

Pursuant to Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b and Article 37 of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 59/13 and 4/17), Article 6, Paragraph 1, Item b and Article 11 and 19, Paragraph 1, Item b of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska" No.: 63/17) and Article 27, Paragraph 6 of the Law on electronic money ("Official Gazette of Republika Srpska", No.: 01/24), the Management Board of the Banking Agency of Republika Srpska, at the 11th session, held on 29 October 2024 adopted the

DECISION ON MANAGEMENT SYSTEM AND SYSTEM OF INTERNAL CONTROLS OF ELECTRONIC MONEY INSTITUTIONS

General provisions

Article 1

- (1) The Decision on management system and system of internal controls of electronic money institutions (hereinafter: the Decision) shall stipulate in more detail the method and requirements for establishing, maintaining and improving the management system and system of internal controls of electronic money institutions (hereinafter: the Institution).
- (2) The provisions of this Decision shall be applied to institutions seated in Republika Srpska, to which the Banking Agency of Republika Srpska (hereinafter: the Agency) granted a license to issue electronic money.
- (3) For issues related to the management system and system of internal controls of the institution, that are not regulated by this Decision but are regulated by the Law on electronic money (hereinafter: the Law) or other by-laws, the provisions of that Law or other by-law shall be applied.

Management system and system of internal controls

Article 2

- (1) The Institution shall be obliged to operate at all times in accordance with the organizational, personnel, technical and other requirements established by the Law and other regulation.
- (2) The Institution shall be obliged to establish, implement, maintain and improve reliable, efficient and comprehensive management and internal control systems that ensure responsible and reliable management of the Institution.
- (3) The systems referred to in Paragraph 2 of this Article shall be commensurate with the nature, scope and complexity of the services provided by the Institution, i.e. they shall be proportionate to the size and internal organisation of the Institution, the type, scope and complexity of its business operations and risk profile.
- (4) The systems referred to in Paragraph 2 of this Article shall be considered reliable, effective and comprehensive if they enable the Institution to manage the risks to which it is exposed or may be exposed in its business activities.
- (5) The business activities referred to in Paragraph 4 of this Article also include operational activities the performance of which the Institution has entrusted to another entity.
- (6) The Institution shall be obliged to establish procedures for assessing and reviewing the acts, activities and procedures that establish the systems referred to in Paragraph 2 of this Article, to regularly determine whether these systems are adequate and efficient and proportionate to the nature, scope and complexity of the services provided by the Institution, and to update and supplement them as necessary.
- (7) The systems referred to in Paragraph 2 of this Article shall, at a minimum, include:
 - 1) an efficient and stable organizational structure with clearly defined, transparent and consistent divisions and demarcations of activities, as well as duties and responsibilities related to the issuance of electronic money, including operational activities the performance of which the Institution has entrusted to another entity,

- 2) reliable, effective and efficient processes and procedures for identifying, assessing, measuring, limiting, mitigating and monitoring the risks to which the Institution is exposed or could be exposed, as well as for managing these risks, i.e. reporting on them,
- 3) appropriate, adequate and effective internal control mechanisms that include at least the risk control functions,
- 4) appropriate, adequate and efficient accounting procedures, internal audit procedures and procedures for monitoring the legality of operations (compliance monitoring function), as well as other procedures.

Responsibilities of the Institution's managing bodies

Article 3

- (1) The managing bodies of the Institution have overall responsibility for the Institution's operations, including responsibility for adopting, supervising and implementing the management and internal control system referred to in Article 2 of this Decision, which ensures efficient and reliable management of the Institution.
- (2) The managing bodies of the Institution shall be obliged to be adequately involved in the risk management process in the Institution, and to allocate sufficient time and resources for considering and managing the Institution's risks.
- (3) The Institution shall be obliged to clearly determine the responsibilities related to the definition, adoption, implementation, monitoring of implementation, review, or updating of strategies, policies and other internal acts. In doing so, the general responsibility of the Institution's managing bodies shall be taken into account that the objectives, strategies, policies and other internal acts are:
 - 1) defined and adopted,
 - 2) adequate and implemented consistently in the stipulated manner,
 - 3) regularly, and at least once a year, reviewed and re-examined, and that in the event of significant changes in the Institution, i.e. in the risk profile of the Institution, as well as in the external environment in which it operates, and that the analysis of the changes has been carried out and the need for their revision has been considered,
 - 4) compliant with legal and regulatory regulations and requirements of the Agency.

Organizational structure

Article 4

- (1) The Institution shall be obliged to establish such an organizational structure, i.e. internal organization that ensures a clear division of duties and responsibilities between the Institution's managing bodies, as well as between the members of these bodies, persons directly managing the operations of issuing electronic money and other employees, in a manner that prevents the concentration of mutually incompatible functions, ensures a clear line of responsibility, prevents conflicts of interest, as well as an adequate system of internal controls and effective control of the Institution's operational risks.
- (2) The Institution shall be obliged to establish a transparent, efficient and stable organizational structure, which ensures clearly defined, transparent and consistently applied reporting lines between relevant organizational levels, i.e. effective communication and cooperation at all organizational levels, as well as timely and reliable information to the Institution's managing bodies about all data necessary for decision-making, including an adequate flow of information within the Institution's organizational structure.
- (3) The reporting lines referred to in Paragraph 2 of this Article should ensure that members of the Institution's managing bodies, senior management, persons directly managing the operations of issuing electronic money, functions and other employees are adequately informed about the Institution's operations and significant risks, in accordance with the assigned authorities, roles and responsibilities.
- (4) The Institution shall be obliged to, in accordance with its size and internal organization, type and complexity of the operations it performs, determine and implement a human resources management

policy based on principles that ensure the employment of personnel with appropriate knowledge, expertise and professional experience.

- (5) The Institution shall be obliged to ensure:
 - 1) that the acts on internal organization and systematization of work unambiguously determine the tasks, duties and responsibilities of employees, as well as the authorizations and restrictions of employees,
 - 2) that all employees are familiar with their assigned tasks, duties, authorities and responsibilities,
 - 3) that the Institution ensures the separation of incompatible business activities, so that one person cannot simultaneously perform certain business activities and have the authority to control those activities.
- (6) The Institution shall be obliged to determine and implement a business strategy that contains clearly defined business objectives whose achievement can be monitored, as well as to determine procedures for monitoring the achievement of these objectives.
- (7) The Institution shall be obliged to enable adequate and efficient communication, exchange of information and cooperation at all organizational levels for the purpose of implementing the business strategy, risk management strategies and policies and unhindered functioning of the internal control system.
- (8) The Institution shall be obliged to ensure reliable information to the Institution's managing bodies about all data necessary for decision-making, and that the decision-making and implementation process is transparent, documented and based on the principles of safe and stable Institution management.
- (9) The Institution shall be obliged to ensure that members of the Institution's managing bodies have continuous access to all data and information significant for the Institution's operations, and at least:
 - 1) data and information on the liquidity and capital condition of the Institution,
 - 2) data on the compliance of the Institution's operations with the rules established by law and bylaws and internal acts.

Risk identifying, measuring and monitoring

Article 5

- (1) The Institution shall be obliged to establish an adequate and effective risk management process, which includes regular and timely identification, measurement and assessment, mitigation, monitoring and control of risks, and risk reporting.
- (2) The Institution shall be obliged to continuously identify, i.e. determine, the significant risks to which it is exposed or could be exposed in its operations. Risk identification shall, at a minimum, include:
 - 1) analysis of the causes of risk exposure, including risks that may have a negative impact on profit, capital and liquidity,
 - 2) analysis of risk concentration and potential risks that may arise from the legal and organizational structure of the Institution,
 - 3) trend analysis for the purpose of identifying new risks or increased existing risks due to changes in the Institution's operating conditions.
- (3) The Institution shall be obliged to regularly measure, i.e. assess the risks it has identified, and establish and maintain procedures that include adequate quantitative and qualitative measurement methods.
- (4) The Institution shall be obliged to establish a system of regular monitoring, control and reporting on risk exposure and risk profile in such a way as to provide all relevant levels of management in the Institution with timely, accurate and sufficiently detailed information necessary for making business decisions and decisions on risk management, i.e. for the safe and stable operation of the Institution. The Institution shall be obliged to monitor the risks it has transferred to a third party in an appropriate manner.
- (5) The Institution shall be obliged to adopt a risk management strategy that includes at least:

- 1) overview and definitions of all risks to which the Institution is exposed or could be exposed in its operations,
 - 2) analyzing and controlling risks,
 - 3) long-term business objectives determined by the Institution's business strategy, as well as the risk appetite determined in accordance with those objectives,
 - 4) basic principles of risk taking and risk management,
 - 5) basic principles for managing the Institution's capital.
- (6) The risk management strategy should be aligned with the Institution's business strategy, as well as with the size, nature, scope and complexity of the operations it performs. The Institution shall be obliged to periodically review the risk management strategy and, if necessary, update it, especially in the event of significant changes to the Institution's business strategy, or changes in the environment in which the Institution operates.
- (7) In order to identify, measure and monitor risks and determine its risk profile, the Institution shall adopt risk management policies or procedures that minimally cover:
- 1) the method of organizing the risk management process and a clear delineation of employee responsibilities in all phases of that process,
 - 2) the method (methodology) for identifying and assessing risks, i.e. assessing individual types of risks,
 - 3) risk measurement through established processes and procedures for accurate and timely measurement, or risk assessment,
 - 4) measures to limit and mitigate individual types of risks, rules for their application and method of monitoring those measures,
 - 5) the method of monitoring and controlling individual types of risks and establishing a system of acceptable levels (limits) of the Institution's exposure to these risks,
 - 6) appropriate lines for timely and continuous reporting on risks to the Institution's managing bodies.
- (8) The Institution shall be obliged to ensure, through policies, i.e. procedures for risk identification, that such identification is timely and comprehensive, as well as to ensure an analysis of the causes that lead to the occurrence of risks. Risk measurement policies and/or procedures should contain quantitative and/or qualitative methods on the basis of which the Institution shall determine its risk profile, i.e. the type and level of risks to which it is exposed in its operations, as well as its risk appetite, i.e. the risks it can accept in order to achieve its business objectives, and on the basis of which it can timely detect changes in its risk profile, including the emergence of new risks.
- (9) Risk management policies and procedures should include a description of risk mitigation procedures, as well as a description of risk monitoring and control procedures.
- (10) The Institution shall be obliged to review risk management policies and procedures at least once a year, and more frequently if there are significant changes in the Institution's risk profile, and to update them as necessary.
- (11) The Institution shall be obliged to ensure that reports on the risks to which it is exposed are:
- 1) transparent (to contain clear, understandable and precise information regarding risk exposure),
 - 2) comprehensive (complete, i.e. covering all significant risks in business operations),
 - 3) usable (in terms of containing important information for making decisions regarding risks),
 - 4) comparable (in terms of the uniformity of the information they contain) and
 - 5) timely (in the sense that they enable the timely undertaking of necessary measures).
- (12) The Institution shall be obliged to ensure the complete and timely availability of internal risk reports at the request of the Agency.
- (13) The Institution shall be also obliged to define adequate information support for the risk management process, which ensures comprehensive, reliable, timely and accurate collection and processing of data, i.e. the information basis for:
- 1) effective risk management and

- 2) preparation of all necessary regular and occasional reports and information for internal and all other users' needs.
- (14) The Institution shall be obliged to implement and maintain an adequate information flow that enables the efficient implementation of the risk management strategy, policies, procedures and other internal risk management acts, which represents an integral part of the Institution's information system.

Internal control system

Article 6

- (1) The Institution shall be obliged, in accordance with the size, nature, scope and complexity of its operations, to establish and implement an effective and reliable internal control system, which is included in all business activities and which ensures continuous monitoring of the risks to which the Institution is exposed or could be exposed in its operations, as well as the safety and stability of the Institution's operations.
- (2) The internal control system referred to in Paragraph 1 of this Article shall represent a set of processes, procedures and measures established for the purpose of performing adequate risk management and control, ensuring compliance with operations and internal audit activities, established for the purpose of efficient and effective management of the Institution, adequate risk management and control, monitoring the effectiveness and efficiency of operations, reliability of financial and other data and information of the Institution, as well as for the purpose of ensuring compliance of the Institution's operations with the regulations governing the anti-money laundering and terrorist financing, as well as other regulations, internal acts and business standards.
- (3) The internal control system should specifically ensure:
 - 1) calculation and review of capital requirements in accordance with the Law and regulations of the Agency,
 - 2) accounting controls, and keeping business books, other business documentation and records, valuing assets and liabilities and preparing, publishing and submitting financial reports that must be kept in accordance with stipulated and established accounting principles as well as international standards,
 - 3) management, logical and physical controls in the information system,
 - 4) reporting to supervisory and other bodies and
 - 5) assessment of the effects of outsourcing business activities on the Institution's internal control system.
- (4) The Institution shall establish the processes, procedures and measures referred to in Paragraph 2 of this Article in proportion to the nature, scope and complexity of the services it provides, provided that it is obliged to ensure functional and organizational separation of the activities of the risk control function from the compliance function and the internal audit function. A single function referred to in this Paragraph can not be organized within another function referred to in this Paragraph.
- (5) By way of exception to Paragraph 4 of this Article, the Institution may organize the performance of the compliance function within the risk control function or another function if this is appropriate to the size of the Institution and the type, scope and complexity of its operations, provided that the operations of this function can not be organized within the internal audit function.
- (6) The Institution shall be obliged to establish the functions referred to in Paragraph 4 of this Article as permanent and efficient organizational units independent of the business processes and activities in which the risk arises, i.e. which these functions monitor, control, assess, or audit in accordance with their risk profile.
- (7) The Institution shall be obliged to ensure an adequate number of persons who must have appropriate professional knowledge and experience to perform the tasks of each function referred to in Paragraph 4 of this Article.
- (8) The functions referred to in Paragraph 4 of this Article shall ensure an independent and objective assessment of the comprehensiveness, reliability and efficiency of the management and internal control systems, based on a review and assessment of strategies, policies, procedures, activities and

methodologies for undertaking and managing risks. Institution's employees shall be obliged to provide persons performing these functions with access to all documentation in their possession and to provide all necessary information.

- (9) If an individual function referred to in Paragraph 4 of this Article, while performing its operations, identifies illegality in operations or a violation of the rules and regulations on risk management, which endangers the liquidity, solvency or safety of the Institution's operations, it shall immediately notify the managing bodies of the Institution and the Agency in writing.
- (10) The Institution's internal control system ensures timely informing of competent employees about identified deficiencies, implementation of measures to eliminate these deficiencies, as well as possible changes to the internal control system when necessary.
- (11) The Institution shall be obliged to ensure that internal controls are an integral part of all daily activities of employees, and that employees, in accordance with good business practices, professional and ethical standards, understand the purpose and importance of these controls, as well as their contribution to the effective implementation of these controls.
- (12) The internal control system and functions referred to in Paragraph 4 of this Article should ensure that no person employed in the Institution can be in a position to make significant mistakes or commit violations established by the Law, other regulations and internal acts of the Institution, and if such a case occurs, to enable such actions to be discovered in a short time.
- (13) The Institution shall be obliged to establish, through a system of internal controls, where applicable, controls that limit access to the Institution's tangible assets, i.e. ensure the security of those assets. These controls include various methods of limiting access to the Institution's tangible assets (e.g. multiple checks or joint checks by several persons), as well as a periodic inventory of these assets.

Risk management and control

Article 7

- (1) The Institution shall be obliged to establish comprehensive and reliable risk management processes and procedures, which are included in all its business activities and which ensure that the Institution's risk profile is always in line with the already established risk appetite.
- (2) Risk management processes and procedures, within the meaning of Paragraph 1 of this Article, are considered comprehensive and reliable if they enable the Institution to manage the risks to which it is exposed or could be exposed in its business activities.
- (3) Risk management processes and procedures are, for the purposes of Paragraph 1 of this Article, considered to be included in all business activities of the Institution if the Institution adopts every business decision by which it assumes risks (including entrusting operational tasks to another person, deciding on the introduction of new products, as well as the conditions under which individual transactions are contracted) by taking into account the previous assessment of the employees responsible for risk management.
- (4) The Institution shall be obliged to establish an effective and efficient risk management process, based on the strategies, policies and procedures referred to in Article 5 of this Decision, which includes the mitigation, monitoring and control of risks to which the Institution is exposed or could be exposed, and which it has identified and assessed.
- (5) Risk mitigation means the diversification, transfer, reduction and/or avoidance of risk, and the Institution implements it taking into account its risk profile and risk appetite.
- (6) The Institution shall ensure that the risk control function is responsible for proposing measures to mitigate the Institution's significant risks and for monitoring the implementation of those measures. In the event that the Institution temporarily accepts risks that exceed the adopted risk limits, the risk control function, in cooperation with the organizational units that assume these risks, shall regularly monitor and report on those risks, in accordance with the Institution's decisions.

- (7) Risk monitoring and control means the frequency and method of monitoring the risks to which the Institution is exposed, as well as monitoring and control of limits within the established limit system, i.e. reporting on them.
- (8) When performing risk control, the Institution shall verify the application of risk management methods and procedures and assess their adequacy and efficiency, and shall regularly analyze the established risk limits in order to verify their adequacy.

Operations compliance

Article 8

- (1) The risk of compliance of the Institution's operations is the possibility of negative effects on the Institution's financial results and capital due to failure to comply operations with the Law and other regulations, business standards, procedures for anti-money laundering and terrorist financing, as well as other acts regulating the Institution's operations.
- (2) The Institution shall be obliged to establish appropriate mechanisms and procedures for identifying and monitoring the compliance risk of the Institution's operations and for managing that risk, which specifically include examining the compliance of the Institution's internal acts with relevant regulations, the mutual compliance of the Institution's internal regulations and the compliance of the Institution's business practice with the Law and relevant regulations and its internal acts.
- (3) The managing bodies of the Institution shall be obliged to adopt appropriate procedures that enable continuous monitoring and measurement of the compliance risk of the Institution's operations and reporting on the same, which in particular include appropriate accounting procedures and procedures for assessing compliance with the regulations governing the anti-money laundering and terrorist financing.
- (4) The Institution shall be obliged to establish and develop the compliance function in a manner that ensures advice to the Institution's managing bodies and other responsible persons on the manner of application of relevant laws, standards and rules, including information on current events in these areas, as well as an assessment of the effects that changes to relevant regulations will have on the Institution's operations.

Internal audit

Article 9

- (1) The Institution shall be obliged to organize the internal audit function as a separate organizational unit, functionally and organizationally independent of the activities it audits and of other organizational parts.
- (2) The Institution shall be obliged to perform the internal audit function in accordance with regulations, standards of professional practice of internal audit and basic principles of organization and work of internal audit.
- (3) The program of activities of the internal audit function must be comprehensive and detailed, and must include at least the following elements:
 - 1) a clearly defined objective and responsibility of the internal audit function to propose an internal audit program, and to develop and implement it,
 - 2) defining all areas of the Institution's business operations that carry risk, including the information system and outsourced activities,
 - 3) the degree of comprehensiveness and detail of internal audit in certain areas of the Institution's operations that carry risk, including the information system and outsourced activities,
 - 4) a list of priorities for performing internal audit and risk assessment with an explanation,
 - 5) the method and deadlines for reporting on all elements within the competence of the internal audit function,
 - 6) detailed elaboration of the elements of the work plan and procedures of the internal audit function.

- (4) The frequency of the internal audit function activities should ensure the achievement of its objectives, with activities related to areas of the Institution with a higher level of risk having a higher frequency.
- (5) The Institution shall be obliged to enable continuous implementation of a comprehensive audit of all Institution activities, and at a minimum:
 - 1) assessment of the adequacy, reliability and efficiency of the established management system and internal control system of the Institution, including reporting by business units, and the appropriateness, quality and efficiency of the risk management and control function and the compliance function,
 - 2) adequacy and reliability of established strategies, policies and procedures for identifying and measuring, or assessing, risks and for managing risks, including procedures for monitoring and measuring compliance risks of the Institution's operations,
 - 3) the reliability of the reporting system, and the timeliness and accuracy of reports stipulated by the Law and other laws, as well as regulations adopted on the basis of those laws,
 - 4) compliance of the established procedures and activities of the Institution with regulations, internal acts and decisions of the Institution's managing bodies,
 - 5) adequacy and reliability of the Institution's accounting policies and procedures,
 - 6) weaknesses in the operations of the Institution and its employees, as well as cases of failure to fulfill obligations and exceeding authorities,
 - 7) the Institution's actions in accordance with the orders and recommendations of the Agency and the external auditor,
 - 8) providing appropriate recommendations for eliminating identified irregularities and deficiencies and for improving the Institution's operations and documents.
- (6) The Institution shall be obliged to ensure that the work plan of the internal audit function is adopted annually, and that it includes at least the activities referred to in Paragraph 5, Items 1 to 3 of this Article.
- (7) The internal audit function shall be obliged to provide the competent authorities with an independent and objective opinion on the issues that are the subject of the audit, provide advice and recommendations for improving the existing system of internal controls and the Institution's operations, applying a systematic, disciplined and documented approach to evaluating and improving the existing method of control, risk management and process management.
- (8) The Institution shall be obliged to ensure that reports on the audits performed are regularly prepared and submitted to the competent body of the Institution, and that body is obliged to review these reports.
- (9) The Institution shall be obliged to ensure timely and efficient implementation of measures based on the recommendations of the internal audit function, with the aim of eliminating the identified irregularities and weaknesses stated in the reports of the internal audit function.
- (10) The Institution shall be obliged to establish and implement appropriate mechanisms for monitoring the implementation of activities from the recommendations made based on the findings from the reports of the internal audit function.
- (11) Employees in the organizational unit of the internal audit function have the right to inspect the Institution's business books, financial statements and all documentation, and to supervise the Institution's operations without restrictions.
- (12) Employees in the organizational unit of the internal audit function must be engaged full-time in the Institution and can not perform management or other tasks related to the Institution's activities, except for tasks related to the performance of internal audit, nor can they participate in the preparation and drafting of acts and other documentation that may be the subject of internal audit.
- (13) Employees of the internal audit function are required to declare in writing at least once a year whether there is any conflict of interest in connection with the implementation of the tasks referred to in this Decision.

Transitional and final provisions

Article 10

This Decision shall come into force on the eighth day from the day of its publication in the "Official Gazette of Republika Srpska".

Number: UO-112/24

Date: 29 October 2024

PRESIDENT OF THE
MANAGEMENT
BOARD
Dejan Kusturić