logical and physical controls in the information system,
   i) reporting to the supervisory authorities and other authorities and
   j) an assessment of the effects of outsourcing of business activities on the bank's internal controls systems.

(3) The internal controls systems shall include a bank's accounting and financial management, including control of the financial plan and planning, standard and non-standard costs, statistical analyses and their disclosure, periodic operational and business reports and training program for training of all of the bank's employees in correlation with the implementation of the bank's control functions.

(4) The administrative controls referred to in Paragraph (1)(d) of this Article shall constitute the starting point in the establishment of the accounting control and shall include:
   a) establishment, monitoring, development and control of the bank's organizational structure and
   b) control of the procedures and records relating to decision-making processes on approval of the bank's business transactions.

(5) The accounting controls referred to in Paragraph (1)(d) of this Article shall include a procedures plan, procedures and records relating to the protection of the bank's assets and reliability of the financial records and must ensure that:

a) the bank's business transactions are executed in accordance with the general or specific decisions and/or authorizations of the bank's competent persons,
b) the bank's business transactions are accounted for without delay and accurately,
c) the bank's business transactions are accounted for so as to allow preparation of financial statements under IAS/IFRS,
d) the bank's business transactions are accounted for in such a manner that the accountability for the bank's assets is recognizable and transparent,
e) access to the bank's assets is allowed only in accordance with the authorizations of the bank's competent persons,
f) the bookkeeping records of the assets are verified and compared with the actual balance of assets at specified, at least prescribed, time intervals and that, in case of any differences, appropriate measures and activities are undertaken.

(6) A bank's bookkeeping records must be kept in accordance with all prescribed and established accounting and banking principles as well as international standards. The bank's bookkeeping records and accounts must at all times reflect its actual financial position and results of its operations, in particular regarding the following:

a) operational responsibilities which must ensure that the accounting system allows preparation of internal reports for the purposes of control. The records must be up to date on a daily basis and have (analytical) subsidiary control accounts which are reconciled with the balance in the general ledger,
b) control records which must be created so that each specific item can be tested and traced through the bank's accounts,
c) mandatory previous numbering of financial instruments which facilitates the processes of validation, reconciliation and control of bookkeeping items,
d) obligatory accounting manual which contains processing instructions for daily transactions.

(7) The basic method for the protection of a bank's specific asset items must constitute a specific authorization for access to such assets. The bank shall develop procedures for the protection of assets referred to in Paragraph (1)(e) of this Article which must as a minimum include the following:

a) control of cash on hand management in such a manner that tellers have only individual access to cash which is made available to them personally to perform business operations. Joint disposal of cash is not allowed,
b) in operations relating to cash in the treasury, cash deposit and withdrawal devices, access to payment cards or retained payment cards, marketable collaterals, unissued checks and other securities, spare safe-deposit box locks and keys, spare teller cash drawer keys and similar operations, the establishment of a joint protection system by two persons simultaneously in which activities of only one person are prevented through two different locks or combinations and disposal with only one key or one combination,
c) in operations requiring verification and validation, such as reconciliation of the general ledger and analytical records, fund transfers, using the bank's stamp, issuance of guarantee letters and similar operations, the establishment of a double-checking system which differs from the joint control in that the activity of one person must be verified by another person to ensure that only an authorized person performs a specific transaction, that the transaction is adequately recorded and/or that the reconciliation is adequately performed,

d) plans for emergency situations and keeping subsidiary registers and files for all key records and data outside the bank's premises,
e) deficiency reporting system (method) which should constitute a process for immediate filing of a report and initiation of an investigation into a cash shortfall and other deficiencies or irregularities the moment they are detected. This system must ensure that the results of the investigation are submitted to the competent persons in the bank and competent authorities,
f) staff recruitment procedures which, in particular for specific jobs in the bank, must include mandatory screening for reliability and expertise,
g) physical and technical protection procedures.

Article 33
A Bank's Control Functions

(1) A bank is required to establish control functions referred to in Article 31(1)(b) of this Decision in accordance with the principles referred to in Articles 83(4) and 84 of the Law.
(2) A bank shall establish the control functions independently of the business processes and activities in which risk is incurred and/or which are monitored, controlled, assessed and/or audited by these functions, in accordance with its risk profile. Where a member of the bank's management is responsible for a control function, that member shall not perform within their authorities and responsibilities any tasks which might cause conflict of interest within the meaning of the rules on separation of incompatible duties referred to in Article 12(2) of this Decision or undermine the control function's independence.
(3) When performing regular assessments of the performance of the control functions, the supervisory board shall take into account in particular the following:
   a) compliance of the bank's operations with applicable regulations and internal policies and procedures,
   b) reliability of the financial statements on the bank's performance for internal and external use,
   c) adequate and efficient implementation of the bank's planned business activities,
   d) clear, transparent and documented decision-making process which prevents and/or limits conflict of interest,
   e) the internal audit function's assessment on the efficiency of the internal controls system and/or on the quality of risk management in the bank's operations,
   f) assessment of the control functions' activity reports and
   g) efficiency of the procedures under recommendations and proposals made by the control functions.
(4) A bank's management shall at least annually review the efficiency of the bank's control functions, including the adequacy of the procedures and shall notify the supervisory board of this to remedy the identified deficiencies.
(5) In the review process, the bank's management shall as a minimum take into account the following:
   a) working methodology of a specific control function,
   b) execution of a specific control function's work plan,
   c) number of employees engaged in the performance of a specific control function's activities,
   d) structure and contents of a specific control function's reports,
   e) findings obtained by a specific control function in the period for which the review process is being conducted,
   f) the bank's risk profile,
   g) the business and risk management strategy and

h) other criteria which may have an impact on the adequacy and efficiency review of specific control functions.

(6) The supervisory board should, based on the results of the performance assessment of the control functions, take adequate measures to maintain and/or improve the efficiency of the control functions.

(7) A bank's management, supervisory board and audit committee shall ensure timely and efficient measure taking under the internal audit's recommendations to remedy the identified irregularities and weaknesses noted in the internal audit's reports.

(8) If during the performance of its activities a specific control function identifies unlawfulness in the operations or violation of the risk management rules and regulations which undermines the liquidity, solvency or security of the bank's operations, it shall immediately inform the supervisory board, management and Agency of this.

Article 34
Control Function Regulation

For each control function, a bank is required to lay down by its internal regulation at least the following:

a) the control function's objectives, scope and method of operation,
b) the control function's organizational structure and role,
c) the control function's position within the bank,
d) measures for ensuring the control function's independence and objectivity,
e) authorities, responsibilities and relationships with other organizational parts and interrelationship with other control functions,
f) measures for ensuring and monitoring professional competence, appropriate expertise and experience of persons who perform the control function's activities,
g) duties and responsibilities of the head of the control function as a whole,
h) service delivery quality check and control methods and procedures under relevant regulations governing outsourcing of the bank's business activities, if applicable,
i) the right of access to data and information,
j) reporting system on the activities of the control function,
k) method of cooperation with external auditors, supervisors and other competent supervisory authorities.

Article 35
Control Function's Work Plan

(1) A bank is required to periodically, but at least annually, identify and assess risks, including risks resulting from the macroeconomic environment in which the bank operates, and document them.

(2) Based on the risk assessment referred to in Paragraph (1) of this Article, a control function shall draw up a work plan of the control function.

(3) The annual work plan of a control function which shall be adopted by the supervisory board in accordance with Article 10(1)(j) of this Decision shall as a minimum include the following:

a) a list of risk business areas which will be subject to control,
b) the organizational parts and/or business processes which will be covered by control,
c) a description of the planned control methods and procedures and
d) the time period in which the planned activities and controls will be performed.

(4) A bank is required to prescribe in greater detail the contents of the work plan referred to in Paragraph (3) of this Article.

(5) Each control function shall draw up operational work plans based on the annual work plan.

(6) Each control function is required to document the methodology that it employs in its field of work.
(7) A bank's management shall ensure timely delivery of information on the planned activities concerning organizational changes, projects, new products, etc., to a person responsible for the operation of each control function, with a view to identifying and assessing all of the bank's future risks.

Article 36
Risk Management Control Function's Activities

(1) A bank is required to ensure as a minimum the performance of the following activities within the risk management function:
  a) risk analysis which shall include identifying and measuring and/or assessing, mitigating, monitoring and reporting on the bank's risks, including cyber risk and information and communication technology risk,
  b) ongoing monitoring of all of the bank's material risks,
  c) performance of stress testing,
  d) verification of the application and efficiency of the bank's risk management methods and procedures, including macroeconomic environment risks,
  e) adequacy and efficiency testing and assessment of the internal controls in the risk management process,
  f) adequacy and documentation assessment of the risk management methodology,
  g) engagement in the development and review of the risk management strategies and policies,
  h) engagement in the development, application and oversight of the functioning of the risk management methods and procedures,
  i) making proposals and recommendations for efficient risk management,
  j) the bank's capital adequacy analysis, monitoring and reporting and verification of the internal capital adequacy assessment strategies and processes,
  k) the bank's liquidity adequacy analysis, monitoring and reporting and verification of the internal liquidity adequacy assessment strategies and processes,
  l) analysis of risks inherent in new products or new markets,
  m) risk management reporting to the supervisory board, audit committee and risk committee, if any, and the bank's management,
  n) reporting to the supervisory board, audit committee and bank's management on the risk management function's activities,
  o) carrying out other required verifications for adequate risk control.
(2) The risk management function shall develop a training plan for persons employed in the risk management control function, which is consistent with the professional education and development program for persons referred to in Article 39(16) of this Decision.

Article 37
Compliance Control Function's Activities

(1) A bank is required to ensure as a minimum the performance of the following activities within the compliance function:
  a) compliance of the bank's operations with the Law, Agency's regulations and other prudential banking regulations and standards, anti-money laundering and counter terrorism financing procedures, as well as other regulations governing the bank's operations,
  b) identifying failures and assessing risk as a result of non-compliance of the bank's operations with the law and other regulations, in particular risk of the Agency and other competent

authorities' supervisory measure taking and sanctions, financial losses, as well as reputational risk, and where this risk is material, it should be included in the ICAAP,

c) advising the bank's management and other responsible persons on how to apply relevant laws, standards and rules, including also information on developments in those areas and
d) assessing the effects that revision to relevant regulations will have on the bank's operations.

(2) The compliance function shall develop a training plan for employees in the compliance control function, in accordance with the professional education and development program for persons referred to in Article 39(16) of this Decision.

Article 38
Internal Audit Control Function's Activities

(1) A bank is required to organize the internal audit function as a separate organizational unit, functional and independent of the activities audited by it and od other organizational parts of the bank. The bank shall perform the internal audit function in accordance with regulations, professional internal audit practice standards and core internal audit organization and operation principles.
(2) Within its tasks, the internal audit function shall assess the following:
a) efficiency and adequacy of the bank's internal governance system referred to in Article 4 of this Decision and material risks to identify, assess and/or measure, monitor, control, report and take appropriate measures to limit and mitigate the bank's risks,
b) the adequacy of the Risk Strategy and Risk Taking and Management Policy in the Internal Governance Segment referred to in Articles 6 and 7 of this Decision, and their compliance with regulations, internal regulations, Agency's requirements and adopted risk appetite and with the bank's business strategy,
c) compliance of the bank's established procedures and processes with regulations, internal regulations and decisions of the bank's bodies,
d) adequacy and efficiency of the bank's established procedures and processes, including comprehensiveness of the process, which ensure reliability of the methodologies and methods, assumptions and information sources used in the bank's internal models,
e) adequacy, quality, efficiency and reliability of the risk management function and compliance function, as well as established internal controls system in all of the bank's business areas,
f) the system of reporting to the bank's competent bodies and heads,
g) accuracy and reliability of the bank's financial statements and accounting records system,
h) adequacy of the bank's asset management,
i) application of the Remuneration Policy referred to in Article 7 of this Decision,
j) compliance of new products and processes with applicable regulations, internal regulations, standards and codes, as well as their impact on the risk exposure,
k) adequacy of the bank's information system,
l) the ICAAP and ILAAP strategies and processes,
m) the system for collection and accuracy of information which is disclosed publicly in accordance with the Law and Agency's regulations,
n) weaknesses in the bank's operations and those of its employees, as well as instances of default and overreach of the authorities,
o) the bank's compliance with the orders and recommendations from the Agency and audit firm and
p) perform other required activities to achieve the internal audit control function's objectives.

(3) The internal audit control function shall provide to the bank's supervisory board and audit committee an independent and objective opinion on the issues that are subject to audit and shall provide advices and recommendations for improving the bank's existing internal controls system and operations, as well as provide assistance to the supervisory board and audit committee in the achievement of their objectives, applying a systematic, disciplined and documented approach to valuation and improvement of the existing control method, risk management and process management.

(4) A bank is required to have at least one employee in the internal audit organizational unit who has a title of certified internal auditor in accordance with regulations governing the fields of accounting and auditing.

(5) The internal audit organizational unit's employees may not perform managerial or other duties in the bank's activities, other than duties relating to the performance of internal audit, nor may they engage in the preparation and development of regulations and other documentation which can be subject to internal audit.

(6) In order to ensure the internal audit function's independence, the bank's management shall ensure that the internal audit function:
   a) performs and coordinates tasks referred to in Paragraph (3) of this Article on its own initiative, in all areas, activities, processes and functions of the bank, including risk management function and compliance function, where the internal audit function's employees shall not be exposed to any attempts of undue influence or pressure by a member of the bank's body or a member of the bank's senior management,
   b) does not engage directly in the establishment, development, setting up and implementation of the internal controls system,
   c) has the right of access to all of the bank's premises, employees, information, data and buildings.

(7) In order to ensure the internal audit function's independence, the supervisory board shall monitor its efficiency based on:
   a) careful consideration of the internal audit function's reports,
   b) regular meetings (e.g. on a quarterly basis) between the supervisory board chair or audit committee chair and head of the internal audit function. These meetings should be held without presence of the bank's management members, their alternates or other senior management members.

(8) The internal audit function's employees shall declare at least annually in writing whether there is any conflict of interest relating to the performance of tasks referred to in Paragraph (2) of this Article.

(9) The internal audit function shall develop a training plan for persons employed in the internal audit control function, which is consistent with the professional education and development program for persons referred to in Article 39(16) of this Decision.

Article 39
Control Functions' Employees

(1) For the performance of the activities of each control function, a bank is required to ensure a sufficient number of persons in accordance with the proportionality principle referred to in Article 4 of this Decision, who must have appropriate expertise and experience.

(2) Persons who perform the control functions' activities may not be persons in a special relationship with the bank or persons with conflict of interest, in order to ensure independence and objectivity in the performance of their activities.

(3) A bank is required to appoint persons responsible for the operation of the control functions and/or their heads. The head of a control function organizational unit shall be appointed and dismissed by the supervisory board, which shall also adopt a decision on their remuneration, while taking into account the requirement referred to in Article 47(8)(a) of this Decision. The supervisory board shall ensure an adequate hierarchical position and authorities of the heads of the control functions.

(4) Where the dismissal of the head of a control function is proposed by the bank's management and/or member of the bank's management, the supervisory board shall review the following in the consideration of the reasons for the dismissal of that person:

a) written justifications of the bank's management and/or relevant member of the bank's management and written justifications (i.e., opinion) of the head of the control function on the reasons for the dismissal,
b) submitted material evidence, which is the reason for the dismissal of the head of the control function,
c) regulations and bank's staff policy regulating employment contract termination and/or employee dismissal,
d) other relevant evidence and justifications.

(5) The head of a control function organizational unit and employees in those units shall be independent in their work and only perform the activities that they are responsible for.

(6) A bank's employees shall allow persons performing the activities of the control functions access to all documentation that is in their possession and provide them with all necessary information.

(7) A bank shall forthwith, but no later than within eight days from the appointment of the head of the organizational unit of each control function, notify the Agency of the appointment, as well as the reasons for replacing those persons.

(8) The heads of the control functions shall report directly to the supervisory board and/or audit committee as well as other competent committees, along with informing the bank's management in order to timely and efficiently implement the recommendations made for remedying illegalities, irregularities, deficiencies and weaknesses identified during earlier controls. The heads of the control functions shall participate at least annually in the sessions of the bodies that they report to. In the case of the risk management function and compliance function, this requirement shall also be met if the heads of those control functions report to the bank's management and/or competent member of the bank's management, but also a direct reporting line to the supervisory board shall be ensured.

(9) A bank shall ensure on a regular basis professional education and development of persons performing the activities of the control functions.

(10) Employees performing the activities of the risk management control function should have higher professional qualifications typically in economic profession or another relevant profession when there is a need for a specific specialist knowledge (e.g. in the field of mathematical models, statistical analyses), knowledge and sufficient experience relating to risk identification, measurement, assessment, control and mitigation in a bank, as well as professional and personal qualities allowing them to efficiently perform their activities. In exceptional cases, a bank may employ a person who does not have higher professional qualifications in the risk management control function, if they perform analytical activities of a lower degree of complexity.

(11) Employees performing the activities of the compliance control function should have higher professional qualifications typically in legal or economic profession, knowledge, experience, professional and personal qualities allowing them to efficiently perform their activities. They are required to know and follow the revisions to legal requirements and impact of those revisions on

the bank's operations and to know the rules of the profession, good business customs and business ethics.

(12) Employees within the risk management control function and compliance control function should be experts with a broader spectrum of knowledge in the field of banking operations, in particular in the area of risk management methodologies and processes.

(13) Employees performing the activities of the internal audit control function must have higher professional qualifications for the areas audited by them and experience of at least 3 (three) years in the most complex banking activities and activities of control, supervision or auditing of banks or other financial institutions and must be certified. Internal audit employees should know the accounting and auditing standards (except for persons performing internal audit in specific specialized areas such as e.g. information system internal audit), principles and techniques and should have the ability to identify and assess the materiality and material deviations from sound business practice, as well as have organizational and technical capacities in accordance with the responsibilities of internal auditor and developed capability for communication. Employees in the internal audit organizational unit must be engaged on a full-time basis in the bank.

(14) Employees in the internal audit organizational unit shall have the right to access the accounts, financial statements and all documentation of the bank and its subsidiaries, as well as those of the members of the same banking group and to perform the oversight of the bank's operations without any limitations and participate in the sessions of the supervisory board and its committees.

(15) Employees of the control functions should maintain their professional competence through systemic and continuous training and/or demonstrate high inclination to continue education and professional development.

(16) A bank shall ensure necessary staff and financial resources in the financial plan for the execution of the annual plan of each control function, which shall also include inter alia regular professional education and capacity building of persons performing the activities of the control functions.

Article 40
Risk Management Control Function and
Compliance Control Function's Reports

(1) The risk management function and compliance function shall draw up quarterly, semi-annual and annual activity reports.

(2) Depending on the activities of a bank's control function, the reports referred to in Paragraph (1) of this Article shall include at least the following:

a) a report on the implementation of the annual work plan,
b) an overview of the most important facts established during the performance of controls,
c) the illegalities and irregularities, and deficiencies and weaknesses established during the performance of controls,
d) the proposals, recommendations and time limits for remedying the identified illegalities, irregularities, deficiencies and weaknesses,
e) an assessment of the adequacy and efficiency of the internal controls system for the areas that were subject to control in the reporting period,
f) an assessment of the adequacy and efficiency of risk management, including also information on the risk exposure,
g) compliance verification of new products and new processes with regulations, internal regulations, standards and codes and assessment of their impact on the bank's exposure to potential risks,

h) a compliance assessment of the bank with regulations, internal regulations, standards and codes and
i) a report on the implementation status of the proposals and recommendations for remedying the illegalities, irregularities, deficiencies and weaknesses identified during the performance of earlier controls.

(3) The heads of the risk management and compliance control functions are required to deliver the reports referred to in Paragraph (1) of this Article to the supervisory board, audit committee and bank's management. The reports shall be adopted by the supervisory board, with the comments obtained from the management and audit committee.

(4) A bank is required to deliver to the Agency the activity reports of the risk management function and compliance function, with the decision on their adoption by the bank's supervisory board, no later than within 60 days after the end of the reporting quarter and/or semester, while it is required to deliver the annual activity report no later than by 31 March of the current year for the preceding year.

(5) The activity reports of the risk management function and compliance function must be signed by the heads of the specific control functions.

Article 41
Internal Audit Function's Reports on Performed Controls

(1) The internal audit function shall draw up reports on performed controls, which shall be carried out by it in accordance with the internal audit's established operational work plan.

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

(3) If the head of the internal audit function considers it necessary, they may also deliver a report on a performed control to all other members of the bank's management and supervisory board and/or another relevant committee established by the bank's supervisory board.

(4) The internal audit function's reports on performed controls shall include at least the following:
a) the subject matter and scope of the performed audits,
b) illegalities and irregularities in the bank's operations if they have been identified during the performance of the audit,
c) deficiencies and weaknesses in the operations and/or risk management process if they have been identified during the performance of the audit,
d) an assessment of the adequacy, quality and efficiency of the internal controls system in a specific business area, including reporting to the business units, and adequacy, quality and efficiency of the risk management function or compliance function,
e) an assessment of the adequacy and efficiency of the risk management process, including also information on the risk exposure,
f) the proposals, recommendations and time limits for remedying the identified illegalities and irregularities, and deficiencies and weaknesses,
g) data on the persons in charge of the implementation of the recommendations and measures,
h) information on the implementation status of the recommendations and measures for remedying the illegalities and irregularities, and deficiencies and weaknesses,
i) the performed compliance verification of new products and new processes with regulations, internal regulations, standards and codes and assessment of whether this impacts the bank's risk exposure,

j) a compliance assessment of the bank with regulations, internal regulations, standards and codes.

(5) The internal audit function shall monitor on a regular basis the implementation status of the recommendations and measures provided for remedying the illegalities and irregularities, and deficiencies and weaknesses.

Article 42
Internal Audit Control Function's Reports

(1) The internal audit control function is required to draw up quarterly, semi-annual and annual activity reports shall include the following:
a) a report on the implementation of the annual work plan,
b) an overview of the most important facts established during the performance of the audit of operations and
c) a report on the implementation of the proposals and recommendations for remedying the illegalities, irregularities, deficiencies and weaknesses identified during the performance of the audit of operations.

(2) The report on the implementation of the internal audit annual work plan shall include at least the following:
a) a list of all audited areas,
b) a list of the planned, but unperformed audits,
c) the reasons for the failure to implement the plan and
d) a list of all performed extraordinary audits.

(3) The overview of the most material facts established during the performance of the audits shall include at least the following:
a) a description of the illegalities and non-compliances with the bank's policies and procedures if they have been identified during the performance of the audit,
b) a description of the deficiencies and weaknesses of the audited areas if they have been identified during the performance of the audit,
c) an assessment of the adequacy and efficiency of the internal controls system and
d) an assessment of the adequacy and efficiency of risk management in the audited areas.

(4) The report on the implementation of the proposals and recommendations shall include at least the following:
a) the proposals, recommendations and time limits for remedying the identified illegalities, irregularities, deficiencies and weaknesses, if they have been identified during the performance of the audit,
b) data on the persons in charge of the implementation of the proposals and recommendations and
c) information on the implementation status of the proposals and recommendations for remedying the illegalities, irregularities, deficiencies and weaknesses provided during the previous audits.

(5) The head of the internal audit control function is required to deliver the reports referred to in Paragraph (1) of this Article to the supervisory board, audit committee and bank's management. The reports shall be adopted by the supervisory board, with the comments obtained from the management and audit committee.

(6) A bank is required to deliver to the Agency the activity reports of the internal audit function, with the decision on their adoption by the bank's supervisory board, no later than within 60 days after the end of the reporting quarter and/or semester, while it is required to deliver the annual activity report no later than by 31 March of the current year for the preceding year.

(7) The activity report of the internal audit function must be signed by the person responsible for the operation of the internal audit function.

2.5. Remuneration Policies and Practices

2.5.1. Remuneration Policy Adoption and Implementation

Article 43
Remuneration Policy Adoption and Implementation

(1) A bank shall adopt and implement the Remuneration Policy referred to in Article 7(3) of this Decision for all employees, consistent with the bank's business strategy and objectives, corporate culture and values, long-term interests of the bank and shareholders, and Risk Strategy relating to the promotion of appropriate and efficient risk management so as not to encourage risk-taking that exceeds the level of tolerated risk of the bank.

(2) A bank shall not pay out variable remuneration through legal entities or using the methods and/or instruments that make it easier to circumvent the remuneration requirements of this Decision. The circumvention of the remuneration requirements shall mean that the bank formally complies with requirements referred to in this Decision even though it essentially does not achieve the objectives of the remuneration requirements, including the following examples:
   a) remuneration is formally considered as the fixed remuneration component in accordance with the remuneration definitions referred to in this Decision, even though it essentially relates to variable remuneration if the objectives of the remuneration provisions of this Decision are taken into account (e.g. the bank significantly increases the fixed remuneration component on a temporary basis to thereby pay out the bonus),
   b) variable remuneration is awarded or paid out even though:
      1) it is not based on the employee's, business unit's or bank's performance,
      2) adjustment of variable remuneration for the risks taken is not efficient,
      3) variable remuneration is not sustainable in relation to the bank's financial position (e.g. the bank pays out the variable component of remuneration in an amount requiring a substantial proportion of the bank's realized profit),
   c) fixed remuneration is awarded as a fixed number of financial instruments, and not as a fixed amount of remuneration,
   d) an employee receiving remuneration from another legal entity within consolidation which is not covered by the definition of remuneration referred to in Article 2(1)(r) of this Decision, but instead the remuneration is based on instruments for circumvention of the remuneration requirements of this Decision (e.g. a loan which they do not need to repay) or instruments which encourage excessive risk-taking (e.g. remuneration allows disproportionate yields based on discretionary terms of investment by the employee),
   e) the alignment of the fixed remuneration to the employee performance is negotiated on a regular basis in the bank,
   f) the additional benefits referred to in Article 45(3) of this Decision are awarded in the amounts that are not justified in the circumstances concerned,
   g) the bank compensates for a reduction or restructuring of variable remuneration in previous years (e.g. due to recovery and resolution measures or in case of using extraordinary public financial support) in coming years and/or in the form of other pay outs, instruments or methods.

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

Article 44
Requirements and Responsibilities Relating to Remuneration Policy

(1) The supervisory board, bank's management, remuneration committee and risk committee, if any, shall actively cooperate to ensure that the Remuneration Policy is consistent with the extent of the risk taken and efficient and appropriate risk management. The remuneration and practices and decision-making processes on remuneration should be clear, well-documented, recorded and transparent.

(2) The risk management function shall:
  a) engage in the setting of adequate performance assessment criteria and impact assessment of variable remuneration on the bank's risk profile and risk culture,
  b) validate and assess the adequacy of the alignment of remuneration with the risks taken, and participate in the meetings of the remuneration committee, if any, in regard to these issues,
  c) engage in the process for determining identified employees referred to in Article 48 of this Decision, in accordance with its role.

(3) The compliance function shall:
  a) carry out a compliance analysis of the Remuneration Policy with laws, regulatory requirements and other regulations of the Agency, and bank's internal policies and risk culture and report to the bank's bodies on the findings,
  b) engage in the process for determining identified employees referred to in Article 48 of this Decision in accordance with its role.

(4) In the case that the risk management function and compliance function identify that the Remuneration Policy encourages inadequate employee conduct in terms of risk-taking that exceeds the level of tolerated risk of the bank, they shall actively cooperate in the processes for setting the maximum amount of variable remuneration, performance criteria and awarding of variable remuneration in the bank.

(5) The human resource management function shall actively engage in the development and review of the Remuneration Policy, including the remuneration structure, remuneration level and employee incentive mechanisms, in a way that will, in addition to attracting and retaining needed employees, also ensure consistency of the Remuneration Policy with bank's risk profile.

(6) The internal audit function shall, at least annually, assess the implementation of the Remuneration Policy in the bank and deliver a report on it to the audit committee and bank's supervisory board. The report on the implementation assessment of the Remuneration Policy shall include an assessment of the following:
  a) the Remuneration Policy development and implementation process and its impact on the bank's risk profile,
  b) the compliance, consistency and adequacy of the implementation of the Remuneration Policy relating to the execution of the plan (e.g. the adequacy and consistency of the remuneration pay outs with the bank's business strategy, risk profile and long-term objectives) and bank's ability to maintain or increase the amount of capital,
  c) the process for determining identified employees referred to in Article 48 of this Decision and results of that process.

Article 45
Remuneration Categories

(1) A bank's Remuneration Policy shall set clear, objective and transparent criteria for classification of all of the bank's remuneration categories into the fixed or variable remuneration categories, taking into account that there are no other remuneration categories. Where the bank is not able to

classify a specific remuneration category into the fixed remuneration category based on the criteria referred to in Paragraph (2) of this Article, it should classify such category into the variable remuneration category.

(2) In order to be able to classify a specific remuneration category into the fixed remuneration, a bank shall take into account the following criteria:
   a) remuneration is based on predetermined criteria,
   b) remuneration is based on a non-discretionary decision (it applies to all employees) and reflects the level of professional experience and length of service of employees,
   c) remuneration is clear with respect to the individual amount awarded to the individual employee,
   d) the amount of remuneration in a specific period is permanent and tied to the job and responsibility of employees,
   e) remuneration is non-revocable in the sense that a change in the amount depends on a new collective agreement related to renegotiations in line with legal requirements,
   f) remuneration cannot be reduced, suspended or cancelled unilaterally by the bank except in cases where this is permitted by relevant legal requirements,
   g) remuneration does not provide incentives for risk assumption,
   h) remuneration does not depend on the employee's, business unit's or bank's performance,
   i) remuneration is proportionate to the fixed remuneration component of the employee seconded to another country in relation to the cost of living and tax rates in that country,
   j) remuneration is part of the bank's general policy for all employees.

(3) Based on the criteria referred to in Paragraph (2) of this Article, a bank shall also assess and adequately categorize and document additional benefits granted to employees, if any (e.g. remuneration supplements or other benefits). Where the bank has categorized a specific category of those remunerations as fixed remuneration, compliance with the criteria referred to in Paragraph (2) of this Article should be assessed and documented with great care if any of the following conditions are met:
   a) those additional remunerations are paid out only to identified employees,
   b) pay out of those additional remunerations is limited only to cases where, otherwise, the amount of variable component would exceed the amount of fixed component of the total remuneration of an employee,
   c) pay out of those additional remunerations may be linked to specific performance indicators.

(4) In order to be able to pay a retention bonus to retain an identified employee, a bank should substantiate its legitimate interest in awarding that bonus (e.g. due to restructuring, sale or wind-down of the bank). The bank shall apply the requirements on variable remuneration to the retention bonus, including the ex post risk alignment of remuneration, payment in financial instruments, deferral, retention, malus and clawback provisions. The bank shall not award the retention bonus to compensate for remuneration not paid due to insufficient performance or bank's unfavorable financial position in previous periods. In order to pay the retention bonus, the bank shall set the retention period for the employee or specific conditions relating to the retention of the employee which must be met before the bonus is paid.

(5) A bank shall align the payment of discretionary pension benefits as a variable remuneration with the bank's business strategy, objectives, values and long-term interests, and economic position of the bank, risks that have been taken by the employee and malus and clawback provisions. In case of the termination of a contractual relationship, where the employee is not retiring, the bank shall convert the amount of discretionary pension benefits to financial instruments. The bank shall not transfer the rights from those financial instruments to the employee before the expiry of a period

of five years, counting from the day when the employee left the bank. In case of the termination of a contractual relationship, where the employee is retiring, bank shall pay the amount of discretionary pension benefits in financial instruments, where a five-year retention period must be applied, calculating from the date of the employee's retirement.

(6) A bank shall not guarantee the payment of a specific amount of variable remuneration to an employee. The guaranteeing of the payment of a specific amount of variable remuneration is considered as a contractual obligation of the bank to pay a specific amount of variable remuneration to the employee, notwithstanding the performance and/or only on condition for the contractual relationship to be maintained until a specific date.

(7) By way of exception from Paragraph (6) of this Article, a bank may contract guaranteeing variable remuneration only with new employees and only for the first year of employment of those employees, where the bank shall not apply the malus or clawback provisions.

(8) A bank shall not include the amount of guaranteed variable remuneration in the calculation of the ratio between the variable and fixed total remuneration of the employee referred to in Article 47(4), (7) and (8) of this Decision, where that remuneration is awarded to the employee before the first performance period starts.

(9) A bank may contract the compensation for the buyout of previous employment contracts only with new employees for the first year of employment, on condition that such compensation does not limit the bank's ability to maintain or increase the amount of its capital. In that case, the bank shall apply all provisions for variable remuneration, including provisions on remuneration deferral, remuneration retention, payment of variable remuneration in financial instruments and malus and clawback provisions.

(10) A bank's Remuneration Policy shall define the responsibilities for determining and adopting severance pay for identified employees, maximum possible amount of severance pay and criteria for the determination of that amount.

(11) When awarding, paying severance pay and/or assessing the adequacy of the amount referred to in Paragraph (10) of this Article, a bank shall take into account that the severance pay:

a) is not a disproportionate reward, but instead an adequate compensation to an employee in case of an early termination of the contract,
b) reflects the performance in a specific period and/or is not a reward for a failure or violation of the bank's rules,
c) shall not be awarded in case of an error of the employee where a termination of the employment contract is stipulated,
d) shall not be awarded where an employee has voluntarily resigned, in order to accept a job in another legal entity,
e) may include severance payments in case of dismissal due to the redundancy of employees and may be subject to a non-compete clause,
f) where severance pay is mandatory under labor legislation, it is not subject to the requirements on variable remuneration.

(12) When determining the amount of the severance pay to be paid, a bank shall take into account the performance achieved during a specific period and, where necessary, assess the severity of any failure by the bank or employee.

(13) A bank shall require all identified employees not to employ personal risk hedging strategies and not to contract insurance against a loss of remuneration or insurance against adverse result of the risks taken, as this undermines the alignment of their remuneration with the risks. This provision applies to all employee remunerations, including deferred remunerations and remunerations which have been paid, but which are subject to the retention provisions.

(14) A bank shall establish and maintain efficient controls for ensuring employee compliance with Paragraph (13) of this Article, including declaration by identified employees that they will not apply personal risk hedging strategies or insurance contracts to limit the impacts of the adjustment of variable remuneration for the risks taken.

Article 46
Application of the Remuneration Policy Requirements

(1) A bank shall apply general requirements referred to in Article 47 of this Decision to all employees.
(2) A bank shall apply specific requirements referred to in Articles 49 to 52 of this Decision to identified employees.
(3) By way of exception from Paragraph (2) of this Article, a bank is not required to apply provisions referred to in Article 50 (4) to (14) of this Decision to identified employees whose annual gross variable remuneration does not exceed BAM 100,000 (the neutralization principle).
(4) By way of exception from Paragraph (2) of this Article, a bank may also apply some or all specific requirements referred to in Articles 49 to 52 of this Decision to employees who are not identified employees to better align remuneration with the risks taken and performance, which shall be provided for by the Remuneration Policy and consistently applied.

2.5.2. General Remuneration Policy Requirements for All Employees

Article 47
General Requirements

(1) A bank shall ensure that the Remuneration Policy meets all of the following conditions:
   a) it is consistent with appropriate and efficient risk management, so as to provide an efficient framework for the performance assessment, alignment of the variable remuneration with the risks taken and close link between the performance and variable remuneration,
   b) it encourages appropriate and efficient risk management,
   c) it does not encourage risk-taking that exceeds the level of tolerated risk of the bank,
   d) it is consistent with the business strategy, objectives, corporate culture, values and long-term interests of the bank and shareholders,
   e) it includes conflict of interest prevention measures, including conflict of interest prevention in the determination of remuneration of employees engaged in control functions.
(2) The Remuneration Policy encourages risk-taking that exceeds the level of tolerated risk of the bank, if any of the following conditions are met:
   a) there is a material dependence of an employee on the variable remuneration resulting from an inappropriate ratio between the variable and fixed components of the total remuneration or
   b) in case of a termination of a contractual relationship with the bank, the employee's remunerations do not reflect the performance achieved in a specific period or do not have a correction factor for the failure or for non-compliance with the regulations or internal regulations of the bank.
(3) The Remuneration Policy of a bank shall include, inter alia, the following:
   a) performance targets for the bank, business units and employees,
   b) performance assessment methods and criteria,
   c) a process for determining identified employees and analysis performance method for determining identified employees referred to in Article 48 of this Decision,
   d) variable remuneration structure, including financial instruments for the award of variable remuneration where possible,
   e) measures for the adjustment of variable remuneration for risks,

f) objective criteria for the award of remuneration to employees and measures for identifying and preventing conflict of interest, including potential conflict of interest when:
   1) determining the remuneration for employees engaged in control functions,
   2) paying fixed or variable remuneration in the form of financial instruments,
g) a pension policy and, where necessary, rules in case of early retirement,
h) remuneration rules for third parties acting on behalf of the bank (e.g. agents of the bank), ensuring that the remuneration for those parties does not encourage excessive risk-taking or the mis-selling of products without prior adequate information of the clients in accordance with applicable legal requirements.

(4) The Remuneration Policy of a bank shall set an appropriate ratio between the variable and fixed components of the total remuneration for all employee categories, setting an appropriate cap on that ratio for them, above which the payment of the variable remuneration component is not permitted. The cap of that ratio shall be a sum of all variable remuneration components which can be awarded in total in the next performance accrual period, including the amount of potential retention bonus referred to in Article 45(4) of this Decision, divided by the sum of all fixed remunerations which should be awarded in the same performance accrual period.

(5) The fixed component of the total remuneration must have sufficiently high proportion of the total remuneration, where cases and/or options for reducing or not paying the variable remuneration component should also be defined, including the conditions under which the malus and clawback provisions are triggered in case of changes in the employee's, business unit's or bank's performance.

(6) The cases and conditions under which the malus and clawback provisions are triggered shall, inter alia, include the following:
a) evidence of misconduct or severe failure of an employee (e.g. violation of the ethical code of conduct and other internal regulations, in particular if they concern risks),
b) the bank and/or business unit has subsequently suffered a material decline in its financial performance,
c) there has been a material failure in risk management in the bank and/or business unit in which an employee works,
d) a material increase in the regulatory capital and capital in the bank or business unit, resulting from the ICAAP under the Decision on the ICAAP and ILAAP,
e) any regulatory measure, where an employee's conduct has contributed to those measures.

(7) When determining the ratio referred to in Paragraph (4) of this Article, a bank shall take into account:
a) the quality of performance measurement and related adjustment of remuneration to the risks,
b) the length of remuneration deferral and retention periods,
c) the type, volume and complexity the bank's business activities,
d) types of risks that the bank is exposed to,
e) the category that a specific employee belongs to,
f) the employee's position in the organizational structure, and authorities and responsibilities related to that position,
g) other elements that the bank deems to be relevant in the accrual period.

(8) Notwithstanding Paragraphs (4) and (7) of this Article, a bank shall structure remuneration for the following employee categories as follows:
a) the fixed remuneration of a control function employee shall not be lower than two thirds of the total remuneration, while the total annual remuneration of that employee shall not be lower

than the average remuneration of employees performing activities of comparable scope, complexity and responsibility,

b) for other employees, the bank shall set the ratio between the variable and fixed components of the total remuneration in such a manner that the amount of the variable component does not exceed the fixed component of the total remuneration.

(9) A bank shall ensure that the maximum amount of variable remuneration of all employees of the bank, including the award, payment and vesting of variable remuneration does not limit the bank's ability to maintain or increase the amount of its capital (recapitalization from the profit).

(10) When assessing its ability to maintain or increase the amount of its capital, a bank shall take into account the regulatory capital and/or Common Equity Tier 1 capital, result of the ICAAP and combined buffer requirement and/or restrictions on distribution in the Decision on the Calculation of Bank Capital.

(11) If it finds that the fulfilment of the regulatory capital or liquidity requirements has been undermined, the bank shall apply a more conservative variable remuneration policy entailing the following:

a) defining the limits for the amount of variable remuneration, as an appropriate percentage (%) of the total net profit for the current financial year and/or

b) including the net profit and retained earnings as a capital item.

(12) The Remuneration Policy and procedures adopted by a bank for the implementation of the Remuneration Policy must be clear, well-documented and available to all employees of the bank. In order to bring employee conduct into compliance with the principles of the Remuneration Policy, the bank shall inform, in a printed format or by e-mail, each employee of the bank on the provisions of the Remuneration Policy that apply to them.

Article 48
Process for Determining Identified Employees

(1) A bank shall determine by a regular procedure identified employees referred to in Article 2(1)(v) of this Decision.

(2) For the purposes of determining identified employees, a bank shall annually carry out an analysis and/or assessment based on its own qualitative and quantitative criteria, taking into account the bank's size and internal organization, type, volume and complexity of the bank's business activities, employee's position, activities, responsibilities, employee's total variable remuneration broken down into monetary and non-monetary remuneration, fixed and variable remuneration in the preceding financial year, labor market conditions and other criteria that it deems to be relevant.

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

a) reasons for the analysis of individual employees and scope of application of the analysis,

b) risk assessment methodology derived from the bank's business strategy and activities,

c) role and responsibilities of the bank's bodies and control functions engaged in the planning, oversight, control and implementation of the process for determining identified employees,

d) results of the analysis, including the number, tasks, names and jobs of identified employees and

e) an assessment of the bank's employees performing work in other members of the banking group, if relevant.

(4) If a bank finds that the professional activities of an employee in the category referred to in Article 2(1)(v) of this Decision have no material impact on the bank's risk profile, it is not required to apply specific requirements to that employee, while it shall document and substantiate its

assessment for each individual employee.

(5) Notwithstanding the results of the analyss referred to in Paragraph (2) of this Article, all those who are specified in Article 2(1)(v)(1) to (4) of this Decision are considered as identified employees.

(6) A bank shall, at the request of the Agency, substantiate the method and criteria based on which it determined identified employees referred to in Paragraph (1) of this Article and deliver all relevant documentation.

Article 49
Process for Adjusting Variable Remuneration for Risks

(1) Awarded amount of variable remuneration must be based on a combination of the performance assessment of the employee, relevant business unit and on the bank’s overall performance, taking into account the quantitative and qualitative, absolute and relative, financial and non-financial criteria.

(2) The performance assessment process referred to in Paragraph (1) of this Article shall be based on long-term performance and conducted through adequately defined accrual periods and payment periods.

(3) Performance assessment, as a basis for the calculation of variable remuneration, must be transparent and adjusted for all types of the bank’s material risks and must take into account the costs of required capital and required liquidity.

(4) A bank shall ensure that the performance targets and performance assessment methods and criteria referred to in Article 47(3)(a) and (b) of this Decision are realistic. The bank shall not employ performance assessment targets, methods and criteria which could encourage excessive risk-taking, including conduct risk. The performance criteria should be clearly distinguished between the performance (results) of business units, corporate functions, support functions and control functions of the bank and other functions of the bank (e.g. legal department, human resources, strategic planning), etc.

(5) The performance assessment methods and criteria must be linked as much as possible to the results and/or decisions of identified employees or identified employee categories to establish appropriate link between the process for adjustment of variable remuneration for risks and employee conduct relating to risk-taking.

Article 50
Specific Requirements for Variable Remuneration Component

(1) A bank shall ensure that the fixed remuneration of identified employee is based on their professional experience and responsibilities in the bank, as well as attained education level, work experience, expertise and skills, and work experience in relevant business activities.

(2) A bank shall not pay variable remuneration or transfer the rights from financial instruments, including deferred remuneration component, if such remuneration is not sustainable and justified. Variable remuneration is considered as sustainable if the bank’s financial position has not been undermined and/or it has not made losses in the period from the setting of that remuneration until its final payment. Variable remuneration is considered as justified if it is based on the bank’s, business unit’s and relevant employee’s performance.

(3) A bank shall considerably reduce the total variable remuneration, including the option to cancel the total variable remuneration, if the identified employee’s, business unit’s performance has been materially undermined or the bank has made losses. In doing so, all of the following forms of remuneration reduction shall be considered:

a) reducing the current financial year’s remuneration,

b) reducing previously earned remuneration payments, but which have been deferred and still have not been paid (by triggering the malus provisions) and
c) subsequent reduction of previously earned remuneration payments which have already been paid (by triggering of the clawback provisions).

(4) A bank shall defer and set a payment schedule in the deferral period for a material proportion of identified employee's variable remuneration over an appropriate period of time. The proportion of the identified employee's variable remuneration which will be deferred and length of the deferral period shall be set in accordance with the following:
a) the identified employee's position, responsibilities and tasks,
b) the business cycle and characteristics of the bank's operations,
c) the bank's risks and risk level that may be taken by the identified employee,
d) the ration between the fixed and variable remuneration and amount of the identified employee's variable remuneration.

(5) A bank shall defer at least 40% of the identified employee's variable remuneration component notwithstanding Paragraph (4) of this Article. By way of exception, if the amount of variable remuneration component is particularly high, the bank shall defer payment of at least 60% of the identified employee's variable remuneration component.

(6) Notwithstanding Paragraph (4) of this Article, the variable remuneration deferral period shall not be less than three years. By way of exception, for those identified employees who have the biggest material impact on the bank's risk profile, the deferral period shall not be less than five years.

(7) A bank shall pay a material proportion of variable remuneration, the deferred and immediate components, in the form of financial instruments. The proportion of variable remuneration that will be paid in the form of financial instruments shall be determined in accordance with the identified employee's position, authorities and responsibilities, amount of the identified employee's variable remuneration and risk level that may be taken by the identified employee.

(8) Notwithstanding Paragraph (7) of this Article, at least 50% of each variable remuneration must consist of financial instruments. Variable remuneration component consisting of financial instruments shall be calculated as the ratio between the amounts of variable remuneration component awarded in instruments and the sum of variable remuneration component awarded in cash and other benefits, at the time of the award.

(9) Financial instruments employed by a bank for the award of variable remuneration must contribute to the alignment of variable remuneration to the bank's performance and risks. Financial instruments within the meaning of his Decision shall be the following:
a) the bank's ordinary shares,
b) financial instruments linked to the bank's ordinary shares, whose value is based on market share price and which have a contractual clause limiting the instrument's highest possible value to the value applicable on the day when the remuneration was set,
c) preference shares,
d) shares of a legal entity's parent company or subsidiary of a legal entity in the same banking group and financial instruments linked to shares of a legal entity's parent company, whose value is based on market share price and which have a contractual clause limiting the instrument's highest possible value to the value applicable on the day when the remuneration was set,
e) the bank's other financial instruments for whose use it was granted a prior approval by the Agency.

(10) In relation to the use of financial instruments, a bank shall adopt an appropriate remuneration retention policy aligning employee motivation with the bank's long-term interests, where the

remuneration retention policy shall apply to deferred and immediate variable remuneration.

(11) A bank shall not pay the dividends or interest on the awarded and deferred financial instruments to the identified employee in the deferral period or after the end of the deferral period. Any interest and/or dividends which might have been paid in the deferral period shall become the bank's property.

(12) When setting an appropriate variable remuneration retention policy, a bank shall take into account the following:

a) the length of the deferral period and retention period,
b) the identified employee's impact on the bank's risk profile,
c) the precision of the risk adjustment in the performance measurement and remuneration setting,
d) the time needed for specific relevant risks to materialize and
e) other elements for which the bank deems to be relevant.

A bank must ensure that it applies the retention period of at least one year to the awarded financial instruments.

(13) A bank shall not pay the deferred remuneration more swiftly than the matching principle. The matching principle in the payment of deferred remuneration shall mean that in the remuneration deferred during „n“ years, starting from the end of the accrual period, the remuneration payments at the end of each year shall constitute the deferred amount of remuneration multiplied by (1/n).

(14) A bank shall not pay the deferred components of remuneration more frequently than on a yearly basis, where the bank may pay the first deferred component of remuneration at least one year after the end of the accrual period.

Article 51
Additional Remuneration Rules for Control Function Employees

(1) A bank shall ensure an adequate level of remuneration of employees engaged in control functions, in order to recruit employees with an adequate level of education, expertise, skills and work experience.

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

(3) Taking into account the limit referred to in Article 47(8)(a) of this Decision, a bank shall ensure that the internal variable remuneration setting methods for employees engaged in control functions do not undermine the objectivity and independence of those employees.

(4) The limit referred to in Article 47(8)(a) of this Decision shall also apply to the member of the bank's management responsible for the area of risk management (CRO).

Article 52
Additional Remuneration Rules for a Bank's Body Members

(1) The supervisory board shall ensure that the remuneration of the management members is consistent with their competences and responsibility, tasks and professional capacity.

(2) The remuneration of a bank's supervisory board members must be aimed at adequate avoidance of potential conflict of interest in the performance of oversight of the bank, consistent with the Remuneration Policy and shall not stimulate the supervisory board members to make decisions which may encourage risk-taking that exceeds the level of tolerated risk of the bank, in accordance with provisions of this Decision.

(3) A bank's assembly shall decide on the remuneration of the supervisory board members. If, in addition to the fixed remuneration component which constitutes payment for the performance of the function, the bank's supervisory board members in exceptional cases are also paid the variable remuneration component, that remuneration component should reflect the quality of their work in the exercise of the supervisory board's competences and be based on their performance and/or achieved results in the performance oversight of the operations and work of the bank's management. The reimbursement of costs to members of the supervisory board and the payment of a fixed amount for working hour or day, even if the time to be reimbursed is not predefined, is considered as fixed remuneration.
(4) Where a member of a bank's supervisory board is paid the variable remuneration component in the form of financial instruments, the bank shall apply adequate measures for the purpose of ensuring the member's independence, including the setting of retention period, which must last at least until the end of the member's mandate.

2.5.3. Other Remuneration Requirements

Article 53
Remuneration Where Extraordinary Public Financial Support Is Used

(1) Where a bank uses public financial support referred to in Article 2(1)(vv) of the Law, the bank's body members shall not be paid variable remuneration, unless it is demonstrated that such remuneration is justified (e.g. the award of variable remuneration component to newly appointed members of the management recruited during the bank's recovery or resolution phase, with a view to appointing new appropriate members of the management in that period).
(2) The Agency may issue a written order to a bank which has received financial support requiring it to restructure variable remuneration, in a manner that is consistent with efficient risk management and long-term sustainable growth of the bank.
(3) A bank's employee variable remuneration of, including that of the bank's body members, shall not prevent regular and timely repayment of the extraordinary public financial support to the State or achievement of the objectives set in the bank's resolution plan.
(4) The restructuring of variable remuneration referred to in Paragraph (2) of this Article means the following measures:
   a) setting the remuneration limits for the bank's body members,
   b) prohibiting variable remuneration pay outs for the financial year in which the financial assistance is requested,
   c) reducing variable remuneration which has been deferred and has not been paid out and/or for which the rights from financial instruments have not been transferred,
   d) prohibiting setting any variable remuneration until such time when the public financial support has been fully repaid or until such time when the bank's financial recovery plan has been implemented and/or realized, or
   e) other similar measures set by the Agency.

Article 54
Remuneration Documentation Keeping

A bank shall ensure completeness and systematicity of its employee remuneration documentation, including the following:
   a) the Remuneration Policy and potential procedures for its implementation,
   b) the analysis referred to in Article 48(2) of this Decision,
   c) the decision of the bank's assembly referred to in Article 52(3) of this Decision,

d) the decisions of the supervisory board referred to in Article 10(1)(r) of this Decision,
e) the decisions of the bank's management referred to in Article 11(1)(j) of this Decision,
f) the report referred to in Articles 44(6) and 68(13)(k) of this Decision,
g) the performance measurement methodology and results in the setting of identified employees' variable remuneration.

Article 55
Application of the Provisions on a Bank's Employee Remuneration in Relation to Other Regulations

The provisions of this Decision relating to a bank's employee remuneration are without prejudice to the realization of the general principles of labor and contract law, laws relating to shareholder rights, general responsibility of a bank's body, rights deriving from collective agreements, in accordance with legal requirements and other bylaws.

III. DILIGENCE RULES FOR A BANK'S BODY MEMBERS

3.1. Basic Diligence Rules

Article 56
Basic Diligence Rules

Basic diligence rules include rules of conduct for a bank's body members in the performance of their statutory and regulatory competences, consistent with the generally accepted professional diligence standards, corporate governance principles in banks, corporate values of the bank and highest ethical governance standards.

Article 57
Professional and Ethical Governance Standards

(1) A bank's body member shall conduct themselves in accordance with high professional and ethical bank governance standards, acting in the bank's interest, and prevent to the maximum possible extent decision-making based on personal interests or in circumstances which may or have already caused conflict of interest.
(2) A bank's body member shall promote through their conduct adequate organizational culture, prioritizing professional, honest and diligent performance of activities at all organizational levels, and clearly defined, transparent and consistently applied lines of responsibility and authority within the bank's organizational structure.

Article 58
Application of Professional and Ethical Governance Standards and Corporate Social Responsibility

(1) A bank's bodies shall apply professional and ethical governance standards, in order to achieve balance between the bank's interests, bank's bodies, clients, creditors, shareholders, employees, supervisors, regulators and other stakeholders.
(2) With the aim of complying with Paragraph (1) of this Article, a bank's supervisory board should define through the code of ethics the approach regarding acceptable and unacceptable conduct in the bank, including clearly identifying unauthorized or illegal activities, such as: inaccurate financial statements, money laundering, frauds, bribery and corruption, as well as conduct in cases of their occurrence.

(3) A bank's body members should strike the balance referred to in Paragraph (1) of this Article by complying with legal requirements, supervisory and regulatory rules, rules of the profession, code of ethics, in order to leave as little room as possible for personal judgement of a bank's body member.
(4) In activities referred to in Paragraph (2) of this Article, a bank's supervisory board should promote measures for identifying and sanctioning any illegal, unprofessional and unethical conduct, in such a manner that the sanction deters potential perpetrators in the bank.

Article 59
Diligence

(1) A bank's supervisory board member must perform their duties of oversight of the bank's business and operation professionally and diligently, in accordance with the statutory authorities, highest ethical governance standards, including obligation to establish the procedures and mechanisms for disposition of inside information for their or account of other persons.
The performance of duties requires a bank's supervisory board member to understand and monitor the bank's operations on an ongoing basis, proportionally to the responsibilities of the bank's supervisory board member, as a prerequisite for performing the function of oversight of the bank's business and bank's operation, including adequate understanding of the bank's statutory competences, business strategy, risk taking strategy and risk profile and interests.
(2) A bank's supervisory board member, who is prevented from performing their function for any reason (e.g. due to conflict of interest, undue pressures on their independent decision-making, long-term passiveness and inactivity of other members, etc.) and who has applied all statutory procedures, shall notify the Agency of this.
(3) A bank's management member must perform their duties in the implementation of the bank's set objectives, strategies and policies professionally and diligently, in accordance with the statutory authorities, generally accepted governance standards, highest ethical standards, including obligation to implement the procedures and mechanisms for disposition of inside information for their or account of other persons.
The conduct is considered as appropriate if a bank's management member performs their duties in accordance with the statutory competences, objectives, strategies and policies referred to in Articles 6 and 7 of this Decision and in its best interest.

Article 60
Responsibilities

(1) The responsibilities of a bank's body members must be clearly defined and adequately documented, including:
a) defining the responsibilities of the bank's body members relating to the performance of the statutory competences, for each individual function of the bank's body,
b) the required knowledge, abilities, skills and experience for performing each individual function,
c) the expected time for performing each individual function,
d) the obligations relating to training and capacity building for each individual function,
e) a description of relevant operating processes and procedures of the bank's body,
f) the minutes of sessions of the bank's body,
g) other documentation, based on which the Agency can assess the activities of the bank's body members and/or quality of their work.

(2) In the performance of their obligations and responsibilities, a bank's body members shall cooperate with each other in the bank's best interest. The processes and procedures relating to the performance of the obligations and responsibilities of the bank's management and supervisory board members and cooperation between them must be clearly laid down in the bank's statute, internal operating rules of the bank's supervisory board and management. In the process of making decisions falling within their competences, the bank's body members shall ensure:
   a) that they are based on adequate, reliable and timely information;
   b) a critical, objective and comprehensive discussion on the area to which the decision relates, and
   c) reaching a consensus when adopting important decisions which may have a material impact on the bank's performance.

(3) The mutual cooperation of a bank's body members is implied, especially when formulating, discussing, adopting and overseeing the implementation of the business objectives, strategies and policies referred to in Articles 6 and 7 of this Decision.

Article 61
Autonomy and Professional Competence

(1) A bank's body member must have the necessary knowledge and experience to autonomously assess and contribute to decision-making in the bank's best interest, taking into account all available information and other relevant factors which may have an impact on the decision-making.

(2) A bank's body members shall consider, during assessments and decision-making falling within the statutory competences, their impact on: the bank's operations, protection of the interests of the depositors and other clients of the bank, bank's obligations to the creditors, supervisors, regulators, shareholders and other stakeholders. In doing so, they should particularly take into account the importance of the following:
   a) promoting security and financial stability of the bank,
   b) understanding applicable regulations,
   c) avoiding potential conflict of interest in the bank's operations and decision-making process on the issues falling within the competences of the bank's bodies.

(3) In the decision-making process, a bank's body member shall assess autonomously and based on the expertise and knowledge of all relevant circumstances and in accordance with the highest ethical standards, all opinions and/or instructions of those who selected and/or appointed and nominated them. This also applies to the opinions or instructions of the bank's bodies of the parent bank relating to the implementation of the bank's business objectives, risk profile, strategies and policies.

(4) Concerning the conduct referred to in Paragraph (3) of this Article, a bank's body member shall notify in detail, precisely and timely the chair of the bank's body of all material events, which are relevant to formulating an opinion, before making a decision.

(5) If any of a bank's body members feels that a decision adopted by the bank's body is contrary to the regulations and the bank's objectives, strategy and policy, that dissent must be substantiated in a written dissenting opinion and shall be entered in the minutes of the session of the bank's body.

(6) A supervisory board member shall notify other supervisory board members as regards received opinion and/or instruction referred to in Paragraph (3) of this Article. All members of a bank's supervisory board have the same rights and responsibilities within the statutory competences and in accordance with legal requirements, irrespective of who nominated or selected them.

Article 62
Supervisory Board Member’s Independence

(1) A bank’s supervisory board must have at least two independent members in its composition, who:
   a) have no direct or indirect qualified participation in the ownership of either the bank or member of the banking group that the bank belongs to,
   b) are not in a material financial or business relationship with the bank,
   c) have not been a member of the bank’s management or any of its subsidiaries or associates for at least the last five years,
   d) have not been an employee of the bank or any of its subsidiaries or associates for at least the last three years,
   e) have not been members of the management or senior management of a material consultant of the bank or external auditor of the bank or have not been materially related as employees to the service provided for at least the last three years,
   f) are not or have not been in the last year significant suppliers or significant clients of the bank or member of the banking group that the bank belongs to and/or have not been in any other material business relationship with a significant supplier, client or business entity which has a material business relation and/or they are members of the senior management of that supplier, client or business entity or are in any other way directly or indirectly related to it,
   g) do not receive or have not received any other significant additional payment from the bank except the remuneration for their work in the supervisory board, not counting potential dividend (this especially applies to participation in bonuses and other forms of remuneration which depend on the bank’s operating performance, such as share options), or any other basis for a relationship with the bank because of which they would be or might be prevented to objectively and impartially oversee the bank’s operations and/or work of the bank’s management,
   h) have not performed the function of a member of the bank’s body for more than three mandates or longer than 12 years consecutively,
   i) are not immediate family members of a member of the bank’s management or member of the banking group that the bank belongs to.

(2) No member of a bank’s supervisory board shall not depend on the bank or its subsidiary entities and/or their business, financial, ownership, personal or other relationship with the bank, bank’s body or its subsidiary entity shall not impact the impartiality, objectivity, diligence and comprehensiveness in their personal judgement on the issues falling within the supervisory board’s competence.

(3) A bank’s supervisory board member shall immediately notify this body of the existence of any relationship with the bank or its subsidiary entity referred to in Paragraph (2) of this Article.

(4) The key characteristic of the independence of a bank’s supervisory board members is their ability to think independently to perform an independent assessment, after considering all relevant information and views, without undue influence of the bank’s body members, external parties or interests.

Article 63
Conflict of Interest Assessment

(1) Conflict of interest of a bank’s body member exists when they are not neutral as regards the subject-matter of decision-making or it can be assumed due to their relationship with other companies, persons or activities that they have interests which are not necessarily the bank’s interests at the same time.

(2) When assessing conflict of interest, all circumstances should be taken into account, especially economic, political and other circumstances, which are directly related to a bank's body member and to other legal and natural persons who have the same interests as the bank's body member.

(3) A bank's management member shall avoid the circumstances, conduct and relationships referred to in Article 14(2) of this Decision defined in the bank's Conflict of Interest Policy, which might mean or lead to conflict of interest between them and the bank, or a person who has economic, political or other interests which are common to the interests of the member and which give an indication of that member and that other person performing or acting jointly.

When performing their activities and making decisions within the competence of a bank's management, a bank's management member shall primarily take account of the bank's interests and subordinate all their personal interests to the bank's interests and/or shall not use the bank's business opportunities for their account, for account or on behalf of a person who has common interests to those of the bank's management member concerned.

(4) When performing their activities and making decisions within a bank's supervisory board, a bank's supervisory board member shall primarily take account of the bank's interests and subordinate all their personal interests or specific interests of the shareholders, management, public or other stakeholders to the bank's interests.

(5) A bank's body member shall immediately notify the supervisory board of the existence of the circumstances that might lead to a suspicion of conflict of interest. If conflict of interest or circumstances that might lead to conflict of interest are identified, the bank's supervisory board shall take appropriate measures to eliminate conflict of interest or take control of the circumstances that might lead to conflict of interest.

(6) If a bank's supervisory board identifies, based on the assessment referred to in Paragraph (5) of this Article, conflict of interest or potential for the occurrence of conflict of interest in respect of a specific member of the bank's body, that member of the bank's body will immediately cease the conduct where there is a suspicion of conflict of interest and transfer to the bank all benefits that they have potentially gained based on such conduct and/or business activities. Where the bank has suffered any damage due to that business activity, that member will compensate the bank for the damage from their own funds.

(7) A bank's supervisory board shall assess whether it is necessary to terminate the function of a member of the bank's body, if it identifies material conflict of interest which the member of the bank's body is unable to eliminate, and take appropriate measures based on the assessment mentioned above.

(8) Where a bank's management member fails to immediately notify the bank's supervisory board of their suspicion of conflict of interest, fails to perform corrective actions based on the measures ordered by the bank's supervisory board or fails to allow control of the circumstances that might lead to conflict of interest, the supervisory board shall dismiss them from the function of the member immediately after identifying the situation at issue.

(9) Where a bank's supervisory board member fails to immediately notify the bank's supervisory board of their suspicion of conflict of interest, fails to perform corrective actions based on the measures ordered by the bank's supervisory board or fails to allow control of the circumstances that might lead to conflict of interest, the supervisory board shall propose to the bank's assembly to dismiss the supervisory board member from the function immediately after identifying the situation at issue.

(10) A bank's competent body shall, in addition to the dismissal from the function of the bank's body members referred to in Paragraphs (8) and (9) of this Article, assess the need for instituting the proceedings before the competent bodies, of which it should notify the Agency.

Article 64
General Precautionary Measures for Avoidance of Conflict of Interest

General precautionary measures that should be taken to avoid conflict of interest shall include at least the following:

a) a member must state at a session of a bank's body, on their own initiative or upon invitation by the chair of the bank's body, whether there is a suspicion of conflict of interest as regards the matters that are subject to discussion and decision-making at the session of the bank's body and explain the circumstances that lead to the suspicion of conflict of interest,
b) the bank's body member will not vote where there is a suspicion of conflict of interest as regards the matters that are subject to discussion and decision-making at the session of the bank's body,
c) the bank's body shall ensure that the explanations and declarations by the member concerned that they did not vote due to the existence of conflict of interest and/or suspicion of the existence of conflict of interest referred to in subparagraph (b) of this Article are entered in the minutes of the session.

Article 65
Specific Measures for Prevention of Conflict of Interest Among a Bank's Body Members

(1) A bank's body shall consider the circumstances and/or relationships referred to in Article 14(2) of this Decision that might lead to conflict of interest.
(2) A bank's body member shall make a declaration in writing with regard to the issues of conflict of interest referred to in Paragraph (1) of this Article prior to taking up their function, as well as subsequently each year or following the occurrence of any changes.

Article 66
Identification of Material Direct and Indirect Business Relationships

(1) Conflict of interest refers in particular to the existence of material direct or indirect business relationship between a bank's body member or member of their immediate family with the bank or its subsidiary entity.
(2) Direct business relationship referred to in Paragraph (1) of this Article is any contractual or other business relationship which meets the following criteria:
  a) that a contract on delivery of goods or performance of service, including financial services, advisory services, marketing services and IT support services, is concluded between the bank's body member or member of their immediate family, on the one hand, and the bank or its subsidiary entity, on the other,
  b) that the bank's body member or member of their immediate family uses banking or other services provided by the bank or its subsidiary entity, under the terms that are not consistent with the adopted business policy or usual practice of the bank or its subsidiary entity,
  c) that the bank's body member or member of their immediate family is a member of other organization or association or has business activities with it, and that organization and/or association is receiving funds in the form of donor, sponsor or other type of assistance from the bank, if the total annual amount of these funds exceeds the amount of BAM 2,000.
(3) Indirect business relationship referred to in Paragraph (1) of this Article exists if the bank's body member or member of their immediate family has a material ownership interes in any other legal entity which has material business relationships with the bank or is a member of its bodies or its significant business partner.

(4) A bank's supervisory board shall consider each material business relationship where there is a suspicion of conflict of interest, as specified in Article 63(5) to (9) of this Decision.
(5) A bank's bodies shall provide their Asset Declarations to the Agency, in the manner and within the time limits as required by the provisions of the Decision on the Asset Declaration.

3.2. Additional Diligence Rules for a Bank's Bodies

Article 67
Work Efficiency

(1) The work efficiency of a bank's bodies is in a direct relationship with the level of information and access to material information. Timely, comprehensive, clear and accurate information of a bank's bodies, including the supervisory board's committees, is a prerequisite for achieving efficiency in the performance of activities falling within their competences.
(2) A bank's management shall report on a regular basis and in a comprehensive and timely fashion to the supervisory board related to the performance of its responsibilities on issues relating to the bank's operations, bank's risks and bank's risk profile, implementation of the adopted policies, potential deviations from the set objectives of the business policy and other issues falling within its competences. The supervisory board has the right and obligation to request additional explanations and reports from the bank's management on all relevant issues for the bank's operations and those of its subsidiary entities.
(3) A supervisory board chair shall be in charge of coordinating the work of the supervisory board, setting the agendas for the sessions of the supervisory board for the purpose of making sure that strategic issues are dealt with as a priority, ensuring that the supervisory board makes decisions based on reliable information and being well-informed and chairing its sessions. They shall encourage other supervisory board members to efficiently and effectively discharge their obligations and responsibilities, so that:
   a) the supervisory board members receive in a timely fashion adequate documents and reliable information for adequate preparation for the sessions of the supervisory board and its committees,
   b) they ensure open and constructively critical discussion between the supervisory board members based on which the supervisory board members may freely express their views during the discussion and in the voting and decision-making process.
(4) A bank's supervisory board members shall devote sufficient time to the performance of their tasks. For the duration of their mandates, they are required to complement and improve necessary collective and individual knowledge, skills and expertise by obtaining additional education in the areas that are relevant to efficient and high-quality performance of their duties. To that end, the bank should set aside funds and other required resources for those purposes, including also the adoption of a professional capacity building plan for the bank's supervisory board and management members.
(5) A bank's supervisory board should carry-out annual self-assessments of adequate staffing and work activities of the supervisory board as a whole and work of the individual members, potential conflicts of interest of the individual members of the supervisory board, functioning of its committees and cooperation with the bank's management. To that end, the bank's supervisory board should define potential efficiency improvement measures according to the self-assessment results relating to the composition, training, frequency of holding the sessions and attendance at them, necessary information, preparations for the sessions, etc.

(6) A bank shall provide information on the self-assessment results to the Agency, with the efficiency improvement measures referred to in Paragraph (5) of this Article, by 31 March of the current year for the preceding financial year.

Article 68
Supervisory Board Committees

(1) A significant bank's supervisory board shall establish a remuneration committee, appointments committee and risk committee.
(2) In order to achieve efficiency in its work, the supervisory board should consider the need for establishing other specialized committees in addition to establishing mandatory committees, such as: ethics committee, human resources committee, compliance committee, etc.
(3) The establishment of the committees referred to in Paragraphs (1) and (2) of this Article shall be in function of providing support in specific areas falling within the supervisory board's competences, in order to allow the implementation and development of good bank governance practices and efficient decision-making.
(4) Where a bank is not significant and no risk committee, remuneration committee and appointments committee referred to in Paragraph (1) of this Article have been appointed, the supervisory board shall perform the tasks of those committees.
(5) The supervisory board shall define the responsibilities and scope of work of the committee for each established committee referred to in Paragraphs (1) and (2) of this Article in accordance with the rules of procedure, as well as appropriate operating procedures. The operating procedures should include regular reporting to the supervisory board and documenting the agendas and minutes with the main decisions and conclusions from the sessions.
(6) In addition to the obligations referred to in Article 57(4) of the Law, the supervisory board shall also ensure that:
    a) the chairs of those committees are appointed from among the supervisory board members, and not from among persons from the bank's specialist services,
    b) the risk committee chair is an independent member of the supervisory board, where possible, and that they are not the chair of the supervisory board or chair of any other committee of the supervisory board,
    c) the remuneration committee chair is an independent member of the supervisory board,
    d) the independent members of the supervisory board referred to in Article 62(1) of this Decision should actively engage in the work of the supervisory board and supervisory board's committees.
(7) The supervisory board shall ensure that the risk committee, appointments committee or remuneration committee does not have exactly the same composition as another committee of the supervisory board.
(8) The supervisory board shall ensure adequate cooperation between the supervisory board's committees. Having regard to Paragraph (7) of this Article, adequate cooperation between the committees shall also include a case where the chair or member of one committee may be a member of another committee. Where the risk committee and remuneration committee have been established, adequate cooperation shall include the circumstance when a member of the risk committee participates in the meetings of the remuneration committee, and vice versa.
(9) A bank's management shall ensure adequate information of the supervisory board's committees and their access to adequate staff and financial resources for the implementation of their tasks, including the possibility of using external consultants, if necessary.

(10) The risk committee members must have individually and/or collectively appropriate knowledge, skills, expertise and experience in the area of bank risk management and internal controls allowing them to fully understand and monitor the implementation of the strategies and policies, as well as risk profile of the bank and its risk appetite.

(11) Having regard to Article 61 of the Law, the risk committee shall have the following tasks:

a) to advise and assist the supervisory board in the oversight of the overall current and future risk appetite, taking into account all of the bank's material risks, with the aim of ensuring its consistency with the risks resulting from the bank's business objectives and/or business strategy,
b) provides expert assistance to the supervisory board in the internal oversight of the implementation of the Risk Strategy in accordance with the set risk limits and other restrictions, where the bank's supervisory board and management retain the overall responsibility for risks, in accordance with their statutory competences,
c) to provide expert assistance in the oversight of the implementation of the bank's capital and liquidity management strategy and material risk management strategy, with the aim of assessing the adequacy of those strategies against the adopted appetite for those risks and Risk Strategy,
d) to make recommendations to the supervisory board on changes to the Risk Strategy in the case of changes in the bank's business model, market developments, recommendations made by the risk management function, etc.,
e) to make proposals to the supervisory board relating to potential use of consultancy services in the area of risk management,
f) to analyze different scenarios, including stress testing scenarios, with the aim of assessing the impacts of external and internal events on the bank's risk profile,
g) to review the consistency of prices of the bank's products and/or services offered to clients with the bank's business model and Risk Strategy, and to propose an improvement plan to the bank's supervisory board and management where it finds that the given prices do not adequately reflect the risks under the business model and Risk Strategy,
h) to examine, without prejudice to the remuneration committee's tasks, whether the incentives provided for by the Remuneration Policy take into account the risk, capital, liquidity and probability, and thus distribution of earnings, in order to assist in the setting of a sound Remuneration Policy,
i) to review the adequacy of the established recovery plans, from the aspect of their inclusion in the bank's governance system, consistency with the established risk management system and feasibility of the measures defined under those plans, and to propose, where necessary, measures for their improvement,
j) to assess the recommendations of the internal audit function and recommendations of the appointed external auditor performing external audit of the bank in the area of risks and to review the adequacy of the implementation of the measures taken.

(12) When appointing the chair and members of the remuneration committee, the supervisory board shall ensure it exercises its judgement expertly and independently on the Remuneration Policy, its implementation and on its impact on the bank's risk management, capital and liquidity. In that regard, the remuneration committee members should, individually and/or collectively, have knowledge, skills and experience on remuneration-related policies and practices, risk management systems and internal controls systems, including knowledge on methods for alignment of variable remuneration with the bank's risk profile and capital structure.

(13) Having regard to Article 62 of the Law, the remuneration committee shall have the following tasks:

a) to provide support to the supervisory board in the adoption and regular reviews of the general principles of the bank's Remuneration Policy and active cooperation in the process of determining identified employees referred to in Article 48 of this Decision,
b) to provide support and advice to the bank's management in the preparation of the bank's Remuneration Policy proposals,
c) to oversee variable remuneration of the control function heads and provide recommendations to the supervisory board on the structure and amount of remuneration of those persons,
d) to draft the supervisory board's decision proposals referred to in Article 10(r) of this Decision,
e) to draft the supervisory board's decision proposals which have an impact on the bank's risks and risk management,
f) to ensure the adequacy of information on the Remuneration Policy provided to the bank's assembly,
g) to assess the procedures and methods in order for the remuneration system to take into account all of the bank's risks and bank's capital and liquidity and for the Remuneration Policy to be consistent with the scale of the risk taken, efficient and reliable risk management, business strategy, objectives, corporate culture, values and long-term interests of the bank,
h) to assess the achievement of the performance targets and need for ex post risk alignment of variable remuneration, including implementation of the malus and clawback provisions,
i) to review different scenarios with the aim of assessing the impact of external and internal events on the remuneration policy and practice, including assumptions for reverse stress testing,
j) to make proposals to the supervisory board relating to potential use of consultancy services with regard to the Remuneration Policy and implementation of that policy and to carry out the control of the consultant appointment process,
k) to review and assess compliance of the implementation of the Remuneration Policy, at least annually, with the following:
   1) relevant regulations, guidelines, generally accepted standards, principles and codes,
   2) the bank's policies and procedures related to remuneration of the bank's employees.

   The committee, which is responsible for performing the procedure referred to in this subparagraph, shall involve the bank's control and other relevant functions in that process (e.g. human resources, legal department etc.) for the purpose of expert support to the committee. If deficiencies in the Remuneration Policy or in its implementation are identified in that process, the supervisory board shall adopt, without delay, adopt a plan for remedying those deficiencies and initiate the implementation of that plan. If that procedure is performed by the remuneration committee, a report on the performed procedure must be provided to the bank's management, supervisory board and persons responsible for the operation of the bank's control functions. Reporting to the management and persons responsible for the operation of the control functions shall also apply to the case when the procedure referred to in this subparagraph is performed by the supervisory board.

(14) When performing activities referred to in Paragraph (13) of this Article, the remuneration committee shall take into account the long-term interests of the bank's shareholders, clients, creditors, supervisors, regulators and other stakeholders.

(15) The appointments committee members must individually and/or collectively have appropriate knowledge, skills, expertise and experience relating to the selection procedure for the bank's body members and eligibility requirements for the bank's body members.

(16) Having regard to Article 60 of the Law, the appointments committee shall have the following tasks:

a) to prepare a description of the required duties and qualifications for a specific function in the bank's body,

b) to propose members of the supervisory board and members of the management and to actively cooperate, with the participation of the human resources function, when selecting candidates for the bank's body membership,
c) to assess on a regular basis, but at least annually, the structure, size, composition and functioning of the bank's supervisory board and management and to propose changes if necessary,
d) to assess on a regular basis, but at least annually, the knowledge, abilities and experience of individual members of the management and supervisory board, and management and supervisory board as a whole and to report to those bank's bodies on the assessment,
e) to review on a regular basis the efficiency of the policy for the selection of members of the bank's supervisory board and management and appointment of key function holders and/or senior management, make recommendations to the bank's supervisory board and management and propose their changes when required, while taking into account the diversity objectives and policy and required time for performing individual functions,
f) to ensure on an ongoing basis, as much as possible, absence of dominant influence of individuals or small group of individuals in the decision-making of the bank's supervisory board and management for the purpose of protecting the interests of the bank as a whole.

Article 69
Reporting to a Bank's Assembly

(1) The supervisory board shall submit to the bank's assembly annual activity reports of this board, in which it shall precisely and credibly specify its activities during the year.
(2) The report referred to in Paragraph (1) of this Article should cover in particular the activities carried out in relation to the following:
   a) overseeing the bank's business,
   b) overseeing the bank's operation,
   c) assessing the reports of the bank's management,
   d) assessing the reports of the audit committee, which is responsible for overseeing the performance of external audits in the bank,
   e) assessing the reports of the bank's internal audit, which is responsible for assessing the risks in the bank's operations and internal controls system, as well as assessing the reports of other control functions,
   f) functioning and operation of the bank's supervisory board and its specialized committees,
   g) self-assessment of the work efficiency and potential proposed measures for its improvement,
   h) existence of conflict of interest within the bank's bodies and how they are addressed,
   i) concrete contribution of specific members in the work of the supervisory board, their attendance at the sessions and participation in the discussions and decision-making,
   j) assessing the level of cooperation achieved with other bank's bodies and specialized committees and
   k) performing other tasks falling within the statutory competences.

Article 70
Selection and/or Appointment and Dismissal of a Bank's Body Members

(1) With respect to the performance of the statutory competences of a bank's assembly and/or supervisory board for the selection and dismissal of the supervisory board members and/or appointment and dismissal of the bank's management, the bank's assembly and/or supervisory

board must perform careful and timely candidate selection and/or appointment, in order to ensure the efficiency and continuity of the operation of the bank's bodies.

(2) A bank's assembly and/or supervisory board shall perform candidate selection for the supervisory board and/or appointment of the bank's management in accordance with the Law and bylaws of the Agency.

3.3. Supervisory Board's Specific Tasks

Article 71

Bank's Business Policy Adoption

(1) A bank's supervisory board shall adopt the bank's business policy, assessing ex ante whether it allows the implementation of the bank's business strategy.

(2) During the assessment referred to in Paragraph (1) of this Article, a bank's supervisory board shall in particular take account of the following:

a) the adequacy of the business objectives and plans in relation to the following:
   1) material business activities and
   2) any expected changes in the bank's business strategy,
b) the risks resulting from the macroeconomic environment in which the bank operates, from the aspect of the bank's position in the business cycle,
c) the potential risks resulting from the planned introduction of new products,
d) the expected macroeconomic trends in domestic and international environment,
e) the bank's competitive position and ability to increase its market share and/or expand its market,
f) the aspect of security and improving the quality of the operations and
g) the development aspects of banking and financial services.

Article 72

Bank's Financial Plan Adoption

(1) A bank's supervisory board shall adopt a financial plan as part of the bank's business plan, which is consistent with the bank's business strategy and policy.

(2) When adopting the financial plan, as an integral component of the business planning, the acceptable and unacceptable risks should be defined with the responsibilities of the bank's management for the risk identification, measurement and/or assessment, monitoring, control and reporting, in accordance with the adopted Risk Strategy.

(3) During the assessment referred to in Paragraph (2) of this Article, a bank's supervisory board shall in particular take account of the expected indicators of the following:

a) the total asset growth,
b) the bank's market share trend by business areas,
c) the bank's income and expenses, starting from their analysis in the in preceding period and expected trends,
d) the business performance and
e) the return on equity and assets, before taxation.

Article 73

Bank's Control Function Establishment and Improvement

(1) Consistent with the provisions of the Law and bylaws of the Agency, a bank shall establish an efficient internal controls system, while the bank's supervisory board shall adopt internal regulations providing for their functioning.

(2) The supervisory board should ensure the independence of the control functions and/or shall establish their functioning separately from the business processes and activities in which the risk is incurred. The supervisory board shall adopt the activity reports of the control functions, with the comments obtained from the management and audit committee.
(3) Based on the results of the performance assessment of the control functions, the supervisory board should take adequate measures to maintain and/or improve the efficiency of the control functions.

IV. ELIGIBILITY ASSESSMENT FOR A BANK'S BODY MEMBERS AND KEY FUNCTION HOLDERS

4.1. Assessment Requirements

Article 74

Eligibility Assessment Rules for a Bank's Body Member

Eligibility assessment rules for a bank's body member shall include:

a) the suitability assessment criteria and procedures for proposed and selected and/or appointed members of the bank's bodies and key function holders and
b) the measures that shall be applied by the bank in the cases when members of the bank's bodies and/or key function holders are not eligible to perform the function.

Article 75

Application of the Assessment Rules

(1) A bank shall assess the eligibility of the bank's body member in the following cases:
a) before filing requests for the granting of prior approval of the Agency for the selection and/or appointment of the bank's body members,
b) during the performance of the function of the selected and/or appointed bank's body members, but at least annually and
c) in other cases that the bank considers as relevant to the performance of the function of the bank's body member.
(2) The founder of a bank shall perform eligibility assessment of the bank's body member based on the criteria defined under this Decision, before filing a request to the Agency for the granting of the banking license.
(3) The assessment of key function holders shall be performed through fit-for-purpose application of the requirements referred to in Paragraphs (1) and (2) of this Article, where the bank shall not file a request to the Agency for the granting of the prior approval for the selection and/or appointment.

Article 76

Responsibility for the Assessment

(1) A bank shall have the responsibility for performing initial eligibility assessment and reassessment of the bank's body members referred to in Article 75(1) of this Decision, including suitability assessment of the bank's body members as a whole.
(2) The founder of a bank shall have the responsibility for performing initial eligibility assessment of the bank's body members referred to in Article 75(2) of this Decision, including suitability assessment of the bank's body members as a whole.
(3) A bank shall have the responsibility for performing initial suitability assessment and reassessment of key function holders referred to in Article 75(3) of this Decision.

Article 77
General Assessment Requirements for a Bank's Body Member

(1) A bank shall ensure that the bank's body member meets at all times the requirements for the bank's body member referred to in Articles 48(6) and 64 of the Law, as well as requirements of the Decision on the Requirements and Procedure for the Granting and Refusal to Grant the Approval for Selection and/or Appointment of a Bank's Supervisory Board and Management Members and Revocation of the Granted Approvals.
(2) For the assessment of a bank's body member, all relevant and available information must be taken into account, regardless of where and when it was created.
(3) When assessing the reputation of a bank's body member, the criteria provided for by the Law and this Decision must be taken into account.
(4) A bank's body member must have good repute, must have integrity and be honest and have the ability to think independently referred to in Article 84(2) of this Decision, regardless of the size, internal organization, type, volume and complexity of operations of the bank or duties and responsibilities of specific functions, including membership in the bank's body committees.
(5) When assessing the knowledge, abilities and skills, experience and available time for performing the function of a bank's body member, the type, volume and complexity of the bank's operations must be taken into account, as well as responsibilities of the function that they perform. The level and type of knowledge, abilities and experience required for a member of the management may differ from the level and type of knowledge, abilities, skills and experience required for a member of the supervisory board.
(6) When assessing eligibility for a bank's body members, other criteria relevant to the functioning of the bank's bodies, which are provided for by the Law and this Decision, and requirements relating to the diversity of the bank's bodies under the diversity policy must also be taken into account.
(7) If there are cases which raise doubts as to the reputation, knowledge, abilities, skills, experience or other criteria relevant to the performance of the function of a bank's body member, it must be assessed how they will affect the final assessment of that bank's body member and assessment of the bank's body as a whole.

Article 78
Assessment Procedure

(1) The assessment of a bank's body member must be completed before the bank's body member starts performing their function, as well as annually for the preceding year of the performance of the function of the bank's body member.
(2) Having regard to Article 45(1)(k) of the Law, a bank shall ensure that the bank's assembly is provided with the assessment results for the supervisory board member candidate in a timely fashion before the appointment of the supervisory board member at a session of the assembly.
(3) A bank shall reassess eligibility for a bank's body member, with the aim of verifying their further suitability, due to a specific case which raises doubts as to the eligibility for performing the function of the bank's body member and/or which:
   a) has a significant impact on the composition adequacy of the bank's body due to reappointment of the bank's body member to the function for which the requirements changed or where the member was appointed to another function in the bank's body,
   b) has an impact on the willingness and ability for performing the function of the bank's body member, including the case when the bank's body member starts performing additional functions or activities,
   c) has a significant impact on the reputation of the bank's body member or bank, and

d) within a regular assessment of the bank's governance system referred to in Article 10(1)(e) of this Decision, performed by the supervisory board.

Such reassessment shall be limited to examination of further eligibility of the member only in relation to the relevant case.

(4) When performing initial eligibility assessment and reassessment of individual members of a bank's body, the bank shall perform both the initial assessment and reassessment of members of the bank's body as a whole based on its own methodology. A bank shall reassess the suitability of the bank's body members as a whole in the case of the appointment of a new member, in cases referred to in Paragraph (3)(a) of this Article and in cases when:

a) appointed or reappointed members cease to be members of the bank's body, and
b) the bank's business model, risk appetite or Risk Strategy has changed significantly on an individual or consolidated level,

The deficiencies identified in the overall composition of a bank's body shall not mean that individual member does not meet some or all requirements.

(5) The assessment procedure and its results must be adequately documented. The documentation should cover the following:

a) a description and role of the relevant function of the bank's body and
b) the assessment results for the bank's body members based on the following criteria:
   1) reputation, including integrity and honesty,
   2) appropriate knowledge, abilities, skills and experience,
   3) available time for performing the function.

(6) A bank shall provide the Agency with the documentation referred to in Paragraph (5) of this Article, as well as results of the performed assessment, within 30 days from the day of the performed assessment.

Article 79
Assessment Policy for a Bank's Body Members

(1) The assembly shall decide on the adoption of an appropriate policy for the selection and eligibility assessment of the supervisory board members and performance self-assessment of the supervisory board, in accordance with the Law and bylaws of the Agency.

(2) The Members Assessment Policy referred to in Article 7(3)(e) of this Decision shall lay down the principles for selection, monitoring and succession planning of the bank's body members and wide array of qualities, competencies and structure of the bank's body members, and shall include as a minimum the following:

a) the procedure for selection, appointment, reappointment and succession planning of the bank's body members, internal procedure which is applied to assess the bank's body members, measures which are taken after performing the assessment and internal function (e.g. human resources function) which is responsible for providing support to the supervisory board and/or appointments committee, if any, in the process of assessing the bank's body members,
b) the suitability assessment criteria for the bank's body members, including the knowledge, abilities, experience, skills, independence, willingness and ability to dedicate sufficient time in the work of the bank's body and other requirements for performing the function of the bank's body member,
c) the documentation that the bank's body member and bank should provide for the purpose of performing the assessment,
d) defining that the appointments committee and/or supervisory board shall assess on a regular basis, but at least annually, the knowledge, skills, abilities and experience of members of the

management and supervisory board, and management and supervisory board as a whole, and report to the bank's bodies on the assessment,

e) the measures that are undertaken after performing the assessment,

f) the activities that should be undertaken in case of the selection of the supervisory board members, relating to information of the shareholders on the requirements for performing the function of the supervisory board member and criteria which must be met by that person to perform the function, and assessment results before their selection;

g) the cases when a reassessment should be performed, including measures for identifying the existence of such cases,

h) the obligation of the bank's body members to notify the bank on a regular annual basis of any changes which affect their eligibility for performing the function and, where the change is material, immediately after its occurrence,

i) the requirements and methods for additional capacity building of the bank's body members, in accordance with the needs for professional development of the bank's body members,

j) the bank's objectives relating to the diversity of the bank's bodies,

k) defining adequate financial and human resources for training and capacity building of the bank's body members,

l) defining the persons, methods and time limits for notifying the Agency of compliance with the provisions of this Decision and/or of all material information which may have an adverse effect on the eligibility of the bank's body members and

m) the documentation method for the assessment procedure for the bank's body members.

(3) A bank shall ensure that the appointments committee, if any, and other relevant functions, including the bank's control functions, cooperate when defining the Members Assessment Policy.

(4) A bank's shall assess key function holders, proportionately to the size, volume, type, complexity and organization of the operations. The bank should assess the reputation, knowledge, abilities, skills and experience of key function holders based on the same criteria that are applied for the bank's body members, taking into account also the role and duties of relevant functions.

(5) A bank's Members Assessment Policy for its bodies shall also designate the function that is responsible for assessing key function holders and for reporting to the human resources function and bank's bodies on the assessment results.

(6) A bank shall adequately document the assessment procedure and assessment results for key function results and provide the results of the performed assessment in case of the control function heads to the Agency within 30 days from the date of the performed assessment and/or planned appointment.

Article 80

A Bank's Measures

(1) If a bank concludes, after performing an assessment, that a person does not meet the necessary requirements for selection and/or appointment for the bank's body member, that person may not be selected and/or appointed. If that member has already been selected and/or appointed, the bank should take appropriate measures to dismiss that member or measures to ensure the eligibility of that member.

(2) If a bank concludes, based on the assessment or reassessment, the the bank's body member does not meet and/or no longer meets the requirements for performing the function of the bank's body member, the bank shall take appropriate measures, taking into account the specific situation and deficiencies of individual members of the bank's body. Those measures may include: replacement of specific members of the bank's body and/or their dismissal, training specific members or entire

bank's body and other appropriate measures which ensure satisfactory competence of the bank's body as a whole.

(3) A bank's measures referred to in Paragraphs (1) and (2) of this Article shall also be applied in a fit-for-purpose manner in case of the assessment that bank's body as a whole is no longer suitable.

(4) In cases of the dismissal of a bank's body member referred to in Paragraphs (1) and (2) of this Article, the bank shall conduct the required procedure with the Agency.

(5) In case of taking other measures referred to in Paragraphs (1) and (2) of this Article, a bank shall notify the Agency of the implementation of those measures, specifying their content, owners and time limits for their implementation.

(6) If a bank concludes, after performing the assessment, that a key function holder candidate is not suitable, that candidate may not be appointed and/or the bank shall take measures for adequate operation of that function.

Article 81
Reputation Criteria and Assessment

(1) It shall be considered that a bank's body member has a good repute if there is no evidence to the contrary and if there is no reason for reasonable doubt as to their reputation. When assessing this criterion, the bank should take into account all available information for the assessment, regardless of where the event relevant to the assessment of the fulfillment of this criterion occurred.

(2) It shall be considered that a bank's body member does not have a good repute if their personal or business conduct raises significant doubt as to their ability to ensure adequate, efficient and prudent management of the bank.

(3) When assessing the reputation of a bank's body member, the following shall be taken into account:
   a) records from all court, administrative and misdemeanor proceedings or other relevant records, in particular: the type of charges, penalty imposed, level of appeal, phase of the proceedings against the bank's body member, effect of potential measures imposed, aggravating and mitigating circumstances, severity and relevance of any proceedings and measures against the bank's body member, time period since the imposition of the measure and/or penalty, conduct of the member after the imposition of the measure and/or penalty,
   b) cumulative effects of multiple demeanors and/or events, which do not individually undermine the reputation of the member, but which may collectively have a material impact on it.

(4) The following factors which might raise doubt as to the reputation of individual member of the bank's body should be analyzed:
   a) initiation of criminal proceedings or delivery of a judgement imposing penalty for a crime under laws regulating the following:
      1) performance of banking and other financial activities or which are related to securities market, securities or payment instruments, including anti-money laundering and combatting terrorism financing and anti-corruption laws and other relevant regulations governing provision of financial services,
      2) frauds and/or financial crime, including tax obligations,
      3) operations of companies, liquidation, bankruptcy or consumer protection,
   b) relevant current or past investigative proceedings and/or enforcement measures due to non-compliances specified in subparagraph (a)(1) of this Paragraph,
   c) relevant current or past investigative proceedings and/or measures imposed by other regulatory or professional bodies due to non-compliance with any regulations.

(5) Correct conduct of individual member of the bank's body in the performance of past activities shall be assessed based on the following elements:

a) whether they acted transparently and whether they cooperated in the operations with competent or regulatory authorities,
b) whether a professional body refused, annulled, revoked or cancelled relevant document on possession of expertise or excluded them from its membership,
c) resignation or potential dismissal with the reasons for those or similar situations,
d) imposition of a prohibition measure by competent authority for acting in the capacity of authorized person and
e) any other evidence that the bank's body member did not act in accordance with professional standards of conduct.

(6) The impact of current and past business performance and financial stability of individual member of the bank's body should be considered based on the following:
a) available data from the records on non-performing debtors,
b) financial and business performance of the legal entity in which the individual member of the bank's body has or has had, in the previous three years, qualified ownership interest, with particular reference to potential liquidation and bankruptcy proceedings, and whether and how they contributed to those proceedings,
c) declaration of personal bankruptcy, in the legal systems of countries in which it is regulated,
d) material investments or credit exposures which have a material impact on the financial capacity of the bank's body member.

(7) Without prejudice to fundamental human rights, ongoing investigations resulting from judicial or administrative proceedings or other similar investigations of regulatory authorities which are conducted against the bank's body member who is subject to the assessment should be considered.

Article 82
Knowledge, Abilities, Skills and Experience Criteria and Assessment

(1) A bank shall ensure that the bank's body members 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 governance system in the bank and organization of the bank and/or group, including potential conflicts of interest, which may result from that organization.

(2) When assessing the experience of individual member of the bank's body, the following should be considered:
a) the theoretical experience and/or knowledge, abilities and skills acquired through education and professional capacity building,
b) the practical experience acquired through the performance of previous jobs.

In addition to the foregoing, skills and expertise acquired and demonstrated during the performance of professional duties of the bank's body member should be taken into account.

(3) With respect to the assessment of theoretical experience and/or knowledge, abilities and skills of individual member of the bank's body, particular consideration shall be given to the level and profile of education and whether it pertains to the fields of banking, other financial activities or other relevant fields (economics, law, administration, financial regulation, information and communications technology and the like).

(4) The assessment of experience should not be limited to only the level of education or evidence of employment in a bank or other financial institution. Practical experience of the bank's body members should be analyzed in detail, since the knowledge acquired through the performance of previous jobs depends on the types, scope and complexity of the activities and functions performed by them.

(5) The reference areas for the assessment of theoretical and practical experience of individual member of the bank's body are:
   a) banking and financial market,
   b) regulatory framework and prescribed standards for operations of banks and other financial institutions,
   c) strategic planning and knowledge of a bank's business strategy or its business plan and its execution,
   d) risk management (key risk identification, measurement and/or assessment, monitoring, control and reporting), including responsibilities of individual member of a bank's body in that process,
   e) accounting and auditing,
   f) efficiency assessment of a bank's governance system, and management, oversight and control in the procedures and measures of a bank and other financial institutions and
   g) interpretation of a bank's financial data, financial planning, analysis and control in banks and similar financial institutions.

(6) A bank's management member must have enough theoretical and practical experience acquired over sufficiently long period in management jobs and/or as provided for in Articles 7 (3), (7) and (8) and 8(2) of the Decision on the Requirements and Procedure for the Granting and Refusal to Grant the Approval for Selection and/or Appointment of a Bank's Supervisory Board and Management Members and Revocation of the Granted Approvals. The theoretical and practical experience acquired in the performance of previous jobs shall be assessed based on the following:
   1) the period of the performance of management jobs,
   2) the type and complexity of the job, as well as the organizational structure which the jobs were performed,
   3) the scope of competences, decision-making authorities and responsibilities,
   4) technical knowledge of a bank's operations and knowledge of the risks that it is exposed to acquired in a specific job and
   5) the number of persons who were managed by them.

(7) A bank's supervisory board member must have enough experience required for autonomous judgement in the decision-making process in the bank's best interest and efficient oversight of the bank's management. The experience may be acquired in academic, administrative or other jobs, and in the management, oversight or control of banks or other financial institutions, as provided for by the Decision on the Requirements and Procedure for the Granting and Refusal to Grant the Approval for Selection and/or Appointment of a Bank's Supervisory Board and Management Members and Revocation of the Granted Approvals.

(8) A bank's supervisory board members should have required knowledge for adequate understanding of the operations of a bank and bank's risks and/or its members should be able to demonstrate that they will acquire it within a reasonable time.

Article 83
Other Assessment Criteria

When assessing individual member of a bank's body, other criteria relevant to the functioning of the bank's body relating to the following should also be assessed:
   a) independence, which includes the ability of the bank's body member to independently perform its function in the bank's interest and without influence of other persons which may lead to conflict of interest,
   b) willingness and ability of the bank's body member to dedicate sufficient time in the work of the bank's body,

c) the entire composition of the bank's body, its collective knowledge and expertise, including the diversity of the bank's body.

Article 84
Independence and Independent Opinion

(1) The independence assessment of a bank's body member referred to in Article 83(a) of this Decision shall include assessment of the independence of opinion of the bank's body member and assessment of the independence of the supervisory board member.

(2) When performing the assessment of the independence of opinion of a bank's body member referred to in Paragraph (1) of this Article, consideration should be given to whether the member is willing and able to cooperate in discussions and decision-making of the bank's body based on their own prudent, objective and independent views and/or opinions, including:

a) personal characteristics of the bank's body member (e.g. courage, credibility and strength for efficient consideration and review of proposals and views of other bank's body members, ability to pose questions to the bank's management members, ability to resist collective thinking, etc.),

b) the impact of potential conflict of interest on the ability of the bank's body member to perform the function independently and objectively.

When performing the assessment of personal characteristics of the bank's body member referred to in subparagraph (a) of this Paragraph, consideration should be given to the member's past and current conduct, including the member's conduct in the bank. When performing the assessment of the impact of potential conflict of interest referred to in subparagraph (b) of this Paragraph on the ability of the bank's body member to perform the function independently and objectively, consideration should be given at least to the circumstances referred to in Article 14(2) of this Decision.

(3) When performing the independence assessment of individual member of the supervisory board referred to in Paragraph (1) of this Article, consideration should be given at least to the circumstances referred to in Article 62(1) and (2) of this Decision.

Article 85
Assessment of Available Time for the Performance of Function

(1) When assessing available time for the performance of the function referred to in Article 83(1)(b) of this Decision, a bank should consider the willingness and ability of the bank's body member to dedicate sufficient time to the performance of its duties and responsibilities in the work of the bank's body (hereinafter: assessment of available time) with the aim of understanding the bank's operations, bank's material risks and impacts of the business strategy and Risk Strategy on the bank's performance.

(2) The assessment referred to in Paragraph (1) of this Article should also include the willingness and/or ability of a member to dedicate sufficient time to the work of the bank's body in potential periods of significantly increased activities of the bank (e.g. in case of restructuring, acquisition, merger, takeover, etc.) or in a potential crisis situation and/or in case of significant difficulties in the bank's operations, taking into account that more time should be dedicated to the performance of the function in such periods of the bank's operations.

(3) With a view to performing the assessment of available time referred to in Paragraph (1) of this Article, a bank shall take into account individual circumstances relating to the bank and to a member when determining the number of directorships referred to in Article 2(1)(pp) of this

Decision, which can be simultaneously performed by the bank's body member in other companies or institutions, including:

a) the time that should be dedicated by the member to the performance of relevant function in the bank's body and
b) the type, volume and complexity of the bank's operations.

(4) A bank's management member may be a person performing a total of one executive directorship in the bank and maximum two non-executive directorships in other companies or banks.

(5) By way of exception from Paragraph (4) of this Article, the following is considered as one directorship:

a) a non-executive directorship within the same banking group,
b) a non-executive directorship in a subsidiary, including non-financial companies, in which the bank has qualified participation.

(6) The directorship performed by a bank's management member in legal entities whose core business activity is of non-profit nature and which are not entities of the banking system, is not considered as directorship within the meaning of Paragraph (4) of this Article.

(7) When performing the assessment of time for the performance of the function referred to in Paragraph (3) of this Article, at least the following should be taken into account:

a) the number of directorships in legal entities that the bank's body member performs simultaneously, taking into account potential synergies where the member performs these functions within the banking group,
b) the size, type, volume and complexity of the operations of the legal entity in which the bank's body member holds a directorship,
c) the actual presence of the bank's body member in the bank, including in case of the member's geographical remoteness and travel time which is required in that example for the performance of that function,
d) the number of planned meetings at the level of the bank's body, with competent authorities and other stakeholders,
e) the number of directorships performed simultaneously by the bank's body member in institutions with predominantly non-commercial objectives,
f) the type of specific function and responsibilities of the bank's body member,
g) other external professional or political functions and/or other relevant functions,
h) the required training and capacity building for the function,
i) all other relevant duties of the bank's body member.

(8) A bank shall ensure that the bank's body member is aware of the bank's expectations relating to time availability and that they shall make a documented declaration of the willingness and ability to dedicate sufficient time to the performance of its function.

(9) A bank shall monitor and review on a regular basis whether the bank's body members dedicate enough time to the performance of their functions and responsibilities, including their preparation for the sessions, attendance and active cooperation at the sessions of the bank's body and impact of potential long-term absence of an individual member on the work of the bank's body.

(10) A bank shall record and document in a timely manner all external professional and political functions of the bank's body members. In case of the circumstances that may have a negative impact on the time availability of a bank's body member, the bank shall perform a reassessment of the available time for that member.

Article 86
Suitability of the Entire Composition of a Bank's Body

(1) When assessing the entire composition of a bank's body referred to in Article 83(1)(c) of this Decision, consideration should be given to whether the bank's body, separately for the bank's supervisory board and management, has appropriate collective knowledge, abilities, skills and experience to understand the bank's business activities and risks and to adequately consider and make relevant decisions, which are based on the knowledge of the bank's business model, risk appetite, Risk Strategy and market.

(2) When performing the assessment of knowledge, abilities, skills and experience of the bank's bodies referred to in Paragraph (1) of this Article, particular consideration shall be given to the bank's business areas for which the bank's body members are collectively responsible with respect to management and oversight of the bank's operations, including:
   a) all of the bank's business activities and risks,
   b) relevant areas in the fields of financial sector, including financial markets, capital markets, capital requirements and models, and in the fields of other relevant sectors,
   c) financial accounting and reporting,
   d) risk management, consistency of the operations and internal audit,
   e) information technologies and information security,
   f) local, regional and global markets, if applicable,
   g) legislation and regulations,
   h) managerial skills and experience,
   i) strategic planning ability,
   j) experience related to management and oversight of banking groups, if appropriate.

(3) When performing the assessment referred to in Paragraph (1) of this Article, a bank should also consider knowledge, abilities, skills and experience whereby an individual member of the bank's body contributes to the suitability of the bank's body as a whole.

(4) Persons who collectively have required knowledge, abilities, skills and experience for sufficiently good understanding of a bank's operations and risks may be appointed to the bank's supervisory board and/or its members should be able to demonstrate that they will acquire them within a reasonable time.

(5) A bank's management, as a whole, should have a high level of managerial abilities and enough practical experience in a bank or other financial institution.

Article 87
Diversity of a Bank's Bodies

(1) The Members Assessment Policy should also include a diversity policy for the bank's bodies referred to in Article 83(1)(c) of this Decision (hereinafter: diversity policy), which should allow taking into account a wide array of qualities and competencies of candidates in the process of selecting and appointing the bank's body members with a view to representing different views and experience, and independent opinion and prudent decision-making in the bank's body. In that regard, the bank shall ensure that the diversity policy prevents discrimination based on gender, race, color of skin, ethnic or social background, genetic characteristics, religion or persuasion, affiliation to a national minority, means, birth, disability, age or sexual orientation.

(2) A bank shall ensure that the diversity policy includes at least the following aspects:
   a) training and professional experience,
   b) gender and
   c) work experience.

(3) A bank shall set a target for female and male representation in the bank’s body in a qualitative manner, including at least the following:
   a) a description of measures taken by the bank to ensure equal opportunities all genders in the bank’s body, as well as explanation of the added value of the structure of the bank’s body members, in accordance with the representation target,
   b) a description of the method for improving potential underrepresentation of a specific gender in the bank’s body, in accordance with the bank’s target, available opportunities and career prospects in the bank’s body,
   c) the adequate time period for achieving the representation target.

Article 88

Training and Capacity Building of a Bank's Body Members

(1) A bank shall ensure that its Members Assessment Policy includes a policy and procedures for the delivery of induction training and capacity building of the bank’s body members.
(2) The induction training of a bank’s body members should allow support to the members in the achievement of their clear understanding of the bank’s structure, business model, risk profile and governance system and their duties and responsibilities in the bank.
(3) The capacity building of a bank’s body members should be based on general and, where applicable, specific training programs aimed at maintaining and developing the knowledge, abilities and skills of the bank’s body members relating to the fulfillment of their duties and responsibilities.
(4) A bank shall ensure appropriate financial and human resources for the induction training and capacity building of the bank’s body members. The resources for the induction training and capacity building should allow the achievement of the objectives of the induction training and capacity building of the bank’s body members relating to the eligibility for the function of the bank’s body member.
(5) A bank shall ensure that the training and capacity building policies and procedures referred to in Paragraph (1) of this Article are up to date and that they include at least the following:
   a) the objectives of the induction training and capacity building of the bank’s body members, including the supervisory board committee members,
   b) the responsibilities for preparing detailed training programs,
   c) the financial and human resources for the induction training and capacity building, taking into account the required time, costs and administration,
   d) the procedure within which member the bank’s bodies may request training or capacity building.
(6) When defining its training and capacity building policies and/or programs, a bank shall ensure cooperation of the appointments committee, if any, human resources function, finance function and relevant control functions.
(7) A bank shall ensure that all newly appointed members of the bank’s bodies receive the most important information on the areas referred to in Paragraph (1) of this Article no later than one month after taking up the duties and induction training no later than within six months after the date of taking up the function.
(8) A bank’s body member shall fulfill all obligations and/or requirements of the bank relating to the knowledge, abilities and skills no later than within one year after taking up the functions of the bank’s body member.

V. TRANSITIONAL AND FINAL PROVISIONS

Article 89
Expiry of the Decisions and Application of the Decision

(1) On the start date of the application of this Decision, the following shall cease to be in force:
   a) The Decision on Risk Management in Banks („Official Gazette of the Federation of BIH“, number 81/17),
   b) The Decision on Internal Controls Systems in Banks („Official Gazette of the Federation of BIH“, number 81/17),
   c) The Decision on Control Functions of Banks („Official Gazette of the Federation of BIH“, number 81/17),
   d) The Decision on Remuneration Policies and Practices for Employees in Banks („Official Gazette of the Federation of BIH“, number 81/17),
   e) The Decision on Diligence of Members of Bank Bodies („Official Gazette of the Federation of BIH“, number 81/17)
   f) The Decision on Eligibility Assessment for Members of Bank Supervisory Boards and Managements („Official Gazette of the Federation of BIH“, number 90/17).

(2) A bank shall bring its operations into compliance with the provisions of this Decision by 31.12.2021.

(3) For the purposes of applying the provisions of this Decision, the Agency's Director will pass the related instruction with this Decision within 30 days from the date of its entry into force.

Article 90
Entry into Force

This Decision shall enter into force on the eighth day from that of its gazetting in the „Official Gazette of the Federation of BIH“, and shall apply from 31.12.2021.

Number: U.O.-60-02/21
Sarajevo, May 12th, 2021

CHAIRWOMAN OF
THE MANAGEMENT BOARD

Ljerka Maric, MS, BSc (Econ.), sgd